THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

The Securities Commission Malaysia ("**SC**") has approved the Proposed Merger (as defined in this Circular). The approval of the Proposed Merger should not be taken to indicate that the SC recommends the Proposed Merger or assumes responsibility for the correctness of any statement made, opinion expressed or report contained in this Circular. The SC has not, in any way, considered the merits of the Proposed Merger being tabled for shareholders' approval.

The SC has notified that it has no further comments on the contents of the Independent Advice Letter ("**IAL**") as set out in Part B of this Circular. However, such notification shall not be taken to suggest that the SC agrees with the Independent Adviser's recommendations or assumes responsibility for the correctness of any statements made or opinions or reports expressed in the IAL.

The SC is not liable for any non-disclosure on the part of Digi.Com Berhad, Axiata Group Berhad or Celcom Axiata Berhad and takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness, and expressly disclaims any liability for any loss you may suffer arising from or in reliance upon the whole or any part of the contents of this Circular.

Bursa Malaysia Securities Berhad ("**Bursa Securities**") takes no responsibility for the contents of this Circular, valuation certificate and report, if any, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular. Bursa Securities has not perused this document before its issuance.

SHAREHOLDERS ARE ADVISED TO READ AND UNDERSTAND THE CONTENTS OF THIS CIRCULAR. IF IN DOUBT, PLEASE CONSULT A PROFESSIONAL ADVISER. FOR INFORMATION CONCERNING RISK FACTORS WHICH SHOULD BE CONSIDERED BY SHAREHOLDERS, SEE "RISK FACTORS" COMMENCING ON PAGE 41.

DIGI.COM BERHAD
(Registration No.: 199701009694 (425190-X))
(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE FOLLOWING:

PART A

(I) PROPOSED MERGER OF CELCOM AXIATA BERHAD ("CELCOM") AND DIGI.COM BERHAD ("DIGI" OR "COMPANY") ("PROPOSED MERGER"); AND

(II) PROPOSED EXEMPTION UNDER SUBPARAGRAPH 4.08(1)(A) OF THE RULES ON TAKE-OVERS, MERGERS AND COMPULSORY ACQUISITIONS ("RULES") FOR AXIATA GROUP BERHAD ("AXIATA") AND PERSONS ACTING IN CONCERT ("PAC") WITH IT, FROM THE OBLIGATION TO UNDERTAKE A MANDATORY TAKE-OVER OFFER TO ACQUIRE THE REMAINING ORDINARY SHARES IN DIGI NOT ALREADY OWNED BY IT AND ITS PACS UPON COMPLETION OF THE PROPOSED MERGER ("PROPOSED EXEMPTION"),

(ITEMS (I) AND (II) ARE TO BE COLLECTIVELY REFERRED TO AS THE "PROPOSALS")

PART B

INDEPENDENT ADVICE LETTER FROM AMINVESTMENT BANK BERHAD TO THE NON- INTERESTED DIRECTORS AND NON-INTERESTED SHAREHOLDERS OF DIGI IN RELATION TO THE PROPOSALS

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

PRINCIPAL ADVISER FOR PART A

CIMB Investment Bank Berhad
(Registration No.: 197401001266 (18417-M))

INDEPENDENT ADVISER FOR PART B

AmInvestment Bank Berhad
(Registration No.: 197501002220 (23742-V))

This Circular is dated 28 October 2022

Notice of the Extraordinary General Meeting ("**EGM**") which will be held on Friday, 18 November 2022 at 2.00 p.m. conducted fully virtual through online meeting platform at https://meeting.boardroomlimited.my provided by Boardroom Share Registrars Sdn Bhd in Malaysia ("**Poll Administrator**") using Remote Participation and Electronic Voting (**"RPEV**") facilities and live streaming from broadcast venue at Studio, Digi Telecommunications Sdn Bhd, Lot 10, Jalan Delima 1/1, Subang Hi-Tech Industrial Park, 40000 Shah Alam, Selangor, Malaysia, together with the Form of Proxy are enclosed together in this Circular. The hardcopy of Form of Proxy must be deposited at Poll Administrator's office, Boardroom Share Registrars Sdn Bhd, at Ground Floor or 11th Floor, Menara Symphony, No. 5, Jalan Professor Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor Darul Ehsan at least forty-eight (48) hours before the time appointed for holding the meeting. Alternatively, the Form of Proxy can be submitted electronically via https://investor.boardroomlimited.com before the Form of Proxy submission cut-off time as mentioned above. The lodging of the Form of Proxy will not preclude you from attending and voting at the meeting if you subsequently wish to do so.

Date of Record of Depositors for the purpose of determining shareholders' entitlement to participate, vote and speak at the EGM	**:**	**Wednesday, 9 November 2022**
Last day and time to submit the Form of Proxy	**:**	**Wednesday, 16 November 2022 at 2.00 p.m.**
Date and time of the EGM	**:**	**Friday, 18 November 2022 at 2.00 p.m.**

UNLESS OTHERWISE STATED, ALL ABBREVIATIONS USED HEREIN ARE AS DEFINED IN THE "DEFINITIONS" SECTION OF PART A OF THIS CIRCULAR.

THE DIRECTORS OF DIGI HAVE SEEN AND APPROVED THIS CIRCULAR. THEY COLLECTIVELY AND INDIVIDUALLY ACCEPT FULL RESPONSIBILITY FOR THE ACCURACY OF THE INFORMATION. HAVING MADE ALL REASONABLE ENQUIRIES, AND TO THE BEST OF THEIR KNOWLEDGE AND BELIEF, THEY CONFIRM THERE IS NO FALSE OR MISLEADING STATEMENT OR OTHER FACTS WHICH IF OMITTED, WOULD MAKE ANY STATEMENT IN THE CIRCULAR FALSE OR MISLEADING.

THE DIRECTORS OF AXIATA COLLECTIVELY AND INDIVIDUALLY ACCEPT FULL RESPONSIBILITY FOR THE ACCURACY OF THE INFORMATION RELATING TO AXIATA AND CELCOM GROUP (AS DEFINED HEREIN). HAVING MADE ALL REASONABLE ENQUIRIES, AND TO THE BEST OF THEIR KNOWLEDGE AND BELIEF, THEY CONFIRM THERE IS NO FALSE OR MISLEADING STATEMENT OR OTHER FACTS WHICH IF OMITTED, WOULD MAKE ANY STATEMENT RELATING TO AXIATA AND CELCOM GROUP IN THE CIRCULAR FALSE OR MISLEADING.

CIMB INVESTMENT BANK BERHAD, BEING THE PRINCIPAL ADVISER, ACKNOWLEDGES THAT, BASED ON ALL AVAILABLE INFORMATION, AND TO THE BEST OF ITS KNOWLEDGE AND BELIEF, THIS CIRCULAR CONSTITUTES A FULL AND TRUE DISCLOSURE OF ALL MATERIAL FACTS CONCERNING THE PROPOSALS.

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular:

0.63% Digi Shares	:	73,378,844 fully paid-up new Digi Shares or such other number of fully paid-up new Digi Shares representing 0.63% of the enlarged share capital of Digi on completion of the Proposed Merger
0.63% Digi Shares Cash Consideration	:	The payment by Telenor Asia to Axiata of a cash consideration of RM297,918,107 for the 0.63% Digi Shares pursuant to the Shares Equalisation Arrangement
33.10% Digi Shares	:	3,883,129,144 fully paid-up new Digi Shares or such other number of fully paid-up new Digi Shares representing 33.10% of the enlarged share capital of Digi on completion of the Proposed Merger
Act	:	Companies Act 2016
ASB	:	AmanahRaya Trustees Berhad - Amanah Saham Bumiputera
Authorisation No. 1 of 2022	:	MCMC's authorisation decision dated 28 June 2022 to Celcom and Digi Tel to proceed with the Proposed Merger
Authorisation of Conduct Application	:	Celcom and Digi Tel's application to the MCMC dated 16 June 2022 under section 140(3) of the CMA for authorisation of the Proposed Merger
Axiata	:	Axiata Group Berhad (Registration No.: 199201010685 (242188-H))
Axiata Group	:	Axiata and its subsidiaries
Axiata PACs	:	Persons acting in concert with Axiata in relation to the Proposed Merger, which include Telenor Asia, Telenor Mobile Communications AS, Telenor Mobile Holding AS, Telenor and Puan Sri Zaleha Binti Jamaludin pursuant to subsections 216(2) and 216(3) of the CMSA
Bistamam	:	Dato' Bistamam Ramli
BNM	:	Bank Negara Malaysia
Board	:	Board of Directors
Bursa Securities	:	Bursa Malaysia Securities Berhad (Registration No.: 200301033577 (635998-W))
CAGR	:	Compound annual growth rate
Cash Consideration	:	A cash payment of an amount equal to RM1,692,733,818 to be paid by Digi to Axiata for the Proposed Merger
Celcom	:	Celcom Axiata Berhad (Registration No.: 198801000113 (167469-A))
Celcom Group	:	Celcom and its subsidiaries
Celcom Mobile	:	Celcom Mobile Sdn Bhd (Registration No.: 197601002188 (27910-A))
Celcom Networks or CNSB	:	Celcom Networks Sdn Bhd (Registration No.: 199001004254 (195821-V))
Celcom Resources	:	Celcom Resources Berhad (Registration No.: 196601000446 (6899-X))
Celcom Share(s)	:	Ordinary share(s) in Celcom

CEO	:	Chief Executive Officer
CIMB or Principal Adviser	:	CIMB Investment Bank Berhad (Registration No.: 197401001266 (18417-M))
Circular	:	This circular to the shareholders of Digi dated 28 October 2022 in relation to the Proposals
Closing	:	The date when completion of the Proposed Merger occurs in accordance with the terms of the SPA
CMA	:	Communications and Multimedia Act 1998
CMSA	:	Capital Markets and Services Act 2007
CNSB Shareholder Loan	:	The mudharabah facility of RM2.4 billion extended by Axiata to CNSB pursuant to the CNSB Shareholder Loan Agreement
CNSB Shareholder Loan Agreement	:	A mudharabah agreement dated 21 April 2021 between Axiata and CNSB, a wholly-owned subsidiary of Celcom, for the extension of a mudharabah facility of RM2.4 billion by Axiata to CNSB
Consideration Shares	:	Collectively, the 0.63% Digi Shares and the 33.10% Digi Shares
Digi or Company	:	Digi.Com Berhad (Registration No.: 199701009694 (425190-X))
Digi Group	:	Digi and its subsidiaries
Digi Initial Announcement	:	Digi's announcement dated 8 April 2021 in relation to the discussions between Telenor, Telenor Asia, and Axiata to merge the operations of Celcom and Digi
Digi Initial Announcement LTD	:	7 April 2021, being the last full trading day of Digi Shares prior to the Digi Initial Announcement
Digi 21 June 2021 Announcement	:	Digi's announcement dated 21 June 2021 in relation to the Proposed Merger and the Proposed Exemption
Digi 21 June 2021 Announcement LTD	:	18 June 2021, being the last full trading day of Digi Shares prior to the Digi 21 June 2021 Announcement
Digi Share(s) or Share(s)	:	Ordinary share(s) in Digi
Digi Tel	:	Digi Telecommunications Sdn Bhd (Registration No.: 199001009711 (201283-M))
Director(s)	:	Director(s) shall have the meaning given in subsection 2(1) of the CMSA
DNB	:	Digital Nasional Berhad (Registration No.: 201701005338 (1219503-P))
DNB Shares	:	Ordinary share(s) in DNB
DNB Rights to Allotment	:	Rights to allotment of new DNB Share(s) to be issued where each right provide the holder with right to allotment of one DNB Share and shall be entitled to 1 vote as if it was one issued DNB Share, subject to the terms of the conditional share subscription agreements entered into by Digi Tel and Celcom Mobile respectively with DNB on 7 October 2022
edotco	:	edotco Malaysia Sdn Bhd (Registration No.: 198501016343 (148800-H))

edotco Group	:	edotco Group Sdn Bhd (Registration No.: 201201038361 (1022843-U)) and its subsidiaries, which includes edotco
EGM	:	Extraordinary General Meeting
EPF	:	Employees Provident Fund
EPS	:	Earnings per share
Equity Guidelines	:	Equity Guidelines issued by the SC
Final Adjustment Amount	:	The amount determined pursuant to changes in net debt and net working capital amounts of Celcom Group as compared to Digi Group between 31 December 2020 and the date of Closing, as may be adjusted against the Cash Consideration after the Closing, as explained in paragraph 2 of Section A of Appendix XI of this Circular
FPE	:	Financial period ended
FYE	:	Financial year ended or where the context requires, financial year ending or ended 31 December
Government	:	Government of Malaysia
IAL	:	Independent advice letter from AmInvestment to the Non-Interested Directors and Non-Interested Shareholders dated 28 October 2022 in relation to the Proposals, which is appended as Part B of this Circular
Independent Adviser or AmInvestment	:	AmInvestment Bank Berhad (Registration No.: 197501002220 (23742-V)), being the Independent Adviser appointed by the Company on 21 June 2021 to advise the Non-Interested Directors and Non-Interested Shareholders on the Proposals
Independent Valuer or KPMG	:	KPMG Corporate Advisory Sdn Bhd (Registration No.: 200101031627 (567386-P)), being the Independent Valuer appointed by the Company on 19 May 2021 to conduct an independent assessment on the equity value of Celcom
Indicative Valuation Letter	:	Valuation letter from KPMG dated 25 October 2022 on the valuation of 100% equity interest in Celcom as set out in Appendix X of this Circular
Interested Directors	:	The Directors of Digi who are deemed interested in the Proposals pursuant to Chapter 10 of the Listing Requirements, namely Haakon Bruaset Kjoel, Wenche Marie Agerup, Lars Erik Tellmann and Randi Wiese Heirung (up until her resignation on 30 June 2021)
Interested Major Shareholders	:	The major shareholders of Digi who are deemed interested in the Proposals pursuant to Chapter 10 of the Listing Requirements, namely Telenor Asia, Telenor Mobile Communications AS, Telenor Mobile Holding AS and Telenor
Interested Persons	:	Collectively, the Interested Major Shareholders, the Interested Directors, Puan Sri Zaleha Binti Jamaludin and the Interested Related Party
Interested Related Party	:	A related party (as defined in the Listing Requirements) who is interested in the Proposals and if applicable, persons connected (as defined in the Listing Requirements) to a related party

Interim Adjustment Amount	:	The amount determined pursuant to changes in net debt and net working capital amounts of Celcom Group as compared to Digi Group between 31 December 2020 and the last day of the calendar month in which all of the relevant conditions are satisfied or waived (or as the parties may otherwise mutually agree in writing) ("**Interim Closing**"), as may be adjusted against the Cash Consideration payable to Axiata on Closing, as explained in paragraph 2 of Section A of Appendix XI of this Circular For information, Digi and Axiata had mutually agreed that the date of Interim Closing shall be 30 September 2022
Issue Price	:	Issue price of RM4.06 per Consideration Share
JENDELA	:	Jalinan Digital Negara
Khazanah	:	Khazanah Nasional Berhad (Registration No.: 199301020767 (275505-K))
Letter Agreement	:	The Telenor-Digi Letter Agreement dated 21 June 2021 issued by Telenor and accepted by Digi on the same day
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities
LPD	:	30 September 2022, being the latest practicable date prior to the printing of this Circular
Main Suit 1	:	The civil claim at the Kuala Lumpur High Court (Civil Suit No. D1-22-1960-2008) filed by Celcom and Celcom Resources against, inter alia, TSDTR, Bistamam and DeTeAsia Holding GmbH
Main Suit 2	:	The civil claim at the Kuala Lumpur High Court (Civil Suit No. D5-22-610-2006) filed by Celcom and Celcom Resources against, inter alia, TSDTR and Bistamam
Mandatory Offer	:	The mandatory take-over offer required to be made by Axiata and the Axiata PACs to the Digi shareholders to acquire the remaining Digi Shares not already owned by Axiata and the Axiata PACs which obligation is triggered by the Proposed Merger
Maxis	:	Maxis Berhad (Registration No.: 200901024473 (867573-A))
MCMC	:	Malaysian Communications and Multimedia Commission
MCO	:	Movement Control Order
Merchantrade	:	Merchantrade Asia Sdn Bhd (Registration No.: 199601038238 (410591-T))
Merchantrade Group	:	Merchantrade and its subsidiaries
MergeCo	:	Digi, after the Proposed Merger
MergeCo Shares	:	Ordinary share(s) in Digi, after the Proposed Merger
MergeCo Group	:	Collectively Digi Group and Celcom Group, after the Proposed Merger
MFRS	:	Malaysian Financial Reporting Standards
Minister	:	Minister for the time being charged with the responsibility for communications and multimedia

MTA	:	The Master Transaction Agreement dated 21 June 2021 entered into between Telenor, Telenor Asia, and Axiata
NA	:	Net assets
Non-Interested Directors	:	All Directors of Digi, other than the Interested Directors
Non-Interested Shareholders	:	All shareholders of Digi, other than the Interested Persons
PAC	:	Person acting in concert
PAT	:	Profit after taxation
PATAMI	:	Profit after tax attributable to the owners of the company
PBT	:	Profit before taxation
PDPA	:	Personal Data Protection Act 2010
PPE	:	Property, plant and equipment
Proposals	:	Collectively, the Proposed Merger and the Proposed Exemption
Proposed Exemption	:	The proposed exemption to be obtained by Axiata and the Axiata PACs from the SC pursuant to subparagraph 4.08(1)(a) of the Rules to exempt them from their obligation to undertake the Mandatory Offer
Proposed Merger	:	Proposed merger of Celcom and Digi by virtue of the SPA in which 1,237,534,681 Celcom Shares held by Axiata, representing 100% of the issued share capital of Celcom, shall be transferred to Digi for the Total Consideration to be satisfied via the issuance of Consideration Shares and Cash Consideration and the Shares Equalisation Arrangement
Rules	:	Rules on Take-Overs, Mergers and Compulsory Acquisitions, to be read together with the Malaysian Code on Take-Overs and Mergers 2016, as issued by the SC
RPT	:	A related party transaction as defined in subparagraph 10.02(k) of the Listing Requirements
RRPT	:	A recurrent RPT
SC	:	Securities Commission Malaysia
SHA	:	The shareholders agreement to be entered into between Telenor Asia, Telenor, and Axiata in connection with, and upon completion of the Proposed Merger
SHA Parties	:	Collectively, Telenor Asia, Telenor, and Axiata
Shares Equalisation Arrangement	:	The agreement between Telenor, Telenor Asia and Axiata as recorded in the MTA for Axiata to nominate Telenor Asia to be issued directly the 0.63% Digi Shares in consideration of the 0.63% Digi Shares Cash Consideration in which Telenor Asia and Axiata will have an equal ownership of 33.10% each in MergeCo upon completion of the Proposed Merger

SPA	:	Conditional share purchase agreement dated 21 June 2021 and the amendment to the share purchase agreement dated 17 June 2022, entered into between Digi and Axiata in relation to the Proposed Merger, and as varied by the costs sharing agreement dated 25 July 2022 entered into between Axiata, Celcom and Digi
Telco	:	Telecommunication company
Telenor	:	Telenor ASA (Registration No.: 982 463 718)
Telenor Asia	:	Telenor Asia Pte Ltd (Registration No.: 199705695G)
TM	:	Telekom Malaysia Berhad (Registration No.: 198401016183 (128740-P))
Total Consideration	:	Collectively, the Consideration Shares and the Cash Consideration, that represents a total value of RM17,756,156,250
TSDTR	:	Tan Sri Dato' Tajudin Ramli
TSDTR and Bistamam's Counterclaim for Main Suit 1	:	The counterclaim in Main Suit 1 against Celcom, Celcom Resources and TM, seeking among others, payment of the sum of RM7,214.9 million together with interest
TSDTR and Bistamam's Counterclaim for Main Suit 2	:	The counterclaim in Main Suit 2 against Celcom and Celcom Resources, seeking among others payment of the sum of RM7,214.9 million together with interest
TSDTR Counterclaims	:	Collectively, the TSDTR and Bistamam's Counterclaim for Main Suit 1 and TSDTR and Bistamam's Counterclaim for Main Suit 2
TSDTR Indemnity	:	The indemnity from Axiata (contained in the SPA) to indemnify the MergeCo Group and pay when demanded, a sum, which is essentially equivalent to sums payable or required to be provided by the MergeCo Group in respect of the TSDTR Litigation
TSDTR Litigation	:	Collectively, the Main Suit 1 and Main Suit 2
Tune Talk	:	Tune Talk Sdn Bhd (Registration No.: 200601001210 (720957-V))
Tune Talk Shares	:	The 5,250,000 ordinary shares in Tune Talk held by Celcom Mobile
Undertaking	:	Undertakings to the MCMC dated 28 June 2022 given by Celcom and Digi Tel pursuant to Celcom and Digi Tel's Authorisation of Conduct Application
USA	:	United States of America
VWAMP	:	Volume-weighted average market price
Whitewash Resolution	:	The shareholders' resolution to approve Axiata and Axiata PACs to be exempted from the obligation to undertake the Mandatory Offer
Yoodo Business	:	The product brand currently owned and operated by Celcom, offering fully digital and customisable retail mobile telecommunications plans, including mobile data, voice, SMS as well as roaming and other international direct dial services, to subscribers under the "Yoodo" brand

CURRENCY

RM and sen	:	Ringgit Malaysia and sen respectively, the lawful currency of Malaysia
SGD	:	Singapore Dollar, the lawful currency of Singapore
USD	:	United States Dollar, the lawful currency of USA

TECHNICAL TERMS

2G	:	Second-generation cellular network
3G	:	Third-generation cellular network
4G	:	Fourth-generation cellular network
5G	:	Fifth-generation cellular network
A2P	:	Application-to-person, any kind of message traffic in which a person is receiving messages from an application rather than another individual, and which is not expected to receive a reply
AA	:	Apparatus assignments as may be issued by MCMC which confers rights to use the spectrum to operate a network facility of a specified kind at a specified frequency or in any specified frequency band or bands
AI	:	Artificial Intelligence
ARPU	:	Average Revenue Per User, being average of the monthly revenue per subscriber in a period, calculated by dividing (i) monthly service revenue generated by the subscriber over (ii) the monthly average number of subscribers
BDA	:	Big data analytics
BI	:	Business intelligence
BSC	:	Base station controller, a network element that controls and monitors a number of base stations and provides the interface between the cell sites and the mobile switching center
BSS	:	Business support system, a central platform used to manage customer profiles, product catalogues, partner profiles, service ordering and inventories
BTS	:	Base transceiver station, an equipment that facilitates wireless communication between a mobile device and a network
CBS	:	Convergent Billing System, a billing platform of Celcom, which is a proprietary billing system developed by a third-party vendor
CIMS	:	Communications Infrastructure Management Services, a portal owned and managed by MCMC where the operators are required to submit certain data to MCMC on a periodic basis. Examples of such data include network infrastructure (mobile, fixed, microwave, earth station), statistics (subscription, ARPU, traffic etc), complaints and resolution as well as Electric & Magnetic Fields report
CPA	:	Content Provider Access, a platform to enable content providers to deliver digital content to the subscribers with charging capabilities
CRM	:	Customer relationship management
DCB	:	Direct Carrier Billing, is an online mobile payment method which allows end-users to make purchases by charging payments to their mobile phone carrier bill

DDoS	:	Distributed Denial of Service, a type of cyber-attack in which the attacker will flood the victim network/ server with internet traffic coming from multiple sources controlled by the attacker. The objective is to prevent legitimate users accessing service provided by victim's network/ server
EDGE	:	Enhanced Data for GSM Evolution is a digital mobile phone technology that provides a higher rate of data transmission than normal GSM which uses a backward-compatible extension of GSM
EMF	:	Electromagnetic Field Emission, is an emission of electrons induced by an electrostatic and magnetic field
FDD	:	Frequency division duplex, is a technique where separate frequency bands are used at the transmitter and receiver side because the data is transmitted at different frequency bands, transmission and reception can be achieved at the same time and the data being sent and received do not interfere with each other
FTTP	:	Fibre-To-The-Premise, a Passive Optical Network (PON) technology which brings the fibre to the premise to provide higher speed connection to the subscribers but not limited to any kind of technologies
FWA	:	Fixed Wireless Access, provision of wireless internet access to homes or businesses without laying fiber and cables to provide last mile connectivity
GPRS	:	General packet radio service, mobile data standard on the 2G and 3G cellular communication network for mobile communications
GSM	:	Global System for Mobile communications, a standard developed by European Telecommunications Standards Institute to describe the protocols for 2G digital cellular networks used by mobile devices such as mobile phones and tablets
HSBB	:	High-Speed Broadband, an IP based network comprising access, domestic core and international networks to be built or provided by fiber provider to provide bandwidth of at least 10 megabits per second (Mbps) to the end-users
HSPA	:	High Speed Packet Access, a 3G mobile broadband communications technology
HSPA+	:	Evolved High Speed Packet Access, a technical standard for wireless broadband, capable of producing data transfer speeds of up to 42.2 megabits per second (Mbps)
ICT	:	Information communication technology
IDD	:	International Direct Dialing
IGA	:	Identity and Governance Administration, a system that provides identity management and governance features that helps automate access provisioning, termination and access reviews of applications for Celcom
IT	:	Information technology
IoT	:	Internet of Things
LTE	:	Long-Term Evolution, is a standard for 4G wireless broadband communication for mobile devices
LTE-A	:	LTE advanced, a 4G or fourth-generation communication standard, which increases the stability, bandwidth, and speed of traditional LTE network
M2M	:	Machine-to-Machine, a broad label that can be used to describe any technology that enables networked devices to exchange information and perform actions without manual assistance of humans
MHz	:	Megahertz, 1 million cycles per second

MMS	:	Mutimedia messaging service
MNO	:	Mobile network operator
MSQoS	:	Mandatory Standards for Quality of Service as may be determined by MCMC from time to time
MTR	:	Mobile termination rates, a charge that a MNO needs to pay to the receiving MNO for carrying its traffic to connect the call to the receiving MNO's end-users
MVNO	:	Mobile virtual network operator, an organisation that does not have assignment of spectrum but is capable of providing public cellular services to end users by accessing radio networks of one or more spectrum holders
NFP	:	Network facilities provider, a person who owns or provides any network facilities
NSP	:	Network services provider, a person who provides network services
OCR	:	Optical character recognition, a reader that extracts printed or handwritten text from images
OSS	:	Operations Support System, set of programs that help a company in monitoring, controlling, analysing and managing a computer network
OTP	:	One-Time-Pin
OTT	:	Over-the-top, digital service providers that bypass the traditional operator's network to deliver audio, video, and other media over the internet
P2P	:	Person-to-person
SIM	:	Subscriber identification module
SMS	:	Short message service
SWN	:	Single Wholesale Network, a Government initiative to create a single wholesale 5G network service provider solely responsible for building and operating 5G radio network in Malaysia and MNOs who wish to provide 5G retail services to their customers, are mandated to procure wholesale 5G capacity from the single wholesale network provider
TDD	:	Time division duplex, a duplex technique where the receive data is separated from the transmit data by the allocation of different time slots in the same frequency band. It is a transmission scheme that allows asymmetric flow for received and transmitted data transmission
USP	:	Universal Service Provision as provided in section 202 of the CMA is a system to promote the widespread availability and usage of network services and / or applications services throughout Malaysia by encouraging the installation of network facilities and the provision for network services and / or applications services in underserved areas or for underserved groups within the community, including providing access to basic telephony service and internet access service
USSD	:	Unstructured Supplementary Service Data, a communication protocol used to send text between GSM mobile phones and applications programme in a network
VSAT	:	Very Small Aperture Terminal, a two-way ground station that transmits and receives data from satellites
VoIP	:	Voice over internet protocol, is a method and group of technologies for the delivery of voice communications and multimedia sessions over Internet Protocol (IP) networks, such as the Internet instead of regular phone line

VoLTE	:	Voice over LTE, ability to make voice calls via the data communication of the 4G mobile network
W-CDMA	:	Wideband code division multiple access, 3G standard that employs the direct-sequence code division multiple access (DS-CDMA) channel access method and the FDD method to provide high-speed and high-capacity service

All references to "**our Company**" in this Circular are to Digi and references to "**our Group**" mean Digi and its group of companies, references to "**MergeCo**" are to Digi, after the Proposed Merger and "**MergeCo Group**" mean collectively, Digi Group and Celcom Group, after the Proposed Merger. References to "**we**", "**us**" and "**our**" are to our Company and where the context requires, our Group.

All references to "**you**" and "**your**" in this Circular are to our shareholders, unless the context otherwise requires.

Words denoting the singular number only shall include the plural and vice-versa and words denoting the masculine gender shall, where applicable, include the feminine gender, neuter gender and vice versa.

Reference to persons shall include a body of persons, corporate or unincorporated (including a trust). Any reference to a time of day shall be a reference to Malaysian time, unless otherwise stated.

Any reference to any provision of a statute, rule, regulation, enactment or rule of stock exchange shall (where the context admits) be construed as a reference to the provision of such statute, rule, regulation, enactment or rule of stock exchange (as the case may be) as modified by any written law or (if applicable) amendment or re-enactment to the statute, rule, regulation, enactment or rule of stock exchange for the time being in force.

Any discrepancy in the figures included in this Circular between the amounts stated and the actual amount thereof is due to rounding.

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APPENDICES

PRINCIPAL ADVISER	:	CIMB Investment Bank Berhad 17th Floor Menara CIMB Jalan Stesen Sentral 2 Kuala Lumpur Sentral 50470 Kuala Lumpur Malaysia Tel no. : +603-2261 8888 Fax no. : +603-2261 8889
LEGAL ADVISER	:	Christopher & Lee Ong Level 22 Axiata Tower No. 9 Jalan Stesen Sentral 5 Kuala Lumpur Sentral 50470 Kuala Lumpur Malaysia Tel no. : +603-2273 1919 Fax no. : +603-2273 8310
PRINCIPAL ADVISER TO AXIATA (IN RESPECT OF CERTAIN APPROVALS TO BE SOUGHT BY AXIATA)	:	Maybank Investment Bank Berhad 32nd Floor, Menara Maybank 100, Jalan Tun Perak 50050 Kuala Lumpur Malaysia Tel no. : +603-2059 1888 Fax no. : +603-2078 4194
LEGAL ADVISER TO AXIATA	:	Adnan Sundra & Low Level 25, Menara Etiqa No. 3, Jalan Bangsar Utama 1 59000 Kuala Lumpur Malaysia Tel no. : +603-2279 3288 Fax no. : +603-2279 3228
SHARE REGISTRAR	:	Tricor Investor & Issuing House Services Sdn Bhd Unit 32-01, Level 32, Tower A Vertical Business Suite, Avenue 3 Bangsar South No. 8, Jalan Kerinchi 59200 Kuala Lumpur Malaysia Tel no. : +603-2783 9299 Fax no. : +603-2783 9222
INDEPENDENT ADVISER	:	AmInvestment Bank Berhad 22nd Floor, Bangunan AmBank Group No. 55, Jalan Raja Chulan 50200 Kuala Lumpur Malaysia Tel no. : +603-2036 2633 Fax no. : +603-2078 2842

INDEPENDENT VALUER	:	KPMG Corporate Advisory Sdn Bhd Level 10-1, KPMG Tower 8, First Avenue, Bandar Utama 47800 Petaling Jaya Selangor Darul Ehsan Malaysia Tel no. : +603-7721 3388 Fax no. : +603-7721 7677 Name: Choo Soke Yee (Emily) Designation: Executive Director, Advisory, Corporate Finance Professional qualification: Licensed Capital Markets Services Representative under section 59 of CMSA
AUDITORS AND REPORTING ACCOUNTANTS WITH RESPECT TO FINANCIAL INFORMATION OF DIGI / MERGECO GROUP	:	Messrs Ernst & Young PLT (202006000003 (LLP0022760-LCA) & AF 0039) Level 23A, Menara Milenium Jalan Damanlela Pusat Bandar Damansara 50490 Kuala Lumpur Malaysia Tel no. : +603-7495 8000 Fax no. : +603-2095 5332 Partner-in-charge: Tseu Tet Khong @ Tsau Tet Khong Professional qualification: Member of the Malaysian Institute of Accountants ("**MIA**") (MIA Membership no. 33764)
REPORTING ACCOUNTANTS WITH RESPECT TO FINANCIAL INFORMATION OF CELCOM GROUP	:	Messrs PricewaterhouseCoopers PLT (201806000020 (LLP0014401-LCA & AF1146)) Level 10, 1 Sentral Jalan Rakyat, Kuala Lumpur Sentral P.O. Box 10192 50706 Kuala Lumpur Malaysia Tel no. : +603-2173 1188 Fax no. : +603-2173 1288 Partner-in-charge: Irvin George Luis Menezes Professional qualification: Member of the MIA (MIA Membership no. 26937)
STOCK EXCHANGE	:	Main Market of Bursa Securities

THIS SUMMARY OF THE PROPOSALS ONLY HIGHLIGHTS THE KEY INFORMATION FROM OTHER PARTS OF THIS CIRCULAR. IT DOES NOT CONTAIN ALL THE INFORMATION THAT MAY BE IMPORTANT TO YOU. YOU SHOULD READ AND UNDERSTAND THE CONTENTS OF THE WHOLE CIRCULAR BEFORE MAKING A DECISION ON THE PROPOSALS.

1. Proposed Merger

Pursuant to the SPA, Digi and Axiata have agreed for Axiata to transfer the Celcom Shares representing 100% of the equity of Celcom for the Total Consideration which shall be satisfied by:

(i) Digi issuing concurrently:

(a) the 0.63% Digi Shares to Telenor Asia as nominee of Axiata subject to, amongst others, the payment by Telenor Asia to Axiata of the 0.63% Digi Shares Cash Consideration in accordance with the MTA; and

(b) the 33.10% Digi Shares to Axiata,

and

(ii) Digi making the payment of the Cash Consideration (which is subject to adjustment upon determination of the Interim Adjustment Amount and Final Adjustment Amount, as the case may be, under the terms of the SPA) to Axiata.

Telenor Asia, Telenor, and Axiata have entered into the MTA that sets out amongst others, the Shares Equalisation Arrangement. Upon completion of the Shares Equalisation Arrangement, Telenor Asia and Axiata will each have equal shareholding of 33.10% in MergeCo. In connection with and upon completion of the Proposed Merger, Telenor Asia, Telenor, and Axiata will also enter into the SHA with each other. Please refer to Section 2 of Part A of this Circular for further details of the Proposed Merger and Appendix XI of this Circular for the salient terms of the SPA, MTA and SHA.

2. Proposed Exemption

Upon completion of the Proposed Merger, the shareholdings of Axiata in Digi will increase from nil to 33.10%. Additionally, pursuant to the SHA to be entered into between the SHA Parties, upon completion of the Proposed Merger, Telenor Asia and its holding companies will be deemed PAC to Axiata pursuant to subsection 216(2) of the CMSA. Axiata together with Telenor Asia will collectively hold 66.20% of the equity interest in MergeCo. Accordingly, Axiata and the Axiata PACs trigger the obligation under subsection 218(2) of the CMSA and subparagraph 4.01(a) of the Rules to make a take-over offer to the Digi shareholders to acquire the remaining Digi Shares not already owned by Axiata and the Axiata PACs. Under the terms of the SPA, it is a condition precedent that Axiata and the Axiata PACs obtain an exemption from the SC under subparagraph 4.08(1)(a) of the Rules from such take-over offer obligation. Under subparagraph 4.08(2) of the Rules, the SC may grant Axiata and the Axiata PACs the Proposed Exemption if, among others, approval has been obtained from the Non-Interested Shareholders at an EGM to waive their rights to receive the Mandatory Offer from Axiata and the Axiata PACs. Please refer to Section 3 of Part A of this Circular for further details of the Proposed Exemption including the details of the Axiata PACs.

3. Inter-conditionality

The Proposed Merger is conditional upon the Proposed Exemption. The completion of the SPA and the Shares Equalisation Arrangement are inter-conditional and contemporaneous. Save as disclosed above, the Proposals are not conditional or inter-conditional upon any other corporate exercise of Digi. On 7 October 2022, Digi Tel and Celcom Mobile had each separately entered into a conditional share subscription agreement with DNB for, amongst others, the proposed subscription of (i) new DNB Shares and (ii) DNB Rights to Allotment for a total cash consideration of RM178.57 million, representing 12.5% of the enlarged equity interest in DNB. Following the completion of the conditional share subscription agreement with DNB and the Proposed Merger, the MergeCo Group shall own 25.0% enlarged equity interest in DNB via Digi Tel and Celcom Mobile. Further details are disclosed in Section 6 of Appendix I and Section 1.3 of Appendix V of this Circular.

For the avoidance of doubt, the conditional share subscription agreements with DNB are not inter-conditional on any other corporate exercise of Digi, including the Proposals. Digi Group intends to fund the cash considerations for the conditional share subscription agreement with DNB via a combination of internally generated funds and/or external borrowings, whereas the Celcom Group intends to fund the cash considerations for the conditional share subscription agreement with DNB via internally generated funds.

Save for the above, there is no other corporate exercise which has been announced by Digi but not yet completed as at the LPD.

4. Rationale for the Proposals

Proposed Merger

The Proposed Merger will combine the scale, experience, competencies and financial strength of two well-established local Telcos, which will enable the MergeCo Group to better manage rapidly escalating data usage coupled with continued pressure on revenue and profitability. The Proposed Merger will also enable the MergeCo Group to leverage on technology advancements and to attract global internet-based partnerships to deliver a wider range of innovative solutions to better serve the growing demand from customers, empower businesses, enterprises, and societies in accelerating Malaysia's digital aspirations.

Synergies are anticipated to be realised mainly through consolidation of network and IT infrastructure, enabling greater economies of scale which will create more capability for funding future investments. The scale, capacity and value created by the Proposed Merger will allow the MergeCo Group to target its investments to benefit Malaysian customers and businesses through stronger combined network, multi-channel distribution, enhanced digital access and offerings and wider product offerings supporting Government initiatives.

Commercially, the MergeCo Group is expected to benefit from different segments of market through a more comprehensive and diversified portfolio, leveraging on the complementary segment strengths from both Celcom and Digi which is expected to bring potential revenue synergies whilst customers are expected to benefit with more attractive and affordable products and offers, as well as better quality of service.

The MergeCo Group will be well-positioned to tap on greater human capital pool and be a robust platform to drive the development and growth of local talent and ultimately promote multiple benefits for the broader Malaysian economy. Finally, the synergies and benefits from the Proposed Merger is expected to be value accretive and strengthen resilience of shareholders returns over the medium to long term.

Proposed Exemption

Upon completion of the Proposed Merger, the shareholdings of Axiata in Digi will increase from nil to 33.10%. Additionally, pursuant to the SHA to be entered into between the SHA Parties, upon completion of the Proposed Merger, Telenor Asia and its holding companies will be deemed PAC to Axiata pursuant to subsection 216(2) of the CMSA. Axiata together with Telenor Asia will collectively hold 66.20% of the equity interest in MergeCo.

Accordingly, Axiata and the Axiata PACs will trigger the obligation under subsection 218(2) of the CMSA and subparagraph 4.01(a) of the Rules to make a take-over offer to the Digi shareholders to acquire the remaining Digi Shares not already owned by Axiata and the Axiata PACs. As it is not the intention of Axiata and the Axiata PACs to undertake the Mandatory Offer, the Proposed Exemption has been included as part of the Proposals. The Proposed Merger is conditional upon the Whitewash Resolution having been approved by the Non-Interested Shareholders and the Proposed Exemption being granted by the SC.

Please refer to Section 4 of Part A of this Circular for further details of the rationale of the Proposals.

5. MCMC's Notice of No Objection

By the terms of Authorisation No.1 of 2022, MCMC had granted authorisation to Celcom and Digi to proceed with the Proposed Merger on the basis of the Undertaking. MCMC had on 1 April 2022, issued a Statement of Issues ("**SOI**") addressed to Celcom and Digi (collectively "**Merging Parties**"), outlining their views on potential competition concerns arising from the Proposed Merger. The MCMC's view on potential competition concerns primarily relate to the following markets:

(i) **Retail markets** – The MergeCo Group could leverage the combined spectrum, brands and its market share to raise prices, increase barriers of entry and to stifle competition;

(ii) **Wholesale markets** – The Proposed Merger is likely to result in the MergeCo Group being by far the largest provider of wholesale MVNO access, and could limit MVNOs ability to migrate to a new MVNO access provider once an MVNO agreement is in place due to the "lock-in" effect. During this contractual period, the MergeCo Group may have the ability and incentive to terminate existing MVNO arrangements or increase MVNO access prices, hence reducing the ability for MVNOs to compete; and

(iii) **Local distribution channel markets** – The MergeCo Group may occupy a dominant position in some local state-wide distribution channel markets endowing it with the ability and incentive to increase its network of exclusive dealerships, which may substantially impact competition in the markets.

In the spirit of maintaining healthy competition in the telecommunications industry, the Merging Parties had various dialogue sessions with MCMC to jointly define and agree on remedies to address the competition concerns identified by MCMC, and consequently, the Merging Parties had on 28 June 2022, gave an undertaking to the MCMC to execute the remedies set out below ("**Undertaking**"):

(i) **Spectrum divestment within 3 years of Closing** - The MergeCo Group commits to handback spectrum bands amounting to 33% of its spectrum portfolio, to holistically reduce any perceived spectrum advantage for the MergeCo Group;

(ii) **MVNO wholesale remedies** – The MergeCo Group commits to ensure fair and equitable access to all wholesale access seekers for 3 years after Closing which would allow current MVNOs to continue on agreed wholesale terms and provide for fair treatment to potentially new MVNOs who may seek MVNO access services from the MergeCo Group, and to establish an independent MVNO business unit within 6 months after Closing;

(iii) **Divestment of Yoodo Business** – The MergeCo Group commits to divest the Yoodo Business within 18 months from Closing, failing which the MergeCo Group will cease the operations of Yoodo Business within a further 3 months, in order to reduce the market influences of the MergeCo Group in the prepaid segment;

(iv) **Removal of exclusivity agreements with distributors** – The MergeCo Group commits during a period of 3 years from Closing (a) to remove exclusivity agreements with distributors in certain regions where the MergeCo Group is perceived to enjoy competitive advantage; and (b) not to enter into new exclusivity agreements with distributors in these regions. This allows competitors the opportunity to access the same distribution networks and strengthen their position in these retail markets geographically; and

(v) **Single corporate brand** - The MergeCo Group commits to position its products under a single corporate brand within 2 years from Closing, mainly to avoid customers and brand confusion within the market.

Having been satisfied that the Undertaking significantly mitigates the competition concerns identified in the SOI, MCMC had on 28 June 2022, issued their notice of no objection to, and authorisation for, the Proposed Merger based on the Undertaking. Further details of the SOI and the Undertaking are set out in Section 1.3 of Part A of this Circular, and the full text of the Undertaking has been reproduced in Annexure F of this Circular.

Implications of the Undertaking to the Proposed Merger and the MergeCo Group

While there are risks associated with the spectrum divestment which are operationally complex, and requires detailed network planning with selected network equipment and services providers to complete the network integration without negatively impacting customer experience, the exposure to these risks can be managed and reduced by the fact that such network integration exercise is within the domain expertise and experience of Telcos and network equipment and services providers. Meanwhile, the risks arising from the implementation of the remaining terms of the Undertaking are not expected to be as material as the nature of these terms are part and parcel of the telecommunications business.

The MergeCo Group will continue its current practice of holding regular dialogues with MCMC where an approved independent auditor will provide a report on a quarterly basis to MCMC on the said implementation of the terms of the Undertaking to ensure performance and delivery of the Undertaking as well as to resolve any potential issues. Further details on the risks are disclosed in Section 10.3(vi) of this Executive Summary and Sections 1.3 and 6.3(n) of Part A of this Circular.

The MergeCo Group expects to incur additional costs and expenditures in its performance of the Undertaking, which is expected to dilute the earnings and EPS of the MergeCo Group in the immediate years after completion of the Proposed Merger. However, the anticipated synergies and benefits from the Proposed Merger are expected to be value accretive, even after considering the required costs to fulfill the Undertaking, and the Proposed Merger is expected to contribute favourably to the medium to long term earnings of the MergeCo Group. Further details of the expected dilution are disclosed in Section 7(d) of Part A of this Circular, and the impact of the Undertaking to the prospects of the MergeCo Group is disclosed in Section 5.3 of Part A of this Circular.

The Undertaking by Celcom and Digi to MCMC (including the cost to fulfill the Undertaking) will only be effective after the completion of the Proposed Merger. Hence, the Undertaking (including the cost to fulfill the Undertaking) does not impact KPMG's valuation of Celcom, which for the purpose of a merger, the said valuation was performed by KPMG premised on a standalone 'as is' pre-merger basis excluding potential synergies arising from the Proposed Merger.

6. Independent valuer

KPMG is the Independent Valuer appointed by the Company to conduct an independent assessment on the equity value of Celcom ("**Indicative Valuation**") and Choo Soke Yee (Emily), an Executive Director, Advisory, Corporate Finance of KPMG has prepared an Indicative Valuation Letter as set out in Appendix X of this Circular.

KPMG has assessed an indicative value of a 100% equity interest in Celcom as at the Valuation Date of 7 April 2021, in the range of RM16,032 million to RM18,473 million, premised on the key bases and assumptions as detailed in KPMG's Indicative Valuation Letter. The date of the Indicative Valuation is Digi Initial Announcement LTD. In regard to valuation for a merger, KPMG has considered the valuation of the shares of Celcom, premised on a standalone 'as is' pre-merger non-controlling basis excluding potential synergies arising from the Proposed Merger.

KPMG has adopted the market approach method of valuation, a relative valuation method which assumes that businesses or companies operating in the same industry will share similar characteristics and the subject business' value will correlate to those characteristics. Under the market approach, reference is made to price multiple benchmarks of comparable companies/ assets. In the Indicative Valuation of Celcom, KPMG is also guided by the principle of merger of equals where KPMG considered the valuation of Celcom relative to the market pricing parameters (price multiples) of Digi whilst the market pricing parameters of other Telcos are referenced for reasonableness check.

Further details of the Indicative Valuation and the description of the market approach are set out in the Indicative Valuation Letter set out in Appendix X of this Circular.

7. Independent adviser

Proposed Merger

In view that the Proposed Merger is deemed a related party transaction pursuant to paragraph 10.08 of the Listing Requirements, AmInvestment has been appointed to act as the Independent Adviser to undertake the following:

(i) comment as to:

(a) whether the Proposed Merger is fair and reasonable so far as the Non-Interested Shareholders are concerned; and

(b) whether the Proposed Merger is to the detriment of the Non-Interested Shareholders,

and such opinion must set out the reasons for, the key assumptions made and the factors taken into consideration in forming that opinion;

(ii) advise the Non-Interested Shareholders on whether they should vote in favour of the Proposed Merger; and

(iii) take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in items (i) and (ii) above.

Proposed Exemption

AmInvestment has also been appointed as the Independent Adviser pursuant to subparagraph 4.08(3) of the Rules to advise the Non-Interested Directors and Non-Interested Shareholders on the Proposed Exemption.

Opinion

In arriving at the conclusion and recommendation, AmInvestment has assessed and evaluated the Proposals holistically in accordance with Schedule 2: Part III of the Rules, taking into consideration the various factors set out in Section 7 of the IAL. The Proposed Exemption, if granted by SC, will allow Digi to undertake the Proposed Merger, assuming the Proposed Merger is also approved by the Non-Interested Shareholders.

The potential advantages and disadvantages of the Proposals are set out in Section 12 of the IAL.

AmInvestment, after taking into consideration of all aspects of the Proposals on a holistic basis, is of the view that the Proposals are fair and reasonable and not detrimental to the interests of the Non-Interested Shareholders. As such, AmInvestment advises and recommends that the Non-Interested Shareholders to vote in favour of the ordinary resolutions pertaining to the Proposals to be tabled at Digi's forthcoming EGM.

8. Business model of Celcom

Celcom was incorporated in Malaysia under the Companies Act, 1965 on 5 January 1988 as a private limited company, and is licensed to provide telecommunications services in Malaysia, with a core business focus as a mobile communications network operator. The Celcom Group's principal market for its services is Malaysia. In the retail segment, Celcom is primarily engaged in the provision of domestic mobile voice, data and digital communications services in Malaysia via its prepaid and postpaid packages, as well as fixed broadband services under the brand name "Celcom" to Celcom's customers. In the wholesale segment, Celcom offers wholesale mobile broadband, voice and messaging services to the MVNO segment. Further, Celcom also offers ancillary wholesale services which primarily comprise wholesale voice termination into Malaysia, domestic interconnection services, international interconnection services and international roaming services.

Please refer to Appendix II of this Circular for further details of the business overview of the Celcom Group.

9. Competitive position and business strategies of the MergeCo Group

Celcom and Digi are both established Telcos in Malaysia, providing telecommunication services and infrastructure, IT and data services. Upon completion of the Proposed Merger, the MergeCo Group will be Malaysia's largest telecommunication operator and in a stronger position to engage with global digital companies, realising the opportunities arising from the technology advancement, surging of digital services adoption and consumer demand.

The MergeCo Group is expected to be poised to compete with its competitors across various markets and segments, and will also have an enhanced network with highly complementary assets improving coverage and quality including, amongst others:

(i) Nationwide mobile network footprints while drawing on the best strengths of both Celcom's and Digi's assets and operations; and

(ii) Scale and efficiencies from pooling of spectrum portfolios.

The Proposed Merger is expected to bring value accretive synergies mainly relating to the consolidation of network and IT infrastructure, and other efficiencies. Consumers are expected to benefit from the merger synergies over time, including enhanced network quality, spectrum pooling and more efficient rollout of fibre to the homes and businesses.

Based on the synergies expected from the Proposed Merger including those as set out in Section 4.1 of Part A of this Circular, the MergeCo Group's strategy is expected to be formulated on the basis of extracting the expected benefits to be reaped by the merger between Celcom and Digi. However, as the MergeCo Group's strategy will need to be determined by MergeCo Board and since MergeCo Board has not been constituted, the formulation of the MergeCo Group's final strategy and the timing for the implementation and execution of such strategy cannot be determined as yet and will be subject to MergeCo Board's determination after MergeCo Board is formed.

10. Risk factors

The following is a summary of the key risk factors of Celcom, the Proposals and the MergeCo Group that would have a material adverse effect on the MergeCo Group's business operations, financial position and results and shareholders' investments in MergeCo.

10.1 Risks relating to Celcom

Set out below are the key risks faced by Celcom in its business operations:

(i) **Spectrum allocation** - Mobile network operators like Celcom require sufficient spectrum to operate their mobile network efficiently to ensure that their network quality and coverage remain competitive. Any failure by Celcom to maintain or optimise its spectrum capacity or obtain new spectrum allocations may therefore result in it being at a competitive disadvantage to other market players.

(ii) **IT infrastructure** - Failure of any fundamental ICT, services or its associated infrastructure may materially and adversely affect the telecommunication services provided by Celcom. Should these systems and/or its associated infrastructure not be adequately maintained, secured and updated, or its disaster recovery processes not be adequate, system failures may arise and result in disruptions to the telecommunication services provided by Celcom.

(iii) **Regulation and licensing requirements** - The industry Celcom operates in is subject to extensive regulation and licensing requirements. Any failure to obtain new licences and assignments, any delay in the renewal of existing licences and assignments, or any change in the authorisation under which Celcom is operating could impede Celcom's ability to operate the affected business.

(iv) **Reliability of network infrastructure** - Celcom's network infrastructure is exposed to risks relating to reliability, the availability and accessibility of sites and non-compliance. Any failure of its network infrastructure which results in interruptions to its mobile service may adversely impact Celcom's reputation, lead to a violation of the terms of its various licences and attract regulatory fines.

Please refer to Section 6.1 of Part A of this Circular for further details of the risks relating to Celcom.

10.2 Risk relating to the Proposals

Non-completion risk

The completion of the Proposed Merger is subject to amongst others, fulfilment of the conditions precedent and the SPA parties' performance of closing obligations in the SPA. In the event any condition precedent is not fulfilled, the SPA shall lapse. If a party's closing obligation is not performed by it, the other party has the option to terminate the SPA. The Board and the management of Digi will nonetheless use reasonable endeavours to ensure every effort is taken to ensure that the conditions precedent are fulfilled by the stipulated date (including proactively engaging the relevant authorities and third parties as necessary) as well as its performance of the closing obligations in the SPA.

Please refer to Section 6.2 of Part A of this Circular for further details of the risks relating to the Proposals.

10.3 Risks relating to the MergeCo Group

(i) Integration risks

The MergeCo Group's business operations and financial position could be materially affected if the businesses of Celcom and Digi are not integrated effectively or in a timely manner. This may result in disruption to business operations and lesser than expected synergies which may impact upon the MergeCo Group's financial performance.

(ii) Control by major shareholders

With a combined stake of 66.20% in MergeCo, Axiata and Telenor will be able to jointly exercise significant influence, with veto power over matters requiring shareholders' approval by a simple majority, except when they are required to abstain from voting. There can be no assurance that their interest will be aligned with the interest of the other shareholders of MergeCo.

(iii) Risk from failure in defending material litigation suits

There are two (2) material litigations, namely Main Suit 1 and Main Suit 2 (as detailed in Section 8 of Appendix I of this Circular respectively) involving Celcom and Celcom Resources, a wholly-owned subsidiary of Celcom. Both entities are subject to the TSDTR Counterclaims, where the amounts claimed are potentially up to RM7.2 billion plus interest for each TSDTR Counterclaim. Axiata has nonetheless agreed in the SPA that if Celcom and Celcom Resources are unsuccessful in defending the TSDTR Counterclaims, the TSDTR Indemnity shall apply, which is uncapped in terms of quantum and has no time limit. Notwithstanding the TSDTR Indemnity fully covers sums payable by the MergeCo Group in respect of the TSDTR Counterclaims, there is no assurance that the MergeCo Group will be able to fully recover or recover in a timely manner the amounts claimed under the TSDTR Indemnity. Additionally, the MergeCo Group may also suffer indirect and consequential losses, which is not part of the TSDTR Indemnity.

(iv) SWN model for 5G Network

The Government announced in February 2021 that DNB, a special purpose vehicle established by the Government will be the sole owner and operator of 5G network in Malaysia until 2031. The existing infrastructure-based competition model for 2G and 4G will be supplemented with a SWN model that relies on access to DNB's 5G radio network. While there could be more parity on basic 5G connectivity, there could be risks associated with efficient 5G wholesale cost structure, increased complexity of DNB's 5G network interfacing with multiple MNOs' 4G networks, as well as continued assurance on network resilience and cybersecurity.

(v) Competitive industry

The telecommunication industry is very dynamic and faces competitive pressures from multiple sources. There are rapid-paced innovations driving convergence across all communications retail services as well as pressure on prices, data speeds and quotas. Mobile number portability gives mobile subscribers the right to easily switch from one MNO to another. The effect of increasingly competitive market conditions may adversely impact the MergeCo Group's earnings and assets. If the MergeCo Group is unable to continually adapt to changes in the industry in order to distinguish itself from its competitors, it may lose market share, resulting in reduced revenue and profits.

(vi) Risks surrounding execution of Undertaking or delayed performance of Undertaking

MCMC's approval of the Proposed Merger was given on the basis of the Undertaking which among others, obliges the MergeCo Group to divest certain bands of spectrum within 2 to 3 years from Closing. The divestment of spectrum entails detailed network planning to complete the network integration without negatively impacting the MergeCo Group's customers. Operational issues such as supply chain issues and shortage of regional or local contractors could cause a delay to the planned network integration. In case of delays, while the MergeCo Group will seek to appeal and discuss potential solutions with MCMC, the MergeCo Group could be obligated to perform the Undertaking and to return the relevant spectrum band to MCMC before the network integration is properly completed, with the consequence of possible degradation to network quality, impacting customer experience and causing challenges for the MergeCo Group to comply with its service quality requirements.Additionally, if the MergeCo Group fails to perform any part of the Undertaking, MCMC or any person may apply to the court to enforce the same pursuant to the CMA. Further, if there is a material change of circumstance since the date of MCMC's issue of the notice of no objection, MCMC may revoke its authorisation of the Proposed Merger, and may commence investigations on whether MergeCo has engaged in conduct in breach of section 133 and/or section 139 of the CMA (which upon conviction could result in a fine not exceeding RM500,000 or imprisonment for a term not exceeding 5 years or to both). MCMC or any other person may also seek an injunction under section 142 of the CMA against the MergeCo Group in respect of any prohibited conduct.

Please refer to Section 6.3 of Part A of this Circular for further details of the risks relating to the MergeCo Group.

11. Directors and key senior management of MergeCo

As at the LPD, the proposed directors of MergeCo are set out below:

Name	Proposed designation
Tan Sri Dr. Halim Shafie	Chair, Non-Independent Non-Executive Director
Jørgen Christian Arentz Rostrup	Deputy Chair, Non-Independent Non-Executive Director
Dr. Shridhir Sariputta Hansa Wijayasuriya	Non-Independent Non-Executive Director
Haakon Bruaset Kjoel	Non-Independent Non-Executive Director
Thayaparan S Sangarapillai	Non-Independent Non-Executive Director
Rita Skjaervik	Non-Independent Non-Executive Director
Tan Sri Abdul Farid Alias	Independent Non-Executive Director

Name	Proposed designation
Vimala V.R. Menon	Independent Non-Executive Director
Datuk Iain John Lo	Independent Non-Executive Director
Khatijah Begom Shah Mohamed	Independent Non-Executive Director

As at the LPD, the proposed key senior management of MergeCo are set out below:

Name	Proposed designation
Datuk Mohamad Idham Nawawi	CEO
Albern Murty	Deputy CEO
Tan Moi Tsu	Chief Financial Officer
Praveen Rajan Nadarajan	Chief Consumer Business Officer
Joachim Parsanth Rajaram	Chief Corporate Affairs Officer
Kesavan Sivabalan	Chief Technology Officer
Cheng Weng Hong	Chief Sales & Retail Officer
Azmi Ujang	Chief Human Resources Officer
Datuk Kamal Khalid	Chief Transformation Officer
Erik Axel Sigurd Marell	Chief Strategy Officer
Afizulazha Abdullah	Chief Enterprise Business Officer
Chee Loo Fun	Chief Home & Fibre Officer

Please refer to Appendix VI of this Circular for further details on the proposed directors and proposed key senior management of MergeCo.

12. Financial and operational highlights of the Celcom Group

The following table sets out the Celcom Group's selected historical consolidated financial data for the years indicated:

	FYE 31 December		
	2019	**2020**	**2021**
	RM'000	**RM'000**	**RM'000**
Revenue	6,706,135	6,218,831	6,622,722
PBT	1,051,851	855,679	1,212,230
Profit/Total comprehensive income attributable to:			
- Owner of the company	789,369	677,435	942,792
- Non-controlling interest	(308)	13,284	14,252
Total comprehensive income for the financial year	789,061	690,719	957,044
Supplementary financial information			
PBT margin[(1)] (%)	15.7%	13.8%	18.3%
PATAMI margin[(2)] (%)	11.8%	10.9%	14.2%
Basic/Diluted EPS (sen)[(3)]	63.8	54.7	76.2
Total interest bearing borrowings (including lease liabilities)	8,604,111	8,271,849	7,502,657
Deposits, cash and bank balances	684,749	1,452,693	1,385,534
Net interest bearing borrowings (including lease liabilities)[(4)]	7,919,362	6,819,156	6,117,123
Total equity	362,491	299,483	233,805
Gearing ratio[(5)] (times)	23.7	27.6	32.1
Net gearing ratio[(6)](times)	21.8	22.8	26.2

Notes:

(1) Calculated as PBT divided by revenue.

(2) Calculated as PATAMI divided by revenue.

(3) Computed based on PATAMI divided by weighted average number of ordinary shares of Celcom in issue.

(4) Computed as the total interest bearing borrowings (including lease liabilities) less the deposits, cash and bank balances.

(5) Computed based on total interest bearing borrowings (including lease liabilities) divided by total equity.

(6) Computed based on net interest bearing borrowings (including lease liabilities) divided by total equity.

Please refer to Appendix III of this Circular for further details on the financial information of the Celcom Group.

13. Interested directors and major shareholders

Pursuant to paragraph 10.08 of the Listing Requirements, the Proposed Merger is deemed a related party transaction by virtue of the Shares Equalisation Arrangement in which Telenor and Telenor Asia are parties to it.

Save as disclosed below, as at the LPD, none of the Directors and/or major shareholders of Digi or persons connected to them has any interest, direct or indirect, in the Proposed Merger and the Proposed Exemption:

(i) Telenor Asia, being a major shareholder of the Company, and being a party to the MTA and recipient of the 0.63% Digi Shares arising from the Shares Equalisation Arrangement;

(ii) Telenor Mobile Communications AS, being the 100% holding company of Telenor Asia;

(iii) Telenor Mobile Holding AS, being the 100% holding company of Telenor Mobile Communications AS;

(iv) Telenor, being the 100% holding company of Telenor Mobile Holding AS;

(v) Haakon Bruaset Kjoel being the Chair and the Non-Independent Non-Executive Director of the Company, is a representative of Telenor Asia on the Board of Digi. As at the LPD, he holds 24,528 shares in Telenor;

(vi) Wenche Marie Agerup being the Non-Independent Non-Executive Director of the Company, is a representative of Telenor Asia on the Board of Digi. As at the LPD, she holds 20,790 shares in Telenor;

(vii) Lars Erik Tellmann being the Non-Independent Non-Executive Director of the Company, is a representative of Telenor Asia on the Board of Digi. As at the LPD, he holds 60,588 shares in Telenor; and

(viii) Randi Wiese Heirung being the Non-Independent Non-Executive Director of the Company up until her resignation on 30 June 2021, was a representative of Telenor Asia on the Board of Digi. As at the LPD, she holds 1,742 shares in Telenor.

Please refer to Section 12 of Part A of this Circular for the details on the interests of directors, major shareholders and/or persons connected to them.

14. Directors' recommendation

<u>Proposed Merger and Proposed Exemption</u>

The Board (save for the Interested Directors), having deliberated and after taking into consideration all aspects of the Proposed Merger (including but not limited to the basis of the Total Consideration and the Issue Price, the terms of the Undertaking, rationale, prospects, risk factors and financial effects) and having taking into consideration the terms of the SPA including the fact that the approval of the Non-Interested Shareholders to be obtained upon the terms proposed in the Whitewash Resolution is a condition precedent to the SPA, as well as the evaluation of the Independent Valuer and the opinion, advice and recommendation of the Independent Adviser on the Proposed Merger and on the Whitewash Resolution, is of the opinion that the Proposed Merger is:

(i) in the best interest of Digi;

(ii) fair, reasonable and on normal commercial terms; and

(iii) not detrimental to the interest of the Non-Interested Shareholders,

and accordingly, our Board (save for the Interested Directors) recommends that you vote in favour of the resolutions pertaining to the Proposed Merger and the Whitewash Resolution to be tabled at our forthcoming EGM.

PART A
LETTER TO OUR SHAREHOLDERS

DIGI.COM BERHAD
(Registration No.: 199701009694 (425190-X))
(Incorporated in Malaysia)

Registered Office
12th Floor, Menara Symphony
No. 5, Jalan Professor Khoo Kay Kim
Seksyen 13, 46200 Petaling Jaya
Selangor Darul Ehsan
Malaysia

28 October 2022

Board of Directors:
Mr Haakon Bruaset Kjoel (*Chair/Non-Independent Non-Executive Director*)
Ms Vimala V.R. Menon (*Senior Independent Non-Executive Director*)
Puan Yasmin Aladad Khan (*Independent Non-Executive Director*)
Datuk Iain John Lo (*Independent Non-Executive Director*)
Ms Wenche Marie Agerup (*Non-Independent Non-Executive Director*)
Mr Lars Erik Tellmann (*Non-Independent Non-Executive Director*)

To: Our Shareholders

Dear Sir/Madam,

(I) PROPOSED MERGER; AND
(II) PROPOSED EXEMPTION

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1. INTRODUCTION

1.1 On 21 June 2021, CIMB had on behalf of our Board, announced that Digi had on the same date entered into the SPA with Axiata in relation to the Proposed Merger.

On the same date, Telenor Asia, Telenor, and Axiata have entered into the MTA that sets out amongst others, the Shares Equalisation Arrangement. Upon completion of the Shares Equalisation Arrangement, Telenor Asia and Axiata will each have equal shareholding of 33.10% in MergeCo.

In connection with and upon completion of the Proposed Merger, Telenor Asia, Telenor, and Axiata will also enter into the SHA with each other.

Pursuant to paragraph 10.08 of the Listing Requirements, the Proposed Merger is deemed a related party transaction by virtue of the Shares Equalisation Arrangement in which Telenor and Telenor Asia are parties to it.

Under the terms of the SPA, it is a condition precedent that Axiata and the Axiata PACs obtain an exemption from the SC under subparagraph 4.08(1)(a) of the Rules from obligation to make a take-over offer to the Digi shareholders to acquire the remaining Digi Shares not already owned by Axiata and the Axiata PACs. Under subparagraph 4.08(2) of the Rules, the SC may grant Axiata and the Axiata PACs the Proposed Exemption if (among others), approval has been obtained from the Non-Interested Shareholders at an EGM to waive their rights to receive the Mandatory Offer from Axiata and the Axiata PACs.

Accordingly, we have on 21 June 2021, appointed AmInvestment as the Independent Adviser to advise our Non-Interested Directors and Non-Interested Shareholders in respect of the Proposals. The IAL from AmInvestment in relation to the Proposals is set out in Part B of this Circular.

1.2 Subsequent to the date of initial SPA on 21 June 2021, Digi and Axiata had entered into the following agreements which amend the SPA:

(i) Digi and Axiata had on 17 June 2022, entered into a supplemental agreement to amend the SPA to provide for the extension of the long stop date from 21 June 2022 to 31 December 2022 or such other date as may be mutually agreed in writing between the parties. This extension of the long stop date was to provide for additional time for the parties to procure the fulfilment of the conditions precedent of the SPA; and

(ii) On 25 July 2022, Axiata, Digi and Celcom entered into the costs sharing agreement ("**Costs Sharing Agreement**"), for the sharing of costs and expenses to be incurred prior to the Closing, in relation to integration planning activities for day-1 readiness. The said costs are to be shared equally between Digi Group and Celcom Group and is not expected to be material.

Incidental to the costs sharing agreement, Axiata and Digi agreed to amend the SPA upon the terms set out in the Costs Sharing Agreement and to exclude the effects of such costs and expenses prior to the Closing for the purposes of calculation of Interim Adjustment Amount and Final Adjustment Amount.

1.3 MCMC had in its letter dated 28 June 2022 issued a notice of no objection to, and via Authorisation No.1 of 2022, granted its authorisation for, the Proposed Merger on the basis of the Undertaking.

The Undertaking is to address the MCMC's competition concerns highlighted in their SOI issued on 1 April 2022 outlining their views on potential competition concerns arising from the Proposed Merger.

(i) **Competition concerns highlighted in the SOI**

The MCMC's view on potential competition concerns primarily relate to the following markets which may have the effects of substantially lessening competition as a result of the Proposed Merger:

(a) the national retail market for mobile and low-speed fixed broadband and data services, including the related local distribution channel markets;

(b) the national retail market for mobile voice and Person-to-Person (i.e. P2P) messaging services, including the related local distribution channel market(s);

(c) the national wholesale market for mobile voice and P2P messaging services (including network sharing arrangements); and

(d) the national wholesale market for mobile broadband services (including network sharing arrangements).

(ii) **Undertaking and commentaries**

A summary of the Undertaking together with commentaries has been set out below and the full text of the Undertaking has been reproduced in Annexure F of this Circular:

(a) **<u>Spectrum divestment within 3 years of Closing</u>**

This undertaking entails the commitment for the divestment of 70 MHz of the MergeCo Group's spectrum across 1800 MHz, 2100 MHz and 2600 MHz. The first band to be returned to the MCMC within 2 years from Closing and the second and third bands to be returned 3 years from Closing.

For information, spectrum is used in telecom industry for wireless communications and services, to transmit mobile network (voice and data) through radio frequencies, in order to deliver network coverage and capacity.

Intended objective

The MergeCo Group commits to handback spectrum bands amounting to 33% of its spectrum portfolio, to holistically reduce any perceived spectrum advantage arising from the Proposed Merger, as the extent of mobile network coverage and capacity are largely dependent on the available spectrum resources.

The MergeCo Group will return the total combined spectrum to MCMC in stages over a period of 2 to 3 years after completion of the Proposed Merger. As at the LPD, the order of spectrum band handover has not been finalised and parties are required to notify MCMC six months after the completion of the Proposed Merger.

Following handover of spectrum, MCMC will compensate the MergeCo Group on a prorated basis for the remaining duration of the spectrum assignments and/or apparatus assignment after undertaking due diligence ("**Spectrum Compensation**").

Operational and financial impact to MergeCo Group

Arising from the spectrum divestment, the sites in the network will have less capacity at an aggregate level, resulting in higher congestion in the network. In order to address the congestion, MergeCo Group is expected to incur additional costs and expenditures to upgrade the capacity of the sites, such as equipment upgrades and sites densification. However, the amount of such additional costs and expenditures can only be determined after completion of the Proposed Merger given that a detailed network planning and robust integration plan is required. A detailed network planning and robust integration plan is crucial to ensure that spectrum handover will not cause degradation to network quality. The planning includes, amongst others, to determine:

(i) the location of sites that may be impacted by the spectrum divestment; and

(ii) the preferred order of spectrum to be handed over to MCMC.

Once the location of sites that will be affected by spectrum divestment are determined, the MergeCo Group will assess the extent of upgrades required for each of these sites and the suitable solutions to support the upgrade in order to maintain network quality.

In view that the spectrums to be divested represent approximately 33% of total combined spectrum of the MergeCo Group, a large number of sites are expected to be affected. Therefore, the processes involved in determining the extent of upgrades required for each individual site and the associated costs and expenditures are expected to be extensive and the outcome can only be determined upon the completion of the assessment exercise, after Closing. Additionally, the total costs and expenditures are also subject to discussions with selected vendors.

Given the large number of sites are expected to be affected by the spectrum divestment, additional capital expenditures and operational costs, even after netting off against the Spectrum Compensation, may be substantial.

The risks in relation to execution of this undertaking are disclosed under Section 6.3(n) of Part A of this Circular.

(b) **<u>MVNO wholesale remedies</u>**

This undertaking entails the commitment for the establishment of a separate independent business unit for MVNO wholesale business under the MergeCo Group within 6 months after Closing and ensuring continuity of access to wholesale services for MVNOs at terms no worse off than existing agreements for a duration of 3 years from Closing.

Intended objective

This would allow current MVNOs to continue on agreed wholesale terms and provide for fair treatment to potentially new MVNOs who may seek MVNO access services from the MergeCo Group.

Operational and financial impact to MergeCo Group

The MergeCo Group's MVNO wholesale business will be transferred to a separate business unit independent from the MergeCo Group's mobile retail businesses.

Accordingly, the MVNO wholesale business will be independent in its decision making to ensure continued fair access for MVNOs, and in turn maintain healthy competition within the telecommunications industry.

The management reporting structure has reflected the establishment of a separate independent business unit, as disclosed in Section 9 of Appendix VI of this Circular.

Notwithstanding the above, as the MVNO wholesale business will continue to contribute to the earnings of the MergeCo Group, this remedy is not expected to have material impact to the financials of the MergeCo Group.

MergeCo has also committed to ensure continuity of access to wholesale services for existing and new MVNOs following certain terms of fair pricing and non-discriminatory access for 3 years from Closing. The implementation risk to fulfil this undertaking is low.

(c) **<u>Divestment of Yoodo Business</u>**

This undertaking entails the commitment for the divestment of Yoodo Business within 18 months from Closing ("**Divestiture Period**"), failing which Merging Parties commit to cease Yoodo's operations within 3 months of the expiry of the Divestiture Period.

Yoodo Business currently offers fully digital and customisable retail mobile plans to subscribers. The details of the Yoodo Business are disclosed in Section 3.2(a) of Appendix II of this Circular.

Intended objective

The divestment of Yoodo Business aims to reduce the market influences of the MergeCo Group in the prepaid segment.

Operational and financial impact to MergeCo Group

As at 31 December 2021, Yoodo's subscriber base comprises less than 3% of Celcom's subscribers for its prepaid product segment, and less than 2% of the total number of subscribers of Celcom's postpaid and prepaid products. For the FYE 31 December 2019, 2020 and 2021, the revenue contribution from the Yoodo Business was less than 1% of the total revenue of the Celcom Group, and the assets used in the operations of the Yoodo Business are also immaterial to the Celcom Group.

In addition, Yoodo Business is currently managed relatively independently and separately from the Celcom Group's existing business and the MergeCo Group would have 18 months from Closing to divest or prepare for an orderly and smooth cessation of operations.

As such, the divestment or cessation of the Yoodo Business is not expected to have a material adverse effect to the operations of the MergeCo Group as well as to the revenue of the MergeCo Group's prepaid segment or to the consolidated revenue.

(d) **<u>Removal of exclusivity arrangements with distributors</u>**

This undertaking entails the commitment by the MergeCo Group for the removal of exclusivity arrangements with its exclusive distributors in Sabah, Labuan, Sarawak, Terengganu, Pahang and Kelantan, and for not entering into new exclusivity arrangements with exclusive distributors or other distributors in these regions within 3 years from Closing, unless otherwise approved by MCMC.

Intended objective

This allows competitors the opportunity to access the same distribution networks and strengthen their position in these retail markets geographically.

Operational and financial impact to MergeCo Group

Distributors in affected regions will be able to work with the MergeCo Group's competitors, thereby reducing barriers for entry into local distribution and channel market and increasing competition to the MergeCo Group as competitors are able to reach more touchpoints than their current footprint in an open market.

However, any operational and financial impact to the MergeCo Group is not expected to be material as the removal of the exclusivity does not require the MergeCo Group to facilitate arrangements between distributors and competitors. The competitors of the MergeCo Group would need to independently engage and negotiate with said distributors, during which the MergeCo Group would have sufficient time to adjust its marketing strategies such as improving loyalty programme with distributors and acceleration of sales digitalisation through modernisation to ensure continuous availability of the MergeCo Group products nationwide.

(e) **Single corporate brand**

This undertaking entails the commitment to position the existing Celcom's and Digi's prepaid and postpaid products as products under a single MergeCo Group corporate brand within 2 years from Closing.

Intended objective

This helps avoid customers and brand confusion within the market.

Operational and financial impact to MergeCo Group

This will be undertaken in the MergeCo Group's transition plan as part of a planned corporate branding exercise. It would involve the rebranding of a large number of touchpoints across dealers, franchise and own stores, as well as proper training to market and sell Celcom and Digi products after the introduction of a single corporate MergeCo brand.

The positioning of Celcom's and Digi's brand as products within 2 years from Closing will be carefully considered under the MergeCo Group's corporate branding exercise to ensure customers are well informed and MergeCo's corporate brand is strengthened as part of the transition plan.

The costs to be incurred over 2 years include the cost of introducing new MergeCo brand and related marketing, advertising and promotional materials across the distribution network. However, as some of these costs will replace the planned marketing costs which are already part of the business-as-usual refresh cycle, the additional costs to be incurred to fulfil this undertaking is not expected to be significant. The implementation risk to fulfil this undertaking is also not expected to be material.

(iii) **Monitoring mechanism for the performance of Undertaking**

Pursuant to the Undertaking, MCMC has rights to supervise and inspect MergeCo Group from Closing until each Undertaking is fulfilled. In this regard, MergeCo Group is required to report compliance of Undertaking audited by an approved independent auditor to MCMC on a quarterly basis.

1.4 On 15 September 2022, the SC had approved the Proposed Merger under section 214(1) of the CMSA, subject to the terms and conditions as contained in Section 1(i) of Appendix XII of this Circular. The SC had also, vide the same letter, approved the Proposed Merger under the Bumiputera equity requirement for public listed companies in relation to the resultant equity structure of Digi pursuant to the Proposed Merger.

On 27 October 2022, Bursa Securities had approved the listing of and quotation for the Consideration Shares, subject to the terms and conditions as contained in Section 1(vi) of Appendix XII of this Circular.

1.5 Further details of the Proposals are set out in Section 2 of Part A of this Circular.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH THE RELEVANT INFORMATION ON THE PROPOSALS TOGETHER WITH THE RECOMMENDATION FROM OUR BOARD (SAVE FOR THE INTERESTED DIRECTORS), AS WELL AS TO SEEK YOUR APPROVAL (OTHER THAN THE INTERESTED PERSONS) FOR THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT OUR FORTHCOMING EGM. THE NOTICE OF EGM TOGETHER WITH THE FORM OF PROXY ARE ENCLOSED IN THIS CIRCULAR.

YOU ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR AND THE IAL TOGETHER WITH THE APPENDICES CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT OUR FORTHCOMING EGM.

PURSUANT TO ARTICLE 49 (A) OF THE ARTICLES OF ASSOCIATION SECTION OF OUR CONSTITUTION READ TOGETHER WITH SUBSECTION 85(1) OF THE ACT, DIGI SHAREHOLDERS HAVE PRE-EMPTIVE RIGHTS OVER ALL UNISSUED AND NEW SHARES WHICH SHALL FIRST BE OFFERED TO DIGI SHAREHOLDERS UNLESS OTHERWISE DETERMINED BY THE COMPANY IN GENERAL MEETING. FURTHER, BY ARTICLE 4 OF THE ARTICLES OF ASSOCIATION SECTION OF OUR CONSTITUTION, SHARES IN THE COMPANY SHALL NOT BE ISSUED TO TRANSFER A CONTROLLING INTEREST IN THE COMPANY WITHOUT THE PRIOR APPROVAL OF SHAREHOLDERS IN GENERAL MEETING.

BY VOTING IN FAVOUR OF THE RESOLUTION ON THE PROPOSED MERGER I.E., ORDINARY RESOLUTION 1, DIGI'S SHAREHOLDERS WILL IN EFFECT BE DETERMINING IN GENERAL MEETING TO WAIVE THEIR PRE-EMPTIVE RIGHTS WHICH THEY ARE ENTITLED TO PURSUANT TO DIGI'S CONSTITUTION, READ TOGETHER WITH SUBSECTION 85(1) OF THE ACT AND AGREEING TO DIGI'S ISSUE OF THE CONSIDERATION SHARES TO AXIATA AND TELENOR ASIA IN ACCORDANCE WITH THE SPA. PLEASE REFER TO SECTION 2.19 OF PART A OF THE CIRCULAR FOR FURTHER DETAILS ON THE PRE-EMPTIVE RIGHTS PURSUANT TO DIGI'S CONSTITUTION AND SUBSECTION 85(1) OF THE ACT.

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2. DETAILS OF THE PROPOSED MERGER

2.1 Proposed Merger

The Proposed Merger shall entail the transfer by Axiata of 1,237,534,681 Celcom Shares held by Axiata, representing 100% of the issued share capital of Celcom to Digi for the Total Consideration of RM17,756,156,250. The Total Consideration shall be satisfied by Digi by way of:

(i) Digi issuing Consideration Shares valued at RM16,063,422,432 in the following manner:

(a) 0.63% Digi Shares, being 73,378,844 fully paid-up new Digi Shares or such other number of fully paid-up new Digi Shares representing 0.63% of the enlarged share capital of Digi on completion of the Proposed Merger, valued at RM297,918,107 to Telenor Asia as nominee of Axiata subject to, amongst others, the payment by Telenor Asia to Axiata of the 0.63% Digi Shares Cash Consideration pursuant to Shares Equalisation Arrangement in accordance with the MTA; and

(b) the 33.10% Digi Shares, being 3,883,129,144 fully paid-up new Digi Shares or such other number of fully paid-up new Digi Shares representing 33.10% of the enlarged share capital of Digi on completion of the Proposed Merger, valued at RM15,765,504,325 to Axiata,

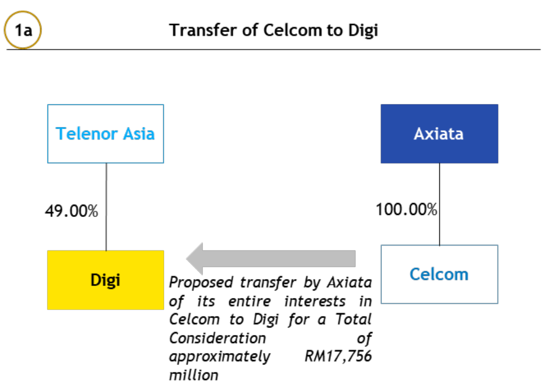
and;

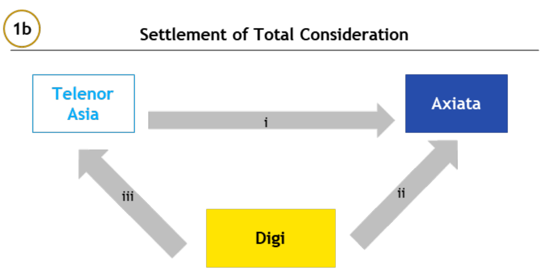
(ii) Digi making the payment of the Cash Consideration (which is subject to adjustment upon determination of the Interim Adjustment Amount and Final Adjustment Amount, as the case may be under the terms of the SPA) to Axiata.

Subject to the terms and conditions of the SPA, the Celcom Shares shall be transferred to Digi free from all encumbrances and together with all rights that attach to them. Please refer to Section 2.2 of Part A of this Circular for details of the Shares Equalisation Arrangement.

Based on the issued share capital of Digi of 7,775,000,000 Digi Shares, as at the LPD, the Consideration Shares to be issued to both Axiata and Telenor represent approximately 33.73% of the enlarged issued share capital of Digi upon the completion of the Proposed Merger.

The stages of the Proposed Merger have been illustrated below:





Notes:

i. Pursuant to the Shares Equalisation Arrangement, Axiata shall nominate Telenor Asia to be issued directly the 0.63% Digi Shares in consideration of approximately RM298 million 0.63% Digi Shares Cash Consideration.

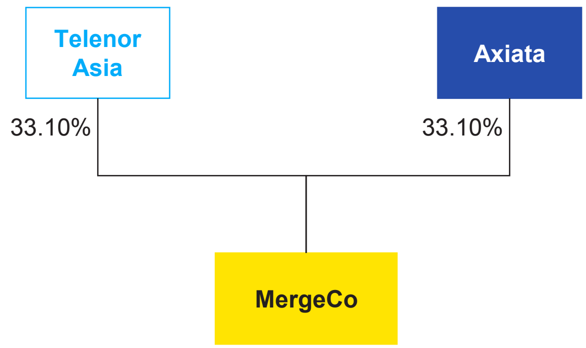
ii. Proposed issuance by Digi of 33.10% Digi Shares representing value of approximately RM15,766 million and payment of approximately RM1,693 million Cash Consideration (subject to adjustment) to Axiata.

iii. Proposed issuance by Digi of 0.63% Digi Shares representing value of approximately RM298 million to Telenor Asia.

Note:

*The 33.10% Digi Shares and 0.63% Digi Shares will be issued and credited into the Central Depository System ("**CDS**") accounts of Axiata and Telenor Asia respectively at the same time.*

Upon completion of the Proposed Merger, the Celcom Group will form part of the Digi Group and collectively be the MergeCo Group. Based on the pro forma shareholding of MergeCo as set out in Section 2.1.1 of Part A of this Circular, Telenor Asia and Axiata will own 33.10% each of MergeCo, as illustrated below:



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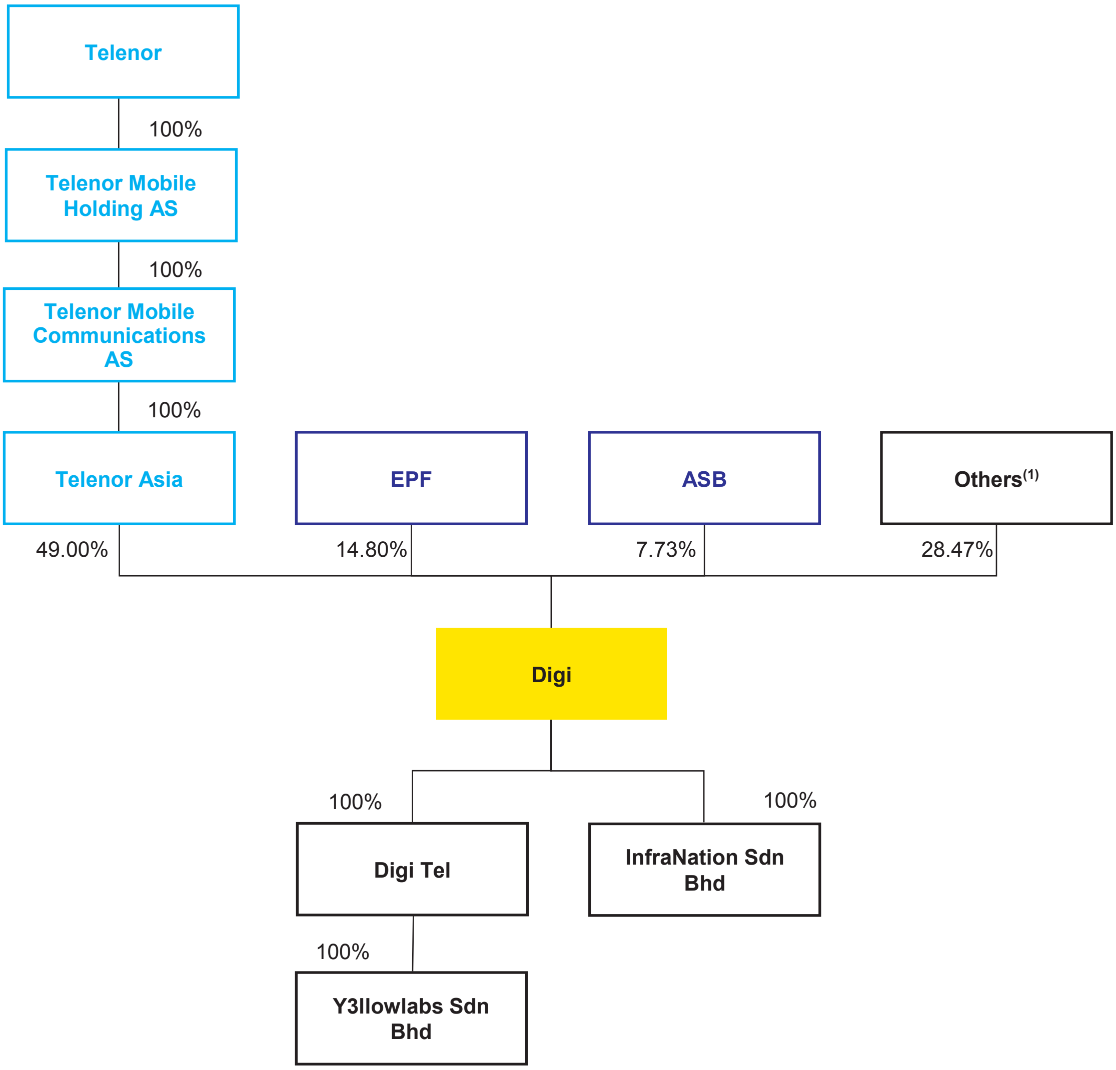
2.1.1 Shareholding Structure

The current structure of the Digi Group and the Celcom Group as at the LPD and the structure upon completion of the Proposals are as follows:

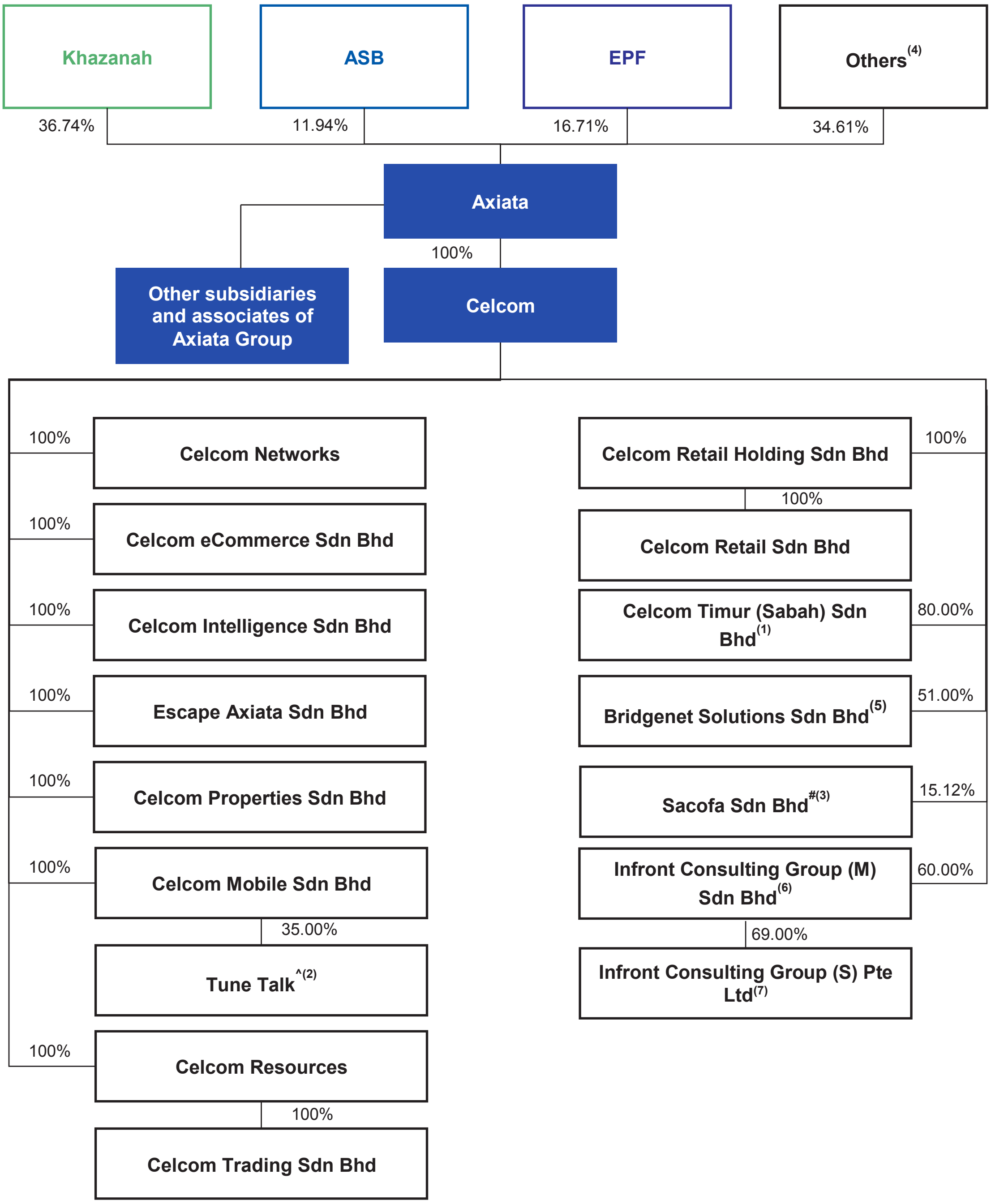
<u>Current Structure of the Digi Group as at the LPD</u>



Note:

(1) Shareholders who are not substantial shareholders.

Current Structure of the Celcom Group as at the LPD



Notes:

For all the relevant equity interests not held by the Celcom Group in the subsidiaries/associate companies/joint venture, none of the other shareholders are related parties to the Celcom Group.

#	*Associate of Celcom*
^	*Joint venture company of Celcom*

(1) Equity interest amounting to 20.00% in Celcom Timur (Sabah) Sdn Bhd that is not held by the Celcom Group are held by the following shareholders:

(i) Hugold Success Sdn Bhd – 10.00% shareholding; and

(ii) Qhazanah Sabah Berhad – 10.00% shareholding.

(2) Equity interest amounting to 65.00% in Tune Talk that is not held by the Celcom Group are held by the following shareholders:

(i) Tune Group Sdn Bhd – 25.14% shareholding;

(ii) Padda Gurtaj Singh – 9.77% shareholding;

(iii) Tune Strategic Investments Limited -14.40% shareholding;

(iv) Dato' Seri Kalimullah bin Masheerul Hassan – 3.15% shareholding;

(v) Dato' Lim Kian Onn – 3.15% shareholding;

(vi) Jason Jonathan Lo – 2.88% shareholding;

(vii) Christopher Mark Anthony Lankester - 0.65% shareholding; and

(viii) East Pacific Capital Private Limited – 5.85% shareholding.

(3) Equity interest amounting to 84.88% in Sacofa Sdn Bhd that is not held by the Celcom Group are held by the following shareholders:

(i) Cahya Mata Sarawak Berhad – 50.00% shareholding;

(ii) State Financial Secretary Inc. – 20.51% shareholding;

(iii) Sarawak Information Systems Sdn Bhd - 7.56% shareholding; and

(iv) Yayasan Sarawak – 6.81% shareholding.

(4) Others are shareholders in Axiata who are not substantial shareholders.

(5) Equity interest amounting to 49.00% in Bridgenet Solutions Sdn Bhd that is not held by the Celcom Group are held by the following shareholders:

(i) Pang Cheng Hing – 15.52% shareholding;

(ii) Leong Kin Man – 15.52% shareholding;

(iii) Loy Kuang Haow – 15.52% shareholding; and

(iv) Queenie Lee Wei Ling - 2.45% shareholding.

(6) Equity interest amounting to 40.00% in Infront Consulting Group (M) Sdn Bhd that is not held by the Celcom Group is held by Redynamics Asia Sdn Bhd.

(7) Equity interest amounting to 31.00% in Infront Consulting Group (S) Pte Ltd that is not held by Infront Consulting Group (M) Sdn Bhd are held by the following shareholders:

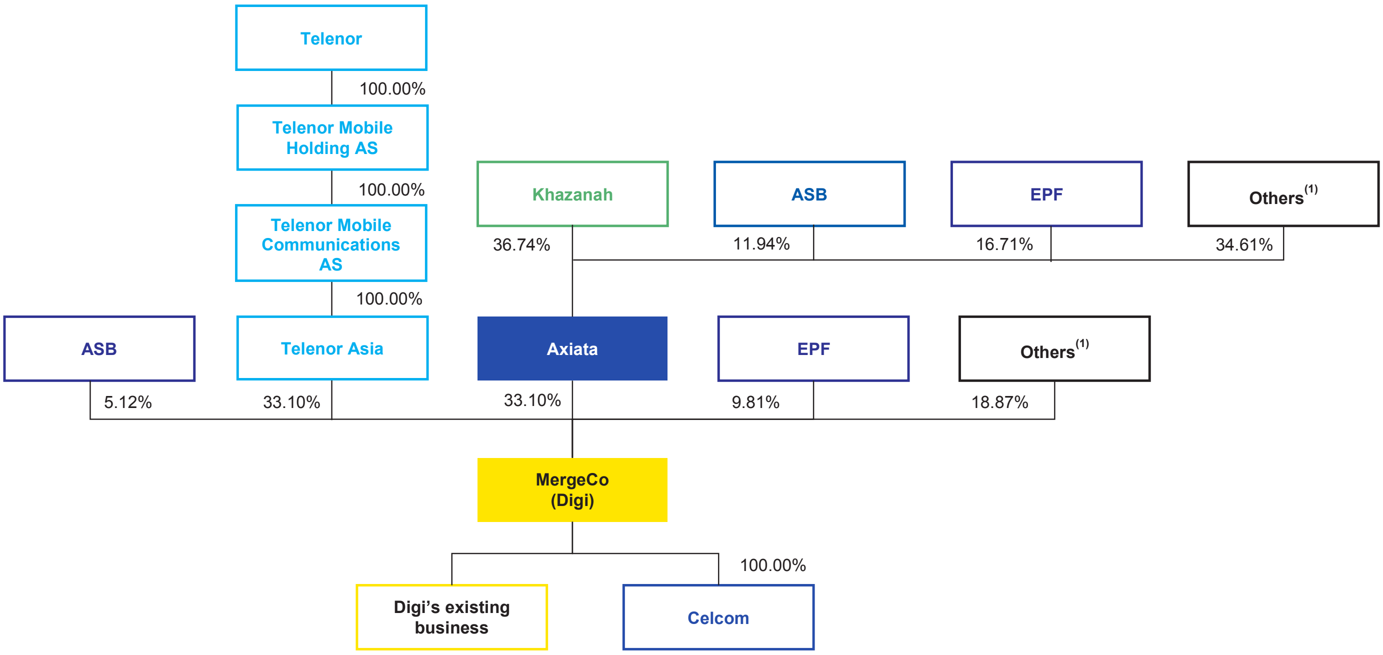
(i) Daniel Lawrence Mar – 25.00% shareholding;

(ii) Ngamratanapaibool Kobchok – 5.00% shareholding; and

(iii) Lim Lay Choon, Susan (Lin LiChun, Susan) – 1.00% shareholding.

Structure upon completion of the Proposals

The pro forma shareholding in MergeCo after the Proposed Merger, assuming no change in the number of shares held by ASB, EPF and other shareholders, is as follows:



Note:

(1) Shareholders who are not substantial shareholders.

Please refer to Appendix V of this Circular for information on MergeCo. For further details on the Celcom Group, please refer to Appendix I of this Circular.

The salient terms of the SPA are set out in Section A of Appendix XI of this Circular.

2.2 Shares Equalisation Arrangement and MTA

To enable the Shares Equalisation Arrangement to be implemented, pursuant to the MTA, Axiata shall nominate Telenor Asia to receive the 0.63% Digi Shares to be issued directly from Digi, in consideration of the 0.63% Digi Shares Cash Consideration. The 0.63% Digi Shares will be issued directly by Digi to Telenor Asia concurrently with the issuance of the 33.10% Digi Shares to Axiata.

Upon the completion of the Shares Equalisation Arrangement under the Proposed Merger, Telenor Asia and Axiata will each have equal shareholding of 33.10% in MergeCo.

The salient terms of the MTA have been provided by Axiata to Digi and are set out in Section B of Appendix XI of this Circular.

2.3 SHA

In connection with and upon completion of the Proposed Merger, Telenor Asia and Telenor (as guarantor of Telenor Asia), and Axiata will enter into the SHA. The SHA is a private understanding between Telenor Asia, Telenor and Axiata of which Digi is not a party to it.

The agreed form of the SHA sets out, amongst others, the parties' respective rights and obligations with respect to the activities and governance of the MergeCo Group, and ownership and disposition of Digi Shares, the composition of the Board and nomination of directors to the Board, the merger integration plan and the objective for the MergeCo Group to establish an innovation centre to foster technology transformation and digitalisation in Malaysia.

The salient terms of the SHA have been provided by Axiata to Digi and are set out in Section C of Appendix XI of this Circular.

2.4 Letter Agreement between Telenor and Digi

In furtherance of the aims of the Proposed Merger, Telenor and Digi have by the Letter Agreement mutually agreed to provide various support to each other regarding certain steps and processes to achieve the completion of the Proposed Merger under the SPA. The support includes among others:

(i) the sharing of communications and information in relation to the satisfaction of regulatory conditions in the SPA;

(ii) subject to compliance with Digi's policies and processes, use reasonable endeavours to carry out certain pre-closing integration planning matters set out in the SPA; and

(iii) the settlement of all indebtedness owing by a Telenor group member to a Digi group member and vice versa immediately before the completion of the Proposed Merger and the release and full discharge of such indebtedness.

2.5 Basis and justification for the Total Consideration

The Total Consideration is based on, amongst others, the following:

(i) the historical performance of the Digi Group and the Celcom Group up to FYE 31 December 2020;

(ii) the rationale of the Proposed Merger as set out in Section 4.1 of Part A of this Circular;

(iii) the future prospects of the MergeCo Group after completion of the Proposed Merger as set out in Section 5.3 of Part A of this Circular; and

(iv) the pro forma shareholding of Axiata and Telenor in MergeCo upon completion of the Proposed Merger.

In determining that the Total Consideration can be justified, the Board (save for the Interested Directors) has taken into consideration a range of factors including, amongst others, the basis of the Total Consideration as set out above and the following:

(i) the Total Consideration which translates into the following implied multiples for Celcom, and the similar implied multiples for the derived value of Digi based on the Issue Price (of RM4.06 per Digi Share) for comparison:

	Celcom[1] (RM million)	**Digi (RM million)**
Enterprise Value ("**EV**")	24,497.7[2]	36,715.7[3]
Net debt and other adjustments	6,741.5	5,149.2[4]
Equity value ("**EQV**")	17,756.2	31,566.5
Free Cash Flow ("**FCF**")[5]	1,595.8	2,359.8
PATAMI[6]	677.4	1,221.0
Earnings before interest, tax, depreciation and amortisation ("**EBITDA**")[7]	2,579.9	3,080.0
Implied EV/FCF multiple (times)	15.3	15.6
Implied EV/EBITDA multiple (times)	9.5	11.9
Implied Price-to-earnings ("**P/E**") multiple (times)	26.2[8]	25.9[9]

Notes:

(1) Celcom's figures have not taken into consideration the effects of carving out the 20.00% equity interest in Merchantrade held by Celcom to be transferred to Axiata as part of the Celcom Group Reorganisation as set out in paragraph 4 of Section A of Appendix XI of this Circular as it is not expected to be material. Celcom's share of profit and NA in Merchantrade for the FYE 31 December 2020 are approximately RM0.9 million and RM22.6 million respectively.

(2) Based on the Total Consideration of RM17,756.2 million, and the following items for Celcom based on its audited financial statements for the FYE 31 December 2020:

(a) total borrowings (including lease liabilities) of RM8,271.8 million;

(b) deposits, cash and bank balances of RM1,452.7 million;

(c) non-controlling interest of RM77.3 million;

(d) investment in associated company of RM132.4 million; and

(e) investment in joint ventures of RM22.6 million.

(3) Based on the Issue Price multiplied by the 7,775,000,000 Digi Shares as at the LPD (resulting in a derived equity value of RM31,566.5 million) and net debt and other adjustments.

(4) Digi's total borrowings (including lease liabilities) of RM5,452.0 million less cash and cash equivalents of RM302.9 million based on its audited financial statements for the FYE 31 December 2020.

(5) FCF has been determined as EBITDA less paid capital expenditures. The paid capital expenditures are extracted from the Annual Report of Digi and the audited financial statements of Celcom respectively for the FYE 31 December 2020.

(6) *PATAMI figures are extracted from the Annual Report of Digi and the audited financial statements of Celcom respectively for the FYE 31 December 2020.*

(7) *EBITDA of Digi is extracted from the Annual Report of Digi for the FYE 31 December 2020. Please refer to Section 1 of Appendix III of this Circular for the computation of Celcom's EBITDA.*

(8) *Celcom's implied P/E multiple has been computed based on the Total Consideration of RM17,756.2 million and Celcom's PATAMI of RM677.4 million.*

(9) *Digi's implied P/E multiple has been computed based on the Issue Price multiplied by the 7,775,000,000 Digi Shares as at the LPD and Digi's PATAMI of RM1,221.0 million.*

(ii) the Total Consideration is within the market value range for 100% equity interest in Celcom, as assessed by the Independent Valuer appointed by the Company to conduct an independent assessment on the equity value of Celcom. For further details, please refer to Appendix X of this Circular;

(iii) the proportion of Consideration Shares and cash payment involved to satisfy the Total Consideration and the Issue Price of the Consideration Shares; and

(iv) the terms and conditions of the SPA and of the price paid by Telenor Asia as specified in the MTA for the 0.63% Digi Shares to be issued to Telenor Asia in respect of the Shares Equalisation Arrangement.

The issuance of the Consideration Shares is the most appropriate means of satisfaction of the Total Consideration, that is not to be paid in cash, given the objective of the proposal is for the merger of Celcom and Digi whereby all existing shareholders are to stay invested in the equity of MergeCo. The Cash Consideration and the Shares Equalisation Arrangement in the Proposed Merger is intended to balance the shareholding of Telenor Asia and Axiata in MergeCo at 33.10% each.

2.6 Basis and justification for the Issue Price of the Consideration Shares

The Total Consideration and the manner of payment of the Total Consideration are disclosed under Section 2.1 of Part A of this Circular.

The Issue Price (of RM4.06 per Digi Share) was derived by Telenor and Axiata on a willing-buyer and willing-seller basis, based on the historical market price of Digi Shares up to 7 April 2021, being the day prior to the date of the Digi Initial Announcement.

In justifying the Issue Price, the Board has taken into consideration that the Issue Price represents a premium or discount to the following market price or VWAMP of Digi Shares up to the Digi Initial Announcement LTD:

	Digi Share price	**Premium/(Discount) Over Digi Share price**	
For the period up to Digi Initial Announcement LTD	**RM**	**RM**	**%**
Last traded market price of Digi Shares	3.75	0.31	8.3
5-day VWAMP	3.65	0.41	11.2
1-month VWAMP	3.69	0.37	10.0
3-month VWAMP	3.77	0.29	7.7
6-month VWAMP	3.89	0.17	4.4
1-year VWAMP	4.08	(0.02)	(0.5)

(Source: Thomson Reuters)

The premium or discount of the Issue Price to the following market price or VWAMP of Digi Shares up to 18 June 2021, being the last full trading day of Digi Shares prior to the date of the Digi 21 June 2021 Announcement is set out below.

For the period up to and including the Digi 21 June 2021 Announcement LTD	**Digi Share price**	**Premium/(Discount) Over Digi Share price**	
	RM	**RM**	**%**
Last traded market price of Digi Shares	4.18	(0.12)	(2.9)
5-day VWAMP	4.23	(0.17)	(4.0)
1-month VWAMP	4.23	(0.17)	(4.0)
3-month VWAMP	4.17	(0.11)	(2.6)
6-month VWAMP	4.02	0.04	1.0
1-year VWAMP	4.06	0.00	0.0

(Source: Thomson Reuters)

The premium or discount of the Issue Price to the following market price or VWAMP of Digi Shares up to the LPD is set out below.

For the period up to and including the LPD	**Digi Share price**	**Premium Over Digi Share price**	
	RM	**RM**	**%**
Last traded market price of Digi Shares	3.38	0.68	20.1
5-day VWAMP	3.41	0.65	19.1
1-month VWAMP	3.48	0.58	16.7
3-month VWAMP	3.56	0.50	14.0
6-month VWAMP	3.50	0.56	16.0
1-year VWAMP	3.78	0.28	7.4

(Source: Thomson Reuters)

Historical Share Prices

The monthly highest and lowest market prices of Digi Shares traded on Bursa Securities for the past 12 months preceding the date of this Circular are as follows:

	High	**Low**
2021	**RM**	**RM**
October	4.49	4.23
November	4.33	4.08
December	4.36	3.80
2022		
January	4.16	3.75
February	4.26	3.81
March	4.11	3.84
April	3.98	3.78
May	3.82	3.34
June	3.57	3.10
July	3.68	3.35
August	3.87	3.51
September	3.70	3.31

(Source: Thomson Reuters)

2.7 Ranking of the Consideration Shares

The Consideration Shares shall, upon issuance and allotment, be of the same class and rank equally, i.e. pari passu, in all respect with the then existing Digi Shares, save and except that the holders of such Consideration Shares shall not be entitled to any dividends and/or other distributions declared by Digi, the entitlement date of which is prior to the date of allotment of the Consideration Shares, and shall be free from all encumbrances.

2.8 Listing of the Consideration Shares

Bursa Securities had on 27 October 2022 granted its approval for the listing of and quotation for 3,956,507,988 new Digi Shares to be issued pursuant to the Proposed Merger on the Main Market of Bursa Securities. Please refer to further information as set out in Section 8.1 of Part A of this Circular.

2.9 Indebtedness owing from Celcom to Axiata

Pursuant to the CNSB Shareholder Loan Agreement, Axiata has extended the CNSB Shareholder Loan to CNSB. The CNSB Shareholder Loan Agreement contains a right for Axiata to require the entire CNSB Shareholder Loan to be repaid within 60 days if Axiata's effective shareholding in CNSB falls below 51.00% ("**Mandatory Refund Event**").

Axiata and Digi have agreed in the SPA that prior to or on completion of the Proposed Merger, Axiata shall amend the maturity date in the CNSB Shareholder Loan Agreement to a date that occurs six (6) months after the completion of the Proposed Merger. Axiata will also waive its rights to the compulsory refund provision in the CNSB Shareholder Loan Agreement such that the outstanding loan amount owing will not be required to be repaid in the event of the occurrence of the Mandatory Refund Event pursuant to the Proposed Merger. Axiata may at its sole discretion, upon the request of CNSB, extend the maturity date by a further six (6) months.

After completion of the Proposed Merger, the MergeCo Group may procure the refinancing of the CNSB Shareholder Loan in full or in part with borrowings, the amount of which will only be determined later and will depend on, amongst others, the MergeCo Group's projected cash reserves and future funding requirements.

Further details of the CNSB Shareholder Loan Agreement are set out in Section 1.3(ii) of Appendix IV of this Circular.

2.10 Liabilities to be assumed

Save for the obligations and liabilities of Digi arising from or in connection with the SPA, there are no other liabilities including contingent liabilities and/or guarantees to be assumed by Digi arising from the Proposed Merger.

There are two (2) material litigations, namely the Main Suit 1 and Main Suit 2 (as detailed in Section 8 of Appendix I of this Circular) involving Celcom and Celcom Resources, a wholly-owned subsidiary of Celcom, and for which both entities are subject to the TSDTR Counterclaims. The notes to the audited financial statements of Axiata and Celcom for FYE 31 December 2021 disclose these material litigations as contingent liabilities, and further disclose that the Board of Axiata, based on external legal advice received, are of the view that it has good prospects of successfully defending these two (2) counterclaims.

Axiata and Digi have agreed in the SPA that if Celcom and Celcom Resources are unsuccessful in defending these two (2) counterclaims, Axiata shall indemnify the MergeCo Group in accordance with the TSDTR Indemnity. The TSDTR Indemnity is uncapped in terms of quantum and time. The details of the TSDTR Indemnity are set out in paragraph 7.1 of Section A of Appendix XI of this Circular.

Please also refer to Section 6.3(c) of Part A of this Circular for the risk factors surrounding these material litigations.

2.11 Additional financial commitment

Digi does not expect to incur additional financial commitment to put the business of the Celcom Group on-stream in view that the Celcom Group is long established and has on-going operations.

The MergeCo Group may incur borrowings in connection with the Proposed Merger in the circumstances set out in Section 2.9 of Part A of this Circular. Digi will incur borrowings in connection with the Proposed Merger in the circumstances as set out in Section 2.12 of Part A of this Circular.

In addition, the MergeCo Group is also expected to incur additional costs and expenditures in its performance of the Undertaking, the amount of which can only be determined after completion of the Proposed Merger. Further details are set out in Sections 1.3, 5.3 and 6.3(n) of Part A of this Circular.

2.12 Source of funding of Cash Consideration

Digi intends to fund the Cash Consideration through existing borrowing facilities. Digi Group had increased the financing limits of its existing borrowing facilities granted during FYE 31 December 2020 by financial institutions to fund the Cash Consideration. These facilities are for a tenure of seven (7) years with floating interest rates. The interest rates comprise the respective lenders' cost of funds plus spread. As at the LPD, the weighted average interest rate of Digi Group's outstanding loans is approximately 3.6% per annum.

The Cash Consideration is subject to adjustment upon determination of Interim Adjustment Amount and Final Adjustment Amount as detailed in Section 2 of Part A Salient Terms of the SPA set out in Appendix XI of this Circular. Where there is additional amount payable to Axiata arising from the determination of the Interim Adjustment Amount or Final Adjustment Amount, as the case may be, these amounts are expected to be funded through internally generated funds.

2.13 Original cost and date of investment by Axiata

Based on information provided by Axiata, the total original cost of investment in Celcom made by Axiata on 25 April 2008 is approximately RM4,677.0 million.

2.14 Details of new controlling shareholder upon completion of the Proposed Merger

Upon completion of the Proposed Merger and Shares Equalisation Arrangement, Axiata will become a new shareholder of MergeCo, who together with Telenor Asia will jointly control MergeCo with equal shareholding of 33.10% each and a combined stake of 66.20%. In connection with and upon completion of the Proposed Merger, Telenor Asia, Telenor, and Axiata will also enter into the SHA with each other. The SHA contains terms of their joint participation and control of Digi which details can be found in Section C of Appendix XI of this Circular.

2.15 Change in the Board and change to the key senior management positions upon completion of the Proposed Merger

After completion of the Proposed Merger, the composition of the Board of MergeCo is expected to be changed in accordance with the SPA to reflect the participation of Axiata and Telenor Asia as joint-controlling shareholders.

Based on the terms of the SHA to be entered into between the SHA Parties, Digi has been informed by Telenor Asia and Axiata that the composition of the Board of MergeCo will comprise of 10 directors, where each of Axiata and Telenor will have a right to nominate 5 directors. Out of the 10 directors, 4 directors will be the independent non-executive directors, as tabulated below.

The following persons were nominated as proposed directors of MergeCo by Telenor Asia and/or Axiata to Digi. Digi's Nomination Committee then recommended their nomination to the Board of Digi. The Board of Digi has on 27 June 2022 approved such persons as directors of MergeCo conditional upon completion of the Proposed Merger.

Name	Age	Nationality	Proposed designation
Tan Sri Dr. Halim Shafie(1)	73	Malaysian	Chair, Non-Independent Non-Executive Director
Jørgen Christian Arentz Rostrup(2)	56	Norwegian	Deputy Chair, Non-Independent Non-Executive Director
Dr. Shridhir Sariputta Hansa Wijayasuriya(1)	54	Sri Lankan / British	Non-Independent Non-Executive Director
Haakon Bruaset Kjoel(2)	50	Norwegian	Non-Independent Non-Executive Director
Thayaparan S Sangarapillai(1)	67	Malaysian	Non-Independent Non-Executive Director
Rita Skjaervik(2)	48	Norwegian	Non-Independent Non-Executive Director
Tan Sri Abdul Farid Alias	54	Malaysian	Independent Non-Executive Director
Vimala V.R. Menon	68	Malaysian	Independent Non-Executive Director
Datuk Iain John Lo	60	Malaysian	Independent Non-Executive Director
Khatijah Begom Shah Mohamed	67	Malaysian	Independent Non-Executive Director

Notes:

(1) The director is a representative of Axiata.

(2) The director is a representative of Telenor Asia.

Please refer to Appendix VI of this Circular for further details of the proposed directors of MergeCo.

The proposed key senior management of MergeCo are set out below:

Name	Proposed designation
Datuk Mohamad Idham Nawawi	CEO
Albern Murty	Deputy CEO
Tan Moi Tsu	Chief Financial Officer
Praveen Rajan Nadarajan	Chief Consumer Business Officer
Joachim Parsanth Rajaram	Chief Corporate Affairs Officer
Kesavan Sivabalan	Chief Technology Officer
Cheng Weng Hong	Chief Sales & Retail Officer
Azmi Ujang	Chief Human Resources Officer
Datuk Kamal Khalid	Chief Transformation Officer
Erik Axel Sigurd Marell	Chief Strategy Officer
Afizulazha Abdullah	Chief Enterprise Business Officer
Chee Loo Fun	Chief Home & Fibre Officer

Please refer to Appendix VI of this Circular for further details of the proposed key senior management of MergeCo.

2.16 Change of name of "Digi.Com Berhad" to "Celcom Digi Berhad"

It has also been agreed under the SPA, that after the completion of the Proposed Merger, Digi shall convene and hold a shareholders meeting as promptly as reasonably practicable following the completion of the Proposed Merger but in any event within three (3) months after the completion of the Proposed Merger, for the shareholders to consider a resolution to change the name of Digi from "Digi.Com Berhad" to "Celcom Digi Berhad".

2.17 Related party arrangements arising from the Proposed Merger

On completion of the Proposed Merger, all related party arrangements between the Telenor group of companies and the Digi Group, as well as all arrangements between the Axiata group of companies and the Celcom Group which would on completion of the Proposed Merger become related party arrangements of the MergeCo Group, would have been terminated save for certain existing related party arrangements that are necessary for the business or operations of both Digi Group and Celcom Group will continue in accordance with the terms of the SPA.

Further, the MergeCo Group may enter into new related party arrangements with Telenor and Axiata involving brand name usage and transitional services while the Celcom Group may enter into new arrangements with the Axiata group of companies which would on completion of the Proposed Merger become related party arrangements of the MergeCo Group but the latter can only be entered into in the ordinary course of business of the applicable Celcom Group member and on arm's length terms.

Further details are set out in Appendix IV of this Circular.

2.18 Information on the MergeCo Group and its Strategies

Upon completion of the Proposed Merger, the Celcom Group will form part of the Digi Group and collectively be the MergeCo Group.

Axiata and Telenor have stated that they do not intend to effect any major changes to the following after the completion of the Proposed Merger:

(i) the continuation of the business of the MergeCo Group;

(ii) the business of the MergeCo Group, including any plans to liquidate the MergeCo Group, sell any assets or re-deploy the fixed assets or effect any other major change in the business of the MergeCo Group, save for any divestment required in connection with the Undertaking as disclosed in Section 1.3 of Part A of this Circular; and

(iii) the continued employment of the employees or employment policies of the MergeCo Group,

except where such changes are in the ordinary course of the MergeCo Group's business or are necessary to rationalise or improve the MergeCo Group's operations and/or financial performance following the Proposed Merger. Axiata and Telenor shall retain the flexibility at any time to consider any options which are in the best interests of the MergeCo Group that may present themselves. It should be noted that based on the pro forma shareholders of MergeCo post completion of the Proposed Merger as set out in Section 2.1.1 of Part A of this Circular above, which specifies Axiata's and Telenor's shareholding as 33.10% each in MergeCo and based on the SHA, the salient terms of which are set out in Section C of Appendix XI of this Circular, both Axiata and Telenor do not have the ability to individually propose and effect changes to the manner in which the MergeCo Group operates.

Save for the SPA, SHA and MTA in relation to the Proposed Merger, both Axiata and Telenor do not have any intention to enter and has not entered into any negotiation or arrangement or understanding with any third-party in relation to any significant change in Digi Group's business and assets or the shareholding structure of Digi.

Axiata and Telenor have also stated that they do not intend to propose a change to the listing status of Digi on the Main Market of Bursa Securities.

Axiata and Telenor believe in the long-term growth prospects of the telecommunication industry in Malaysia and that the Proposed Merger shall, after completion, place the enlarged Digi Group in a better position to benefit from economies of scale and to capitalise on any future opportunities, with the combined business operations, market share, financial resources, skills and technical expertise.

Based on the synergies expected to be derived from the Proposed Merger including those as set out in Section 4.1 of Part A of this Circular, the MergeCo Group's strategy will be formulated on the basis of maximising the expected benefits to be reaped by the merger between Celcom and Digi. However, as the MergeCo Group's strategy will need to be determined by MergeCo Board and since MergeCo Board has not been constituted, the formulation of the MergeCo Group's final strategy and the timing for the implementation and execution of such strategy cannot be determined as yet and will be subject to MergeCo Board's determination once the board is formed. Thus, no specific expansion plans have been considered, and no acquisition target has been identified by MergeCo, as part of the MergeCo Group's business strategy.

2.19 Pre-emptive rights pursuant to Digi's constitution and subsection 85(1) of the Act

Subsection 85(1) of the Act which is subject to Digi's constitution, provides as follows:

*"**85**. Pre-emptive rights to new shares*

(1) Subject to the constitution, where a company issues shares which rank equally to existing shares as to voting or distribution rights, those shares shall first be offered to the holders of existing shares in a manner which would, if the offer were accepted, maintain the relative voting and distribution rights of those shareholders."

Pursuant to Article 49 (A) of the Articles of Association section of our constitution read together with subsection 85(1) of the Act, Digi shareholders have pre-emptive rights over all unissued and new shares which shall first be offered to Digi shareholders unless otherwise determined by the Company in general meeting.

Further, by Article 4 of the Articles of Association section of our constitution, shares in the Company shall not be issued to transfer a controlling interest in the Company without the prior approval of shareholders in general meeting.

By approving the resolution on the Proposed Merger, Digi shareholders will in effect be determining in a general meeting (in accordance with Article 4 and Article 49 (A) of the Articles of Association of Digi's constitution, read together with subsection 85(1) of the Act):

(i) to waive their pre-emptive rights (under Article 49 (A) of our Articles of Association read together with subsection 85(1) of the Act) to be first offered the new shares comprised in the Consideration Shares, in proportion, as nearly as may be, to the number of shares held by the shareholders in Digi;

(ii) that the Consideration Shares are not required to be offered or issued proportionately to Digi's members first before Digi issues the 0.63% Digi Shares to Telenor Asia and 33.10% Digi Shares to Axiata; and

(iii) to agree to the issue of the 0.63% Digi Shares to Telenor Asia (as nominated by Axiata in accordance with the terms of the MTA and SPA) and the 33.10% Digi Shares to Axiata and thereby agreeing to the transfer to Telenor Asia and Axiata of a joint-controlling interest in Digi upon completion of the Proposed Merger.

In summary, by voting in favour of the resolution on the Proposed Merger i.e., Ordinary Resolution 1, Digi's shareholders will be effectively waiving their pre-emptive rights which they are entitled to pursuant to Digi's constitution, read together with subsection 85(1) of the Act.

Further details on the above are set out in Annexure E of this Circular.

3. DETAILS OF THE PROPOSED EXEMPTION

Upon completion of the Proposed Merger, the shareholdings of Axiata in Digi will increase from nil to 33.10%. Additionally, pursuant to the SHA to be entered into between the SHA Parties, upon completion of the Proposed Merger, Telenor Asia and its holding companies will be deemed PAC to Axiata pursuant to subsection 216(2) of the CMSA. Axiata together with Telenor Asia will collectively hold 66.20% of the equity interest in MergeCo.

In accordance with subsection 218(2) of the CMSA and subparagraph 4.01(a) of the Rules, Axiata and the Axiata PACs, will be obliged to undertake the Mandatory Offer upon the SPA becoming unconditional**.** The following are details of the Axiata PACs:

Name	Nationality / country of incorporation	Identification no. / registration no.	Nature of relationship	Correspondence address
Telenor Asia	Singapore	1997 05695G	Immediate shareholder of 49.00% of Digi / Indirect wholly-owned subsidiary of Telenor	Unit 28-01 Guoco Tower, 1 Wallich Street Singapore 078881
Telenor	Norway	982 463 718	Ultimate indirect sole shareholder of Telenor Asia	Snarøyveien 30, 1360, Fornebu, Norway
Telenor Mobile Communications AS	Norway	963 815 840	Immediate shareholder of 100% of Telenor Asia	Snarøyveien 30D, 1360, Fornebu, Norway
Telenor Mobile Holding AS	Norway	983 940 145	Immediate shareholder of 100% of Telenor Mobile Communications AS	Snarøyveien 30, 1360, Fornebu, Norway
Puan Sri Zaleha Binti Jamaludin	Malaysian	501029-04-5380	Spouse of a director of Axiata(1)	No 40, SS 21/23, Damansara Utama, 47400 Petaling Jaya Selangor Malaysia

Note:

(1) Puan Sri Zaleha Binti Jamaludin is the spouse of Tan Sri Dr. Halim Shafie, an Independent Non-Executive Director of Axiata and Interim Chair/Independent Non-Executive Director of Celcom. Tan Sri Dr. Halim Shafie has also been nominated as the proposed Chair and Non-Independent Non-Executive Director of MergeCo.

The shareholdings of Axiata, Khazanah, Telenor Asia and the holding companies of Telenor Asia, in Digi as at the LPD and upon completion of the Proposed Merger are as follows:

	As at the LPD				After the Proposed Merger			
	Direct		Indirect		Direct		Indirect	
	No. of Digi Shares ('000)	%(1)	No. of Digi Shares ('000)	%(1)	No. of MergeCo Shares ('000)	%(2)	No. of MergeCo Shares ('000)	%(2)
Axiata	-	-	-	-	3,883,129	33.10	-	-
Khazanah (3)	-	-	-	-	-	-	3,883,129	33.10
Telenor Asia	3,809,750	49.00	-	-	3,883,129	33.10	-	-
Telenor Mobile Communications AS(4)	-	-	3,809,750	49.00	-	-	3,883,129	33.10
Telenor Mobile Holding AS(5)	-	-	3,809,750	49.00	-	-	3,883,129	33.10
Telenor(6)	-	-	3,809,750	49.00	-	-	3,883,129	33.10

Notes:

(1) Calculated based on the 7,775,000,000 Digi Shares as at the LPD.

(2) Calculated based on the pro forma enlarged share capital of 11,731,507,988 MergeCo Shares.

(3) Deemed interested by virtue of its 36.74% interest in Axiata.

(4) Deemed interested by virtue of its 100% interest in Telenor Asia.

(5) Deemed interested by virtue of its 100% interest in Telenor Mobile Communications AS.

(6) Deemed interested by virtue of its 100% interest in Telenor Mobile Holding AS.

The following are details of the maximum potential holdings of Axiata and Axiata PACs arising from the Proposed Merger.

Axiata and Axiata PACs	Maximum direct shareholding in MergeCo
Axiata	3,883,129,144 shares (33.10%)
Telenor Asia	3,883,129,144 shares (33.10%)
Telenor	-
Telenor Mobile Communications AS	-
Telenor Mobile Holding AS	-
Puan Sri Zaleha Binti Jamaludin	5,000 shares (Negligible)

As it is not the intention of Axiata and the Axiata PACs, to undertake the Mandatory Offer for the remaining Digi Shares that they do not already own upon completion of the Proposed Merger, Axiata intends to seek an exemption from the SC for itself and the Axiata PACs, pursuant to subparagraph 4.08(1)(a) of the Rules from the obligation to undertake the Mandatory Offer. Pursuant to the Rules, the SC may consider granting the Proposed Exemption if, amongst others, the approval of the Non-Interested Shareholders for the Proposed Exemption is obtained at an EGM of Digi to be convened and there has been no disqualifying transactions entered into by Axiata or any of the Axiata's persons acting in concert in accordance with subparagraph 4.08(2) of the Rules.

In this regard, as set out in Section 9 of Part A of this Circular, the Proposed Merger is conditional upon the Whitewash Resolution having been approved by the Non-Interested Shareholders and the Proposed Exemption being granted by the SC, otherwise the Proposed Merger will not be implemented.

4. RATIONALE OF THE PROPOSALS

4.1 Proposed Merger

Celcom and Digi are both established Malaysian Telcos, providing telecommunication related services, infrastructure, IT and digital solutions services in Malaysia. Currently controlled by Axiata and Telenor respectively, the Proposed Merger signifies a partnership in the Malaysian market of two (2) established multi-market telecommunication group players in South-East Asia, who will jointly control MergeCo. The partnership will bring together Axiata's and Telenor's Malaysian operations' combined scale, competencies and experience, stronger funding capacity to achieve Malaysia's digital aspirations.

Strength and resilience in managing headwinds

The MergeCo Group is expected to see the combination of the scale, experience, competencies and financial strength of both Telenor and Axiata telecom groups with the market knowledge of two well-established local Telcos. The combined scale of Celcom's and Digi's financial strengths, resources, expert capabilities and experiences will enable the MergeCo Group to be more resilient in managing rapidly escalating data usage year-on-year coupled with continued pressure on revenue and profitability.

Commercially stronger

The Proposed Merger is a strategic move for Digi to (amongst other things) address industry challenges, continue to remain viable and to unlock resources in order to invest in stronger network capabilities, accelerate innovation and digitisation, strengthen its position to attract partnerships with global digital players and secure future revenue streams. By bringing together the combined scale of Celcom's and Digi's financial strengths, resources, capabilities and experiences, the resultant strength from the combination of two of Malaysia's established Telcos will enable the MergeCo Group to be more resilient to market and technological challenges to better serve the growing demand from customers, empower businesses, enterprises, and societies sustainably, accelerating Malaysia's digital aspirations.

Stronger capability to invest and drive digitisation, innovation and sustainable growth for Malaysia

The MergeCo Group is expected to have greater scale to invest in strengthening network coverage and quality, drive 5G solutions, develop new growth opportunities for large enterprises, SMEs and start-ups alongside attracting partnership with global digital companies in support of MyDigital aspirations and be a strategic innovation partner to support various initiatives in line with the Government's ambition.

The scale, capacity and value created by the Proposed Merger will allow the MergeCo Group to target its investments to benefit Malaysian customers and businesses through stronger combined network, distribution and sales channels, enhanced digital access and offerings, wider product offerings supporting Government initiatives such as MyDigital and JENDELA. The MergeCo Group will have more focus on digital inclusivity across society through JENDELA objectives and beyond, higher mobile broadband experience and wider coverage in underserved geographies. Please refer to Section 5.3 of Part A of this Circular for further details on MyDigital.

Jalinan Digital Negara or JENDELA is a comprehensive and robust digital infrastructure plan aimed at addressing the arising needs and demand for better quality for fixed and mobile broadband coverage as well as reinforcing digital transformation and bridge the digital divide between the rural and urban communities. JENDELA was established considering the rising need and dependency for telecommunications and broadband services seen during the peak of COVID-19 pandemic and the MCO.

The MergeCo Group is expected to also leverage on combined economies of scale, while creating consumer benefits through strengthening core distribution, delivering improved network operations, and realising efficiencies from other operational activities. Finally, the MergeCo Group is expected to be well-positioned to tap on greater human capital pool and be a robust platform to drive the development and growth of local talent, technology know-how transfers and ultimately promote multiple benefits for the broader Malaysian economy.

Strengthen resilience of shareholders' returns over the medium to long term

The Proposed Merger is expected to provide an opportunity to strengthen Digi's resilience in the medium to long term to mitigate these challenges anchored on the strength of the MergeCo Group's combined scale and anticipated synergies. In the immediate term upon completion of the Proposed Merger, the MergeCo Group is expected to invest additional amount of time and resources in merger integration activities including incurring necessary costs and expenditures for the planning, sourcing and implementation of network integration and IT infrastructures as well as to fulfil the conditions in the Undertaking to MCMC. Although these activities may impact earnings and cash flow profiles of the MergeCo Group in the immediate years upon completion of the Proposed Merger, the synergistic benefits are expected to be realised gradually with significant level expected upon completion of network integration and IT infrastructures. Over the medium to longer term, the Proposed Merger is expected to contribute positively to the earnings and earnings per share of Digi as compared to the scenario of Digi continuing on a standalone basis without the Proposed Merger.

The anticipated synergies and benefits from the Proposed Merger are expected to be value accretive, even after considering the required costs in fulfilling the Undertaking to MCMC. As such, the Proposed Merger is expected to strengthen the resilience of MergeCo's shareholders' returns over the medium to long term.

Synergies derived from the Proposed Merger

Synergies are anticipated to be realised through among others consolidation of network and IT infrastructure as well as economies of scale which will create more capability for funding future investments including capital expenditure and innovation.

Commercially, the MergeCo Group is likely to benefit different segments of market through more comprehensive and diversified portfolio which is expected to bring potential revenue synergies to the MergeCo Group. Concurrently, customers are expected to benefit with more attractive and affordable products and offers, as well as better quality of service.

4.2 Proposed Exemption

Upon completion of the Proposed Merger, the shareholdings of Axiata in Digi will increase from nil to 33.10%. Additionally, pursuant to the SHA to be entered into between the SHA Parties, upon completion of the Proposed Merger, Telenor Asia and its holding companies will be deemed PAC to Axiata pursuant to subsection 216(2) of the CMSA. Axiata together with Telenor Asia will collectively hold 66.20% of the equity interest in MergeCo.

In accordance with subsection 218(2) of the CMSA, Axiata and the Axiata PACs, will be obliged to undertake the Mandatory Offer upon the SPA becoming unconditional.

As it is not the intention of Axiata and the Axiata PACs to undertake the Mandatory Offer, the Proposed Exemption has been included as part of the Proposals. The Proposed Merger is conditional upon the Whitewash Resolution having been approved by the Non-Interested Shareholders and the Proposed Exemption being granted by the SC. If the Whitewash Resolution is not approved by the Non-Interested Shareholders and/or the Proposed Exemption has not been granted by the SC, the Proposed Merger will not be implemented.

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5. INDUSTRY OUTLOOK AND FUTURE PROSPECTS OF THE MERGECO GROUP

5.1 Overview of the Malaysian economy

The Malaysian economy registered a strong growth of 8.9% in the second quarter of 2022 (1Q 2022: 5.0%). While growth was lifted to some extent by the low base from the Full Movement Control Order (FMCO) in June 2021, growth in April and May 2022 was particularly robust, underpinned by the continued recovery in labour market conditions and policy support. The improvement also reflected normalising economic activity as the country moved towards endemicity and reopened international borders. Exports remain supported by strong demand for electrical and electronics (E&E) products. In terms of economic activity, the services and manufacturing sectors continued to drive growth. On a quarter-on-quarter seasonally-adjusted basis, the economy increased by 3.5% (1Q 2022: 3.8%).

Key economic sectors continued to expand in the second quarter of 2022. The services sector grew by 12.0% (1Q 2022: 6.5%). Consumer-related subsectors such as retail and leisure-related activities continued to recover amid the transition to endemicity, reopening of the international borders, improving labour market conditions and the additional support from policy assistance. The strong expansion was also seen in business related activities including transport and storage, due in part to higher growth in air passenger traffic and tourist arrivals. Furthermore, growth of the real estate subsector continued to improve as property transactions recovered. Additionally, the information and communication subsector provided further support to growth following greater usage of e-commerce services.

In 2022, global growth is projected to continue on its recovery path, supported by the sustained reopening of the economy and stronger labour markets. Nevertheless, the military conflict in Ukraine is expected to dampen the pace of the global recovery. Commodity prices have risen higher, reflecting the disruption in commodity production and trade due to the war and associated sanctions by Western countries on Russia. This has led to higher global inflation, which would exacerbate cost pressures on firms while negatively impacting consumer sentiments and spending.

Overall, the balance of risks to world growth remains tilted to the downside. A further escalation of geopolitical tensions, especially between Russia and the West, could lead to deeper economic disruptions and higher prices, especially for euro area economies. There is also a risk that high inflation remains more persistent than expected or that inflation expectations become un-anchored. This could lead to faster than expected monetary policy tightening in advances economies (AEs). In addition, there could be a reimposition of a severe and widespread lockdown in China if COVID-19 cases increased sharply. In contrast, upside risks to growth could come from a stronger-than expected recovery in China from additional policy support and improving sentiments, faster-than expected improvement in supply chain conditions, as well as stronger-than-expected recovery from reopening of economies.

Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), increased to 2.8% during the quarter (1Q 2022: 2.2%). The increase reflected higher core inflation and higher fuel and price-volatile inflation. Elevated cost pressures amid the ongoing military conflict in Ukraine, adverse weather conditions in key food-exporting countries and the stronger USD were all key contributing factors to this. Headline inflation is expected to trend higher in some months during the remainder of the year, due in part to the base effect from the discount on electricity tariffs implemented in 3Q 2021. As projected earlier, underlying inflation, as measured by core inflation, is expected to average higher in 2022, as demand continues to improve amid the high-cost environment.

(Source: Bank Negara Malaysia, Quarterly Bulletin 2nd Quarter 2022)

As at end August 2022, the market capitalisation declined by 6.9% to RM1,706.3 billion. However, the overall market remains steady, with market transacted value recording RM363.2 billion, while the total volume of shares traded was 489.4 billion units. The market velocity recorded 30.7%, while market volatility stood at 9.6%. Meanwhile, the foreign holdings based on market capitalisation in the local bourse stood at 20.1% during the same period. Overall, the domestic capital market remains robust, with the equity market recording net foreign inflows amounting to RM8.2 billion and purchase of shares by local retail investors worth RM1.8 billion from January to August 2022. Going forward, the continuous development of the local equity market will provide wider opportunities for alternative savings and investment instruments to the retail segment, encouraging greater public participation in the equity market.

During the first seven months of 2022, the gross funds raised in the capital market grew by 1.4% to RM165.2 billion. The moderate increase was contributed mainly by the public sector's gross fundraising activities, which recorded an expansion of 5.7% to RM102.9 billion. In contrast, gross funds raised by the private sector declined by 5% to RM62.3 billion within the same period.

The banking system remains well-capitalised to support economic recovery amid heightened volatility in global financial markets. This was reflected by strong capital position of banks, which recorded RM129.6 billion of excess capital buffers and healthy capital ratios as at end July 2022. The Common Equity Tier 1 Capital (CET1 Capital), Tier 1 Capital, and Total Capital ratios remained stable at 14.6%, 15.2% and 18.3%, respectively, exceeding the Basel III minimum regulatory levels of 4.5%, 6%, and 8%, respectively, of risk-weighted assets. These buffers safeguard banks against potential unexpected losses that may occur amid a challenging operating environment while supporting households' and businesses' financing needs. Furthermore, the liquidity coverage ratio maintained its healthy position at 151% to support intermediation activities, which is well above the 100% minimum requirement.

As at end July 2022, total outstanding banking system loans expanded by 5.9% to RM1,974 billion, contributed by higher growth in business and household segments. Meanwhile, the demand for loans remained high as loan applications recorded an uptick by 20.1% to RM775.3 billion following the normalisation of economic activities. Similarly, loan approvals increased in tandem with loan applications by 27.8% to RM382 billion for the first seven months of 2022.

Lending activities to businesses recorded an improvement as reflected in the outstanding business loans, which grew by 5.9% to RM696.5 billion, accounting for 35.3% of total loans outstanding as at end July 2022. The bulk of the loans outstanding were mainly for small and medium enterprises (SMEs) financing, amounting to RM350.5 billion or 17.8% of total loans outstanding, particularly for working capital. The loan disbursements were mainly channelled to manufacturing (21.8%), followed by wholesale and retail trade, restaurants and hotels (17.7%), and finance, insurance and business activities (12.6%) sectors.

(Source: Ministry of Finance, Economic Outlook 2023)

5.2 Industry outlook

The telecommunications market in Malaysia has somewhat matured with a flat service revenue trend in the last few years. While data services such as fixed broadband and mobile Internet are still growing, the increase is offset by the decline in legacy services such as voice and mobile messaging services. However, the total market is expected to rebound from 2021 onwards.

As set out in the MCMC Industry Report 2021, the total telecom service revenue in Malaysia is forecasted to grow steadily at a CAGR of 3.0% from RM26.3 billion in 2021 to RM30.6 billion in 2026 based on the GlobalData Fixed Communications and Mobile Broadband Forecast published in December 2021.

The growth is mainly driven by mobile data with a forecasted CAGR of 5.2% in the next five years and a revenue size of 62% of the total telecom market in 2026. This will be driven by several key factors such as higher data subscriptions, wider coverage of high-speed mobile networks especially in remote areas, higher data usage with 5G and wider adoption of OTT services, especially gaming content, streaming and video. With an expected CAGR of 3.3% for the same forecast period, fixed broadband is another key driver for the telecom market in the country.

The increase in the fixed broadband market is mainly driven by wider coverage of fibre-based services, hybrid workplace trends that require stable and reliable Internet at home as well as various government-led initiatives to drive adoption. However, there are also several potential factors that could slow down the overall market growth such as price erosion and higher competition, especially from existing players and new market entrants.

Other services such as fixed voice, mobile voice and messaging have been on downtrends and are expected to continue to decline at CAGRs of -3.2%, -0.5% and -12.7% respectively. The higher data subscriptions have also accelerated the decline in the telecommunications companies traditional services as users are moving to OTT applications such as instant messaging, social media and conferencing tools as their main communications platforms which are outside of mobile networks and service offerings.

(Source: MCMC Industry Report 2021)

5.3 Future prospects of the MergeCo Group

In Malaysia, the telecommunication industry has seen significant shifts in terms of industry structure, beyond the traditional players. Technology advancement and digital service adoption has surged exponentially thereby creating opportunities across the consumer, home, enterprise ICT and IoT / M2M market segments.

Multiple benefits for the broader Malaysian economy

The MergeCo Group understands that employees and partners are key assets. The MergeCo Group is committed to protecting employee welfare with no forced retrenchments as well as to enable local start-ups, local vendors, SMEs, large enterprises to access Telenor and Axiata global markets, while attracting global partners into Malaysia. An innovation centre to be established by the MergeCo Group as stated in paragraph 3.2 of Section C of Appendix XI of this Circular is expected to play a key role for staff to continue to develop across functions, build new competence and be part of future growth of the company as it explores new technologies and innovation. It will also be a key partner to the Government, public and private players such as Malaysia’s IR4.0 Innovation Hub (i.e. MyDigital, MCMC’s National Experience Centre) to support the local ecosystem.

Deliver what matters most to customers

Customers are expected to benefit from the merger, as the merged company will have the capacity to provide better quality of service and at competitive rates. Digi’s and Celcom’s prepaid and postpaid products will be positioned as products under a single corporate brand within 2 years from Closing, pursuant to the terms of the Undertaking set out in Section 1.3 of Part A of this Circular. Notwithstanding the above, the combined portfolio of Digi’s and Celcom’s product offerings will allow the MergeCo Group to address the needs of different segments of the market.

Support MyDigital aspirations

The Government recently unveiled its MyDigital aspirations which included several key initiatives which target to accelerate innovation and create an effective digital ecosystem such as strengthening mobile connectivity through 4G and the introduction of 5G services, enabling application of IoT, AI and machine learning, and unlocking industry competitiveness. The global COVID-19 pandemic is accelerating the shift towards digitalisation and the MyDigital blueprint sets the pathway for economic transformation that strategically positions the nation to be highly competitive in the new norm.

Where connectivity is a critical digitalisation enabler, the telecommunication industry will play an integral role in supporting the Government's decision to optimise 4G/LTE-A networks, and fast-track 5G services to deliver high-quality broadband speed and services to all Malaysian consumers and businesses. With this, the scale, capacity and value created by the Proposed Merger will allow the MergeCo Group to support the Government's MyDigital aspiration through more efficient targeting of investments to benefit Malaysian consumers and businesses through stronger combined network and channels, enhanced digital access and offerings and wider product offerings. The MergeCo Group will also be well positioned to take advantage of opportunities that come with technological advancements and the surge in the adoption of digital services while in parallel, manage the evolving challenges of a highly competitive and complex environment.

Drive digitisation, innovation and sustainable growth

The MergeCo Group is expected to have the capacity to invest in improved network quality, drive innovation in 5G solutions and use cases as well as in new adjacent services. To keep Malaysia at the forefront of the digital evolution, innovation will be a key agenda of the MergeCo. In this context, the MergeCo Group will create an innovation centre as stated in paragraph 3.2 of Section C of Appendix XI of this Circular. The innovation centre will serve as a hub to drive research, technological advancements in AI, automation and IoT/M2M technology. The innovation centre will also provide a platform for development of new digital start-ups and growth of the local ecosystem and is expected to play an active role in promoting the 4IR digital transformation, development of 5G use cases and other technological advancement.

5G SWN model

While there are opportunities associated with the 5G SWN model, in particular, 5G network parity and savings on 5G capital expenditure, it will be key for the MergeCo Group to secure an efficient 5G wholesale cost structure that is sustainable as well as continued assurance on network resilience and cybersecurity in mitigating single-point-of-failure risk from a single 5G network. The MergeCo Group is also expected to step up its ability to differentiate through innovative 5G retail offerings and solutions for consumers and enterprises.

On 7 October 2022, Digi Tel and Celcom Mobile had each separately entered into a conditional share subscription agreement with DNB for the proposed subscription of (i) new ordinary shares in DNB and (ii) rights to allotment of DNB shares. Kindly refer to Section 1.3 of Appendix V and Section 6 of Appendix I of this Circular respectively for further details.

Based on illustration as set out in Appendix IX of this Circular, the proposed subscription of 25% equity stake in DNB by the MergeCo Group (via Digi Tel and Celcom Mobile) (i) will not result in any change to the pro forma consolidated net assets of the enlarged group and (ii) the net effects of the proposed subscription to the pro forma consolidated loans and borrowings, pro forma consolidated earnings and pro forma earnings per share of the enlarged group are less than 5% respectively, assuming completion of the Proposed Merger.

Undertaking to MCMC

In the immediate term upon completion of the Proposed Merger, the MergeCo Group is expected to invest additional amount of time and resources in merger integration activities including incurring necessary costs and expenditures for the planning, sourcing and implementation of network integration and IT infrastructures ("**Merger Integration Activities**") as well as to fulfil the conditions in the Undertaking to MCMC. Further details of the operational and financial impact of the Undertaking on the MergeCo Group are set out in Section 1.3 of Part of A of this Circular. The expected additional costs for the Merger Integration Activities and to fulfil the Undertaking is expected to dilute the earnings and EPS of the MergeCo Group in the immediate years upon completion of the Proposed Merger, the extent of which may be material depending on the timing of the Merger Integration Activities and fulfilment of the Undertaking, as well as the earnings including the extent of synergies realised year-on-year.

After performing an initial estimate of the potential synergy values from the Proposed Merger, as well as of the additional costs for the Merger Integration Activities and to fulfil the Undertaking, we are of the view that, with systematic planning and proper execution of our action plans for the Merger Integration Activities and fulfilment of the Undertaking, the anticipated overall synergy values from the Proposed Merger remain positive after considering such additional costs, and significant portions of the synergy values is expected to start realising upon completion of the network integration and IT infrastructures. The Proposed Merger is expected to contribute favourably to the medium to long term earnings and EPS of MergeCo Group.

Premised on the above and taking into account, amongst others, the outlook of the industry as set out in Section 5.2 of Part A of this Circular and the Risk Factors as set out in Section 6 of Part A of this Circular, our Board is optimistic that the prospects of the MergeCo Group is positive going forward.

6. RISK FACTORS

The risk factors set out in Section 6.1 of Part A of this Circular are risk factors in relation to the business of Celcom and are also common industry risks applicable to other Telcos operating in Malaysia and could continue to be applicable to the MergeCo Group after the Proposed Merger. Some of the risks highlighted herein may be diluted and less relevant due to the combined profile of Celcom and Digi under the MergeCo Group.

6.1 Risk factors in relation to the business of Celcom

(i) Risks specific to Celcom

(a) Failure of any fundamental ICT, services or its associated infrastructure may materially and adversely affect the telecommunication services provided by Celcom

Telecommunication service providers are heavily dependent on ICT for the delivery of their services. In 2012, Celcom embarked on a 2-year IT transformation exercise to establish an integrated customer relationship management platform spanning all touch points from dealers, customer care to retail outlets with the aim to improve customer services across online, call center and retail channels. Whilst upgrading the system, Celcom faced some issues affecting customer service, dealer operations and unable to launch any new products or services during the period. As a result, in 2014, there was a significant loss of Celcom's customers and dealers.

In recent years, Celcom has invested significantly in IT and implemented IT transformation efforts, in order to continuously improve its business agility and maximise the efficiency of its operations.

These recent IT transformation programs are designed to meet changing market demand, launch new products and services, enhance customer service capabilities and channels and facilitate automation of other support processes throughout the company. However, due to the nature of IT hardware and software components, these systems require regular maintenance, updates and replacements and they may be rendered obsolete unless technological and architectural enhancements, updates and replacements are consistently conducted. Should these systems and/or its associated infrastructure not be adequately maintained, secured and updated, or its disaster recovery processes not be adequate, system failures may arise and result in disruptions to the telecommunication services provided by Celcom, which will in turn negatively impact its business, results of operations, financial condition and future prospects. Other than the incident in 2014 as described above, Celcom has not encountered any other incidents related to system failures which have had a material adverse impact on its business, financial position and results of operations.

(b) Celcom's network infrastructure is exposed to risks relating to reliability, the availability and accessibility of sites and non-compliance

Celcom provides mobile telecommunications services that rely to varying degrees on its key network infrastructure, including its mobile networks, fixed transmission and core networks which comprise of optical fibre cable, microwave, submarine cable and satellite transmission links.

The provision of services by Celcom depends on the reliability of this integrated network. Celcom's mobile network comprises 2G and 4G network technologies and it has since begun testing and deploying 5G network technology in line with the Government's digitalisation initiatives. Its ability to maintain and increase its customer base is largely dependent on its ability to expand and upgrade its network on a timely basis to maintain and improve network quality, coverage, and capacity.

Whilst Celcom has made provision for various degrees of redundancy and decentralisation in its networks, such as the adoption of a dual vendor strategy to reduce sole dependency on vendors, Celcom's network nonetheless remains vulnerable to damage or interruptions in operation due to natural disasters, fire, power loss, network software flaws, transmission cable cuts, breaches of security and similar events. There can be no assurance that Celcom's BTS, BSC, network backbone or other critical network equipment will not fail in the future, which may cause temporary service interruptions. Any failure of its network infrastructure which results in interruptions to its mobile service may have a direct impact on its operations or the provision of any service, adversely impact Celcom's reputation for reliability, reduce the confidence of its subscribers and consequently impair its ability to attract new customers and retain subscribers, lead to a violation of the terms of its various licences and attract regulatory fines, all of which could have a material adverse effect on Celcom's results of operations, financial condition and prospects.

Celcom's network infrastructure depends on the availability and accessibility of sites, including rooftop and cellular tower spaces. It may not always be able to find a sufficient number of suitably located sites in a given area or obtain permission from the relevant authorities to expand its network or be able to service existing sites in a timely manner. It has in some cases experienced opposition from local residents to the building of network infrastructure such as cellular towers in the past because of concerns about alleged health risks and environmental factors and have been required by the local authorities to decommission some cellular towers as a result. Further, in the case of site relocation, there is no assurance that the leases for such sites would be obtained on commercially favourable terms.

In addition, Celcom has had to remove or relocate certain sites and/or legalise certain structures because of new policies or guidelines introduced by the state or local governments. Such policies and guidelines provide that the application, establishment and operation of such towers, sites or structures may only be carried out by companies approved by the relevant state authorities. Further, if Celcom is unable to find a sufficient number of suitably located sites in a given area or has had to remove or relocate certain sites, this may cause a degradation in network quality which may adversely affect its business and attract penalties from the MCMC due to non-compliance with mandatory standards in network quality. Accordingly, as operators like Celcom are required to comply with such policies and guidelines, there can be no assurance that they will not result in increased site operating costs for Celcom.

(c) Celcom relies on third-party vendors and subcontractors for various aspects of its business and operations, such as the leasing of towers and construction of telecommunication infrastructure

Celcom engages numerous third-party vendors and service providers with respect to its business and operations. One of Celcom's material third-party vendors are its tower lessors. Celcom leases substantially all of its towers from local tower companies or agencies, who are also responsible for obtaining the necessary permits for the site, maintaining the towers and ensuring that the sites comply with the relevant regulations. Celcom does not have control over the lessors and there can be no assurance that the lessors will obtain and maintain the necessary permits or ensure that the site is in compliance with the relevant regulations. In the event that such lessors are found to be non-compliant or the lease arrangements with such lessors are terminated, this may disrupt its operations and materially and adversely affect its business and financial condition.

For example, following from Celcom's internal restructuring exercise in 2013, whereby selected telecommunication assets and businesses under Celcom Mobile Sdn Bhd and Celcom Networks were transferred to edotco and subsequently leased back to Celcom under a sale and leaseback arrangement, Celcom is currently dependent on edotco to support its network infrastructure. As at 30 June 2022, approximately 34.9% of the sites are leased from edotco. edotco has been a supplier to Celcom for the past 8 years, and accounted for approximately 12.7%, 12.7% and 13.8% of the Celcom Group's total purchases for the FYE 31 December 2019, 2020 and 2021 respectively. In view thereof, edotco is regarded as one of the major suppliers of the Celcom Group for FYE 31 December 2019, 2020 and 2021. These lease arrangements with edotco are governed by tower leasing contracts, further details of which are set out in Section 15(i) of Appendix II of this Circular. Based on the SPA, the agreements entered between Celcom and edotco in relation to the sale and leaseback arrangements referred to above are deemed continuing arrangements and as such, the sale and leaseback arrangement will continue post-merger.

While there has been no operational disruption or material dispute with edotco to date, there can be no assurance that such contracts with edotco will continue or be renewed on terms similar to the current terms and conditions, on terms acceptable to it, or at all. If Celcom is only able to renew such contracts on less favourable terms, or at all, this could have a material adverse effect on its business, financial condition, results of operations and prospects.

Celcom also appoints third parties for the construction of other telecommunications infrastructure required for its business. However, as the construction of these telecommunication infrastructure is carried out by third-party subcontractors and outside of Celcom’s control, there is accordingly no assurance that such third parties will continue to construct such infrastructure on a timely basis, or that they will comply with all regulations. In the event Celcom’s third-party vendors and subcontractors fail to construct such telecommunications infrastructure in a timely manner or fail to provide their services with the requisite quality expected for the effective operation of such infrastructure, this may impair Celcom’s ability to expand or maintain its network in the affected areas, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

Whilst Celcom has not encountered previous incidents with third-party vendors and subcontractors which have had a material adverse impact on its business, financial position and results of operations, there is no assurance that Celcom will not face such incidents in the future.

(d) Celcom is exposed to financial risks, including credit, liquidity and interest rate risks

In the normal course of conducting its business activities, Celcom is exposed to a variety of financial risks which include credit, liquidity and interest rate risks. For information purposes, as at the LPD, Celcom has utilised RM4,006 million of its available facilities (including Sukuk and Shareholder’s loan) and has remaining unutilised facilities of approximately RM3,895 million (including Sukuk). While Celcom's overall risk management programme seeks to minimise potential adverse effects of these risks on Celcom's financial performance it is unable to fully protect against these risks.

Credit risk is the risk of loss that may arise should a counter-party default on its obligations. Celcom's credit risk arises in the normal course of business primarily with respect to trade and other receivables and cash and short-term deposits. There can be no assurance that defaults of other parties will not have a material adverse effect on its finances.

Celcom is also exposed to the credit risk of its customers, which could result in financial loss to Celcom. Celcom has a large and diversified customer base, and does not have any one customer who contributes 5% or more of the Celcom Group's total revenue during the periods under review. Further, credit risk arising from sales of services to customers may be mitigated through a stringent credit evaluation process and the regular monitoring of parties’ creditworthiness. However, adverse changes in the credit quality of Celcom's customers, or adverse changes arising from a general deterioration in local, regional or global economic conditions, could reduce recoverability from customers. There is no assurance that customers will not default on the amounts owing to Celcom, and any or all such defaults may have a material adverse effect on its finances.

Liquidity risk is the risk that it will encounter difficulty in meeting financial obligations due to a shortage of funds. Many events may be outside of Celcom’s control, which can affect Celcom’s ability to meet its financial cash flow obligations. In particular, it may face liquidity risk due to reduced numbers of payments received from customers or inability to access funding sources. There can be no assurance that it will not suffer an event that has a material adverse effect on its finances.

Interest rate risk is the risk that the fair value or future cash flows of its financial instruments will fluctuate because of changes in market interest rates. Celcom is exposed to interest rate risk primarily from deposit placements and future funding requirements.

Whilst Celcom has not encountered previous incidents of exposure to such risks which have had a material adverse impact on its business, financial position and results of operations, there is no assurance that Celcom will not face such risks in the future.

(e) Celcom's increased cost of debt due to credit market volatility may adversely affect its financial condition and performance

If the capital and credit markets continue to experience volatility and the availability of funds remains limited, it will incur increased financing costs associated with its debt. In addition, the unprecedented global recessionary impact arising from the uncertainties posed by the COVID-19 pandemic may heighten execution risk for funding activities and increase credit risk premiums for market participants. It is possible that its ability to access the capital and credit markets may be limited by these or other factors at a time when it would like, or need, to do so, which could have an impact on its ability to grow its business, refinance maturing debt, maintain its dividends, maintain credit ratings and/or react to changing economic and business conditions. Restrictive covenants and other limitations in its existing indebtedness may limit its ability to obtain financing on favourable terms or utilise its assets as security for such future financing. Furthermore, future credit facilities or other debt instruments may contain covenants that limit its operating and financing activities and require the creation of security interests over its assets. Whilst Celcom has not failed to meet its payment obligations in the past, the ability to meet payment obligations, refinance maturing debt and fund planned capital expenditure may depend solely on the success of its business strategy and its ability to generate sufficient revenue to satisfy its obligations, which are subject to many uncertainties and contingencies beyond its control, including those highlighted above. Any future increase in the cost of debt may also adversely affect Celcom's profitability and its overall financial performance.

(f) Celcom may not be able to obtain appropriate insurance coverage on reasonable commercial terms or at all

Celcom has in place appropriate and sufficient insurance policies to insure its properties, projects, assets and liabilities that are in accordance with industry practices. However, its insurance coverage may not completely protect it from the risks associated with its technology and business and there is no assurance that it will be able to continue to maintain its existing insurance coverage or obtain insurance policies on economically viable terms. Even where it has insurance, it may still be required to take on a portion of the risk through required deductibles.

Whilst Celcom has currently procured insurance coverage policies in consultation with an insurance intermediary, there is no assurance that it will be able to obtain appropriate insurance on commercially reasonable terms, if at all, in the future. Failure to obtain appropriate or adequate insurance could create financial uncertainty for it and potentially cause it to incur significant financial loss upon the occurrence of a major uninsured event, and if Celcom is unable to meet its liabilities that arise from such major uninsured event, it could also adversely affect Celcom’s reputation. Any inability to obtain or renew insurance coverage at a reasonable cost, or at all, may cause its operating costs to increase and may adversely affect its financial condition.

Celcom has not suffered any material loss that is not insured or is not adequately covered by insurance, however, there is no assurance that Celcom will not face such incidents in the future.

(g) Celcom may not be able to adequately protect its intellectual property or may face intellectual property claims that may be costly to resolve or may limit its ability to use its intellectual property in the future

Celcom's business depends on the goodwill associated with its "Celcom" brand names and logos.

Celcom relies on a combination of trademark, service mark and domain name registrations, common law copyright protection and contractual restrictions to establish and protect its brand names and logos, marketing designs and internet domain names. However, there is no assurance that another party has not registered these trademarks in the past or that the steps taken by Celcom to secure its brand will adequately protect its intellectual property.

Third parties may challenge its exclusive right to use these brand names and logos. Celcom may incur costs in defending any claims relating to its intellectual property rights. Issues relating to intellectual property rights can be complicated and there is no assurance that disputes will not arise or that any disputes in relation to Celcom's intellectual property will be resolved in its favour.

In addition, as the telecommunications industry is highly competitive, Celcom must also ensure that its know-how and commercially sensitive information is kept confidential. Any leak of this information may adversely affect Celcom's competitive position and results of operations.

Further, in the course of its business, Celcom is licensed, from time to time, to use intellectual property belonging to third parties including content and software providers. Celcom and its business partners to whom it outsources certain of its services may, from time to time, unknowingly infringe the rights of such third parties or may fail to pay royalties to such third parties which may result in claims being made against Celcom.

Whilst Celcom has not encountered previous incidents of intellectual property claims which have had a material adverse impact on its business, financial position and results of operations, there is no assurance that Celcom will not face such incidents in the future.

Please refer to Section 10 of Appendix II of this Circular for further details on Celcom's intellectual property assets.

(h) Failure of Celcom's billing and credit control systems or online payment systems, which offer and obtain payment for its services, may materially and adversely affect its business

Sophisticated billing and credit control systems are important to Celcom's ability to increase revenue streams, avoid revenue loss, monitor costs and potential credit problems, and bill customers properly and in a timely manner.

As part of its IT transformation program, Celcom is implementing enhancements to its telecommunications billing and charging systems to continue to provide quality services to its customers. Celcom’s billing and credit management systems are currently provided by a single reputable vendor which offers its billing system services to 300 other operators around the world. Celcom has also subscribed to their software assurance program where Celcom is eligible to execute software upgrades according to market needs. The system has redundancy and disaster recovery capabilities to minimise disruption to its service availability for customers. However, as these third-party payment systems are outside of Celcom's control, in the event that such vendor's systems fail, experience material disruptions or delay in the provision of its services to Celcom, it may be unable to provide certain services to Celcom or to rectify such failures in a timely manner, which may have a material adverse effect on Celcom's operations and financial condition. Moreover, there is no assurance that such disaster recovery capabilities will prevent delays in recovery and avoid any loss of data, which may in turn have a direct impact on its reputation for service reliability and quality.

Any consequential decrease in subscriptions or network usage as a result of the foregoing factors could have a material adverse effect on its business, financial condition, results of operations and prospects. It may also experience delayed billing or delayed delivery of bills due to postal or network disruptions, which may negatively affect its cash flows, level of bad debts, customer churn rate and other aspects of its operations.

Celcom may also be affected by fraud committed by its subscribers or third parties, particularly in respect of subscription or roaming services. Any increase in subscription or roaming fraud and failure of its control systems could have a material and adverse effect on its business, financial condition, results of operations and prospects.

Whilst Celcom has not encountered previous incidents of a failure in Celcom's billing and credit control systems or online payment systems which have had a material adverse impact on its business, financial position and results of operations, there is no assurance that this will not occur in the future.

(ii) Risks inherent in the telecommunications industry

(a) Mobile network operators like Celcom require sufficient spectrum to operate its mobile network efficiently to ensure that its network quality and coverage remains competitive

Radio spectrum is a finite resource and the size and capacity of the mobile network of mobile network operators in Malaysia are largely dependent on the amount of radio spectrum assigned by the MCMC. The MCMC may recall and reassign, re-allocate or modify the conditions of use of any spectrum allocation or assignment previously granted, including setting conditions on spectrum that Celcom leases from its partners.

Should there be changes in MCMC's spectrum allocation policy or practice as a result of licence/spectrum renewal, spectrum re-farming or any legal/judicial process which leaves Celcom's mobile operations with less spectrum or restriction or limitation on the use of spectrum compared to its competitors, this may result in Celcom having to incur more capital expenditure to enhance network capacity using other available spectrum in order to compensate for the corresponding loss. In addition, certain parts of its networks are located in dense urban areas and radio frequency engineering techniques are needed to increase network capacity in these areas in order to deal with the high density usage and to maintain mobile network quality. Due to Celcom's high number of subscribers, minutes of use ("**MOU**") and high data usage, these techniques may be insufficient to maintain mobile service quality that is comparable to Celcom's competitors. Should Celcom's spectrum allocations prove inadequate in the future and securing additional spectrum is limited by the unavailability of new spectrum releases by MCMC, by MCMC assigning new spectrum releases to Celcom's competitors and third parties and/or by its financial ability, the expansion of its businesses may be affected. Any failure by it to retain, extend the tenure and/or acquire additional radio spectrum, or to maintain and improve mobile service quality based on its current spectrum allocation, on a timely basis and on commercially acceptable terms, could have a material adverse effect on its business, financial condition, results of operations and future prospects.

In addition, with the continued growth of Celcom's mobile customer base and introduction of policies in relation to the deployment of high-speed mobile services, particularly in high density areas, there can be no assurance that the current spectrum allocations will be able to support any expansion of Celcom's mobile customer base without suffering an equivalent decline in its network quality due to inherent limitations of its existing network capacity, or that Celcom will not be required to incur greater capital expenditures in order to maintain and improve its network quality based on its current spectrum allocations. Furthermore, if the network quality or coverage fails to meet the requirements set by the MCMC, that may also lead to fines being imposed on Celcom. Any failure by Celcom to maintain or optimise its spectrum capacity or obtain new spectrum allocations may therefore result in it being at a competitive disadvantage to other market players which could have a material adverse effect on its results of operations, financial condition and future prospects.

Further, whilst Celcom has not encountered previous incidents of a failure to obtain sufficient spectrum allocation which have had a material adverse impact on its business, financial position and results of operations, there is no assurance that Celcom will not face such incidents in the future.

For information purposes, the MergeCo Group has committed to divest and handover 3 spectrum bands (2x5 MHz in the 1800 MHz spectrum band, 2x10 MHz in the 2100 MHz spectrum band and 2x20 MHz in the 2600 MHz spectrum band) within 2 to 3 years of completion of the Proposed Merger, the details of which are set out in Section 1.3 of Part A of this Circular.

(b) The industry Celcom operates in is subject to extensive regulation and licensing requirements

The ownership, construction, operation and provision of telecommunications systems and services in Malaysia are subject to extensive regulation and supervision by the MCMC pursuant to the licences and assignments granted under the CMA.

Celcom holds several licences and assignments under the CMA which permit Celcom to provide telecommunications services through its own network. See Annexure A of this Circular. These licences and assignments are subject to compliance with the relevant conditions as set out under the CMA and any special or additional conditions as declared by the Minister.

Celcom is also subject to various subsidiary regulations determined by the MCMC, such as the mandatory standards pursuant to Chapter 10 of the CMA ("“**Mandatory Standards**”). The MCMC may, from time to time, determine new Mandatory Standards or revise existing Mandatory Standards which may effectively increase the costs of compliance for Celcom.

Before the terms of these licences and assignments expire, Celcom must apply to the MCMC for renewal and ensure that Celcom: (i) does not have any outstanding regulatory compliance issues, (ii) does not have any compound or enforcement action with MCMC at the time of submitting its renewal application, (iii) has complied with the relevant terms and conditions of the renewal, (iv) has complied with the provisions of the CMA, and (v) has complied with any instrument issued, made or given by the Minister or MCMC.

Further, the Minister may, on the recommendations of the MCMC, by declaration and in accordance with the provisions under the CMA, modify, vary, revoke or impose further special or additional conditions to an existing licence and assignment. The MCMC also has powers under the CMA to request for clarification or further information regarding renewal applications and to reject renewal applications which are incomplete.

Accordingly, there can be no assurance that such licences and assignments will be renewed, that any renewal on terms will be commercially acceptable to Celcom or continue to be commercially viable, or that any such special or additional conditions will not be more onerous than those of existing licences and assignments.

Whilst Celcom has not encountered previous incidents of any licences and assignments being suspended, revoked or unrenewed which have had a material adverse impact on its business, there is no assurance that Celcom will not face such incidents in the future. Any failure to obtain new licences and assignments, any delay in the renewal of existing licences and assignments, or any change in the authorisation under which Celcom is operating could impede Celcom’s ability to operate the affected business and adversely affect the realisable value of Celcom’s relevant network infrastructure and related assets.

(c) Celcom relies on arrangements with fibre leasing partners to extend its network range

In addition to deploying its own networks, Celcom also relies on third-party fibre leasing arrangements implemented either through capacity swapping or lease agreements to provide connectivity to part of its entire network infrastructure. As at 31 December 2021, 55% of fiberised sites are leased from third-party, one of them is Supplier D (a major supplier of Celcom for FYE 31 December 2019 and 2021, who has also provided towers associated services to Celcom). While there are multiple third-party providers in the market, there is no assurance that such third parties will continue to construct fibre on a timely basis, or on commercially favourable terms, or at all, which could have a material adverse effect on its business, financial condition, results of operations and prospects. Further, whilst Celcom has not encountered previous incidents of dispute with its fibre leasing partners which have had a material adverse impact on its business, financial position and results of operations, there is no assurance that Celcom will not face such incidents in the future.

(d) Celcom may be required to record significant accelerated depreciation and/or impairment charges to its earnings in the future resulting from the impairment review of its goodwill, other intangible assets, PPE and/or investments

In accordance with International Financial Reporting Standards and MFRS, Celcom is required to assess whether there is any impairment indicator or impairment on assets, including non-financial assets such as, goodwill, other intangible assets, PPE and investments of Celcom, at the end of each financial reporting period. If such impairment indication exists, an analysis is performed to assess whether the carrying value of the non-financial asset is fully recoverable. For instance, there are PPE written off for equipment no longer in use due to network modernisation in FYE 31 December 2018, as well as accelerated depreciation charges in FYE 31 December 2018 due to shorter useful lives of certain telecommunication network and technology advancement. Celcom also recorded similar accelerated depreciation charges in FYE 31 December 2020 and FYE 31 December 2021, further details are disclosed in Section 2.4 of Appendix III of this Circular.

In the future, Celcom may be required to record a significant impairment charge on its non-financial assets to its future earnings during the financial period in which any such impairment is determined and that may have a material adverse effect on its financial results. Due to factors such as the rapid changes in technology adoption and evolving macroeconomic conditions, there is no assurance that the non-financial assets of Celcom will not be subject to impairment in the future.

(e) Celcom relies on manufacturers of telecommunications equipment and network facility providers, as well as other external hardware suppliers, for its key systems; the telecommunications industry is dominated by a few key suppliers

Celcom's arrangement with renowned global manufacturers of telecommunications equipment for continued maintenance, service and supply and continued cooperation on the part of these manufacturers is important for it to maintain its operations without disruption, together with its adoption of a dual vendor strategy to reduce sole dependency on vendors. The network equipment and facilities are for the provision and support of mobile switching centres, BSC, BTS, evolved packet core and other network and IT equipment. Please refer to Section 13 of Appendix II of this Circular for further details on Celcom's major suppliers.

Celcom may experience delays and other problems in acquiring the necessary equipment, support and spare parts if mobile equipment manufacturers encounter financial or operational difficulties. In addition, consolidation of major telecommunications suppliers and other technology and systems providers may reduce the number of suppliers from whom it can purchase equipment and technology, and may result in higher pricing and increased costs, either as a result of increased prices by market dominant suppliers or because existing equipment and technology used by it may no longer be supported by the new market players. There can also be no assurance that it will be able to enter into new contracts with suppliers on commercially acceptable terms. Any prolonged delays, failure or refusal by a key supplier to provide such services or equipment arising from disruptions caused by, among others, global pandemics such as the COVID-19 pandemic, government-imposed bans and/or sanctions due to security and other concerns, or any consolidation of the industry or cost escalation by any key supplier may significantly affect its business and operations.

In addition, Celcom is dependent on imports for most of its network and hardware components, as most of the network and hardware equipment cannot be sourced locally. As such, any adverse impact on import policies, including any increase in import duties and tariffs, or any embargo on imports from countries from which its suppliers originate may have negative impact on its business operations. For example, geo-political tensions between the USA and their major trading partners, in particular with China, have continued to escalate following the introduction of a series of tariff measures, embargoes and other restrictions by the USA and/or its trading partners. Any further change in the global trade policy, including the tightening of regulatory restrictions, industry-specific quotas, tariffs, non-tariff barriers and taxes may have an adverse effect on Celcom's ability to procure the requisite components or services from its suppliers.

Whilst the above has not resulted in material disruptions to the business operations of Celcom in the past, there is no assurance that Celcom will not face such risks in the future.

(f) Celcom depends on interconnection and roaming agreements with its competitors' networks and gateways and on domestic and international telephone networks

Celcom's mobile services, like those of other telecommunications operators, depend to a large extent on interconnection and roaming agreements with other telecommunications operators. Celcom's mobile network is interconnected to all other fixed and mobile operators in Malaysia, as well as certain other international fixed and mobile operators, so as to enable its subscribers to access voice, messaging and data services to and from any fixed line or mobile telephone within and outside Malaysia. As at the LPD, Celcom has interconnection agreements with 97 international carriers (including local operators with international interconnection arrangement) and roaming agreements with 430 international roaming partners.

Whilst Celcom has not experienced any material disruption under such interconnection and roaming arrangements in the past, in the event of disruptions under these interconnection and roaming arrangements, whether because of a failure by a counterparty to perform its contractual obligations or for any other reason, or if there are any adverse changes in the terms of such agreements or failure to reach or renew agreements on commercially acceptable terms, or at all, one or more of Celcom's services may be delayed, interrupted or stopped, the quality of its services may be lowered, its customer churn rate may increase or its interconnection or roaming rates may increase, all of which could materially adversely affect its business, financial condition, results of operations and prospects.

(g) Celcom depends on its network of third-party dealers and distributors for sales of its products and services

Celcom sells its services principally through a network of third-party dealers and distributors and are highly dependent on them for its product sales. For information purpose, new subscribers' registration from third-party dealers and distributors for FYE 31 December 2021 is about 60% for postpaid plans and 90% for prepaid plans.

While it has no control over the operations of such dealers and distributors, it may be held accountable for their actions, as such distributors may be deemed to be its agents or representatives in their sales activities. For example, any failure by such distributors to comply with applicable regulations, including appropriate registration and Know Your Customer ("**KYC**") processes, may lead to penalties being imposed on Celcom by MCMC. Whilst measures have been implemented to reduce the potential for such instances of non-compliance, such as the introduction of the use of MyKad readers, replacing OCRs for postpaid and prepaid registrations, conducting monthly visitations, audits of the retail sales and an extensive dealer training and education programme, there can be no assurance that lapses by such third-parties will not take place, thus adversely affecting Celcom's reputation, business, results of operations and prospects.

Further, these distributors are not under Celcom's direct control and may stop distributing or selling its products as well as distribute the products and services of its competitors at any time. Should particularly important distributors end their association with Celcom, it may face difficulty in finding new distributors that can provide the same level of sales.

Whilst Celcom has not encountered previous incidents of dispute with its dealers and distributors which have had a material adverse impact on its business, financial position and results of operations, there is no assurance that Celcom will not face such incidents in the future.

(h) Celcom is exposed to IT and cyber security risk

Celcom is exposed to potential risks pertaining to network and IT security threats and data breaches. The security threats of cyber-attack can cause service disruptions or could also lead to failure of IT, network applications and/or application infrastructure, which may result in litigation actions from customers, an adverse impact on its reputation and/or regulatory fines and penalties.

Consistent with other global telecommunications operators, Celcom's exposure to these risks increases with the growing dependency on connectivity and smart devices by customers, and the scale and level of sophistication of cybersecurity threats have drastically increased in recent years. Such cybersecurity incidents range from credentials brute force, phishing and malicious spam attempts of cyber intrusion and exploitations. Whilst Celcom has not encountered previous incidents of a cyber-attack which have had a material adverse impact on its business, financial position and results of operations, there is no assurance that Celcom will not face such incidents in the future.

In view thereof, Celcom has progressively implemented security measures and consistently reviews the effectiveness of its controls to protect against threats of cyber-attacks through various means, including proper security architecture design and continuous cyber security awareness program across Celcom covering staff and vendors. When such cyber-attacks have been detected, Celcom will respond accordingly based on Celcom's cyber security incident process and playbook. While Celcom has progressively implemented security measures to protect against cyber-attacks, there can be no assurance that these measures will be sufficient protection or that its business, financial condition and results of operations would not be materially and adversely affected by such cybersecurity threats, data privacy breaches as well as other network security risks.

(i) Breach of customer data protection mechanisms could materially affect Celcom's reputation and business and subject them to liability

Celcom has a large database of customer information stored in various business systems which are used in many business processes across the company. Celcom is required under its licences to take all reasonable steps to ensure that parties who gain access to its customer information in the ordinary course of business do not disclose such information without the prior consent of the customer. Under the General Consumer Code of Practice for the Communications and Multimedia Industry Malaysia ("**GCC**"), any service provider that collects consumer information has a responsibility to adopt and implement a policy that protects the privacy of identifiable information, and should take steps that foster the adoption and implementation of an effective policy to protect consumer information, including by sharing best practices with business partners. Celcom is also subject to the PDPA and Personal Data Protection Code of Practice ("**PDPCP**") for the Licensees under the CMA for the processing of personal data that it collects in the course of its business and operations.

Accordingly, while Celcom has implemented measures to comply with the PDPA and PDPCP, there is no assurance that there will be no failure of security measures or lapses in established processes which may undermine customer confidence and result in litigation actions from customers and/or regulatory fines and penalties. Failure of security mechanisms may also result in the imposition of additional regulatory measures relating to the security and privacy of customer data. The imposition of such additional regulatory measures may have a material adverse effect on its business, financial condition and results of operations.

Whilst Celcom has not encountered previous incidents of a breach of customer data which have had a material adverse impact on its business, financial position and results of operations, there is no assurance that Celcom will not face such breaches in the future.

(j) Celcom's existing operations and planned investments require significant funding which it may not be able to obtain on favourable terms or at all

The telecommunications industry is capital intensive and Celcom makes constant and significant capital expenditures to remain competitive. It has invested approximately RM1,017.4 million, RM984.1 million and RM1,032.2 million during the FYE 31 December 2019, 2020 and 2021, respectively, to expand and improve its telecommunications assets. In addition to funding its networks, it must also spend on spectrum allocations, on development of its products and services and on its distribution efforts. In order to remain competitive and continue to provide technologically innovative and compatible services, it must continue to expand and modernise its networks, which involves substantial capital investment. It also requires significant amounts of capital to develop, market and distribute its services and products, and to develop and implement new mobile telecommunications technologies and acquire new or renew expiring licences and spectrum rights.

Celcom previously funded such capital expenditures primarily from borrowings and internally generated funds. However, there is no assurance that future borrowings will be made available on terms acceptable to Celcom. Additionally, factors outside of its control such as general regulatory or economic conditions could limit its ability to obtain financing. Any failure to access sufficient funds could have a material adverse effect on its business, financial condition, results of operations and prospects.

(k) Pandemic outbreaks of infectious diseases such as COVID-19 or any other serious public health concerns could adversely impact Celcom's business

An epidemic or outbreak of communicable diseases such as COVID-19, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome or other contagious disease may have an adverse effect on Celcom's business, financial position, results of operations and growth prospects.

Celcom and other operators may be adversely impacted by such global pandemics and its business and operations have been affected by the unprecedented political, socioeconomic and financial disruption caused by the COVID-19 pandemic. Since its outbreak in 2020, COVID-19 has spread with alarming speed across many countries and has resulted in a significant number of infections and fatalities. The COVID-19 pandemic has led to the imposition of widespread travel restrictions, the disruption of the global supply chain of network systems, equipment, devices and content and caused delays to projects, customer deliverables and the physical distribution of products.

A prolonged and widespread COVID-19 pandemic may result in a global recession with a severe impact across sectors, and this could result in reduced investments and high unemployment. A significant economic downturn, coupled with uncertainties around disruption to Celcom's business from changes in technology, customer behaviour and regulatory actions, may pose significant challenges to the management of its capital investments, working capital and business changes. Any of the above factors could have a material adverse effect on its business, financial condition, results of operations and prospects.

The COVID-19 pandemic created significant challenges for Celcom, as it faced a 7.3% decline in revenue for the FYE 31 December 2020 compared to the FYE 31 December 2019, attributable to a loss of approximately 344,000 mobile subscribers in the first half of 2020 and blended ARPU declined from RM51 for FYE 31 December 2019 to RM48 FYE 31 December 2020. Whilst Celcom has since experienced encouraging signs of recovery in the second half of 2020 with the addition of 306,000 customers (representing a 3.7% increase in the total number of subscribers from 31 December 2019) and having registered a total of approximately 9.6 million mobile subscribers as at 31 December 2021 (representing an addition of 918,000 subscribers or a 10.6% increase in the total number of subscribers from 31 December 2020), there can be no assurance that the previous trajectory of growth will continue in the future. As a result, Celcom currently operates under significant uncertainty in regard to future economic, political and social trends, which may have a material adverse effect on its business, financial condition, results of operations and prospects.

For more details on the effect of the COVID-19 pandemic on Celcom's business, please refer to Section 3.7 of Appendix II of this Circular.

6.2 Risk factor in relation to the Proposals

Non-completion risk

The completion of the Proposed Merger is subject to amongst others, fulfilment or waiver of the conditions precedent and parties' performance of closing obligations in the SPA. In the event any of these conditions precedent is not fulfilled or waived, the SPA shall lapse and hence, Digi will not be able to complete the Proposed Merger. If a party's closing obligation is not performed by it, the other party has the option to terminate the SPA. There can be no assurance that the Proposed Merger will not be exposed to risks such as the inability to obtain the requisite approvals from the relevant authorities, shareholders of Digi, and/or other relevant parties. Notwithstanding the above, the Board and management of Digi will use reasonable endeavours to ensure every effort is taken to ensure that the conditions precedent are fulfilled or waived, as the case may be, by the stipulated date (including proactively engaging the relevant authorities and third parties as necessary) as well as its performance of the closing obligations in the SPA.

6.3 Risk factors in relation to the MergeCo Group

These risk factors have been prepared on the assumption that the Proposed Merger have been completed and that the MergeCo Group is in existence.

(a) Integration risks

Although the Proposed Merger is expected to create significant synergies, the MergeCo Group's business operations and financial position could be materially affected if the business of Celcom and Digi is not integrated effectively or in a timely manner. This may result in the expected benefits and synergies of the Proposed Merger being lesser than estimated.

Any failure to achieve expected synergies may impact upon the MergeCo Group's financial performance in the future.

Potential factors that may influence a successful integration include:

(i) disruption to business continuity and ongoing operations of Celcom and Digi which could affect the MergeCo Group's ability to deliver its products and services to its customers, timeliness in responding to competition and ability to maintain its market position;

(ii) higher than anticipated integration complexities and costs, for example related to integration of IT platforms and network infrastructure;

(iii) unintended loss of key personnel or skilled or technical personnel or reduced employee effectiveness and productivity due to uncertainties and confusion during the integration phase; and

(iv) unexpected challenges or issues that may lead to merger integration execution taking longer time or costing more than anticipated.

(b) Risk of non-approval by the shareholders of MergeCo of RRPTs carried over from Celcom in effect prior to the Proposed Merger

As set out in Section 13 of Appendix II of this Circular, Celcom is dependent on edotco, from whom it leases telecommunications towers to support its network infrastructure. The lease arrangements with edotco are existing RRPTs of Celcom Group and are currently subject to Axiata shareholders' approval on a yearly basis, along with other Celcom's RRPTs.

After the completion of the Proposed Merger, the tower lease arrangements with edotco and the other Celcom RRPTs would also be RRPTs of the MergeCo Group and may be subject to MergeCo shareholders' approval. If MergeCo or the non-interested shareholders of MergeCo do not approve such RRPTs, and the parties are not able to renegotiate and agree on new terms in respect of such RRPTs, the arrangements may need to be terminated mutually or unilaterally and these may expose the MergeCo Group to operational disruptions and/or termination penalties (if applicable).

In the case of lease arrangements with edotco Group, in particular, unilateral termination by the MergeCo Group may subject the MergeCo Group making payment of monthly service fees for the remaining unexpired lock-in periods for the relevant tower sites or payment of other liquidated damages in accordance with the terms under the lease agreements. Additionally, operations of the MergeCo Group may also be affected due to the termination of these services and facilities. Accordingly, there may be material adverse effect to Celcom's and the MergeCo Group's business operations, financial condition and prospects. Any termination of a tower lease arrangement is subject to prior approval of the MCMC.

(c) Risk from failure in defending material litigation suits

If TSDTR and Bistamam are successful in their TSDTR Counterclaims, the amounts claimed will each be potentially up to RM7.2 billion plus interest for each TSDTR Counterclaim. Axiata and Digi have agreed in the SPA that if Celcom and Celcom Resources are unsuccessful in defending these TSDTR Counterclaims, the TSDTR Indemnity shall apply, which is uncapped in terms of quantum and has no time limit. If after the completion of the Proposed Merger, Celcom and Celcom Resources Berhad fail in their defence in the TSDTR Counterclaims, then Digi will claim under the TSDTR Indemnity.

Notwithstanding the TSDTR Indemnity fully covers sums payable by the MergeCo Group in respect of the TSDTR Counterclaims, there is no assurance that the MergeCo Group will be able to fully recover or recover in a timely manner the amounts claimed under the TSDTR Indemnity. Additionally, the MergeCo Group may also suffer indirect and consequential losses such as losses arising from reputational damage, which is not part of the TSDTR Indemnity.

If TSDTR and Bistamam are successful in any of their TSDTR Counterclaims or if the MergeCo Group is not able to recover whether in a timely manner or at all under the TSDTR Indemnity, the TSDTR Counterclaims would materially and adversely affect the profitability and financial position of the MergeCo Group and this may have a corresponding negative effect on the shareholders' value of MergeCo.

(d) Control by major shareholders

Prior to the completion of the Proposed Merger, Telenor is the sole controlling shareholder of Digi with 49.00% shareholding interest in Digi. Immediately after the completion of the Proposed Merger, Axiata will emerge as the joint-controlling shareholder of MergeCo together with Telenor, with each party holding 33.10% shareholding in MergeCo. Telenor and Axiata have no other common shareholdings or other forms of common business interests outside Malaysia.

With a combined stake of 66.20% in MergeCo, Axiata and Telenor will be able to jointly exercise significant influence and control over all matters requiring shareholders' approval by simple majority, including the appointment of directors and the approval of any significant corporate transactions, and the business direction and management of the MergeCo Group. In the event the joint-controlling shareholders vote in unison in respect of any shareholder action or approval requiring a majority vote, they will also have certain veto powers with respect to the said shareholder action or approval requiring a simple majority vote, except where they are required to abstain from voting either by Digi's constitution, the Act, Listing Requirements or other applicable laws, guidelines or regulations. There can be no assurance that the interest of the joint-controlling shareholders will be aligned with the interest of the other shareholders of MergeCo, not dissimilar to the situation of shareholders in other public listed companies. For example, while Axiata and Telenor may decide that a pro-rata rights issue of securities is the best way to fund a certain investment for MergeCo, such rights issue may not be aligned with the investment objectives, financial situations, risk profiles or particular needs of the other shareholders of MergeCo.

Additionally, although the framework or the manner in which Axiata and Telenor exercises control over MergeCo is governed under the SHA, there can be no assurance that there will be no disagreement in the future between the parties with regard to matters governed under the SHA as regards MergeCo that require the decision of the parties. In the event of any disagreement between Axiata and Telenor on proposals that are reserved matters under the SHA, such proposal will be escalated to the senior officers of Axiata and Telenor to attempt to agree on a resolution and if there is no resolution, the proposal shall not proceed. For non-reserved matters, if there are any disagreements between Axiata and Telenor, and if such non-reserved matter requires shareholders' approval, Axiata and Telenor may exercise their vote based on their own decision.

(e) Impairment of the MergeCo Group's goodwill and assets

According to MFRS 3 Business Combinations issued by the Malaysian Accounting Standards Board ("**MASB**"), the MergeCo Group is expected to recognise goodwill arising from the Proposed Merger. The value of the goodwill will depend on the fair value of the assets, including intangible assets, and liabilities of Celcom, the market price(s) of Digi Shares at the time of completion of the Proposed Merger, as well as the Final Adjustment Amount. For illustrative purposes only, assuming that the Proposed Merger had been completed on 31 December 2021, the goodwill to be recognised on a pro forma basis would amount to RM12,393 million. Kindly refer to Appendix IX of this Circular for further details. The goodwill value will be subject to impairment test of at least once a year.

Whilst the management does not expect any impairment impact on the goodwill arising from the Proposed Merger, any material changes or events arising that may adversely affect the business prospects and/or assets of the MergeCo Group, i.e. adverse impact on the cash generating units of the MergeCo Group or incurring the expense to having write-off the existing assets due to the failure to realise expected benefits, may result in such impairment. In the unlikely event the goodwill is impaired, the profitability of the MergeCo Group may be adversely affected that may have a corresponding effect on shareholders' value.

(f) Risk of refinancing the CNSB Shareholder Loan

Pursuant to the SPA as set out in Section A of Appendix XI of this Circular, the MergeCo Group is required to repay the CNSB Shareholder Loan to Axiata within six (6) months after the completion of the Proposed Merger or if requested by CNSB, a further extension of six (6) months subject to Axiata's agreement at its sole discretion. Upon the completion of the Proposed Merger, the MergeCo Group may procure the refinancing of the CNSB Shareholder Loan in full or in part with borrowings.

There is no assurance that such borrowings to be raised will be available on terms similar to the MergeCo Group's existing financing terms. Furthermore, the MergeCo Group may incur higher financing costs associated with the debt to be undertaken at the prevailing time of borrowing, which could have an impact to the MergeCo Group's cash flows and profitability.

(g) Competitive industry

The telecommunication industry is very dynamic and faces competitive pressures from multiple sources. There are rapid-paced innovations driving convergence across all communications retail services and putting pressure on price points and price elements such as data speed and volumes. Due to strong competition, prices and data speeds are converging across the retail broadband, data, voice and messaging services segment and this may become more pertinent in the future and could create additional competitive pressure.

Further, the mobile number portability framework (which gives mobile subscribers the right to keep their phone numbers and freedom to easily switch from one MNO to another) promotes effective competition and ensures a level playing field for new market entrants as well as current market competitors.

In a rapidly changing technological and business environment, new players or constellations could emerge, putting pressure on traditional Telcos who are reacting late or insufficiently to such changes.

The success of the Merged Group's business depends on its ability to attract and retain customers and its ability to monetise from existing products and services as well as to innovate and develop new products. The effect of increasingly competitive market conditions may hence adversely impact the Merged Group's earnings and assets.

If the Merged Group is unable to continually adapt to changes in the industry and competitive landscape and suitably distinguish itself from its competitors, it may lose market share, resulting in reduced revenue and profits.

(h) SWN model for 5G Network

As announced by the Government in February 2021, DNB, a special purpose vehicle established by the Government will be the sole owner and operator of 5G network in Malaysia until 2031. DNB's 5G wholesale network access is planned to reach approximately 40% coverage in populated areas by end of 2022 and subsequently to 80% population coverage by 2024.

Under the SWN model, the provision of nationwide 5G coverage will be delivered via one common network, to which all licensees under the CMA can seek equal access on a wholesale basis. This common network will be built, owned, and operated by DNB. Telcos, including MergeCo, will be able to integrate their respective networks and infrastructures with the newly established SWN. MergeCo and other licensed MNOs, including other CMA licensees will be reliant solely on DNB for the purchase of 5G wholesale capacity from DNB to then offer 5G retail services to consumers and enterprises.

The SWN model will result in a shift away from the existing infrastructure-based competition model. This will provide savings on capital expenditures deployment for Telcos, including for MergeCo. However, these resultant savings will be lessened by the increase in operational costs arising from wholesale fees payable to DNB. In addition, there could be risks associated with efficient 5G wholesale cost structure, increased complexity of DNB's 5G network interfacing with multiple MNOs' 4G networks, as well as continued assurance on network resilience and cybersecurity, which are key elements critical to national interests and common across telecommunications industry service providers.

In view that DNB is the sole wholesale provider of 5G radio network capacity, there will be more parity expected on basic 5G connectivity across telecommunication service providers while the size of historical network investment and spectrum portfolio for 2G and 4G differs between the Telcos. As Telcos shift away from infrastructure-based competition, the MergeCo Group may be vulnerable to aggressive offers or pricing by existing and potentially new competitors on 5G, including the likelihood of heightened competition to serve 5G enterprise services.

(i) Risk of reliance on third-party suppliers and subcontractors

Reliance on a few manufacturers of telecommunication equipment and network

The Telcos in Malaysia rely on manufacturers of telecommunications equipment and network facility providers, as well as other external hardware suppliers, for its key systems and network. There is no assurance that the MergeCo Group will continue to be supplied with components it requires at competitive prices, or that there will not be any shortage of supply from these suppliers. If any of the MergeCo Group's major suppliers materially reduce the amount of supplies to the MergeCo Group or if the MergeCo Group's business relationship with its major suppliers are terminated, interrupted or modified in any way adverse to the MergeCo Group, there can be no assurance that the MergeCo Group would be able to procure from alternative suppliers for replacement in time or that it will be able to source for alternative suppliers upon terms and conditions acceptable to the MergeCo Group and/or in sufficient quantity to meet its imminent demands. As such, the business, financial condition and results of operations of the MergeCo Group may be adversely affected.

Reliance on third-party vendors and subcontractors

The MergeCo Group is expected to also rely on third-party vendors and subcontractors for various aspects of its business and operations such as the supply of leasing of towers and construction of its telecommunication infrastructure and arrangements with fibre leasing partners to extend its network range, which markets are dominated by only a few key suppliers. Any prolonged delays, failure or refusal by a key supplier to provide such services arising from disruptions caused by, among others, global pandemics such as COVID-19, government-imposed bans and/or sanctions due to security and other concerns, or any consolidation of the industry or cost escalation by any key supplier may significantly affect the MergeCo Group's business and operations.

Accordingly, the MergeCo Group's operations and reputation could be affected by such third-party suppliers, vendors or sub-contractors or their supply chain failing to perform their obligations or performing their obligations in a sub-standard manner, or failing to operate in line with increased expectations of key stakeholders such as governments, regulators and/or customers on a broadening set of environmental, social and governance ("**ESG**") issues.

(j) Dependence on key management and qualified personnel

The performance and success of the MergeCo Group depends to a significant extent on the skills, abilities, experience and competencies of its key management personnel who are directly responsible for the day-to-day management and operations of the MergeCo Group. It is therefore critical to ensure that the right teams are put in place as soon as possible to ensure that the MergeCo Group is successfully integrated within the planned time frame. The loss of any of these individuals, or failure to attract, recruit and retain appropriate replacements and successors, may adversely affect the quality of the MergeCo Group's services, operational prospects, financial condition and ability to compete in future.

(k) The MergeCo Group's business is subject to on-going investments which may be significant

The telecommunications industry is capital intensive and the MergeCo Group is expected to continue to make significant capital expenditures to remain competitive, mainly in relation to funding its IT platforms, spectrum and development of products and services. Investments in 4G networks will gradually decline as 5G takes over.

Where proceeds are to be raised from external sources, there is no assurance that such funds will be available on terms similar to the existing banking facilities. Future financing agreements may contain restrictive covenants that increase its financing costs, reduce its profitability, and restrict its freedom to operate and manage its business which could have a material adverse effect on its business, financial condition, results of operations and prospects.

(l) The MergeCo Group's ability to pay dividends in the future dependent on various factors

The MergeCo Group's ability to pay dividends or make any distributions to MergeCo's shareholders will be dependent on the financial performance, cash flow position, capital expenditure requirements and availability of retained earnings of MergeCo's operating subsidiaries and may also be subject to any applicable law, licence and contractual obligations.

The dividend policy of MergeCo is subject to MergeCo Board approval and there is no assurance that the future dividend policy of MergeCo will be similar to the current dividend policy of the Digi Group which is also set out in Section 2.2 of Appendix V of this Circular.

(m) Risk from changes in laws, regulations or policies of governments or other general economic, political and regulatory conditions

Like all other business entities, adverse developments in economic, political, regulatory and social conditions in Malaysia or overseas, directly or indirectly, could materially and adversely affect the financial prospects of the MergeCo Group. Amongst the political, economic and regulatory uncertainties are changes in the risks of economic downturn in particular attributable to prolonged COVID-19 lockdowns, unfavourable monetary and fiscal policy changes, or introduction of new rules and regulation in relation to the telecommunications sector and changes in interest rates, inflation and taxation, war, terrorism, civil unrest, riots and trade war.

Although the MergeCo Group is expected to continue to monitor key developments in the market environment and where needed, review its strategy, ambitions and strategic priorities to respond to such significant changes, there is no assurance that any changes to the general economic, political and regulatory conditions in Malaysia or overseas will not have a material adverse effect on the results of operations and financial condition of the MergeCo Group.

(n) Risks surrounding execution of Undertaking or delayed performance of Undertaking

MCMC's grant of its authorisation for the Proposed Merger is subject to the MergeCo Group's performance of the Undertaking (as set out in Section 1.3 of Part A of this Circular). The Undertaking obliges the MergeCo Group to, amongst others, divest certain spectrum bands, establish a separate and independent MVNO business and ensuring continuity of access to wholesale services to MVNOs, divest the Yoodo Business, removal of exclusivity arrangements with its exclusive distributors in Sabah, Labuan, Sarawak, Terengganu, Pahang and Kelantan and position both the Digi's and Celcom's prepaid and postpaid brands as products under a single MergeCo Group corporate brand.

Further details of the operational and financial impact of the Undertaking are disclosed in Section 1.3 of Part A of this Circular.

Spectrum divestment requires detailed network planning and a robust integration plan to ensure that such spectrum divestment will not cause degradation to network quality that will impact the MergeCo Group's customers. The planning includes, amongst others, determining the location of sites that may be impacted and the preferred order of spectrum to be handed over to MCMC. It is expected to impact a large number of sites serving approximately 20 million subscribers.

Risks associated with the spectrum divestment are operationally complex, and issues such as supply chain disruption and shortage of regional or local contractors, which are outside of the MergeCo Group's control, could cause a delay to the planned network integration or network upgrade. The MergeCo Group could be obligated to perform the Undertaking and to return the relevant spectrum band to MCMC before the network integration is properly completed, with the consequence of possible degradation to network quality, impacting customer experience and causing challenges for the MergeCo Group to comply with its service quality requirements.

Meanwhile, Celcom and Digi have past experiences in conducting exercises of similar nature as part and parcel of the business, such as internal reorganisation of their business units, negotiating contracts with vendors and distributors, and branding exercise for their products, albeit on a smaller scale. In view of this, and since the MergeCo Group will engage the necessary vendors and consultants to advise on the implementation on the Undertaking, the risks arising from the implementation of the remaining terms of the Undertaking are not expected to be material.

Although MergeCo Group will continue to engage with MCMC including having regular dialogue to address the progress or potential issues to ensure the performance of the Undertaking, if the MergeCo Group fails to perform any part of the Undertaking according to its terms, the CMA expressly provides a right for MCMC or any person to apply to court to enforce the same. Failure by the MergeCo Group to comply with a court order will result in the MergeCo Group being in contempt of court and liable to a reprimand and/or a fine (resulting in reputational damage) and its officers who caused or willfully permitted or contributed to the contempt of court may also be reprimanded, fined or imprisoned.

Further, if there is a material change of circumstance since the date of MCMC's issue of the notice of no objection, MCMC may revoke its authorisation of the Proposed Merger, and may commence investigations on whether MergeCo has engaged in conduct in breach of section 133 and/or section 139 of the CMA (which upon conviction could result in a fine not exceeding RM500,000 or imprisonment for a term not exceeding 5 years or to both). MCMC or any other person may also seek an injunction under section 142 of the CMA against the MergeCo group in respect of any prohibited conduct.

Additionally, as disclosed in Section 1.3 of Part A of this Circular, Digi is not presently able to quantify the extent of costs and expenditures that will be incurred in connection with the necessary steps to be taken to enable the spectrum divestment without affecting the network quality. The determination of such costs and expenditures will be subject to, amongst others, the detailed network planning and assessment to determine the extent of upgrades required, the suitable solutions to support the upgrade, as well as vendor selection process, as these processes will only be carried out after completion of the Proposed Merger.

There is no assurance that the total costs and expenditures in connection with fulfilling the Undertaking including spectrum divestment, will not be significantly more than as anticipated, and/or the such costs and expenditures will have a material adverse impact to the earnings and earnings per share of the MergeCo.

7. EFFECTS OF THE PROPOSALS

The pro forma effects of the Proposed Merger on the issued share capital, substantial shareholders' shareholdings of Digi, and the NA, gearing and earnings of the Digi Group are set out below. Further details on the pro forma effects are set out in Appendix IX of this Circular.

The Proposed Exemption will not have any effect on the issued share capital, substantial shareholders' shareholdings of Digi, and the NA, gearing and earnings of the Digi Group.

(a) Issued share capital

The pro forma effects of the Proposed Merger on the issued share capital of Digi are as follows:

	No. of Digi Shares ('000)	RM'000
Issued share capital as at the LPD	7,775,000	769,655
Consideration Shares to be issued pursuant to the Proposed Merger	3,956,508	13,372,997[(1)]
Enlarged issued share capital after the Proposed Merger	**11,731,508**	**14,142,652**

Note:

(1) For the purpose of the pro forma consolidated financial information, the value of the Consideration Shares to be issued pursuant to the Proposed Merger has been illustrated based on Digi's closing share price as at the LPD of RM3.38, to be in compliance with the Guidance Note for Issuers of Pro forma Financial Information issued by the Malaysian Institute of Accountants. The guidance states that where the consideration for an acquisition will be settled by the issue of a specified number of shares, in the subsequent financial statements, the issue of shares will be recorded by reference to their value at the date of their issue. However, as the value is not known until at a later date, for the purpose of the pro forma consolidated financial information, the most appropriate value to use for illustration is the value at the latest practicable date i.e. 30 September 2022, as this is likely to be the best indication of the effect of the transaction.

(b) Shareholdings of substantial shareholders

The pro forma effects of the Proposed Merger on the substantial shareholders' shareholdings of Digi as at the LPD are set out below:

	As at the LPD				After the Proposed Merger			
	Direct		Indirect		Direct		Indirect	
	No. of Digi Shares ('000)	%(1)	No. of Digi Shares ('000)	%(1)	No. of MergeCo Shares ('000)	%(2)	No. of MergeCo Shares ('000)	%(2)
Telenor Asia	3,809,750	49.00	-	-	3,883,129	33.10	-	-
Telenor Mobile Communications AS	-	-	3,809,750(3)	49.00	-	-	3,883,129(3)	33.10
Telenor Mobile Holding AS	-	-	3,809,750(4)	49.00	-	-	3,883,129(4)	33.10
Telenor	-	-	3,809,750(5)	49.00	-	-	3,883,129(5)	33.10
Axiata	-	-	-	-	3,883,129	33.10	-	-
Khazanah	-	-	-	-	-	-	3,883,129(6)	33.10
EPF	1,151,044	14.80	-	-	1,151,044	9.81	-	-
ASB	600,798	7.73	-	-	600,798	5.12	-	-

Notes:

(1) Calculated based on the 7,775,000,000 Digi Shares as at the LPD.

(2) Calculated based on the pro forma enlarged issued share capital of 11,731,507,988 MergeCo Shares.

(3) Deemed interested by virtue of its 100% interest in Telenor Asia.

(4) Deemed interested by virtue of its 100% interest in Telenor Mobile Communications AS.

(5) Deemed interested by virtue of its 100% interest in Telenor Mobile Holding AS.

(6) Deemed interested by virtue of its 36.74% interest in Axiata.

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(c) NA and gearing

Based on our pro forma consolidated statement of financial position as at 31 December 2021 and on the assumption that the Proposed Merger had been completed on 31 December 2021, the pro forma effects of the Proposed Merger on the consolidated NA and gearing of Digi are set out below.

The pro forma consolidated statement of financial position has not considered the effects of the proposed subscriptions of (i) new ordinary shares in DNB and (ii) rights to allotment of DNB shares pursuant to the conditional share subscription agreements which Digi Tel and Celcom Mobile had each entered separately with DNB on 7 October 2022. Please refer to Note 5 of Appendix IX of this Circular for further details.

	Audited as at 31 December 2021 (RM'000)	After the Proposed Merger (RM'000)
Share capital	769,655	(2) 14,142,652
Retained earnings	(136,844)	(3) (203,571)
NA	**632,811**	**13,939,081**
No. of Digi Shares in issue ('000)	7,775,000	11,731,508
NA per share (RM)	0.08	1.19
Total borrowings (RM'000)	4,959,275	(1) (4) 15,888,258
Total cash and short-term deposits (RM'000)	204,527	(5) 1,438,924
Gearing (times) (6)	7.84	1.14
Net gearing (times) (7)	7.51	1.04

***Notes**:*

(1) Including the Digi Group's and the Celcom Group's lease liabilities amounting to RM2.4 billion and RM5.1 billion, respectively.

(2) For the purpose of the pro forma consolidated statement of financial position, the value of the share capital has been determined based on Digi's closing share price as at the LPD. Please refer to Note (1) of Section 7(a) above for explanation.

(3) After adjusting for, amongst others, the estimated stamp duty of RM53.3 million, based on total purchase consideration of RM17.8 billion multiplied by stamp duty rate of 0.30%, and also the estimated expenses relating to the Proposed Merger of approximately RM19.2 million. The estimated expenses have not accounted for the additional costs that may be incurred for integration activities and fulfilling the Undertaking.

(4) Assuming external borrowings of RM1,700.0 million (net cash drawdown amounting to RM1,697.9 million after adjusting the borrowings costs of RM2.1 million) to be drawn down, of which RM1,692.7 million will be used to settle the Cash Consideration, and the remaining RM5.2 million will be used to partially settle the transaction expenses in relation to the Proposed Merger. The total borrowings is after adjusting for, among others, the pro forma effects arising from aligning differences in accounting policies adopted by the Celcom Group and the Digi Group respectively for the financial year ended 31 December 2021, resulting in an increase in total borrowings amounting to RM2,121.2 million, offset by the spectrum lease modification effect with a decrease in total borrowings of RM228.1 million arising from the spectrum divestment as part of the Undertaking set out in Section 1.3 of Part A of this Circular.

(5) After adjusting for assumed additional cash payment of RM156.3 million to be paid by Digi to Axiata pursuant to the Final Adjustment Amount illustrated based on assumed closing date of 31 December 2021. This amount is expected to be funded through internally generated funds.

(6) Computed based on total borrowings divided by total equity (or NA).

(7) Computed based on net borrowings (i.e. total borrowings less total cash and short-term deposits) divided by total equity (or NA).

(d) Earnings and EPS

Upon completion of the Proposed Merger, the Company will consolidate the earnings of the Celcom Group.

Based on our pro forma consolidated statement of comprehensive income for the FYE 31 December 2021 and on the assumption that the Proposed Merger had been completed on 1 January 2021, the pro forma effects of the Proposed Merger on the consolidated earnings of Digi are set out below.

The pro forma consolidated statement of comprehensive income has been prepared for illustrative purposes to show the effects of the Proposed Merger, drawdown of borrowings and transaction expenses with the assumption that these transactions were completed on 1 January 2021. The pro forma consolidated statement of comprehensive income has not considered the expected synergies from the Proposed Merger nor the costs and expenditures associated with merger integration activities, and as such may not indicate future performance of the MergeCo Group.

The pro forma consolidated statement of comprehensive income has also not considered the effects of the proposed subscriptions of (i) new ordinary shares in DNB and (ii) rights to allotment of DNB shares pursuant to the conditional share subscription agreements which Digi Tel and Celcom Mobile had each entered separately with DNB on 7 October 2022. Please refer Note 5 of Appendix IX of this Circular for further details.

	Audited as at 31 December 2021 (RM'000)	**After the Proposed Merger (RM'000)**
Consolidated PAT attributable to owners of Digi	1,162,105	1,162,105
Add: Pro forma PAT attributable to owners of Celcom	-	(1) 933,566
Less: Depreciation and amortisation arising from fair value adjustments to the net identifiable assets acquired (net of tax)	-	(134,167)
Less: Assumed interest costs for the Cash Consideration	-	(2) (61,200)
Less: Estimated expenses	-	(3) (72,508)
Enlarged consolidated PAT	**1,162,105**	**1,827,796**
Weighted average no. of Digi Shares ('000)	7,775,000	11,731,508
EPS (sen)	14.9	15.6

***Notes**:*

(1) The pro forma effects have accounted for, amongst others, effects arising from aligning differences in accounting policies adopted by the Celcom Group and the Digi Group respectively for the financial year ended 31 December 2021, as well as the spectrum lease modification effect with a decrease in finance costs amounting to RM37.5 million arising from the spectrum divestment as part of the Undertaking set out in Section 1.3 of Part A of this Circular.

(2) Assuming interest expense of RM61.2 million based on an estimated interest rate of 3.6% per annum on the new borrowing drawdown by Digi. Please refer to Note (4) of Section 7(c) above for the details. The assumed 3.6% per annum is based on the weighted average interest rate charged on Digi's existing unsecured floating rate borrowings as at the LPD.

(3) Being estimated stamp duty of RM53.3 million, based on total purchase consideration of RM17.8 billion multiplied by stamp duty rate of 0.30%, and estimated expenses relating to the Proposed Merger of approximately RM19.2 million which are one-off in nature. The expenses relating to the Proposed Merger has not included additional cost relating to the integration activities which is currently pending and the integration and additional costs that may be incurred to fulfill the Undertaking.

The expected additional costs for merger integration activities and to fulfil the Undertaking is expected to dilute the earnings and EPS of the MergeCo Group in the immediate years upon completion of the Proposed Merger. The extent of dilution in any given immediate year may be material and will depend on the amount and timing of such costs and expenditures being expensed off, the level of the MergeCo Group's earnings from operations including the extent of the synergies to be realised.

Nevertheless, the anticipated overall synergy values from the Proposed Merger remain positive after considering such additional costs. After taking into consideration, amongst others, the above, and the Rationale of the Proposed Merger as disclosed in Section 4.1 of Part A of this Circular, the Proposed Merger is expected to contribute favourably to the medium to long term earnings and EPS of the MergeCo Group.

8. APPROVALS REQUIRED

8.1 Approvals

As at the LPD, the following approvals in relation to the Proposals have been obtained:

(i) SC had in its letter dated 15 September 2022 approved the Proposed Merger under section 214(1) of the CMSA. SC had also, vide the same letter, approved the Proposed Merger under the Bumiputera equity requirement for public listed companies in relation to the resultant equity structure of Digi pursuant to the Proposed Merger.

SC had in its letter dated 17 December 2021 granted Axiata and Axiata PACs its ruling that the issuance of the 0.63% Digi Shares by Digi to Telenor Asia pursuant to the Shares Equalisation Arrangement is not a disqualifying transaction under subparagraph 4.08(2) of the Rules.

Kindly refer to Section 1(i) of Appendix XII of this Circular for more details;

(ii) MCMC had in its letter dated 28 June 2022 issued the notice of no objection to, and via Authorisation No.1 of 2022 granted its authorisation for, the Proposed Merger on the basis of the Undertaking;

(iii) MCMC had in its letters to Digi Tel dated 30 August 2022, its letter to Celcom dated 30 August 2022 and its letter to Celcom Mobile dated 1 September 2022; approved the proposed changes in Celcom's shareholdings with respect to the relevant conditions of its spectrum assignments and confirmed that no further action is required from Digi Tel and Celcom Mobile to ensure compliance with the relevant conditions of their respective spectrum assignments.

In addition, the Minister had also acknowledged the letters dated 15 July 2022 sent by Digi Tel and Celcom, respectively on the changes in the substantial shareholdings of Digi Tel and certain members of the Celcom Group as the NFP and NSP licence holders.

Kindly refer to Section 1(iii) of Appendix XII of this Circular for more details;

(iv) the approval/consent of the lenders/sukukholders of Axiata or Celcom for the Proposed Merger as referred to in paragraph 3.1 of Section A of Appendix XI of this Circular. There are no conditions imposed by the lenders/sukukholders of Axiata or Celcom;

(v) the approval of BNM granted on 6 October 2021 for the change of shareholders and/or shareholding in Merchantrade as referred to in paragraph 3.1 of Section A of Appendix XI of this Circular; and

(vi) the approval of Bursa Securities on 27 October 2022 for the listing of and quotation for 3,956,507,988 new Digi Shares, i.e. the Consideration Shares, to be issued pursuant to the Proposed Merger on the Main Market of Bursa Securities.

The conditions for the respective approvals are disclosed in Appendix XII of this Circular.

The Proposals are still subject to the following approvals:

(i) the approvals of the Non-Interested Shareholders for the Proposed Merger and the Whitewash Resolution in relation to the Proposed Exemption at the forthcoming EGM;

(ii) the approvals of the shareholders of Axiata for the Proposed Merger at an EGM; and

(iii) the approvals of the SC for the Proposed Exemption for which the application will be made after the approvals of the Non-Interested Shareholders for the Proposed Merger and the Whitewash Resolution in relation to the Proposed Exemption.

Further details of the conditions precedent of the SPA and the status of fulfilment are set out in Section 3.1 of Appendix XI of this Circular.

8.2 Moratorium on the Consideration Shares

Pursuant to paragraph 7.19 of the Equity Guidelines, Axiata will not be allowed to sell, transfer or assign the 33.10% Digi Shares, being 3,883,129,144 fully paid-up new Digi Shares or such other number of fully paid-up new Digi Shares, to be held by Axiata after the completion of the Proposals, for a period of six (6) months commencing from the date the 33.10% Digi Shares are listed and quoted on the Main Market of Bursa Securities. The 0.63% Digi Shares that Telenor Asia receives arising from the Shares Equalisation Arrangement is not subject to any moratorium.

9. INTER-CONDITIONALITY AND OUTSTANDING CORPORATE EXERCISES WHICH HAVE BEEN ANNOUNCED BUT NOT YET COMPLETED

The Proposed Merger is conditional upon the Proposed Exemption. The completion of the SPA and the Shares Equalisation Arrangement are inter-conditional and contemporaneous. Save as disclosed above, the Proposals are not conditional or inter-conditional upon any other corporate exercise of Digi.

On 7 October 2022, Digi Tel and Celcom Mobile had each separately entered into a conditional share subscription agreement with DNB for, amongst others, the proposed subscription of (i) new DNB Shares and (ii) DNB Rights to Allotment for a total cash consideration of RM178.57 million, collectively representing 12.5% of the enlarged equity interest in DNB. Following the completion of the conditional share subscription agreement with DNB and the Proposed Merger, the MergeCo Group shall own 25.0% enlarged equity interest in DNB via Digi Tel and Celcom Mobile. Further details are disclosed in Section 6 of Appendix I and Section 1.3 of Appendix V of this Circular.

For the avoidance of doubt, the conditional share subscription agreements with DNB are not inter-conditional on any other corporate exercise of Digi, including the Proposals. Digi Group intends to fund the cash considerations for the conditional share subscription agreement with DNB via a combination of internally generated funds and/or external borrowings, whereas the Celcom Group intends to fund the cash considerations for the conditional share subscription agreement with DNB via internally generated funds.

Save for the above, there is no other corporate exercise which has been announced by Digi but not yet completed as at the LPD.

10. PERCENTAGE RATIO

Pursuant to subparagraph 10.02(g) of the Listing Requirements, the highest percentage ratio applicable to the Proposed Merger exceeds 100%.

11. SIGNIFICANT CHANGE IN BUSINESS DIRECTION OR POLICY

In accordance with Chapter 2.01 of the Equity Guidelines, the Proposed Merger will result in a significant change in business direction or policy of Digi upon its completion.

12. INTERESTS OF DIRECTORS AND MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

Save as disclosed below, as at the LPD, none of the Directors and/or major shareholders of Digi or persons connected to them has any interest, direct or indirect, in the Proposed Merger and the Proposed Exemption:

(i) Telenor Asia, being a major shareholder of the Company, and being a party to the MTA and recipient of the 0.63% Digi Shares arising from the Shares Equalisation Arrangement;

(ii) Telenor Mobile Communications AS, being the 100% holding company of Telenor Asia;

(iii) Telenor Mobile Holding AS, being the 100% holding company of Telenor Mobile Communications AS;

(iv) Telenor, being the 100% holding company of Telenor Mobile Holding AS;

(v) Haakon Bruaset Kjoel being the Chair and the Non-Independent Non-Executive Director of the Company, is a representative of Telenor Asia on the Board of Digi. As at the LPD, he holds 24,528 shares in Telenor;

(vi) Wenche Marie Agerup being the Non-Independent Non-Executive Director of the Company, is a representative of Telenor Asia on the Board of Digi. As at the LPD, she holds 20,790 shares in Telenor;

(vii) Lars Erik Tellmann being the Non-Independent Non-Executive Director of the Company, is a representative of Telenor Asia on the Board of Digi. As at the LPD, he holds 60,588 shares in Telenor; and

(viii) Randi Wiese Heirung being the Non-Independent Non-Executive Director of the Company up until her resignation on 30 June 2021, was a representative of Telenor Asia on the Board of Digi. As at the LPD, she holds 1,742 shares in Telenor.

The Proposed Merger is deemed a related party transaction under paragraph 10.08 of the Listing Requirements in view of the interests of the Interested Major Shareholders and the Interested Directors in the Proposed Merger.

As at the LPD, the shareholdings of the Interested Directors and Interested Major Shareholders in Digi are as set out below:

	As at the LPD			
	Direct		Indirect	
Interested Director and Interested Major Shareholder	**No. of Digi Shares ('000)**	**%(1)**	**No. of Digi Shares ('000)**	**%(1)**
List of Interested Directors				
Haakon Bruaset Kjoel	-	-	-	-
Wenche Marie Agerup	-	-	-	-
Lars Erik Tellmann	-	-	-	-
Randi Wiese Heirung	-	-	-	-

	As at the LPD			
	Direct		Indirect	
Interested Director and Interested Major Shareholder	**No. of Digi Shares ('000)**	**%(1)**	**No. of Digi Shares ('000)**	**%(1)**
List of Interested Major Shareholders				
Telenor Asia	3,809,750	49.00	-	-
Telenor Mobile Communications AS	-	-	3,809,750(2)	49.00
Telenor Mobile Holding AS	-	-	3,809,750(3)	49.00
Telenor	-	-	3,809,750(4)	49.00

***Notes**:*

(1) Calculated based on the 7,775,000,000 Digi Shares as at the LPD.

(2) Deemed interested by virtue of its 100% interest in Telenor Asia.

(3) Deemed interested by virtue of its 100% interest in Telenor Mobile Communications AS.

(4) Deemed interested by virtue of its 100% interest in Telenor Mobile Holding AS.

Accordingly, the Interested Directors have abstained and will continue to abstain from all deliberations and voting in respect of the Proposals at the relevant meetings of the Board of Digi. The Interested Directors and Interested Major Shareholders will also abstain and have undertaken to ensure that persons connected to them will also abstain from voting in respect of their direct and/or indirect shareholdings in Digi on the ordinary resolutions pertaining to the Proposals to be tabled at the EGM of the Company.

13. TRANSACTIONS WITH RELATED PARTY FOR THE PRECEDING TWELVE (12) MONTHS

The total amount transacted with the Interested Major Shareholders and/or persons connected with them i.e. the Telenor Group of companies for the preceding 12-month period ended 30 September 2022 is RM143.3 million.

The transactions with Interested Major Shareholders and/or persons connected with them mainly relate to business service costs, which include consultancy, training, and advisory fees, as well as managed service cost, interconnect/roaming cost and bandwidth leasing expenses.

14. AUDIT AND RISK COMMITTEE'S STATEMENT

The Audit and Risk Committee of Digi (save for members who are Interested Directors), after taking into consideration all aspects of the Proposals (including but not limited to the terms of the SPA, the basis of the Total Consideration and the Issue Price, the terms of the Undertaking, rationale, prospects, risk factors and financial effects) as well as the evaluation of the Independent Valuer and Independent Adviser's opinion and recommendations on the Proposals, is of the opinion that the Proposals are:

(i) in the best interest of Digi;

(ii) fair, reasonable and on normal commercial terms; and

(iii) not detrimental to the interest of the Non-Interested Shareholders.

15. DIRECTORS' RECOMMENDATION

Proposed Merger and Proposed Exemption

The Board (save for the Interested Directors), having deliberated and after taking into consideration all aspects of the Proposed Merger (including but not limited to the basis of the Total Consideration and the Issue Price, the terms of the Undertaking, rationale, prospects, risk factors and financial effects and having taking into consideration the terms of the SPA including the fact that the approval of the Non-Interested Shareholders to be obtained upon the terms proposed in the Whitewash Resolution is a condition precedent to the SPA, as well as the evaluation of the Independent Valuer and the opinion, advice and recommendation of the Independent Adviser on the Proposed Merger and on the Whitewash Resolution), is of the opinion that the Proposed Merger is:

(i) in the best interest of Digi;

(ii) fair, reasonable and on normal commercial terms; and

(iii) not detrimental to the interest of the Non-Interested Shareholders,

and accordingly, our Board (save for the Interested Directors) recommends that you vote in favour of the resolutions pertaining to the Proposed Merger and the Whitewash Resolution to be tabled at our forthcoming EGM.

16. ADVISERS

CIMB

CIMB has been appointed as the Principal Adviser to Digi for the Proposals.

AmInvestment

In view that the Proposed Merger is deemed a related party transaction pursuant to paragraph 10.08 of the Listing Requirements, AmInvestment has been appointed to act as the Independent Adviser to undertake the following:

(i) comment as to:

  (a) whether the Proposed Merger is fair and reasonable so far as the Non-Interested Shareholders are concerned; and

  (b) whether the Proposed Merger is to the detriment of the Non-Interested Shareholders,

  and such opinion must set out the reasons for, the key assumptions made and the factors taken into consideration in forming that opinion;

(ii) advise the Non-Interested Shareholders on whether they should vote in favour of the Proposed Merger; and

(iii) take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in items (i) and (ii) above.

AmInvestment has also been appointed as the Independent Adviser to provide comments, opinions, information and recommendation pursuant to subparagraph 4.08(3) of the Rules to advise the Non-Interested Directors and Non-Interested Shareholders on the Proposed Exemption on a holistic basis.

KPMG

KPMG has been appointed as the Independent Valuer by the Company to conduct an independent assessment on the equity value of the Celcom Group.

17. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all the requisite approvals being obtained, the Proposals are expected to be completed in the fourth quarter of 2022. The tentative timeline for the implementation of the Proposals is as follows:

Events	Tentative timeline
EGMs of Digi and Axiata	18 November 2022
Completion of the Proposed Merger[(1)]	30 November 2022
Listing date of the Consideration Shares[(1)]	1 December 2022

Note:

(1) Subject to the Tune Talk Injunction being lifted or deemed to have lapsed. Kindly refer to Section 10(i) of Appendix I for further details.

If there is any change to the tentative timeline, we will make the necessary announcement on Bursa Securities.

18. EGM

Notice of the EGM which will be held on Friday, 18 November 2022 at 2.00 p.m. to be conducted fully virtual through online meeting platform at https://meeting.boardroomlimited.my provided by Boardroom Share Registrars Sdn Bhd ("**Poll Administrator**") using RPEV facilities and live streaming from broadcast venue at Studio, Digi Telecommunications Sdn Bhd, Lot 10, Jalan Delima 1/1, Subang Hi-Tech Industrial Park, 40000 Shah Alam, Selangor, Malaysia, together with the Form of Proxy are enclosed together in this Circular.

The Notice of EGM together with the Form of Proxy and Administrative Guide may be downloaded from our Company's website at https://digi.listedcompany.com/egm_2022.html Please read carefully and follow the procedures set out in the Administrative Guide to register, participate and vote remotely via the RPEV facilities.

The hardcopy of Form of Proxy must be deposited at the Poll Administrator's office, Boardroom Share Registrars Sdn Bhd at Ground Floor or 11th Floor, Menara Symphony, No. 5, Jalan Professor Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor Darul Ehsan at least forty-eight (48) hours before the time appointed for holding the meeting. Alternatively, the Form of Proxy can be submitted electronically via https://investor.boardroomlimited.com before the Form of Proxy submission cut-off time as mentioned above. The lodging of the Form of Proxy will not preclude you from attending and voting at the meeting if you subsequently wish to do so. The last day and time for you to lodge the Form of Proxy is on Wednesday, 16 November 2022 at 2.00 p.m.

19. FURTHER INFORMATION

You are advised to refer to the appendices of this Circular for further information.

Yours faithfully
For and on behalf of the Board of
DIGI.COM BERHAD

Vimala V.R. Menon
Senior Independent Non-Executive Director

PART B

INDEPENDENT ADVICE LETTER FROM AMINVESTMENT TO THE NON-INTERESTED DIRECTORS AND NON-INTERESTED SHAREHOLDERS OF DIGI IN RELATION TO THE PROPOSALS

EXECUTIVE SUMMARY

All definitions used in this Executive Summary shall have the same meanings as the words and expressions defined in the "Definitions" section in Part A of the Circular, except where the context otherwise defined in this IAL. All references to "we", "us" or "our" are references to AmInvestment, being the Independent Adviser for the Proposals. All references to "you" and "your" are references to the Non-Interested Shareholders.

This Executive Summary only highlights the key information from other parts of this IAL. It does not contain all the information that may be important to you. You should read and understand the contents of the whole IAL and the Circular prior to deciding on how to vote for the Proposals.

You are also advised to consider carefully the recommendations contained therein before voting on the resolutions to give effect to the Proposals to be tabled at the forthcoming EGM of the Company. If you are in doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers immediately.

1. INTRODUCTION

On 21 June 2021, CIMB had, on behalf of the Board of Digi, announced that Digi has entered into the SPA with Axiata for the Proposed Merger for a total consideration of RM17,756,156,250 to be satisfied via issuance of Consideration Shares and Cash Consideration (which is subject to adjustment upon determination of the Interim Adjustment Amount and Final Adjustment Amount, as the case may be, under the terms of the SPA) to Axiata.

Further, Telenor Asia, Telenor and Axiata have also entered into the MTA that sets out amongst others, the Shares Equalisation Arrangement. Upon completion of the Shares Equalisation Arrangement, Telenor Asia and Axiata will each have equal shareholding of 33.10% in MergeCo. In connection with and upon completion of the Proposed Merger, Telenor Asia, Telenor and Axiata will also enter into the SHA with each other. Please refer to Section 2, Part A of the Circular for further details of the Proposed Merger and Appendix XI of the Circular for the salient terms of the SPA, MTA and SHA.

The Proposed Merger is regarded as a related party transaction by virtue of the Shares Equalisation Arrangement, in which Telenor and Telenor Asia are parties to it pursuant to paragraph 10.08 of the Listing Requirements. Upon completion of the Proposed Merger, the shareholdings of Axiata in MergeCo will increase from **nil** to **33.10%**. Additionally, pursuant to the SHA to be entered into between the SHA Parties, upon completion of the Proposed Merger, Telenor Asia and its holding companies will be deemed PAC to Axiata pursuant to subsection 216(2) of the CMSA. Axiata together with Telenor Asia will collectively hold 66.20% of the equity interest in the MergeCo.

In accordance with subsection 218(2) of the CMSA and subparagraph 4.01(a) of the Rules, Axiata and Axiata PACs, will be obliged to undertake the Mandatory Offer upon the SPA becoming unconditional. As it is not the intention of Axiata and Axiata PACs to undertake the Mandatory Offer for the remaining Digi Shares that they do not already own upon completion of the Proposed Merger, Axiata and Axiata PACs intend to seek an exemption from the SC, under subparagraph 4.08(1)(a) of the Rules, from the obligation to undertake the Mandatory Offer.

The Proposed Merger is conditional upon the Proposed Exemption. The completion of the SPA and the Shares Equalisation Arrangement are inter-conditional and contemporaneous. Further details of the Proposals are set out in Sections 2 and 3, Part A of the Circular.

In addition, subsequent to the date of initial SPA on 21 June 2021, Digi and Axiata had entered into the following agreements which resulted in the amendments to the SPA:-

(i) Digi and Axiata had on 17 June 2022, entered into a supplemental agreement to amend the SPA to provide for the extension of the long stop date from 21 June 2022 to 31 December 2022 or such other date as may be mutually agreed in writing between the parties. This extension of the long stop date was to provide for additional time for the parties to procure the fulfilment of the conditions precedent of the SPA; and

(ii) On 25 July 2022, Axiata, Digi and Celcom entered into the costs sharing agreement ("**Costs Sharing Agreement**"), for the sharing of costs and expenses to be incurred prior to the Closing, in relation to integration planning activities for day-1 readiness. The said costs are to be shared equally between Digi Group and Celcom Group and is not expected to be material.

Incidental to the costs sharing agreement, Axiata and Digi agreed to amend the SPA upon the terms set out in the Costs Sharing Agreement and to exclude the effects of such costs and expenses prior to the Closing for the purposes of calculation of Interim Adjustment Amount and Final Adjustment Amount.

Furthermore, MCMC had in its letter dated 28 June 2022 issued a notice of no objection to, and via Authorisation No.1 of 2022, granted its authorisation for, the Proposed Merger on the basis of the Undertaking. Further details of the Undertaking together with AmInvestment's comments on the impact of each Undertaking are as set out in Section 7.7 – Industry outlook and prospects of this IAL.

The purpose of this IAL is to provide you with our independent evaluation on the Proposals together with our recommendation on whether you should vote in favour of the resolutions pertaining to the Proposals, subject to the scope and limitations of our role and evaluation specified herein. Nevertheless, you should rely on your own evaluation of the merits and demerits of the Proposals before deciding on the course of action to be taken at the forthcoming EGM of the Company.

2. EVALUATION OF THE PROPOSALS

In arriving at our conclusion and recommendation, we have assessed and evaluated the fairness and reasonableness of the Proposals holistically in accordance with Schedule 2: Part III of the Rules, taking into consideration the following factors:-

Reference	AmInvestment's evaluation and comments
Section 7.1 Rationale of the Proposals	**Proposed Merger** We have considered the rationale for the Proposed Merger and are of the view that the Proposed Merger is mutually beneficial to Digi and Axiata. The MergeCo Group is expected to benefit through the combination of the scale, experience and competencies of both global telecom groups with the market knowledge of two well-established local companies, as well as stronger financial position and funding capacity to achieve Malaysia's digital aspirations. Over the medium to longer term, the Proposed Merger is expected to contribute positively to the earnings and earnings per share of Digi as compared to the scenario of Digi continuing on a standalone basis without the Proposed Merger. The anticipated synergies and benefits from the Proposed Merger are expected to be value accretive, even after considering the required costs in fulfilling the Undertaking to MCMC. **Proposed Exemption** Pursuant to the issuance of Consideration Shares to Axiata upon completion of the Proposed Merger, Axiata's shareholdings in MergeCo will increase from **nil** to **33.10%**. Additionally, pursuant to the SHA to be entered into between the SHA Parties, Telenor Asia and its holding companies will be deemed PAC to Axiata pursuant to subsection 216(2) of the CMSA. Axiata together with Telenor Asia will collectively hold 66.20% of the equity interest in the MergeCo.

<table>
<tr><th>Reference</th><th>AmInvestment's evaluation and comments</th></tr>
<tr><td></td><td>In accordance with subsection 218(2) of the CMSA and subparagraph 4.01(a) of the Rules, Axiata and Axiata PACs, will be obliged to undertake the Mandatory Offer upon the SPA becoming unconditional. As it is not the intention of Axiata and Axiata PACs to undertake the Mandatory Offer, the Proposed Exemption has been included as part of the Proposals.

Further, as the Proposed Merger is conditional upon the Proposed Exemption, it is pertinent to note that without the approval from the Non-Interested Shareholders on the Proposed Exemption, the Proposed Merger will not be able to proceed and hence, Digi will not be able to realise the potential benefits from the Proposed Merger as detailed in Section 7.1 of this IAL.

Premised on the above, we are of the view that the rationale of the Proposals is acceptable.

Please refer to Section 7.1 of this IAL for further details.</td></tr>
<tr><td><u>Section 7.2</u>
Evaluation of the Total Consideration</td><td>In arriving at the indicative value of a 100% equity interest in Celcom, we note that KPMG has adopted market approach as its primary valuation methodology and approached the valuation of Celcom Group for the purpose of the Proposed Merger based on the merger of equals principle, where they consider the valuation of Celcom's shares relative to the market pricing parameters of Digi's shares on a standalone "as is" pre-merger basis without factoring in any potential synergistic benefits as well as additional costs expected to incur arising from the Proposed Merger.

For the purpose of the valuation of Celcom's shares, KPMG has made references to the range of price multiples of Digi whilst also considering the price multiples of the telecommunications industry for reasonableness check.

In evaluating the reasonableness of the price multiple ranges adopted by KPMG, we have assessed the price multiples of the respective comparable companies based on their 1-year VWAMP up to 7 April 2021, being the last full trading day of Digi Shares prior to the Digi Initial Announcement as follows:-

<table>
<tr><th>Market approach</th><th>Multiple range adopted by KPMG</th><th>Multiple range based on 1-year VWAMP up to 7 April 2021</th><th>Within/ outside the range</th></tr>
<tr><td colspan="4">(a) Valuation of Celcom Group (excluding Sacofa Sdn Bhd)</td></tr>
<tr><td>EV/FCF multiple</td><td>14.1x to 15.5x</td><td>9.8x to 20.6x</td><td>Within</td></tr>
<tr><td>P/E multiple</td><td>24.0x to 26.5x</td><td>18.8x to 28.7x</td><td>Within</td></tr>
<tr><td colspan="4">(b) Valuation of Sacofa Sdn Bhd(1)</td></tr>
<tr><td>EV/EBITDA multiple</td><td>10.0x</td><td>7.3x to 12.6x</td><td>Within</td></tr>
</table>

<u>Note:-</u>

(1) Sacofa Sdn Bhd is an associate company of Celcom which is principally engaged in the provision of telecommunication tower and infrastructure services in Malaysia of which neither its EV nor FCF is reflected in the audited financial statement of Celcom and hence, it is valued separately from the Celcom Group.</td></tr>
</table>

Reference	AmInvestment's evaluation and comments
	Premised on the above and our detailed evaluation as discussed in Section 7.2 of this IAL, we are satisfied with, and are of the view that the valuation approach, basis and parameters adopted by KPMG for the purpose of the indicative valuation of Celcom Group are **justifiable** as the Total Consideration of RM17,756.2 million falls within the indicative valuation range of RM16,032 million to RM18,473 million as ascribed by KPMG. As such, we have relied on the valuation as ascribed by KPMG. Please refer to Section 7.2 of this IAL for further details.
Section 7.3 Mode of settlement of the Total Consideration	Based on our evaluation, we are of the view that the Total Consideration, being largely satisfied via the issuance of Consideration Shares, is **justifiable** given the objective for the Proposals is for the merger of Celcom and Digi whereby all existing shareholders are to stay invested in the equity of MergeCo. The Cash Consideration and the Shares Equalisation Arrangement in the Proposed Merger is intended to balance the shareholding of Telenor Asia and Axiata in MergeCo at 33.10% each. Please refer to Section 7.3 of this IAL for further details.
Section 7.4 Basis and justification for the Issue Price of the Consideration Shares	Based on our evaluation of Digi's historical share price movements during the 1-year period prior to 7 April 2021, being the Digi Initial Announcement LTD, we note that the issue price for the Consideration Shares of RM4.06 each falls between:- (a) Digi's 5-day VWAMP of RM3.65 and 1-year VWAMP of RM4.08; and (b) Digi's traded price ranging from RM3.52 to RM4.64. Premised on the above and our detailed evaluation as discussed in Section 7.4 of this IAL, we are of the view that the Issue Price for the Consideration Shares is **justifiable**. Please refer to Section 7.4 of this IAL for further details.
Section 7.5 Salient terms of the SPA, MTA and SHA	The terms of the SPA, MTA and SHA for the Proposed Merger are mutually agreed upon by the respective parties. We have assessed the salient terms of the SPA, MTA and SHA as set out in Appendix XI of the Circular, and are of the view that the key salient terms for the respective agreements are **justifiable**. Please refer to Section 7.5 of this IAL for further details.
Section 7.6 Effects of the Proposals	The Proposed Exemption will not have any effect on the issued share capital, substantial shareholders' shareholdings, NA, gearing and earnings of Digi Group. The issuance of the Consideration Shares for the Proposed Merger will result in a larger base of Digi's issued shares and hence, resulting a dilution to the Non-Interested Shareholders' collective shareholdings in Digi from 51.0% as at the LPD to 33.8% in MergeCo upon completion of the Proposed Merger. The pro forma effects of the Proposed Merger on the NA per share, gearing and EPS are as set out below:-

	Audited as at 31 December 2021	After the Proposed Merger
NA per share (RM)	0.08	1.19
Gearing (times)	7.84	1.14
EPS (sen)	14.9	15.6

Reference	AmInvestment's evaluation and comments
	We note that the pro forma NA per share of Digi (or MergeCo after the Proposed Merger) is expected to increase and there will be an improvement in the gearing ratio as a result of the Proposed Merger. The pro forma EPS would also be expected to increase from 14.9 sen to 15.6 sen after the Proposed Merger (without factoring in any potential synergistic benefits from the Proposed Merger nor the costs and expenditures associated with merger integration activities as well as to fulfil the Undertaking to MCMC). Taken as a whole, the effects of the Proposed Merger are **acceptable**. Please refer to Section 7.6 of this IAL for further details.
<u>Section 7.7</u> Industry outlook and prospects	Taking into consideration, amongst others, the financial effects, including the historical financial performance of Celcom Group, the potential synergies to be realised pursuant to the Proposed Merger, as well as the long-term outlook of the telecommunications industry in Malaysia (which is supported and driven by the Government's MyDigital aspirations and commitments), we are of the view that the long-term prospects of the MergeCo Group to be **favourable**. Please refer to Section 7.7 of this IAL for further details.
<u>Section 7.8</u> Risk factors	In view that both Digi Group and Celcom Group are principally involved in the telecommunications industry, we are of the view that the business risk profile of Digi **will not change significantly** upon completion of the Proposed Merger, especially for risk factors inherent in the telecommunications industry. Nevertheless, we wish to highlight some of the risk factors in relation to the Proposed Merger to the Non-Interested Directors and Non-Interested Shareholders as follows:- (a) risk from failure in defending material litigation suits (i.e., TSDTR Counterclaims); (b) control of MergeCo Group by major shareholders (i.e., Axiata and Telenor Asia); and (c) risks surrounding execution of Undertaking or delayed performance of Undertaking as set out in Section 1.3, Part A of the Circular. Whilst we understand that the MergeCo seeks to limit the impact of the various risk factors, there can be no assurance that the risk factors will not have adverse effects to the business and operations of the MergeCo Group. Non-Interested Shareholders are advised to carefully consider the risk factors prior to voting on the resolutions pertaining to the Proposals. Please refer to Section 7.8 of this IAL for further details.
<u>Section 7.9</u> Implications arising from the voting outcome of the Proposed Exemption	If you **<u>vote in favour</u>** of the Proposed Exemption, the SC would be able to consider the application made by Axiata and Axiata PACs for the Proposed Exemption. If you **<u>vote against</u>** the Proposed Exemption, both the Proposed Merger and the Proposed Exemption will not proceed as the Proposed Merger is conditional upon the Proposed Exemption. As such, any potential benefits therefrom will not be materialised. Please refer to Section 7.9 of this IAL for further details.

3. CONCLUSION AND RECOMMENDATION

In arriving at our conclusion and recommendation, we have assessed and evaluated the Proposals holistically in accordance with Schedule 2: Part III of the Rules, taking into consideration the various factors set out in Section 7 of this IAL. As the Proposed Merger is conditional upon the Proposed Exemption, the Non-Interested Shareholders should consider the Proposals carefully based on all relevant and pertinent factors as set out in this IAL, the Circular and other publicly available information prior to deciding to vote on the ordinary resolutions pertaining to the Proposals.

The potential advantages and disadvantages of the Proposals are summarised as follows:-

	Potential advantages
(a)	The Proposed Merger provides an opportunity for Digi to merge with a profitable business within the telecommunications industry with proven track record of more than 30 years. The MergeCo Group is expected to emerge as one of the leading telecommunication services providers in Malaysia upon completion of the Proposed Merger.
(b)	The MergeCo Group is expected to benefit from the potential synergies via greater economies of scale arising from the consolidation of operations, optimisation of resource utilisation and sharing of assets and management capabilities upon completion of the Proposed Merger.
(c)	The Proposed Merger may further enhance consumer satisfaction through strengthening of the core distribution, enhanced network operations and improved efficiencies.
(d)	The Proposed Merger will allow the MergeCo Group to be in a stronger position to engage with potential partners and venture into the global markets, realising the opportunities arising from the technology advancement and surging of digital services adoption and consumer demand.
(e)	As new digital solutions and use cases will require extensive research & development and new capabilities, the MergeCo Group with greater combined know-how, facilities and vast management experience will serve as a good platform to attract and grow the local digital talent, suppliers and start-up community, which will ultimately drive the technological advancement in Malaysia.
(f)	The settlement of the Total Consideration largely via the issuance of Consideration Shares will allow Digi Group to conserve its cash reserves without significantly increase its borrowings and improve its gearing ratio.
(g)	Digi Group's financial position will be strengthened pursuant to the issuance of Consideration Shares with:- ▪ an **increase** in NA from approximately RM632.8 million as at 31 December 2021 to approximately RM13,939.1 million in MergeCo Group upon completion of the Proposed Merger; and ▪ an **improvement** in gearing ratio i.e., reducing from 7.84 times as at 31 December 2021 to 1.14 times in MergeCo Group upon completion of the Proposed Merger.
	Potential disadvantages
(a)	There is no assurance that the MergeCo Group will be able to realise the anticipated benefits from the Proposed Merger, and the Proposed Merger may expose the MergeCo Group to new challenges and risks comprising, amongst others, the followings:-

- Non-completion risk for the Proposals.

- Integration risk arising from the Proposed Merger.

- Risk from failure in defending material litigation suits filed by Celcom and Celcom Resources against, inter alia, TSDTR, Bistamam and DeTeAsia Holding GmbH (i.e., TSDTR Counterclaims).

  Notwithstanding the TSDTR Indemnity fully covers sums payable by the MergeCo Group in respect of the TSDTR Counterclaims, there is no assurance that it will be able to fully recover or recover in a timely manner the amounts claimed under the TSDTR Indemnity. Additionally, MergeCo Group may also suffer indirect and consequential losses, such as losses arising from reputational damage, which is not part of the TSDTR Indemnity. These would materially and adversely affect the profitability and financial position of the MergeCo Group and may have a corresponding negative effect on the shareholders' value of the MergeCo.

- Possible impairment of goodwill arising from the Proposed Merger, subject to an impairment assessment to be performed at least once a year, pursuant to MFRS 136: Impairment of Assets.

- Risk of control by major shareholders, where Axiata and Telenor will collectively hold 66.2% upon the completion of the Proposed Merger. With the said shareholding in MergeCo, Axiata and Axiata PACs will have statutory control over MergeCo and unless it is required to abstain from voting on resolutions sought at shareholders' general meetings of the MergeCo, Axiata and Axiata PACs are able to, through casting of their votes which represent approximately 66.2% of the total voting shares in MergeCo after the Proposed Merger:-

  - vote through or vote down any ordinary resolutions (as such resolutions only require approval from more than 50% of the total votes cast); and

  - have significant influence over the decision for special resolutions (as such resolutions require approval from at least 75% of the total votes cast).

- Risks surrounding execution of the Undertaking within the planned timelines without any adverse impact to the MergeCo's customers or delayed in the performance of the Undertaking to MCMC.

  The Undertaking to MCMC, particularly the spectrum divestment is operationally complex with the consequence of possible degradation to network quality and hence, impacting customer experience and causing challenges for the MergeCo Group to comply with its service quality requirements. Although MergeCo Group will continue to engage with MCMC including having regular dialogues to address the progress or potential issues to ensure the performance of the Undertaking, if the MergeCo Group fails to perform any part of the Undertaking according to its terms, the CMA expressly provides a right for MCMC or any person to apply to court to enforce the same. Failure by the MergeCo Group to comply with a court order will result in the MergeCo Group and/or its officers being in contempt of court and liable to a reprimand and/or a fine or imprisoned and hence, may result in reputational damage.

  Further, the MergeCo Group is also expected to incur additional costs and expenditures for merger integration activities, as well as to fulfil the Undertaking to MCMC, which may have a negative impact on the earnings and EPS of the MergeCo Group in the immediate years upon completion of the Proposed Merger.

(b)	The Non-Interested Shareholders' shareholdings in Digi will be diluted from approximately 51.0% to 33.8% in MergeCo. Further, the Proposed Exemption will allow the shareholding of Axiata and Axiata PACs in the MergeCo to increase to 66.2% upon completion of the Proposed Merger without being required to undertake the Mandatory Offer. **Your approval of the Proposed Exemption will imply that you have agreed to waive your rights to a general offer by Axiata and Axiata PACs** (which shall be undertaken at a price no lower than the highest price paid by Axiata and Axiata PACs for the Digi Shares in the past 6 months preceding the commencement of the offer) and exempt Axiata and Axiata PACs from the obligation to undertake the Mandatory Offer arising from the increase in its shareholdings in Digi pursuant to the issuance of the Consideration Shares upon completion of the Proposed Merger. **The Proposed Exemption would essentially deny you with the opportunity to exit from Digi through a mandatory take-over offer by Axiata and Axiata PACs**.

Premised on the above and our evaluation of the Proposals on a holistic basis, we are of the view that the Proposals are **fair and reasonable** and **not detrimental** to the interests of the Non-Interested Shareholders.

As such, we advise and recommend that you **vote in favour** of the ordinary resolutions pertaining to the Proposals to be tabled at the forthcoming EGM of the Company.

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AmInvestment Bank

Registered Office:
Level 22, Bangunan AmBank Group
No. 55, Jalan Raja Chulan
50200 Kuala Lumpur

28 October 2022

To: The Non-Interested Directors and Non-Interested Shareholders of Digi.Com Berhad

Dear Sir/Madam,

DIGI.COM BERHAD ("DIGI" OR THE "COMPANY")

INDEPENDENT ADVICE LETTER IN RELATION TO THE PROPOSALS ("IAL")

This IAL is prepared for inclusion in the Circular to the shareholders of Digi in relation to the Proposals and should be read in conjunction with the same. All definitions used in this IAL shall have the same meanings as the words and expressions defined in the "Definitions" section in Part A of the Circular, except where the context otherwise defined in this IAL. All references to "we", "us" or "our" are references to AmInvestment, being the Independent Adviser for the Proposals. All references to "you" and "your" are references to the Non-Interested Shareholders.

1. INTRODUCTION

The Board of Digi, had on 8 April 2021, announced that Telenor (the parent company of Digi's largest shareholder, Telenor Asia) and Axiata are in discussions to merge the telecommunication operations of Digi and Celcom, in which Telenor Asia and Axiata will have an equal ownership of 33.10% each in MergeCo.

Subsequently, on 21 June 2021, CIMB had on behalf of the Board of Digi, announced that Digi had entered into the SPA with Axiata, where the 100% equity interest of Celcom (excluding Merchantrade and Axiata Foundation) held by Axiata shall be transferred to Digi (subject to the terms and conditions set forth in the SPA) for the Total Consideration of RM17,756,156,250. The Total Consideration shall be satisfied by Digi by way of:-

(i) the issuance of 73,378,844 fully paid-up new Digi Shares or such other number of fully paid-up new Digi Shares representing 0.63% of the enlarged issued share capital of Digi (valued at RM297,918,107) to Telenor Asia as nominee of Axiata, subject to, amongst others, the payment of a cash consideration of RM297,918,107 by Telenor Asia to Axiata pursuant to Shares Equalisation Arrangement in accordance with the MTA;

(ii) the issuance of 3,883,129,144 fully paid-up new Digi Shares or such other number of fully paid-up new Digi Shares representing 33.10% of the enlarged issued share capital of Digi (valued at RM15,765,504,325) to Axiata on the completion of the Proposed Merger; and

(iii) the payment by Digi of the Cash Consideration of RM1,692,733,818 to Axiata, subject to adjustments as set out in the SPA.

On the same date, Telenor Asia, Telenor and Axiata have entered into the MTA that sets out amongst others, the Shares Equalisation Arrangement. Upon completion of the Shares Equalisation Arrangement, Telenor Asia and Axiata will each have equal shareholding of 33.10% in MergeCo.

In connection with and upon completion of the Proposed Merger, Telenor Asia, Telenor and Axiata will enter into the SHA with each other. The agreed form of the SHA sets out, amongst others, the parties' respective rights and obligations with respect to the activities and governance of the MergeCo Group, and ownership and disposition of Digi Shares, the composition of the Board and nomination of directors to the Board, the merger integration plan and the objective for the MergeCo Group to establish an innovation centre to foster technology transformation and digitalisation in Malaysia.

Pursuant to paragraph 10.08 of the Listing Requirements, the Proposed Merger is deemed a related party transaction by virtue of the Shares Equalisation Arrangement in which Telenor and Telenor Asia are parties to it.

Upon completion of the Proposed Merger, the shareholdings of Axiata in MergeCo will increase from **nil** to **33.10%**. Additionally, pursuant to the SHA to be entered into between the SHA Parties, upon completion of the Proposed Merger, Telenor Asia and its holding companies will be deemed PAC to Axiata pursuant to subsection 216(2) of the CMSA. Axiata together with Telenor Asia will collectively hold 66.20% of the equity interest in the MergeCo.

In accordance with subsection 218(2) of the CMSA and subparagraph 4.01(a) of the Rules, Axiata and Axiata PACs, will be obliged to undertake the Mandatory Offer upon the SPA becoming unconditional. As it is not the intention of Axiata and Axiata PACs, to undertake the Mandatory Offer for the remaining Digi Shares that they do not already own upon completion of the Proposed Merger, Axiata and Axiata PACs intend to seek an exemption from the SC under subparagraph 4.08(1)(a) of the Rules from the obligation to undertake a Mandatory Offer.

The Proposed Merger is conditional upon the Proposed Exemption. The completion of the SPA and the Shares Equalisation Arrangement are inter-conditional and contemporaneous. Further details of the Proposals are set out in Sections 2 and 3, Part A of the Circular.

In view of the above, AmInvestment was appointed by the Company as the Independent Adviser to advise the Non-Interested Directors and Non-Interested Shareholders in respect of the fairness and reasonableness of the Proposed Merger and from any conflict of interest or potential conflict of interest to the Proposed Exemption in accordance with paragraph 10.08(2) of the Listing Requirements and paragraph 3.06 of the Rules. AmInvestment had on 23 June 2021 declared to the SC our independence from any conflict of interest or potential conflict of interest and our eligibility in relation to the role as the Independent Adviser for the Proposed Exemption.

In addition, subsequent to the date of initial SPA on 21 June 2021, Digi and Axiata had entered into the following agreements which resulted in the amendments to the SPA:-

(i) Digi and Axiata had on 17 June 2022, entered into a supplemental agreement to amend the SPA to provide for the extension of the long stop date from 21 June 2022 to 31 December 2022 or such other date as may be mutually agreed in writing between the parties. This extension of the long stop date was to provide for additional time for the parties to procure the fulfilment of the conditions precedent of the SPA; and

(ii) On 25 July 2022, Axiata, Digi and Celcom entered into the costs sharing agreement ("**Costs Sharing Agreement**"), for the sharing of costs and expenses to be incurred prior to the Closing, in relation to integration planning activities for day-1 readiness. The said costs are to be shared equally between Digi Group and Celcom Group and is not expected to be material.

    Incidental to the costs sharing agreement, Axiata and Digi agreed to amend the SPA upon the terms set out in the Costs Sharing Agreement and to exclude the effects of such costs and expenses prior to the Closing for the purposes of calculation of Interim Adjustment Amount and Final Adjustment Amount.

Furthermore, MCMC had in its letter dated 28 June 2022 issued a notice of no objection to, and via Authorisation No.1 of 2022, granted its authorisation for, the Proposed Merger on the basis of the Undertaking.

The Undertaking is to address the MCMC's competition concerns highlighted in their Statement of Issues ("**SOI**") issued on 1 April 2022, outlining their views on potential competition concerns arising from the Proposed Merger. Further details of the Undertaking together with AmInvestment's comments on the impact of each Undertaking are as set out in Section 7.1 – Rationale of the Proposals of this IAL.

Pursuant to subparagraph 4.08(3)(g) of the Rules, the SC had, vide its letter dated 27 October 2022, notified that it has no further comments on the contents of this IAL. However, such notification shall not be taken to suggest that the SC agrees with our recommendations or assumes responsibility for the correctness of any statements made or opinions or reports expressed in this IAL. The notification merely means that this IAL has been prepared in compliance with the provisions of the Rules.

The purpose of this IAL is to provide the Non-Interested Directors and Non-Interested Shareholders with our independent evaluation as to:-

(i) whether the Proposals are fair and reasonable insofar as the Non-Interested Directors and Non-Interested Shareholders are concerned;

(ii) whether the Proposals are detrimental to the Non-Interested Shareholders; and

(iii) our recommendation on whether the Non-Interested Shareholders should vote in favour or against the ordinary resolutions pertaining to the Proposals to be tabled at the forthcoming EGM of the Company, subject to the scope and limitations of our role and evaluation specified herein.

AmInvestment, being the Independent Adviser, accepts full responsibility for the accuracy of this IAL. Having made all reasonable enquiries, and to the best of our knowledge and belief, we confirm that there is no false or misleading statement or other facts which if omitted, would make any statement in this IAL to be false or misleading.

Notwithstanding the above, you should rely on your own evaluation of the merits and demerits of the Proposals before deciding on the course of action to be taken at the forthcoming EGM of the Company.

THIS IAL IS PREPARED SOLELY FOR THE USE OF THE NON-INTERESTED DIRECTORS AND NON-INTERESTED SHAREHOLDERS IN RELATION TO THE PROPOSALS AND SHOULD NOT BE USED OR RELIED UPON BY ANY OTHER PARTY FOR ANY OTHER PURPOSES WHATSOEVER.

YOU ARE ADVISED TO READ AND UNDERSTAND THIS IAL AND THE LETTER TO THE SHAREHOLDERS OF DIGI IN RELATION TO THE PROPOSALS AS SET OUT IN PART A OF THE CIRCULAR TOGETHER WITH THE ACCOMPANYING APPENDICES, AND TO CONSIDER CAREFULLY THE EVALUATIONS AND RECOMMENDATIONS CONTAINED HEREIN BEFORE VOTING ON THE ORDINARY RESOLUTIONS TO GIVE EFFECT TO THE PROPOSALS TO BE TABLED AT THE FORTHCOMING EGM OF THE COMPANY.

IF YOU ARE IN DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

2. DETAILS OF THE PROPOSALS

The Proposed Merger entails the transfer by Axiata of 1,237,534,681 Celcom Shares held by Axiata, representing 100% of the issued share capital of Celcom to Digi for a total consideration of RM17,756.2 million. To enable the Shares Equalisation Arrangement to be implemented, Axiata shall nominate Telenor Asia to receive the 0.63% Digi Shares to be issued directly from Digi for a cash consideration of RM297,918,107 payable by Telenor Asia to Axiata. The 0.63% Digi Shares will be issued directly by Digi to Telenor Asia concurrently with the issuance of the 33.10% Digi Shares to Axiata.

Prior to the completion of the Proposed Merger, Telenor is the sole controlling shareholder of Digi with 49.00% shareholding interest in Digi. Upon completion of the Proposed Merger, the shareholdings of Axiata in MergeCo will increase from **nil** to **33.10%**. Additionally, pursuant to the SHA to be entered into between the SHA Parties, upon completion of the Proposed Merger, Telenor Asia and its holding companies will be deemed PAC to Axiata pursuant to subsection 216(2) of the CMSA. Axiata together with Telenor Asia will collectively hold 66.20% of the equity interest in the MergeCo upon the completion of the Proposed Merger.

In accordance with subsection 218(2) of the CMSA and subparagraph 4.01(a) of the Rules, Axiata and Axiata PACs, will be obliged to undertake the Mandatory Offer upon the SPA becoming unconditional.

As it is not the intention of Axiata and Axiata PACs to undertake the Mandatory Offer for the remaining Digi Shares that they do not already own upon completion of the Proposed Merger, Axiata intends to seek an exemption from the SC for itself and Axiata PACs, pursuant to subparagraph 4.08(1)(a) of the Rules, from the obligation to undertake the Mandatory Offer.

Pursuant to the Rules, the SC may consider granting the Proposed Exemption if, amongst others, the approval of the Non-Interested Shareholders for the Proposed Exemption is obtained at an EGM of Digi to be convened and there has been no disqualifying transactions entered into by Axiata or any of Axiata PACs in accordance with paragraph 4.08 of the Rules.

Under paragraph 4.08(2) of the Rules, any exemption granted will be invalidated if Axiata and Axiata PACs have engaged or engages in a disqualifying transaction. The SC had on 17 December 2021 granted Axiata and Axiata PACs its ruling that the issuance of the 0.63% Digi Shares by Digi to Telenor Asia pursuant to the Share Equalisation Arrangement is not a disqualifying transaction under paragraph 4.08(2) of the Rules.

In this regard, as set out in Section 9, Part A of the Circular, the Proposed Merger is conditional upon the Whitewash Resolution having been approved by the Non-Interested Shareholders and the Proposed Exemption being granted by the SC, otherwise the Proposed Merger will not be implemented.

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The shareholdings of Axiata and Axiata PACs in Digi as at the LPD and in MergeCo upon completion of the Proposed Merger are as follows:-

	As at the LPD				After the Proposed Merger			
	Direct		Indirect		Direct		Indirect	
Axiata and Axiata PACs	**No. of Digi Shares ('000)**	**[1]%**	**No. of Digi Shares ('000)**	**[1]%**	**No. of Digi Shares ('000)**	**[2]%**	**No. of Digi Shares ('000)**	**[2]%**
Axiata	-	-	-	-	3,883,129	33.10	-	-
Telenor Asia	3,809,750	49.00	-	-	3,883,129	33.10	-	-
Telenor Mobile Communications AS	-	-	3,809,750	49.00	-	-	3,883,129	33.10
Telenor Mobile Holding AS	-	-	3,809,750	49.00	-	-	3,883,129	33.10
Telenor	-	-	3,809,750	49.00	-	-	3,883,129	33.10
Puan Sri Zaleha Binti Jamaludin[3]	5	0.00[4]	-	-	5	0.00[4]	-	-

Notes:-

(1) Calculated based on 7,775,000,000 Digi Shares.

(2) Calculated based on the enlarged issued share capital of 11,731,507,988 MergeCo Shares after issuance of 3,956,507,988 Consideration Shares pursuant to the Proposed Merger.

(3) Considered a PAC under subsection 216(3)(b) of the CMSA by virtue of being the spouse of Tan Sri Dr. Halim Shafie, an Independent Non-Executive Director of Axiata and Interim Chair/Independent Non-Executive Director of Celcom. Tan Sri Dr. Halim Shafie has also been nominated as the proposed Chair and Non-Independent Non-Executive Director of MergeCo.

(4) Less than 0.01%.

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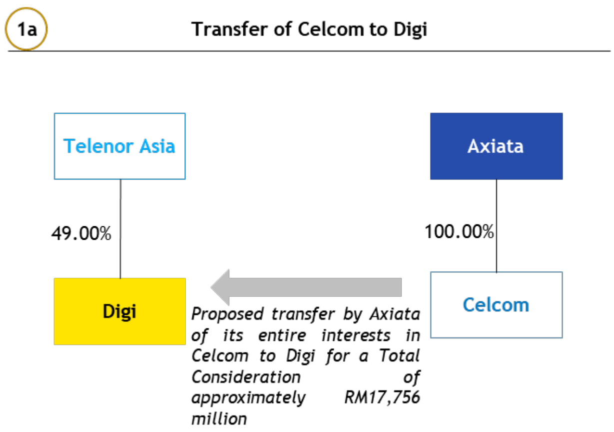
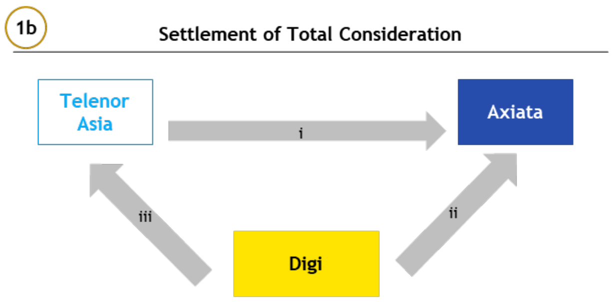
The stages of the Proposed Merger have been illustrated below:-





Notes:

i. *Pursuant to the Shares Equalisation Arrangement, Axiata shall nominate Telenor Asia to be issued directly the 0.63% Digi Shares in consideration of approximately RM298 million 0.63% Digi Shares Cash Consideration.*

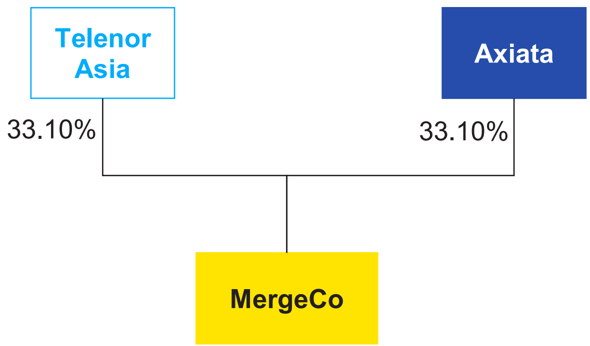
ii. *Proposed issuance by Digi of 33.10% Digi Shares representing value of approximately RM15,766 million and payment of approximately RM1,693 million Cash Consideration (subject to adjustment) to Axiata.*

iii. *Proposed issuance by Digi of 0.63% Digi Shares representing value of approximately RM298 million to Telenor Asia.*

Note:-

The 33.10% Digi Shares and 0.63% Digi Shares will be issued and credited into the Central Depository System ("**CDS**") accounts of Axiata and Telenor Asia respectively at the same time.

Upon completion of the Proposed Merger, the Celcom Group will form part of the Digi Group and collectively be the MergeCo Group. Based on the pro forma shareholding of MergeCo as set out in Section 2.1.1, Part A of the Circular, Telenor Asia and Axiata will own 33.10% each of the MergeCo, as illustrated below:-



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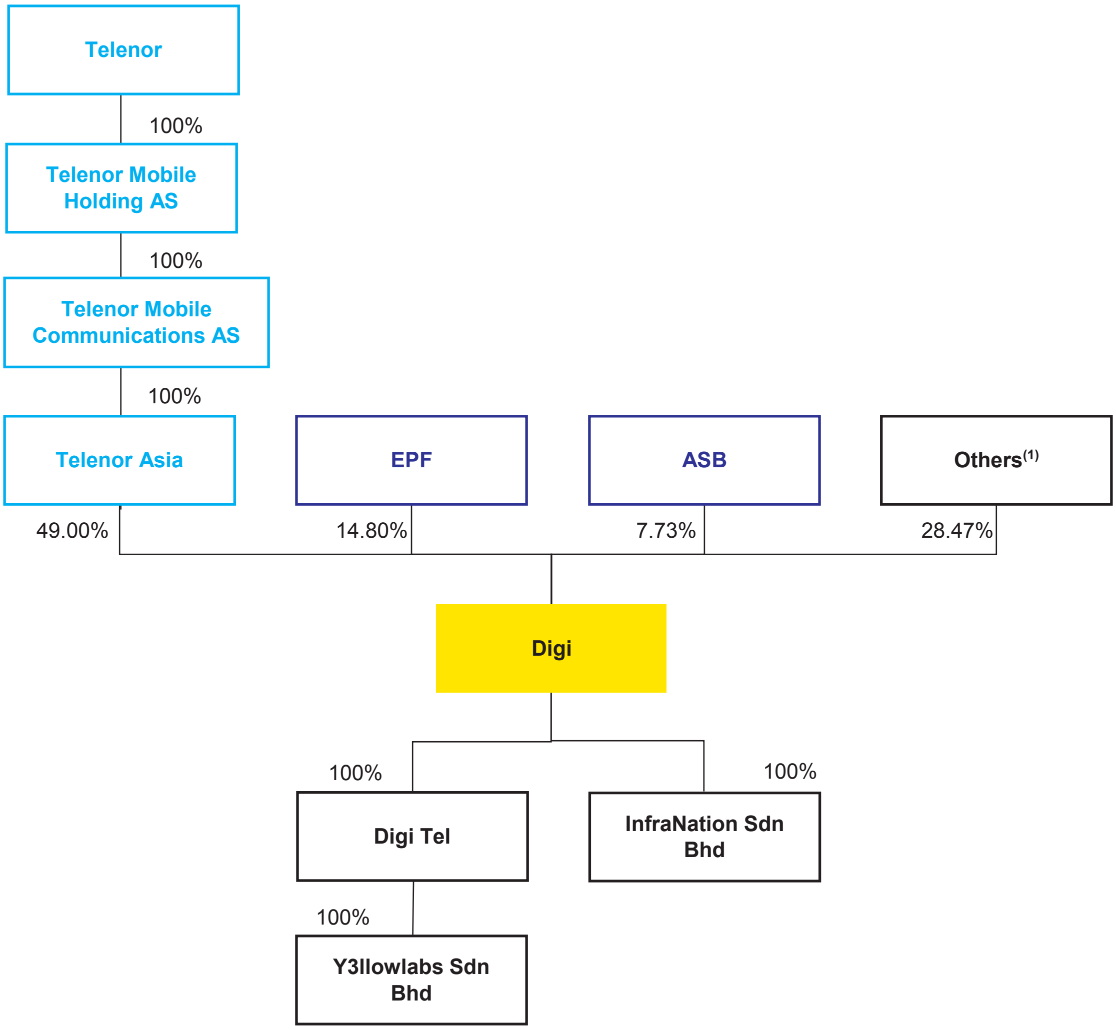
The current structure of the Digi Group and the Celcom Group as at the LPD and the structure of MergeCo Group upon completion of the Proposals are as follows:-

(i) Current Structure of the Digi Group as at the LPD



Note:-

(1) Shareholders who are not substantial shareholders.

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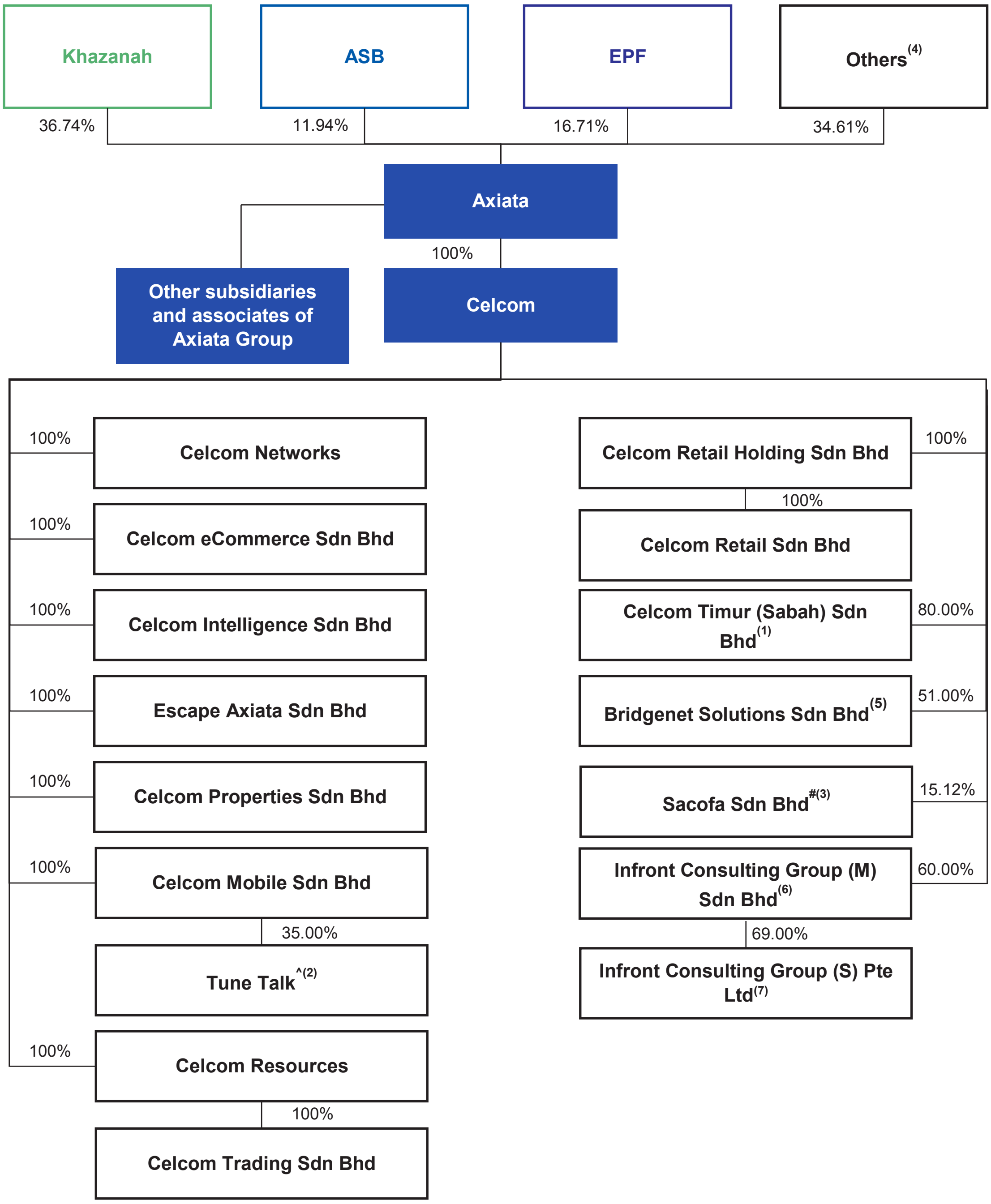
(ii) **Current Structure of the Celcom Group as at the LPD**



Notes:-

For all the relevant equity interests not held by the Celcom Group in the subsidiaries/associate companies/joint venture, none of the other shareholders are related parties to the Celcom Group.

\# Associate of Celcom

^ Joint venture company of Celcom

(1) Equity interest amounting to 20.00% in Celcom Timur (Sabah) Sdn Bhd that is not held by the Celcom Group are held by the following shareholders:-

(i) Hugold Success Sdn Bhd – 10.00% shareholding; and

(ii) Qhazanah Sabah Berhad – 10.00% shareholding.

(2) Equity interest amounting to 65.00% in Tune Talk that is not held by the Celcom Group are held by the following shareholders:-

   (i) Tune Group Sdn Bhd – 25.14% shareholding;

   (ii) Padda Gurtaj Singh – 9.77% shareholding;

   (iii) Tune Strategic Investments Limited -14.40% shareholding;

   (iv) Dato' Seri Kalimullah bin Masheerul Hassan – 3.15% shareholding;

   (v) Dato' Lim Kian Onn – 3.15% shareholding;

   (vi) Jason Jonathan Lo – 2.88% shareholding;

   (vii) Christopher Mark Anthony Lankester - 0.65% shareholding; and

   (viii) East Pacific Capital Private Limited – 5.85% shareholding.

   Pursuant to discussion between Axiata, Digi and Telenor, as at LPD, Digi and Axiata have the intention to exclude the Tune Talk Shares from the MergeCo Group, notwithstanding that the Tune Talk Shares are part of the subject matter of Digi's acquisition under the SPA for the purpose of the Proposed Merger (i.e., **Tune Talk Carve-Out**). Please refer to Section 10 of Appendix I: Other Matters of the Circular for the details of the Tune Talk Carve-Out.

(3) Equity interest amounting to 84.88% in Sacofa Sdn Bhd that is not held by the Celcom Group are held by the following shareholders:-

   (i) Cahya Mata Sarawak Berhad – 50.00% shareholding;

   (ii) State Financial Secretary Inc. – 20.51% shareholding;

   (iii) Sarawak Information Systems Sdn Bhd - 7.56% shareholding; and

   (iv) Yayasan Sarawak – 6.81% shareholding.

(4) Others are shareholders in Axiata who are not substantial shareholders.

(5) Equity interest amounting to 49.00% in Bridgenet Solutions Sdn Bhd that is not held by the Celcom Group are held by the following shareholders:-

   (i) Pang Cheng Hing – 15.52% shareholding;

   (ii) Leong Kin Man – 15.52% shareholding;

   (iii) Loy Kuang Haow – 15.52% shareholding; and

   (iv) Queenie Lee Wei Ling - 2.45% shareholding.

(6) Equity interest amounting to 40.00% in Infront Consulting Group (M) Sdn Bhd that is not held by the Celcom Group is held by Redynamics Asia Sdn Bhd.

(7) Equity interest amounting to 31.00% in Infront Consulting Group (S) Pte Ltd that is not held by Infront Consulting Group (M) Sdn Bhd are held by the following shareholders:-

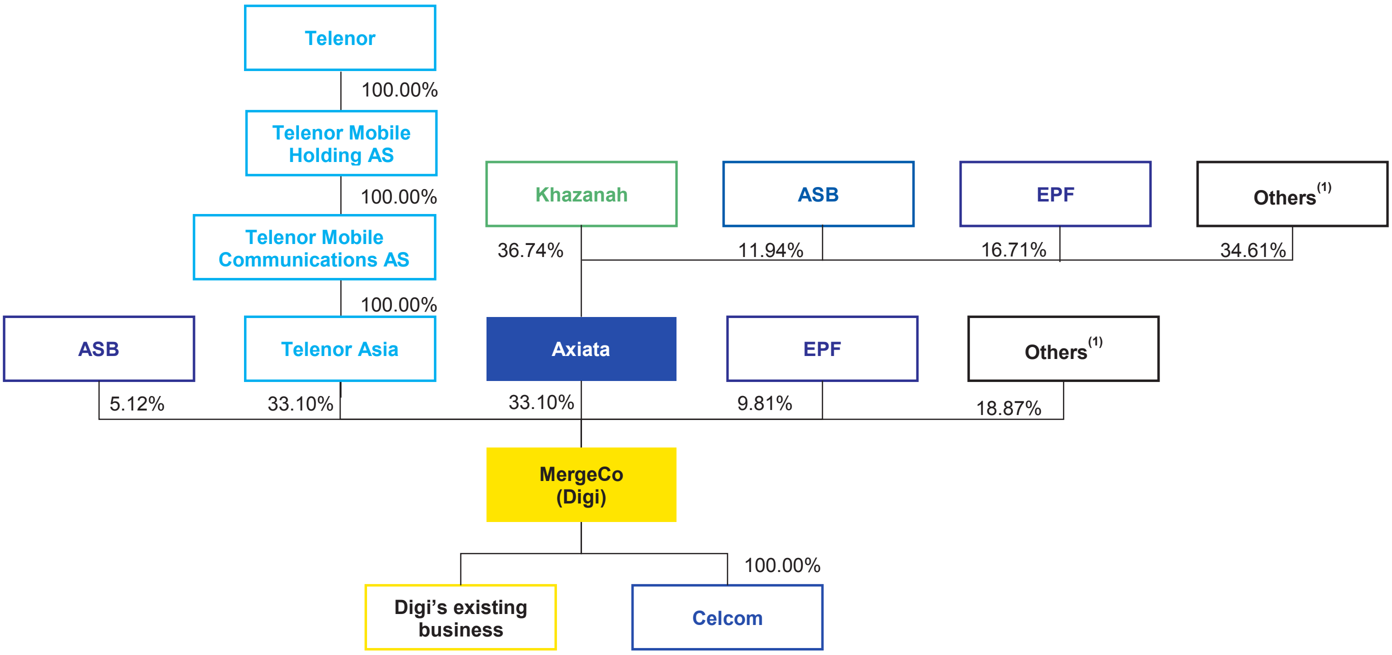
   (i) Daniel Lawrence Mar – 25.00% shareholding;

   (ii) Ngamratanapaibool Kobchok – 5.00% shareholding; and

   (iii) Lim Lay Choon, Susan (Lin LiChun, Susan) – 1.00% shareholding.

(iii) Structure of MergeCo Group upon completion of the Proposals

The pro forma shareholding in MergeCo after the Proposed Merger, assuming no change in the number of shares held by ASB, EPF and other shareholders, is as follows:-



Note:-

(1) Shareholders who are not substantial shareholders.

Further details of the Proposals are as set out in Sections 2 and 3, Part A of the Circular.

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3. SCOPE AND LIMITATIONS OF OUR EVALUATION OF THE PROPOSALS

AmInvestment was not involved in the formulation, deliberation and negotiation of the terms and conditions of the Proposals. The terms of reference of our appointment as the Independent Adviser are in accordance with the requirements to the independent adviser as set out in paragraph 10.08(3) of the Listing Requirements, the Best Practice Guide in relation to Independent Advice Letters issued by Bursa Securities and Rule 3 of the Rules.

Our scope as the Independent Adviser is limited to expressing an independent opinion on the assessment of the fairness and reasonableness of the Proposals insofar as the Non-Interested Directors and Non-Interested Shareholders are concerned together with our recommendation on whether the Non-Interested Shareholders should vote in favour of the Proposals, based on the information and documents made available to us and making enquiries as were reasonable in the circumstances. In performing our evaluation, we have relied on the following sources of information:-

(i) the information contained in Part A of the Circular and the accompanying appendices;

(ii) the audited financial statements of Celcom and Sacofa Sdn Bhd for the FYE 31 December 2021, FYE 31 December 2020 and FYE 31 December 2019, and the latest unaudited 6-month financial results of Celcom for the FPE 30 June 2022;

(iii) the SPA;

(iv) the MTA;

(v) the draft SHA;

(vi) the Indicative Valuation Letter dated 25 October 2022 prepared by KPMG, being the Independent Valuer for the Proposed Merger;

(vii) discussions and other relevant information, supporting documents, confirmations and representations furnished to us by the management of Digi; and

(viii) other publicly available information, including but not limited to the annual reports of Digi, which we deem relevant.

We have relied on the management of Digi to exercise due care to ensure that all the information, documents, confirmations and representations provided to us to facilitate our evaluation are accurate, valid and complete in all material respects.

We have obtained confirmation from the management of Digi that all material facts and information required for the purpose of our evaluation have been disclosed to us. After making all reasonable enquiries, we are satisfied that the information furnished to us is sufficient and we have no reason to believe that the information is unreliable, incomplete, misleading or inaccurate as at the LPD. We therefore confirm that we are satisfied with the accuracy of information in this IAL.

The Board of Digi has individually and collectively accepted responsibility for the accuracy of the information provided herein by the management of Digi and confirmed that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no other material facts or omission of which would make any information provided herein misleading.

We have evaluated the Proposals, and in rendering our advice, we have considered various factors which we believe are of relevance and of general importance to an assessment of the Proposals (including the potential impact that may arise in fulfilling the conditions in the Undertaking to MCMC) and would be of general concern to the Non-Interested Directors and Non-Interested Shareholders.

Our evaluation as set out in this IAL is rendered solely for the benefit of the Non-Interested Shareholders as a whole and not for any specific group of the Non-Interested Shareholders. Hence, in carrying out our evaluation, we have not taken into consideration any specific investment objectives, financial situations, risk profiles or particular needs of any individual Non-Interested Shareholder or any specific group of Non-Interested Shareholders. We recommend that any individual Non-Interested Shareholder who is in doubt as to the action to be taken or requires advice in relation to the Proposals in the context of his/her individual investment objectives, financial situation, risk profile or particular needs to consult his/her stockbrokers, bank managers, solicitors, accountants or other professional advisers immediately.

Our views expressed in this IAL are, amongst others, based on prevailing economic, market and other conditions, and the information and/or documents made available to us, as at the LPD or such other period as specified herein. It is also based on the assumptions that the parties to the SPA are able to fulfil their respective obligations thereto in accordance with the terms and conditions therein. Such conditions may change significantly over a short period of time.

We will immediately notify the SC in writing and notify the Non-Interested Shareholders by way of press notice and announcement on Bursa Securities if, after despatching this IAL, as guided by subparagraph 11.07(1) of the Rules, we become aware that this IAL:-

(i) contains a material statement which is false or misleading;

(ii) contains a statement from which there is a material omission; or

(iii) does not contain a statement relating to a material development.

If circumstances require, a supplementary IAL will be sent to the Non-Interested Shareholders in accordance with subparagraph 11.07(2) of the Rules.

4. CREDENTIALS, EXPERIENCE AND EXPERTISE OF AMINVESTMENT

AmInvestment provides a range of advisory services which include, amongst others, mergers, acquisition and divestures, take-overs/general offers, fund raising and initial public offerings. We have the relevant experience in the independent analysis of transactions and issuing opinions on whether the terms and financial condition of a transaction are deemed fair and reasonable, including those of acquisitions, disposals and general offers. AmInvestment is a holder of a Capital Markets Services License issued by the SC as a principal adviser who is permitted to carry on the regulated activity of advising on the corporate finance under the CMSA.

Our credentials and experience as an independent adviser, include amongst others, the following:-

(i) independent advice letter, dated 17 September 2020, to the non-interested unitholders of Sunway Real Estate Investment Trust for the proposed acquisition of the Pinnacle Sunway (a 24-storey office building with three-storey mezzanine floors and six levels of basement car park) by RHB Trustees Berhad, on behalf of Sunway Real Estate Investment Trust for a cash consideration of RM450.0 million;

(ii) independent advice circular, dated 3 June 2019, to the shareholders in relation to the unconditional mandatory take-over offer by YTL Cement Berhad through Maybank Investment Bank Berhad to acquire all the remaining ordinary shares in Lafarge Malaysia Berhad not already owned by YTL Cement Berhad for a cash offer price of RM3.75 per offer share;

(iii) independent advice letter, dated 22 March 2019, to the non-interested unitholders of Sunway Real Estate Investment Trust for the proposed acquisition by RHB Trustees Berhad, on behalf of Sunway Real Estate Investment Trust, of the subject lands and buildings from Sunway Destiny Sdn Bhd, for a cash consideration of RM550.0 million;

(iv) independent advice circular, dated 29 October 2018, to the shareholders in relation to the proposed voluntary withdrawal of Hovid Berhad's listing from the official list of the main market of Bursa Securities pursuant to paragraph 16.06 of the Listing Requirements and the exit offer; and

(v) independent advice circular, dated 4 November 2016, to the shareholders of Mieco Chipboard Berhad in relation to the unconditional mandatory take-over offer by Dato' Sri Ng Ah Chai through RHB Investment Bank Berhad to acquire all the remaining ordinary shares in Mieco Chipboard Berhad not already held by Dato' Sri Ng Ah Chai at a cash consideration of RM0.90 per offer share.

Premised on the above, we have displayed that we are capable and competent, and have the relevant experience in carrying out our role and responsibilities as the Independent Adviser to advise you in relation to the Proposals.

5. DECLARATION OF CONFLICT OF INTEREST

AmInvestment, is a wholly-owned subsidiary of AMMB Holdings Berhad ("**AMMB**"). AMMB, AmInvestment, its subsidiaries and its related and associated companies (collectively, the "**AmBank Group**") form a diversified financial group and may extend credit facilities or engage in private banking, commercial banking and investment banking transactions including, amongst others, brokerage, securities trading, asset and fund management and credit transaction service businesses in its ordinary course of business with Digi Group. AmBank Group has engaged and may in the future, engage in transactions with and perform services for Digi Group in addition to AmInvestment's role as the Independent Adviser for the Proposals.

Furthermore, in the ordinary course of business, any member of the AmBank Group may at any time offer or provide its services to or engage in any transactions (whether on its own account or otherwise) with any member of Digi Group, hold long or short positions in the securities offered by any member of Digi Group, make investment recommendations and/or publish or express independent research views on such securities and may trade or otherwise effect transactions for its own account or the account of its other customers in debt or equity securities or senior loans of Digi Group.

As at the LPD, AmBank Group has extended total credit facilities of approximately RM476.0 million to Digi Group, which are not material when compared to the audited net assets of AmBank Group as at 31 March 2022 of approximately RM16,760 million (representing approximately 2.8% of the AmBank Group's audited net assets as at 31 March 2022). AmBank Group is not a substantial creditor to Digi Group pursuant to paragraph 3.11 of the Rules, and the loan extended to Digi Group:-

(i) is made on an arm's length basis;

(ii) has been provided by AmBank Group in the ordinary course of business; and

(iii) is not conditional upon AmInvestment being appointed as the Independent Adviser for the Proposals or upon any other proposals being undertaken by any entities within the AmBank Group.

AmInvestment, as part of AmBank Group confirm that there is no conflict of interest that exist or is likely to exist in relation to our role as the independent adviser for the Proposals, in Digi Group in view of the following:-

(i) AmInvestment is a licensed investment bank and our appointment as the Independent Adviser for the Proposals is in our ordinary course of business. AmInvestment does not have any interest in the Proposals other than acting as an Independent Adviser based on the terms of engagement that are mutually agreed between both parties. Further, AmInvestment does not receive or derive any financial interest or benefit save for the professional fees received in relation to our appointment as the Independent Adviser for the Proposals;

(ii) the Corporate Finance Department of AmInvestment ("**AmCF**") is required under its investment banking license to comply with strict policies and guidelines issued by the SC, Bursa Securities and BNM governing its advisory operations. These guidelines require, among others, the establishment of Chinese wall policies, clear segregation between dealing and advisory activities and the formation of independent committees to review its business operations. In any event, our team in charge for this transaction is independent from the team handling the credit facilities. Further, there is no involvement by AmCF in respect of any credit application process undertaken by other departments within AmBank Group;

(iii) the conduct of AmBank Group in its banking business is strictly regulated by the Financial Services Act 2013, the CMSA and AmBank Group's own internal controls and checks which includes, segregation of reporting structures, where its activities are monitored and reviewed by independent parties and committees; and

(iv) AmBank Group do not hold any substantial shares nor have any board representatives in Digi Group and Digi Group does not have any representatives on the board of AmBank Group.

Further, save for our appointment by the Company on 21 June 2021 as the Independent Adviser for the Proposals and credit facilities extended by AmBank Group to Digi Group, we do not have any other professional relationship with Digi Group within the past 2 years preceding the LPD.

6. INTERESTS OF DIRECTORS AND MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

As disclosed in Section 12, Part A of the Circular, save as disclosed below, none of the Directors and/or major shareholders of Digi or persons connected to them has any interest, direct or indirect, in the Proposed Merger and the Proposed Exemption as at the LPD:-

(i) Telenor Asia, being a 49% major shareholder of the Company, and being a party to the MTA and recipient of the 0.63% Digi Shares arising from the Shares Equalisation Arrangement;

(ii) Telenor Mobile Communications AS, being the 100% holding company of Telenor Asia;

(iii) Telenor Mobile Holding AS, being the 100% holding company of Telenor Mobile Communications AS;

(iv) Telenor, being the 100% holding company of Telenor Mobile Holding AS;

(v) Haakon Bruaset Kjoel, being the Chair and Non-Independent Non-Executive Director of the Company, is a representative of Telenor Asia on the Board of Digi. As at the LPD, he holds 24,528 shares in Telenor;

(vi) Wenche Marie Agerup, being the Non-Independent Non-Executive Director of the Company, is a representative of Telenor Asia on the Board of Digi. As at the LPD, she holds 20,790 shares in Telenor;

(vii) Lars Erik Tellmann, being the Non-Independent Non-Executive Director of the Company, is a representative of Telenor Asia on the Board of Digi. As at the LPD, he holds 60,588 shares in Telenor; and

(viii) Randi Wiese Heirung, being the Non-Independent Non-Executive Director of the Company up until her resignation on 30 June 2021, was a representative of Telenor Asia on the Board of Digi. As at the LPD, she holds 1,742 shares in Telenor.

The Proposed Merger is deemed a related party transaction under paragraph 10.08 of the Listing Requirements in view of the interests of the Interested Major Shareholders and the Interested Directors in the Proposed Merger.

As at the LPD, the shareholdings of the Interested Directors and Interested Major Shareholders in Digi are as set out below:-

	As at the LPD			
	Direct		Indirect	
List of Interested Director	**No. of Digi Shares ('000)**	**(1)%**	**No. of Digi Shares ('000)**	**(1)%**
Haakon Bruaset Kjoel	-	-	-	-
Wenche Marie Agerup	-	-	-	-
Lars Erik Tellmann	-	-	-	-
Randi Wiese Heirung	-	-	-	-

	As at the LPD			
	Direct		Indirect	
List of Interested Major Shareholder	**No. of Digi Shares ('000)**	**(1)%**	**No. of Digi Shares ('000)**	**(1)%**
Telenor Asia	3,809,750	49.00	-	-
Telenor Mobile Communications AS	-	-	(2)3,809,750	49.00
Telenor Mobile Holding AS	-	-	(3)3,809,750	49.00
Telenor	-	-	(4)3,809,750	49.00

Notes:-

(1) Calculated based on the 7,775,000,000 Digi Shares as at the LPD.

(2) Deemed interested by virtue of its 100% interest in Telenor Asia.

(3) Deemed interested by virtue of its 100% interest in Telenor Mobile Communications AS.

(4) Deemed interested by virtue of its 100% interest in Telenor Mobile Holding AS.

Accordingly, the Interested Directors have abstained and will continue to abstain from all deliberations and voting in respect of the Proposals at the relevant meetings of the Board of Digi. The Interested Directors and Interested Major Shareholders will also abstain and have undertaken to ensure that persons connected to them will also abstain from voting in respect of their direct and/or indirect shareholdings in Digi on the ordinary resolutions pertaining to the Proposals to be tabled at the EGM of the Company.

7. EVALUATION OF THE PROPOSALS

In arriving at our conclusion and recommendation, we have assessed and evaluated the Proposals on a holistic basis in accordance with Schedule 2: Part III of the Rules taking into consideration the following:-

Consideration factors		Section in this IAL
(i)	Rationale of the Proposals	7.1
(ii)	Evaluation of the Total Consideration	7.2
(iii)	Mode of settlement of the Total Consideration	7.3
(iv)	Basis and justification for the Issue Price of the Consideration Shares	7.4
(v)	Salient terms of the SPA, MTA and SHA	7.5
(vi)	Effects of the Proposals	7.6
(vii)	Industry outlook and prospects	7.7
(viii)	Risk factors	7.8
(ix)	Implications arising from the voting outcome of the Proposed Exemption	7.9

7.1 RATIONALE OF THE PROPOSALS

We have considered the rationale for the Proposals set out in Section 4, Part A of the Circular and our commentaries are summarised below:-

(i) Proposed Merger

We note from Section 4, Part A of the Circular that the MergeCo Group is expected to benefit through the combination of scale, experience, competencies and financial strength of both global telecommunications groups with the market knowledge of two well-established local telecommunications companies. With this, the scale and value created by the Proposed Merger will allow the MergeCo Group to support the Government's MyDigital aspiration through more efficient targeting of investments to benefit Malaysian consumers and businesses with stronger combined network and channels, enhanced digital access and wider product offerings. The MergeCo Group will also be well positioned to take advantage of opportunities that come with technological advancements and the surge in the adoption of digital services while in parallel, manage the evolving challenges of a highly competitive and complex environment.

The Proposed Merger is expected to be a strategic move for Digi to, amongst others, address the industry challenges, continue to remain viable and to unlock resources in order to invest in stronger network capabilities, accelerate innovation and digitisation, as well as strengthen its position to attract partnerships with global digital players and secure future revenue streams.

We understand that the Proposed Merger would accord the MergeCo Group with the following benefits:-

(a) Strengthening of the financial position

- Celcom Group is a profitable business within the telecommunications industry with proven track record of more than 30 years. The financial performance of Celcom Group based on the audited consolidated financial statements for the FYE 2019 to FYE 2021 are as follows:-

	FYE 31 December		
	2019 RM'000	2020 RM'000	2021 RM'000
Revenue	6,706,135	6,218,831	6,622,722
PBT	1,051,851	855,679	1,212,230
PATAMI	789,369	677,435	942,792

As disclosed in Section 2, Appendix III of the Circular, Celcom Group's revenue for the FYE 2020 decreased by approximately RM487.3 million, or 7.3% as compared to the FYE 2019. The decrease in the revenue was primarily due to the adverse impacts from the economic downturn caused by the COVID-19 pandemic.

Nevertheless, Celcom Group's revenue increased by RM403.9 million, or 6.5%, to RM6,622.7 million for the FYE 2021 from RM6,218.8 million for the FYE 2020. This increase was primarily due to the COVID-19 recovery momentum, which started to emerge in the second half of year 2020 with Celcom's improvements in product innovation, sales and marketing strategy, and digital channels.

In the FYE 2021, Celcom Group has registered growth of more than 0.9 million subscribers in both prepaid and postpaid segments. The revenue from the sales of devices has also improved for the FYE 2021 primarily due to positive take up on bundled device offerings with postpaid plans and newly launched smartphones.

Furthermore, Celcom Group's PATAMI grew at a CAGR of 9.3% from RM789.4 million for the FYE 2019 to RM942.8 million for the FYE 2021, which was mainly due to cost improvements attributable to Celcom's continued focus on its operational excellence and cost management.

- Based on the pro forma consolidated statement of comprehensive income for the FYE 2021 and on the assumption that the Proposed Merger had been completed on 1 January 2021, the pro forma effects of the Proposed Merger on the consolidated earnings of Digi are set out below:-

	Audited as at 31 December 2021 (RM'000)	**After the Proposed Merger (RM'000)**
Consolidated PAT attributable to owners of Digi	1,162,105	1,162,105
Add: Pro forma PAT attributable to owners of Celcom	-	(1)933,566
Less: Depreciation and amortisation arising from fair value adjustments to the net identifiable assets acquired (net of tax)	-	(134,167)
Less: Assumed interest costs for the Cash Consideration	-	(2)(61,200)
Less: Estimated expenses	-	(3)(72,508)
Enlarged consolidated PAT	**1,162,105**	**1,827,796**
Weighted average no. of Digi Shares ('000)	7,775,000	11,731,508
EPS (sen)	14.9	15.6

Notes:-

(1) The pro forma effects have accounted for effects arising from aligning differences in accounting policies adopted by the Celcom Group and the Digi Group respectively for the financial year ended 31 December 2021, as well as the spectrum lease modification effect with a decrease in finance costs amounting to RM37.5 million arising from the spectrum divestment as part of the Undertaking set out in Section 1.3, Part A of the Circular.

(2) Assuming interest expense of RM61.2 million based on an estimated interest rate of 3.6% per annum on the new borrowing of RM1,700.0 million (net cash drawdown amounting to RM1,697.9 million after adjusting the borrowings costs of RM2.1 million) to be drawn down, of which RM1,692.7 million will be used to settle the Cash Consideration, and the remaining RM5.2 million will be used to partially settle the transaction expenses in relation to the Proposed Merger. The assumed 3.6% per annum is based on the weighted average interest rate charged on Digi's existing unsecured floating rate borrowings as at the LPD.

(3) Being estimated stamp duty of RM53.3 million, based on total purchase consideration of RM17.8 billion multiplied by stamp duty rate of 0.30%, and estimated expenses relating to the Proposed Merger of approximately RM19.2 million which are one-off in nature. The expenses relating to the Proposed Merger has not included additional cost relating to the integration activities which is currently pending and additional costs that may be incurred to fulfil the Undertaking.

We are of the view that the estimated stamp duty payment of RM53.3 million is justifiable as the transfer of shares would be subject to ad valorem stamp duty of up to 0.3% of the value of the net tangible assets or actual sale consideration, whichever is higher (which is immaterial comparing to the total consideration of RM17.8 billion) as required by the Inland Revenue Board of Malaysia.

Based on the assumption that the net earnings of Digi Group will remain unchanged (without taking into consideration of any potential synergistic benefits expected to arise from the Proposed Merger), the EPS of Digi Group is expected to increase from 14.9 sen to 15.6 sen in MergeCo Group upon completion of the Proposed Merger.

We wish to highlight that the MergeCo Group is expected to incur additional costs and expenditures for merger integration activities as well as to fulfil the Undertaking to MCMC. This may have a dilutive effect on the earnings and EPS of the MergeCo Group in the immediate years upon completion of the Proposed Merger. The extent of dilution in any given immediate year may be material and will depend on the amount and timing of such costs and expenditures being expensed off, as well as the level of the MergeCo Group's earnings from operations, including the extent of the synergies to be realised.

Nevertheless, we are of the view that the Proposed Merger is expected to contribute positively to the MergeCo Group in the medium to longer term with the recurring earnings generated by Celcom Group as well as gradual realisation of the potential synergistic benefits and economies of scale expected to arise from the Proposed Merger, as well as the recurring earnings generated by Celcom Group.

- Further, based on the pro forma consolidated statement of financial position as at 31 December 2021, the consolidated NA per share for Digi Group is expected to increase from RM0.08 to RM1.19 in MergeCo Group assuming that the Proposed Merger had been completed on 31 December 2021. The increase in NA per share is due to the issuance of Consideration Shares at premium to the existing NA per share of Digi pursuant to the Proposed Merger.

  The pro forma effects of the Proposed Merger on the consolidated NA and gearing ratio of Digi is as set out below:-

	Audited as at 31 December 2021	After the Proposed Merger
NA (RM'000)	632,811	13,939,081
No. of Digi Shares in issue ('000)	7,775,000	11,731,508
NA per share (RM)	0.08	1.19
Gearing (times)	7.84	1.14

- In view of a larger capital base arising from the issuance of Consideration Shares, we further note that the pro forma gearing ratio is expected to improve (i.e., reducing from 7.84 times to 1.14 times) upon completion of the Proposed Merger. The larger capital base may potentially allow the MergeCo Group to be in a better position to obtain additional future borrowings to fund its operations and/or expansion plans.

  Furthermore, the settlement of the Total Consideration via part Consideration Shares will enable MergeCo Group to conserve more cash and save on interest payment obligations as opposed to full settlement by cash and bank borrowings.

Based on the above, the Proposed Merger is expected to strengthen the financial position of MergeCo Group. Please refer to Section 7.6 of this IAL for the details of pro forma effects of the Proposals.

(b) Pooling of resources and driving digitalisation

- The Proposed Merger will also provide an opportunity for the MergeCo Group to pool together the skills, experiences, competencies and knowledge of the management teams of Digi Group and Celcom Group as a result of the combined business. The integration of business may lead to administrative efficiencies and economies of scales in operations and procurement.

- New digital solutions, including 5G solutions and use cases, will require extensive research & development and new capabilities. We believe that the MergeCo Group with greater combined know-how, facilities and vast management experience will serve as a good platform to attract and grow the local digital talent, suppliers and start-up community. This will ultimately drive the technological advancement in Malaysia. Additionally, more innovative solutions are also expected to be created in the face of growing industry and consumer demands.

- In view of the surge in digital services adoption, more opportunities across the consumer, home, enterprise, ICT, IoT, AI and cloud computing segments will also be created. In this respect, we believe that by pooling together the assets, resources and capabilities of two well-established telecommunication services providers, the MergeCo Group will be in a stronger position to explore the abovementioned opportunities and to attract global partners to bring in their expertise in support of the Government's MyDigital aspirations to transform Malaysia into a digitally-enabled and technology-driven high-income nation.

- Upon completion of the Proposed Merger, the MergeCo Group is expected to emerge as one of the leading telecommunications services provider in Malaysia. With the scale and synergistic benefits expected to be created from the Proposed Merger, the MergeCo Group will be more resilient to market and technological challenges.

(c) Potential synergies creation

- The consolidation of network and IT infrastructures will generate greater economies of scale through its combined network, channels and enhanced digital access, while creating consumer benefits through strengthening core distribution, improved network operations and greater efficiencies from operational activities.

- The combined business of Digi Group and Celcom Group is expected to allow MergeCo to benefit from the exposure to different market segments, which may unlock potential revenue synergies in the long run. The MergeCo Group will have access to a more comprehensive and diversified portfolio given the access to wider customer data as well as customer patterns and trend analysis. As such, the MergeCo Group is able to develop wider range of products to better serve the growing demand from customers by offering a variety of product mix with attractive pricing to satisfy the customers in different market segments.

We note that Digi, along with the other Telcos in the market, are faced with intense competition and margins compression amid continuous extensive investment requirements to support the escalating growth in high-speed data demands nationwide. The earnings prospects of a stand-alone operator are expected to be further challenged with the advent of the SWN model for 5G network whereby operator's value proposition on network advantage will gradually decline and be at parity across the MNOs and MVNOs. Hence, the Proposed Merger is expected to provide an opportunity to strengthen Digi's resilience in the medium to long term to mitigate these challenges anchored on the strength of MergeCo's combined scale and anticipated synergies.

Based on the above, we are of the view that the Proposed Merger is expected to contribute positively to the MergeCo Group (in terms of operational and financial) in the medium to long term as compared to the scenario of Digi continuing on a standalone basis without the Proposed Merger.

(ii) Proposed Exemption

Pursuant to the issuance of Consideration Shares to Axiata upon completion of the Proposed Merger, the shareholdings of Axiata in MergeCo will increase from **nil** to **33.10%**. Additionally, pursuant to the SHA to be entered into between the SHA Parties, Telenor Asia and its holding companies will be deemed PAC to Axiata pursuant to subsection 216(2) of the CMSA. Upon completion of the Proposed Merger, Axiata together with Telenor Asia will collectively hold 66.20% of the equity interest in MergeCo.

As a consequence, Axiata and Axiata PACs will be obliged to undertake the Mandatory Offer in accordance with subsection 218(2) of the CMSA and subparagraph 4.01(a) of the Rules, upon the SPA becoming unconditional.

As it is not the intention of Axiata and Axiata PACs to undertake the Mandatory Offer for the remaining Digi Shares that they do not already own upon completion of the Proposed Merger, Axiata intends to seek an exemption from the SC for itself and Axiata PACs (pursuant to subparagraph 4.08(1)(a) of the Rules) from the obligation to undertake the Mandatory Offer.

We noted that the Mandatory Offer obligation is a consequence of the Proposed Merger and it is not the intention of Axiata and Axiata PACs to trigger such obligation. In this respect, the Proposed Exemption will allow Axiata and Axiata PACs to be exempted from the obligation to undertake the Mandatory Offer. As the Proposed Merger is conditional upon the Proposed Exemption, **without the Proposed Exemption, the Proposed Merger will not proceed**. As such, any potential benefits arising therefrom will not be materialised.

Premised on the above, we are of the view that the rationale of the Proposed Merger and Proposed Exemption is acceptable.

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7.2 EVALUATION OF THE TOTAL CONSIDERATION

Digi wishes to undertake the Proposed Merger with Celcom via the proposed acquisition of Celcom Group (excluding Merchantrade Asia Sdn Bhd and Axiata Foundation) for a total consideration of RM17,756.2 million.

As disclosed in Section 2.5, Part A of the Circular, we note that the Total Consideration was arrived after taking into consideration, amongst others, the following:-

(i) the total consideration of RM17,756.2 million which translates into the following implied multiples for Celcom and Digi based on the issue price of RM4.06 per Digi Share for comparison as follows:-

	[(1)]**Celcom (RM million)**	**Digi (RM million)**
Enterprise Value ("**EV**")	[(2)]24,497.7	[(3)]36,715.7
Net Debt and other adjustments	6,741.5	[(4)]5,149.2
Equity value	17,756.2	31,566.5
Free Cash Flow ("**FCF**")[(5)]	1,595.8	2,359.8
PATAMI[(6)]	677.4	1,221.0
Adjusted Earnings before interest, tax, depreciation and amortisation ("**EBITDA**")[(7)]	2,579.9	3,080.0
Implied EV/FCF multiple (times)	15.3	15.6
Implied EV/EBITDA multiple (times)	9.5	11.9
Implied price-to-earnings ("**P/E**") multiple (times)	[(8)]26.2	[(9)]25.9

Notes:-

(1) Celcom's figures have not taken into consideration the effects of carving out the 20.00% equity interest in Merchantrade held by Celcom to be transferred to Axiata as part of the Celcom Group Reorganisation as set out in paragraph 4 of Section A of Appendix XI of the Circular as it is not expected to be material. Celcom's share of profit and NA in Merchantrade for the FYE 31 December 2020 are approximately RM0.9 million and RM22.6 million respectively.

(2) Based on the Total Consideration of RM17,756.2 million and the following items for Celcom based on its audited financial statements for the FYE 31 December 2020:-

(a) total borrowings (including lease liabilities) of RM8,271.8 million;

(b) deposits, cash and bank balances of RM1,452.7 million;

(c) non-controlling interest of RM77.3 million;

(d) investment in associated company of RM132.4 million; and

(e) investment in joint ventures of RM22.6 million.

(3) Based on the Issue Price multiplied by 7,775,000,000 Digi Shares (resulting in a derived equity value of RM31,566.5 million) and net debt and other adjustments.

(4) Digi's total borrowings (including lease liabilities) of RM5,452.0 million less cash and cash equivalents of RM302.9 million based on its audited financial statements for the FYE 31 December 2020.

(5) FCF has been determined as EBITDA less paid capital expenditures. The paid capital expenditures are extracted from the annual report of Digi and the audited financial statements of Celcom respectively for the FYE 31 December 2020.

(6) PATAMI figures are extracted from the annual report of Digi and the audited financial statements of Celcom respectively for the FYE 31 December 2020.

(7) The EBITDA of Digi Group is as extracted from the annual report of Digi. The following table reconciles the Digi Group's profit before tax to EBITDA for the FYE 31 December 2020:-

Digi Group's Adjusted EBITDA for FYE 31 December 2020	**RM million**
Profit before tax	1,622.0
Depreciation, amortization & impairment	1,221.8
Gain/loss on PPE	2.6
Disposal and write-off PPE	50.7
Disposal and write-off of intangible assets	0.1
Termination of lease	(0.1)
Cost of operating model transition	-
Interest income	(29.9)
Interest expense	212.5
Total	**3,079.8**

As disclosed in Section 1 of Appendix III of the Circular, the following table reconciles the Celcom Group's profit before tax to EBITDA for the FYE 31 December 2020:-

Celcom Group's Adjusted EBITDA for FYE 31 December 2020	**RM million**
Profit before tax	855.7
Depreciation, write-off and reversal of impairment of property, plant and equipment	1,053.6
Depreciation of right-of-use assets	394.5
Amortisation of upfront spectrum fees	61.9
Share of results of associated company (net of tax)	(21.0)
Share of results of joint ventures (net of tax)	(0.9)
Other net non-operating income	(84.6)
Interest income	(59.7)
Finance costs	380.4
Total	**2,579.9**

(8) Celcom's implied P/E multiple has been computed based on the Total Consideration of RM17,756.2 million and Celcom's PATAMI of RM677.4 million.

(9) Digi's implied P/E multiple has been computed based on the Issue Price multiplied by 7,775,000,000 outstanding Digi Shares and Digi's PATAMI of RM1,221.0 million.

(ii) the Total Consideration is within the market value range for 100% equity interest in Celcom, as assessed by the Independent Valuer appointed by the Company to conduct an independent assessment on the equity value of Celcom;

(iii) the proportion of Consideration Shares and cash payment involved to satisfy the Total Consideration and the Issue Price of the Consideration Shares; and

(iv) the terms and conditions of the SPA and of the price paid by Telenor Asia as specified in the MTA for the 0.63% Digi Shares to be issued to Telenor Asia in respect of the Shares Equalisation Arrangement.

In considering of the Proposed Merger, the Company had appointed KPMG as the Independent Valuer to conduct an independent assessment on the equity value of Celcom pursuant to the Proposed Merger. We are satisfied with the reasonableness of the valuation methodology adopted by KPMG, the key assumptions used (including the valuation parameters adopted), as well as the valuation range derived therefrom.

We have relied on and made references to the valuation analysis of Celcom Group as detailed in the Indicative Valuation Letter issued by KPMG in forming our opinion. We have assessed and are satisfied with their qualification, expertise, experience, credibility and scope of engagement.

We have also reviewed the contents of the Indicative Valuation Letter and are satisfied with the indicative value range ascribed by KPMG for the entire equity interest in Celcom in relation to the Proposed Merger. Further details of the indicative valuation performed by KPMG are set out in the Indicative Valuation Letter appended in Appendix X of the Circular.

7.2.1 Our evaluation of the Total Consideration for the entire equity interest of Celcom

Based on the Indicative Valuation Letter issued by KPMG and subject to the key bases and assumptions as stated in Section 5 therein, KPMG has ascribed a valuation range of RM16,032 million to RM18,473 million for the entire equity interest in Celcom.

KPMG has adopted market approach as its primary valuation methodology and approached the valuation of Celcom Group based on the merger of equals principle where it considers the valuation of Celcom's shares relative to the market pricing parameters of Digi's shares, on a standalone pre-merger basis, excluding potential synergies as well as additional costs expected to incur arising from the Proposed Merger.

For the purpose of the valuation of Celcom Group, KPMG has primarily relied on EV/FCF multiple, P/E multiple and EV/EBITDA multiple methods of the market approach. The summary of KPMG's valuation of Celcom Group are as follows:-

Market approach	Minimum RM million	Maximum RM million
i. Valuation of Celcom Group (excluding Sacofa Sdn Bhd)		
- **(A)** EV/FCF multiple method(1)	15,951	18,185
- **(B)** P/E multiple method	15,744	17,384
ii. Valuation of Sacofa Sdn Bhd(2)		
- **(C)** EV/EBITDA multiple method(3)	288	288
Total Equity Value (A) + (C)	**16,239**	**18,473**
Total Equity Value (B) + (C)	**16,032**	**17,672**

Notes:-

(1) The equity value is derived after adjusting for borrowings, lease liabilities, deposits, cash and bank balance, non-trade amount due from Axiata, and non-controlling interest of Celcom.

(2) Sacofa Sdn Bhd is an associate company of Celcom which is principally engaged in the provision of telecommunication tower and infrastructure services in Malaysia of which neither its EV nor FCF is reflected in the audited financial statement of Celcom and hence, it is valued separately from the Celcom Group.

(3) The equity value is derived after adjusting for cash and bank balance, and lease liabilities of Sacofa Sdn Bhd. There is no borrowing based on Sacofa Sdn Bhd's audited financial statements for the financial year ended 31 December 2020.

We note that the fair value of Celcom's 35.0% interest in joint venture, Tune Talk, is assessed at nil value by KPMG for the purpose of the Celcom Group's valuation, for prudence basis. This is due to Tune Talk having a negative shareholder's fund of RM72.2 million as at 31 December 2020 and the fair value of Celcom's investment in Tune Talk based on Celcom Group's audited financial statement for the FYE 31 December 2020 was also recorded as nil value.

Further, as at the LPD, both Digi and Axiata have the intention to exclude the Tune Talk Shares as part of the Celcom Group for the purpose of the Proposed Merger (i.e., Tune Talk Carve-Out). Please refer to Section 10 of Appendix I: Other Matters of the Circular for further details of the Tune Talk Carve-Out.

In addition, considering the time interval between the valuation date, being 7 April 2021 ("**Valuation Date**") and up to 25 October 2022 (being the date of the Indicative Valuation Letter), we note that KPMG had performed a reasonableness check on the following subsequent key events, and is of the opinion that the subsequent key events after the Valuation Date would not impair the equity value of Celcom as at the Valuation Date:-

(i) Release of the latest audited financial results of Celcom Group and Sacofa Sdn Bhd for the FYE 31 December 2021 and for the latest unaudited 6-month financial results of Celcom Group for the FPE 30 June 2022.

(ii) The latest benchmark of comparable companies' market price multiples as at the LPD.

(iii) Celcom's acquisitions of 51.0% equity interest in Bridgenet Solutions Sdn Bhd ("**Bridgenet**") for a total cash consideration of RM36.1 million, and 60.0% equity interest in Infront Consulting Group (M) Sdn Bhd ("**Infront Malaysia**") for a total cash consideration of RM5.49 million, in aggregate representing approximately 0.23% of the Total Consideration for the Proposed Merger. The acquisition of Bridgenet and Infront Malaysia have been completed on 8 January 2022 and 20 January 2022 respectively.

For the avoidance of doubt, both Bridgenet and Infront Malaysia would form part of the MergeCo Group upon completion of the Proposed Merger.

(iv) Undertaking to MCMC dated 28 June 2022 given by Celcom and Digi Tel pursuant to Celcom and Digi Tel's Authorisation of Conduct Application.

(v) Tune Talk Litigation and Tune Talk Carve-Out. Further details are disclosed in Section 10 of Appendix I: Other Matters of the Circular.

(vi) On 7 October 2022, Digi Tel and Celcom Mobile (a wholly-owned subsidiary of Celcom) had each separately entered into a conditional share subscription agreement with DNB for, amongst others, the proposed subscription of (i) new DNB Shares and (ii) DNB Rights to Allotment for a total cash consideration of RM178.57 million, collectively representing 12.5% of the enlarged equity interest in DNB. Following the completion of the proposed subscription and the Proposed Merger, the MergeCo Group shall own 25.0% enlarged equity interest in DNB via Digi Tel and Celcom Mobile. Further details are disclosed in Section 6 of Appendix I and Section 1.3 of Appendix V of the Circular.

Details of the subsequent key events assessment of KPMG are set out in Section 6 of the Indicative Valuation Letter. Please refer to Section (v) Subsequent key events after the valuation date below for AmInvestment's comments on the implication of the subsequent key events to the valuation of Celcom Group.

Premised on the above, KPMG has ascribed an equity value of 100% of the equity interest in Celcom as at the Valuation Date of 7 April 2021 to be in the range of RM16,032 million to RM18,473 million.

<u>AmInvestment's comments:-</u>

(i) Market approach

In estimating the equity value of Celcom, we note that KPMG has adopted market approach as its primary valuation methodology. We view that market approach is an appropriate valuation methodology to evaluate the equity value of Celcom based on the following considerations:-

(a) The telecommunications industry is expected to experience uncertainties over the medium term due to a number of challenges, such as impact from the impending change in the industry structure following the national vision to develop and manage 5G infrastructure under a single 5G network infrastructure owner and operator, namely DNB, whom will deploy access to 5G network on the strategy of SWN model. Under the 5G infrastructure sharing structure, the profitability and cashflows of mobile network operators may change considerably depending on the business model and objective to be adopted by DNB and the respective mobile network operator in the future.

In view of the above, no meaningful financial forecast or projections can be simulated for the purpose of income valuation approach (i.e., discounted cash flow method), as the cash flow can be materially affected by economic and other circumstances that may cause the actual results to vary considerably;

(b) Market approach is a better reflection of the market sentiment towards the Malaysian stock market; and

(c) Information relating to Celcom's comparable companies is readily available for analysis in view of the number of telecommunication companies listed on Bursa Securities.

(ii) Multiple metrics

In applying the market approach for the valuation of Celcom Group, we note that KPMG has adopted multiple metrics of (i) EV/FCF multiple and P/E multiple for the valuation of Celcom Group (excluding Sacofa Sdn Bhd, being the associate company of Celcom); and (ii) EV/EBITDA multiple for the valuation of Sacofa Sdn Bhd. We are of the view that the above multiple metrics are appropriate for the valuation of Celcom Group based on the following considerations:-

Multiple metrics	Comments
EV/FCF multiple *(Adopted for the valuation of Celcom Group, excluding Sacofa Sdn Bhd)*	EV/FCF is a free cash flow-based metric which compares a company's business value against its free cash flow. The EV/FCF method which takes into consideration cash flows after capital expenditure provides a better measure of a company's ability in generating cash flow. It excludes distortions that may potentially arise from different depreciation policies, tax expenses (due to the different effective tax rate which is subject to the tax planning approaches adopted by the comparable companies) and borrowing rates across the comparable companies. This metric is suitable to value companies with high capital intensity, including telecommunication companies.

Multiple metrics	Comments
P/E multiple *(Adopted for the valuation of Celcom Group, excluding Sacofa Sdn Bhd)*	P/E multiple is an earnings-based metric which compares a company's share price against its EPS. It can be useful to compare the P/E multiple to that of its comparable companies to estimate the company's value relative to its comparable companies. A higher multiple ratio may indicate that investors are willing to pay more for a RM's worth of earnings from the company. Further, P/E multiple (using PATAMI earnings as a base) reflects the level of distributable earnings which is one of the key factors to investors' pricing of shares. We also note that major telco companies in Malaysia are having institutional investors which seek for dividend return. Hence, P/E multiple is a more stable pricing benchmark for the valuation of telecommunication companies.
EV/EBITDA multiple *(Adopted for the valuation of Sacofa Sdn Bhd)*	EV/EBITDA is an operating earnings-based metric which compares a company's business value against its EBITDA. EV/EBITDA is considered to be capital structure neutral as it is not affected by the different leverage levels, borrowing costs, tax regime as well as depreciation and amortisation of a company. As there are limited comparable telecommunication infrastructure services companies in Malaysia which financial and pricing data are publicly available, hence, the comparable companies across Asian countries were selected for benchmarking purpose in the valuation of Sacofa Sdn Bhd. Accordingly, the application of EBITDA earnings base is deemed more appropriate as the comparable companies across different countries have different tax regime, capital structure as well as capital expenditure requirements as opposed to other multiple metrics, including EV/FCF multiple and P/E multiple. In this regard and based on our comments above, we are of the view that KPMG's approach by relying only on EV/EBITDA multiple for the valuation of Sacofa Sdn Bhd is acceptable.

We note that KPMG has adopted two multiple metrics (i.e., EV/FCF multiple and P/E multiple) for the valuation of Celcom Group (excluding Sacofa Sdn Bhd). We also take note that each multiple metric has its pros and cons, as well as consideration factors as discussed above. Hence, we are of the view that KPMG, forming the conclusion of value range based on the various multiple metrics, is acceptable as to provide a comprehensive assessment to the valuation of Celcom Group. This is also in line with the International Valuation Standards issued by the International Valuation Standards Council, where valuers shall, amongst others, consider the use of multiple methods within a single approach, in arriving at an indication of value, particularly when there are insufficient factual or observable inputs for a single method to produce a reliable conclusion. This is considering that:-

(a) EV/FCF multiple method (using FCF as a base) may be subject to different capital expenditure requirements depending on the business model of the respective comparable companies; and

(b) P/E multiple method (using earnings as a base) may be subject to various accounting policies as well as capital structure adopted by the management of the respective comparable companies.

Further, we take note that KPMG has performed a valuation on Sacofa Sdn Bhd solely based on publicly available information. We are of the view that it is acceptable considering that:-

(a) Sacofa Sdn Bhd is a 15.12% associate company of Celcom, contributing approximately 1.4% of Celcom Group's PATAMI based on Celcom Group's financial results for FYE 2021;

(b) the valuation of Sacofa Sdn Bhd represents less than 2% of Celcom Group's valuation as ascribed by KPMG; and

(c) save for the statutory financial statements of Sacofa Sdn Bhd, we have not been provided with information on the detailed financial, operation performance, as well as cash flow projections of Sacofa Sdn Bhd.

(iii) Comparable companies

Telecommunications industry

Celcom Group is principally involved in the provision of telecommunications network capacity, infrastructure and services. We note that KPMG has selected several comparable companies which are listed on the Main Market of Bursa Securities for benchmarking purposes. A brief description of the comparable companies' principal activities and their market capitalisation as at the Valuation Date are as follows:-

Comparable companies	Market capitalisation as at the Valuation Date	Business segment and revenue contribution	Principal activities
Digi.Com Berhad	RM29,156.3 million	Telecommunication (88%); Sales of devices (10%); Others (1%).	Engages in the establishment, maintenance and provision of telecommunications and related services, provision of telecommunication infrastructure services and provision of e-commerce, digital services and solutions.
Maxis Berhad	RM35,986.0 million	Telecommunication (87%); Devices and related services (13%).	Provides mobile and fixed data products, voice and SMS services, mobile payment solutions, remote health monitoring, cloud solutions, and a business directory to businesses and individuals.

Comparable companies	Market capitalisation as at the Valuation Date	Business segment and revenue contribution	Principal activities
Telekom Malaysia Bhd	RM23,095.0 million	Internet and multimedia services (35%); Data services (27%); Voice services (22%); Other related telecommunication services (16%).	Provides payphone network, mobile telecommunication, public telephone, and leasing of optical fiber telecommunication system services.
Axiata Group Berhad	RM34,856.0 million	Telecommunication (86%); Sale of devices (3%); Pay television transmission, broadband services, digital services and technical services (8%); Others (3%).	Provides establishment, maintenance, and provision of telecommunications and related services in Asia.
TIME dotCom Berhad	RM8,701.4 million	Data (82%); Data centre (12%); Voice (6%).	Provides fixed-line telecommunication services including data and voice, submarine cable and data centre services.

(Source: Bloomberg and latest available annual reports of the respective comparable companies as at the Valuation Date)

We wish to emphasise that there is no company which is an exact comparable to Celcom in terms of composition of business activities, scale of business operations, historical financial performances, track records, capital structure, risk profile and future prospects. As such, we are of the view that the comparable companies selected by KPMG are relevant based on the following:-

a) The comparable companies, including Digi.Com Berhad, Maxis Berhad, Telekom Malaysia Bhd, Axiata Group Berhad and TIME dotcom Berhad are generally involved in the telecommunications industry in Malaysia;

b) The comparable companies are actively traded counters listed on Bursa Securities; and

c) The comparable companies are having positive earnings and cash flows which are meaningful for the application of multiple metrics using market valuation approach.

We have further narrowed the number of comparable companies for the evaluation of the reasonableness of the price multiple adopted by KPMG based on their market capitalisation. Please refer to Section (iv) Price multiple of the comparable companies below for our evaluation.

Telecommunication tower industry

Sacofa Sdn Bhd, the associate company of Celcom, is a telecommunication infrastructure company. It operates and provides telecommunication tower and related infrastructure services in Sarawak, Malaysia. In view of the limitation of comparable companies listed on Bursa Malaysia which financial and pricing data are publicly available, we note that KPMG has made references to comparable companies within the Asia region. A brief description of the comparable companies' principal activities, country of incorporation and their market capitalisation as at the Valuation Date are as follows:-

Comparable companies	Country	Market capitalisation as at the Valuation Date	Business segment and revenue contribution	Principal activities
OCK Group Berhad	Malaysia	RM516.6 million	Telecommunication network & facility services (89%); Others (11%).	Provides telecommunications network services.
Suyog Telematics Limited	India	RM168.3 million	Telecommunications tower & infrastructure services (75%); Reimbursement income (25%).	Provides telecommunication infrastructure solutions.
PT Gihon Telekomunikasi Indonesia Tbk	Indonesia	RM170.4 million	Telecommunications tower & infrastructure services (100%).	Provides telecommunication infrastructure construction services.
PT Inti Bangun Sejahtera Tbk	Indonesia	RM1,953.0 million	Telecommunications tower & infrastructure services (89%); Others (11%).	Engages in leasing space and other broadcast equipment for wireless signal transmission at tower sites under long-term lease agreement with mobile operators and wireless cable television providers.
PT Bali Towerindo Sentra Tbk	Indonesia	RM654.8 million	Telecommunications tower & infrastructure services (100%).	Leases antenna space on self-owned multi-tenant Base Transceiver Station towers primarily to mobile cellular operators.

Comparable companies	Country	Market capitalisation as at the Valuation Date	Business segment and revenue contribution	Principal activities
PT Centratama Telekomunikasi Indonesia Tbk	Indonesia	RM1,047.1 million	Telecommunications tower & infrastructure services (60%); In-building coverage lease and internet services (40%).	Leases and manages telecommunication towers and in-building distributed antenna system sites, as well as provides triple-play fiber-optic broadband services.
PT Visi Telekomunikasi Infrastruktur Tbk	Indonesia	RM49.9 million	Telecommunications tower & infrastructure services (100%).	Provides telecommunications and infrastructure services.

(Source: Bloomberg and latest available annual reports of the respective comparable companies as at the Valuation Date)

We wish to emphasise that there is no company which is an exact comparable to Sacofa Sdn Bhd in terms of composition of business activities, scale of business operations, historical financial performances, track records, capital structure, risk profile and future prospects. As such, we are of the view that the comparable companies selected by KPMG are relevant based on the following:-

a) The comparable companies are generally involved in the telecommunication tower and related infrastructure services industry;

b) The comparable companies are generally actively traded counters listed on their respective exchanges; and

c) The comparable companies are having positive EBITDA which is meaningful for the application of EV/EBITDA multiple metric for the purpose of Sacofa Sdn Bhd's valuation.

We have further narrowed the number of comparable companies for the evaluation of the reasonableness of the price multiple adopted by KPMG based on their EBITDA size. Please refer to Section (iv) Price multiple of the comparable companies below for our evaluation.

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(iv) Price multiples of comparable companies

Telecommunications industry

We note that KPMG has adopted the following price multiple range for the valuation of Celcom Group (excluding Sacofa Sdn Bhd):-

Multiple metrics	Low range	High range
EV/FCF multiple	14.1 times	15.5 times
P/E multiple	24.0 times	26.5 times

The multiple ranges were derived after taking into consideration, amongst others, the following:-

(i) Average historical EV/FCF multiple of the comparable companies operating in telecommunications industry based on closing price as at the Valuation Date of 14.1 times;

(ii) Average historical EV/FCF multiple of Digi based on closing price for the FYE 31 December 2019, FYE 31 December 2020 and as at the Valuation Date of 15.5 times; and

(iii) Historical P/E multiple range of Digi based on closing price for the FYE 31 December 2019, FYE December 2020 and as at the Valuation Date of between 23.9 times to 26.5 times.

In evaluating the reasonableness of the price multiples range adopted by KPMG, we have further narrowed the comparable companies operating in the telecommunications industry which are listed on Bursa Malaysia, with a market capitalisation size ranging between RM10 billion and RM40 billion as at the Valuation Date (note: The Total Consideration for 100% of the equity interest in Celcom is RM17.8 billion). Further, we are also satisfied that the comparable companies have not fundamentally changed throughout the relevant period under review as mentioned above.

We have assessed the price multiples of the comparable companies based on 1-year VWAMP up to the Valuation Date. VWAMP identifies the true average price of a security by factoring the volume of transactions at a specific price point and not based on the closing price. We are of the view that it is a better parameter that reflects the overall performance of a security with a less volatile view of the recent price trend of a security and the weight of where most investors are priced in. VWAMP reflects a weighted average price of a security based on volume of transactions at their respective prices over a period of time, and is not affected by closing price which may be fluctuated due to specific events within a day. The EV/FCF multiple and P/E multiple computed using market capitalisation based on 1-year VWAMP up to the Valuation Date are as follows:-

Comparable companies	Country	(A) Market capitalisation based on 1-year VWAMP up to the Valuation Date RM million	(B) Total debt RM million	(C) Preferred share capital and minority interest RM million	(D) Cash & cash equivalent RM million	(E) = (A) + (B) + (C) - (D) Enterprise value RM million
Digi.Com Berhad	Malaysia	31,698.5	5,452.0	-	303.0	36,847.5
Maxis Berhad	Malaysia	39,683.9	9,763.0	-	735.0	48,711.9
Telekom Malaysia Berhad	Malaysia	19,135.5	9,534.6	(149.3)	4,304.4	24,216.4
Axiata Group Berhad	Malaysia	31,909.0	27,374.0	6,238.0	7,194.0	58,327.0

Comparable companies	Country	(F) [1]FCF RM million	(G) PATAMI RM million	(E) / (F) EV/FCF multiple (times)	(A) / (G) [2]P/E multiple (times)
Digi.Com Berhad	Malaysia	2,359.7	1,221.0	15.6	26.0
Maxis Berhad	Malaysia	2,364.0	1,382.0	20.6	28.7
Telekom Malaysia Berhad	Malaysia	2,451.5	1,016	9.8	18.8
Axiata Group Berhad	Malaysia	5,476.6	365.2	10.6	[3]87.4
Maximum				**20.6**	**28.7**
Average				**14.2**	**24.5**
Minimum				**9.8**	**18.8**

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Notes:-

(1) The FCF of the comparable companies are computed as follows:-

FCF for FYE 2020, RM million	**Digi.Com Berhad**	**Maxis Berhad**	**Telekom Malaysia Berhad**	**Axiata Group Berhad**
Profit before tax	1,622.0	1,852.0	1,278.5	1,171.1
Depreciation, amortization & impairment	1,221.8	1,475.0	2,283.9	8,104.0
(Gain)/loss on disposal of PPE	2.6	-	-	-
(Gain)/loss on write-off/impairment of PPE	50.7	28.0	-	40.5
(Gain)/loss on write-off of intangible assets	0.1	-	-	-
(Gain)/loss on termination of lease	(0.1)	-	-	-
Share of profit of associate/joint venture	-	-	(12.2)	(18.7)
Other income	-	-	(6.2)	(155.6)
Interest income	(29.9)	(84.0)	(151.7)	(177.2)
Interest expense	212.5	489.0	523.8	1,693.1
Foreign exchange gain on borrowings	-	-	(27.5)	-
Adjusted EBITDA	**3,079.8**	**3,760.0**	**3,888.6**	**10,657.1**
Less: Acquisition of property and equipment	(618.0)	(1,396.0)	(1,437.1)	(4,583.8)
Less: Acquisition of intangible assets	(102.2)	-	-	(596.7)
FCF	**2,359.7**	**2,364.0**	**2,451.5**	**5,476.6**

(2) The multiples are computed by excluding share of profits from associate companies of the comparable companies.

(3) Denoted as outlier which was excluded from price multiple analysis.

As the comparable companies are operating within the same broader industry of providing telecommunications services and connectivity to consumers, including fixed connectivity and broadband services, as well as taking into consideration that the telecommunications industry is getting more converged, we do not make further adjustments to the price multiples based on product mix of the comparable companies.

From the analysis above, we are of the view that the multiple ranges adopted by KPMG for EV/FCF multiple and P/E multiple are justifiable as they fall within the multiple ranges of the comparable companies' computed based on 1-year VWAMP up to the Valuation Date as analysed above, where:-

a) the EV/FCF multiple range adopted by KPMG of 14.1 times to 15.5 times falls within the comparable companies' EV/FCF multiple range of between 9.8 times to 20.6 times; and

b) the P/E multiple range adopted by KPMG of 24.0 times to 26.5 times falls within the comparable companies' P/E multiple range of between 18.8 times to 28.7 times.

Telecommunication tower industry

We note that KPMG has adopted an EV/EBITDA of 10.0 times for the valuation of Sacofa Sdn Bhd. The EV/EBITDA multiple of 10.0 times was derived after taking into consideration, amongst others, the historical EV/EBITDA multiple of the comparable companies operating in telecommunication tower industry (with market capitalisation of below RM5.0 billion) based on closing price as at FYE 31 December 2019, FYE 31 December 2020 and 7 April 2021, being the Valuation Date of between 9.7 times to 10.8 times.

In evaluating the reasonableness of the price multiple adopted by KPMG, we have further narrowed the comparable companies operating in the telecommunication tower and related infrastructure services which are listed in the Southeast Asia region, with an EBITDA size ranging between RM100 million and RM300 million based on latest available audited results as at the Valuation Date (note: Sacofa Sdn Bhd's EBITDA for FYE 31 December 2020 was approximately RM171 million). Further, we are satisfied that the comparable companies have not fundamentally changed throughout the relevant period under review.

The EV/EBITDA multiples of the comparable companies based on 1-year VWAMP up to the Valuation Date are computed as follows:-

		(A)	(B)	(C)	(D)	(A)+(B)+(C)-(D)
Comparable companies	**Country**	**Adjusted market capitalisation in relation to FBM KLCI RM million**	**Total debt RM million**	**Preferred share capital and minority interest RM million**	**Cash & cash equivalent RM million**	**Adjusted enterprise value RM million**
OCK Group Berhad	Malaysia	516.6	598.6	85.1	78.9	1,121.3
Inti Bangun Sejahtera Tbk PT	Indonesia	[(1)]1,953.0	1,036.8	-	104.7	2,885.0
Bali Towerindo Sentra Tbk PT	Indonesia	[(1)]654.8	584.0	-	29.9	1,209.0
Centratama Telekomunikasi Indonesia Tbk PT	Indonesia	[(1)]1,047.1	1,078.8	-	157.4	1,968.4

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Comparable companies	Country	Adjusted enterprise value RM million	[(2)]Adjusted EBITDA RM million	EV/EBITDA based on 1-year VWAMP up to the Valuation Date (times)
OCK Group Berhad	Malaysia	1,121.3	153.4	7.3
Inti Bangun Sejahtera Tbk PT	Indonesia	2,885.0	229.1	12.6
Bali Towerindo Sentra Tbk PT	Indonesia	1,209.0	150.3	8.0
Centratama Telekomunikasi Indonesia Tbk PT	Indonesia	1,968.4	244.6	8.0
Maximum				**12.6**
Average				**9.0**
Minimum				**7.3**

Notes:-

The exchange rate adopted for the foreign comparable companies (i.e., Inti Bangun Sejahtera Tbk PT, Bali Towerindo Sentra Tbk PT and Centratama Telekomunikasi Indonesia Tbk PT) is based on the middle rate for conversion as at the Valuation Date of IDR 100 = RM 0.0285 as extracted from BNM website.

1) For the comparable companies which are listed in overseas exchanges, we have made adjustments to their market capitalisation respectively to the Malaysian context based on the relevant risk return premium as set out below:-

	Ref	Inti Bangun Sejahtera Tbk PT	Bali Towerindo Sentra Tbk PT	Centratama Telekomunikasi Indonesia Tbk PT
1-year VWAMP in Indonesian Rupiah	**(a)**	IDR 8,469.46	IDR 782.72	IDR 196.48
Expected local rate of return of the respective comparable companies[(i)]	**(b)**	9.24%	9.77%	11.99%
Expected Malaysian rate of return of the respective comparable companies[(i)]	**(c)**	5.54%	7.29%	7.19%
Exchange rate[(ii)]	**(d)**	0.000285	0.000285	0.000285
Adjusted market price (RM)	**(e) = [(a / b) x c] x (d)**	1.45	0.17	0.03
Shares outstanding	**(f)**	1,351	3,935	31,183
Adjusted market capitalisation in relation to FBM KLCI (RM million)	**(e) x (f)**	1,953.0	654.8	1,047.1

(Source: Bloomberg)

Sub-notes:-

(i) The rate of returns are computed using the capital asset pricing model as follows:-

(a) Expected local rate of return

Local risk free rate of the respective listed comparable companies + (Beta of the respective listed comparable companies in relation to the respective local stock market indexes x local market risk premium)

(b) Expected Malaysian rate of return

Malaysia's risk free rate + (Beta of the respective listed comparable companies in relation to the FBM KLCI x Malaysia's market risk premium)

The information obtained from Bloomberg as at the Valuation Date are as follows:-

	Indonesia	**Malaysia**
Risk free rate	6.52%	3.08%
Risk premium	5.83%	6.32%
Local market return	12.35%	9.40%

	Beta in relation to the respective local stock market indexes	**Beta in relation to FBM KLCI**
Inti Bangun Sejahtera Tbk PT	0.467	0.389
Bali Towerindo Sentra Tbk PT	0.557	0.666
Centratama Telekomunikasi Indonesia Tbk PT	0.937	0.650

(ii) Based on the middle rate for conversion as at the Valuation Date of IDR 100 = RM 0.0285 as extracted from BNM website.

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2) The following table reconciles the comparable companies' profit before tax to EBITDA for the FYE 2020:-

Adjusted EBITDA for FYE 2020, RM million	**OCK Group Berhad**	**Inti Bangun Sejahtera Tbk PT**	**Bali Towerindo Sentra Tbk PT**	**Centratama Telekomunikasi Indonesia Tbk PT**
Profit before tax	35.1	40.1	37.1	(120.5)
Depreciation and amortisation	87.9	120.6	47.3	132.3
Impairment loss on receivables/ allowance for impairment loss	0.6	0.4	1.9	2.3
Allowance for impairment of investment	-	-	-	0.3
Allowance for obsolescence and decline in values of inventories	-	-	-	0.9
Bad debt and assets written off	0.8	-	-	-
Net gain/ loss from the disposal and sale of assets, lease modifications and fair value gain on derivative instruments	0.2	0.0	0.0	(0.9)
Unwinding effect on provision for site restoration	0.3	-	-	-
Gain on recognition of net investment in lease	-	(33.0)	-	-
Goodwill written off	0.2	-	-	-
Provision for post employment benefit	0.1	-	-	-
Net gain/loss on foreign exchange	(0.4)	-	-	91.1
Interest and other income	(1.9)	(3.3)	(0.3)	(2.1)
Interest expense	30.5	104.3	64.3	141.2
Adjusted EBITDA	**153.4**	**229.1**	**150.3**	**244.6**

As the comparable companies are primarily involved in the telecommunication tower and related infrastructure services within the Southeast Asia region and hence, we do not make further adjustments to the price multiples based on product/business mix of the comparable companies.

From the analysis above, we are of the view that the EV/EBITDA multiple of 10.0 times adopted by KPMG is reasonable as it falls within the comparable companies' EV/EBITDA multiple range of between 7.3 times to 12.6 times computed based on 1-year VWAMP up to the Valuation Date.

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(v) Subsequent key events after the valuation date

Considering the time interval between the Valuation Date (being 7 April 2021) and up to 25 October 2022 (being the date of the Indicative Valuation Letter), we note that KPMG had performed a reasonableness check on the subsequent key events as set out in Section 6 of the Indicative Valuation Letter appended in Appendix X of the Circular. KPMG is of the opinion that the subsequent key events would not impair the valuation range ascribed for the valuation of Celcom Group as at the Valuation Date.

We have evaluated the subsequent key events and are of the view that the subsequent key events would not materially impair the valuation range of Celcom Group as ascribed by KPMG. Our evaluation and comments on the key subsequent events are summarised as follows:-

No	Subsequent key events after the valuation date	AmInvestment's comments
1	Release of the latest audited financial results of Celcom Group and Sacofa Sdn Bhd for the FYE 31 December 2021 and for the latest unaudited 6-month financial results of Celcom Group for the FPE 30 June 2022.	We have analysed the latest audited financial results of Celcom Group for the FYE 31 December 2021 as well as the latest unaudited 6-month financial results of Celcom Group for the FPE 30 June 2022. We are of the view that the maintainable earnings based on PATAMI and FCF of Celcom Group adopted in the market approach valuation analysis as ascribed by KPMG to remain appropriate and justifiable. We have also analysed the latest audited financial results of Sacofa Sdn Bhd and are of the view that the maintainable earnings based on EBITDA of Sacofa Sdn Bhd adopted in the market approach valuation analysis as ascribed by KPMG to remain appropriate and justifiable. Whereas, the change in the net debt and net working capital position of Celcom Group between 31 December 2020 and closing date of the Proposed Merger will be adjusted from the Cash Consideration to be paid by Digi to Axiata for the Proposed Merger pursuant to the SPA (i.e., clause of "Adjustments to the Cash Consideration").
2	The latest benchmark of comparable companies' market price multiples as at the LPD	We have analysed the price multiple of the comparable companies based on 1-year VWAMP up to the LPD as well as their latest financial statements ("**LPD Multiples**"), and assessed that the price multiples applied in the market approach valuation analysis as ascribed by KPMG to remain appropriate and justifiable. We are of the view that the changes of the price multiples of the comparable companies as at the Valuation Date and as at the LPD are not material. Further, the price multiples applied by KPMG in forming the valuation range of Celcom Group as at the Valuation Date fall within the LPD Multiples range as assessed by AmInvestment.

No	Subsequent key events after the valuation date	AmInvestment's comments
3	Celcom's acquisition of 51.0% equity interest in Bridgenet for a total cash consideration of RM36.1 million and 60.0% equity interest in Infront Malaysia for a total cash consideration of RM5.5 million. The acquisition of Bridgenet and Infront Malaysia are collectively referred to as the "**Celcom Acquisitions**".	We are of the view that the Celcom Acquisitions are not detrimental to the Non-Interested Shareholders of Digi after taking into consideration of the following:- (i) the total purchase consideration for the Celcom Acquisitions amounting to RM41.6 million represents approximately 0.23% of the Total Consideration for the Proposed Merger, which is not material; and (ii) the total purchase consideration for the Celcom Acquisitions amounting to RM41.6 million is below the threshold for the Celcom permitted interim period acquisitions of not more than RM170 million in aggregate pursuant to the SPA. Based on the above, we are of the view that the Celcom Acquisitions would not result in significant change to the valuation of Celcom Group, as well as have material implication to our evaluation of the Total Consideration.
4	Undertakings to MCMC dated 28 June 2022 given by Celcom and Digi Tel pursuant to Celcom and Digi Tel's Authorisation of Conduct Application.	We are of the view that the Undertaking should not have impact to the indicative valuation range of the Celcom Group as ascribed by KPMG. The undertaking conditions were imposed by MCMC to ensure that the consumers in Malaysia will continue to benefit from effective competition in the telecommunications sector, which will only be effective after the Proposed Merger. The valuation of Celcom Group is performed on a standalone "as is" pre-merger basis without factoring in any potential synergistic benefits from the Proposed Merger as well as additional costs expected to incur from the Undertaking to MCMC. Furthermore, the additional costs expected to be incurred from the Undertaking are the consequential effects arising from the Proposed Merger, and will be borne by the MergeCo Group and hence, the valuation of Celcom Group (on a standalone "as is" pre-merger basis) should not be impacted by such consequential event arising from the Proposed Merger.
5	Tune Talk Litigation and Tune Talk Carve-Out. Further details are disclosed in Section 10 of Appendix I: Other Matters of the Circular.	The Tune Talk Litigation and Tune Talk Carve-Out have no impact to the overall valuation of Celcom Group as the fair value of Celcom's 35.0% interest in Tune Talk is assessed at nil value by KPMG for prudence, considering that Tune Talk has a negative shareholder's fund of RM72.2 million as at 31 December 2020 and the fair value of Celcom's investment in Tune Talk based on Celcom Group's audited financial statement for FYE 31 December 2020 was also recorded as nil value.

No	Subsequent key events after the valuation date	AmInvestment's comments
		Further, we wish to highlight that the Tune Talk Litigation is not a material litigation of the Celcom Group and there would not be a material impact to the Proposed Merger arising from the Tune Talk Carve-Out as the carrying amount of the investment in Tune Talk has been fully impaired and the Celcom Group has no obligations for any losses beyond that.
6	Digi Tel and Celcom Mobile (a wholly-owned subsidiary of Celcom) had each separately entered into a conditional share subscription agreement with DNB for, amongst others, the proposed subscription of (i) new DNB Shares and (ii) DNB Rights to Allotment for a total cash consideration of RM178.57 million, collectively representing 12.5% of the enlarged equity interest in DNB. Following the completion of the proposed subscription and the Proposed Merger, the MergeCo Group shall own 25.0% enlarged equity interest in DNB via Digi Tel and Celcom Mobile. Further details are disclosed in Section 6 of Appendix I and Section 1.3 of Appendix V of the Circular.	We are of the view that the proposed subscription of shares in DNB by Celcom Mobile is not expected to have a negative impact that would materially impair the valuation range of Celcom Group as ascribed by KPMG in view of the following:- (i) The subscription price of RM1.00 per ordinary share of DNB is set by the Government and is the same for all the investors of DNB, including Digi. (ii) 5G is the next primary communication technology, and DNB will the sole owner and operator of 5G network in Malaysia until 2031. (iii) Partnership between the telecommunications companies and DNB may enable developments of better-matched 5G products and services for 5G adoption in Malaysia. Based on the above and after taking into consideration the Government's plan in accelerating Malaysia's digital aspirations as well as the 5G prospects with the understanding that DNB will be the sole owner and operator to own, implement and manage 5G infrastructure in Malaysia, we are of the view that the equity participation in DNB by Celcom Mobile will not have a negative impact to the overall valuation of Celcom Group. The proposed subscription of shares in DNB is expected to provide an opportunity for the MergeCo to participate as a future shareholder in DNB, and continue to contribute to a successful and sustainable deployment of 5G in Malaysia to cater for the future demands of its customers. We wish to highlight that no meaningful financial projections can be simulated for the investment in DNB as at this juncture as there are some pertinent factors, including the 5G wholesale cost structure, which has yet to be finalised.

No	Subsequent key events after the valuation date	AmInvestment's comments
		Under the 5G infrastructure sharing structure, the profitability and cashflows of mobile network operators may change considerably depending on the business model and objective to be adopted by DNB and the respective mobile network operator in the future. We further note that the proposed subscription of shares in DNB by Celcom Mobile will be funded through internally generated funds. Any changes in the net debt and net working capital position of Celcom Group between 31 December 2020 and closing date of the Proposed Merger will be adjusted from the Cash Consideration to be paid by Digi to Axiata for the Proposed Merger pursuant to the SPA (i.e., clause of "Adjustments to the Cash Consideration").

Premised on the above, we are of the view that the valuation approach, basis and parameters adopted by KPMG for the purpose of Celcom Group's valuation based on a standalone "as is" pre-merger basis (excluding any potential synergies or additional costs arising from the Proposed Merger) are appropriate. The total consideration of RM17,756.2 million for 100% of the equity interest in Celcom is justifiable as it is within the valuation range of RM16,032 million to RM18,473 million as appraised by KPMG.

We have evaluated the subsequent key events after the valuation date and are of the view that the subsequent key events would not materially impair the valuation range of Celcom Group as ascribed by KPMG.

In addition, we wish to highlight that the MergeCo Group is expected to invest significant amount of time and resources in the merger integration activities, as well as to fulfil the Undertaking to MCMC. This is expected to have negative impact to the earnings and cash flow profiles of the MergeCo Group in the immediate term upon completion of the Proposed Merger. However, in view that the Undertaking by Celcom and Digi to MCMC will only be effective after the completion of the Proposed Merger and hence, the additional costs and expenditures to fulfill the Undertaking (which is to be borne by the MergeCo Group) should not have impact to the valuation of Celcom Group on a standalone "as is" pre-merger basis.

Notwithstanding the above, we are of the view that the Total Consideration, which is supported by the valuation range as appraised by KPMG is still justifiable after taking into consideration the various factors, including but not limited to the rationale, industry outlook and prospects, as well as the financial effects of the Proposals as set out in Section 7 of this IAL.

Premised on the above, the Proposed Merger is expected to contribute positively to the earnings and cash flow profiles of the MergeCo Group in the medium to long term (as compared to the scenario of Digi continuing on a standalone basis without the Proposed Merger) with the gradual realisation of the anticipated synergistic benefits from the Proposed Merger if the integration plans of the MergeCo Group are successfully implemented.

7.3 MODE OF SETTLEMENT OF THE TOTAL CONSIDERATION

As disclosed in Section 2.1, Part A of the Circular, the Total Consideration for the Proposed Merger will be fully satisfied through a cash payment of an amount equal to RM1,692.7 million to Axiata (which is subject to adjustments under the terms of the SPA) and the issuance of Consideration Shares at an issue price of RM4.06 per Digi Share as follows:-

(i) Issuance of 73,378,844 fully paid-up new Digi Shares or such other number of fully paid-up new Digi Shares representing 0.63% of the enlarged share capital of Digi on completion of the Proposed Merger to Telenor Asia as nominee of Axiata; and

(ii) Issuance of 3,883,129,144 fully paid-up new Digi Shares or such other number of fully paid-up new Digi Shares representing 33.10% of the enlarged share capital of Digi on completion of the Proposed Merger to Axiata.

After taking into consideration the pro forma financial effects of the Proposed Merger as detailed in Section 7.6 of this IAL, as well as the following evaluation, we are of the view that the above mode of settlement is justifiable:-

(i) It allows Axiata to have equity participation in MergeCo and provides an opportunity for Axiata to participate further in the potential future growth of MergeCo as one of the joint-controlling shareholders (having equal shareholding of 33.10% with Telenor Asia upon completion of the Proposed Merger). This would reaffirm Axiata's commitment to the MergeCo, as it is not the intention of Axiata to monetise its investments in Celcom;

(ii) It enables Digi to conserve its cash reserve without significantly increase its borrowing, which may place additional burden to the gearing ratio of Digi and/or relying on the equity fund-raising in view that:-

    a) significant borrowings will place more constraints on the cash flows of Digi Group due to the debt servicing obligations in respect of payment of interests and principal repayments;

    b) it is unlikely for Digi to secure full debt funding for the Total Consideration given its relatively high gearing ratio of approximately 7.84 times as at the FYE 31 December 2021. For illustrative purposes, in the event where Digi manages to secure full debt funding for the Total Consideration, Digi's gearing ratio is expected to increase from 7.84 times to 35.9 times. High gearing ratio may deteriorate Digi's credit rating as well as its ability to source for additional funds in the future for its business expansion and/or any potential investment opportunities which may arise;

    c) equity fund-raising exercise, such as private placement, which is usually implemented with a discount to the prevailing market prices may entail issuance of a larger number of Digi Shares resulting in a greater dilution in the existing shareholdings of the Non-Interested Shareholders. Whereas, a rights issue may place a further financial burden to the existing shareholders of Digi Group and would usually require underwriting and thus imposing additional cost to the Company; and

(iii) The settlement of the Total Consideration largely via the issuance of the Consideration Shares is expected to strengthen Digi Group's financial position upon completion of the Proposed Merger with:-

    a) an increase in NA from approximately RM632.8 million as at 31 December 2021 to approximately RM13,939.1 million in MergeCo Group upon completion of the Proposed Merger; and

    b) an improvement in gearing ratio i.e., reducing from 7.84 times as at 31 December 2021 to 1.14 times in MergeCo Group upon completion of the Proposed Merger.

For your information, the issuance of Consideration Shares to satisfy the Total Consideration that is not to be paid in cash will only result in a minimal increase in the weighted average cost of capital ("**WACC**") of Digi from 6.92% to 6.94%, arising from the increase in equity financing, which has a higher required rate of return as compared to debt financing. For illustration purposes and assuming the Proposed Merger had been completed on 7 April 2021, being the Digi Initial Announcement LTD, the WACC analysis of Digi based on the Capital Asset Pricing Model ("**CAPM**") is as follows:-

WACC based on CAPM method	**As at Digi Initial Announcement LTD**	**After the Proposed Merger**	**Sources and Description**
Risk free rate ("**Rf**")	3.09%	3.09%	Yield for 10-year Malaysia Government Bond as at 7 April 2021
Levered beta ("**β**")[(1)]	0.72	0.70	Bloomberg and AmInvestment's analysis derived from the comparable companies based on Digi's existing and expected capital structure after the Proposed Merger
Equity Risk Premium ("**ERP**")	6.33%	6.33%	Bloomberg's ERP analysis
Cost of Equity ("Ke")	**7.62%**	**7.55%**	**Ke = Rf + (β x ERP)**
Cost of Debt ("**Kd**")	4.01%	4.01%	Cost of borrowing
Tax rate ("**t**")	24.00%	24.00%	Statutory tax rate of Malaysia
After-tax Kd ("Kd^{AT}")	**3.05%**	**3.05%**	**Kd^{AT} = Kd x (1 – T)**
Equity capital percentage ("**E%**")	84.57%	86.57%	Based on debt/equity capital structure of Digi
Debt capital percentage ("**D%**")	15.43%	13.43%	Based on debt/equity capital structure of Digi
Digi's WACC as at 7 April 2021	**6.92%**	**6.94%**	**WACC = (Ke x E%) + (Kd x D%)**

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Note:-

(1) The levered beta as at Digi Initial Announcement LTD is computed as follows:-

Comparable companies	Country	2-year weekly adjusted beta	Total debt to market capitalisation ratio ("D/E")	Tax rate	[1]Unlevered beta	Levered beta
Digi.Com Berhad	Malaysia	0.790	0.18	24.7%		
Maxis Berhad	Malaysia	0.737	0.28	25.4%		
Axiata Group Berhad	Malaysia	0.960	0.79	46.7%		
Telekom Malaysia Berhad	Malaysia	0.768	0.41	22.1%		
Average		**0.814**	**0.42**	**29.7%**		
Beta as at Digi Initial Announcement LTD					**0.63**	[2]**0.72**
Beta after the Proposed Merger					**0.63**	[3]**0.70**

Sub notes:-

(1) The unlevered beta is computed as follows:-

$$\text{Unlevered beta} = \frac{\text{Average beta of the Comparable Companies}}{[1 + (1 - \text{average effective tax rate of the Comparable Companies}) \times (\text{average D/E of the Comparable Companies})]}$$

$$= \frac{0.814}{[1 + (1 - 29.7\%) \times (0.42)]}$$

$$= 0.63$$

(2) The levered beta as at Digi Initial Announcement LTD is computed as follows:-

Levered beta = Unlevered beta x [1 + (1 – Digi's effective tax rate) x (Digi's D/E as at Digi Initial Announcement LTD)

= 0.63 x [1 + (1 – 24.7%) x (0.18)]

= 0.72

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(3) The levered beta after the Proposed Merger is computed as follows:-

Levered beta	=	Unlevered beta x [1 + (1 – statutory tax rate) x (Digi's D/E after the Proposed Merger)
	=	0.63 x [1 + (1 – 24.0%) x (0.16)]
	=	0.70

We wish to highlight that the issuance of the Consideration Shares is an appropriate mean of satisfaction of the Total Consideration that is not to be paid in cash. The objective for the Proposals is for the merger of Celcom and Digi, whereby all existing shareholders are to stay invested in the equity of MergeCo. The Cash Consideration and the Shares Equalisation Arrangement in the Proposed Merger is intended to balance the shareholding of Telenor Asia and Axiata in MergeCo at 33.10% each.

Premised on the above, we are of the view that the mode of settlement is justifiable.

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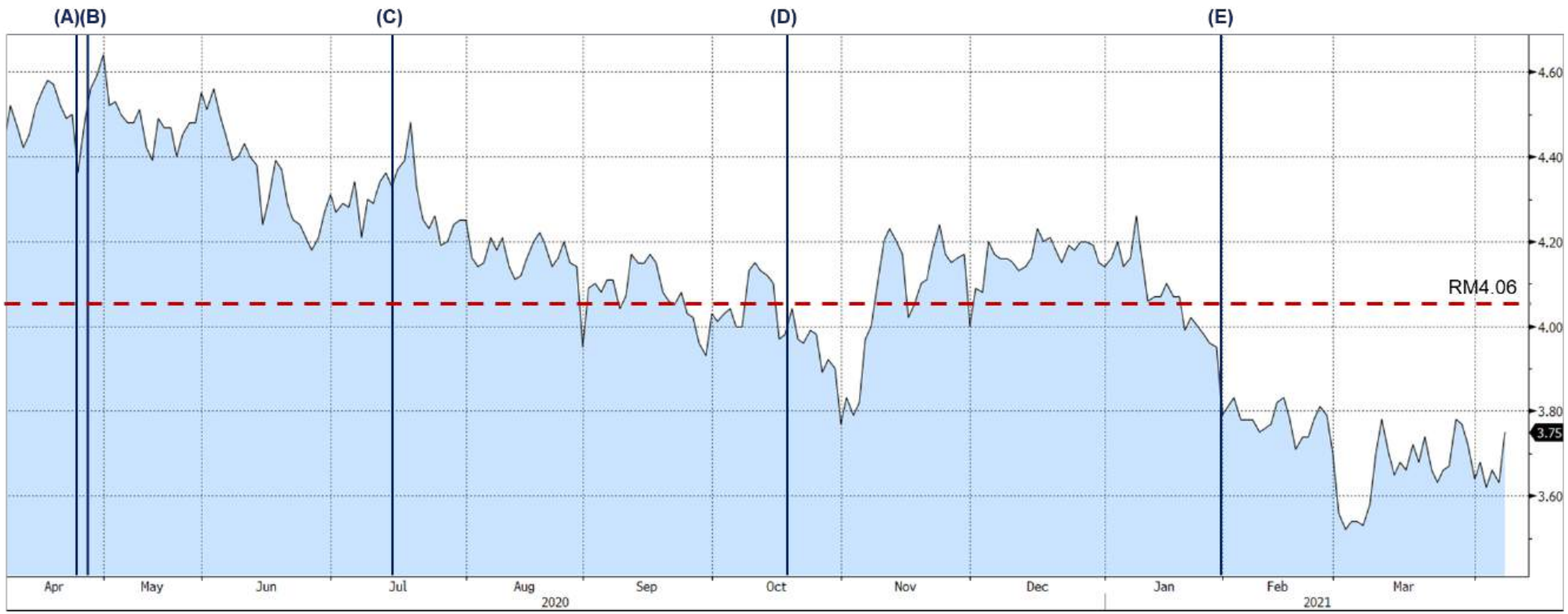
7.4 BASIS AND JUSTIFICATION FOR THE ISSUE PRICE OF THE CONSIDERATION SHARES

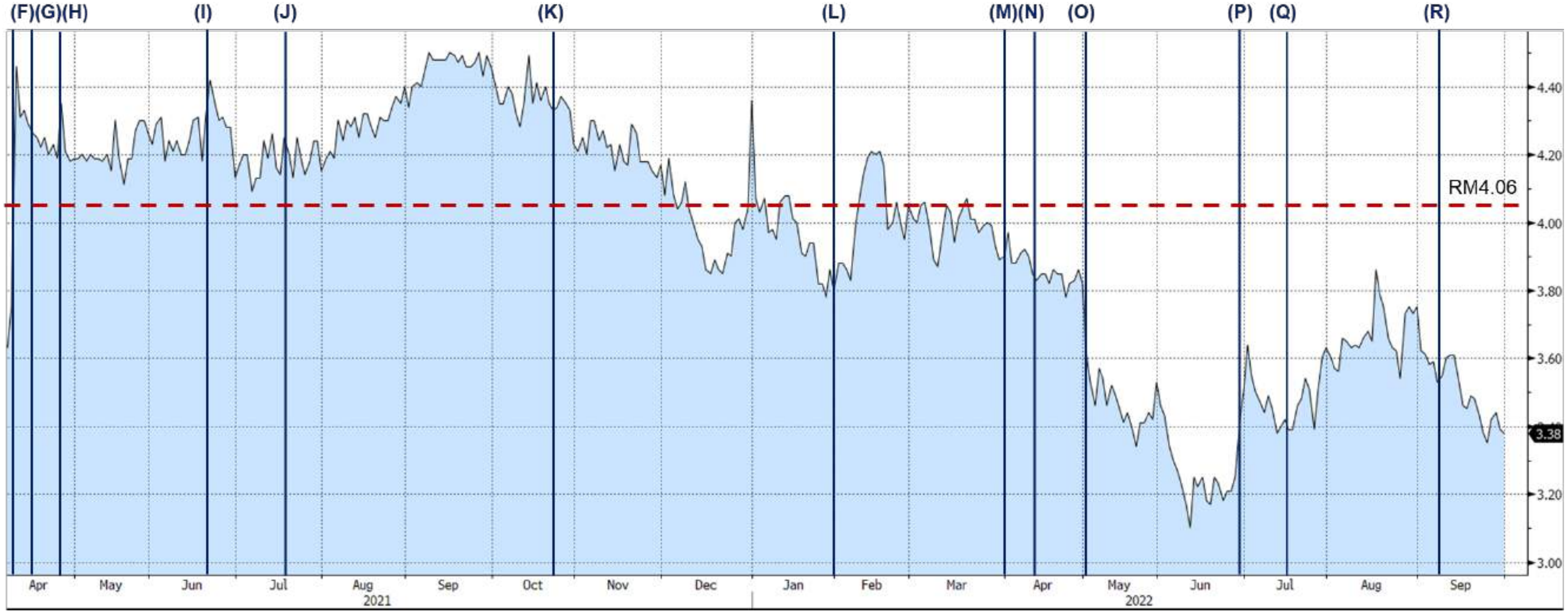
As set out in Section 2.6, Part A of the Circular, the issue price of RM4.06 per Digi Share was derived by Telenor and Axiata on a willing-buyer and willing-seller basis, based on the historical market price of Digi Shares up to 7 April 2021, being the day prior to the date of the Digi Initial Announcement.

As such, in evaluating the fairness of the Issue Price of the Consideration Shares, we have taken into consideration the historical movement of the market price of Digi Shares over the past 1 year up to the Digi Initial Announcement LTD and until the LPD as depicted in the price chart below:-

<u>Market price of Digi Shares from 8 April 2020 to 7 April 2021</u>



Market price of Digi Shares from 9 April 2021 to the LPD



(Source: Bloomberg and AmInvestment's analysis)

The principal activities of Digi Group have remained unchanged for the period under review (i.e., from 8 April 2020 up to the LPD).

We understand that the Issue Price was derived by Telenor and Axiata, taking into consideration, amongst others, the historical market price of Digi Shares up to 7 April 2021 (i.e., Initial Digi Announcement LTD). Over the year and up to the Initial Digi Announcement LTD, the daily market price of the Digi Shares has been trending downwards. The decrease in the historical market prices of Digi Shares during the period was in line with the declining trend of Digi Group's financial performance in FYE 2020 compared to the corresponding quarter in FYE 2019 as tabulated below:-

Note	Quarterly results for FYE 2020	Quarterly PATAMI for FYE 2020 (RM'000)	Quarterly PATAMI for FYE 2019 (RM'000)	Variance from the corresponding quarter for FYE 2019
1	31 March	331,998	341,502	(2.8%)
2	30 June	288,036	392,476	(26.6%)
3	30 September	320,758	356,046	(9.9%)
4	31 December	280,179	342,922	(18.3%)

Save for the annual reports, quarterly financial results and interim dividend announcements made by Digi as denoted at A, B, C, D, E, G, H, J, K, L, N, O and Q in the price charts above, the significant events which may have material effect on the market prices of Digi Shares during the period under review are as follows:-

Annotation	Date of announcement	Significant events
F	8 April 2021	▪ Announcement of the Proposed Merger.
I	21 June 2021	▪ Announcement of the execution of the SPA in relation to the Proposed Merger, and Axiata and Axiata PACs will seek an exemption from the SC from the obligation to undertake a mandatory take-over offer to acquire the remaining ordinary shares in Digi not already owned by it and its PACs.
M	1 April 2022	▪ Announcement of MCMC issued to Digi Tel and Celcom a Statement of Issues ("**SOI**") pursuant to the MCMC's Guidelines on Mergers and Acquisitions. The SOI sets out the MCMC's preliminary view on competition effects that could arise from the Proposed Merger, and invites Digi Tel and Celcom to submit comments, information and remedies on its assessment.
P	28 June 2022	▪ Announcement of MCMC issued a notice of no objection to, and via Authorisation No.1 of 2022, granted its authorisation for, the Proposed Merger on the basis of the Undertaking.
R	15 September 2022	▪ Announcement of the SC had approved the Proposed Merger under Section 214(1) of the CMSA, subject to the terms and conditions as contained in Section 1(i) of Appendix XII of the Circular. The SC had also, vide the same letter, approved the Proposed Merger under the Bumiputera equity requirement for public listed companies in relation to the resultant equity structure of Digi pursuant to the Proposed Merger.

(Source: Digi's announcements on Bursa Securities)

Set out below the highest and lowest closing market price of Digi Shares for the 12 months up to the Digi Initial Announcement LTD and up to the LPD, as well as from 8 April 2020 up to the LPD:-

	Highest closing market price (RM)	**Lowest closing market price (RM)**
For the 12 months up to the Digi Initial Announcement LTD, being 7 April 2021	4.64 (on 30 April 2020)	3.52 (on 2 March 2021)
For the 12 months up to the LPD, being 30 September 2022	4.49 (on 13 October 2021)	3.10 (on 13 June 2022)
From 8 April 2020 up to 30 September 2022	4.64 (on 30 April 2020)	3.10 (on 13 June 2022)

From the chart and table shown above, we note that the highest closing market price of Digi Shares was at RM4.64 on 30 April 2020 and the lowest closing market price of Digi Shares was at RM3.10 on 13 June 2022.

Based on the above, the issue price of RM4.06 per Consideration Share represents:-

(i) a **discount of 12.50%** to the highest closing market price of Digi Shares of RM4.64 for the period under review; and

(ii) a **premium of 30.97%** to the lowest closing market price for Digi Shares of RM3.10 for the period under review.

Based on the price chart above, we also note that the Issue Price is within the closing prices of Digi Shares for the past 1 year up to the LPD of RM3.10 to RM4.49. Nevertheless, we are of the view that the closing price for the past 1 year up to the Digi Initial Announcement LTD would serve as a more meaningful reference for our evaluation on the fairness of the Issue Price of Digi Shares as it reflects the market prices of Digi Shares prior to the announcement of the Proposed Merger.

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The market price or VWAMP of Digi Shares vis-à-vis the Issue Price for the period up to the Digi Initial Announcement LTD, being 7 April 2021 are detailed as follows:-

For the period up to Digi Initial Announcement LTD	Digi Share price	Premium/(Discount) of Issue Price to Digi Share price	
	RM	RM	%
Last traded market price of Digi Shares	3.75	0.31	8.3
5-day VWAMP	3.65	0.41	11.2
1-month VWAMP	3.69	0.37	10.0
3-month VWAMP	3.77	0.29	7.7
6-month VWAMP	3.89	0.17	4.4
1-year VWAMP	4.08	(0.02)	(0.5)

Based on the table above, we note that the issue price of RM4.06 represents:-

(i) a **premium of 8.3%** to the last closing Digi Share price of RM3.75 as at the Digi Initial Announcement LTD;

(ii) a **premium ranging from 4.4% to 11.2%** between the 5-day VWAMP and 6-month VWAMP of Digi up to the Digi Initial Announcement LTD; and

(iii) a slight **discount of 0.5%** over the 1-year VWAMP of Digi up to the Digi Initial Announcement LTD.

For information purposes only, the premium or discount of the Issue Price to the market price or VWAMP of Digi Shares up to the LPD as disclosed in Section 2.6, Part A of the Circular, is as follows:-

For the period up to the LPD	Digi Share price	Premium of Issue Price to Digi Share price	
	RM	RM	%
Last traded market price of Digi Shares	3.38	0.68	20.1
5-day VWAMP	3.41	0.65	19.1
1-month VWAMP	3.48	0.58	16.7
3-month VWAMP	3.56	0.50	14.0
6-month VWAMP	3.50	0.56	16.0
1-year VWAMP	3.78	0.28	7.4

Based on the table above, we note that the issue price of RM4.06 represents a premium of 20.1% to the last closing Digi Share price of RM3.38, as well as a premium of ranging from 7.4% to 19.1% between the 5-day VWAMP and 1-year VWAMP of Digi up to the LPD.

Furthermore, we also note that the Issue Price represents a premium of 4,975% and price-to-book multiple of 50.75 times to the Digi Group's latest audited NA per share of approximately RM0.08 as at 31 December 2021. As illustrated in Section 7.6.3 of this IAL, the Proposed Merger would result in an increase in Digi Group's NA per share on a pro forma basis.

We wish to highlight that the Total Consideration for the Proposed Merger will be satisfied through a combination of Cash Consideration and the issuance of Consideration Shares as disclosed in Section 2.1, Part A of the Circular. The evaluation of the Issue Price above is merely for the shareholders' information and will not change the total number of Consideration Shares to be issued for the satisfaction of the Total Consideration that is not to be paid in cash.

Premised on the above, we are of the view that the Issue Price for the Consideration Shares, which was based on the historical market price of Digi Shares, is justifiable.

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7.5 SALIENT TERMS OF THE SPA, MTA AND SHA

7.5.1 Salient terms of the SPA

The Proposed Merger are subject to the terms and conditions of the SPA. The salient terms of the SPA are disclosed in Appendix XI of the Circular. We have evaluated the salient terms of the SPA in its entirety and have summarised our comments on the salient terms of the SPA as follows:-

No	Salient terms of the SPA	AmInvestment's comments
1	**<u>Consideration</u>**	
	1.1 The Consideration Shares to be issued by Digi shall be issued free from all encumbrances and together with all rights attaching to them from Closing (as defined in paragraph 6 below). Axiata undertakes that prior to the termination of the SPA, not to nominate any person other than Telenor Asia to be the recipient of the 0.63% Digi Shares or withdraw or cause to be withdrawn such nomination, other than as contemplated by the SPA or the MTA. 1.2 For the purpose of paragraph 1.1 above, Digi has on the date of the SPA issued the Telenor-Digi Confirmation Letter to Telenor Asia whereby Digi confirms and undertakes that against payment of the 0.63% Digi Shares Cash Consideration by Telenor Asia to Axiata pursuant to the MTA, Digi shall issue the 0.63% Digi Shares to Telenor Asia free from all encumbrances and together with all rights attaching to them from Closing.	This clause is justifiable as it stipulates payment arrangement pursuant to the Shares Equalisation Arrangement between Telenor, Telenor Asia and Axiata as recorded in the MTA and all the Consideration Shares and the 0.63% Digi Shares will be issued free from all encumbrances and together with all rights attaching to them from Closing.
2	**<u>Adjustments to the Cash Consideration</u>**	
	2.1 The Cash Consideration may be adjusted following the determination of the adjustment for changes in net debt and net working capital amounts of Celcom Group as compared to Digi Group between 31 December 2020 and the last day of the calendar month in which all of the relevant conditions are satisfied or waived (or as the parties may otherwise mutually agree in writing) ("**Interim Closing**"). The differences up to Interim Closing ("**Interim Adjustment Amount**") shall be adjusted against the Cash Consideration payable to Axiata on Closing as follows: (i) if the Interim Adjustment Amount is positive, the Cash Consideration shall be increased by the amount of the Interim Adjustment Amount; and (ii) if the Interim Adjustment Amount is negative, the Cash Consideration shall be reduced by the Interim Adjustment Amount.	This clause is justifiable as it protects Digi in the event of any material variations to the financial position of Celcom Group prior to the completion of the Proposed Merger and vice versa.

No	Salient terms of the SPA	AmInvestment's comments
	2.2 After the Closing, the Interim Adjustment Amount shall be substituted by the Final Adjustment Amount, being the changes in net debt and net working capital amounts of Celcom Group as compared to Digi Group between 31 December 2020 and the date of Closing ("**Closing Date**"). Where the substitution of the Final Adjustment Amount for the Interim Adjustment Amount: (i) would lead to an increase in the Cash Consideration paid on Closing owing to the difference between the two amounts, Digi shall make a payment to Axiata of a sum equal to that increase; and (ii) would lead to a reduction in the Cash Consideration paid on Closing owing to the difference between the two amounts, Axiata shall make a payment to Digi of a sum equal to that reduction. 2.3 For the avoidance of doubt, the determination of the Interim Adjustment Amount or the Final Adjustment Amount, as the case may be, is set out below: (i) the changes in net debt and net working capital amounts of the Celcom Group ("**Celcom Adjustment Amount**") shall be the amount that results from the sum of the Celcom Group's: (a) initial net debt minus net debt on the Cut-off Date; and (b) Cut-off Date net working capital minus initial net working capital; (ii) the changes in net debt and net working capital amounts of the Digi Group ("**Digi Adjustment Amount**") shall be the amount that results from the sum of the Digi Group's: (a) initial net debt minus net debt on the Cut-off Date; and (b) Cut-off Date net working capital minus initial net working capital; (iii) the adjustment amount for the Interim Adjustment Amount or the Final Adjustment Amount, shall be the amount that results from the sum of: (a) Celcom Adjustment Amount; minus (b) 0.495 x Digi Adjustment Amount.	

No	Salient terms of the SPA	AmInvestment's comments
	Note: The Cut-Off Date refers to the date as at the Interim Closing or Closing Date, as the case may be, in determining the Interim Adjustment Amount or the Final Adjustment Amount respectively. 2.4 The calculation of the net debt on the Cut-Off Date for Digi and Celcom respectively shall be reduced by the amount of any cash that has been paid by any Digi Group member and Celcom Group member for any shared costs and expenses incurred by the parties for the purpose of integration planning activities for day-1 readiness as set out in the costs sharing agreement entered into between Axiata, Celcom and Digi dated 25 July 2022 ("**Shared Costs**"), as of or prior to Closing. 2.5 The calculation of the Digi and Celcom Cut-Off Date net working capital respectively for shall be increased by the amount of any account payable incurred by any Digi Group member and Celcom Group member for any Shared Costs that remains unpaid as of Closing. **Note:** The basis for adjustments was agreed commercially between Digi and Axiata, whereby: (a) Digi shall compensate Axiata for cash inflow into the Celcom Group or be compensated by Axiata for cash outflow from the Celcom Group between 31 December 2020 and Closing, represented by changes in the net debt and net working capital amounts of the Celcom Group for this period; and (b) Axiata shall compensate Digi for cash inflow into the Digi Group or be compensated by Digi for cash outflow from the Digi Group between 31 December 2020 and Closing, represented by changes in the net debt and net working capital amounts of the Digi Group for this period, multiplied by 0.495 ("**Digi Adjustment Factor**"); Item (a) shall be compared to item (b), in which case the net amount (i.e. the Final Adjustment Amount) shall be adjusted against the RM1,693 million Cash Consideration in determining the final Cash Consideration and the Total Consideration for the Proposed Merger.	

No	Salient terms of the SPA	AmInvestment's comments
	As the Final Adjustment Amount can only be determined after Closing, for a more reflective cash amount payable on Closing, the Cash Consideration shall be adjusted against the Interim Adjustment Amount which is to be determined based on changes in net debt and net working capital between 31 December 2020 and Interim Closing. For the avoidance of doubt, the Interim Adjustment Amount shall be further adjusted by the Final Adjustment Amount in determining the final Cash Consideration and the Total Consideration for the Proposed Merger. Digi Adjustment Factor was derived based on the formula of 33.1% / (1 – 33.1%), such that the adjustment takes into account Axiata's equity ownership of 33.1% in the enlarged Digi Group after the Proposed Merger.	
3	**<u>Conditions Precedent</u>** **3.1 Conditions** Closing must not take place unless and until each of the following conditions precedent ("**Conditions**") has been satisfied or waived in writing:- a) the non-interested shareholders of Digi approving the transactions contemplated by the SPA and the allotment and issuance of the 33.10% Digi Shares to Axiata and 0.63% Digi Shares to Telenor Asia upon the terms that no pre-emptive rights, if any, for the benefit of Digi shareholders shall apply to the issuance of the Consideration Shares. b) the non-interested shareholders of Digi approving to waive their rights to receive a mandatory offer from Axiata and persons acting in concert with it in accordance with paragraph 4.08(2)(b) of the Rules. c) Axiata's shareholders approve the transactions contemplated by the SPA, to the extent such approval is required.	We note that the Conditions are typical for transaction of such nature, and sets out all the necessary approvals to be obtained by both parties in order to complete the transaction, where:- (i) Clauses (a) to (c) are justifiable as they ensure that all necessary approvals are obtained from the respective shareholders in order to proceed with the Proposals;

No	Salient terms of the SPA	AmInvestment's comments
	d) Where an obligation to undertake a mandatory take-over offer arises, (i) from the issuance of 33.10% Digi Shares to Axiata as contemplated by the SPA resulting in Axiata and Axiata PACs holding more than 33.00% of Digi Shares, the SC grants:- A. an exemption(s) to Axiata, and Axiata PACs, from having to undertake a mandatory take-over offer for all remaining shares in Digi not already owned by Axiata and Axiata PACs pursuant to the Rules; and B. a ruling to Axiata, and Axiata PACs that the issuance of the 0.63% Digi Shares by Digi to Telenor Asia is not a disqualifying transaction under paragraph 4.08(2)(a) of the Rules[(1)]; and (ii) through the formation of a new group of PACs between Axiata and Telenor Asia as contemplated by the SPA and the SHA, the SC grants an exemption(s) to Axiata, Telenor Asia and their PACs, from having to undertake a mandatory take-over offer[(2)] for all remaining shares in Digi not already owned by Axiata, Telenor Asia and their PACs pursuant to the Rules. Notes:- (1) The SC had on 17 December 2021 granted Axiata and Axiata PACs its ruling that the issuance of the 0.63% Digi Shares by Digi to Telenor Asia is not a disqualifying transaction under paragraph 4.08(2) of the Rules. (2) Upon completion of the Proposed Merger, the shareholdings of Axiata in MergeCo will increase from **nil** to **33.10%**. Additionally, pursuant to the SHA to be entered into between the SHA Parties, upon completion of the Proposed Merger, Telenor Asia and its holding companies will be deemed PAC to Axiata pursuant to subsection 216(2) of the CMSA. Axiata together with Telenor Asia will collectively hold 66.20% of the equity interest in the MergeCo. In accordance with subsection 218(2) of the CMSA and subparagraph 4.01(a) of the Rules, Axiata and the Axiata PACs, will be obliged to undertake the Mandatory Offer upon the SPA becoming unconditional. e) Where the transactions contemplated by the SPA amount to a significant change in business direction or policy of Digi, the SC grants its approval to Digi pursuant to subsection 212(2)(d) of the CMSA. f) Bursa Securities grants its approval for the listing of and quotation for Consideration Shares on Bursa Securities.	(ii) Clauses (d) to (i) are justifiable as to ensure they are in compliance with the Rules, CMSA, Listing Requirements and CMA, where both Digi and Celcom have to obtain all consents, approvals and/or notification from the Government or any regulatory bodies governing the financial markets and telecommunications industry in relation to the Proposals;

No	Salient terms of the SPA	AmInvestment's comments
	g) The MCMC, pursuant to the CMA, issues the following in connection with the relevant transactions contemplated by the SPA:- (i) a notice of no-objection under paragraph 6.4 of the Guidelines on Mergers and Acquisitions; or (ii) authorisation of conduct under section 140 of the CMA and Guidelines on Authorisation of Conduct. h) The Minister of Communications and Multimedia confirms that its approval is not required, or if such approval is required it has been obtained, for any modifications, deviations or variations required to be made to the licences or terms attached to the licenses issued pursuant to the CMA held by the members of the Digi Group and the members of the Celcom Group in connection with the relevant transactions contemplated by the SPA. i) The Minister of Communications and Multimedia or the MCMC (as the case may be) either confirms there is no change in the shareholding, major or substantial shareholding of each of the following for the purposes of their respective approvals, licences and spectrum assignments issued under the CMA or the Minister of Communications and Multimedia or the MCMC (as the case may be) grants its approval or concurrence to a change of shareholding, major or substantial shareholding of each of the following for the purposes of their respective approvals, licences and spectrum assignments issued under the CMA, in respect of the relevant transactions contemplated by the SPA:- (i) the members of the Celcom Group; and (ii) the members of the Digi Group.	
	j) Since the date hereof, no event that has a material adverse effect on, amongst others (i) the business, assets and liabilities, results of operations or financial condition of the Digi Group, taken as a whole or (ii) the ability of Digi to perform its obligations under the SPA ("**Digi Material Adverse Effect**") has occurred which is continuing. k) Since the date hereof, no event that has a material adverse effect on, amongst others, (i) the business, assets and liabilities, results of operations or financial condition of the Celcom Group, taken as a whole or (ii) the ability of Axiata to perform its obligations under the SPA ("**Celcom Material Adverse Effect**") has occurred which is continuing.	(iii) Clauses (j) to (m) are justifiable as they provide assurance at a point in time by Digi and Axiata as to the state of affairs of past, present or future facts and the nature of their businesses or assets. A breach of which gives the other party the right to claim damages as stipulated in the indemnity clause in the SPA;

No	Salient terms of the SPA	AmInvestment's comments
	l) The warranties given by Digi in accordance with the terms of the SPA ("**Digi Warranties**") shall be true, accurate and not misleading as at the Closing Date as though made on the Closing Date (except with respect to Digi Warranties which speak as to an earlier date or dates, in which case such Digi Warranties shall be true, accurate and not misleading as of such earlier date or dates), except where the failure of any Digi Warranty (individually or in the aggregate) to be true, accurate and not misleading as at the Closing Date has not had and would not reasonably be expected to have a Digi Material Adverse Effect. m) The warranties given by Axiata in accordance with the terms of the SPA ("**Axiata Warranties**") shall be true, accurate and not misleading as at the Closing Date as though made on the Closing Date (except with respect to Axiata Warranties which speak as to an earlier date or dates, in which case such Axiata Warranties shall be true, accurate and not misleading as of such earlier date or dates), except where the failure of any Axiata Warranty (individually or in the aggregate) to be true, accurate and not misleading as at the Closing Date has not had and would not reasonably be expected to have a Celcom Material Adverse Effect.	In addition, we are of the view that the Conditions to be satisfied in relation to the material adverse effects of Digi and Celcom, which include but not limited to any change in the applicable laws and MFRS, any change in interest rates or economic, political, business or financial market conditions, any natural disaster, and any acts of terrorism or war, in order for the Closing to take place are justifiable as those events are external factors (not within the control of Digi or Celcom) which may materially affect their businesses and financials as a whole, and cause the Proposed Merger becoming unfavourable. Further, the mutual warranties provided by both Digi and Axiata as a condition to Closing is acceptable in view that the transaction is a merger transaction. In any event if either party is unable to fulfil such condition, both Digi and Axiata have the same rights to not proceed with the Proposed Merger.

No	Salient terms of the SPA	AmInvestment’s comments
	n) In respect of the USD1,000,000,000 3.064 per cent Guaranteed Notes due 19 August 2050 (the “**Axiata 2050 Notes**”) issued by Axiata SPV5 (Labuan) Limited, the noteholders pass an extraordinary resolution in accordance with the terms of the Axiata 2050 Notes Trust Deed amending and/or waiving certain provisions of the Axiata 2050 Notes Trust Deed in relation to the Proposed Merger. o) In respect of the USD500,000,000 4.357 per cent Sukuk due 24 March 2026 (the “**Axiata 2026 Sukuk**”) issued by Axiata SPV2 Berhad, the sukukholders pass an extraordinary resolution in accordance with the terms of the Axiata 2026 Sukuk Declaration of Trust amending and/or waiving certain provisions in the Axiata 2026 Sukuk Declaration of Trust and other related documents in relation to the Proposed Merger. p) In respect of USD500,000,000 2.163 per cent Sukuk due 19 August 2030 (the “**Axiata 2030 Sukuk**”) issued by Axiata SPV2 Berhad, the sukukholders pass an extraordinary resolution in accordance with the terms of the Axiata 2030 Sukuk Declaration of Trust amending and/or waiving certain provisions in the Axiata 2030 Sukuk Declaration of Trust and other related documents in relation to the Proposed Merger. q) the written consent, waiver and/or amendment from International Finance Corporation (“**IFC**”) and Robi Axiata Limited in relation to the Proposed Merger under the Deed of Guarantee and Subordination dated 14 December 2015 in favour of IFC and under the Deed of Guarantee and Subordination dated 8 December 2020 in favour of IFC. r) In respect of the US$ 600,000,000 and RM 867,000,000 Syndicated Multi Currency Shariah-Compliant Sustainability-Linked Financing Facilities between Axiata, as customer and Oversea Chinese Banking Corporation Limited, Labuan Branch, MUFG Bank (Malaysia Berhad); and Maybank Islamic Berhad as original financiers, the written consent, waiver and/or amendment from the financier(s) whose commitments aggregate more than 66 2/3% of the total commitments in relation to the Proposed Merger under the facility agreement dated 5 May 2020. s) In respect of the RM50,000,000 bank facilities (bank guarantee and letter of credit) granted by Malayan Banking Berhad (“**MBB**”) to Celcom under the letter of offer dated 1 March 2013, the written consent, waiver and/or amendment from MBB in relation to the Proposed Merger.	(iv) Clauses (n) to (s) are jusifiable as they ensure that all necessary approvals, consents or waivers are obtained from the noteholders, sukukholders, IFC and financiers respectively for the Guarantee Notes, Sukuk and facilities utilised to finance Celcom in view of the Proposed Merger;

No	Salient terms of the SPA	AmInvestment's comments
	t) Bank Negara Malaysia grants its written approval (or where applicable, a letter of no-objection) pursuant to section 32 of the Money Services Business Act, 2011 (the "**MSB BNM Approval**") for (i) the transfer by the relevant member of the Celcom Group of the Merchantrade Shares (as defined in paragraph 4(a) below) to either (a) Axiata or its affiliate(s) or nominee(s); or (b) only if the approval in sub-paragraph (i)(a) is denied, any one or more of the other shareholders of Merchantrade; or (ii) only if the approvals in sub-paragraph (i) are denied, any change in substantial interest in Merchantrade Shares as a result of the transfer of the Celcom Shares at Closing, in each case, to the extent such approval is required. **Note:** As at 27 October 2022, all Conditions have been fulfilled, save for the Conditions as set out in paragraph 3.1(a), (b), (c), (d)(i)(A), (d)(ii), (j), (k), (l) and (m) above. For further details on the Conditions relating to application to the authorities, please refer to Section 1 of Appendix XII of the Circular. The Condition as set out in paragraph 3.1(i) above is deemed fulfilled based on the approval, confirmations and acknowledgements received from the MCMC and the Minister as set out in Section 1 (iii) of Appendix XII of the Circular. Kindly refer to Section 1 (iii) of Appendix XII of the Circular for more details. In addition, the Condition as set out in paragraph 3.1(h) above is deemed fulfilled as there are no modifications, deviations or variations required to be made to the licences or terms attached to the licenses issued pursuant to the CMA held by the members of the Digi Group and the members of the Celcom Group based on the approval, confirmations and acknowledgements received from the MCMC and the Minister as set out in Section 1 (iii) of Appendix XII of the Circular. For information, the fulfilment of the Conditions as set out in paragraphs 3.1(j), (k), (l) and (m) above, can only be determined upon all other Conditions being met.	(v) Clause (t) is justifiable as it is in compliance with the Money Services Business Act, 2011 for Axiata to obtain approval from BNM for the transfer of Merchantrade shares; and

No	Salient terms of the SPA	AmInvestment's comments
	3.2 Termination If the Conditions have not been satisfied or waived by 31 December 2022 or such other date as mutually agreed in writing between Digi and Axiata or if any government agency has taken action that results in any Condition becoming incapable of satisfaction, either party may terminate the SPA by giving written notice to the other parties in accordance with and subject to the terms of the SPA.	(vi) The "Termination" clause is justifiable as it entitles either party to terminate the SPA in the event the Conditions Precedent are not fulfilled. Further, we also note that due diligence has been carried out on Celcom to protect Digi in relation to any adverse findings discovered during the due diligence exercise so as to prevent unnecessary risks or losses to Digi arising from the Proposed Merger.
4	<u>**Celcom Group Reorganisation**</u> Prior to Closing:- a) Axiata shall prior to Closing procure Celcom and/or the relevant member of the Celcom Group to sell, assign and transfer its entire equity interest in Merchantrade (representing approximately 20.00% of the issued shares of Merchantrade) (the "**Merchantrade Shares**") to Axiata or any of its affiliates or nominees or if required, any other shareholder of Merchantrade for cash consideration of RM1.00 (or such other consideration that Axiata reasonably considers appropriate), free of all encumbrances and with all rights attaching on and from the date of such sale, assignment and transfer, provided that:- (i) in the event that Celcom or any relevant member of the Celcom Group receives any funds or other consideration (x) in connection with the sale, assignment or transfer of the Merchantrade Shares; or (y) that arise as a result of any member of the Celcom Group having been a shareholder of Merchantrade, Celcom shall, and shall procure that the relevant member of the Celcom Group shall as soon as reasonably practicable within the specified period in the SPA, pay an amount equal to the funds or other consideration received to Axiata (such obligation, the "**Merchantrade Proceeds Repayment Obligation**"); and (ii) prior to Closing, at Axiata's option, the transfer of the Merchantrade Shares may be affected by way of a dividend in specie to Axiata.	We note that Axiata shall prior to completion of the Proposed Merger procure Celcom and/or the relevant member of Celcom Group to transfer Merchantrade Shares to Axiata or any of its affiliates or nominees. Additionally, Axiata shall procure that Celcom and/or the relevant member of Celcom Group ceases to be a member of the Axiata Foundation. This clause is justifiable and it serves to protect the interest of Digi as it absolves Digi from being liable for the costs and expenses associated with the transfer of Merchantrade Shares and the cessation of the membership of Axiata Foundation.

No	Salient terms of the SPA	AmInvestment's comments
	b) Axiata shall procure that Celcom and/or the relevant member of the Celcom Group ceases to be a member of the Axiata Foundation for no consideration, provided that in the event that Celcom or any relevant member of the Celcom Group receives any funds or other consideration (i) in connection with the cessation of its membership of the Axiata Foundation; or (ii) that arise as a result of any member of the Celcom Group having been a member of the Axiata Foundation, Celcom shall, and shall procure that the relevant member of the Celcom Group shall as soon as reasonably practicable within the specified period in the SPA, pay an amount equal to the funds or other consideration received to Axiata. (Sub-paragraphs (a) and (b), together, being the "**Celcom Group Reorganisation**"). c) Following Closing, Axiata shall in accordance with the terms of the SPA, indemnify each member of the Digi Group (which shall include any member of the Celcom Group) against all losses directly incurred or suffered by each of them arising out of, or as a result of:- (i) (x) the implementation and execution of the Celcom Group Reorganisation; and/or (y) to the extent applicable under paragraph 4.1(d) below, the Merchantrade Post-Closing Sale Process and the related sale and transfer of the Merchantrade Shares; and/or (z) the Celcom Group having been a shareholder of Merchantrade or a member of the Axiata Foundation prior to Closing; and/or (ii) any out-of-pocket costs or expenses incurred by any member of the Celcom Group directly arising out of, amongst others, (x) the steps involved in the Celcom Group Reorganisation; and/or (y) to the extent applicable under paragraph 4.1(d) below, the Merchantrade Post-Closing Sale Process and the related sale and transfer of the Merchantrade Shares, subject to the terms of the SPA. d) If Axiata has been unable to effect the transfer of the Merchantrade Shares to Axiata, any of its affiliates or nominees, or any other shareholder of Merchantrade (as applicable) before Closing due to an outstanding MSB BNM Approval, Axiata may complete the transfer of the Merchantrade Shares as soon as reasonably practicable following MSB BNM Approval for such transfer to Axiata, or any of its affiliates or nominees, or any other shareholder of Merchantrade (as applicable) being obtained after Closing on the same basis as if it had been obtained prior to Closing, and otherwise in accordance with the terms of the SPA; provided that in the event that on or before Closing:- (i) MSB BNM Approval for such transfer of Merchantrade Shares to Axiata or any of its affiliates or nominees, or any other shareholder of Merchantrade (as applicable) is denied; and	Further, Digi Group will also be indemnified against all losses directly incurred or suffered by it arising out of, or as a result of the implementation and execution of the Celcom Group Reorganisation in accordance with the terms of the SPA.

No	Salient terms of the SPA	AmInvestment's comments
	(ii) MSB BNM Approval under sub-paragraph (ii) of paragraph 3.1(t) is obtained, then following Closing:- (i) the relevant member of the Celcom Group shall as soon as reasonably practicable following Closing commence a sales process to sell and transfer the Merchantrade Shares to a third party (which may be another existing shareholder of Merchantrade) (the "**MT Post-Closing Sale Process**"); and (ii) Axiata shall, and shall be exclusively entitled to, manage, conduct and pursue the MT Post-Closing Sale Process (at its own cost, pursuant to the terms of the SPA), and the sale and transfer of the Merchantrade Shares pursuant thereto and the proceeds of such sale and transfer of the Merchantrade Shares shall be included in and subject to the Merchantrade Proceeds Repayment Obligation.	
5	<u>**Intra-Group Arrangements**</u> 5.1 Axiata shall procure that, prior to or on Closing, unless otherwise agreed by the parties in writing or contemplated in the transaction documents, essentially, all Axiata intra-group contracts (other than in relation to certain Axiata continuing arrangements or pursuant to any related party transactions that Axiata is permitted to enter into between the date of the SPA and the Closing in compliance with the SPA) are terminated and of no further force and effect such that each Celcom Group member and each Axiata Group member are released and fully discharged and have no further rights, liabilities or obligations in respect thereof. 5.2 Digi shall procure that, prior to or on Closing, unless otherwise agreed by the parties in writing or contemplated in the transaction documents, all Telenor intra-group contracts (other than in relation to certain Telenor continuing arrangements or pursuant to any related party transactions that Telenor is permitted to enter into between the date of the SPA and the Closing in compliance with the SPA) are terminated and of no further force and effect such that each Digi Group member and each Telenor Group member are released and fully discharged and have no further rights, liabilities or obligations in respect thereof.	This clause is justifiable as it serves to ensure that all intra-group arrangements are settled or terminated prior to the completion of the Proposed Merger. This is to eliminate the potential conflict of interest involving MergeCo Group moving forward.

No	Salient terms of the SPA	AmInvestment's comments
6	**<u>Closing</u>** Completion of the transfer of the Celcom Shares to Digi, the issuance of Consideration Shares by Digi to Axiata and Telenor Asia, the payment of the Cash Consideration by Digi to Axiata in accordance with the terms of the SPA and the payment of the 0.63% Digi Shares Cash Consideration by Telenor Asia to Axiata pursuant to the MTA ("**Closing**") shall take place at 9:00 am on the last day of the earliest calendar month in which both (i) the Conditions at paragraphs 3.1(a) to (i), and (n) to (t) ("**Relevant Conditions**") have been satisfied or waived (in accordance with the terms of the SPA); and (ii) the Interim Adjustment Amount has been agreed by the parties or finally determined by the independent expert appointed by the parties (in each case in accordance with the terms of the SPA), or at such other place at such other time and/or on such other date as the parties may mutually agree in writing.	This clause is justifiable as it sets out the closing timeframe and all the obligations and necessary steps to be performed/taken during the closing period for the completion of the Proposed Merger.
7	**<u>TSDTR Litigation</u>** **7.1 TSDTR Indemnity** Axiata shall indemnify and keep indemnified each member of the Digi Group or Celcom Group member, and pay to them on demand, any losses incurred (but excluding indirect, consequential, punitive, special or aggravated losses) or any money or other consideration which may have to be provided by any member of the Digi Group or member of the Celcom Group resulting out of or arising from the TSDTR Litigation (the "**TSDTR Indemnity**"). Other than as specified in the SPA, no provision of the SPA shall qualify or limit the liability of the parties in relation to any claim under the TSDTR Indemnity, provided that the parties shall comply with paragraph 7.2[(1)] in relation to the Main Suit 1 and Main Suit 2 (collectively "**TSDTR Litigation**") and the TSDTR Indemnity and any breach or non-compliance of Digi of paragraph 7.2 shall to that extent, reduce the liability of Axiata and the amount Axiata would be required to pay under the TSDTR Indemnity. **<u>Note:-</u>** (1) Paragraph 7.2 is in relation to the post-closing conduct in respect of the TSDTR Litigation (i.e. Main Suit 1 and Main Suit 2). It essentially obliges Digi to grant Axiata the right to conduct the TSDTR Litigation including assessing, contesting, disputing, defending, pursuing, compromising, settling or appealing any claim in connection with the TSDTR Litigation at Axiata's expense and by Axiata's own counsel.	This clause is justifiable as the indemnity provided by Axiata serves to protect Digi from incurring losses arising from the TSDTR Litigation. We view that the risk relating to the TSDTR Litigation (if ever crystalised) is reasonably mitigated with the indemnity arrangement as stipulated in the SPA.

No	Salient terms of the SPA	AmInvestment's comments
	Further, Axiata is given the right to settle, compromise, defend, pursue or avoid such dispute and to conduct, pursue and/or agree any defence, settlement, compromise or appeal (or defend counterclaims) relating to the TSDTR Litigation in the name and on behalf of Celcom (and/or any member of the Celcom Group), and if MergeCo Group receives any money or consideration in respect of the TSDTR Litigation and TSDTR Counterclaim (whether provided as a result of a settlement, insurance or any judgment or order) (collectively "**Claim Proceeds**"), Digi shall pay the Claim Proceeds to Axiata, which shall be treated as an adjustment to the Cash Consideration. **7.2 Post-closing conduct in respect of the TSDTR Litigation** a) Following the Closing, until such time as any final compromise, settlement, expert determination or final, non-appealable decision, order or award of a court or tribunal is made in respect of the TSDTR Litigation (or the TSDTR Litigation is otherwise finally disposed of):- (i) Digi will grant to Axiata an exclusive right to conduct the TSDTR Litigation (including the assessing, contesting, disputing, defending, pursuing, compromising, settling or appealing any claim in connection with the TSDTR Litigation) at Axiata's expense and by Axiata's own counsel and, Digi shall cooperate in good faith in connection therewith; and (ii) Axiata shall have the right to take such action as it deems necessary or advisable to settle, compromise, defend, pursue or avoid such dispute and to conduct, pursue and/or agree any defence, settlement, compromise or appeal (or defend counterclaims) relating to the TSDTR Litigation in the name and on behalf of Celcom (and/or any member of the Celcom Group). b) Each party shall (i) to the extent reasonably practicable, consult with the other party in relation to the conduct of any dispute, defence, counterclaim, compromise, settlement or appeal of the TSDTR Litigation; and (ii) from time to time, upon reasonable request of the other party, provide such other party with such information that it or any other member of its Group (including in the case of Digi, Celcom Group) may possess as to the progress of the TSDTR Litigation.	

No	Salient terms of the SPA	AmInvestment's comments
	c) Following the Closing, in the event that Digi, Celcom or any member of the Digi Group or the Celcom Group receives any money or other consideration in respect of the TSDTR Litigation and TSDTR Counterclaim (whether provided as a result of a settlement, insurance or any judgment or order) (collectively "**Claim Proceeds**"), Digi shall as soon as reasonably practicable and in any case within the specified period under the SPA pay an amount equal to such Claim Proceeds to Axiata and such Claim Proceeds shall be treated by Axiata and Digi, to the extent possible, as an adjustment to the Cash Consideration.	

Based on the above, we are of the view that the salient terms of the SPA are justifiable.

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7.5.2 Salient terms of the MTA

Further we note that Telenor Asia, Telenor and Axiata have entered into the MTA to facilitate the Proposed Merger. The MTA primarily sets out the terms on the Share Equalisation Arrangement in which upon completion of the Share Equalisation Arrangement, Telenor Asia and Axiata will each have an equal shareholding of 33.10% in the MergeCo. The salient terms of the MTA are disclosed in Appendix XI of the Circular. We have evaluated the salient terms of the MTA in its entirety and have summarised our comments on the salient terms of the MTA as follows:-

No	Salient terms of the MTA	AmInvestment's comments
1	<u>Celcom-Digi Combination</u> Axiata and Digi have entered into the SPA pursuant to which (i) the Celcom Shares held by Axiata shall be transferred to Digi, (ii) the 33.10% Digi Shares will be issued to Axiata and 0.63% Digi Shares will be issued to Telenor Asia (being Axiata's nominee) against payment by Telenor Asia to Axiata of the 0.63% Digi Shares Cash Consideration and (iii) the Cash Consideration shall be paid to Axiata on Closing (as defined in paragraph 6 of section A of Appendix XI of the Circular) ("**Proposed Celcom-Digi Combination**"). The MTA is entered into between Telenor Asia, Telenor and Axiata for the purposes of, amongst others, facilitating the Proposed Celcom-Digi Combination and the Proposed Equalisation Sale (as defined below).	This clause is justifiable as it stipulates payment arrangement pursuant to the Shares Equalisation Arrangement between Telenor, Telenor Asia and Axiata, in which Telenor Asia and Axiata will have an equal ownership of 33.10% each in the MergeCo upon completion of the Proposed Merger.
2	<u>Telenor Support</u> Telenor shall, and shall procure that Digi, Telenor Asia and each of Telenor Asia's affiliates (each to the extent applicable) shall, cooperate with Axiata and its affiliates (including Celcom and the other members of the Celcom Group except for Merchantrade and Axiata Foundation) for the purposes of achieving the Closing in accordance with the SPA (including cooperating in connection with the satisfaction by Digi of its obligations in connection with the Conditions set out in paragraphs 3.1(a) and 3.1(b) of section A of Appendix XI of the Circular.	This clause is justifiable as it ensures that Telenor to provide necessary cooperation and Digi to satisfy its obligations in connection with the Conditions set out in the SPA, for the purposes of achieving Closing in accordance with the SPA.
3	<u>Axiata Support</u> Axiata shall, and shall procure Celcom and each of Axiata's affiliates (each to the extent applicable) to, cooperate with Telenor and its affiliates (including Telenor Asia and Digi and each other member of the Digi Group) for the purposes of achieving the Closing in accordance with the SPA.	This clause is justifiable as it ensures that Axiata Group to provide necessary cooperation with Telenor and its affiliates for the purposes of achieving Closing in accordance with the SPA.

No	Salient terms of the MTA	AmInvestment's comments
4	<u>Digi Name Change</u> Each of Telenor Asia and Axiata shall, to the extent that it is within their respective powers to do so, (a) use their respective reasonable efforts to procure, as promptly as practicable after Closing but in any event within three months of the Closing Date, that Digi establish a record date for, duly call, give notice of, convene and hold a shareholders meeting (including any adjournment or postponement thereof) ("**Name Change EGM**") and if necessary establish a record date for, duly call, give notice of, convene and hold another shareholders meeting (including any adjournment or postponement thereof) ("**Second Name Change EGM**") for the purposes of passing a special resolution to change the name of Digi from "Digi.Com Berhad" to "Celcom Digi Berhad" promptly following such meeting ("**Name Change**") and (b) take all other actions necessary or advisable following such shareholders' approval to effect the Name Change. Each of Telenor Asia and Axiata hereby agree and undertake to vote in favour of such Name Change at the Name Change EGM or any Second Name Change EGM.	This clause is justifiable as the transaction is deemed as a merger between Digi and Celcom, and it has been agreed under the SPA, that after the completion of the Proposed Merger, Digi shall convene and hold a shareholders meeting as promptly as reasonably practicable following the completion of the Proposed Merger but in any event within three (3) months after the completion of the Proposed Merger, for the shareholders to consider a resolution to change the name of Digi from "Digi.Com Berhad" to "Celcom Digi Berhad".
5	<u>Equalisation Sale</u> In consideration of Axiata nominating Telenor Asia to receive the 0.63% Digi Shares to be issued by Digi directly to Telenor Asia subject to, and on the terms and conditions of the SPA, Telenor Asia shall (a) subscribe for the 0.63% Digi Shares; and (b) pay Axiata the 0.63% Digi Shares Cash Consideration in accordance with the terms of the MTA ("**Proposed Equalisation Sale**").	This clause is justifiable as it stipulates payment arrangement pursuant to the Shares Equalisation Arrangement between Telenor, Telenor Asia and Axiata as recorded in the MTA and all the Consideration Shares and the 0.63% Digi Shares will be issued free from all encumbrances and together with all rights attaching to them from Closing.
6	<u>Equalisation Closing</u> The closing of the Proposed Equalisation Sale pursuant to the MTA ("**Equalisation Closing**") shall occur on the Closing Date (as defined in paragraph 2.2 of section A of Appendix XI of the Circular) at the same venue as, and concurrently with the Closing under the SPA.	This clause is justifiable as it sets out the closing timeframe and all the obligations and necessary steps to be performed/taken during the closing period for the completion of the Proposed Merger.

No	Salient terms of the MTA	AmInvestment's comments
7	<u>Performance guarantee</u> Telenor as primary obligor (and not as surety only) absolutely, unconditionally and irrevocably, for the benefit of Axiata (a) guarantees to Axiata the payment when due of all amounts payable by Telenor Asia under the MTA; (b) undertakes to cause Telenor Asia to be bound by and comply with each of the provisions of the MTA; (c) undertakes to ensure the due, punctual and full performance by Telenor Asia, and if applicable, by each of Telenor's affiliates, of all their respective obligations under or pursuant to the MTA; and (d) agrees to indemnify Axiata against all losses, costs, claims and damages sustained by it flowing from any non-payment or default of any kind by Telenor Asia under or pursuant to the MTA.	This clause is justifiable as it ensures Telenor and each of its affiliates to fulfil all obligations and comply with each of the provisions of the MTA, including to make the payment in timely manner in accordance with the terms and provisions under the MTA.
8	<u>Termination</u> The MTA may be terminated at any time prior to the Equalisation Closing: (a) automatically and immediately if the SPA is terminated in accordance with its terms; or (b) upon the mutual written consent of the parties.	This clause is justifiable as it entitles either party to terminate the MTA in the event the SPA is terminated in accordance with its terms or upon the mutual written consent by either party.

Based on the above, we are of the view that the salient terms of the MTA are justifiable and not detrimental to the Non-Interested Shareholders as the purpose of the MTA is essential to facilitate the Shares Equalisation Arrangement.

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7.5.3 Salient terms of the SHA

In connection with and upon completion of the Proposed Merger, Telenor Asia, Telenor and Axiata will also enter into the SHA with each other to establish their respective rights and obligations with respect to the activities and governance of the MergeCo Group as well as ownership and disposition of the MergeCo's securities. The SHA includes the Merger Integration Plan which facilitates the strategic alignment between the SHA Parties post completion of the Proposed Merger. The salient terms of the SHA are disclosed in Appendix XI of the Circular. We have evaluated the salient terms of the SHA in its entirety and have summarised our comments on the salient terms of the SHA as follows:-

No	Salient terms of the SHA	AmInvestment's comments
1	Parties to the SHA The SHA is to be entered into on the completion of the Closing (as defined in paragraph 6 of Section A of Appendix XI of the Circular and the Equalisation Closing (as defined in paragraph 6 of Section B of Appendix XI of the Circular) between, Axiata and Telenor Asia (each a "**Shareholder Party**", and together the "**Shareholder Parties**") and Telenor ("**Telenor Asia Guarantor**" together with the Axiata Guarantor solely in the case of a Permitted Transfer (as defined in paragraph 5.2 below) by Axiata) and the Shareholder Parties each a "Party", and collectively the "**Parties**"). For reference, "**Axiata Guarantor**" means, in case of a Permitted Transfer by Axiata pursuant to the terms of the SHA, Axiata. The Parties agree to enter into the SHA to establish their respective rights and obligations with respect to the activities and governance of MergeCo (which is to be renamed "Celcom Digi Berhad") and its subsidiaries and ownership and disposition of the MergeCo's securities.	This clause is justifiable as it discloses the parties to be involved within the SHA, where upon completion of the Proposed Merger, Telenor Asia, Telenor and Axiata will enter into the SHA with each other to establish their respective rights and obligations with respect to the activities and governance of the MergeCo Group as well as ownership and disposition of the MergeCo securities as stated in the clause.

No	Salient terms of the SHA	AmInvestment's comments
2	Governance Matters 2.1 <u>Board composition</u>. Each Shareholder Party shall, before nominating a director of the MergeCo ("**Director**"), consult with, provide relevant information about the proposed Director and give the other Shareholder Party a reasonable opportunity to express any concern as to such proposed Director's suitability. Each Shareholder Party shall procure that the board of directors of the MergeCo ("**Board**") shall consist of ten (10) Directors to be nominated by a Shareholder Party or jointly nominated by the Shareholder Parties, as the case may be. 2.2 <u>Independent Directors</u>. The Board shall at all times comprise at least one-third independent non-executive Directors or such other higher fraction of independent non-executive Directors as may be prescribed by applicable laws. The Shareholder Parties agree to act in good faith in considering suitably qualified Malaysian citizens to serve on the Board as independent non-executive Directors; provided that there shall be no mandatory requirement for such independent non-executive Directors to be Malaysian citizens and the Shareholder Parties will seek to appoint directors who they believe in good faith are suitably qualified candidates.	Clauses 2.1 to 2.2 are justifiable as the SHA indicated the number of Directors required to be nominated by Shareholder Parties for the Board. On the same note, the SHA has also stated that the Board shall at all times comprise at least one-third independent non-executive Directors which is in pursuant to paragraph 3.04 and 15.02 of the Listing Requirements. This in turn would enable opportunity to the Board to nominate suitable candidates to take on the roles upon consultation with the Shareholder Parties. While it is noted that the proposed board composition of MergeCo is in compliance with the Listing Requirements, nevertheless, it has not adopted recommendation of the Malaysian Code on Corporate Governance ("**MCCG**") pursuant to Practice 5.2 of the MCCG where the board shall comprise a majority of independent directors. We are of the view that the Board of MergeCo shall comprise majority independent directors.

No	Salient terms of the SHA	AmInvestment's comments
		Notwithstanding the above, we understand that Telenor and Axiata will support that the proposed Board of MergeCo considers adopting Practice 5.2 of the MCCG within 3 years after completion of the Proposed Merger, subject to the integration progress and the overall aim to secure a board composition that seeks an optimal balance of competencies, diversity and independence in the Board of MergeCo as well as the respective Board Committees of the MergeCo. This is to ensure that the Board decisions are made objectively in the best interests of the MergeCo taking into account diverse perspectives and insights.
	2.3 <u>CEO and Deputy CEO ("**DCEO**")</u>. The initial CEO of the MergeCo shall be selected by Axiata (after consultation with Telenor Asia) and the initial DCEO of the MergeCo shall be selected by Telenor Asia (after consultation with Axiata).	Clause 2.3 is justifiable as it ensures that a suitable candidate for the role of the initial CEO and DCEO of the MergeCo is nominated by Axiata and Telenor Asia respectively upon consultation with the Shareholder Parties i.e., Telenor Asia and Axiata respectively. This allows both parties to provide input in selection of CEO and DCEO and vice versa without biasness.

No	Salient terms of the SHA	AmInvestment's comments
	2.4 Reserved Matters. The SHA contains provisions relating to reserved matters (such as, increase in authorised share capital, creation of new class of share capital or equity securities, variation of rights attaching to the share capital or equity securities, changes to the size of the board or any board committee or creation or dissolution of any board committee, declaration or payment of any dividend or other distribution, changes to dividend policy, any acquisition, sale, disposition or transfer of any assets, shares or business or merger, consolidation, scheme of arrangement, amalgamation, combination or similar transaction or any transaction involving a change of Control, or entry into, amendment or termination by any group company of any joint venture, partnership, strategic alliance or other strategic relationship, if significant to the company group and outside the ordinary course of business) that no consideration, action or decision relating to any of these matters shall be taken with respect to any group company (whether by any Director (or his alternate), any director, officer, any employee or any other representative of any group company or by any Shareholder Party or any of its affiliates or any of their respective representatives), without, (a) the approval of the Board; (b) the prior written approval of Axiata for as long as Axiata and its affiliates holds at least the prescribed minimum percentage of Outstanding Shares in the MergeCo; and (c) the prior written approval of Telenor Asia for as long as Telenor Asia and its affiliates holds at least the prescribed minimum percentage of Outstanding Shares in the MergeCo. For reference: (a) "**Outstanding Shares**" means, as of the date of determination, the Shares that are then issued and outstanding (excluding any Shares issued and allotted pursuant to any MergeCo employee share option scheme or other equity incentive plan); and (b) "**Shares**" means ordinary shares of the MergeCo and any other classes or series of shares in the capital of the MergeCo into which such shares are reclassified or converted (including by merger or otherwise) from time to time, together with all rights, differential rights, obligations, titles, interests and claims in such shares and all bonus shares issued in respect of such shares and shares issued pursuant to a stock split, combination or other reclassification in respect of such shares and (c) "Control" (including, with its correlative meanings, the terms "controlling", "controlled by" and "under common control with") means (i) a holding of a direct or indirect interest in the majority of the equity, voting, beneficial or financial interests of the relevant entity through ownership, contract, credit arrangement or otherwise; (ii) a holding of the direct or indirect right to appoint or remove a majority of the board of directors or members of an equivalent management body of the relevant entity or directors or members of an equivalent management body which hold the majority of the votes of the board or equivalent management body of the relevant entity; or (iii) the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the relevant entity.	Clause 2.4 is justifiable as it ensures and safeguards decisions via unanimous agreements from the parties to the SHA through approval of the Board and prior written approval of Axiata and Telenor Asia for as long as each party and their affiliates hold at least the prescribed minimum percentage of the Outstanding Shares in the MergeCo whereby neither party's rights to decisions would be undermined. We are of the view that the clause would not undermine the fiduciary duties of the Board, who were nominated by Telenor Asia and/or Axiata to Digi. Every director of a company is under a fiduciary duty to, at all times, exercise his/her powers for a proper purpose and in good faith in the best interest of the company as stipulated under the Act.

No	Salient terms of the SHA	AmInvestment's comments
		Further, pursuant to the Listing Requirements, a director with any interest, direct or indirect, is prohibited from deliberations and voting on a resolution in respect of a related party transaction and any transactions or arrangements that may trigger any of the rule listed in the Listing Requirements which affect the minority shareholders' interests will be dealt accordingly as prescribed by the Listing Requirements. All non-interested shareholders can exercise their rights through voting at the annual general meeting/EGM of MergeCo.
	2.5 Deadlock. If the Shareholder Parties or the Board is unable to make a decision regarding a proposed action or a proposal to take an action in relation to any reserved matter (such failure to resolve or meet, a "**Deadlock**"), then Axiata or Telenor Asia may refer the matter to the designated senior officers of the contracting parties. The designated senior officers shall discuss the Deadlock and attempt to agree on a resolution with respect to the Deadlock within the prescribed timeframe. If the Shareholder Parties or the designated senior officers cannot resolve the Deadlock, the proposal shall not proceed.	Clause 2.5 is justifiable as it sets forth the procedures for breaking the Deadlock to ensure any potential major disagreement will be resolved promptly in order for the MergeCo Group to continue carrying out its activities without interference.

No	Salient terms of the SHA	AmInvestment's comments
	2.6 Governance Policies. The Shareholder Parties shall use their reasonable endeavours to procure that the MergeCo adopts and maintains governance policies and practices ("**Governance Policies**") that reflect the highest standards of the respective governance policies adopted and maintained by each Shareholder Party as of the date of the SHA. Subject to the foregoing, the MergeCo's Governance Policies shall initially be based on Digi's existing governance policies as of the date of the MTA, which shall be amended and adapted as necessary to reflect the highest standards of the respective governance policies applicable to such Shareholder Party and adopted and maintained by such Shareholder Party's Ultimate Holding Person for such Shareholder Party as of the date of the SHA; provided that, if there is no existing Digi policy for a Governance Policy, then (if applicable) the relevant Governance Policy of the MergeCo shall initially be based on the existing Celcom governance policy as of the date of the MTA (if available), which shall be amended and adapted as necessary to reflect the highest standards of the respective governance policies adopted and maintained by each Shareholder Party as of the date of the SHA. For reference, "**Ultimate Holding Person**" means (a) in the case of Axiata or its affiliates, Axiata or (b) in the case of Telenor Asia or its affiliates, the Telenor Asia Guarantor.	Clause 2.6 is justifiable as it provides that the initial implementation of the governance policies based on Digi's existing governance policy as of the date of MTA which shall be amended and adapted as necessary to reflect the highest standard of the respective governance policies applicable to such Shareholder Party's Ultimate Holding Person to keep the MergeCo Group on track and operating efficiently to align the interest of all stakeholders.
3	Strategic Alignment 3.1 Merger Integration Plan. The MergeCo shall:- (a) implement the merger integration plan as prescribed under the SHA ("**Merger Integration Plan**"), and maintain a merger integration committee ("**Merger Integration Committee**") consisting of certain members of management of the MergeCo identified jointly by the Shareholder Parties (with equal representation among members nominated by Axiata and members nominated by Telenor Asia) to act as the principal advisory body to the CEO and DCEO and to supervise and oversee the implementation of the Merger Integration Plan. In addition, each of Axiata and Telenor shall have the right to appoint two (2) of its (or affiliates') employees as participants of the Merger Integration Committee.	Clause 3.1 is justifiable as it entitles the Shareholder Parties to have equal representation in the Merger Integration Committee to supervise and oversee the Merger Integration Plan. With this in place, it would prevent potential disputes of the Shareholder Parties, as well as to minimise any potential adverse impact to the business and operations of the MergeCo Group during and after the implementation process and to ensure a successful and speedy integration of 2 large telecommunication organisations.

No	Salient terms of the SHA	AmInvestment's comments
	(b) Ensure that its senior management meet with the group chief financial officers of each of Axiata and Telenor every month to review the financial and performance of the group companies and establish a joint technology committee ("**Joint Technology Committee**") which shall meet at least once every quarter, consisting of certain members of the management of the MergeCo, to guide the MergeCo on the appropriate and best technology and systems to be adopted. In addition, each of Axiata and Telenor shall have the right to appoint one (1) of its (or its affiliates') employee as participant of the Joint Technology Committee.	For the avoidance of doubt, the Merger Integration Committee's role in relation to the Undertaking is not included in the terms & conditions of the SHA. Notwithstanding the above, it is expected that the Merger Integration Committee will be tasked to oversee the execution of the Undertaking, subject to the approval from the Board of MergeCo upon the completion of the Proposed Merger.
	3.2 Malaysia National Innovation Center. It shall be an objective of the MergeCo and its subsidiaries to accelerate technology transformation and digitalisation in Malaysia by establishing a "National Innovation Center" within the prescribed period under the SHA to foster technology transformation and digitalisation in Malaysia.	Clause 3.2 is justifiable as the Malaysia National Innovation Center sets to conduct extensive research and development, development of 5G use cases, support local digital start-ups and provide a platform to nurture the creation of a knowledge-based workforce in line with the Government MyDigital aspiration.

No	Salient terms of the SHA	AmInvestment's comments
4	<u>Standstill Restrictions</u> 4.1 The SHA contains provisions relating to standstill restrictions whereby each Shareholder Party agrees that for a period of three (3) years on and from the date of the SHA (the "**Standstill and Lock-up Period**"), such Shareholder Party shall not, and shall cause each of its affiliates and its representatives not to, except with the prior written consent of the other Shareholder Party and subject to the exceptions as set out in the SHA, amongst others, acquire or subscribe for, or agree or offer to acquire or subscribe for any Equity Securities (or the securities of any successor to or person in control of the MergeCo), any direct or indirect rights or options to acquire any Equity Securities or any forward contract, swap or other position with a value derived from the Equity Securities or a material portion of the assets of the MergeCo or of its divisions or of any such successor or controlling persons. For reference, "**Equity Securities**" means: (a) any Shares of the MergeCo, other classes of shares or other equity securities; or (b) any security, right, option, warrant, appreciation right or instrument (including debt instrument) that is exercisable for, convertible into, exchangeable for, or entitles the holder to acquire or receive, with or without consideration, any Shares, other classes of shares or other equity securities (including any option to purchase or rights to subscribe for such a convertible or exchangeable security) of the MergeCo.	This clause is justifiable as it sets out the restrictions to both Telenor Asia and Axiata, and their affiliates and representatives within the Standstill and Lock-up Period in acquiring, subscribing or offering any Equity Securities. With the absence of the clause, it would be detrimental for the Proposed Merger to sustain in the event of any subscription which may result in complexity in additional Shareholder Parties. All in all, it provides a protection plan to the parties of the SHA from unwanted takeover attempts by other potential acquiror and ensure stability to the MergeCo without altering the group structure.

No	Salient terms of the SHA	AmInvestment's comments
5	<u>Transfer of Shares</u> 5.1 <u>Restriction on Transfers</u>. No Party shall make or attempt to effect any transfer of all or any portion of any Equity Securities owned or otherwise held by such Party, except in accordance with the provisions of the SHA. 5.2 <u>Permitted Transfer</u>. Subject to the provisions of the SHA, each of the Parties agrees, amongst others, that if it or any of its affiliates transfers any Equity Securities pursuant to a Permitted Transfer, the guarantor for that Party's group guarantees the performance of the SHA by such Permitted Transferee under the provisions of the SHA. Notwithstanding paragraph 5.1 (Restriction on Transfers), the provisions set forth in, amongst others, paragraph 5.6 (Lock-up; Right of First Offer) shall not apply to transfers of shares that constitute Permitted Transfers. For reference: (a) "Permitted Transfer" means a transfer of Shares to a Permitted Transferee; and (b) "Permitted Transferee" means any entity that is or is a wholly-owned subsidiary of, the applicable Ultimate Holding Person of the Shareholder Party. 5.3 <u>Major Transfer</u>. Each of the Parties agrees that it shall not, and shall cause its affiliates not to, transfer any Equity Securities to any third party if such third party (a "**Major Transfer Buyer**" and such Transferring Party, a "**Major Transfer Seller**") and its affiliates would, following such transfer, beneficially own 23.20% or more of the Outstanding Shares (a "**Major Transfer**") unless (a) the Major Transfer Seller has complied with its obligations under paragraph 5.4 (Major Transfer Buyer and Remaining Party Discussions) and paragraph 5.6(b) (Right of First Offer); (b) the Major Transfer Buyer has executed a deed of adherence and agreed to be bound by the obligations and restrictions under the SHA as a Party; (c) the Major Transfer Buyer has agreed with the Remaining Party (as defined below) to a lock-up restriction (in substantially the same form as paragraph 5.6(a) (Lock-up)) for at least two (2)years following the date of the deed of adherence; and (d) the Major Transfer Seller has agreed to cease, or by operation of the terms of the SHA would cease, to be a Party to the SHA on and from the completion of the Major Transfer.	 Clauses 5.1 to 5.4 are justifiable as they prevent any attempt in affecting transfer/making major transfer of Equity Securities owned by the Party as this may jeopardise the position and influence of controlling parties over the Proposed Merger and resulting in appointment of unfit management on the Proposed Merger upon completion of the exercise. However, exception has been made subject to clause 5.2 Permitted Transfer under the provision of the SHA. On the same note, it was also mentioned in clauses 5.3(a) to (d) on exceptions to execute Major Transfers via written notice not less than 30 business days before entering into a binding definitive agreement for a Major Transfer.

No	Salient terms of the SHA	AmInvestment's comments
	5.4 Major Transfer Buyer and Remaining Party Discussions. No less than thirty (30) Business Days before entering into a binding definitive agreement for a Major Transfer, the Major Transfer Seller shall deliver to the other Party (the "**Remaining Party**") a written notice of its intended Major Transfer. The Major Transfer Seller shall use its reasonable endeavours to facilitate discussions between the Remaining Party and the Major Transfer Buyer on, amongst others, the following topics: (a) the Major Transfer Buyer's views on the Remaining Party's strategy for the MergeCo; (b) whether the Major Transfer Buyer is of comparable financial standing to the Major Transfer Seller and its guarantor and, if not, whether the Major Transfer Buyer can provide a suitable guarantor to establish a sufficient level of financial standing to support its obligations under the SHA; and (c) whether there would be any material adverse impact on the Remaining Party or the group companies as a result of the Major Transfer and whether any such adverse impact may be removed.	
	5.5 Transfers to Prohibited Persons. Each of the Parties agrees that it shall not and shall cause its affiliates not to knowingly transfer any Equity Securities to any person who is or whose affiliate is a competitor or a sanctioned person, provided that the restriction in this paragraph shall not apply to on-market sales by a Party on Bursa Securities in which a Party is unaware of the identity of the buyer at the time of such sale.	Clause 5.5 is justifiable as it sets out restriction for the Shareholder Parties in transferring any Equity Securities to the Prohibited Persons in-charge, competitor or a sanctioned person. This in turn would safeguard the Proposed Merger which may jeopardise the interest of the MergeCo or existing shareholders.
	5.6 Lock-up; Right of First Offer	
	(a) Lock-up. During the Standstill and Lock-Up Period, no Shareholder Party shall directly or indirectly transfer any Shares, except for Permitted Transfers. After the expiry of the Standstill and Lock-up Period, no Shareholder Party shall transfer any Shares, other than (x) with the prior written consent of the other Parties, or (y) in compliance with the provisions relating to transfer of shares under the SHA and to the extent applicable, provisions relating to right of first offer (as set out in paragraph 5.6(b) below), pledging of shares (as set out in paragraph 5.6(c) below) and provisions relating to transfer-related matters under the SHA.	Clause 5.6(a) and (b) are justifiable as they stipulate the provisions in preventing either Shareholder Party from selling their shares for a specific period of time. It further protects the Shareholder Parties and the MergeCo against excessive selling pressure by any Shareholder Parties. It also provides the Non-Transferring Shareholders with a right to either accept or refuse an offer from a Transferring Shareholder prior to offering them to third party.

No	Salient terms of the SHA	AmInvestment's comments
	(b) Right of First Offer. Subject to the provisions on transfer of shares in the SHA and the other provisions of paragraph 5.6, a Shareholder Party wishing to transfer its Shares (a "**Transferring Shareholder**") may transfer any Shares to a third party only if it first provides a notice in writing (a "**Transfer Notice**") indicating its interest to transfer such Shares (the "**Offered Shares**") to the other Shareholder Party (a "**Non-Transferring Shareholder**"). A Transfer Notice must specify, amongst others, the number of Shares proposed to be so sold, the number of Shares held by the Transferring Shareholder and its affiliates; and the price per Share (which shall be for cash consideration) and other material terms upon which the Transferring Shareholder proposes to transfer the Offered Shares (the "**ROFO Offered Terms**"). The Transfer Notice shall constitute a binding offer ("**ROFO Offer**") by the Transferring Shareholder to sell all of the Offered Shares to the Non-Transferring Shareholder. If the Non-Transferring Shareholder does not deliver the relevant acceptance notice within the prescribed acceptance period, the request in the Transfer Notice will be deemed to have been declined. Upon the ROFO Offer being declined or deemed to have been declined, the Transferring Shareholder may sell all and not some only of the Offered Shares to a third party at the same or higher price and on other terms and conditions no less favourable as a whole to the third party than those contained in the ROFO Offer, subject to the terms of the SHA.	
	(c) Pledging of Shares. Each Shareholder Party may pledge, charge, mortgage or otherwise specifically create a lien over any of its Shares in favour of a permitted financing bank (a "**Finance Party**") as security for any indebtedness or other obligation of such Shareholder Party, provided that such Finance Party shall have agreed in writing with the other Shareholder Party on behalf of it and on behalf of any other finance parties entitled to the benefit of such lien that: (i) the Finance Party shall notify such Shareholder Party before or as soon as reasonably practicable after taking steps to enforce any such lien; (ii) if the Finance Party expects to appoint an administrator, receiver, or similar office holder, it shall notify the other Shareholder Party promptly; and	Clauses 5.6(c) is justifiable as it serves to protect the interest of the Shareholding Party whereby notification must firstly be obtained in writing from the Shareholder Party by the Finance Party after creation of liens as stipulated in (i) to (iii) upon pledging of shares.

No	Salient terms of the SHA	AmInvestment's comments
	(iii) in the event that the Finance Party takes possession or otherwise causes a sale of the Shares, or if an administrator, receiver or similar office holder is appointed, the Finance Party shall comply, or shall cause any such transfer to comply, or (if applicable) shall ensure that such administrator, receiver or similar office holder agrees in writing that it shall comply, with the provisions of paragraph 5.6(b) (Right of First Offer) (as if it were the Transferring Shareholder) and paragraph 5.3 (Major Transfer) (in the event of a transfer that would result in any person (and its affiliates) beneficially owning 26.00% or more of the Outstanding Shares following such transfer), in each case in favour of the other Party.	
6	Termination The SHA shall terminate upon the occurrence of any of the following events:- (a) on the date which the SHA is terminated by the written agreement of all Parties; (b) on the date which the MergeCo is wound up, liquidated, or dissolved (other than as a result of a solvent reorganisation or merger, consolidation, scheme, amalgamation in which case it shall continue to apply to the successor or surviving entity); (c) solely with respect to a Shareholder Party (and its applicable guarantor) if such Shareholder Party and its affiliates cease to own at least 10.00% of the Outstanding Shares, but without prejudice to the continuation of the SHA with respect to any other Shareholder Parties (including transferees which become Parties in accordance with the terms of the SHA).	This clause is justifiable as it explicitly states in sub-clauses (a) to (c) the series of events whereby the SHA shall be terminated.

Based on the above, we are of the view that the salient terms of the SHA are justifiable and not detrimental to the Non-Interested Shareholders as the purpose of the SHA is essential to facilitate the Shares Equalisation Arrangement and to outline the rights and obligations of the SHA Parties, and hence to avoid any unnecessary conflicts and dispute post completion of the Proposed Merger.

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7.6 EFFECTS OF THE PROPOSALS

We take cognisance that the Proposed Exemption will not have any effects on the issued share capital, substantial shareholders' shareholdings, NA, gearing and earnings of Digi Group (or MergeCo Group after the Proposed Merger).

However, the Proposed Merger, being an integral part of the Proposals, which is conditional upon the Proposed Exemption, will have an effect on the issued share capital, substantial shareholders' shareholdings, NA, gearing and earnings of Digi Group (or MergeCo Group after the Proposed Merger).

Please refer to Section 7, Part A of the Circular for further details on the effects of the Proposals.

7.6.1 Share capital

We note that the resultant increase in Digi's issued share capital pursuant to the Proposed Merger from approximately RM769.7 million to approximately RM14,142.7 million in MergeCo is a consequential effect arising from the issuance of the Consideration Shares.

7.6.2 Substantial shareholders' shareholdings

The pro forma effects of the Proposed Merger on the shareholdings of the substantial shareholders of Digi (or MergeCo after the Proposed Merger) as at the LPD as disclosed in Section 7(b), Part A of the Circular, are as follows:-

	As at the LPD				After the Proposed Merger			
	Direct		Indirect		Direct		Indirect	
Substantial Shareholders	No. of Digi Shares ('000)	(1)%	No. of Digi Shares ('000)	(1)%	No. of Digi Shares ('000)	(2)%	No. of Digi Shares ('000)	(2)%
Telenor Asia	3,809,750	49.00	-	-	3,883,129	33.10	-	-
Telenor Mobile Communications AS	-	-	(3)3,809,750	49.00	-	-	(3)3,883,129	33.10
Telenor Mobile Holding AS	-	-	(4)3,809,750	49.00	-	-	(4)3,883,129	33.10
Telenor	-	-	(5)3,809,750	49.00	-	-	(5)3,883,129	33.10
Axiata	-	-	-	-	3,883,129	33.10	-	-
Khazanah	-	-	-	-	-	-	(6)3,883,129	33.10
EPF	1,151,044	14.80	-	-	1,151,044	9.81	-	-
ASB	600,798	7.73	-	-	600,798	5.12	-	-

Notes:-

(1) Calculated based on the outstanding 7,775,000,000 Digi Shares as at the LPD.

(2) Calculated based on the pro forma enlarged issued share capital of 11,731,507,988 MergeCo Shares.

(3) Deemed interested by virtue of its 100% interest in Telenor Asia.

(4) Deemed interested by virtue of its 100% interest in Telenor Mobile Communications AS.

(5) Deemed interested by virtue of its 100% interest in Telenor Mobile Holding AS.

(6) Deemed interested by virtue of its 36.74% interest in Axiata.

We note that upon issuance of the Consideration Shares, Axiata will emerge as one of the controlling shareholders of MergeCo in view of its 33.10% direct shareholdings upon completion of the Proposed Merger.

Further, the issuance of the Consideration Shares for the Proposed Merger will result in a larger base of MergeCo's issued shares and hence, resulting in a dilution to the Non-Interested Shareholders' collective shareholdings in Digi from 51.0% to 33.8% in MergeCo upon completion of the Proposed Merger.

7.6.3 NA and gearing

We note that the Proposed Merger will result in an increase in Digi Group's NA as at FYE 31 December 2021 from approximately RM632.8 million to approximately RM13,939.1 million in MergeCo Group upon completion of the Proposed Merger, due to the increase in share capital pursuant to the Proposed Merger.

The pro forma effects of the Proposed Merger based on the latest audited consolidated financial statements of Digi Group as at 31 December 2021 on the NA per share and gearing as disclosed in Section 7(c), Part A of the Circular, are as follows:-

	Audited as at 31 December 2021 (RM'000)	**After the Proposed Merger (RM'000)**
Share capital	769,655	(2)14,142,652
Retained earnings	(136,844)	(3)(203,571)
NA	**632,811**	**13,939,081**
No. of Digi Shares in issue ('000)	7,775,000	11,731,508
NA per share (RM)	0.08	1.19
Total borrowings (RM'000)	4,959,275	(1)(4)15,888,258
Total cash and short-term deposits (RM'000)	204,527	(5)1,438,924
Gearing (times)(6)	7.84	1.14

Notes:-

(1) Including the Digi Group's and the Celcom Group's lease liabilities amounting to RM2.4 billion and RM5.1 billion, respectively.

(2) For the purpose of the pro forma consolidated statement of financial position, the value of the Consideration Shares to be issued pursuant to the Proposed Merger has been illustrated based on Digi's closing share price as at the LPD of RM3.38, to be in compliance with the Guidance Note for Issuers of Pro forma Financial Information issued by the Malaysian Institute of Accountants. The guidance states that where the consideration for an acquisition will be settled by the issue of a specified number of shares, in the subsequent financial statements, the issue of shares will be recorded by reference to their value at the date of their issue. However, as the value is not known until at a later date, for the purpose of the pro forma consolidated financial information, the most appropriate value to use for illustration is the value at the latest practicable date i.e., 30 September 2022, as this is likely to be the best indication of the effect of the transaction.

(3) After adjusting for, amongst others, the estimated stamp duty of RM53.3 million, based on total purchase consideration of RM17.8 billion multiplied by stamp duty rate of 0.30%, and for the estimated expenses relating to the Proposed Merger of approximately RM19.2 million. For the avoidance of doubt, the estimated expenses have not accounted for the additional costs that may be incurred for integration activities and fulfilling the Undertaking.

(4) Assuming external borrowings of RM1,700.0 million (net cash drawdown amounting to RM1,697.9 million after adjusting the borrowings costs of RM2.1 million) to be drawn down, of which RM1,692.7 million will be used to settle the Cash Consideration, and the remaining RM5.2 million will be used to partially settle the transaction expenses in relation to the Proposed Merger. The total borrowings is after adjusting for, among others, the pro forma effects arising from aligning differences in accounting policies adopted by the Celcom Group and the Digi Group respectively for the financial year ended 31 December 2021, resulting in an increase in total borrowings amounting to RM2,121.2 million, offset by the spectrum lease modification effect with a decrease in total borrowings of RM228.1 million arising from the spectrum divestment as part of the Undertaking set out in Section 1.3, Part A of the Circular.

(5) After adjusting for assumed additional cash payment of RM156.3 million to be paid by Digi to Axiata pursuant to the Final Adjustment Amount illustrated based on assumed closing date of 31 December 2021. This amount is expected to be funded through internally generated funds.

(6) Computed based on total borrowings divided by total equity (or NA).

On pro forma basis, the Proposed Merger is expected to strengthen Digi Group's financial position with a decrease in gearing as at the FYE 31 December 2021 from 7.84 times to 1.14 times in MergeCo Group upon completion of the Proposed Merger. This is due to the resultant increase in MergeCo's NA pursuant to the issuance of the Consideration Shares.

Please note that the pro forma consolidated statement of financial position has not considered the effects of the proposed subscriptions of (i) new ordinary shares in DNB and (ii) rights to allotment of DNB shares pursuant to the conditional share subscription agreements which Digi Tel and Celcom Mobile had each entered separately with DNB on 7 October 2022. Please refer to Note 5 of Appendix IX of the Circular for further details.

7.6.4 Earnings and EPS

The Proposed Merger is not expected to have an immediate effect on MergeCo's earnings for the FYE 31 December 2022 as the Proposed Merger is expected to be completed only by the fourth quarter of FYE 2022.

However, the Proposed Merger is expected to contribute positively to the future earnings and EPS of MergeCo in the long run with the recurring earnings generated by Celcom Group and the realisation of synergistic benefits and economies of scale arising from the Proposed Merger.

Based on the pro forma income statement for the FYE 31 December 2021 and on the assumption that the Proposed Merger had been completed on 1 January 2021, the pro forma effects of the Proposed Merger on the consolidated earnings of Digi (or MergeCo after the Proposed Merger) are set out below:-

	Audited as at 31 December 2021 (RM'000)	After the Proposed Merger (RM'000)
Consolidated PAT attributable to owners of Digi	1,162,105	1,162,105
Add: Pro forma PAT attributable to owners of Celcom	-	(1)933,566
Less: Depreciation and amortisation arising from fair value adjustments to the net identifiable assets acquired (net of tax)	-	(134,167)
Less: Assumed interest costs for the Cash Consideration	-	(2)(61,200)
Less: Estimated expenses	-	(3)(72,508)
Enlarged consolidated PAT	**1,162,105**	**1,827,796**
Weighted average no. of Digi Shares ('000)	7,775,000	11,731,508
EPS (sen)	14.9	15.6

We wish to highlight that the pro forma consolidated statement of comprehensive income has been prepared for illustrative purposes to show the effects of the Proposed Merger, drawdown of borrowings and transaction expenses with the assumption that these transactions were completed on 1 January 2021. The pro forma consolidated statement of comprehensive income has not considered the expected synergies from the Proposed Merger nor the costs and expenditures associated with merger integration activities, and as such may not indicate future performance of the MergeCo Group.

The pro forma consolidated statement of comprehensive income has also not considered the effects of the proposed subscriptions of (i) new ordinary shares in DNB and (ii) rights to allotment of DNB shares pursuant to the conditional share subscription agreements which Digi Tel and Celcom Mobile had each entered separately with DNB on 7 October 2022. Please refer to Note 5 of Appendix IX of the Circular for further details.

Notes:-

(1) The pro forma effects have accounted for, amongst others, effects arising from aligning differences in accounting policies adopted by the Celcom Group and the Digi Group respectively for the financial year ended 31 December 2021, as well as the spectrum lease modification effect with a decrease in finance costs amounting to RM37.5 million arising from the spectrum divestment as part of the Undertaking set out in Section 1.3, Part A of the Circular.

(2) Assuming interest expense of RM61.2 million based on an estimated interest rate of 3.6% per annum on the new borrowing of RM1,700.0 million (net cash drawdown amounting to RM1,697.9 million after adjusting the borrowings costs of RM2.1 million) to be drawn down, of which RM1,692.7 million will be used to settle the Cash Consideration, and the remaining RM5.2 million will be used to partially settle the transaction expenses in relation to the Proposed Merger. The assumed interest rate of 3.6% per annum is based on the weighted average interest rate charged on Digi's existing unsecured floating rate borrowings as at the LPD.

(3) Being estimated stamp duty of RM53.3 million, based on total purchase consideration of RM17.8 billion multiplied by stamp duty rate of 0.30%, and estimated expenses relating to the Proposed Merger of approximately RM19.2 million which are one-off in nature. The expenses relating to the Proposed Merger has not included additional cost relating to the integration activities which is currently pending and additional costs that may be incurred to fulfill the Undertaking.

For illustration purposes and assuming the Proposed Merger had been completed on 1 January 2021, Digi Group's EPS for the FYE 31 December 2021 would increase from 14.9 sen to 15.6 sen in MergeCo Group as disclosed in Section 7(d), Part A of the Circular, without even factoring in any potential synergistic benefits from the Proposed Merger.

However, we wish to highlight that the MergeCo Group is expected to incur additional costs and expenditures for merger integration activities, as well as to fulfil the Undertaking to MCMC. This may have a dilutive effect on the earnings and EPS of the MergeCo Group in the immediate years upon completion of the Proposed Merger.

The extent of dilution in any given immediate year may be material and will depend on the amount and timing of such costs and expenditures being expensed off, the level of the MergeCo Group's earnings from operations, including the extent of the synergies to be realised.

Notwithstanding the above, we are of the view that the Proposed Merger is expected to contribute positively to the earnings and EPS of the MergeCo Group over the medium to longer term with the gradual realisation of the anticipated synergistic benefits from the Proposed Merger and after taking into consideration, amongst others, the rationale and prospects of the Proposals.

Premised on our evaluation above, we are of the view that the overall effects of the Proposals, taken as a whole, are acceptable.

7.7 INDUSTRY OUTLOOK AND PROSPECTS

We have considered the Malaysian economy overview, industry outlook and the future prospects of the MergeCo Group as detailed in Section 5, Part A of the Circular.

In summary, we are of the view that the long-term prospects of the MergeCo Group taking into consideration the Proposed Merger to be encouraging, underpinned by the following factors:-

(i) The Malaysian economy experienced a strong growth of 8.9% in the second quarter of 2022 (1Q 2022: 5.0%). The growth was supported mainly by the continued recovery in the labour market and continued policy and various economic stimulus measures support by the Government.

(ii) Key economic sectors continued to expand in the second quarter of 2022. The services sector grew by 12.0% (1Q 2022: 6.5%). Consumer-related activities continued to recover subsequent to the reopening of the economy. Additionally, the information and communication subsector provided further support to growth following greater usage of e-commerce services.

(iii) The telecommunications market in Malaysia has somewhat matured with a flat service revenue trend in the last few years. While data services such as fixed broadband and mobile Internet are still growing, the increase is offset by the decline in legacy services such as voice and mobile messaging services. However, the total market is expected to rebound from 2021 onwards.

(iv) As set out in the MCMC Industry Report 2021, the total telecom service revenue in Malaysia is forecasted to grow steadily at a CAGR of 3.0% from RM26.3 billion in 2021 to RM30.6 billion in 2026, mainly driven by several key factors such as higher data subscriptions, wider coverage of high-speed mobile networks, especially in remote areas, higher data usage with 5G and wider adoption of OTT services, especially gaming content, streaming and video.

(v) The telecommunication industry has seen significant shifts in terms of industry structure and competitive landscape, beyond the traditional players. Technology advancement and digital service adoption has surged exponentially thereby creating opportunities across the consumer, home, enterprise ICT and IoT market segments.

(vi) Telecommunications industry plays an integral role in supporting the Government's MyDigital aspirations which target to accelerate innovation and create an effective digital ecosystem, such as strengthening mobile connectivity through 4G and the introduction of 5G services.

(vii) With the enlarged scale through the combined network, channels and enhanced digital access of MergeCo Group upon completion of the Proposed Merger, the MergeCo Group is expected to have the capacity to provide better quality of service and at competitive rates. The combined portfolio of Digi's and Celcom's product offerings will also allow the MergeCo Group to address the needs of different segments of the market.

(viii) DNB, a special purpose vehicle established by the Government to drive the development of the 5G infrastructure in Malaysia. It will offer 5G as a wholesale network service to other telecommunication companies. While there are opportunities associated with the 5G SWN model, in particular, 5G network parity and savings on 5G capital expenditure, it will be key for the MergeCo Group to secure an efficient 5G wholesale cost structure that is sustainable as well as continued assurance on network resilience and cybersecurity in mitigating single-point-of-failure risk from a single 5G network. MergeCo Group is also expected to step up its ability to differentiate through innovative 5G retail offerings and solutions for consumers and enterprises.

On 7 October 2022, Digi Tel and Celcom had each entered into a conditional share subscription agreement with DNB for the proposed subscription of (i) new ordinary shares in DNB and (ii) rights to allotment of DNB shares. The equity participation in DNB by Digi and Celcom is not expected to have a material impact to the Proposed Merger. Please refer to Section 1.3 of Appendix V and Section 6 of Appendix I of the Circular respectively for further details.

The MergeCo Group with greater combined know-how, facilities and vast management experience is expected to create more innovative solutions in the face of growing industry and consumer demands.

Notwithstanding the above, MCMC had in its letter dated 28 June 2022 issued a notice of no-objection to, and via Authorisation No.1 of 2022, granted its authorisation for, the Proposed Merger on the basis of the Undertaking to ensure that consumers in Malaysia will continue to benefit from effective competition in the telecommunications sector. We have considered the operational and financial impact of the Undertaking as disclosed in Section 1.3, Part A of the Circular and our commentaries are summarised as follows:-

No.	Undertaking	AmInvestment's comments
1	Divestment of 70 MHz of MergeCo Group's spectrum across 1800 MHz, 2100 MHz and 2600 MHz. The first band to be returned to the MCMC within 2 years from Closing and the second and third bands to be returned 3 years from Closing.	We note that the MergeCo Group commits to handback spectrum bands amounting to 33% of its spectrum portfolio, to holistically reduce any perceived spectrum advantage arising from the Proposed Merger, and is expected to incur additional costs and expenditures in its performance of the spectrum divestment. We further note that the amount of such additional costs and expenditures can only be determined after completion of the Proposed Merger given that a detailed network planning and robust integration plan is required to ensure that spectrum handover will not cause degradation to network quality as well as to maintain network quality and customer experience, and are subject to further discussions with selected vendors.

No.	Undertaking	AmInvestment’s comments
		Given the large number of sites are expected to be affected by the spectrum divestment, additional capital expenditures and operational costs are expected to be substantial. Nevertheless, the impact of the additional costs and expenditures will be partly cushioned by the spectrum compensation, of which MCMC will compensate the MergeCo Group on a prorated basis for the remaining duration of the spectrum assignments and/or apparatus assignment after undertaking due diligence, following the handover of the spectrum. Notwithstanding to the above, we are of the view that the Proposed Merger is still expected to be synergistic positive with the cost savings and synergistic benefits from the network integration expected over medium to long term following the completion of the Proposed Merger.
2	Establishing a separate independent business unit for MVNO wholesale business under MergeCo within 6 months after Closing and ensuring continuity of access to wholesale services for MVNOs at terms no worse off than existing agreements for a duration of 3 years from Closing.	As part of the obligations to ensure the continuity of access to wholesale services for existing and new MVNOs for the duration of 3 years from Closing, the MergeCo has to ensure fair pricing, introduce price capping, remove waiver of any contractual lock-in agreements, as well as implement fair usage policy to ensure any excessive usage by the MVNOs is charged fairly. We note that the MergeCo Group’s MVNO wholesale business will be transferred to a separate business unit independent from the MergeCo Group’s mobile retail businesses. Accordingly, the MVNO wholesale business will be independent in its decision making to ensure continued fair access for MVNOs, and in turn maintain healthy competition within the telecommunications industry. Despite having a separate independent business unit for MVNO wholesale business, the financial results (including the earnings and cash flow) of the MVNO wholesales business will still be consolidated to the MergeCo Group’s financial statements and hence, we are of the view that the risk and impact of this undertaking to the MergeCo Group are relatively low.
3	Divestment of Yoodo Business within 18 months from Closing (“**Divestiture Period**”) as committed to MCMC, which currently offers fully digital and customisable retail mobile plans to subscribers	“Yoodo” is the digital telco brand under Celcom. As part of the MergeCo’s commitment to MCMC, Yoodo Business will be divested within 18 months after the completion of the Proposed Merger. The divestment of Yoodo Business includes all tangible and intangible assets including intellectual property rights, employment of staff, contracts, leases and all subscribers. Based on the Undertaking, the purchaser of Yoodo Business must be independent of MergeCo and its stakeholders. In the event if such disposal triggers any of the rule listed in the Listing Requirements which affect the minority shareholders’ interests will be dealt with accordingly as prescribed by the Listing Requirements. If MergeCo fails to divest Yoodo Business within 18 months from the Closing, they will have to cease Yoodo operations within 3 months of the expiry of the Divestiture Period.

No.	Undertaking	AmInvestment's comments
		We are of the view that the cessation of Yoodo's operations in the event that MergeCo fails to divest Yoodo Business within the stipulated period is not expected to have a material impact to the MergeCo Group as a whole taking into consideration that minimal assets were held and used in Yoodo Business. In addition, the divestment is also not expected to have a material impact to the revenue of MergeCo's prepaid segment or to MergeCo's consolidated revenue, as Yoodo's subscribers base as at 31 December 2021 was less than 3% of Celcom's subscribers for its prepaid product segment and less than 2% of the total number of subscribers of Celcom's postpaid and prepaid products. For the FYE 2019, FYE 2020 and FYE 2021, the revenue contribution from the Yoodo Business was less than 1% of the total revenue of the Celcom Group, and the assets used in the operations of the Yoodo Business are also immaterial to the Celcom Group. Based on the above, we are of the view that the risk and impact of this undertaking to the MergeCo Group are relatively low.
4	Removal of exclusivity arrangements with its exclusive distributors in Sabah, Labuan, Sarawak, Terengganu, Pahang and Kelantan ("**Affected Regions**"), and not entering into new exclusivity arrangements with exclusive distributors or other distributors in the Affected Regions within 3 years from Closing, unless otherwise approved by MCMC	We note that within 3 years from the Closing, the MergeCo must remove exclusive arrangements with its exclusive distributors in the Affected Regions. During the 3-year period, the MergeCo is not allowed to enter into any new exclusivity arrangement with exclusive distributors or other distributors in these regions unless it is approved by the MCMC to allow competitors the opportunity to access the same distribution networks and strengthen their position in these retail markets geographically. As a result, the distributors in the Affected Regions will be able to work with MergeCo's competitors, thereby reducing barriers for entry into local distribution and channel market. This is expected to increase the competition to the MergeCo Group as competitors are able to reach more touchpoints than their current footprint in an open market. Nevertheless, we are of the view that any impact to MergeCo arising from this undertaking is not expected to be material as the removal of the exclusivity does not require the MergeCo Group to facilitate arrangements between distributors and competitors. The competitors of the MergeCo Group would need to independently engage and negotiate with said distributors, during which the MergeCo Group would have sufficient time to adjust its marketing strategies, such as improving loyalty programme with distributors and acceleration of sales digitalisation through modernisation to ensure continuous availability of the MergeCo Group products nationwide. Furthermore, the MergeCo Group still have the advantage in the Affected Regions by leveraging on their previous experience and market knowledge to accommodate the required changes to the market.

No.	Undertaking	AmInvestment's comments
		Based on the above, we are of the view that the risk and impact of this undertaking to the MergeCo Group are relatively low.
5	Positioning the existing Digi's and Celcom's prepaid and postpaid products as products under a single MergeCo Group corporate brand within 2 years from Closing	The single corporate brand for Digi's and Celcom's products helps to avoid customers and brand confusion within the market. We note that the MergeCo Group's corporate branding exercise would involve the rebranding of a large number of touchpoints across dealers, franchise and own stores, as well as proper training to market and sell Celcom and Digi products after the introduction of a single corporate MergeCo brand. There are costs to be incurred over the 2 years for the corporate branding exercise, which include, amongst others, the cost of introducing new MergeCo brand and related marketing, advertising and promotional materials across the distribution network. Nevertheless, as some of the costs will replace the planned marketing costs which is already part of the business-as-usual refresh cycle, the additional costs to be incurred to fulfil this undertaking is not expected to be significant. Based on the above, we are of the view that the risk and impact of this undertaking to the MergeCo Group are relatively low.

As disclosed in Section 5.3, Part A of the Circular, we note that the MergeCo Group is expected to invest additional amount of time and resources in merger integration activities, including incurring necessary costs and expenditures for the planning, sourcing and implementation of network integration and IT infrastructures ("**Merger Integration Activities**") as well as to fulfil the conditions in the Undertaking to MCMC. The expected additional costs for the Merger Integration Activities and to fulfil the Undertaking is expected to dilute the earnings and EPS of the MergeCo Group in the immediate years upon completion of the Proposed Merger, the extent of which may be material depending on the timing of the Merger Integration Activities and fulfilment of the Undertaking, as well as the earnings including the extent of synergies realised year-on-year. Notwithstanding, the Company is of the view that the anticipated overall synergy values from the Proposed Merger to remain positive after considering such additional costs, and significant portions of the synergy values is expected to start realising upon completion of the network integration and IT infrastructures. The Proposed Merger is expected to contribute favourably to the medium to long term earnings and EPS of MergeCo Group.

Premised on the above and after taking into consideration, amongst others, the financial effects, the rationale and potential benefits to be realised pursuant to the Proposed Merger, we view that the longer term prospects of the MergeCo Group to be favourable.

Nonetheless, we wish to highlight that all businesses are subject to uncertainties which are not within the Board's control such as, among others, change in Government policies, outbreak of diseases and changes in the global economics conditions.

7.8 RISK FACTORS

In considering the Proposals, the Non-Interested Directors and Non-Interested Shareholders are advised to give careful consideration to the potential risks in relation to Celcom, the Proposals and MergeCo upon the completion of the Proposed Merger as set out in Section 6, Part A of the Circular prior to voting on the resolutions pertaining to the Proposals at Digi's forthcoming EGM.

It is also noted that the telecommunications industry could be impacted by the impending industry structural changes following the national vision to develop and manage 5G infrastructure under one single special purpose vehicle which will be owned by DNB. While there could be more parity on basic 5G connectivity, there could be risks associated with efficient 5G wholesale cost structure, increased complexity of DNB's 5G network interfacing with multiple MNOs' 4G networks, as well as continued assurance on network resilience and cybersecurity, which are key elements critical to national interests and are common across telecommunications industry service providers.

On that score, on 7 October 2022 Digi Tel and Celcom Mobile had each separately entered into a conditional share subscription agreement with DNB for, amongst others, the proposed subscription of (i) new DNB Shares and (ii) DNB Rights to Allotment for a total cash consideration of RM178.57 million, representing 12.5% of the enlarged equity interest in DNB. Following the completion of the proposed subscription and the Proposed Merger, the MergeCo Group shall own 25.0% enlarged equity interest in DNB via Digi Tel and Celcom Mobile. The proposed subscription is subject to certain conditions precedent to be fulfilled and is expected to be completed during the fourth quarter of 2022. The proposed subscription would allow the MergeCo to participate as a future shareholder in DNB, and continue to contribute to a sustainable deployment of 5G in Malaysia.

In view that both Digi Group and Celcom Group are principally involved in the telecommunications industry, we are of the view that the business risk profile of Digi **will not change significantly** upon completion of the Proposed Merger, especially for risk factors inherent in the telecommunications industry, upon completion of the Proposals.

In addition, we wish to highlight some of the risk factors (as disclosed in Section 6, Part A of the Circular) in relation to the Proposed Merger to the Non-Interested Directors and Non-Interested Shareholders as follows:-

(i) <u>Non-completion risk</u>

The completion of the Proposed Merger is subject to amongst others, fulfilment or waiver of the conditions precedent and parties' performance of closing obligations in the SPA. In the event any of these conditions precedent is not fulfilled or waived, the SPA shall lapse and hence, Digi will not be able to complete the Proposed Merger. If a party's closing obligation is not performed by it, the other party has the option to terminate the SPA. There can be no assurance that the Proposed Merger will not be exposed to risks such as the inability to obtain the requisite approvals from the relevant authorities, shareholders of Digi, and/or other relevant parties.

Notwithstanding the above, we take note that the Board and the management of Digi will use reasonable endeavours to ensure every effort is taken to ensure that the conditions precedent are fulfilled or waived, as the case may be, by the stipulated date (including proactively engaging the relevant authorities and third parties as necessary) as well as its performance of the closing obligations in the SPA.

(ii) <u>Integration risks</u>

Although the Proposed Merger is expected to create significant synergies, MergeCo's business operations and financial position could be materially affected if the business of Celcom and Digi is not integrated effectively or in a timely manner. This may result in the expected benefits and synergies of the Proposed Merger being lesser than estimated.

Any failure to achieve expected synergies may impact upon MergeCo Group's financial performance in the future.

Potential factors that may influence a successful integration include:-

- disruption to business continuity and ongoing operations of Celcom and Digi which could affect MergeCo Group's ability to deliver its products and services to its customers, timelines in responding to competition and ability to maintain its market position;
- higher than anticipated integration complexities and costs, for example integration of IT platforms and network infrastructure;
- unintended loss of key personnel or skilled or technical personnel or reduced employee effectiveness and productivity due to uncertainties and confusion during the integration phase; and
- unexpected challenges or issues that may lead to merger integration execution taking longer time or costing more than anticipated.

(iii) <u>Risk from failure in defending material litigation suits</u>

If TSDTR and Bistamam are successful in their TSDTR Counterclaims, the amounts claimed will each be potentially up to RM7.2 billion plus interest for each TSDTR Counterclaim.

We note that Axiata and Digi have agreed in the SPA that if Celcom and Celcom Resources are unsuccessful in defending these TSDTR Counterclaims, the TSDTR Indemnity shall apply, which is uncapped in terms of quantum and has no time limit. If after the completion of the Proposed Merger, Celcom and Celcom Resources fail in their defence in the TSDTR Counterclaims, then Digi will claim under the TSDTR Indemnity.

Notwithstanding the TSDTR Indemnity fully covers sums payable by the MergeCo Group in respect of the TSDTR Counterclaims, there is no assurance that MergeCo Group will be able to fully recover or recover in a timely manner the amounts claimed under the TSDTR Indemnity. Additionally, MergeCo Group may also suffer indirect and consequential losses, such as losses arising from reputational damage, which is not part of the TSDTR Indemnity.

If TSDTR and Bistamam are successful in any of their TSDTR Counterclaims or if MergeCo Group is not able to recover whether in a timely manner or at all under the TSDTR Indemnity, the TSDTR Counterclaims would materially and adversely affect the profitability and financial position of the MergeCo Group and this may have a corresponding negative effect on the shareholders' value of MergeCo.

(iv) <u>Control by major shareholders</u>

Prior to the completion of the Proposed Merger, Telenor is the sole controlling shareholder of Digi with 49.00% shareholding interest in Digi. Immediately after the completion of the Proposed Merger, Axiata will emerge as the joint-controlling shareholder of the MergeCo together with Telenor, with each party holding 33.10% shareholding in the MergeCo. Telenor and Axiata have no other common shareholdings or other forms of common business interests outside Malaysia.

With a combined stake of 66.20% in the MergeCo, Axiata and Telenor will be able to jointly exercise significant influence and control over all matters requiring shareholders' approval by simple majority, including the appointment of directors and the approval of any significant corporate transactions, and the business direction and management of the MergeCo Group. In the event the joint-controlling shareholders vote in unison in respect of any shareholder action or approval requiring a majority vote, they will also have certain veto powers with respect to the said shareholder action or approval requiring a simple majority vote, except where they are required to abstain from voting either by Digi's constitution, the Act, Listing Requirements or other applicable laws, guidelines or regulations. There can be no assurance that the interest of the joint-controlling shareholders will be aligned with the interest of the other shareholders of the MergeCo, not dissimilar to the situation of shareholders in other public listed companies. For example, while Axiata and Telenor may decide that a pro-rata rights issue of securities is the best way to fund a certain investment for the MergeCo, such rights issue may not be aligned with the investment objectives, financial situations, risk profiles or particular needs of the other shareholders of the MergeCo.

Additionally, although the framework or the manner in which Axiata and Telenor exercises control over the MergeCo is governed under the SHA, there can be no assurance that there will be no disagreement in the future between the parties with regard to matters governed under the SHA as regards MergeCo that require the decision of the parties. In the event of any disagreement between Axiata and Telenor on proposals that are reserved matters under the SHA, such proposal will be escalated to the senior officers of Axiata and Telenor to attempt to agree on a resolution and if there is no resolution, the proposal shall not proceed. For non-reserved matters, if there are any disagreements between Axiata and Telenor, and if such non-reserved matter requires shareholders' approval, Axiata and Telenor may exercise their vote based on their own decision.

(v) <u>Impairment of goodwill</u>

According to MFRS 3 Business Combinations issued by the Malaysian Accounting Standards Board ("**MASB**"), MergeCo is expected to recognise goodwill arising from the Proposed Merger. The value of the goodwill will depend on the fair value of the assets, including intangible assets, and liabilities of Celcom, the market price(s) of Digi Shares at the time of completion of the Proposed Merger, as well as the Final Adjustment Amount. For illustrative purposes only, assuming that the Proposed Merger had been completed on 31 December 2021, the goodwill to be recognised on a pro forma basis would amount to RM12,393 million. Kindly refer to Appendix IX of the Circular for further details. The goodwill value will be subject to impairment test of at least once a year.

We note that the management does not expect any impairment impact on the goodwill arising from the Proposed Merger, any material changes or events arising that may adversely affect the business prospects and/or assets of the MergeCo Group, i.e., adverse impact on the cash generating units of the MergeCo Group or incurring the expense to write-off the existing assets due to the failure to realise expected benefits, may result in such impairment. In the unlikely event the goodwill is impaired, the profitability of the MergeCo Group may be adversely affected that may have a corresponding effect on shareholders' value.

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(vi) Risks surrounding execution of Undertaking or delayed performance of Undertaking

MCMC's grant of its authorisation for the Proposed Merger is subject to the MergeCo Group's performance of the Undertaking (as set out in Section 1.3, Part A of the Circular). The Undertaking obliges the MergeCo Group to, amongst others, divest certain spectrum bands, establish a separate and independent MVNO business and ensuring continuity of access to wholesale services to MVNOs, divest the Yoodo Business, removal of exclusivity arrangements with its exclusive distributors in Sabah, Labuan, Sarawak, Terengganu, Pahang and Kelantan and position both the Digi's and Celcom's prepaid and postpaid brands as products under a single MergeCo Group corporate brand. Further details of the operational and financial impact of the Undertaking are disclosed in Section 1.3, Part A of the Circular, and our commentaries are as set out in Section 7.7 of this IAL.

Spectrum divestment requires detailed network planning and a robust integration plan to ensure that such spectrum divestment will not cause degradation to network quality that will impact the MergeCo Group's customers. The planning includes, amongst others, determining the location of sites that may be impacted and the preferred order of spectrum to be handed over to MCMC. It is expected to impact a large number of sites serving approximately 20 million subscribers.

Risks associated with the spectrum divestment are operationally complex, and issues such as supply chain disruption and shortage of regional or local contractors, which are outside of the MergeCo Group's control, could cause a delay to the planned network integration or network upgrade. The MergeCo Group could be obligated to perform the Undertaking and to return the relevant spectrum band to MCMC before the network integration is properly completed, with the consequence of possible degradation to network quality, impacting customer experience and causing challenges for the MergeCo Group to comply with its service quality requirements.

Meanwhile, Celcom and Digi have past experiences in conducting exercises of similar nature as part and parcel of the business, such as internal reorganisation of their business units, negotiating contracts with vendors and distributors, and branding exercise for their products, albeit on a smaller scale. In view of this, and since the MergeCo Group will engage the necessary vendors and consultants to advise on the implementation on the Undertaking, the risks arising from the implementation of the remaining terms of the Undertaking are not expected to be material.

Although MergeCo Group will continue to engage with MCMC including having regular dialogues to address the progress or potential issues to ensure the performance of the Undertaking, if the MergeCo Group fails to perform any part of the Undertaking according to its terms, the CMA expressly provides a right for MCMC or any person to apply to court to enforce the same. Failure by the MergeCo Group to comply with a court order will result in the MergeCo Group being in contempt of court and liable to a reprimand and/or a fine (resulting in reputational damage) and its officers who caused or willfully permitted or contributed to the contempt of court may also be reprimanded, fined or imprisoned.

Further if there is a material change of circumstance since the date of MCMC's issue of the notice of no objection, MCMC may revoke its authorisation of the Proposed Merger, and may commence investigations on whether MergeCo has engaged in conduct in breach of Section 133 and/or Section 139 of the CMA (which upon conviction could result in a fine not exceeding RM500,000 or imprisonment for a term not exceeding 5 years or to both). MCMC or any other person may also seek an injunction under Section 142 of the CMA against the MergeCo Group in respect of any prohibited conduct.

Additionally, as disclosed in Section 1.3, Part A of the Circular, Digi is not presently able to quantify the extent of costs and expenditures that will be incurred in connection with the necessary steps to be taken to enable the spectrum divestment without affecting the network quality. The determination of such costs and expenditures will be subject to, amongst others, the detailed network planning and assessment to determine the extent of upgrades required, the suitable solutions to support the upgrade, as well as vendor selection process, as these processes will only be carried out after completion of the Proposed Merger.

There is no assurance that the total costs and expenditures in connection with fulfilling the Undertaking including spectrum divestment, will not be significantly more than as anticipated, and/or the such costs and expenditures will have a material adverse impact to the earnings and earnings per share of the MergeCo.

Save for the risks as highlighted above, we note that most of the risks associated with the Proposed Merger are the typical risks associated with the business of Digi Group and are inherent in the transactions of this nature. Further, the realisation of anticipated benefits and expected business synergies arising from the Proposed Merger is very much dependent upon amongst others, the successful implementation of the MergeCo's business strategies and future plans as well as smooth business integration between both Digi Group and Celcom Group.

We further note that the Board and the management of Digi will use reasonable endeavours to ensure every effort is taken for the completion of the Proposed Merger. Risk relating to the TSDTR Counterclaims, if ever crystalised, is also reasonably mitigated with the indemnity arrangement as agreed in the SPA. In addition, we also note that there are procedures set forth in the SHA (to be entered into between Axiata and Telenor upon the completion of the Proposed Merger) to ensure any potential major disagreement will be resolved promptly in order for the MergeCo Group to continue carrying out its activities without interference.

As Axiata will emerge as one of the key decision makers and joint-controlling shareholders (together with Telenor) immediately after the completion of the Proposed Merger in the financial and operating policies in the running of the MergeCo, we are of the view that the above risk factors shall be minimised. Further, the equity participation of Axiata will also reaffirm its commitment towards the MergeCo Group's success.

Although mitigation measures may be in place to limit and manage the risks associated with the Proposed Merger, no assurance can be given that the above risk factors will not crystallise and give rise to material and adverse impact on the business operation, financial performance, financial position and the prospects of the MergeCo Group thereon.

In addition, we wish to highlight that, particularly the spectrum divestment is operationally complex and issues such as supply chain disruption and shortage of regional or local contractors, which are outside of MergeCo Group's control, could cause a delay to the planned network integration or network upgrade. The MergeCo Group could be obligated to perform the Undertaking and to return the relevant spectrum band to MCMC before the network integration is properly completed, with the consequence of possible degradation to network quality, impacting customer experience and causing challenges for the MergeCo Group to comply with its service quality requirements. Nevertheless, we believe that the management of MergeCo Group (with greater combined know-how and vast management experience) will take all reasonable steps and efforts to minimise the potential service disruptions.

Further, if the MergeCo Group fails to perform any part of the Undertaking according to its terms, the CMA expressly provides a right for MCMC or any person to apply to court to enforce the same. Failure by the MergeCo Group to comply with a court order will result in the MergeCo Group being in contempt of court and liable to a reprimand and/or a fine (resulting in reputational damage) and its officers who caused or willfully permitted or contributed to the contempt of court may also be reprimanded, fined or imprisoned. Nevertheless, we are of the view that the risk shall be minimised as the MergeCo Group will continue to engage with MCMC including having regular dialogues to address the progress or potential issues to ensure the performance of the Undertaking.

The MergeCo Group is also expected to incur additional costs and expenditures for merger integration activities, as well as to fulfil the Undertaking to MCMC, which may have a negative impact on the earnings and EPS of the MergeCo Group in the immediate years upon completion of the Proposed Merger. We understand that the additional costs and expenditures required are subject to, amongst others, the detailed network planning and assessment to determine the extent of upgrades required, the suitable solutions to support the upgrade, as well as vendor selection process and can only be determined after completion of the Proposed Merger. Nevertheless, we are of the view that such impact to the earnings and EPS will be cushioned with the gradual realisation of anticipated benefits and business synergies expected to arise upon completion of the network integration and IT infrastructures after the Proposed Merger.

On an overall basis, we note that the non-interested Directors have and will continue to exercise due care in considering the potential risks and benefits associated with the Proposed Merger and that the long-term benefits are expected to outweigh the cost and associated risks.

7.9 IMPLICATIONS ARISING FROM THE VOTING OUTCOME OF THE PROPOSED EXEMPTION

You should note that the SC may consider granting the Proposed Exemption if Axiata and Axiata PACs have satisfied amongst others, the following conditions pursuant to paragraph 4.08(2) of the Rules:-

(i) there has been no acquisition of shares or instruments convertible into shares and options in respect of shares (other than subscriptions for new shares or new instruments convertible into or options in respect of new shares which have been disclosed in the whitewash circular) by Axiata and Axiata PACs during the 6-month period prior to the announcement of the Proposals on 7 April 2021 but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors of Digi in relation to the Proposed Merger until the completion of the issuance of Consideration Shares ("**Disqualifying Transaction**"); and

(ii) approval has been obtained from independent holders of voting shares or voting rights of Digi at a meeting of the holders of the relevant class of voting shares or voting rights to waive their rights to receive the Mandatory Offer from Axiata and Axiata PACs.

An exemption granted will be invalidated if Axiata and/or any persons acting in concert with it has engaged or engages in a Disqualifying Transaction. For the avoidance of doubt, the SC had on 17 December 2021 granted Axiata and Axiata PACs its ruling that the issuance of the 0.63% Digi Shares by Digi to Telenor Asia pursuant to the Share Equalisation Arrangement is not a disqualifying transaction under paragraph 4.08(2) of the Rules.

The implications of the Non-Interested Shareholders' votes on the Proposed Exemption to be tabled at the forthcoming EGM are set out in the ensuing sections.

7.9.1 If you VOTE IN FAVOUR of the Proposed Exemption

(i) The SC would be able to consider the application by Axiata (which will be submitted by Maybank Investment Bank Berhad, being the Principal Adviser to Axiata in relation to the Proposals, on behalf of Axiata) for the Proposed Exemption. An approval from the SC for the Proposed Exemption would then exempt Axiata and Axiata PACs from the obligation to undertake the Mandatory Offer to acquire the remaining Digi Shares not already owned by it upon completion of the Proposed Merger.

(ii) Your approval of the Proposed Exemption will imply that you have agreed to waive your rights to a general offer from Axiata and Axiata PACs (which shall be undertaken at a price no lower than the highest price paid by Axiata and Axiata PACs for the Digi Shares in the past 6 months preceding the commencement of the offer) and exempt Axiata and Axiata PACs from the obligation to undertake the Mandatory Offer arising from the increase in its shareholdings in Digi pursuant to the issuance of Consideration Shares upon completion of the Proposed Merger.

(iii) It is pertinent to note that the Proposed Exemption will allow the shareholding of Axiata and Axiata PACs in the MergeCo to increase to 66.2% in the MergeCo upon completion of the Proposed Merger without being required to undertake the Mandatory Offer. On the other hand, the shareholdings held by the Non-Interested Shareholders in Digi will be diluted from approximately 51.0% to 33.8% in MergeCo.

With a shareholding of more than 50% in MergeCo upon completion of the Proposed Merger, any further increase in the shareholding of Axiata and Axiata PACs in MergeCo would not trigger an obligation for of Axiata and Axiata PACs to undertake a mandatory take-over offer provided the shareholding of Axiata and Axiata PACs in MergeCo remains more than 50% at all times. However, as the individual shareholding of Axiata and Telenor is below 50%, Axiata and Telenor will be bound to undertake a mandatory offer pursuant to any of the triggering events by either one of them on an individual basis.

Further, with the said shareholding in MergeCo, Axiata and Axiata PACs will have statutory control over MergeCo and unless it is required to abstain from voting on resolutions sought at shareholders' general meetings of the MergeCo, Axiata and Axiata PACs are able to, through casting of their votes which represent approximately 66.2% of the total voting shares in MergeCo after the Proposed Merger:-

(i) vote through or vote down any ordinary resolutions (as such resolutions only require approval from more than 50% of the total votes cast); and

(ii) have significant influence over the decision for special resolutions (as such resolutions require approval from at least 75% of the total votes cast).

(iv) As the Proposed Merger is conditional upon the Proposed Exemption, without the Proposed Exemption, the Proposed Merger will not proceed. Therefore, notwithstanding waiver of rights for the Mandatory Offer, voting in favour of the Proposed Exemption as well as the Proposed Merger will enable Digi to undertake the Proposals and thereby, enabling Digi Group to realise the benefits of the Proposed Merger as set out in Section 4, Part A of the Circular.

7.9.2 If you VOTE AGAINST the Proposed Exemption

(i) The SC would not be able to consider the application by Axiata and Axiata PACs for the Proposed Exemption.

(ii) In view of the conditionality of the Proposals as set out in Section 9, Part A of the Circular, in the event that the Proposed Exemption is not approved, Digi will not be able to undertake the Proposed Merger. Accordingly, Digi will not be able to realise the potential benefits arising from the Proposed Merger as set out in Section 4, Part A of the Circular.

Digi does not have other plan for the Proposed Merger in the event that the Proposed Exemption is not approved.

8. DIRECTORS' INTENTION IN RELATION TO THE PROPOSALS

As at the LPD, save as disclosed below, none of the Directors of Digi has any interest, direct or indirect, in the Proposals.

As set out in Section 12, Part A of the Circular, Haakon Bruaset Kjoel, Wenche Marie Agerup, Lars Erik Tellmann and Randi Wiese Heirung (up until her resignation on 30 June 2021)[(1)], by virtue of them being the representative of Telenor Asia on the Board of Digi, are deemed interested in the Proposals. Accordingly, they will abstain and have undertaken to ensure that persons connected to them will also abstain from voting in respect of their shareholdings in Digi on the ordinary resolutions pertaining to the Proposals to be tabled at the forthcoming EGM.

Note:-

(1) Randi Wiese Heirung, the Non-Independent Non-Executive Director of Digi, has resigned on 30 June 2021.

9. FUTURE PLANS FOR THE MERGECO GROUP AND ITS EMPLOYEES

Upon completion of the Proposed Merger, the Celcom Group will form part of the Digi Group and collectively be the MergeCo Group.

Pursuant to paragraph 8, Schedule 2, Part II of the Rules, Axiata and Telenor have stated that they do not intend to effect any major changes to the following:-

(i) the continuation of the business of the MergeCo Group;

(ii) the business of the MergeCo Group, including any plans to liquidate the MergeCo Group, sell any assets or re-deploy the fixed assets or effect any other major change in the business of the MergeCo Group, save for the divestment required in connection with the Undertaking as disclosed in Section 1.3, Part A of the Circular; and

(iii) the continued employment of the employees or employment policies of the MergeCo Group,

except where such changes are in the ordinary course of the MergeCo Group's business or are necessary to rationalise or improve the MergeCo Group's operations and/or financial performance. Axiata and Telenor shall retain the flexibility at any time to consider any options which are in the best interests of the MergeCo Group that may present themselves.

As disclosed in Section 2.18, Part A of the Circular, both Axiata and Telenor do not have the ability to individually propose and effect changes to the manner in which the MergeCo Group operates based on terms stated in the SHA.

As at the LPD, save for the SPA, SHA and MTA in relation to the Proposed Merger, both Axiata and Telenor have no knowledge or have not entered into any negotiation or arrangement or understanding with any third party in relation to any significant change in the MergeCo Group's business and assets or the shareholding structure of MergeCo.

Axiata and Digi intend to maintain the listing status of Digi (or MergeCo, after the Proposed Merger) on the Main Market of Bursa Securities.

10. DIRECTORS' RESPONSIBILITY STATEMENT

The Board has seen, reviewed and accepted the contents of this IAL. The Board, collectively and individually, accepts full responsibility for the accuracy of the information contained in this IAL (save for the views and recommendation of AmInvestment) and confirms, after having made all reasonable enquiries, that to the best of their knowledge, the opinions expressed in this IAL have been arrived at after due and careful consideration and there are no other facts not contained in this IAL, the omission of which would make any information in this IAL misleading.

The responsibility of the Board in respect of:-

(i) the information relating to the Celcom Group and Axiata (as extracted from information provided by the directors / management / appointed representatives of the Celcom Group) is limited to ensuring that such information is accurately reproduced in this IAL; and

(ii) the independent advice and expression of opinion by AmInvestment in relation to the Proposals as set out in Part B of the Circular is limited to ensuring that accurate information in relation to the Digi Group was provided to AmInvestment for its evaluation of the Proposals and to ensure that all information in relation to the Digi Group that are relevant to AmInvestment's evaluation of the Proposals have been completely disclosed to AmInvestment and that there is no other fact or the omission of which would make any information provided to AmInvestment false or misleading.

11. FURTHER INFORMATION

The Non-Interested Directors and Non-Interested Shareholders are advised to refer to Part A of the Circular as well as the accompanying appendices for further details in relation to the Proposals.

12. CONCLUSION AND RECOMMENDATION

The Non-Interested Directors and Non-Interested Shareholders should carefully consider the merits and demerits of the Proposals based on all relevant and pertinent factors, including those set out in this IAL as well as those highlighted by the Board in this letter to the shareholders of Digi in relation to the Proposals as set out in Part A of the Circular, before voting on the resolutions pertaining to the Proposals at Digi's forthcoming EGM.

In arriving at our conclusion and recommendation, we have assessed and evaluated the Proposals holistically in accordance with Schedule 2: Part III of the Rules, taking into consideration the various factors set out in Section 7 of this IAL. The Proposed Exemption, if granted by the SC, will allow Digi to undertake the Proposed Merger, assuming the Proposed Merger is also approved by you.

In summary, the potential advantages and disadvantages of the Proposals are as follows:-

Potential advantages	
(a)	The Proposed Merger provides an opportunity for Digi to merge with a profitable business within the telecommunications industry with proven track record of more than 30 years. The MergeCo Group is expected to emerge as one of the leading telecommunication services providers in Malaysia upon completion of the Proposed Merger.
(b)	The MergeCo Group is expected to benefit from the potential synergies via greater economies of scale arising from the consolidation of operations, optimisation of resource utilisation and sharing of assets and management capabilities upon completion of the Proposed Merger.

(c) The Proposed Merger may further enhance consumer satisfaction through strengthening of the core distribution, enhanced network operations and improved efficiencies.

(d) The Proposed Merger will allow the MergeCo Group to be in a stronger position to engage with potential partners and venture into the global markets, realising the opportunities arising from the technology advancement and surging of digital services adoption and consumer demand.

(e) As new digital solutions and use cases will require extensive research & development and new capabilities, the MergeCo Group with greater combined know-how, facilities and vast management experience will serve as a good platform to attract and grow the local digital talent, suppliers and start-up community, which will ultimately drive the technological advancement in Malaysia.

(f) The settlement of the Total Consideration largely via the issuance of Consideration Shares will allow Digi Group to conserve its cash reserves without significantly increase its borrowings and improve its gearing ratio.

(g) Digi Group's financial position will be strengthened pursuant to the issuance of Consideration Shares with:-

- an **increase** in NA from approximately RM632.8 million as at 31 December 2021 to approximately RM13,939.1 million in MergeCo Group upon completion of the Proposed Merger; and

- an **improvement** in gearing ratio i.e., reducing from 7.84 times as at 31 December 2021 to 1.14 times in MergeCo Group upon completion of the Proposed Merger.

Potential disadvantages

(a) There is no assurance that the MergeCo Group will be able to realise the anticipated benefits from the Proposed Merger, and the Proposed Merger may expose the MergeCo Group to new challenges and risks comprising, amongst others, the followings:-

- Non-completion risk for the Proposals.

- Integration risk arising from the Proposed Merger.

- Risk from failure in defending material litigation suits filed by Celcom and Celcom Resources against, inter alia, TSDTR, Bistamam and DeTeAsia Holding GmbH (i.e., TSDTR Counterclaims).

  Notwithstanding the TSDTR Indemnity fully covers sums payable by the MergeCo Group in respect of the TSDTR Counterclaims, there is no assurance that it will be able to fully recover or recover in a timely manner the amounts claimed under the TSDTR Indemnity. Additionally, MergeCo Group may also suffer indirect and consequential losses, such as losses arising from reputational damage, which is not part of the TSDTR Indemnity. These would materially and adversely affect the profitability and financial position of the MergeCo Group and may have a corresponding negative effect on the shareholders' value of the MergeCo.

- Possible impairment of goodwill arising from the Proposed Merger, subject to an impairment assessment to be performed at least once a year, pursuant to MFRS 136: Impairment of Assets.

- Risk of control by major shareholders, where Axiata and Telenor will collectively hold 66.2% upon the completion of the Proposed Merger. With the said shareholding in MergeCo, Axiata and Axiata PACs will have statutory control over MergeCo and unless it is required to abstain from voting on resolutions sought at shareholders' general meetings of the MergeCo, Axiata and Axiata PACs are able to, through casting of their votes which represent approximately 66.2% of the total voting shares in MergeCo after the Proposed Merger:-

  - vote through or vote down any ordinary resolutions (as such resolutions only require approval from more than 50% of the total votes cast); and

  - have significant influence over the decision for special resolutions (as such resolutions require approval from at least 75% of the total votes cast).

- Risks surrounding execution of the Undertaking within the planned timelines without any adverse impact to the MergeCo's customers or delayed in the performance of the Undertaking to MCMC.

  The Undertaking to MCMC, particularly the spectrum divestment is operationally complex with the consequence of possible degradation to network quality and hence, impacting customer experience and causing challenges for the MergeCo Group to comply with its service quality requirements. Although MergeCo Group will continue to engage with MCMC including having regular dialogues to address the progress or potential issues to ensure the performance of the Undertaking, if the MergeCo Group fails to perform any part of the Undertaking according to its terms, the CMA expressly provides a right for MCMC or any person to apply to court to enforce the same. Failure by the MergeCo Group to comply with a court order will result in the MergeCo Group and/or its officers being in contempt of court and liable to a reprimand and/or a fine or imprisoned and hence, may result in reputational damage.

  Further, the MergeCo Group is also expected to incur additional costs and expenditures for merger integration activities, as well as to fulfil the Undertaking to MCMC, which may have a negative impact on the earnings and EPS of the MergeCo Group in the immediate years upon completion of the Proposed Merger.

(b) The Non-Interested Shareholders' shareholdings in Digi will be diluted from approximately 51.0% to 33.8% in MergeCo.

Further, the Proposed Exemption will allow the shareholding of Axiata and Axiata PACs in the MergeCo to increase to 66.2% upon completion of the Proposed Merger without being required to undertake the Mandatory Offer.

Your approval of the Proposed Exemption will imply that you have agreed to waive your rights to a general offer by Axiata and Axiata PACs (which shall be undertaken at a price no lower than the highest price paid by Axiata and Axiata PACs for the Digi Shares in the past 6 months preceding the commencement of the offer) and exempt Axiata and Axiata PACs from the obligation to undertake the Mandatory Offer arising from the increase in its shareholdings in Digi pursuant to the issuance of the Consideration Shares upon completion of the Proposed Merger. **The Proposed Exemption would essentially deny you with the opportunity to exit from Digi through a mandatory take-over offer by Axiata and Axiata PACs**.

Premised on the above and our overall evaluation of the Proposals on a holistic basis, we are of the view that the Proposals are **fair and reasonable** and **not detrimental** to the interests of the Non-Interested Shareholders.

Accordingly, we recommend that you **vote in favour** of the ordinary resolutions pertaining to the Proposals to be tabled at the forthcoming EGM of the Company.

Yours faithfully,
For and on behalf of
AmInvestment Bank Berhad

Ho Weng Yew
Executive Vice President /
Head, Corporate Finance

Foong Yein Fun
Senior Vice President,
Corporate Finance

1. HISTORY AND PRINCIPAL ACTIVITIES

Digi was incorporated in Malaysia on 28 March 1997 under the Companies Act, 1965 as a private limited company under the name of Mutiara Swisscom Sdn Bhd. The company was subsequently converted into a public company on 3 April 1997 and assumed the name Mutiara Swisscom Berhad. Digi was officially listed on the Main Board of the Kuala Lumpur Stock Exchange (now known as the Main Market of Bursa Securities) on 18 December 1997. On 16 December 1998, the company's name was changed to Digi Swisscom Berhad and subsequently, the company assumed its present name on 18 April 2000.

The principal activity of Digi is investment holding. Digi subsidiaries are engaged in the establishment, maintenance and provision of telecommunications and related services, provision of telecommunication infrastructure services and provision of e-commerce, digital services and solutions.

2. SHARE CAPITAL

2.1 Share capital

As at the LPD, the share capital of Digi is RM769,655,000 comprising 7,775,000,000 ordinary shares. Since the end of FYE 31 December 2021 up to the LPD, there is no change in the share capital of Digi.

As at the LPD, there is only 1 class of shares in Digi, i.e., the Digi Shares. All Digi Shares rank equally in terms of voting rights and entitlements to any dividends, rights, allotments and/or distributions (including any capital distributions) which may be declared, made or paid to shareholders.

2.2 Convertible securities

As at the LPD, Digi does not have any convertible securities.

3. SUBSTANTIAL SHAREHOLDERS

As at the LPD, the substantial shareholders of Digi and their respective shareholdings in Digi are set out below:-

	Direct		Indirect	
Name	**No. of Digi Shares (‘000)**	**%**	**No. of Digi Shares (‘000)**	**%**
Telenor Asia Pte Ltd	3,809,750	49.00	-	-
Telenor Mobile Communications AS	-	-	(1)3,809,750	49.00
Telenor Mobile Holding AS	-	-	(2)3,809,750	49.00
Telenor	-	-	(3)3,809,750	49.00
EPF	(4)1,151,044	14.80	-	-
ASB	600,798	7.73	-	-

Notes:-

(1) Deemed interested by virtue of its 100% interest in Telenor Asia.

(2) Deemed interested by virtue of its 100% interest in Telenor Mobile Communications AS.

(3) Deemed interested by virtue of its 100% interest in Telenor Mobile Holding AS.

(4) The total number of 1,151,044 Digi Shares are held under multiple nominee accounts.

4. DIRECTORS

As at the LPD, the particulars of Directors of Digi are set out below:-

Name / Designation	Nationality	Date of Appointment	Address
Haakon Bruaset Kjoel *(Chair, Non-Independent Non-Executive Director)*	Norwegian	11 July 2017	8 Marine Vista, 09-27 Neptune Court 449032 Singapore
Vimala V.R. Menon *(Senior Independent Non-Executive Director)*	Malaysian	01 July 2015	No. 11, Jalan SS19/4E, 47500 Subang Jaya, Selangor Darul Ehsan
Yasmin binti Aladad Khan *(Independent Non-Executive Director)*	Malaysian	23 July 2013	C3-3A, Arata Condominium, Jalan Syers, Bukit Tunku 50480 Kuala Lumpur, Wilayah Persekutuan
Datuk Iain John Lo *(Independent Non-Executive Director)*	Malaysian	24 May 2021	31A the Avare, Lorong Kuda, 50450 Kuala Lumpur, Wilayah Persekutuan
Lars Erik Tellmann *(Non-Independent Non-Executive Director)*	Norwegian	12 July 2019	39/1497 Greenville II, Moo 3 Bangtalard, Pakkret, Nonthaburi 11120 Thailand
Wenche Marie Agerup *(Non-Independent Non-Executive Director)*	Norwegian	15 October 2020	9 Ocean Way, The Residences at W, 098371 Singapore

As at the LPD, the Directors of Digi does not have any interest, whether direct or indirect, in any voting shares of Digi.

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5. SUBSIDIARIES, ASSOCIATED COMPANY AND JOINT VENTURE

As at the LPD, the details of the subsidiaries of Digi are set out below:-

Name of entity	Country of incorporation	Effective equity interest (%)	Principal activities
Digi Telecommunications Sdn Bhd	Malaysia	100	Establishment, maintenance and provision of telecommunications and related services
InfraNation Sdn Bhd	Malaysia	100	Telecommunication infrastructure and services
Y3llowlabs Sdn Bhd	Malaysia	100	Providing solutions and services related to web technologies, internet, e-commerce and digital services

As at the LPD, Digi does not have any associated company and joint venture.

6. PROFIT AND DIVIDEND RECORD

A summary of the Digi Group's results based on the audited consolidated financial statements of Digi for the FYE 31 December 2019, FYE 31 December 2020, FYE 31 December 2021, and unaudited consolidated financial statements of Digi for the 6-month FPE 30 June 2022 are as follows:-

	Audited FYE 31 December			Unaudited FPE 30 June
	2019 (RM'000)	2020 (RM'000)	2021 (RM'000)	2022 (RM'000)
Revenue	6,297,358	6,152,747	6,335,674	3,060,583
Profit before tax	1,892,321	1,622,046	1,514,885	736,425
Taxation	(459,372)	(401,077)	(352,780)	(280,233)
Profit after tax	1,432,949	1,220,969	1,162,105	456,192
Weighted average number of ordinary shares ('000)	7,775,000	7,775,000	7,775,000	7,775,000
EPS (sen) (Basic and diluted)	18.4	15.7	14.9	5.9
Net dividend per ordinary share declared in respect of the respective financial year/period (sen)	18.2	15.6	14.9	5.7

There is no material exceptional item in the audited consolidated financial statements of Digi for the past 3 financial years up to the FYE 31 December 2021 and for the 6-month FPE 30 June 2022.

There is no non-controlling interest in Digi for the for the past 3 financial years up to the FYE 31 December 2021.

7. STATEMENT OF ASSETS AND LIABILITIES

The audited statement of financial position of Digi Group as at 31 December 2019, 31 December 2020, 31 December 2021 and unaudited statement of financial of financial position of Digi Group as at 30 June 2022 are as follows:-

	Audited as at 31 December			Unaudited as at 30 June
	2019 (RM'000)	**2020 (RM'000)**	**2021 (RM'000)**	**2022 (RM'000)**
Non-current assets				
Property, plant and equipment	2,852,110	2,883,143	2,863,675	2,751,240
Intangible assets	305,986	248,036	284,057	275,418
Right of use assets	2,595,088	3,031,878	2,828,720	2,739,842
Other investment	78	78	78	78
Trade and other receivables	427,565	344,538	320,862	329,612
Contract costs	66,170	57,887	71,687	70,823
Contract assets	26,661	28,886	21,757	21,681
Derivative financial assets	18,605	61,728	26,365	-
Total non-current assets	**6,292,263**	**6,656,174**	**6,417,201**	**6,188,694**
Current assets				
Inventories	90,501	137,207	116,568	132,952
Trade and other receivables	1,220,923	972,387	1,050,392	1,131,488
Contract assets	79,590	66,437	51,127	41,982
Income tax recoverable	8,448	51,676	-	-
Cash and short-term deposits	457,716	302,853	204,527	137,979
Derivative financial assets	**-**	**-**	**-**	125
Total current assets	**1,857,178**	**1,530,560**	**1,422,614**	**1,444,526**
Total assets	**8,149,441**	**8,186,734**	**7,839,815**	**7,633,220**
Non-current liabilities				
Loans and borrowings	4,461,043	4,677,523	3,835,854	3,859,305
Deferred tax liabilities	217,628	268,927	303,027	271,809
Other liabilities	53,295	120,255	136,053	141,532
Derivative financial assets	**-**	**-**	**-**	**1,354**
Total non-current liabilities	**4,731,966**	**5,066,705**	**4,274,934**	**4,274,000**
Current liabilities				
Trade and other payables	1,784,308	1,432,986	1,444,024	1,381,608
Contract liabilities	283,572	306,283	346,088	323,713
Derivative financial liabilities	419	394	183	-
Other liabilities	420	-	-	-
Loans and borrowings	688,756	774,510	1,123,421	890,693
Income tax payable	13	-	18,354	202,903
Total current liabilities	**2,757,488**	**2,514,173**	**2,932,070**	**2,798,917**
Total liabilities	**7,489,454**	**7,580,878**	**7,207,004**	**7,072,917**
Equity				
Share Capital	769,655	769,655	769,655	769,655
(Accumulated losses)/retained earnings	(109,668)	(163,799)	(136,844)	(209,352)
Total equity	**659,987**	**605,856**	**632,811**	**560,303**
Total equity and liabilities	**8,149,441**	**8,186,734**	**7,839,815**	**7,633,220**

As at the LPD, there is no known material change in the financial position or prospects of Digi Group subsequent to 31 December 2021.

Within the knowledge of Axiata, there is no known material change in the financial position or prospects of Digi Group subsequent to 31 December 2021, being the date of the latest audited consolidated financial statements of Digi Group laid before the shareholders of Digi's at its general meeting held on 13 May 2022, other than as disclosed in the announcements made by Digi on Bursa Securities, which include the quarterly financial results of Digi.

8. ACCOUNTING POLICIES AND STANDARDS

The audited consolidated financial statements of Digi for the past 3 financial years up to FYE 31 December 2021 have been prepared based on approved accounting standards in Malaysia and there was no audit qualification for Digi's financial statements for the respective years under review.

There is no change in the accounting standards adopted by Digi which would result in a material variation to the comparable figures or the audited consolidated financial statements of Digi for the past 3 financial years up to the FYE 31 December 2021.

9. BORROWINGS

Based on the unaudited management accounts of Digi Group as at 31 August 2022, Digi Group has a total outstanding loan and borrowings of approximately RM4.86 billion, all of which are interest-bearing as set out below:-

	(RM'000)
Non-current	
Floating-rate term financing i ("**FRTF-i**")	345,115
Islamic medium-term notes	1,498,955
Lease liabilities	2,115,997
Total	**3,960,067**
Current	
Floating-rate term loan	221,943
FRTF-i	150,000
Floating-rate revolving credit	75,000
Lease liabilities	449,253
Total	**896,196**
Total loans and borrowings	**4,856,263**

10. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

The details of material commitments and contingent liabilities of the Digi Group as at the LPD are as set out in Sections 1.5 and 1.6, Appendix V of the Circular.

11. MATERIAL LITIGATION

The details on material litigations relating to the Digi Group as at the LPD are as set out in Section 1.4, Appendix V of the Circular.

12. MATERIAL CONTRACTS

The details on material contracts entered into by the Digi Group (not being contracts entered into in the ordinary course of business) within 2 years immediately preceding the announcement of the Proposals and up to the LPD are as set out in Section 1.3, Appendix V of the Circular.

13. HISTORICAL SHARE PRICES

The closing market prices of the Digi Shares as traded on the Main Market of Bursa Securities (i) during the period commencing 6 months preceding the Digi Initial Announcement LTD on 7 April 2021 and up to the LPD, (ii) on the Digi Initial Announcement LTD and (iii) on the LPD are as follows:-

	Closing market prices (RM)
2020	
October	3.77
November	4.00
December	4.14
2021	
January	3.79
February	3.70
March	3.64
April	4.19
May	4.26
June	4.13
July	4.15
August	4.40
September	4.45
October	4.23
November	4.17
December	4.36
2022	
January	3.80
February	4.05
March	3.90
April	3.82
May	3.53
June	3.50
July	3.63
August	3.75
September	3.38
Last traded market price on the Digi Initial Announcement LTD	3.75
Last traded market price on the LPD	3.38

(Source: Bloomberg)

For clarity, all Digi securities are listed and traded on the Main Market of Bursa Securities.

During the period commencing 6 months preceding the Digi Initial Announcement LTD on 7 April 2021 and up to the LPD, the highest closing market price of Digi Shares was RM4.50 (on 8 September 2021); and the lowest closing market price of Digi Shares was RM3.10 (on 13 June 2022).

1. INFORMATION ON AXIATA

1.1 History and principal activities

Axiata was incorporated in Malaysia on 12 June 1992 under the laws of Malaysia and registered with the Companies Commission of Malaysia, as a private limited company under the name of Telekom Malaysia International Sdn Bhd. On 16 October 2001, Axiata changed its name to TM International Sdn. Bhd. and on 12 December 2007 Axiata was converted into a public company limited by shares under the name of TM International Berhad. Axiata was listed on the Main Board of Kuala Lumpur Stock Exchange (presently known as the Main Market of Bursa Securities) on 28 April 2008 and changed its name to Axiata Group Berhad on 31 March 2009.

The principal activities of Axiata are investment holding and the provision of technical and management services on an international scale. The principal activities of the Axiata Group are the provision of mobile communication services, telecommunication infrastructure and related services as well as digital services.

1.2 Share capital

As at the LPD, the share capital of Axiata is RM13,913,552,083 comprising 9,177,028,682 ordinary shares.

1.3 Convertible securities

As at the LPD, Axiata does not have any convertible securities.

1.4 Substantial shareholders

As at the LPD, the substantial shareholders of Axiata and their respective shareholdings in Axiata are set out below:-

	Direct		Indirect	
Name	**No. of Axiata Shares ('000)**	**(1)%**	**No. of Axiata Shares ('000)**	**(1)%**
Khazanah Nasional Berhad(2)	3,371,238	36.74	-	-
Citigroup Nominees (Tempatan) Sdn Bhd – Employees Provident Fund Board	1,533,258	16.71	-	-
ASB	1,095,404	11.94	-	-

Notes:-

(1) Based on 9,177,028,682 Axiata Shares in issue as at the LPD.

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The persons acting in concert with Axiata

The persons acting in concert with Axiata in relation to the Proposed Merger include Telenor Asia, Telenor Mobile Communications AS, Telenor Mobile Holding AS, Telenor and Puan Sri Zaleha Binti Jamaludin.

As at LPD, Telenor Asia is a wholly-owned subsidiary of Telenor Mobile Communications AS, Telenor Mobile Communications AS is a wholly-owned subsidiary of Telenor Mobile Holding AS, and Telenor Mobile Holding AS is a wholly-owned subsidiary of Telenor. The substantial shareholder of Telenor and its shareholding in Telenor are set out below:-

	Direct		Indirect	
Name	**No. of Telenor Shares ('000)**	**%(1)**	**No. of Telenor Shares ('000)**	**%**
Ministry of Trade, Industry and Fisheries, Kingdom of Norway	755,220,420	53.97	-	-

Note:-

(1) Based on 1,399,458,033 Telenor shares in issue as at LPD.

1.5 Directors

Information of Axiata's Directors

As at the LPD, the particulars of Directors of Axiata are set out below:-

Name / Designation	Nationality	Date of Appointment	Address
Tan Sri Shahril Ridza Ridzuan *(Chairman, Independent Non-Executive Director)*	Malaysian	1 January 2022	No. 5, Jalan Rimba Riang 9/1C Seksyen 9, Kota Damansara 47810 Petaling Jaya, Selangor
Dato Dr Nik Ramlah Nik Mahmood *(Senior Independent Non-Executive Director)*	Malaysian	21 March 2017	No. 12, Jalan Merah U9/1B, Seksyen U9, Kayangan Heights, 40150 Shah Alam, Selangor
Dr David Robert Dean *(Independent Non-Executive Director)*	British	11 December 2017	Pschorrstrasse 19, 82340 Feldafing, Germany
Khoo Gaik Bee *(Independent Non-Executive Director)*	Malaysian	1 January 2019	No. 20, Jalan Bidara 9/KS 6, Bandar Botanic, 41200 Klang, Selangor
Thayaparan S Sangarapillai *(Independent Non-Executive Director)*	Malaysian	18 March 2020	No. 15, Lorong Kemaris Satu, Bukit Bandaraya, 59100 Bangsar Baru, Wilayah Persekutuan
Tan Sri Dr Halim Shafie *(Independent Non-Executive Director)*	Malaysian	1 November 2020	40, SS 21/23, Damansara Utama, 47400 Petaling Jaya, Selangor

Name / Designation	Nationality	Date of Appointment	Address
Ong King How *(Non-Independent Non-Executive Director)*	Malaysian	28 August 2020	No. 6, Jalan USJ Heights 3/2B, USJ Heights, 47610 Subang Jaya, Selangor
Nurhisham Hussein *(Non-Independent Non-Executive Director)*	Malaysian	25 January 2022	C-12-3, Indera Subang Condo, Jalan USJ 6/2L, 47610 Subang Jaya, Selangor
Shahin Farouque Jammal Ahmad *(Non-Independent Non-Executive Director)*	Malaysian	26 August 2022	No. 93, Jalan Surian Wangi Sierramas West, 47000 Sungai Buloh, Selangor
Eysa Zulkifli *(Non-Independent Non-Executive Director)*	Malaysian	26 August 2022	22 Jalan Elitis, Suria Valencia 47000 Sungai Buloh, Selangor

As at the LPD, the Directors of Axiata and their shareholdings in Axiata are set out below:-

	Direct		Indirect	
Name	**No. of Axiata Shares ('000)**	**(1)%**	**No. of Axiata Shares ('000)**	**(1)%**
Tan Sri Shahril Ridza Ridzuan	-	-	-	-
Dato Dr Nik Ramlah Nik Mahmood	-	-	-	-
Dr David Robert Dean	-	-	-	-
Khoo Gaik Bee	-	-	-	-
Thayaparan S Sangarapillai	-	-	-	-
Tan Sri Dr Halim Shafie	-	-	(2)10	(3)0.00
Ong King How	-	-	-	-
Nurhisham Hussein(4)	-	-	-	-
Shahin Farouque Jammal Ahmad(5)	-	-	-	-
Eysa Zulkifli(5)	-	-	-	-

Notes:-

(1) Calculated based on the issued share capital of Axiata as at the LPD of 9,177,028,682 ordinary shares.

(2) Shares held through spouse - Puan Sri Zaleha binti Jamaludin.

(3) Less than 0.01%.

(4) Appointed on 25 January 2022.

(5) Appointed on 26 August 2022.

Information of Telenor's Directors

As at the LPD, the particulars of Directors of Telenor are set out below:-

Name / Designation	Nationality	Date of Appointment
Gunn Wærsted *(Chair of the board)*	Norwegian	17 December 2015, effective from 14 January 2016
Jørgen Kildahl *(Deputy Chair of the board)*	Norwegian	10 May 2017
Nina Bjornstad *(Board member)*	Norwegian and American	11 May 2022
Jon Erik Reinhardsen *(Board member)*	Norwegian	14 May 2014
Pieter Cornelis Knook *(Board member)*	Dutch	11 May 2020
Astrid Simonsen Joos *(Board member)*	Norwegian	11 May 2021
Elisabetta Ripa *(Board member)*	Italian	27 May 2021
Jan Otto Eriksen *(Board member)*	Norwegian	7 May 2019
Irene Vold *(Board member)*	Norwegian	27 May 2021
Roger Rønning *(Board member)*	Norwegian	27 May 2021

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As at the LPD, the Directors of Telenor and their shareholdings in Telenor are set out below:-

	Direct		Indirect	
Name	**No. of Telenor Shares ('000)**	**(1)%**	**No. of Telenor Shares ('000)**	**%**
Gunn Wærsted	19	-	-	-
Jørgen Kildahl	2	-	-	-
Nina Bjornstad	-	-	-	-
Jon Erik Reinhardsen	2	-	-	-
Pieter Cornelis Knook	-	-	-	-
Astrid Simonsen Joos	-	-	-	-
Elisabetta Ripa	-	-	-	-
Jan Otto Eriksen	6	-	-	-
Irene Vold	5	-	-	-
Roger Rønning	4	-	-	-

Notes:-

(1) The shareholding percentage of the Directors in Telenor is negligible.

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1.6 Subsidiaries, associated companies and joint ventures

As at the LPD, the details of the subsidiaries of Axiata are set out below:-

Name of entity	Country of incorporation	Effective equity interest (%)	Principal activities
Axiata Investments (Labuan) Limited	Federal Territory Labuan	100.00	Investment holding
Axiata Investments 1 (India) Limited	Mauritius	100.00	Investment holding
Axiata Investments (Cambodia) Limited	Federal Territory Labuan	100.00	Investment holding
Celcom Axiata Berhad	Malaysia	100.00	Telecommunications network capacity, infrastructure and services
Axiata Management Services Sdn Bhd	Malaysia	100.00	Provision of services in relation to IT, including IT solutions development and maintenance, IT related managed services, analytics and technical advisory
Axiata Investments (Singapore) Limited	Federal Territory Labuan	100.00	Investment holding
Axiata SPV1 (Labuan) Limited	Federal Territory Labuan	100.00	Investment holding and financing
Axiata Foundation	Malaysia	-	Develop and nurture talent pool and foster, develop and improve education
Axiata SPV2 Berhad	Malaysia	100.00	Financing
Axiata SPV4 Sdn Bhd	Malaysia	100.00	Investment holding
Axiata SPV5 (Labuan) Limited	Federal Territory Labuan	100.00	Investment holding and issuance of financial instruments
Axiata Digital Services Sdn Bhd	Malaysia	96.56	Investment holding company, to manage and provide management, consultancy, technical services in digital businesses and related industries in local and/or international markets

Name of entity	Country of incorporation	Effective equity interest (%)	Principal activities
Axiata Business Services Sdn Bhd	Malaysia	100.00	Provision of international carrier services and enterprise solutions
edotco Group Sdn Bhd	Malaysia	63.00	Investment holding and provision of technical and operations support services in the telecommunications and related industries in local and/or international markets
Axiata Investments (UK) Limited	United Kingdom	100.00	Investment holding
Dialog Axiata Digital Innovation Fund (Private) Limited	Sri Lanka	45.57	Venture capital fund
Subsidiaries held through Axiata Investments (Labuan) Limited			
Axiata Investments (Indonesia) Sdn Bhd	Malaysia	100.00	Investment holding
Dialog Axiata PLC	Sri Lanka	82.27	Communication services, telecommunication infrastructure services, media and digital services
Robi Axiata Limited	Bangladesh	61.82	Mobile telecommunication services
Axiata Lanka (Private) Limited	Sri Lanka	100.00	Property development and letting of property for commercial purposes
Axiata Digital Labs (Private) Limited	Sri Lanka	100.00	Software development and IT enabled services venture of Axiata Group
Subsidiary held through Axiata Digital Labs (Private) Limited			
PT Axiata Digital Labs Indonesia	Indonesia	100.00	Providing IT solutions/services and consultancy
Subsidiary held through Axiata Investments (Indonesia) Sdn Bhd			
PT XL Axiata Tbk	Indonesia	61.48	Telecommunication services, network and/or multimedia services provider
Subsidiary held through PT XL Axiata Tbk			
PT Hipernet Indodata	Indonesia	31.35	Managed service provider

Name of entity	Country of incorporation	Effective equity interest (%)	Principal activities
Subsidiary held through PT XL Axiata Tbk and Axiata Investments (Indonesia) Sdn Bhd			
PT Link Net Tbk	Indonesia	58.33	Provision of telecommunication by cable, multimedia, internet services, trading, and business management consulting services
Subsidiaries held through PT Link Net Tbk			
PT First Media Television	Indonesia	58.32	Subscription broadcasting
PT Infra Solusi Indonesia	Indonesia	58.33	Outsourcing services
Link Net Global Solution Pte Ltd	Singapore	58.33	Telecommunication
Subsidiaries held through Dialog Axiata PLC			
Dialog Broadband Networks (Private) Limited	Sri Lanka	82.27	Data and backbone, fixed wireless and transmission infrastructure
Dialog Television (Private) Limited	Sri Lanka	82.27	Television broadcasting generated services and direct-to-home satellite pay television services
Digital Holdings Lanka (Private) Limited	Sri Lanka	82.27	Investment holding company of new business areas of Dialog Group
Dialog Business Services (Private) Limited	Sri Lanka	82.27	Provision of manpower for call centre operations
Dialog Finance PLC	Sri Lanka	81.49	Provision of financial services
Dialog Device Trading (Private) Limited	Sri Lanka	82.27	Selling IT enabled equipment
Dialog Network Services (Private) Limited	Sri Lanka	82.27	Provision of network development, operations and maintenance services
Subsidiaries held through Dialog Broadband Networks (Private) Limited			
Telecard (Private) Limited	Sri Lanka	82.27	Dormant
H One (Private) Limited	Sri Lanka	82.27	Providing software licenses and services to corporates and help them on their cloud journey and digital transformation
Subsidiaries held through Dialog Television (Private) Limited			
Communiq Broadband Network (Private) Limited	Sri Lanka	82.27	Dormant

Name of entity	Country of incorporation	Effective equity interest (%)	Principal activities
Subsidiaries held through Dialog Holdings Lanka (Private) Limited			
Digital Commerce Lanka (Private) Limited	Sri Lanka	82.27	e-commerce and digital marketing services
Headstart (Private) Limited	Sri Lanka	51.00	Creating and providing e-learning content
Digital Health (Private) Limited	Sri Lanka	40.69	Developing and operating a state-of-the-art electronic commerce infrastructure for the healthcare sector
Subsidiary held through Digital Health (Private) Limited			
My Health Solutions (Private) Limited	Sri Lanka	40.69	To serve as a digital health platform in connecting patient to stakeholders within the health care sector in accordance with the laws and regulations of Sri Lanka
Subsidiary held through Robi Axiata Limited			
RedDot Digital Limited	Bangladesh	61.81	Provision of IT, information and communications technology services to facilitate Robi's non-mobile network operator business activities
Subsidiary held through Axiata Investments 1 (India) Limited			
Axiata Investments 2 (India) Limited	Mauritius	100.00	Investment holding
Subsidiary held through Axiata Investments (Cambodia) Limited			
Axiata (Cambodia) Holdings Limited	Federal Territory Labuan	72.48	Investment holding
Subsidiaries held through Celcom Axiata Berhad			
Celcom Mobile Sdn Bhd	Malaysia	100.00	Mobile communications, network and application services and content
Celcom Networks Sdn Bhd	Malaysia	100.00	Network telecommunications, capacity and services
Celcom Properties Sdn Bhd	Malaysia	100.00	Property investment
Escape Axiata Sdn Bhd	Malaysia	100.00	Over-The-Top (OTT) and other on demand content services *(Inactive since 31 December 2017)*[(1)]

Name of entity	Country of incorporation	Effective equity interest (%)	Principal activities
Celcom Retail Holding Sdn Bhd	Malaysia	100.00	Strategic and business development, management, administrative, support services and investment holding
Celcom Intelligence Sdn Bhd	Malaysia	100.00	Investment holding *(Inactive since 31 December 2017)*(1)(2)
Celcom Timur (Sabah) Sdn Bhd	Malaysia	80.00	Fibre optic transmission network
Celcom eCommerce Sdn Bhd	Malaysia	100.00	Electronic wallet services *(Inactive since 31 December 2018)*(1)
Celcom Resources Berhad	Malaysia	100.00	Investment holding(3)
Bridgenet Solutions Sdn Bhd(4)	Malaysia	51.00	Provision of cybersecurity solution, networking solutions and other ICT solutions as well as managed services provider
Infront Consulting Group (M) Sdn Bhd	Malaysia	60.00	Provision of shared services or outsourcing services in relation to business management and integration system and provision of related services for implementation, technical services and maintenance
Subsidiary held through Celcom Retail Holding Sdn Bhd			
Celcom Retail Sdn Bhd	Malaysia	100.00	Trading and distribution of communication devices and related products and managing retail stores
Subsidiary held through Celcom Resources Berhad			
Celcom Trading Sdn Bhd	Malaysia	100.00	Dealing in marketable securities
Subsidiary held through Infront Consulting Group (M) Sdn Bhd			
Infront Consulting Group (S) Pte Ltd	Singapore	69.00	Software consultancy
Subsidiary held through Axiata (Cambodia) Holdings Limited			
Smart Axiata Co., Ltd	Cambodia	72.48	Mobile telecommunication services

Name of entity	Country of incorporation	Effective equity interest (%)	Principal activities
Subsidiaries held through Axiata Digital Services Sdn Bhd			
Axiata Digital & Analytics Sdn Bhd	Malaysia	61.29	Investment holding and provision of multimedia advertising services as well as multimedia advertising sales support services
Axiata Digital Bangladesh (Private) Limited	Bangladesh	96.56	Online ticketing services
Boost Holdings Sdn Bhd	Malaysia	75.44	Investment holding company, invest, hold, carry, manage and/or operate telecommunications related businesses, digital financial services related businesses, digital lifestyle related businesses and/or provide management, consultancy, technical and engineering services in telecommunications related businesses, digital financial services related businesses, digital lifestyle related businesses in local and/ or international markets
Apigate Inc	United States of America	95.56	Technology enabler service provider
Subsidiaries held through Boost Holdings Sdn Bhd			
Axiata Digital Capital Sdn Bhd	Malaysia	75.43	Micro-financing, money lending services, micro-insurance and related services, including related technology services
Axiata Digital eCode Sdn Bhd	Malaysia	75.43	To carry out the business of researching and developing internet services and mobile applications. To explore, initiate and develop partnership, ventures, agreements and/or collaboration. To conduct user-centric research, testing and surveys as part of the product development and refinement process.
Apigate Sdn Bhd	Malaysia	75.43	Application programming interface, software and mobile applications

Name of entity	Country of incorporation	Effective equity interest (%)	Principal activities
PT Creative Mobile Adventure	Indonesia	51.85	IT based lending provider – a peer to peer lending company licensed by OJK (Otoritas Jasa Keuangan)
Boost Biz Sdn Bhd (Formerly known as ADS Digital Ventures Sdn Bhd)	Malaysia	75.43	Financial service activities, except insurance/takaful and pension funding activities
Subsidiary held through Boost Holdings Sdn Bhd and Axiata Digital eCode Sdn Bhd			
PT Axiata Digital Services Indonesia	Indonesia	75.43	Portal web/commercial digital platform services, data processing and other consultation management
Subsidiaries held through Axiata Digital & Analytics Sdn Bhd (Formerly known as Axiata Digital Advertising Sdn Bhd)			
PT Axiata Digital Analytics Indonesia	Indonesia	61.64	Provision of digital analytics services
ADA Digital Singapore Pte Ltd	Singapore	61.29	Advertising service provider and investment holding
Subsidiaries held through ADA Digital Singapore Pte Ltd			
Adknowledge Asia Pacific (India) Private Limited	India	61.29	Dormant
ADA Digital Philippines Inc	Philippines	61.28	Provision of technology and software solutions
ADA Digital (Thailand) Co Ltd	Thailand	61.19	Provision of IT products and services for online media companies
ADA Asia Malaysia Sdn Bhd	Malaysia	61.29	Provision of multimedia advertising services and creative content, as well as multimedia advertising sales support services
PT ADA Asia Indonesia	Indonesia	60.67	Provision of multimedia advertising services and creative content, as well as multimedia advertising sales support services
Komli Network Philippines, Inc	Philippines	61.29	Provision of multimedia advertising services as well as multimedia advertising sales support services
AAD Holdings Pte Ltd	Singapore	61.29	Investment holding company
Subsidiaries held through AAD Holdings Pte Ltd			
AAD Indochina Pte Ltd	Singapore	61.29	Investment holding

Name of entity	Country of incorporation	Effective equity interest (%)	Principal activities
AADistribution Phils Inc	Philippines	61.29	To engage in conduct and carry on an e-commerce distribution business, rendering solutions for clients such as online store management, online distribution channel development, online data analysis and online campaign including the development, marketing and provision of internet goods and services; software systems, logistic, digital and payment services related to the said business inside and outside the Philippines through subsidiaries and otherwise, without engaging in mass media and advertising activities and providing value added telecommunication services and payment services requiring special permission under the law
Awake Asia Distribution Sdn Bhd	Malaysia	61.29	To engage in commercial conduct and carry out the business of trading, retailing, distributing all kinds of goods through electronic trading and e-commerce
Awake Asia Distribution Pte Ltd	Singapore	61.29	Developing and providing IT related services
PT Awake Asia Distribution Indonesia	Indonesia	61.29	Sale of food and soft drinks (not restaurants/ minimarkets/catering) food and beverages from livestock/household furniture
Subsidiary held through AAD Indochina Pte Ltd			
Thien An Investment Co Ltd	Vietnam	61.29	Retail sale of electrical household appliances, furniture and lighting equipment and other household articles not elsewhere classified in specialised stores

Name of entity	Country of incorporation	Effective equity interest (%)	Principal activities
Subsidiary held through Apigate Sdn Bhd and Boost Holdings Sdn Bhd			
Apigate India Services Private Ltd	India	75.43	Digital platform provider and providing platform to connect with individuals or corporates within or outside India, all kinds of IT based and enabled services
Subsidiary held through Apigate Inc			
Apigate (Private) Limited	Sri Lanka	96.56	Develop and provide support services for software technologies products and solutions
Subsidiary held through Axiata Digital Capital Sdn Bhd and PT Axiata Digital Services Indonesia			
PT Axiata Digital Capital Indonesia	Indonesia	75.43	Consultation management and data processing
Subsidiaries held through Axiata Business Services Sdn Bhd			
Xpand Investments (Labuan) Limited	Federal Territory Labuan	100.00	Investment holding
Axiata Global Service Pte. Ltd.	Singapore	100.00	To provide international carrier services, management of partnerships and alliances
Subsidiary held through Xpand Investments (Labuan) Limited			
Suvitech Co., Ltd	Thailand	65.00	Owner and operation of a mobile virtual network enabler (MVNE) platform services for customer, enterprise and IoT services
Subsidiaries held through edotco Group Sdn Bhd			
edotco Malaysia Sdn Bhd	Malaysia	63.00	Telecommunication infrastructure and services
edotco Investments (Labuan) Limited	Federal Territory Labuan	63.00	Investment holding
edotco Holdings (Labuan) Limited	Federal Territory Labuan	63.00	Investment holding
edotco Bangladesh Co. Ltd	Bangladesh	44.10	Telecommunication infrastructure and services
PT edotco Infrastruktur Indonesia	Indonesia	63.00	Telecommunication infrastructure and services
Subsidiaries held through edotco Malaysia Sdn Bhd			
Tanjung Digital Sdn Bhd	Malaysia	50.40	Investment holding

Name of entity	Country of incorporation	Effective equity interest (%)	Principal activities
On Site Services Sdn Bhd	Malaysia	49.77	Provision of field line maintenance business including preventive, corrective maintenance and support services
Touch Mindscape Sdn Bhd	Malaysia	63.00	Telecommunication infrastructure and service
Subsidiary held through Tanjung Digital Sdn Bhd			
Yiked Bina Sdn Bhd	Malaysia	50.40	Telecommunication infrastructure and services
Subsidiary held through Touch Mindscape Sdn Bhd			
Touch Matrix Sdn Bhd	Malaysia	63.00	Telecommunication infrastructure and services
Touch Mobile Sdn Bhd	Malaysia	63.00	Other business support service activities
Shahzan Alam Muda Sdn Bhd	Malaysia	50.40	Telecommunication infrastructure and services
Touch Mindscape (Melaka) Sdn Bhd	Malaysia	34.65	Telecommunication infrastructure and services
Subsidiaries held through edotco Investments (Labuan) Limited			
edotco Services Lanka (Private) Limited	Sri Lanka	63.00	Provision of end-to-end integrated infrastructure services
edotco Towers (Bangladesh) Limited	Bangladesh	63.00	Telecommunication infrastructure and services
edotco Pakistan (Private) Limited	Pakistan	63.00	Telecommunication infrastructure and services
edotco Investments Singapore Pte Ltd	Singapore	55.13	Investment holding
edotco Lao Company Limited	Laos	50.40	Telecommunication infrastructure and services
edotco Towers, Inc.	Philippines	63.00	Telecommunication infrastructure and services
Subsidiary held through edotco Pakistan (Private) Limited			
edotco Towers Pakistan (Private) Limited	Pakistan	63.00	Telecommunication infrastructure and services
Subsidiaries held through edotco Investments Singapore Pte Ltd			
Asian Towers Holdings Private Limited	Singapore	55.13	Investment holding
edotco Myanmar Limited	Myanmar	55.13	Telecommunication infrastructure and services

Name of entity	Country of incorporation	Effective equity interest (%)	Principal activities
edotco Urban Infrashare Ltd	Myanmar	55.13	Telecommunication infrastructure and services
Subsidiary held through edotco Holdings (Labuan) Limited			
edotco (Cambodia) Co., Ltd	Cambodia	50.40	Telecommunication infrastructure and services
Subsidiary held through Axiata Investments (UK) Limited			
Reynolds Holdings Limited	St Kitts and Nevis	100.00	Investment holding
Subsidiary held through Reynolds Holdings Limited			
Ncell Axiata Limited	Nepal	80.00	Telecommunication services

Notes:-

(1) The companies have ceased their business operations and no longer generate any revenue.

(2) Celcom Intelligence Sdn Bhd was the immediate holding company of Celcom Planet Sdn Bhd, a company involved in e-commerce platform business. Celcom Intelligence Sdn Bhd had disposed its interest in Celcom Planet Sdn Bhd in 2017.

(3) Celcom Resources Berhad is the immediate holding company of Celcom Trading Sdn Bhd.

(4) As at 8 January 2022, Celcom had completed the acquisition and subscription of a total of 51.0% equity interest in Bridgenet Solutions Sdn Bhd.

As at the LPD, the details of the associates of Axiata are set out below:-

Name of entity	Country of incorporation	Effective equity interest (%)	Principal activities
Associate held through Celcom Axiata Berhad			
Sacofa Sdn Bhd	Malaysia	15.12	Telecommunications infrastructure and services company including all its related businesses
Associate held through Dialog Axiata PLC			
Firstsource - Dialog Solutions (Private) Limited	Sri Lanka	21.39	Dormant
Associate held through Digital Broadband Networks (Private) Limited			
Digital Realty (Private) Limited	Sri Lanka	28.79	Establish, operate and manage data centre
Associate held through Axiata SPV4 Sdn Bhd			
Axiata Digital Innovation Fund Sdn Bhd	Malaysia	62.19	Venture capital fund
Associates held through Smart Axiata Co., Ltd			
SADIF LP	Labuan	57.98	Venture capital fund
Pi Pay International Co. Limited	Hong Kong	19.15	Investment holding

Name of entity	Country of incorporation	Effective equity interest (%)	Principal activities
edotco (Cambodia) Co., Ltd	Cambodia	14.50	Telecommunication infrastructure and services
Associate held through Pi Pay International Co. Limited			
Pi Pay PLC	Cambodia	18.19	Payment service provider
Associate held through PT XL Axiata Tbk			
PT Princeton Digital Group Data Centres	Indonesia	18.44	Provision of information and communication service with the main business to develop hosting activities
Associate held through PT Link Net Tbk			
IMTV[(1)]	Indonesia	9.92	Subscription television services

__Note:-__

(1) IMTV is currently in the process of dissolution.

As at the LPD, the details of the joint ventures of Axiata are set out below:-

Name of entity	Country of incorporation	Effective equity interest (%)	Principal activities
Joint ventures held through Axiata SPV4 Sdn Bhd			
Merchantrade Asia Sdn Bhd	Malaysia	19.00	Provision of licensed telephony services, other telecommunication IT services and equipment supplies, and provision of financial remittance services
Joint ventures held through Celcom Mobile Sdn Bhd			
Tune Talk Sdn Bhd	Malaysia	35.00	Mobile communications services
Joint venture held through PT XL Axiata Tbk			
PT One Indonesia Synergy	Indonesia	30.74	Consultancy services in future network collaboration
Joint venture held through Axiata Digital Services Sdn Bhd			
Trust Axiata Digital Limited	Bangladesh	47.31	Mobile financial services

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1.7 Profit and dividend record

A summary of the Axiata Group's results based on the audited consolidated financial statements of Axiata for the FYE 31 December 2019, FYE 31 December 2020, FYE 31 December 2021 and unaudited consolidated financial statements of Axiata for the 6-month FPE 30 June 2022 are as follows:-

	Audited FYE 31 December			**Unaudited FPE 30 June**
	2019 (RM'000)	**2020 (RM'000)**	**2021 (RM'000)**	**2022 (RM'000)**
Revenue	24,583,312	24,203,171	25,900,661	13,174,208
Profit before tax	2,779,740	1,171,117	2,173,618	539,969
Taxation and zakat	(964,644)	(547,072)	(896,737)	(562,611)
Profit after tax	1,815,096	624,045	1,276,881	(22,642)
Profit attributable to:-				
- Owner of the Company	1,457,550	365,155	818,900	(149,353)
- Non-controlling interests	357,546	258,890	457,981	126,711
EPS				
- Basic (sen)	16.0	4.0	8.9	(1.6)
- Diluted (sen)	16.0	4.0	8.9	(1.6)
Tax exempt dividend per ordinary share declared in respect of the respective financial year/period (sen)	9.5	7.0	9.5	-

Save as disclosed below, there is no material exceptional item in the audited consolidated financial statements of Axiata for the past 3 financial years up to the FYE 31 December 2021 and for the 6-month FPE 30 June 2022:-

FYE 31 December 2019

(i) On 15 February 2019, the Axiata Group via its wholly-owned subsidiary, Axiata Investments (Singapore) Limited accepted the Voluntary Conditional General Offer made by Konnectivity Pte. Ltd. in accordance with Rule 15 of the Singapore Code on Take-overs and Mergers on 27 September 2018 to acquire entire equity interest in M1 Limited comprising 265,410,150 ordinary shares at the offer price of SGD2.06 for a total cash consideration of RM1,649.3 million or SGD546.7 million. The disposal was completed on 27 February 2019 and as the result, the Axiata Group recognised a total net gain of RM113.4 million.

(ii) On 21 February 2019, Axiata and its wholly owned subsidiary, Axiata Digital Services Sdn Bhd ("**ADS**") entered into an application for shares with Pegasus 7 Ventures Pte. Ltd ("**Pegasus 7**") for the disposal of its digital venture investments as below:-

- Investment in a subsidiary, Axiata Investments (Mauritius) Limited which was holding Localcube Commerce Pvt Ltd and Localcube Commerce Asia Sdn Bhd completed on 28 March 2019;

- Investment in associates, Milvik AB and Etobee Holding Pte Ltd completed on 25 November 2019 and 11 October 2019 respectively; and

- Financial assets at fair value through other comprehensive income, Redeemable Convertible Preference Shares in Celcom Planet Sdn Bhd and Preference Shares in STS Media Inc completed on 18 November 2019 and 7 October 2019 respectively.

for a non-cash consideration of RM575.8 million or USD140.0 million via the issuance of preference shares by Pegasus 7 to the Axiata Group. Accordingly, the Axiata Group recognised a total net gain on disposal of RM367.1 million in consolidated profit or loss.

FYE 31 December 2020

(i) On 7 February 2020, PT XL Axiata Tbk ("**XL**") entered into an Asset Purchase Agreement ("**APA**") with PT Profesional Telekomunikasi Indonesia Tbk. and PT Centratama Menara Indonesia for the sale of 2,782 telecommunication towers with a total transaction value of IDR4,050.3 billion (RM1,194.8 million) and leaseback of 2,763 specific tower spaces for a period of ten (10) years.

XL completed the sale of 2,688 telecommunication towers for a consideration of IDR3,806.8 billion (RM1,100.2 million). Sale of the remaining 94 towers were cancelled as a result of the completion of tower audit required by the APA. As a result of the transaction, XL recorded a gain on outright sale of IDR1,331.6 billion (RM384.8 million) and a gain on sale and leaseback of IDR205.5 billion (RM59.4 million), totalling to IDR1,537.0 billion (RM444.2 million).

FYE 31 December 2021

(i) Axiata Group recorded a goodwill impairment loss of RM338.4 million resulting from the impairment assessment performed on Nepal cash generating unit.

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1.8 Statement of assets and liabilities

The audited statement of financial position of the Axiata Group as at 31 December 2019, 31 December 2020 and 31 December 2021 and unaudited statement of financial position of the Axiata Group as at 30 June 2022 are as follows:-

	Audited as at 31 December			Unaudited as at 30 June
	2019 (RM'000)	**2020 (RM'000)**	**2021 (RM'000)**	**2022 (RM'000)**
Capital and reserves attributable to owners of the company				
Share capital	13,857,268	13,883,028	13,905,207	13,912,676
Reserves	2,323,525	3,758,114	4,100,117	2,705,000
Total equity attributable to owners of the Company	**16,180,793**	**17,641,142**	**18,005,324**	**16,617,676**
Non-controlling interests	6,039,230	6,238,288	7,060,505	7,666,915
Total equity	**22,220,023**	**23,879,430**	**25,065,829**	**24,284,591**
Non-current liabilities				
Borrowings	9,194,490	14,773,895	14,819,079	17,892,315
Derivative financial instruments	110,818	121,784	91,162	46,013
Deferred income	383,337	445,237	260,360	590,475
Deferred gain on sale and lease back assets	559,351	422,817	307,754	248,320
Trade and other payables	607,967	1,303,042	1,116,080	1,102,073
Provision for liabilities	517,288	640,507	747,795	912,198
Deferred taxation	1,205,422	1,086,780	1,377,516	1,555,267
Lease liabilities	7,397,617	7,894,276	8,412,149	8,636,179
Total non-current liabilities	**19,976,290**	**26,688,338**	**27,131,895**	**30,982,840**
Total equity and non-current liabilities	**42,196,313**	**50,567,768**	**52,197,724**	**55,267,431**
Non-current assets				
Intangible assets	20,724,361	20,634,399	21,722,687	23,186,743
Contract cost assets	182,908	179,801	232,519	161,059
Property, plant and equipment	25,633,223	24,495,647	26,975,288	30,940,863
Right-of-use assets	8,937,706	8,518,895	8,983,213	9,753,279
Associates	207,357	274,635	257,898	258,716
Joint ventures	21,709	33,737	25,569	21,208
Financial assets at fair value through other comprehensive income	301,347	220,978	220,744	242,746
Financial assets at fair value through profit or loss	3,459	4,467	5,678	6,538
Derivative financial instruments	15,256	8,343	76,817	97,364
Trade and other receivables	656,639	1,315,895	1,280,866	1,420,748
Deferred taxation	324,187	310,324	358,530	350,938
Total non-current assets	**57,008,152**	**55,997,121**	**60,139,809**	**66,440,202**
Current assets				
Inventories	154,328	141,663	222,747	208,572
Trade and other receivables	4,721,973	4,362,395	5,060,933	5,368,602
Derivative financial instruments	9,247	-	121	2,693

	Audited as at 31 December			Unaudited as at 30 June
	2019 (RM'000)	**2020 (RM'000)**	**2021 (RM'000)**	**2022 (RM'000)**
Financial assets at fair value through profit or loss	60,417	138,113	65	42
Tax recoverable	70,944	97,610	109,514	137,246
Deposits, cash and bank balances	4,231,099	7,194,254	6,969,352	6,586,276
Assets classified as held-for-sale	277,643	30,593	47,889	1,550
Total current assets	**9,525,651**	**11,964,628**	**12,410,621**	**12,304,981**
Less: current liabilities				
Trade and other payables	12,178,262	12,001,948	13,555,061	13,213,952
Deferred income	-	3,820	3,609	10,645
Deferred gain on sale and leaseback assets	124,748	121,365	123,902	125,171
Borrowings	7,631,753	2,971,544	4,231,416	7,310,052
Lease liabilities	1,442,700	1,734,320	1,758,846	2,014,164
Derivative financial instruments	2,041,199	10,881	20,497	23,909
Current tax liabilities	899,811	532,947	653,031	779,753
Liabilities classified as held-for-sale	19,017	17,156	6,344	106
Total current liabilities	**24,337,490**	**17,393,981**	**20,352,706**	**23,477,752**
Net current liabilities	**(14,811,839)**	**(5,429,353)**	**(7,942,085)**	**(11,172,771)**
Total asset less current liabilities	**42,196,313**	**50,567,768**	**52,197,724**	**55,267,431**

There is no known material change in the financial position or prospects of Axiata Group subsequent to 31 December 2021, being the date of the latest audited consolidated financial statements of Axiata Group, other than as disclosed in the announcements made by Axiata on Bursa Securities, which include the quarterly financial results of Axiata.

1.9 Accounting policies and standards

The audited consolidated financial statements of Axiata for the past 3 years have been prepared in accordance and in compliance with MFRS, IFRS and CA. There was no audit qualification for Axiata financial statements for the respective financial year under review and the significant accounting policies are disclosed in the audited consolidated financial statements.

There is no change in the accounting standards adopted by Axiata which would result in a material variation to the comparable figures or the audited consolidated financial statements of Axiata for the past 3 financial years up to the FYE 31 December 2021.

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2. INFORMATION ON AXIATA PACS

Name	Nationality / country of incorporation	Identification number / registration number	Nature of relationship	Correspondence address
Telenor Asia	Singapore	1997 05695G	Immediate shareholder of 49% of Digi / Indirect wholly owned subsidiary of Telenor	Unit 28-01 Guoco Tower, 1 Wallich Street, Singapore 078 881
Telenor	Norway	982 463 718	Ultimate indirect sole shareholder of Telenor Asia	Snarøyveien 30, 1360, Fornebu, Norway
Telenor Mobile Communications AS	Norway	963 815 840	Immediate shareholder of 100% of Telenor Asia	Snarøyveien 30D, 1360, Fornebu, Norway
Telenor Mobile Holding AS	Norway	983 940 145	Immediate shareholder of 100% of Telenor Mobile Communications AS	Snarøyveien 30, 1360, Fornebu, Norway
Puan Sri Zaleha Binti Jamaludin	Malaysia	501029-04-5380	Spouse of a director of Axiata[(1)]	No 40 SS 21/23, Damansara Utama, 47400 Petaling Jaya Selangor Malaysia

Note:-

(1) Puan Sri Zaleha Binti Jamaludin is the spouse of Tan Sri Dr. Halim Shafie, an Independent Non-Executive Director of Axiata and Interim Chair/Independent Non-Executive Director of Celcom. Tan Sri Dr. Halim Shafie has also been nominated as the proposed Chair and Non-Independent Non-Executive Director of MergeCo.

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1. DISCLOSURE OF INTERESTS AND DEALINGS IN SHARES

1.1 By Axiata and any persons acting in concert with it

(i) Disclosure of interests in Digi

Saved as disclosed below, Axiata or any persons acting in concert with it do not have any interest, whether direct or indirect, in any voting shares or convertible securities of Digi as at the LPD:-

	Direct		Indirect	
Name	**No. of Digi Shares (‘000)**	**[(1)]%**	**No. of Digi Shares (‘000)**	**[(1)]%**
Telenor Asia	3,809,750	49.00	-	-
Telenor Mobile Communication AS	-	-	3,809,750[(2)]	49.00
Telenor Mobile Holding AS	-	-	3,809,750[(3)]	49.00
Telenor	-	-	3,809,750[(4)]	49.00
Puan Sri Zaleha Binti Jamaludin[(5)]	5	[(6)]-	-	-

Notes:-

(1) Calculated based on 7,775,000,000 Digi Shares.

(2) Deemed interested by virtue of its 100% interest in Telenor Asia.

(3) Deemed interested by virtue of its 100% interest in Telenor Mobile Communication AS.

(4) Deemed interested by virtue of its 100% interest in Telenor Mobile Holding AS.

(5) Considered a PAC under subsection 216(3)(b) of the CMSA by virtue of being the spouse of a director of Axiata.

(6) Less than 0.01%.

(ii) Dealings in the securities of Digi

Axiata or any persons acting in concert with it have not dealt, directly or indirectly, in any voting shares or convertible securities of Digi during the period beginning 6 months prior to the Digi Initial Announcement and up to the LPD.

1.2 By the Directors of Axiata

(i) Disclosure of interests in Digi

The Directors of Axiata do not have any interest, whether direct or indirect, in any voting shares or convertible securities of Digi as at the LPD.

(ii) Dealings in the securities of Digi

The Directors of Axiata have not dealt, directly or indirectly, in any voting shares or convertible securities of Digi during the period beginning 6 months prior to the Digi Initial Announcement and up to the LPD.

1.3 By the persons who have irrevocably committed themselves to vote in favour or against the Proposals

As at the LPD, there are no persons who have irrevocably committed themselves to vote in favour or against the Proposals.

1.4 By the persons with whom Axiata or any persons acting in concert with it has any arrangement over the Digi Shares

As at the LPD, there are no persons with whom Axiata or any persons acting in concert with it has entered into any arrangement, including any arrangement involving rights over shares, any indemnity arrangement, and any agreement or understanding, formal or informal, of whatever nature, relating to relevant securities which may be an inducement to deal or to refrain from dealing with the Digi Shares.

1.5 By the persons with whom Axiata or any persons acting in concert with it has borrowed or lent

As at the LPD, there are no persons with whom Axiata or any persons acting in concert with it has borrowed or lent any voting shares or convertible securities of Digi.

1.6 By Digi

(i) Disclosure of interests in Axiata

Digi does not have any interest, whether direct or indirect, in any voting shares or convertible securities of Axiata as at the LPD.

(ii) Dealings in the securities of Axiata

Digi has not dealt, directly or indirectly, in any voting shares or convertible securities of Axiata during the period beginning 6 months prior to the Digi Initial Announcement and up to the LPD.

(iii) Dealings in the securities of Digi

Digi has not dealt, directly or indirectly, in any of its own voting shares or convertible securities during the period commencing 6 months prior to the Digi Initial Announcement and up to the LPD.

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1.7 By the Directors of Digi

(i) Disclosure of interests in Axiata

The Directors of Digi do not have any interest, whether direct or indirect, in any voting shares or convertible securities of Axiata as at the LPD.

(ii) Dealings in the securities of Axiata

The Directors of Digi have not dealt, directly or indirectly, in any voting shares or convertible securities of Axiata during the period beginning 6 months prior to the Digi Initial Announcement and up to the LPD.

(iii) Disclosure of interests in Digi

The Directors of Digi does not have any interest, whether direct or indirect, in any voting shares or convertible securities of Digi as at the LPD.

(iv) Dealings in the securities of Digi

The Directors of Digi has not dealt, directly or indirectly, in any of its own voting shares or convertible securities during the period commencing 6 months prior to the Digi Initial Announcement and up to the LPD.

1.8 By the persons with whom Digi or any persons acting in concert with it has any arrangement over the Digi Shares

As at the LPD, there are no persons with whom Digi or any persons acting in concert with it has entered into any arrangement, including any arrangement involving rights over shares, any indemnity arrangement, and any agreement or understanding, formal or informal, of whatever nature, relating to relevant securities which may be an inducement to deal or to refrain from dealing with the Digi Shares.

1.9 By the persons with whom Digi or any persons acting in concert with it has borrowed or lent

As at the LPD, there are no persons with whom Digi or any persons acting in concert with it has borrowed or lent any voting shares or convertible securities of Digi.

1.10 By AmInvestment and funds whose investments are managed by AmInvestment on a discretionary basis ("Discretionary Funds")

Save as disclose below, AmBank Group, including AmInvestment and its discretionary funds do not have any interest, whether direct or indirect, in any voting shares or convertible securities of Digi as at the LPD:-

	Direct		Indirect	
Name	**No. of Digi Shares ('000)**	**%**	**No. of Digi Shares('000)**	**%**
AmFunds Management Berhad	3,043	0.04	-	-
AmIslamic Funds Management Sdn Bhd	1,565	0.02	-	-

2. ARRANGEMENT AFFECTING DIRECTORS OF DIGI

(i) As at the LPD, no payment or other benefit will be made or given to any Director of Digi as compensation for loss of office or otherwise in connection with the Proposals.

(ii) As at the LPD, there is no agreement or arrangement between any Director of Digi and any other person which is conditional on or dependent upon the outcome of the Proposals or otherwise connected with the outcome of the Proposals.

(iii) As at the LPD, Axiata has not entered into any material contract in which any Director of Digi has a material personal interest.

(iv) As at the LPD, no agreement, arrangement or understanding exists between Axiata or any persons acting in concert with it and any of the Directors or recent Directors of Digi, holders of voting shares or voting rights or recent holders of voting shares or voting rights of Digi having any connection with or dependence upon the Proposals.

For the purpose of this paragraph, the term "recent Directors" or "recent holders of voting shares or voting rights" shall be such person who was during the period beginning 6 months prior to the announcement of the Proposals, a Director or a holder of voting shares or voting rights, as the case may be, of Digi.

3. SERVICE CONTRACTS

As at the LPD, the Digi Group does not have any services contracts with any Directors or proposed Directors, which have been entered into or amended within 6 months before the announcement of the Proposals or which are fixed term contracts with more than 12 months to run.

For the purpose of this section, the term "service contracts" excludes those expiring or determinable by the employing company without payment of compensation within 12 months from the date of this IAL.

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INFORMATION ON THE CELCOM GROUP

1. HISTORY AND PRINCIPAL ACTIVITIES OF CELCOM

Celcom was incorporated in Malaysia under the Companies Act, 1965 on 5 January 1988 as a private limited company under the name of STM Cellular Communications Sdn Bhd. Subsequently, the name was changed to "Celcom Sdn Bhd", "Cellular Communications Network (Malaysia) Sdn Bhd" and "Celcom (Malaysia) Sdn Bhd" on 24 January 1990, 12 November 1991 and 2 December 1997 respectively. It was converted to a public company on 28 January 2002 under the name of Celcom (Malaysia) Berhad and assumed its present name since 28 December 2009.

In 2002, Technology Resources Industries Berhad ("**TRI**") (now known as Celcom Resources Berhad) had undertaken an internal restructuring exercise to reorganise the corporate structure of the TRI involving amongst others, the transfer of the listing status of TRI to Celcom. Subsequent to the internal restructuring exercise, TRI was delisted and Celcom was listed on the Main Board of Kuala Lumpur Stock Exchange ("**KLSE**") on 10 October 2002.

In 2003, TM, Telekom Enterprise Sdn Bhd ("**TESB**") and its PACs undertook a mandatory general offer to acquire the remaining ordinary shares of Celcom not already owned by them which resulted in Celcom being delisted from the Official List of the KLSE and became a wholly-owned subsidiary of TM.

In 2008, TM International Berhad ("**TM International**") (now known as Axiata) undertook a corporate exercise resulting in its demerger from TM. As part of the demerger exercise, Celcom was also demerged from TM and became a wholly-owned subsidiary of TM International. TM International was then listed on the Main Board of Bursa Securities on 28 April 2008 and assumed its present name of Axiata on 31 March 2009.

Celcom is licensed to provide telecommunications services in Malaysia, with a core business focus as a mobile communications network operator. It commenced operations in 1989, and is one of Malaysia's first communications service providers.

The principal place of business of the Celcom Group is located at Level 31, @Celcom, No. 6, Persiaran Barat, Seksyen 52, 46200 Petaling Jaya, Selangor. The Celcom Group is primarily engaged in the provision of domestic mobile voice, data and digital communications services in Malaysia and currently provides 2G and 4G mobile services via its prepaid and postpaid packages, as well as fixed broadband services under the brand name "*Celcom",* while also providing management services to its subsidiaries. The Celcom Group's principal market for its services is Malaysia.

As at 31 December 2020, Celcom has approximately 8.68 million mobile subscribers, while its total subscriber market share was 18.3%, according to the MCMC Industry Performance Report 2020 ("**MCMC Report**"). Celcom's mobile subscribers have subsequently increased to approximately 9.6 million as at 31 December 2021, whilst its total subscriber market share was 18.7%, according to the MCMC Industry Performance Report 2021. The positive mobile subscriber growth figures indicate steady signs of recovery for Celcom following the loss of mobile subscribers in the first half of 2020, due to the impact of the COVID-19 pandemic. For more details on the effect of the COVID-19 pandemic on the Celcom Group's business, please refer to Section 3.7 of Appendix II of this Circular.

As at the LPD, Celcom has approximately 9.4 million subscribers, of which 3.2 million of these subscribers are postpaid users.

2. SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDER

As at the LPD, the issued share capital of Celcom is RM1,237,534,681 comprising 1,237,534,681 Celcom Shares.

There is no change in the issued share capital of Celcom in the past three (3) years preceding the LPD.

As at the LPD, the shareholders of Celcom and its direct and indirect shareholding in Celcom are as follows:

		Direct		Indirect	
Name	**Country of Incorporation**	**No. of Celcom Shares held**	**%**	**No. of Celcom Shares held**	**%**
Axiata	Malaysia	1,237,534,681	100	-	-
Khazanah	Malaysia	-	-	1,237,534,681[(1)]	100

Note:

(1) Deemed interested by virtue of its 36.74% interest in Axiata.

There have been no changes in Axiata's direct or indirect shareholding in Celcom for the past three (3) years preceding the LPD.

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Celcom.

3. BOARD OF DIRECTORS

As at the LPD, the directors of Celcom are as follows:

Directors	Age	Nationality	Designation
Tan Sri Dr. Halim Shafie	73	Malaysian	Interim Chair, Independent Non-Executive Director
Thayaparan S Sangarapillai	67	Malaysian	Deputy Chair, Independent Non-Executive Director
Khatijah Begom Shah Mohamed	67	Malaysian	Independent Non-Executive Director
Datuk Mohamad Idham Nawawi	54	Malaysian	CEO
Himanshu Kapania	61	Indian	Non-Independent Non-Executive Director
Dr. Shridhir Sariputta Hansa Wijayasuriya	54	Sri Lankan / British	Non-Independent Non-Executive Director
Thomas Hundt	45	Germany	Non-Independent Non-Executive Director
Vivek Sood	58	Indian	Non-Independent Non-Executive Director

The directors do not have any direct or indirect shareholdings in Celcom. Celcom is a wholly-owned subsidiary of Axiata.

4. SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

4.1 Subsidiaries, associate and joint ventures within the Celcom Group

As at the LPD, the subsidiaries, associate and joint ventures within the Celcom Group are set out below:

Name of company	Place / Date of incorporation	Equity interest (%)	Share capital (RM)	Principal activities
Subsidiaries held through Celcom				
Celcom Mobile Sdn Bhd	Malaysia/ 15 July 1976	100	313,000,000	Mobile communications, network and application services and content
Celcom Networks Sdn Bhd	Malaysia/ 30 March 1990	100	2,575,000,000	Network telecommunications, capacity and services
Celcom Properties Sdn Bhd	Malaysia/ 24 August 1994	100	2	Property investment
Escape Axiata Sdn Bhd	Malaysia/ 21 May 1992	100	2,600,000	OTT and other on demand content services (*Inactive since 31 December 2017*)(1)
Celcom Retail Holding Sdn Bhd	Malaysia/ 4 August 1988	100	500,000	Strategic and business development, management, administrative, support services and investment holding
Celcom Intelligence Sdn Bhd	Malaysia/ 4 October 1989	100	10,000	Investment holding (*Inactive since 31 December 2017*)(1)(2)
Celcom Timur (Sabah) Sdn Bhd	Malaysia/ 17 January 1995	80.00	7,000,000	Fibre optic transmission network
Celcom eCommerce Sdn Bhd	Malaysia/ 22 June 1999	100	8,000,000	Electronic wallet services (*Inactive since 31 December 2018*)(1)
Celcom Resources Berhad	Malaysia/ 1 December 1966	100	1,000	Investment holding(3)
Bridgenet Solutions Sdn Bhd	Malaysia/ 24 April 2003	51.00	17,599,998	Provision of cybersecurity solution, networking solutions and other ICT solutions as well as managed services provider
Infront Consulting Group (M) Sdn Bhd	Malaysia/ 5 March 2010	60.00	1,999,999	Provision of shared services or outsourcing services in relation to business management and integration system and provision of related services for implementation, technical services and maintenance
Subsidiary held through Celcom Retail Holding Sdn Bhd				
Celcom Retail Sdn Bhd	Malaysia/ 9 January 2007	100	15,000,000	Trading and distribution of communication devices and its related products and managing retail stores

Name of company	Place / Date of incorporation	Equity interest (%)	Share capital (RM)	Principal activities
Subsidiary held through Celcom Resources Berhad				
Celcom Trading Sdn Bhd	Malaysia/ 1 November 1983	100	2,000,000	Dealings in marketable securities
Subsidiary held through Infront Consulting Group (M) Sdn Bhd				
Infront Consulting Group (S) Pte Ltd	Singapore/ 5 August 2011	69.00	SGD 100,000	Software consultancy
Associate				
Sacofa Sdn Bhd	Malaysia/ 11 July 2001	15.12	134,393,268	Telecommunications infrastructure and services company including all its related businesses
Joint Venture held through Celcom Mobile Sdn Bhd				
Tune Talk Sdn Bhd	Malaysia/ 13 January 2006	35.00[(4)]	15,000,000	Mobile communications services

Notes:

(1) The companies have ceased their business operations and no longer generate any revenue.

(2) Celcom Intelligence Sdn Bhd was the immediate holding company of Celcom Planet Sdn Bhd, a company involved in e-commerce platform business. Celcom Intelligence Sdn Bhd had disposed its interest in Celcom Planet Sdn Bhd in 2017.

(3) Celcom Resources Berhad is the immediate holding company of Celcom Trading Sdn Bhd.

(4) Celcom was granted a call option in respect of additional 16% shareholding in Tune Talk pursuant to the shareholders' agreement of Tune Talk dated 23 December 2008, the call option was subsequently transferred to Celcom Mobile together with the shares in Tune Talk.

4.2 Material subsidiaries and associated company

The details of the material subsidiaries and associated company of Celcom as at the LPD are as follows:

4.2.1 Celcom Mobile Sdn Bhd

(i) <u>History and business</u>

Celcom Mobile was incorporated in Malaysia under the Companies Act, 1965 on 15 July 1976 as a private limited company under the name of Jareen Sendirian Berhad. Subsequently, it changed its name to MRCB Telecommunication Sdn Bhd on 20 April 1993, Telekom Cellular Sdn Bhd on 19 September 1996, TM Cellular Sdn Bhd on 23 August 2001 respectively. It further changed its name to Celcom Mobile Sdn Bhd on 23 March 2005.

The principal place of business of Celcom Mobile is Level 31, @Celcom, No. 6, Persiaran Barat, Seksyen 52, 46200 Petaling Jaya, Selangor. Celcom Mobile is principally involved in mobile communications, network and application services and content.

(ii) <u>Share capital</u>

As at the LPD, the issued share capital of Celcom Mobile is RM313,000,000 comprising 313,000,000 ordinary shares.

There is no change in the issued share capital of Celcom Mobile in the past three (3) years preceding the LPD.

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Celcom Mobile.

(iii) Shareholders and directors

Celcom Mobile is Celcom's wholly-owned subsidiary company and its directors are Datuk Mohamad Idham Nawawi, Chung Shan Shan and Chee Loo Fun.

(iv) Subsidiary, associated company and joint venture company

As at the LPD, Celcom Mobile does not have any subsidiary or associated company. Celcom Mobile has a joint venture company, Tune Talk, which Celcom Mobile holds 35.00% equity interest.

4.2.2 Celcom Networks Sdn Bhd

(i) History and business

Celcom Networks was incorporated in Malaysia under the Companies Act, 1965 on 30 March 1990 as a private limited company under the name of Celcom Microwave Sdn Bhd. It changed its name to Celcom Transmission (M) Sdn Bhd on 24 November 1993, and further changed its name to Celcom Networks Sdn Bhd on 2 November 2012.

The principal place of business of Celcom Networks is Level 20, @Celcom, No. 6, Persiaran Barat, Seksyen 52, 46200 Petaling Jaya, Selangor. Celcom Networks is principally involved in the provision of network telecommunications, capacity and services.

(ii) Share capital

As at the LPD, the issued share capital of Celcom Networks is RM2,575,000,000 comprising 535,000,000 ordinary shares.

There is no change in the issued share capital of Celcom Networks in the past three (3) years preceding the LPD.

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Celcom Networks.

(iii) Shareholders and directors

Celcom Networks is Celcom's wholly-owned subsidiary company and its directors are Yap Chee Sun and Foo Pooi Ling.

(iv) Subsidiary, associated company and joint venture company

As at the LPD, Celcom Networks does not have any subsidiary, associated company or joint venture company.

4.2.3 Celcom Timur (Sabah) Sdn Bhd

(i) History and business

Celcom Timur (Sabah) Sdn Bhd (Registration No.: 199501001836 (331030-A)) ("**Celcom Timur Sabah**") was incorporated in Malaysia on 17 January 1995 as a private limited company under the name of Alpha Kejora Sdn Bhd. It changed its name to Celcom Timur (Sabah) Sdn Bhd on 8 August 1995.

The principal place of business of Celcom Timur Sabah is Lot 100, Block K, Lorong Plaza Permai 2 Alamesra, Sulaman Coastal Highway, 88400 Kota Kinabalu, Sabah. Celcom Timur Sabah is principally involved in the provision of fibre optic transmission network.

(ii) Share capital

As at the LPD, the issued share capital of Celcom Timur Sabah is RM7,000,000 comprising 7,000,000 ordinary shares.

There is no change in the issued share capital of Celcom Timur Sabah in the past three (3) years preceding the LPD.

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Celcom Timur Sabah.

(iii) Shareholders and directors

As at the LPD, Celcom owns 80.00% equity interest in Celcom Timur Sabah. The remaining shareholders are Hugold Success Sdn Bhd (10.00%) and Qhazanah Sabah Berhad (10.00%).

Celcom Timur Sabah's board of directors consists of Ahmad Rizal Dahli, Assan Nasip, Mohamed Adlan Ahmad Tajudin, Foo Pooi Ling and Afizulazha Abdullah. The alternate directors are Rudy Jaglul (alternate to Ahmad Rizal Dahli), Datuk Maureen Lind @ Zarina Abdullah (alternate to Assan Nasip), T Kugan K Thirunavakarasu (alternate to Mohamed Adlan Ahmad Tajudin), Chung Shan Shan (alternate to Foo Pooi Ling) and Yap Chee Sun (alternate to Afizulazha Abdullah).

(iv) Subsidiary, associated company and joint venture company

As at the LPD, Celcom Timur Sabah does not have any subsidiary, associated company or joint venture company.

4.2.4 Sacofa Sdn Bhd

(i) History and business

Sacofa Sdn Bhd (Registration No.: 200101017148 (552905-P)) ("**Sacofa**") was incorporated in Malaysia on 11 July 2001 as a private limited company.

The principal place of business of Sacofa is 3rd Floor, Menara Zecon, Jalan Satok, 93400 Kuching, Sarawak. Sacofa is principally involved in the trade of business of a telecommunications infrastructure and services company including all its related businesses.

(ii) Share capital

As at the LPD, the issued share capital of Sacofa is RM134,393,268 comprising 84,871,634 of ordinary shares.

There is no change in the issued share capital of Sacofa in the past three (3) years preceding the LPD.

As at the LPD, Sacofa has 43,471,634 of unissued ordinary shares which are issuable upon exercise of the warrants. The salient features of the warrants are as follows:

(a) each warrant entitles its registered holder to subscribe for one new ordinary share at the exercise price during the exercise period;

(b) the exercise price is RM1.50 per share, payable in cash at any time within 10 years commencing on and including the date of allotment and issue of the warrants; and

(c) the warrants were issued for the period of 10 calendar years to mature on 25 January 2019 but were extended for another 4 years to 25 January 2022. On 27 December 2021, the tenure of the warrants was further extended to 25 January 2025.

Other than the above, there are no outstanding options, convertible securities or uncalled capital in Sacofa.

(iii) Shareholders and directors

Sacofa is Celcom's associated company.

As at the LPD, Celcom owns 15.12% equity interest in Sacofa. The remaining shareholders are Cahya Mata Sarawak Berhad (50.00%), State Financial Secretary Inc. (20.51%), Sarawak Information Systems Sdn Bhd (7.56%) and Yayasan Sarawak (6.81%).

Sacofa's board of directors consist of Tan Sri Datuk Amar (Dr.) Haji Abdul Aziz Dato Haji Husain, Datuk Kamal Khalid, Dato Sri Sulaiman Abdul Rahman Abdul Taib, Dato Sri Mahmud Abu Bekir Taib, Erik Axel Sigurd Marell, Dr. Tiong Ing Heng, Mersal Abang Rosli, Abdul Kadir @ Kadir Zainuddin and Ahmad Faizal Yaman Ahmad Shafiee. The alternate directors are Azlin Rina Halimi @ Abdul Razak (Alternate to Datuk Kamal Khalid), Nor Azman Sulaiman (Alternate to Erik Axel Sigurd Marell), Mohamad Adzlie Ibrahim (Alternate to Mersal Abang Rosli) and Busiai Seman (Alternate to Dr. Tiong Ing Heng).

(iv) Subsidiary, associated company and joint venture company

As at the LPD, Sacofa's subsidiaries and associated companies are as follows:

Name of company	**Shareholding**
Subsidiaries	
Sacofa Services Sdn Bhd	100%
Sarawak Gateway Sdn Bhd	100%
Pinnacle Tower Sdn Bhd	100%
PT Sacofa Indonesia	100%
PT Bangun Interkoneksi Nambas	67%
Associated companies	
MSA Resources Sdn Bhd	30%

As at the LPD, Sacofa does not have any joint venture company.

5. ASSETS OWNED

Based on Celcom's latest audited consolidated financial statements for the FYE 31 December 2021, the Celcom Group's total assets stood at approximately RM11.6 billion, which comprise the following:

Type of assets	As at 31 December 2021 RM'000
PPE	4,343,942
Right-of-use assets	2,973,553
Investment in associated company	140,528
Intangible assets	779,516
Derivative financial instrument	43,342
Deferred tax assets	226,045
Trade and other receivables	1,544,845
Inventories	61,935
Financial assets at fair value through profit or loss	26
Tax recoverable	91,408
Deposits, cash and bank balances	1,385,534
Total	**11,590,674**

6. MATERIAL CONTRACTS

Save as disclosed below, the Celcom Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the period covered by the historical financial information as disclosed in the Circular and up to the date of this Circular.

Share subscription agreement dated 7 October 2022 in respect of the subscription of (i) 100,000 new DNB Shares and (ii) 178,471,429 DNB Rights to Allotment

On 7 October 2022, Celcom Mobile entered into a conditional share subscription agreement with DNB for the proposed subscription of:

(i) 100,000 new DNB Shares; and

(ii) 178.47 million DNB Rights to Allotment,

which represents 12.50% equity interest in the enlarged DNB for a total cash consideration of RM178.57 million.

Pursuant to the terms of the conditional share subscription agreement with DNB, in the event the Proposed Merger is not completed by 30 June 2023, Celcom Mobile shall subscribe for an additional 113.10 million DNB Rights to Allotment, for cash consideration of RM113.10 million, such that its equity interest in the enlarged DNB will increase from 12.50% to 17.50%. Digi Tel had on the same date, entered into a similar agreement with similar terms with DNB, please refer Section 1.3 of Appendix V of this Circular for further details.

Under the terms of the conditional share subscription agreement with DNB entered into by Digi Tel and Celcom Mobile respectively with DNB, if the Proposed Merger completes, their collective equity interest in DNB shall not be more than 25.00% of the aggregate issued DNB Shares and granted DNB Rights to Allotment. In the event of non-completion of the Proposed Merger, Celcom Mobile will hold 17.50% equity interest in the enlarged DNB.

The conditional share subscription agreement entered into by Celcom Mobile with DNB is expected to be completed during the fourth quarter of 2022, subject to the fulfilment of the following conditions precedent:

(i) the execution of an access agreement between a related corporation of Celcom Mobile and DNB for the offtake of wholesale 5G services nationwide by that related corporation of Celcom Mobile;

(ii) the execution of a shareholders' agreement between Celcom Mobile, DNB and other investors under the other share subscription agreements and Minister of Finance (Incorporated) ("**MoF Inc.**");

(iii) the approval of the Minister for the changes required to the NFP and NSP licenses held by DNB to enable DNB to meet its obligations under the conditional share subscription agreement;

(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 subscription of 100,000 new DNB Shares and 178.47 million DNB Rights to Allotment under the conditional share subscription agreement 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 conditional share subscription agreement;

(ix) a letter from MoF Inc. waiving its pre-emptive rights on the issue of 100,000 new DNB Shares and 178.47 million DNB Rights to Allotment to Celcom Mobile;

(x) written consent by the MoF Inc. to grant to Celcom Mobile a put option where Celcom Mobile may put to and require the MoF Inc. to purchase all shares owned by Celcom Mobile 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 Celcom Mobile) 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, Celcom Mobile and DNB.

In addition, Celcom Group intends to fund the cash considerations for the conditional share subscription agreement with DNB via internally generated funds.

7. DETAILS OF AMOUNTS OR BENEFITS PAID OR INTENDED TO BE PAID OR GIVEN TO AXIATA

No other amount or benefit has been paid or given within the two (2) years preceding the date of this Circular, nor is it intended to be paid or given to Axiata, except for the following:

(i) dividends paid to Axiata as follows:

	RM'000
In respect of FYE 31 December 2020	749,946
In respect of FYE 31 December 2021	1,000,052
Between 1 January 2022 and up to the LPD	478,431

(ii) managed service fee paid to Axiata as disclosed in Section 1.1 of Appendix IV of this Circular;

(iii) interest expenses pursuant to the shareholder' loan from Axiata to Celcom:

	RM'000
In respect of FYE 31 December 2020	17,881
In respect of FYE 31 December 2021	82,800
Between 1 January 2022 and up to the LPD	61,930

(iv) distribution of non-cash asset to Axiata through the transfer of 1,735,938 ordinary shares in Merchantrade, representing 20.00% equity interest in Merchantrade by Celcom to Axiata for a nominal cash consideration of RM1.00. As at the LPD, the transfer (as part of the Celcom Group Reorganisation as set out in the SPA) has been completed.

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8. MATERIAL LITIGATION

As at the LPD, save as disclosed below, the Celcom Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and the Board of Celcom confirms that to the best of its knowledge there are no legal proceedings pending or threatened against the Celcom Group, or of any facts likely to give rise to any proceedings, which might materially or adversely affect the financial position or business of the Celcom Group.

8.1 Kuala Lumpur High Court Suit No. D1-22-1960-2008 Celcom and Celcom Resources vs TSDTR & 6 Others

On 24 October 2008, Celcom and Celcom Resources commenced proceedings against five (5) of its former directors, namely (i) TSDTR, (ii) Bistamam, (iii) Dato' Lim Kheng Yew ("**DLKY**"), (iv) Axel Hass ("**AH**"), and (v) Oliver Tim Axmann ("**OTA**") (the Main Suit 1 Defendants named in items (iv) and (v) are collectively referred to as the "**Main Suit 1 DeTeAsia Representatives**"), as well as (vi) DeTeAsia Holding GmbH ("**DeTeAsia**") and (vii) Beringin Murni Sdn Bhd (collectively with the Main Suit 1 DeTeAsia Representatives referred to as "**Main Suit 1 Defendants**") seeking for damages for conspiracy. Celcom and Celcom Resources claim that the Main Suit 1 Defendants wrongfully and unlawfully conspired with each other to injure Celcom and Celcom Resources by causing and/or committing Celcom and Celcom Resources to enter into the Supplemental Agreement to the Subscription Agreement dated 7 February 2002 ("**2002 Supplemental Agreement**") and the Amended and Restated Supplemental Agreement dated 4 April 2002 with DeTeAsia ("**ARSA**") in consideration for the renunciation by DeTeAsia of certain rights issue shares in Celcom Resources in favour of TSDTR and Bistamam.

On 23 June 2016, TSDTR and Bistamam served their defence and counterclaim against Celcom, Celcom Resources and Telekom Malaysia Berhad ("**TSDTR and Bistamam's Counterclaim for Main Suit 1**"), seeking among others, payment of the sum of RM7,214.9 million together with interest.

The trial and TSDTR and Bistamam's Counterclaim for the Main Suit 1 commenced on 22 January 2018 and it is ongoing.

On 15 November 2021, Celcom, Celcom Resources and DeTeAsia including Main Suit 1 DeTeAsia Representatives have reached an amicable settlement at an agreed sum which was subsequently received by Celcom from DeTeAsia without any admission as to liability in respect of this suit. Celcom and Celcom Resources have discontinued this suit with no order as to costs and without liberty to file afresh against the DeTeAsia and Main Suit 1 DeTeAsia Representatives.

Parties have filed post trial written submissions and oral submissions are now fixed for 13 December 2022.

The solicitors of Celcom and Celcom Resources are of the opinion that Celcom and Celcom Resources have reasonable prospects of successfully prosecuting the proceedings in respect of the remaining Main Suit 1 Defendants, and that Celcom and Celcom Resources have good prospects in successfully defending TSDTR and Bistamam's Counterclaim for Main Suit 1.

8.2 Kuala Lumpur High Court Suit No. D5-22-610-2006 Celcom & Another vs TSDTR & 8 Others

On 28 April 2006, Celcom and Celcom Resources instituted a claim against nine of its former directors (namely (i) TSDTR, (ii) Bistamam, (iii) DLKY, (iv) Dieter Sieber ("**DS**"), (v) Frank-Reinhard Bartsch ("**FR**B"), (vi) Joachim Gronau, (vii) Joerg Andreas Boy ("**JAB**"), (viii) AH, and (ix) OTA, (the Main Suit 2 Defendants named in items (iv) to (ix) collectively referred to as the "**Main Suit 2 DeTeAsia Representatives**") (collectively referred to as "**Main Suit 2 Defendants**") seeking an indemnity from the Main Suit 2 Defendants, for the sums paid by Celcom to DeTeAsia in satisfaction of the award granted on 2 August 2005 handed down by the Tribunal of the International Court of Arbitration of the International Chamber of Commerce in Paris ("**ICC Award**"). The breaches of duty complained of in the legal proceedings relate mainly to the entry into the Subscription Agreement dated 25 June 1996 between Deutsche Telekom AG, Celcom Resources and Celcom and the ARSA ("**Subscription Agreement**"). The Main Suit 2 Defendants were inter alia, directors of Celcom and TRI at time of entry into the Subscription Agreement and the ARSA. Celcom and Celcom Resources claim that these agreements were entered into by the various directors of Celcom and Resources in breach of their fiduciary duties.

In this action, Celcom and Celcom Resources are seeking an indemnity in relation to the sums paid out to DeTeAsia pursuant to the Award as well as damages for various breaches of fiduciary duties committed by them in relation to the entry into the Subscription Agreement and the ARSA.

The claim against TSDTR also relates to unauthorised profits claimed to have been made by him in connection with the entry of Celcom Resources or Celcom into the Subscription Agreement and the ARSA.

On 23 June 2016, TSDTR and Bistamam served their defence and counterclaim ("**TSDTR and Bistamam's Counterclaim for Main Suit 2**"), seeking, among others, payment of the sum of RM7,214.9 million together with interest.

The trial in the High Court had commenced on 22 January 2018 and it is ongoing.

On 15 November 2021, Celcom, Celcom Resources and DeTeAsia including the Main Suit 2 DeTeAsia Representatives have reached an amicable settlement at an agreed sum which was subsequently received by Celcom from DeTeAsia without any admission as to liability in respect of this suit. Celcom and Celcom Resources have discontinued this suit with no order as to costs and without liberty to file afresh against the Main Suit 2 DeTeAsia Representatives.

Parties have filed post trial written submissions and oral submissions are now fixed for 13 December 2022.

The solicitors of Celcom and Celcom Resources are of the opinion that Celcom and Celcom Resources have reasonable prospects of successfully prosecuting the proceedings in respect of the remaining Main Suit 2 Defendants, and that Celcom and Celcom Resources have good prospects in successfully defending TSDTR and Bistamam's Counterclaim for Main Suit 2.

9. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

As at the LPD, saved as disclosed in Section 2.7 of Appendix III of this Circular, the Board of Celcom Group confirms that there are no material commitments and contingent liabilities incurred or known to be incurred by the Celcom Group, which may have a material impact on the profits or net assets of the Celcom Group upon becoming enforceable.

10. OTHER MATTERS

(i) Tune Talk Litigation

Originating Summons ("**OS**") and Injunction

Axiata had on 13 October 2021 notified Digi, Telenor and Telenor Asia that Padda Gurtaj Singh, East Pacific Capital Private Limited and Tune Strategic Investments Limited (collectively, "**Plaintiffs**"), being shareholders of Tune Talk, had on 28 September 2021 filed an OS to the High Court of Malaya ("**High Court**") in Kuala Lumpur on Axiata, Celcom, Celcom Mobile, Tune Talk and the other shareholders of Tune Talk as defendants ("**Tune Talk Litigation**").

The OS was filed pursuant to a dispute pertaining the allegations by the Plaintiffs that the Proposed Merger would purportedly result in a change in control of a shareholder in Tune Talk which allegedly amounts to a material breach under the shareholders' agreement of Tune Talk dated 23 December 2008 ("**Tune Talk Shareholders' Agreement**") ("**Alleged Breach**"), the parties to which comprise the Plaintiffs and certain shareholders of Tune Talk.

Accordingly, the Plaintiffs had sought for the following reliefs:

(a) that Axiata be restrained from including Celcom Mobile's shareholding in Tune Talk from being included in the Proposed Merger, being the first prayer in the OS;

(b) that Celcom be restrained from revising the terms on which it provides network services to Tune Talk, being the second prayer in the OS; and

(c) that the directors of Tune Talk nominated by Celcom Mobile be restrained from voting on any decisions of the board of directors of Tune Talk, and that no decision requiring a positive vote by Celcom or Celcom Mobile be made unless with the agreement of all the remaining shareholders of Tune Talk, being the third prayer in the OS.

Axiata, Celcom and Celcom Mobile had on 11 October 2021 filed applications to the High Court in Kuala Lumpur to strike out the OS. The affidavits for the OS have also been filed and exchanged and the High Court had directed that the hearing for the OS be fixed on 9 February 2022 to dispose of the same on its merits while simultaneously disposing the objections raised in the striking out applications. The High Court had on 9 February 2022 requested Celcom and Celcom Mobile to attempt to reach a resolution by providing additional undertakings to the Plaintiffs to address their concerns. On 29 March 2022, the High Court granted an order in favour of the Plaintiffs in respect of one out of three of the Plaintiffs' prayers only, where Axiata is prohibited by an injunction from including the 5,250,000 ordinary shares in Tune Talk held by Celcom Mobile ("**Tune Talk Shares"**), as part of the proposed sale of Axiata's shareholding in Celcom to Digi ("**the Tune Talk Injunction**"). The other prayers were dismissed. Following the said decision, Celcom, Celcom Mobile and Axiata had filed a Notice of Appeal dated 30 March 2022 at the Court of Appeal to appeal against the High Court's decision. The Court of Appeal proceeded to fix a hearing date on 7 December 2022.

The solicitors of Celcom, Celcom Mobile and Axiata are of the view that there is a good chance of having the decision overturned at the appeal with the Court of Appeal. However, as written and/or oral submission have yet to be exchanged and exhausted, the solicitors are unable to fully ascertain the potential counter arguments that the Plaintiffs may raise.

Arbitration

A Notice of Arbitration dated 8 November 2021 was also issued/notified to Axiata, Celcom and Celcom Mobile in respect of (i) a purported notice of material breach; and (ii) the subsequent compulsory transfer notice where the Plaintiffs demanded for the Tune Talk Shares to be compulsorily transferred to the other shareholders of Tune Talk as a result of the Alleged Breach ("**Arbitration**").

The Notice of Arbitration and the Response to the Notice of Arbitration have been exchanged. The Plaintiffs have written to the Asian Internal Arbitration Centre requesting to commence arbitration and to appoint one Dr. Christopher To as the arbitrator, and Dr. Christopher To was appointed as a result of the parties' agreement. The oral hearing of the Arbitration will be based on the pleadings, documentary evidence and witness statements and it has been fixed on 14 November 2022 and 15 November 2022 following the virtual directions hearing on 27 September 2022.

The solicitors of Celcom and Celcom Mobile are of the view that Celcom and Celcom Mobile have a good chance of success in relation to the Arbitration.

Given that the arbitration is still pending, in the event Celcom, Celcom Mobile and Axiata are unable to overturn the High Court's decision at the Court of Appeal before the completion of the Proposed Merger, Axiata will be restrained by the Tune Talk Injunction from including the Tune Talk Shares as part of the proposed sale of Axiata's shareholding in Celcom to Digi.

Tune Talk Carve-Out

Axiata consequently issued a written notice dated 29 April 2022 to Digi and Telenor pursuant to the SPA and MTA respectively, to notify Digi and Telenor of the Tune Talk Injunction.

Pursuant to further discussion between Axiata, Digi and Telenor, as at the LPD, Digi and Axiata each has an intention to exclude the Tune Talk Shares from the MergeCo Group, notwithstanding that the Tune Talk Shares are part of the subject matter of Digi's acquisition under the SPA ("**Tune Talk Carve-Out**").

To expedite the resolution on this matter and on the Tune Talk Injunction, Celcom had initiated discussions with the Plaintiffs to resolve the Tune Talk Litigation with the objective of procuring the Plaintiffs to withdraw the OS and the Arbitration (including agreeing to lift the Tune Talk Injunction) and in return, Celcom shall offer the Tune Talk Shares to the entitled shareholders of Tune Talk in accordance with the terms of the Tune Talk Shareholders Agreement ("**Settlement**").

In the event the Settlement cannot be reached by the parties, Celcom Mobile intends to consent to the compulsory transfer notice issued by the Plaintiffs whereby all the Tune Talk Shares will be offered by Celcom Mobile to the entitled shareholders of Tune Talk at RM1.10 per Tune Talk Share in accordance with the terms of the Tune Talk Shareholders Agreement ("**Compulsory Transfer Notice**"). In such event, Celcom and Celcom Mobile intend to concurrently inform the Arbitrator of such development and seek a termination order to be issued by the Arbitrator with regard to the Arbitration ("**Termination Order**") prior to the hearing date for the Arbitration which is fixed on 14 November 2022.

In addition, Axiata, Celcom and Celcom Mobile also intend to file a motion to the Court of Appeal to lift the Tune Talk Injunction as it is rendered academic and to seek an early hearing date prior to the hearing date with the Court of Appeal which is fixed on 7 December 2022.

The solicitors of Celcom and Celcom Mobile are of the view that there is a reasonable chance of the Termination Order being issued by the Arbitrator or the Tune Talk Injunction being lifted by the Court of Appeal (with or without the Termination Order being issued) and that upon the occurrence of either event, the Tune Talk Injunction would be deemed lapsed.

The acceptance of the Compulsory Transfer Notice and the Tune Talk Carve-Out have been agreed in principle between Axiata and Digi and shall be subject to a supplemental agreement to the SPA prior to the Closing to exclude Tune Talk from the Proposed Merger. Both parties have intended that any proceeds to be received by Celcom Mobile upon completion of the Settlement or Compulsory Transfer Notice will be retained by Celcom Mobile.

We are of the view that the Tune Talk Litigation is not a material litigation of the Celcom Group and there would not be a material impact to the Proposed Merger arising from the Tune Talk Carve-Out as the carrying amount of the investment in Tune Talk has been fully impaired and the Celcom Group has no obligations for any losses beyond that. Tune Talk has a negative shareholders' fund based on its audited financial statements as at 31 December 2021.

For your information, the proposed transfer of Axiata's shareholding in Celcom to Digi on completion of the Proposed Merger shall be subject to the Tune Talk Injunction being lifted pursuant to the Settlement or in consequence of the Compulsory Transfer Notice, whichever is earlier. As stated in Section 17 of Part A of this Circular, the Proposed Merger is expected to be completed by 30 November 2022 ("Target Completion Date"). If the Settlement cannot be reached by the parties and the Compulsory Transfer Notice is consented to by Celcom Mobile, any delay in obtaining (i) the Termination Order; or (ii) an order from the Court of Appeal for the upliftment of the Tune Talk Injunction, may delay the Target Completion Date and such delay, if happens, will be announced by Digi on Bursa Securities. Digi has also been informed by Axiata that Axiata does not expect such delay to extend beyond 31 March 2023.

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1. OVERVIEW OF CELCOM'S BUSINESS ACTIVITIES AND SERVICES

Celcom is primarily engaged in the provision of domestic mobile voice, data and digital communications services in Malaysia and currently provides 2G and 4G mobile services via its prepaid and postpaid packages, as well as fixed broadband services under the brand name "*Celcom",* while also providing management services to its subsidiaries.

As at 31 December 2020, Celcom has approximately 8.68 million mobile subscribers, while its total subscriber market share was 18.3%, according to the MCMC Industry Performance Report 2020. Celcom's mobile subscribers has subsequently increased to approximately 9.6 million as at 31 December 2021, while its total subscriber market share was 18.7%, according to the MCMC Industry Performance Report 2021. The positive mobile subscriber growth figures indicate steady signs of recovery for Celcom following the loss of mobile subscribers in the first half of 2020, due to the impact of the COVID-19 pandemic. For more details on the effect of the COVID-19 pandemic on Celcom's business, please refer to Section 3.7 of Appendix II of this Circular.

As at the LPD, Celcom has approximately 9.4 million subscribers, of which 3.2 million of these subscribers are postpaid users.

The following table shows Celcom's consolidated revenue, EBITDA and PAT for the FYE 31 December 2019, 2020 and 2021:

	FYE 31 December		
	2019	**2020**	**2021**
	RM'000	**RM'000**	**RM'000**
Revenue	6,706,135	6,218,831	6,622,722
EBITDA	2,618,456	2,579,948	2,835,957
Profit/Total comprehensive income for the financial year	789,061	690,719	957,044

Further details of Celcom's business are set out below.

Mobile Services

Celcom's business is focused on the domestic mobile services segment and over the years, it operated nationwide mobile networks, comprising of a 2G network utilising both the GSM 900 and GSM 1800 spectrum and a 3G network using W-CDMA on the 2100 MHz spectrum. In 2006, Celcom upgraded the 3G network to provide HSPA services, offering subscribers mobile broadband access. Celcom introduced 4G services into its network in 2014, and was one of the first operators in Malaysia to offer such 4G services. Further, Celcom's 4G network operates in the 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz spectrum bands. Celcom continues to invest in enhancing its network infrastructure capabilities as well as in new technologies to meet growing consumer demand and to offer new services to its customers. As part of the JENDELA initiative to shut down 3G network, Celcom has ceased providing 3G services as at the LPD.

Celcom has a broad and extensive mobile network coverage in Malaysia. As at the LPD, Celcom is licensed under the CMA to own and operate a public telecommunications network, to provide network services and to provide application services. Celcom currently holds a NFP (Individual) licence and a NSP (Individual) licence, both of which are valid until 29 August 2025. As at 30 June 2022, Celcom's mobile network coverage has reached over 95% in population coverage, with 2G network coverage of approximately 95% and 4G network coverage of approximately 96%. In other words, over 95% of the population nationwide would have access to Celcom's mobile network, using either 2G or 4G network. Celcom's smartphone penetration of its subscriber base has increased from 84% as at 31 December 2019 to 88% as at 31 December 2020 and 92% as at 31 December 2021. Celcom's smartphone penetration of its subscriber base was 93% as at 30 June 2022.

Home Broadband Services

Celcom offers home wireless broadband services and fixed fibre broadband services. Celcom has established wholesale agreements with incumbent HSBB" operator TM and regional HSBB operators Allo Technology Sdn Bhd and Sacofa Sdn Bhd to provide fixed broadband services. In addition, Celcom, through its subsidiary Celcom Timur Sabah, has built its own extensive fixed broadband network in Sabah.

Convergence Offering

In line with the shift towards a converged communication services market, Celcom recently began offering converged fixed/wireless broadband and mobile services as a bundle, providing end customers with the convenience of a single bill for a complete package of Celcom services. These bundles also come with add-on deals, which include value-added content services and optional device offerings that cater to a range of customer needs.

Wholesale to Mobile Virtual Network Operators

Further, Celcom also offers wholesale mobile broadband, voice and messaging services to the MVNO targeted segments. Celcom currently has wholesale arrangements with the following MVNOs to provide mobile services using Celcom's network:

No.	Entities	Brand name	Commencement year[(1)]
1.	Merchantrade Group[(2)]	Hello Sim	2007
2.	Net2One Sdn Bhd	Altel	2020
3.	XOX Com Sdn Bhd	XOX Mobile	2008
4.	Tune Talk	Tune Talk	2008
5.	Redone Network Sdn Bhd	redOne	2020

Notes:

(1) Commencement year refers to the year in which the MVNO wholesale arrangement was entered into between Celcom and the MVNO.

(2) The wholesale arrangement between Celcom and Merchantrade has been novated by Merchantrade to Valyou Sdn Bhd, a wholly owned subsidiary of Merchantrade with effect from 1 April 2022.

Distribution

As at the LPD, Celcom operates 51 Celcom bluecube stores and has 247 Celcom Certified Partners (i.e. third-party dealers). These Celcom Certified Partners are exclusively appointed to operate, sell merchandise and provide support services on behalf of Celcom in Malaysia. Celcom's sales channels are well distributed across the country and located in strategic locations to ensure optimal coverage.

Recognising the importance of delivering a superior customer experience, Celcom began its wholesale IT transformation exercise in 2013, focusing on all touch points from dealers, customer care to retail outlets, with the aim of delivering a market-leading customer experience to Celcom's customers. Since then, Celcom has continued to focus on digitalising its channels to enhance its customer experience.

In 2019, Celcom was acknowledged as the market leader in "Latency Experience", "4G Availability", "Video Experience" and "Upload Speed Experience" from an independent mobile analytics company. Celcom was also awarded "Best Telco of 2019", "Best 4G Coverage of 2019" and "Best Data Service Provider of 2019" from a major technology magazine in Malaysia. In 2021, Celcom was awarded the Excellence in Customer Experience – Telecommunications Industry Malaysia – Online Experience and Contact Centre Experience from a leading research & consulting firm.

2. OVERVIEW OF THE TELECOMMUNICATIONS INDUSTRY AND CELCOM'S COMPETITORS

The market for telecommunication services in Malaysia is highly competitive. Competition in Malaysia evolved primarily around network coverage, and is now driven by quality of products and services, competitive pricing, network speed and the provision of superior customer experience. In addition, the wireless communication industry in Malaysia is experiencing technological changes, evolving industry standards, liberalisation and changes in subscribers' preferences. Competition in the wireless telecommunications industry in Malaysia may increase as a result of industry consolidation, the entry of new competitors, foreign investment in existing competitors, and the development of new technologies, products and services.

Celcom expects competitors to place greater value in the future on providing segment relevant offerings and on value-added services such as data access, content and non-voice services. Over time, legacy communication services such as voice and messaging services have also come under fierce competition from OTT players, including WhatsApp, Facebook and WeChat.

The main licensed mobile operators in Malaysia which compete directly with Celcom include Maxis, Digi, TM and U Mobile Sdn Bhd ("**U Mobile**"). Celcom, Digi and Maxis operate 2G and 4G services. Since the progressive termination of its 3G network sharing and alliance agreement with Maxis in June 2017, U Mobile has been expanding its 4G network across Malaysia, while TM operates a 4G network under the brand 'Unifi Mobile'. A number of smaller industry players such as the MVNOs are also active in the market and are growing in size as data consumption continues to increase in the niche segments, hence competing with Celcom. Having said that, MVNOs which are hosted on Celcom's network are not considered as competitors of Celcom as such MVNOs typically address segments which are complementary to Celcom's own base.

The telecommunications industry in Malaysia is evolving towards a converged communication services market, where customers are increasingly purchasing fixed broadband and mobile services as a bundle and industry players increasingly willing to offer converged services to users. The traditional boundaries between mobile and fixed broadband operators are no longer as defined, with fixed line operators like TM offering mobile services and the other larger mobile network operators offering converged bundles of fixed broadband and mobile services.

3. OVERVIEW OF CELCOM'S PRODUCTS, SERVICES AND OPERATIONS

3.1 Summary of Celcom's Key Business Segments

Celcom's retail products and services are broadly divided into mobile data services, mobile devices, broadband services, roaming services and add-on services. In the wholesale segment, Celcom offers mobile broadband, voice and messaging services to MVNOs, and interconnection services.

Celcom has several business segments which are key contributors to its revenue. As at 31 December 2021:

(i) Celcom's core business, comprising prepaid and postpaid mobile services as well as domestic interconnection and inbound roaming services to end customers, accounted for 70.2% of the Celcom Group's total revenue in FYE 31 December 2021;

(ii) Celcom's sale of mobile devices, accounted for 10.2% of the Celcom Group's total revenue in FYE 31 December 2021; and

(iii) Celcom's other business, comprising, amongst others, wholesale of mobile services, transmission revenue, project contract revenue and business solutions, accounted for 19.6% of the Celcom Group's total revenue in FYE 31 December 2021.

Please refer to Section 2.4(i) of Appendix III of this Circular for further details on the breakdown of the Celcom Group's revenue.

3.2 Retail Segment

(a) Mobile Services

Celcom has a broad and extensive mobile network coverage in Malaysia. As at the LPD, Celcom is licensed under the CMA to provide network services, network facilities and application services. As at 30 June 2022, Celcom's mobile network coverage has reached over 95% in population coverage, with 2G network coverage of approximately 95% and 4G network coverage of approximately 96%. Celcom's smartphone penetration of its subscriber base has increased from 84% as at 31 December 2019 to 88% as at 31 December 2020 and 92% as at 31 December 2021. Celcom's smartphone penetration of its subscriber base was 93% as at 30 June 2022.

Generally, Celcom's mobile services are divided into postpaid and prepaid services.

Prepaid Plans

"Xpax" is Celcom's main prepaid brand, representing the majority of Celcom's 6.25 million prepaid subscribers as at 30 June 2022. The latest Celcom Xpax starter pack provides free 1GB basic internet, free 10GB of Facebook, Instagram and Games Walla (games streaming) quota every month and low cost calls, among other features. Celcom also offers an Unlimited Mobile Prepaid plan under the sub-brand Xpax Unlimited starting from 2020.

In January 2018, Celcom launched "Yoodo", a distinct and separable prepaid product brand within Celcom. It is a customisable mobile plan offered via digital channels, providing customers with flexibility to choose and change their combination of data, voice and messaging usage, as well as roaming and other international direct dial services. Yoodo also provides various data content add-on services for lifestyle segments such as esports, social media, music and entertainment. As stated in Section 1.3 of Part A of this Circular, pursuant to the Undertaking, the MergeCo Group is obligated to divest the Yoodo Business within 18 months from Closing, failing which the MergeCo Group shall cease the operations of Yoodo within 3 months after the expiry of the said 18-month period.

Postpaid Plans

Celcom offers various packages for its postpaid subscribers ranging from individual postpaid packages, special family plans for households to hybrid voice and internet packages offering pre-bundled minutes and SMS together with monthly internet quota.

In February 2020, Celcom unveiled its new postpaid plan, 'MEGA™', the first postpaid plan in Malaysia that offers consumers the flexibility to customise their respective postpaid plan based on their usage preference, with either access to "Unlimited Mobile Internet Quota" or "Lightning Mobile Internet Speed".

Add-on and OTT services

In addition to voice services, Celcom also offers add-on and OTT services to subscribers. Celcom Music Walla™ is a value add-on that gives Celcom subscribers unlimited data to stream from selected music streaming partners at any time anywhere. Celcom Game Hero is a subscription-based game portal that offers on-going game tournament(s)/contest(s) through android games with prizes provided. Certain subscribers may also enjoy 6 months of unlimited access to entertainment content from OTT providers like IQIYI, iflix or Dimsum through different product offerings from mobile and home plans.

Subscriber Base and Usage

The following table shows certain information relating to, amongst other things, Celcom's mobile telecommunications subscriber base and ARPU as at 31 December 2019, 2020 and 2021:

	As at 31 December		
Number of subscribers ('000)	**2019**	**2020**	**2021**
Postpaid	2,964	3,035	3,239
Prepaid(1)	5,408	5,642	6,356
Total number of subscribers	**8,372**	**8,678**	**9,595**
Data subscribers as a % of total subscribers	77.1%	80.7%	83.3%
ARPU (RM)			
Postpaid	86	84	82
Prepaid	36	31	30
Blended(2)	51	48	45
Data traffic (million GB)	1,083.0	1,456.9	2,168.5
Data usage per data subscriber per month (GB)	13.7	18.5	23.8
Smartphone penetration (%)	84	88	92
4G population coverage (%)	93	92	94
4G LTE-A population coverage (%)	81	86	90

Notes:

(1) *The number of subscribers for Yoodo prepaid product brand are 93,000, 148,000 and 170,000 as at 31 December 2019, 31 December 2020 and 31 December 2021 respectively.*

(2) *Blended refers to combined weighted average of Prepaid and Postpaid ARPU.*

As at 31 December 2021, Celcom had a total of 9.6 million mobile subscribers, of which:

(i) approximately 66% of Celcom's subscribers were prepaid plan subscribers, accounting for 31% of Celcom's total revenue in FYE 31 December 2021; and

(ii) approximately 34% of Celcom's subscribers were postpaid plan subscribers, accounting for 37% of Celcom's total revenue in FYE 31 December 2021.

As at the LPD, Celcom deploys GSM/GPRS/EDGE, LTE/LTE-A/VoLTE technology for its mobile network, and deploys FTTP technology for its fixed broadband network.

As at 31 December 2021, Celcom had 10,758 units of 2G BTS, 6,754 units of 3G BTS and 28,384 units of 4G BTS. As at 30 June 2022, Celcom had over 11,300 units of 2G BTS, over 1,400 units of 3G BTS and over 33,400 units of 4G BTS. As at the LPD, the Celcom Group no longer has any active 3G BTS.

(b) Home Broadband Services

Home Broadband Services

Celcom offers home wireless broadband services in its 4G service coverage areas which provide connectivity to the internet. Celcom is able to offer fast data transfer speed in areas that are covered by Celcom's 4G LTE network. Subscribers access the home wireless service through a modem which also functions as a WiFi access router in the premise.

Each home wireless broadband plan comes with a capped limit on usage for data. If a subscriber's usage exceeds this limit, the data transfer speed is limited while taking into account internet congestion levels. Subscribers are offered booster plans as an additional service at an additional charge which allows them access to the original network speed even after their usage has reached the data volume limit.

Fixed Fibre

Celcom also offers high speed fixed fibre broadband services to the 'Consumer' and 'Enterprise' segments, with download speeds reaching up to 1Gbps.

Customers can subscribe to these broadband plans as a standalone plan or as a converged bundle with mobile postpaid plans. Subscribers of Celcom's standalone broadband service plans can access the internet via a modem and a separate WiFi access router. Each fixed fibre broadband plan provides for unlimited usage and download of data.

Celcom has established wholesale agreements in Peninsular Malaysia and Sarawak with incumbent HSBB operator, TM and regional HSBB operators, Allo Technology Sdn Bhd and Sacofa Sdn Bhd, to provide its high speed fixed broadband services.

To enhance its service offering, Celcom, through its subsidiary Celcom Timur Sabah, has built its own extensive fixed broadband network in Sabah. Celcom Timur Sabah also offers wholesale broadband services to other access seekers.

Celcom has enjoyed reasonable success in its fixed fibre broadband business, registering a 146% growth in revenue to RM18 million for FYE 31 December 2021 compared to the FYE 31 December 2020.

(c) Convergence Offering

In line with the telecommunications industry in Malaysia moving towards a converged communication services market, Celcom has in 2021 rolled out its own convergence offering, Celcom MAX, which combines both the Celcom Home fibre plans and the Celcom MEGA™ postpaid plans into a single standalone plan with a single bill.

In general, convergence offerings involve the bundling of mobile, fixed broadband and value-added services into a single retail package. For Celcom, its basic convergence bundle comes with mobile and fixed broadband services, but offers add-on deals that include lifetime monthly rebates, value-added content services and optional device offerings that cater to a range of customer needs. With its convergence offerings, Celcom will be able to integrate its services to provide a seamless network service that brings value to its customers.

Celcom's move towards a convergence play is part of a wider market shift, which aims to secure customer retention by offering additional incentives in contrast to other products within the same price range, while providing the convenience of a single monthly bill for a complete package of Celcom services. Further, convergence offerings help prevent the obsolescence of traditional mobile services on a standalone basis, which face external pressure from OTT services and mobile VoIP calling and messaging.

3.3 Wholesale Services

(a) Wholesale to MVNOs

Celcom currently offers wholesale mobile broadband, voice and messaging services to the MVNO segment. Under these wholesale arrangements, the MVNO will purchase mobile data, voice and SMS services from Celcom, which it then proceeds to resell to retail customers using its own product and tariff plans.

While MVNOs also participate in the domestic mobile services market, such wholesale arrangements are complementary to Celcom's business, as MVNOs typically address separate customer segments which are complementary to Celcom's customer base. By focusing on retail operations, MVNOs can identify gaps in the retail market, create unique service offerings for customers and gain access to niche markets. As such, MVNOs extend their reach with new subscribers and Celcom consequently benefits from the enlarged user base utilising its mobile network. As at the LPD, Celcom currently has wholesale arrangements with 5 MVNOs.

(b) Services Provided to Other Telecommunications Companies

Celcom offers ancillary wholesale services which primarily comprise wholesale voice termination into Malaysia, international interconnection services and international roaming services.

Wholesale Voice Termination into Malaysia

Wholesale voice termination enables Celcom to offer Malaysian termination rates to international wholesale voice carriers to send their inbound Malaysian voice traffic to Celcom. Celcom serves as their single point of interconnection and subsequent termination to other licensed operators in Malaysia such as Digi and Maxis.

Domestic Interconnection

The provision of essential interconnection services is governed by the regulatory framework of the CMA, underscoring the importance of the any-to-any connectivity principle, with the aim of enabling customers connected to one network to communicate with customers of other networks through access agreements regulated by MCMC. In line with this principle, Celcom has entered into access agreements with multiple telecommunications service providers in Malaysia for the provision of a combination of network services and facilities including interconnect link services, infrastructure sharing services, fixed network origination and termination services, mobile network origination and termination, network co-location services and domestic network transmission services.

Celcom derives revenue in the form of domestic interconnection "termination" fees when a subscriber of another network makes a voice or video call to one of Celcom's subscribers and/or sends SMS, MMS, voicemail or video mail to one of Celcom's subscribers. In turn, when Celcom's customers make voice or video calls and/or send SMS, MMS, voicemail or video mail to subscribers of another network, Celcom is billed a "termination cost" by Celcom's domestic telecommunication service provider counterpart for the use of their facilities.

International Interconnection

Celcom's interconnection agreements with overseas telecommunications service providers allow Celcom's subscribers to make or receive international calls, including for IDD service and traffic termination into Malaysia. The submarine cable systems that Celcom accesses allows Celcom to have direct interconnections with approximately 97 international carriers (including local operators with international interconnection arrangement) across approximately 268 countries worldwide as at the LPD.

Pursuant to the international interconnection agreements, Celcom derives revenue from international interconnection fees for all calls that connect onto Celcom's network, such as those made by subscribers of overseas service providers to Celcom's subscribers in Malaysia. Charges and payment settlement procedures are agreed bilaterally between international telecommunications carriers.

International Roaming Services

With the combination of GSM, GPRS and 4G capabilities provided by 430 international roaming partners to offer services in more than 195 countries globally, Celcom is able to offer a wide range of services to subscribers of both local and foreign operators. Celcom's subscribers may also use their mobile phones with Celcom's SIM card when they are outside of Malaysia. While outside of Malaysia, they may initiate and receive voice, messaging and data services, as well as enable broadband services using their mobile phones with Celcom's SIM cards.

Celcom derives revenue from international roaming fees when a subscriber of one of Celcom's international roaming parties is connected to Celcom's network in Malaysia and either initiates or receives voice, messaging and data services or enables broadband services. Celcom also earns international interconnection fees for any overseas calls. In turn, when Celcom's customers are overseas and initiate or receive voice, messaging and data services or enable broadband services using their mobile phones, Celcom is billed a "termination cost" by Celcom's overseas counterparts for the use of their facilities.

3.4 Subscriber Registration, Billing and Credit Management

Subscriber Registration

Celcom's subscriber registration process, both for prepaid and postpaid customers, is subject to the requirements set out by the MCMC.

For the registration of mobile prepaid subscribers, Celcom adopts the industry practice of using OCR and MyKad readers to automate customer data collection and authentication upon SIM card activation. Similarly, OCR is used for the registration of postpaid subscribers. In addition, biometric readers are used to further authenticate subscribers who purchase service bundles which include hardware and/or device or purchase of products/services on instalment plans. In line with its digitalisation efforts, Celcom has recently adopted digital self-registration capabilities for prepaid subscribers. The self-registration process includes the submission of a scan of the subscriber's identity card, facial recognition using a smartphone camera and scanning a barcode on the SIM card.

For the registration of mobile postpaid subscribers, Celcom requires commitment in the form of a prepayment prior to the generation of their first bill. The relevant amount payable by each postpaid subscriber is dependent on the value of the service package signed, as well as the value of any other device or hardware purchased as part of the service bundle. In the event that a subscriber fails to settle any outstanding amount payable, the subscriber will subsequently experience a gradual escalation in service disruption, which may ultimately lead to service termination and debt recovery measures. Where applicable, subscribers are screened for credit worthiness against an industry blacklist and subject to credit scoring measures prior to service engagement and network provisioning.

For the registration of fixed broadband subscribers, Celcom screens such subscribers for credit worthiness against an industry blacklist prior to checking for serviceability on its access partner portal. Upon availability of service, the subscriber's identification card is uploaded onto a registration portal with relevant plan details selected to request for connectivity provisioning. Fixed broadband service contracts have a fixed minimum term of 24 months and a penalty charge will be imposed should they be terminated prematurely. In the event that a subscriber fails to settle any outstanding amount payable, the subscriber will subsequently experience a service disruption, which may ultimately lead to service termination and debt recovery measures.

Please refer to Section 3 of Appendix II of this Circular for further details.

Billing

Celcom bills its postpaid subscribers on a monthly basis. In line with its commitment towards a greener and sustainable environment, various paperless channels are available for its subscribers to access their Celcom postpaid bills. These include the 'Celcom Life App' ("CLA") and integrated web portal services which also offer extensive online self-service capability for subscribers to manage their respective accounts. Payment collection is supported by collection points throughout Celcom's physical sales as well as digital channels. Paper bills are only made available upon its subscribers' request at a fee. With the continuing focused efforts on digitalising the customer experience, more than 70% of smartphone users have adopted the CLA and the number of transactions made via the CLA has achieved over 100% year-on-year growth.

Celcom is currently running a billing platform known as CBS, Version 5.7, which is a proprietary billing system developed by a third-party vendor. The CBS is capable of performing real-time charging for Celcom's services such as voice call, SMS, content services, MMS and mobile data. It is also capable of performing functions such as 'Prepaid Lifecycle Management', 'Postpaid Credit Management', 'Recharge Management' and 'Invoice Generation'. When a transaction is made, a call detail record is generated for invoice generation and revenue reporting. With the support of CBS, Celcom's billing system currently hosts 12 million customers across its prepaid, postpaid, 'Home', 'Enterprise' and wholesale MVNO segments. With the recent upgrade to version 5.7, the CBS is now capable of supporting 5G traffic and serve 5G product offerings, allowing Celcom to future-proof itself as it prepares to take the leap towards 5G technology.

Credit Management and Deactivation

Celcom practices credit profiling, whereby each category of subscribers is broadly distinguished between retail and corporate subscribers. Credit profiling is based on the assessment of payment history, spending behaviour, plan, loyalty and creditworthiness of the subscribers. Credit profiling also determines the life cycle of call barring or termination activities.

For all of Celcom's subscribers, which includes both mobile service subscribers as well as fixed broadband subscribers, in the event of default in payment or if a subscriber is about to exceed the allocated credit limit, Celcom will contact the subscriber to remind the subscriber of the payment status before any credit control action, such as call barring and termination of phone line, is taken. Depending on the individual subscriber's Celcom credit profile, system call barring will be taken should the subscriber fail to remit payment within the prescribed payment period. Subsequently, the account may be suspended and terminated according to the credit life cycle policy and process.

3.5 Customer Service

Apart from infrastructure development and introduction of new technologies to attract and acquire new customers, Celcom also places a firm importance on maintaining and building long-lasting relationships with its existing customers.

Celcom's customer service has evolved over the years from being predominantly served via its brick-and-mortar outlets and contact centre to it now being primarily offered via multiple digital channels and self-service options. Initially, there was a shift in transactions from assisted to unassisted channels, allowing customers to select frequently asked questions and find their own solutions. Subsequently, as part of its digitalisation efforts, Celcom then shifted its focus to social media channels as key servicing channels, which serve to provide efficient and effective customer service and create a positive brand image on platforms with high user traffic.

Celcom's digital and self-service channels include Online Customer Service (a self-service online channel for Celcom customers to perform their transactions), CLA and 'Celcom Chatbots'. In addition, customer support is also provided via multiple social media channels, mainly through Twitter and Facebook.

More recently, Celcom launched Dash4Me, an exclusive 24-hour express delivery service for plans and purchases made via Celcom's online store, delivering SIM cards or devices directly to Celcom customers and providing them with access without having to leave their homes. Further, Celcom plans to allocate more resources to provide customer service via social media, as part of its digitalisation and modernisation initiatives.

Celcom's attempts have generated tangible success thus far, with reduced costs and increased customer service efficiency since 2019, as traditional channels and assisted queries interactions fell from 41% in 2019 to just 23% as at 31 December 2021. Celcom's digital unassisted channels interaction now makes up 44% of Celcom's total customer service as at 31 December 2021, as compared to 35% in 2019.

Driven by various initiatives such as revamping, relaunching the improved Celcom chatbot, launching WhatsApp as an alternative servicing channel and aggressive push campaigns on the CLA, Celcom expects the migration to digital channels for both assisted and unassisted queries interactions to continue and for these channels to serve more customers in 2022 and beyond.

Celcom's focus on delivering a superior customer experience via dedicated customer service was recognised at the Frost & Sullivan Best Practices Awards 2020, where Celcom won the '2020 Excellence in Customer Experience (Telecommunications) for In-Store Experience' award and the '2020 Excellence in Customer Experience (Telecommunications) for Net Promoter Score (NPS)' award.

3.6 Other Business Activities

Celcom also provides access to digital content and services via app stores, service providers and aggregators. Celcom offers different charging capabilities, including CPA for premium SMS charging and DCB for online charging, to Celcom's content providers, service providers and OTT partners. These charging capabilities enable these providers to offer their services to Celcom's subscribers. Celcom offers many types of digital content and services, including music, videos, games, insurance, ticketing, publications, and applications for various purposes (e.g. productivity, photography, utilities, etc.) to Celcom's customers.

Celcom also has an A2P or Bulk SMS services that offers SMS services as a means of communication, notification and verification tool to many industries that need it as part of their marketing, product operations or fulfilment flow. Two such industries are banking and OTT application providers. Banks need the A2P SMS as a verification tool in order to send a OTP or transaction authorisation code to their online banking customers. OTT application providers use the service to provide an authentication code during sign-up or to update user information as part of their services. Celcom believes this service provides an easy way for businesses to communicate with their customers and Celcom expects it to grow in the future.

Celcom also derives revenues from the sale of smartphones which are bundled with Celcom's postpaid plans. The bundled contract typically has a fixed term of 24 months with early termination charge imposed should the contract be terminated prematurely.

3.7 Impact of COVID-19 on Celcom's Business

Celcom's core business is to provide telecommunication services and such services are deemed essential services by the Ministry of International Trade and Industry and MCMC during the various MCOs imposed since 18 March 2020. Although Celcom's operations are not subject to any mandatory closure or halt in operations pursuant to the imposition of such movement restrictions, the global pandemic outbreak of COVID-19, coupled with various measures and restrictions on the conduct of activities in Malaysia, including quarantine measures and restrictions on the movement of persons, interstate travel and private and public gatherings, have had adverse impact on Celcom's operations.

Due to the economic downturn caused by the COVID-19 pandemic and poor industry conditions, Celcom's operations in Malaysia reported a 7.3% decline in revenue for the FYE 31 December 2020 compared to the FYE 31 December 2019, attributable to a loss of approximately 344,000 mobile subscribers in the first half of 2020 and blended ARPU declined from RM51 for FYE 31 December 2019 to RM48 for FYE 31 December 2020. This was further escalated by a complimentary 1GB of mobile data provided daily to customers during the lockdown period.

Despite the decline in revenue in 2020, Celcom has seen encouraging signs of recovery in the second half of 2020, coinciding with the kick-off of Celcom's Three-Year Transformation Programme in August 2020, with the three focus pillars being (i) to drive fastest value growth, (ii) to establish a future-proof differentiated core and (iii) to ignite a fighting spirit. During this period, Celcom experienced encouraging signs of recovery, with improvements in product innovation (including the revamp of Celcom's product portfolio with the new Unlimited Mobile Prepaid Plan and Postpaid MEGA™ plans), sales and marketing strategy and digital channels. These developments eventually led Celcom to secure consecutive positive growth of mobile subscriber net adds since May 2020 and allowed Celcom to surpass pre-pandemic levels in mobile subscriber numbers with the addition of 306,000 customers in 2020. Celcom registered a total of approximately 9.6 million mobile subscribers as at 31 December 2021 (representing an addition of 918,000 subscribers or a 10.6% increase in the total number of subscribers from 31 December 2020).

Moreover, whilst the retail operations of Celcom had been affected during the initial period of the MCO that started in March 2020, Celcom had not experienced any material disruption in the supply of products and services to its customers. The impact of COVID-19 on the Celcom Group's supply chain of network system and equipments are not material and had not resulted in material delays to infrastructure deployment, installation, upgrading, operation and/or maintenance.

As at the LPD, the Celcom Group has not been materially impacted as a result of COVID-19 cases arising among employees. Celcom did not incur significant costs and there was no material impact to Celcom's financial performance in complying with the relevant COVID-19 procedures in force in Malaysia. Whilst Celcom experienced lower collection of the trade receivables during the initial period of the MCO, it has not resulted in material adverse effect to Celcom's financial performance as collection improved when movement restrictions were being relaxed under the conditional MCO, coupled with increase in collection through digital channel during this period. The Celcom Group has sufficient working capital to sustain its operations. It has been generating positive net cash inflow from its operating activities for FYE 31 December 2020 and 2021. As at 31 December 2021, the Group has deposits, cash and bank balances of RM1.4 billion and unutilised Sukuk facility of RM3.3 billion. For further details of the impact of COVID-19 on Celcom's financial performance, please refer to Section 2.2(v) of this Circular.

The COVID-19 pandemic saw a change in geographical data usage by mobile subscribers, with a marked shift in data usage from commercial areas to residential areas as more users began working from home and the imposition of lockdown measures which led to reduced footfall in commercial districts. Accordingly, this has led to Celcom conducting more upgrading works in residential areas to increase network capacity and maintain mobile network quality.

Further, the restrictions on the movement of persons have also accelerated Celcom's digital adoption and shift into digital channels to better serve customers during this period. Among others, Celcom has improved its digital registration processes, broadened its digital marketing outreach and developed its systems to allow for top-up services to be conducted online.

The digital adoption is now visibly apparent, with Celcom extending their outreach by establishing a presence on third-party marketplaces such as Lazada or Shopee to ensure that the Celcom brand is visible via a multitude of platforms. Further, Celcom has also made enhancements to the CLA to enable more seamless registration of new Celcom customers, as well as enabling multi-bill payments via the CLA. As at 30 June 2022, Celcom had a total of 9.5 million subscribers, of which:

(i) 66% of Celcom's subscribers were prepaid plan subscribers, accounting for 32% of Celcom's total revenue in the 6-month FPE 30 June 2022; and

(ii) 34% of Celcom's subscribers were postpaid plan subscribers, accounting for 38% of Celcom's total revenue in the 6-month FPE 30 June 2022.

In response to the COVID-19 pandemic, Celcom also provided targeted support to the community. Among its various national contributions, Celcom provided complimentary 1GB of mobile data daily for its customers, with unlimited WhatsApp and Microsoft365 access, credit term extension for postpaid customers and SMEs as well as rebates for tourism operators, logistics companies and frontliners.

Please refer to Section 6.1(ii)(k) of Part A of this Circular for further details.

4. DISTRIBUTION, SALES AND MARKETING

4.1 Marketing

Celcom's marketing strategy is anchored by the following key strategic principles:

(i) Engaging in subscriber segmentation to clearly identify key subscriber segments for targeted marketing and sales with support at all levels, such as subscriber service and network.

(ii) Developing versatile and innovative product line-ups that are focused on delivering value, such as data plan and content propositions with streamlined product offerings.

(iii) Achieving base retention and monetisation by leveraging on data science and analytics to deliver targeted offerings such as device bundles and add-on offerings to increase ARPU, prolong subscriber tenure and reduce churn.

(iv) Focusing on non-traditional channels such as digital channels as a greater source of acquisition.

(v) Enabling subscriber self-registration for Celcom's product and services for greater convenience and flexibility.

(vi) Focusing on new growth areas and innovations, in particular, in the areas of 5G, home, enterprise and Fourth Industrial Revolution.

(vii) Enhancing Celcom's overall brand appeal among subscribers by offering good data coverage, speed, rates and service.

(viii) Investing in sponsorship and affinity programmes to create affinity and to grow brand appeal via co-branding initiatives aimed at identified target segments.

(ix) Addressing a wide range of market segments through complementary approach of MVNO.

Celcom has several digital channels which support customer engagement and enables Celcom to increase customer conversion through targeted marketing, including Celcom's mobile application, social media channels, Celcom's corporate website which provides a self-service portal for subscribers, and Celcom's online store that serves as Celcom's e-commerce site. Celcom also uses mass media to generate coverage of Celcom's business activities through traditional and digital media channels and organise media briefings, media visits, media familiarisation trips, press conferences and other media activities to maximise exposure of Celcom's brand.

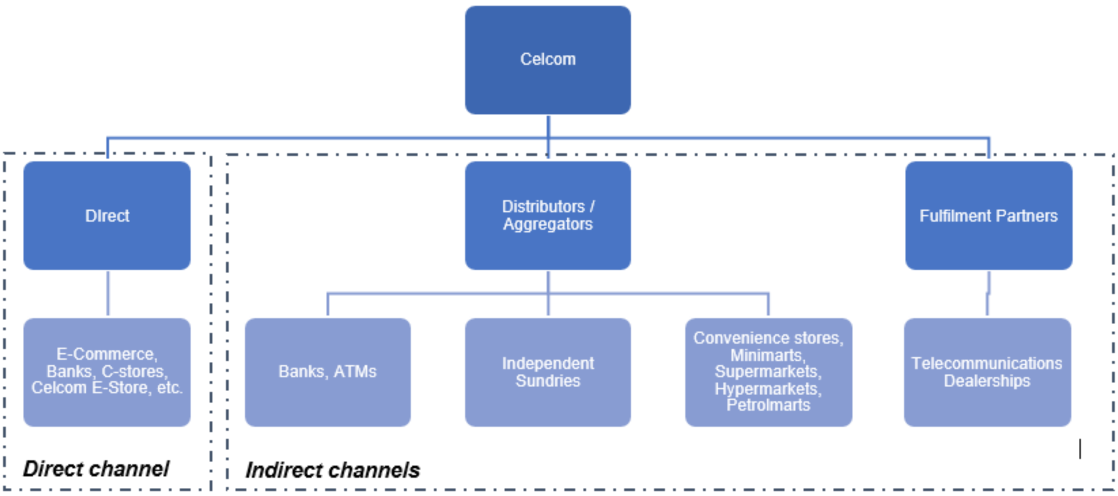
4.2 Distribution

Celcom's products and services are available throughout the country, enabled by the adoption of a multi-channel sales distribution strategy. In this regard, retail brick-and-mortar stores remain the most relevant channel in terms of its contribution to mobile sales.

Prepaid

As at the LPD, in relation to Celcom's prepaid products, Celcom's starter packs are sold and provisioned across approximately 9,000 telecommunications dealerships nationwide. The starter packs are made available for sale in major convenience stores, minimarkets and supermarket chains, where they are sold alongside regular grocery items. Celcom's prepaid top ups are another popular consumer product, being sold in more than 50,000 points of sale nationally across the same telecommunications dealerships, major convenience stores, minimarkets and supermarkets as well as in petrolmarts, hypermarkets, independent sundry stores and via ATMs.

In order to serve a fragmented and diversified marketplace for Celcom's starter packs and top ups, Celcom employs both direct and indirect sales distribution models to reach its customers as shown below:



As part of Celcom's multi-channel sales distribution strategy, Celcom's starter packs and top ups are also sold via Celcom's own online channels and third-party e-commerce marketplaces, such as Lazada.

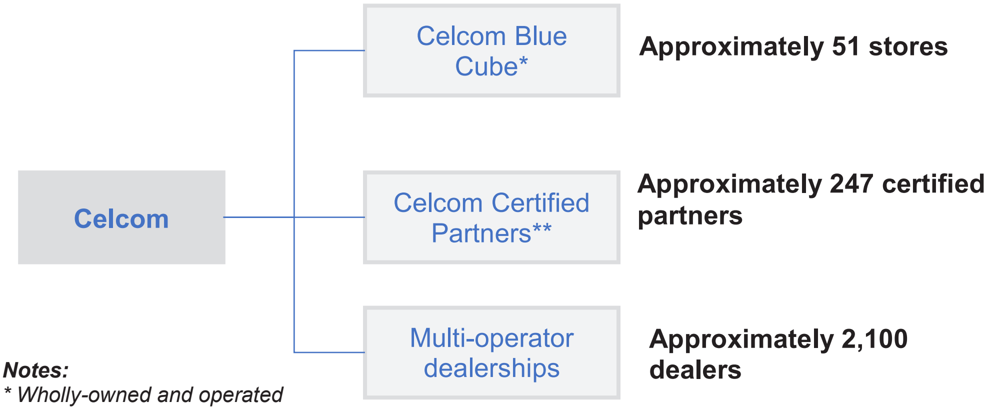
Postpaid

In relation to postpaid products, Celcom employs a varied store ownership and partnership strategy to enable availability and service-ability across the nation. For example, Celcom has entered into dealership agreements with its respective dealers to authorise the sales of Celcom postpaid plans in nationwide. Celcom postpaid plans are actively sold and provisioned through approximately 2,400 stores nationally as at the LPD.

Amongst them are 51 wholly-owned and operated Celcom Blue Cubes, and 247 Celcom Certified Partner stores that are exclusive to Celcom that offer full sales and service portfolios.

Alongside these exclusive stores, Celcom also has non-exclusive dealerships that are typically multi-operator in orientation. Such dealers typically offer core Celcom sales and service propositions as shown in the diagram below:

Celcom Postpaid Dealer Universe



Notes:
** Wholly-owned and operated*
*** Exclusive dealership*

Complementary to these touchpoints, Celcom has also digitised the way it interacts with its subscribers by way of Celcom Life App ("**CLA**"). CLA provides a comprehensive self-service digital channel for customers to perform a spectrum of activities; from bill payment, to mobile internet purchases; even offers a series of lifestyle services. Through CLA, Celcom customers are simply a screen touch away from the operator.

5. SEASONALITY

In general, Celcom does not experience any material seasonality in Celcom's business operations, with the exception of increased demand for Celcom's mobile voice, messaging, data and digital financial services during festive periods, including New Year's Day, Chinese New Year, Hari Raya, Deepavali and at the end of the year. While the impact of COVID-19 on seasonality is minimal, it was noted that with fewer travellers during the festive seasons, there was a corresponding decline in revenue from international roaming for festive periods during COVID-19.

6. RESEARCH AND DEVELOPMENT

As at the LPD, Celcom does not undertake any research and development, and Celcom did not recognise any research and development expenditure during the FYE 31 December 2019, 2020 and 2021. However, Celcom actively monitors the latest technologies being introduced in the telecommunications space and will integrate such innovations into its systems where there are synergistic attributes.

7. INFORMATION TECHNOLOGY INFRASTRUCTURE

Celcom's BSS, CRM, BI, BDA and OSS functions are important business operation components that ensure efficient revenue and customer management. The IT systems that support these functions are critical to Celcom's business areas such as sales through dealer and online networks and especially through digital self-service platforms. These consist of both channels that Celcom owns and channels of third parties. Celcom's ongoing efforts to digitalise and modernise many of Celcom's operations are critical to improving Celcom's customer experience and driving down Celcom's support costs.

BSS and CRM

The transformation of Celcom's BSS is currently ongoing and planned to be completed by first quarter of 2023, in order to bring more business value and to meet the digital needs of consumers today. The key benefits of the transformation include faster product development, emulation of customer behaviour when conceptualising a product before development.

In line with its focused effort on digitalising the customer experience and accelerating digital adoption, Celcom is also elevating its focus on utilising digital channels as key servicing channels. In that regard, Celcom is enhancing its social media channels as key servicing channels, which serve to provide efficient and effective customer service and create a positive brand image on platforms with high user traffic.

Data Analytics and Customer Value Management

Celcom's data lake platform currently sources data from more than 45 data source systems. Plans to migrate the data lake to a new cloud-based platform are currently underway. The benefits of utilising a cloud-based platform are scalability, cost optimisation, data processing performance and additional security features.

Celcom also uses a campaign management platform for its campaign orchestration and execution. This platform allows Celcom to design, execute and track campaigns to retain its customers and to monetise its existing customer base, by combining data analytics and targeted marketing to sell an assortment of products based on an analysis of historical consumer spending behaviour.

To do so, Celcom taps upon its internal business intelligence platform for data analytics, which is a key mechanism used across all of its operations. Celcom uses this information, amongst others, to determine their target customers, the business performance, the types of products to be featured, network performance, user behaviour and services used by customers. Celcom is able to collect extensive user data and combines this with the campaign management platform to present targeted offers to its customers. The campaign management platform supports both offline and online transactions, with online transactions executed via CLA, USSD or SMS.

Cyber Security

The security and protection of consumer and business information is one of Celcom's highest priorities. Celcom has developed its own in-house cyber security capabilities covering 90% of cyber security service delivery for the organisation (including Threat Intelligence & Hunting, Deep Dive Intrusion Analysis & Cyber Forensics).

As new cyber security threats take shape, implementation plans are ongoing to install new security systems to address these threats and enhance Celcom's overall security parameters. Due to Celcom's scale of operations, establishing robust IT safeguards to ensure that its business channel platform is comprehensively protected is critical to its business. All business infrastructure and applications that are critical to the business have been categorised as "Crown Jewels" and will need to be on boarded onto a new IGA platform.

10% of Celcom's cyber security functions are supported by Axiata's Group Security Operations Centre and a third-party service provider. Axiata's Group Security Operations Centre provides all-year-round monitoring of Celcom's 'Crown Jewels' assets and alignment of cyber security strategy with Celcom's business objectives. For information, Axiata's Group Security Operations Centre will continue to support Celcom's cyber security functions for a 12 month period after the completion of the Proposed Merger and such period may be further extended subject to review by the MergeCo Group. In addition, Celcom also engaged third-party service provider to provide DDoS protection services.

Celcom has established appropriate security measures and consistently reviews the effectiveness of its controls to protect against threats of cyber-attacks through various means, including alignment of cyber security strategies and programmes, continuous vulnerability assessment and penetration testing, proper security architecture design and continuous cyber security awareness program across Celcom's staff and vendors. When cyber-attacks are detected, Celcom will respond accordingly based on Celcom's cyber security incident process and playbook.

Please refer to Section 6.1(ii)(h) of Part A of this Circular for further details on the cyber security risks faced by Celcom.

8. MAJOR APPROVALS, LICENCES, PERMITS AND REGISTRATIONS

For details of the major approvals, licences, permits and registrations obtained by the Celcom Group for its business operations as at the LPD, please refer to Annexure A of this Circular.

9. EMPLOYEES

The breakdown of Celcom's employees is as follows:

	Number of Employees			
	As at 31 December			
Category of Employees	**2019**	**2020**	**2021**	**As at the LPD**
Sales & Marketing Management	932	1,371	1,324	1,302
Customer Service	641	173	166	115
Technology	683	525	514	515
Other Support Functions	446	374	385	405
TOTAL	2,702	2,443	2,389	2,337

As shown in the table below, Celcom had 2,337 full-time employees comprising 2,279 permanent employees and 58 contract employees as at the LPD. All of Celcom's employees are employed in Malaysia.

Category of Employees	**Permanent Employees as at the LPD**	**Contract Employees as at the LPD**	**Total as at the LPD**
Sales & Marketing Management	1,281	21	1,302
Customer Service	107	8	115
Technology	506	9	515
Other Support Functions	385	20	405
TOTAL	2,279	58	2,337

A small number of non-executive employees in Peninsular Malaysia are covered by a Collective Agreement and represented by the National Union of Telecommunication Employees Peninsular Malaysia ("**NUTE**"). For information purpose, NUTE represents non-executive workers in the telecommunications sector. As at the LPD, there are 17 non-executive employees of Celcom Group which are members of the NUTE. The Celcom Group has not experienced any labour or trade disputes in the past that have caused a material disruption to and materially affected the operations of the Celcom Group.

10. BRAND NAMES AND TRADEMARKS

Celcom has taken steps to protect Celcom's trademarks and logos in Malaysia by registering them, and they are at various stages of consideration for registration in Malaysia. Please refer to Annexure B of this Circular for the list of material trademarks, brand names and other intellectual property rights owned by Celcom.

11. GOVERNING LAWS AND REGULATIONS

11.1 Governing Laws and Regulations

Celcom's business is regulated by, and in some instances required to be licensed under, the specific laws and regulations of Malaysia. Save as disclosed under Section 11.2, Celcom Group is in compliance with the relevant laws, regulations, rules and requirements governing the Celcom Group. The relevant laws and regulations governing the business of Celcom and its subsidiaries, which do not purport to be an exhaustive description of all laws and regulations of which its business is subject to, are summarised below:

(i) CMA

The CMA came into force on 1 April 1999, replacing the Telecommunications Act 1950 and the Broadcasting Act 1988. The CMA and its subsidiary legislation are the main legislation regulating the communications and multimedia industry and the CMA's objects are, amongst others, to establish a licensing and regulatory framework in support of national policy objectives for the communications and multimedia industry, to establish the powers and functions for the MCMC and to establish the powers and procedures for the administration of the CMA.

The MCMC was established pursuant to the Malaysian Communications and Multimedia Commission Act 1998 and is responsible for regulating the communications and multimedia activities in Malaysia, and to enforce the communications and multimedia laws of Malaysia.

The regulatory framework of the CMA requires a licence to be obtained (unless specifically exempted under the CMA) for the ownership or provision of any network facilities, the provision of any network services, the provision of any applications services and the provision of any content applications services. Within these categories of activity, the CMA provides for the issuance of either individual licences and/or class licences save for the applications service provider licences which are only issued as class licences.

Individual licences issued under the CMA are subject to the relevant standard licence conditions specified in the CMA and may be subject to any special or additional conditions as may be declared by the Minister, acting on the recommendation of the MCMC, under the CMA. In addition, all individual licences granted by the MCMC are subject to such other approvals as may be required from the relevant authorities, including the State Authority, for the placing, laying or maintenance of any network facilities on, through, under, or across any land.

Class licences issued under the CMA may include the relevant standard conditions as set out in the CMA and/or such other standard conditions as may be declared by the Minister from time to time.

Apart from the CMA, there are regulations and subsidiary legislation under the CMA that have been put in place to regulate other aspects of a licensee's business, for example, those relating to technical standards, spectrum, USP and other related matters.

(ii) PDPA

The PDPA regulates the laws on processing of personal data in commercial transactions to provide for matters connected therewith and incidental thereto.

Generally, the processing of personal data by a data user must comply with the Personal Data Protection Principles under the PDPA. In addition, the PDPA provides that, amongst others, a licensee under the CMA is required to register as a data user under the PDPA and a certificate of registration issued to a data user may be issued subject to such conditions or restrictions as the Personal Data Protection Commissioner may think fit to impose.

11.2 Celcom's non-material non-compliances of laws and regulations

The non-compliances as at the LPD, as set out below are not expected to have any material adverse impact on the business operations and financial condition of the Celcom Group:

(a) There are 11 access agreements entered into by the Celcom Group which are yet to be registered with the MCMC, Celcom Group is in the various stages of getting these access agreements registered with the MCMC.

Two (2) of the unregistered access agreements are material contracts of the Celcom Group:

(i) Access agreement dated 29 September 2017 between CNSB and edotco ("**edotco Access Agreement**"). The edotco Access Agreement has been submitted to the MCMC for registration. The parties had signed the supplemental agreement and CNSB is preparing to submit the signed supplemental agreement to MCMC for registration; and

(ii) Access agreement dated 1 January 2011 between Celcom Mobile, Celcom, Celcom Transmission Sdn Bhd with TM and TMNet Sdn Bhd ("**TM Access Agreement**"). The new access agreement will be finalised and submitted to MCMC for registration.

As for the remaining access agreements, eight (8) access agreements have either been submitted for consideration by MCMC or is at the final pre-submission stage where some of the agreements are currently pending execution or stamping prior to submission to the MCMC, one (1) access agreement is currently being negotiated between Celcom Group and the relevant access seeker and/or provider which will supersede the access agreement currently in place between the parties.

Subsection 150(2) of the CMA provides that no written access agreement shall be enforceable unless it has been registered. Further, under section 242 of the CMA, the penalty for non-compliance with the CMA (where the penalty is not otherwise specifically provided for) includes, a fine not exceeding one hundred thousand ringgit or imprisonment for a term not exceeding two years or to both.

The non-registration of the access agreements has not had and, is not expected to have a material adverse impact on the business operations and financial condition of the Celcom Group as:

(i) Celcom and the counter parties to the unregistered access agreements are mutually dependent on each other to access the other parties network. In addition, the operators are required by MCMC to provide such access to an access seeker on a non-discriminatory basis so long as the terms and conditions of the facilities/services requested are reasonable.

(ii) MCMC had in its letter dated 9 June 2017 to the telecommunication licensees reassured the telecommunications operators that it would continue its practice to assist and facilitate licensees to resolve any issues that may arise with regard to the unregistered access agreements.

Celcom has also continuously engaged with MCMC to register the access agreements. As at the LPD, the Celcom Group have not received any fine or compound from the MCMC in relation to this matter.

(b) There are discrepancies in certain data submitted on the online portal of the CIMS of MCMC in relation to the AA of the Celcom Group in particular, incorrect coordinates and availability of AA for terrestrial microwave links installed. Celcom Group has completed the rectification of the incorrect data as notified by MCMC through their letters on CIMS which includes identifying the data to be corrected, updating the same onto CIMS, and applying for the AA approvals from MCMC.

(c) In the course of operating Celcom Group's businesses, there are instances of non-compliance by the Celcom Group with the mandatory standards and consumer code prescribed by MCMC pursuant to the CMA (i.e. MSQoS for Public Cellular Service, MSQoS for Wireless Broadband Service, MSQoS for Wired Broadband Service, Mandatory Standards for Provision of Mobile Content Services and Mandatory Standards for EMF from Radiocommunications Infrastructure and GCC). Celcom Group is in the midst of rectifying these non-compliances or doing the necessary to minimise the recurrence of such non-compliances by way of the following:

(i) In respect of the non-compliances of the MSQoS:

(a) regarding the network quality and utilisation offences, below are the efforts taken by the Celcom Group to resolve the non-compliances of the MSQoS:

(1) carried out radio and/or transmission capacity upgrades to increase download speed;

(2) implemented new site or network sharing with other telcos to improve network coverage and quality especially in cell edge; and

(3) optimized existing network to improve network quality.

(b) regarding the network compliances predominantly attributed to the actions of third parties due to incidences such as fibre cuts, software bugs during upgrades and third-party system / software failures, below are the continuous efforts taken by the Celcom Group to minimise service disruptions:

(1) Ensuring that there are available redundancies for network core, radio, transmissions and power supply;

(2) Improving standard operating procedures and processes including enhancement of current notification process;

(3) Providing more customer complain channels and enhancements in notifications of network or service failures; and

(4) Taking actions against vendors for negligence or failure to meet contractual obligations.

(ii) In respect of the non-compliances of the Mandatory Standards of Provision of Mobile Content Services which are related to customers being wrongly charged for content services provided by third-party content providers, such content services are commonly subscribed by customers through SMS platform, the continuous efforts taken by the Celcom Group to address the non-compliances have resulted in a reduction of complaints e.g., Celcom recorded a reduction of 77% in its total complaints between 4th quarter of 2020 to 4th quarter of 2021. These measures adopted include issuing warning letters, penalties and termination of the third-party content providers found guilty of such irregularities; implementing a two-factor authentication (2FA) process; blocking enterprise customers from purchasing mobile content services and imposing a daily purchase limit on customers.

(iii) In relation to the non-compliances of the Mandatory Standards for EMF from Radiocommunications Infrastructure which relate to the submission of simulation reports for every site to the MCMC and the display of the signages.

Celcom Group and other industry operators have been engaging MCMC on a joint industry proposal to adopt EMF measurement results for sites with common characteristics instead of measuring every site. On 1 August 2022, the MCMC had written to the industry operators to comply with the EMF on-site measurement instead of the site model. The industry operators had collectively submitted a joint letter on 5 August 2022 to further clarify the rationale of the industry's proposal. Celcom Group is in the midst of rectifying the non-compliances in relation to the submission of the simulation reports for every site to the MCMC and to ensure appropriate display of the signages. Based on the revised Mandatory Standards for EMF issued by the MCMC, Celcom is given 12 months from 1 November 2021 (as are all other industry operators) to rectify the non-compliances.

(iv) Celcom had received a notice of non-compliance in respect of overcharged billing on the device instalments for several customers in relation to their bill in May 2022, which is a potential breach of the GCC. Celcom responded to the MCMC on 2 August 2022 that there was a system design gap which had been addressed, Celcom had refunded the customers and the complaints were resolved. Celcom has not received any further query from the MCMC as at the LPD.

Based on subsection 109(1) and section 100 of the CMA, the penalty for non-compliance with a mandatory standard or a consumer code is a fine not exceeding two hundred thousand ringgit. As at the LPD, the Celcom Group does not have any unsettled fines or compounds from MCMC relating to these matters.

(d) There are non-compliances by the Celcom Group with the guidelines of state and local authorities, which may be revised from time to time, in respect of the sites approvals and permits and some of which are subject to the legalisation exercise of existing telecommunications infrastructure due to the new local authority requirements. As at the LPD, there are 51 sites that are deemed not in full compliance with the relevant state and local authority guidelines. In this regard, the regularisation of Celcom owned sites is currently being carried out in accordance with the new local authority requirements (legalisation exercise). The industry, including Celcom, together with the MCMC are in constant engagement with the Ministry of Housing and Local Government and local government agencies to improve the process for permit applications in order to facilitate faster approvals for the pending and new permit applications.

In the past, the compounds received by Celcom for the abovementioned non-compliances range between RM5,000 to RM50,000 in accordance with the relevant laws, regulations and guidelines under the purview of the various local and state authorities in Malaysia.

The MCMC and local authorities had also imposed fines, penalties and compounds on the telcos including Celcom. Since 30 April 2008, and for the financial years 2018 to 2021 Celcom Group was fined for the non-compliances related to prepaid registration guidelines, MSQoS, Mandatory Standards for Mobile Content Services, Apparatus Assignment and state and local authority guidelines in relation to site permits.

The MCMC and/or local authority had imposed fines, penalties and compounds for a total of RM540,005, RM505,000, RM2.43 million and RM539,300 in the year of 2018, 2019, 2020 and 2021 respectively which Celcom has duly paid in full. As at the LPD, Celcom has not been subject of any fines, penalties and compounds imposed by the MCMC and/or any local authorities. The historical fines, penalties and compounds do not have a material adverse effect on Celcom Group's business operations and financial conditions.

The non-compliances set out above are not isolated to the Celcom Group. These are inherent industry risks faced by telecommunications operators as a whole given the nature of the business which is largely dependent on external factors.

12. NETWORK, INFRASTRUCTURE AND SPECTRUM

Celcom's mobile network infrastructure comprises three major components: mobile access, core network and the transmission system. As at 30 June 2022, Celcom had approximately 9.5 million subscribers with the widest mobile network in Malaysia with 2G network coverage of approximately 95% and 4G network coverage of approximately 96%.

Celcom has carried out extensive Network Modernisation programmes and has widely deployed the latest 4G-LTE technologies in its network. As at 30 June 2022, Celcom's network comprises more than 12,000 sites[1], of which more than 11,500 sites are equipped with LTE technology. More than 10,100 sites (approximately 88%) are equipped with LTE-Advanced technology offering higher speeds and better quality of service. Additionally, Celcom had over 11,300 units of 2G BTS, over 1,400 units of 3G BTS and over 33,400 units of 4G BTS. As at the LPD, the Celcom Group no longer has any active 3G BTS.

Celcom leased towers from edotco, state backed companies (SBC) and network facilities providers (NFP) via leasing arrangements which usually have initial tenure of 7 to 12 years and is renewable upon expiry. Celcom also entered into infrastructure sharing arrangement with other telcos players to ride on each other's network facilities. As at 30 June 2022, Celcom has access to 11,690 towers of which about 92% are leased from other parties and sharing arrangement with other telcos.

As at 30 June 2022, Celcom has deployed an extensive nationwide fibre network infrastructure to support the ever-increasing demands for data services, with approximately 10,100 km of fibre cable infrastructure having been laid nationwide, 42% of Celcom's sites with one Microwave hop to fibre, and with more than 3,900 sites being connected directly with fibre.

Celcom has been involved in the Government's National 5G Task Force since 2018, working closely to support the implementation of 5G in Malaysia and to provide industry feedback. In tandem with such involvement, Celcom has been running live 5G trials. For instance, Malaysia's first 5G Live Cluster was tested for six months since July 2019 at Celcom's headquarters for the surrounding areas. More recently, in 2021, Celcom's core network infrastructure has been upgraded in anticipation of the upcoming launch of 5G services.

1 *Sites refers to the physical location where equipment used to receive and transmit mobile network signals is located. The equipment is typically mounted on either a ground-based structure (i.e. tower or pole) or on the top of a building. Approximately 1,000 sites are hosted by other MNOs.*

Celcom strives to offer the most consistent 'Video and Data Experience' in Malaysia, an established standard by the MCMC, and benchmarks itself against its peers to ensure its network experience remains competitive and meets the highest industry standards. Celcom continuously invests in new tools to test and simulate the subscriber experience in utilising its services. Celcom also participates in various targeted in-country public consultations and forums, such as the National Digital Infrastructure Laboratory in 2020, which is organised by the MCMC to seek input from industry players to review the national digital infrastructure development plan.

Celcom has been assigned 2 x 10 MHz in the 900MHz band, 2 x 20 MHz in the 1800 MHz, 2 x 15 MHz FDD and a 5 MHz TDD frequency in the 2100 MHz band and 2 x 10MHz in the 2600MHz band.

13. CELCOM'S MAJOR CUSTOMERS AND MAJOR SUPPLIERS

Celcom's customer base comprises mainly individuals and corporate customers. Due to the retail nature of Celcom's business, it does not have any one customer who contributes 5.00% or more of the Celcom Group's total revenue during the periods under review.

Following from Celcom's internal restructuring exercise in 2013, whereby selected telecommunication assets and businesses under Celcom Mobile and Celcom Networks were transferred to edotco and subsequently leased back to Celcom under a sale and leaseback arrangement, Celcom is currently dependent on edotco for the supply of telecommunication towers, which Celcom leases to support its network infrastructure. As at 30 June 2022, approximately 34.9% of the sites are leased from edotco. edotco has been a supplier to Celcom for the past 8 years, and accounted for approximately 12.7%, 12.7% and 13.8% of the Celcom Group's total purchases for the FYE 31 December 2019, 2020 and 2021 respectively. Notwithstanding the above, the Celcom Group is not exposed to concentration risk as there is no exclusivity arrangement with edotco, and the Celcom Group is able to find alternative telecommunication tower suppliers should the need arise.

Nonetheless, Celcom's lease agreements with edotco benefits both parties. Celcom is materially dependent on edotco with regards to the supply of telecommunication towers, while edotco is dependent on Celcom as its anchor tenant for the leasing of such telecommunication towers, allowing it to showcase its stable working relationship with Celcom to potential infrastructure customers. Further, in the event of any dispute in relation to such lease agreements, either party may submit a request to the MCMC for regulatory intervention on matters relating to the terms and conditions of such agreements, including on pricing or rates, to ensure access to bottleneck network facilities and facilitate the network transmission to subscribers.

We also wish to highlight that the lease arrangements with edotco are currently RRPT of Axiata Group and subject to Axiata shareholders' approval on a yearly basis. After the completion of the Proposed Merger, the tower lease arrangements would also be RRPT of the MergeCo Group and may be subject to MergeCo shareholders' approval. Please refer to Section 6.3(b) of Part A of this Circular for the risk of non-approval of RRPT carried on from Celcom prior the Proposed Merger by the shareholders of MergeCo post-merger.

Save as disclosed above, the Celcom Group is not dependent on any other major supplier as there are other established suppliers in the market which provide comparable equipment and other services that the Celcom Group requires.

The top five (5) major suppliers of the Celcom Group and their individual contributions to the total purchases for each of the following three (3) FYE 31 December 2019, 2020 and 2021 are as follows:

Financial year		Major Supplier	Length of relationship as at the LPD	Main type of supply purchased	Purchases (RM 'million)	% of total purchases
FYE 31 December 2019	(i)	Supplier A(1)	Over 10 years	Network equipment & devices	629.6	14.2%
	(ii)	edotco	8 years	Towers and managed services	562.8	12.7%
	(iii)	Supplier B(2)	9 years	Devices	435.7	9.9%
	(iv)	Supplier C(3)	Over 10 years	Network equipment	175.0	4.0%
	(v)	Supplier D(4)	Over 10 years	Towers and bandwidth related services	151.3	3.4%
				Total	**1,954.4**	**44.2%**
FYE 31 December 2020	(i)	edotco	8 years	Towers and managed services	515.8	12.7%
	(ii)	Supplier B(2)	9 years	Devices	504.7	12.4%
	(iii)	Supplier A(1)	Over 10 years	Network equipment & devices	476.3	11.7%
	(iv)	Supplier C(3)	Over 10 years	Network equipment	211.4	5.2%
	(v)	Supplier E(5)	7 years	Devices	136.3	3.4%
				Total	**1,844.5**	**45.4%**
FYE 31 December 2021	(i)	Supplier A(1)	Over 10 years	Network equipment & devices	566.4	13.4%
	(ii)	edotco	8 years	Towers and managed services	583.1	13.8%
	(iii)	Supplier B(2)	9 years	Devices	519.0	12.3%
	(iv)	Supplier C(3)	Over 10 years	Network equipment	487.8	11.5%
	(v)	Supplier D(4)	Over 10 years	Towers and bandwidth related services	155.2	3.7%
				Total	**2,311.5**	**54.7%**

Notes:

(1) Supplier A, incorporated in Malaysia, is a subsidiary of a private multinational technology company, principally engaged in the provision of telecommunication equipment, devices, services, training and network solution in Malaysia. The name of Supplier A has not been disclosed to safeguard Celcom's bargaining position with Celcom's other suppliers as they may leverage on the information in their negotiations with Celcom which may in turn adversely affect Celcom's competitive position.

(2) Supplier B, incorporated in Malaysia, is a subsidiary of a multinational technology company listed in a stock exchange outside Malaysia, principally engaged to carry out sale of computers, mobile communication devices and related products in Malaysia. The name of Supplier B has not been disclosed to safeguard Celcom's bargaining position with Celcom's other suppliers as they may leverage on the information in their negotiations with Celcom which may in turn adversely affect Celcom's competitive position.

(3) Supplier C, incorporated in Malaysia, is a subsidiary of a multinational technology company listed in a stock exchange outside Malaysia, principally engaged in the design, supply and installation of telecommunication equipment in Malaysia. The name of Supplier C has not been disclosed to safeguard Celcom bargaining position with Celcom's other suppliers as they may leverage on the information in their negotiations with Celcom which may in turn adversely affect Celcom's competitive position.

(4) Supplier D is a public-listed company incorporated in Malaysia listed on the Main Market of Bursa Securities, principally engaged in the establishment, maintenance and provision of telecommunications and related services in Malaysia. The name of Supplier D has not been disclosed to safeguard Celcom's bargaining position with Celcom's other suppliers as they may leverage on the information in their negotiations with Celcom which may in turn adversely affect Celcom's competitive position.

(5) Supplier E, incorporated in Malaysia, is a subsidiary of a private company incorporated in Malaysia, principally engaged to distribute mobile electronic devices and carry on a business as importers, exporters and distributors in Malaysia. The name of Supplier E has not been disclosed to safeguard Celcom's bargaining position with Celcom's other suppliers as they may leverage on the information in their negotiations with Celcom which may in turn adversely affect Celcom's competitive position.

14. CELCOM'S PPE

Overall, telecommunications network infrastructure and equipment represent more than 80% of Celcom's PPE. Network equipment mainly comprises radio network systems, transmission systems and core network systems.

Celcom's radio network systems and transmission systems are located throughout both Peninsular and East Malaysia. As at 30 June 2022, there are more than 12,000 sites, with 22% in the central region, 17% in the northern region, 17% in the southern region, 19% in the eastern region, 12% in Sabah and 13% in Sarawak. In terms of network technologies, Celcom's 2G network is spread across 90% of the sites, its 3G network is spread across 12% of the sites and its LTE network is spread across 97% of the sites. As at 30 June 2022, Celcom had over 11,300 units of 2G BTS, over 1,400 units of 3G BTS and over 33,400 units of 4G BTS. As at the LPD, the Celcom Group no longer has any active 3G BTS.

Celcom's core network systems are located at Shah Alam, Kepong, Petaling Jaya, Pending and Kinarut.

14.1 Material Property

As at the LPD, Celcom leases the following material property:

Tenant	Landlord/ Lessor	Location/ Postal Address	Description / Existing use	Approximate rented area	Tenure of tenancy	Date of issuance of CF/CCC	Rental per annum for FYE 2021
Celcom	Puncak Wangi Sdn Bhd	No 6, Persiaran Barat, Seksyen 52, 46200 Petaling Jaya, Selangor	31 storeys of commercial office building Existing use: Headquarters office	450,000 sq ft	1 January 2020 to 31 December 2034	Phase 1 11 October 2018 Phase 2 16 November 2018	RM28,620,000

Save as disclosed above, there are no other material properties owned or leased by Celcom. The material property that Celcom leases is not in breach of any land use conditions and/or any current statutory requirements, land rules or building regulations.

14.2 Material Plants and Equipment

Save for the telecommunications network infrastructure and equipment as disclosed in Section 12 of Appendix II of this Circular, Celcom does not have any material plants and equipment that it owns or leases. As at 31 December 2021, the net book value of the telecommunications network infrastructure and equipment stood at RM3.8 billion and the net book value of the right-of-use assets for telecommunications network infrastructure leased by Celcom stood at RM2.6 billion.

15. DEPENDENCY ON CONTRACTS

The following contracts, being contracts within the ordinary course of business, are contracts on which Celcom is highly dependent and that are material to Celcom's business or profitability:

(i) **edotco Group Agreements**

(a) Master Services Agreement dated 23 May 2018 between Celcom Networks and On Site Services Sdn Bhd.

Please refer to Section A(i)(a) of Annexure C of this Circular for the salient terms of the Master Services Agreement.

(b) Strategic Collaboration Agreement dated 29 September 2017 between edotco and Celcom Networks, as amended by the Supplemental Agreement No. 1 dated 29 April 2022.

Please refer to Section A(i)(b) of Annexure C of this Circular for the salient terms of the Strategic Collaboration Agreement.

(c) Access Agreement dated 29 September 2017 between Celcom Networks and edotco, as amended by the Supplemental Agreement No.1 dated 29 April 2022 and to be read together with the letter dated 8 December 2017 issued by edotco and acknowledged by Celcom in relation to the commercial revisions made to the Access Agreement dated 29 September 2017.

Please refer to Section A(i)(c) of Annexure C of this Circular for the salient terms of the Access Agreement.

(ii) **Access Agreements**

(a) Access Agreement dated 12 October 2018 between Digi Tel, Celcom, Celcom Networks and Celcom Mobile, as amended by the Supplemental Agreement No. 1 dated 17 July 2020.

Please refer to Section B(ii)(a) of Annexure C of this Circular for the salient terms of the Access Agreement.

(b) Access Agreement dated 31 July 2018 between Maxis Broadband Sdn Bhd, Maxis Mobile Sdn Bhd, Maxis Mobile Services Sdn Bhd, Celcom, Celcom Networks and Celcom Mobile, as amended by the Supplemental Agreement No. 1 dated 5 November 2019.

Please refer to Section B(ii)(b) of Annexure C of this Circular for the salient terms of the Access Agreement.

(c) Access Agreement dated 1 January 2011 between TM, TM Net Sdn Bhd, Celcom, Celcom Transmission (M) Sdn Bhd (now known as Celcom Networks Sdn Bhd) and Celcom Mobile.

Please refer to Section A(iii)(a) of Annexure C of this Circular for the salient terms of the Access Agreement.

(iii) **Huawei Agreements**

Statement of Work dated 7 July 2021 between Celcom Networks and Huawei Technologies (Malaysia) Sdn Bhd ("**Huawei Malaysia**") for the supply and delivery of product, equipment, systems, solutions, and performance of planning & design, works, services, assisted operations services and maintenance and support services for the Celcom Mobile Core Cloud Solution and Network ("**Statement of Work**"), to be read together with:

(a) Axiata Framework Agreement dated 23 February 2012 between Axiata and Huawei International Pte Ltd ("**Huawei International**") ("**Axiata Framework Agreement**"); and

(b) Local Contract of Adherence dated 28 June 2013 between Celcom and Huawei Malaysia.

Please refer to Section B(iii)(a) of Annexure C of this Circular for the salient terms of the Huawei Agreements.

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1. HISTORICAL FINANCIAL INFORMATION

The historical financial information for the FYE 31 December 2019, 2020 and 2021 presented below have been extracted from the Accountants' Report as set out in Appendix VIII of this Circular. The Celcom Group's historical consolidated financial statements have been prepared in accordance with MFRS and International Financial Reporting Standards.

The following selected historical consolidated financial information should be read in conjunction with "Management's discussion and analysis of financial condition and results of operations" in Section 2 of Appendix III of this Circular together with the Accountants' Report in Appendix VIII of this Circular.

Selected financial information from the historical consolidated statements of comprehensive income

	FYE 31 December		
	2019	**2020**	**2021**
	RM'000	**RM'000**	**RM'000**
Revenue	**6,706,135**	**6,218,831**	**6,622,722**
Other income	90,112	97,898	300,858
Operating expenses			
- Depreciation of PPE	(838,887)	(1,052,764)	(1,201,112)
- Depreciation of right-of-use assets	(407,833)	(394,515)	(421,763)
- Cost of inventories	(719,645)	(788,807)	(890,846)
- Billing charges from other telecommunications companies	(680,998)	(458,249)	(428,251)
- Marketing, advertising and promotion expenses	(418,938)	(364,535)	(354,266)
- Staff cost	(551,627)	(626,295)	(551,636)
- Universal Service Provision contribution	(268,458)	(172,584)	(252,984)
- Impairment of trade and other receivables	(183,059)	(117,953)	(32,077)
- Other operating expenses	(1,342,944)	(1,186,500)	(1,313,116)
Profit from operations	**1,383,858**	**1,154,527**	**1,477,529**
Finance income	88,494	59,739	67,314
Finance costs	(416,296)	(380,445)	(342,187)
Share of results of associated company (net of tax)	2,408	20,998	13,351
Share of results of joint ventures (net of tax)	(6,613)	860	(3,777)
PBT	**1,051,851**	**855,679**	**1,212,230**
Taxation and zakat			
- Company and subsidiaries	(262,790)	(164,960)	(255,186)
Profit/Total comprehensive income for the financial year	**789,061**	**690,719**	**957,044**
Attributable to:			
- Owner of the Company	789,369	677,435	942,792
- Non-controlling interest	(308)	13,284	14,252
Total comprehensive income for the financial year	**789,061**	**690,719**	**957,044**

	FYE 31 December		
	2019	**2020**	**2021**
Supplementary financial information			
EBITDA[1] (RM'000)	2,618,456	2,579,948	2,835,957
EBITDA margin[2] (%)	39.0	41.5	42.8
PBT margin [3] (%)	15.7	13.8	18.3
Effective tax rate [4] (%)	25.0	19.3	21.1
PATAMI margin [5] (%)	11.8	10.9	14.2
Basic/Diluted EPS (sen) [6]	63.8	54.7	76.2
Dividends declared (RM'000)	199,986	749,946	1,000,052

	FYE 31 December		
	2019	**2020**	**2021**
Dividends paid (RM'000)	496,994	749,946	1,000,052
Dividend payout ratio (%)[(7)]	25.3	110.7	106.1

Notes:

(1) EBITDA is defined as profit/(loss) before tax, interest income/(expense), depreciation, and amortisation, other non-operating income/(expenses), and share of results of associated company and joint ventures.

The following table reconciles the Celcom Group's PATAMI to EBITDA for the financial years indicated:

	FYE 31 December		
	2019	***2020***	***2021***
	RM'000	***RM'000***	***RM'000***
PATAMI	*789,369*	*677,435*	*942,792*
Add/(Less):			
(Loss)/Profit for the financial year attributable to non-controlling interest	*(308)*	*13,284*	*14,252*
Taxation and zakat	*262,790*	*164,960*	*255,186*
Finance costs	*416,296*	*380,445*	*342,187*
Interest income	*(88,494)*	*(59,739)*	*(67,314)*
Depreciation and write-off of PPE	*838,887*	*1,053,611*	*1,201,643*
Depreciation of right-of-use assets	*407,833*	*394,515*	*421,763*
Amortisation of upfront spectrum fees	*61,850*	*61,850*	*61,850*
Share of results of associated company (net of tax)	*(2,408)*	*(20,998)*	*(13,351)*
Share of results of joint ventures (net of tax)	*6,613*	*(860)*	*3,777*
Other non-operating income (net of non-operating expenses)*	*(73,972)*	*(84,555)*	*(326,828)*
EBITDA	***2,618,456***	***2,579,948***	***2,835,957***

Note:

* *Primarily comprises amortisation of Government grant. For FYE 31 December 2021, it also includes key items such as settlement sum received in relation to legal claim and fair value gain on derivative financial instrument.*

(2) Calculated as EBITDA divided by revenue.

(3) Calculated as PBT divided by revenue.

(4) Calculated as taxation and zakat divided by PBT.

(5) Calculated as PATAMI divided by revenue.

(6) Computed based on PATAMI divided by weighted average number of ordinary shares of Celcom in issue.

(7) Computed based on dividend declared divided by PATAMI for the financial year.

Selected financial information from the historical consolidated statements of financial position

	As at 31 December		
	2019	**2020**	**2021**
	RM'000	**RM'000**	**RM'000**
Total Non-Current Assets	9,920,086	9,524,888	8,980,463
Total Current Assets	3,079,256	3,045,284	2,610,211
Total Assets	**12,999,342**	**12,570,172**	**11,590,674**
Total Current Liabilities	4,745,325	3,974,806	4,036,159
Total Non-Current Liabilities	7,891,526	8,295,883	7,320,710
Total Liabilities	**12,636,851**	**12,270,689**	**11,356,869**
Net Assets	**362,491**	**299,483**	**233,805**
Share Capital	1,237,535	1,237,535	1,237,535
Accumulated Losses(1)	(942,886)	(1,015,397)	(1,091,449)
Total Equity Attributable To Owner Of The Company	294,649	222,138	146,086
Non-Controlling Interest	67,842	77,345	87,719
Total Equity	**362,491**	**299,483**	**233,805**

	As at 31 December		
	2019	**2020**	**2021**
Supplementary financial information	**RM'000**	**RM'000**	**RM'000**
Total borrowings	4,745,336	4,748,225	4,192,782
Total lease liabilities	3,858,775	3,523,624	3,309,875
Total interest bearing borrowings (including lease liabilities)	8,604,111	8,271,849	7,502,657
Net interest bearing borrowings (including lease liabilities) (2)	7,919,362	6,819,156	6,117,123
Gearing ratio(1)(3) (times)	23.7	27.6	32.1
Net gearing ratio(1)(4) (times)	21.8	22.8	26.2
Net assets per share (sen) (5)	23.8	18.0	11.8

Notes:

(1) *In 2010, the Celcom Group conducted a business restructuring exercise whereby selected telecommunication assets and business of Celcom was transferred to Celcom Networks. Arising from this exercise, Celcom Networks recorded a merger deficit of RM3.8 billion and Celcom recorded a gain on disposal of RM3.8 billion. The merger deficit and gain on disposal is eliminated at group level. However, the subsequent utilisation of retained earnings in Celcom in the form of dividend payments has contributed to the net accumulated losses being recorded at the Celcom Group level.*

As such, the accumulated losses of RM1,091.4 million as at 31 December 2021 recorded at the Celcom Group level is due to these adjustments and is not a result of a loss from operations or business of the Celcom Group.

As Celcom Group's equity base is small due to the reasons as explained above, the Celcom Group has a high gearing ratio.

Despite the accumulated losses and high gearing ratio at the Celcom Group, the Celcom Group continues to generate positive operating cash flows and has sufficient working capital to sustain its operations. At Celcom entity level, the company is in a retained earning position.

(2) *Computed as the total interest bearing borrowings (including lease liabilities) less the deposits, cash and bank balances.*

(3) *Computed based on total interest bearing borrowings (including lease liabilities) divided by total equity.*

(4) Computed based on net interest bearing borrowings (including lease liabilities) divided by total equity.

(5) Computed based on NA attributable to the owners of the company divided by Celcom Shares in issue.

2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Celcom Group's financial condition and results of operations is based on its historical consolidated financial information with respect to the FYE 31 December 2019, 2020 and 2021, which have been extracted from the Accountants' Report in Appendix VIII of this Circular.

There are no accounting policies which are peculiar to the Celcom Group because of the nature of the business and industry which it is involved in. For further details on the significant accounting policies of the Celcom Group, see "Summary of Significant Accounting Policies" of the Accountants' Report in Appendix VIII of this Circular.

2.1 Overview

Celcom's business is focused on the domestic mobile services segment and it operates nationwide mobile networks, comprising of a 2G and 4G networks. As at the LPD, Celcom is licensed under the CMA to own and operate a public telecommunications network, to provide network services and to provide application services. Celcom currently holds a NFP (Individual) licence and a NSP (Individual) licence, both of which are valid until 29 August 2025.

For an overview of Celcom's products and services and operations, see Section 3 of Appendix II of this Circular.

All of the Celcom Group's revenue is generated in Malaysia. From the FYE 31 December 2019 to FYE 31 December 2021, the Celcom Group's revenue declined at a CAGR of 0.6% from RM6,706.1 million to RM6,622.7 million, and the Celcom Group's PATAMI grew at a CAGR of 9.3% from RM789.4 million to RM942.8 million.

2.2 Significant factors affecting Celcom's financial condition and results of operations

Celcom's financial condition and results of operations have been and are expected to be, affected by several factors, including those set out below.

(i) Competition

The market for telecommunication services in Malaysia is highly competitive. Increasing competition in the Malaysian telecommunications industry has had, and is expected to continue to have, a significant impact on Celcom's financial condition and results of operations. Competition in Malaysia evolved primarily around network coverage, and is now driven by quality of products and services, competitive pricing, network speed and the provision of superior customer experience. In addition, the wireless communication industry in Malaysia is experiencing technological changes, evolving industry standards, liberalisation and changes in subscribers' preferences. Competition in the wireless telecommunications industry in Malaysia may increase as a result of industry consolidation, the entry of new competitors, foreign investment in existing competitors, and the development of new technologies, products and services.

Increased competition from existing and new operators has resulted in, and is expected to continue to result in, greater price competition, with operators lowering monthly access fees and tariffs, providing substantial handset subsidies and offering more attractive product and service packages, resulting in a higher churn rate, lower ARPU, slower growth in total subscribers and increased subscriber acquisition costs. In order to minimise the impact of increased competition on Celcom's financial position and results of operations, Celcom's key strategies have been the retention of mobile subscribers, cost optimisation, and the provision of value to customers. Celcom achieves this through its branding and marketing strategies, better customer service, loyalty programmes, high quality mobile services and convergence offerings, as well as extensive coverage.

Please refer to Section 2 of Appendix II of this Circular for further details.

(ii) Capital Expenditure

Celcom's telecommunications businesses are capital intensive in nature. In order to continue to be competitive and to provide services and technologies compatible with the more advanced telecommunications providers, Celcom has been incurring substantial capital expenditure to expand and improve its telecommunications network. During the FYE 31 December 2019, 2020 and 2021 the Celcom Group invested RM1,017.4 million, RM984.1 million and RM1,032.2 million respectively in its PPE, primarily in mobile network enhancement for capacity and coverage to provide better mobile data experience for its customers, for example, the installation of radio and transmission equipment. In line with its digitalisation plan, the Celcom Group invested approximately between 10% to 20% of total capital expenditure during the years ended 31 December 2019, 2020 and 2021 in IT.

(iii) Tariffs and Interconnection charges

Rates and tariffs for mobile services were liberalised in Malaysia in August 2000 and as a result, mobile operators are currently free to set any rates for their services. This liberalisation has led to a more competitive pricing environment, with operators lowering monthly access fees for postpaid services and offering more attractive product and service packages, resulting in higher churn rate, lower ARPU, slower growth in total subscribers and increased subscriber acquisition costs. Despite the competitive environment, the Celcom Group has been able to minimise the decline in postpaid ARPU from RM84 in 2020 to RM82 in 2021, by offering attractive promotions and retention programmes which reward rebates to subscribers based on loyalty, usage and prompt payment of bills.

Interconnection charges between operators in Malaysia are recorded as both a cost and revenue item. While interconnection charges have an impact on both revenue and costs, its net impact is insignificant. Interconnection charges are being regulated by the MCMC, who will periodically review the relevant charges.

(iv) Regulatory requirements

The infrastructure and operation of telecommunications networks are regulated to varying degrees by national regulatory bodies and state local government authorities. The provision of related services is regulated by the MCMC. Celcom has over the 34 years of its operation acquired the necessary spectrum through spectrum assignment and apparatus assignment from MCMC to operate the radio (2G, 3G and 4G), microwave and VSAT links. Spectrum assignment and apparatus assignment confers the right to the licensee to use the specified frequencies for the purpose consistent with the assignment conditions. Operating licences held by Celcom specify the services it can offer and the frequency spectrum it can utilise for its operations. The operating licences are generally renewable upon expiration.

The Ministry of Communications and Multimedia Malaysia is responsible for making policies in respect of the communications and multimedia industry, whilst the MCMC is responsible for the implementation of the policies and regulating the licensees. The communications and multimedia industry is governed by the CMA and its subsidiary legislation, regulations, codes and guidelines.

The CMA sets out the regulatory framework and amongst other things, licensing, economic and technical regulation, consumer protection and social regulation.

Celcom's operation of mobile telecommunications networks and the provision of related services are subject to stringent statutory licensing requirements and are regulated to varying degrees by national, state, regional or local governmental and/or regulatory authorities in each of the jurisdictions in which it operates and/or have investments. Notwithstanding, these licences are subject to renewal, review, interpretation, modification or termination by the relevant authorities. New conditions and obligations may be imposed for new licences and upon renewal of expiring licences and such conditions and obligations may be more onerous than those of existing or expiring licences. There is no assurance that the relevant authorities will not take any action that could materially and adversely affect Celcom. Failure to meet such obligations stipulated in the relevant operating licences may result in such licences being suspended and eventually revoked and/or financial penalties being imposed. Celcom's operating licences which will expire in 2025 are generally renewable upon expiry, provided that it has complied with the terms and conditions of its licence, applicable laws and regulatory instruments.

Any failure or delay in the renewal of existing licences under which Celcom is operating, could impede the ability for Celcom to continue to operate the affected business, and the realising value of its relevant network infrastructure and related assets may be adversely affected.

(v) General economic conditions and effects of COVID-19 pandemic

Celcom's results of operations are impacted by general economic conditions, particularly in Malaysia where it derives all its revenue.

The global pandemic outbreak of COVID-19, coupled with various measures and restrictions on the conduct of activities in Malaysia, including quarantine measures and restrictions on the movement of persons, interstate travel and private and public gatherings, have had an adverse impact on Celcom's operations, resulting in disruptions to the global supply chains of network systems, equipment, devices and content, delays to infrastructure deployment, installation, upgrading, operation and/or maintenance, access and workforce constraints and ability to operate retail stores to serve its customers.

Celcom was impacted in the first half of 2020 by the effects of the MCO. The slower economy caused Celcom to lose subscribers and report lower mobile telecommunication revenue. Celcom's business rebounded in the second half of 2020, where it saw encouraging signs of recovery with improvements in product innovation (including the revamp of Celcom's product portfolio with the new Unlimited Mobile Prepaid Plan and Postpaid MEGA™ plans), sales and marketing strategy, and digital channels. These developments eventually led Celcom to secure positive mobile subscriber net adds and allowed Celcom to surpass pre-pandemic levels in mobile subscriber numbers with the addition of 306,000 new customers in 2020.

Celcom's operations in Malaysia reported a 7.3% decline in revenue for the FYE 31 December 2020 compared to the FYE 31 December 2019 attributable to a loss of mobile subscribers in the first half of 2020 and ARPU decline as a result of the economic downturn caused by the COVID-19 pandemic. This was further escalated by a complimentary 1GB of mobile data provided daily to customers during the lockdown period. Revenue from Celcom's sales of devices remained strong primarily due to positive take up on bundled offerings with postpaid plans and newly launched smartphones.

Nonetheless, Celcom managed to secure additional mobile subscribers in 2021 with the increase of 918,000 customers as compared to 2020. Celcom reported a 6.5% increase in revenue for the FYE 31 December 2021 compared to FYE 31 December 2020 due to higher mobile telecommunication and sale of devices revenue.

Please refer to Section 3 of Appendix II of this Circular for further details.

2.3 Critical accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Celcom Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Critical accounting estimates

(a) *Estimated useful lives of PPE*

The Celcom Group reviews the estimated useful lives of PPE, particularly on its telecommunication network equipment, based on approved network and IT modernisation plans. The network and IT modernisation involve estimating when the telecommunication network equipment will be replaced. Useful lives of assets are revised accordingly. Future operational results could be materially affected by changes in useful lives.

A reduction in the estimated useful lives of PPE would increase the recorded depreciation charge and decrease the PPE balance. For further details, please refer to Note 11 of the Accountants' Report in Appendix VIII of this Circular.

(b) *Provision for dismantling cost*

Fair value estimates of provision for dismantling, removal or restoration generally involve discounted future cash flows, and periodic accretion of such liabilities due to the passage of time is recorded as finance cost. The significant assumptions used in estimating the provision are: timing of assets removals; cost of restorations; expected inflation rates; and the discount rates. There can be no assurances that actual costs and the probability of incurring obligations will not differ from these estimates.

(c) *Taxation*

Income taxes

The Celcom Group is subject to income tax in Malaysia. Judgement is involved in determining its provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Celcom Group recognises liabilities for tax matters based on estimates of whether additional taxes will be due. If the final outcome of these tax matters results in a difference in the amounts initially recognised, such differences will impact the income tax and/or deferred tax provisions in the period in which such determination is made.

Deferred tax assets

Deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. This involves judgement regarding future financial performance of a particular entity in which the deferred tax asset has been recognised.

(d) *Revenue from contracts with customers*

Identification of performance obligations

Certain contracts with customers are bundled packages that may include sale of devices and mobile services that comprise voice, data and other services. Individual products and services are accounted for as separate performance obligations if they are distinct promised goods and services.

Judgement is involved in identifying if products and services in a bundled package are distinct as a separate promised product or service. The respective services and devices are accounted for as separate performance obligations when they are distinct i.e. if a service or device is separately identifiable from other items in the bundled contract and if a customer can benefit from it separately. The Celcom Group exercises judgement when identifying whether products and services within the bundled contract are distinct as separate performance obligations. The identification of separate performance obligations within a bundled contract affects the allocation of transaction price specified in the contract and the revenue recognised for each performance obligation.

Determination of stand-alone selling price

The Celcom Group estimates stand-alone selling price, i.e. the price at which an entity would sell a promised good or service separately to a customer based on external inputs. Methods for estimating stand-alone prices include determining the stand-alone price of similar goods and services sold by the Celcom Group, observing the stand-alone prices for similar goods and services when sold by third parties or using a cost-plus reasonable margin approach (which is sometimes the case for handsets and other equipment). Where it is not possible to reliably estimate stand-alone prices due to lack of observable standalone sales or highly variable pricing, which is sometimes the case for services, the stand-alone price of an obligation may be determined as the transaction price less the stand-alone prices of other obligations in the contract. The stand-alone price determined for obligations materially impacts the allocation of revenue between obligations.

(e) ***Determination of lease term***

In determining the lease term, Celcom considers all the facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease term is reassessed if an option is exercised (or not exercised) or Celcom becomes obligated to exercise (not to exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurred, which affect this assessment, and that is within the lessee.

(f) ***Fair value of derivatives and other financial instruments***

Certain financial instruments such as investments and derivative financial instruments are carried on the statements of financial position at fair value, with changes in fair value reflected in the profit or loss.

Fair values are estimated by reference in part to published price quotations and in part by using valuation techniques. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Celcom Group uses its judgement to select a variety of methods and make assumptions that are based on market conditions existing at the end of each financial reporting period.

(g) ***Provision for expected credit losses ("ECL") of trade receivables and contract assets***

The Celcom Group applies a simplified approach in calculating ECLs for trade receivables and contract assets. To measure the expected loss rates, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The historical loss rates are adjusted to reflect forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The Celcom Group estimates the relationship between historical loss rates and forward-looking information on macroeconomic factors and ECL which may not be representative of customer's actual default in the future.

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(ii) Critical judgements in applying the Group's and Company's accounting policies

Legal claims and disputes across Celcom Group

There are a number of ongoing legal claims and disputes across the Celcom Group. The accounting treatment of these matters are based on the Celcom Group's view of the expected outcome of these contingencies. These outcomes are assessed in consultation with legal counsel for litigation cases and internal and external experts of the Celcom Group for matters in the ordinary course of business. Provisions are recorded if it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably.

The outcome of ongoing legal claims and disputes are dependent on future events and the Celcom Group makes estimates and assumptions concerning these future events. The Celcom Group may be required to increase or decrease provisions for such matters due to unanticipated events and circumstances that occur during the financial year.

The ongoing legal claims and disputes of the Celcom Group are set out in Section 8 of Appendix I of this Circular.

2.4 Results of operations

(i) Principal components of Celcom's consolidated statements of comprehensive income

(a) Revenue – Revenue from contracts with customers

(aa) Telecommunication services

The Celcom Group principally generates revenue from mobile services such as call time, messaging, data services, activation fee and sales of prepaid starter packs, interconnect services, and sale of devices and accessories.

The Celcom Group recognises revenue when a contractual performance obligation is fulfilled by transferring control over the promised services or products to a customer provided that collectability of the consideration is probable. Revenue is measured based on the transaction price i.e. the consideration agreed in the contract with the customer excluding amounts collected on behalf of third parties such as sales taxes. In determining the transaction price, the Celcom Group considers variable and non-cash consideration such as rebates or discounts and consideration payable to a customer such as refunds to the extent that it is highly probable that a significant reversal will not occur.

The Celcom Group recognises mobile and interconnect services revenue when services are rendered.

Customer activation fees and other advance one-time payments by the customer that do not constitute consideration for a separate performance obligation are recognised as contract liabilities and are deferred and recognised as revenue over the contracted period or period where services are transferred to customers.

Sales of prepaid starter packs with a SIM card and preloaded credits are accounted for as one performance obligation as the SIM card cannot be used on its own. Consideration received for prepaid credits is initially recognised as contract liability and recognised as revenue upon usage by the customer. Any credits not used are recognised in full upon expiry or customer churn, whichever earlier.

Revenue from content services rendered to customers are recognised based on gross amount billed to customers when the Celcom Group acts as a principal or recognised after netting off costs paid to content providers when the Celcom Group acts as an agent in the transaction.

Revenue from sales of device is recognised at the point in time upon delivery and acceptance of the device by the customers where the control is being transferred to the customers.

Mobile services are offered separately and/or as a bundle along with other services and/or devices. The length of bundled contracts is usually between twelve (12) to twenty four (24) months. For bundled contracts, the Celcom Group accounts for individual products and services separately if they are distinct i.e. if a product or service is separately identifiable from other items in the bundled contract and if customers can benefit from it. Revenue is recognised on fulfilment of the individual obligations to the customer.

The total transaction price of bundled contracts is allocated among the individual performance obligations based on their relative standalone selling prices. The stand-alone selling prices are determined based on the observable price at which the Celcom Group sells the products and services on a standalone basis. For products and services that are not sold separately, the Celcom Group estimates standalone selling prices using other methods such as adjusted market assessment approach, cost plus margin approach or residual approach. As a result, revenue to be recognised for products (often delivered in advance) such as mobile devices that are sold at a subsidised price in a bundled contract with services is higher than the amount billed for the device, resulting in the recognition of contract assets. Contract assets are reversed and reduced over the remaining contract period.

For devices sold in bundled contracts, the consideration for the device can either be paid upfront or by instalments over the contract period. If the consideration is to be paid by instalment, the contract contains a significant financing component. The consideration will be adjusted for the effects of the financing component as finance income. For contracts with a length of less than twelve (12) months, the Celcom Group applies the practical expedient to not adjust the promised amount of consideration for the effects of significant financing component.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customers. If the Celcom Group performs by transferring goods or services to a customer before the customers pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer the goods or services to a customer for which the Celcom Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Celcom Group transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due (which is earlier). Contract liabilities are recognised revenue when the Celcom Group performs under the contract.

Contract acquisition costs

Contract costs comprise the incremental costs of obtaining a contract (mainly sales commission paid to dealers) and the costs to fulfil a contract. These costs are capitalised if it can be assumed that the costs will be compensated by future revenue from the contract. Incremental costs of obtaining a contract are additional costs that would have not been incurred had the contract not been concluded. Costs to fulfil a contract are costs relating directly to a contract that are incurred after contract inception and serve the purpose of fulfilling the contract but are incurred prior to fulfilment and cannot be capitalised under any other standard. The Celcom Group has elected the practical expedient to recognise contract costs incurred related to contracts with an amortisation period of less than one year as an expense when incurred. The capitalised contract costs are amortised on a straight-line basis over the estimated customer retention period.

(ab) *Other revenue*

All other revenue of the Celcom Group is recognised net of rebates/discounts upon the rendering of services or sale of products, when the transfers of risks and rewards have been completed. Other revenue is recognised over time. It is discounted to present value where deferred payments terms are included and the impact of discounting is material.

(b) Lease income

Lease income from operating lease is recognised on a straight-line basis over the fixed and non-cancellable term of the lease agreement, irrespective of when payments are due.

Types of revenue are as follows:

	FYE 31 December					
		2019		**2020**		**2021**
	RM'000	**% of revenue**	**RM'000**	**% of revenue**	**RM'000**	**% of revenue**
Revenue from contracts with customers:						
Telecommunication revenue	6,135,294	91.5	5,586,071	89.8	5,883,198	88.8
(i) Mobile	5,894,343	87.9	5,306,454	85.3	5,598,460	84.5
(ii) Project Contract Revenue(1)	44,357	0.7	73,222	1.2	78,571	1.2
(iii) Others(2)	196,594	2.9	206,395	3.3	206,167	3.1
Sale of device	512,647	7.6	573,116	9.2	675,714	10.2
Total revenue from contracts with customers	6,647,941	99.1	6,159,187	99.0	6,558,912	99.0
Lease income(3):	58,194	0.9	59,644	1.0	63,810	1.0
Total revenue:	**6,706,135**	**100.0**	**6,218,831**	**100.0**	**6,622,722**	**100.0**

Notes:

(1) Project Contract Revenue represents revenue from USP projects awarded by MCMC, which is recognised upon completion of projects/services rendered.

(2) Others mainly include fibre optic transmission and other data services.

(3) Being lease income from network sharing arrangement with other main licensed mobile operators in Malaysia.

For the FYE 31 December 2019, 2020 and 2021, all of the Celcom Group's revenue was generated in Malaysia.

(c) Other income

Other income includes non-operating income, amortisation of Government grant and bad debts recovered. As a Universal Service Provider, the Celcom Group is entitled to claim certain qualified expenses from the relevant authorities in relation to the communications infrastructure projects under the USP programme implemented throughout the country, especially in rural areas to ensure accessibility of communication as well as improving the quality of services to the public. The claim qualifies as a government grant and is recognised at fair value where there is a reasonable assurance that the grant will be received and the Celcom Group will comply with all attached conditions.

(d) Operating expenses

Other operating expenses

Other operating expenses primarily consist of costs in relation to the Celcom Group's telecommunication sites, rental for offices and sales outlet, regulatory related expenses, allowance for doubtful debt, maintenance of network and IT system, customer service related expenses, professional and other service charges. For further details, see Note 4a of the Accountants' Report in Appendix VIII of this Circular.

Staff costs

Staff costs consist of salaries and wages, bonuses, allowances, benefits, and contributions to EPF.

Depreciation of PPE

Depreciation of PPE consists primarily of depreciation charges for telecommunications network and equipment (including switching and microwave transmission equipment and fibre), property (other than freehold land) and other assets.

Depreciation of right-of-use assets

Leases are recognised as right-of-use and lease liabilities. Right-of-use assets are being depreciated resulting in the depreciation of right-of-use assets.

Cost of inventories

Cost of inventories consist primarily of costs for sales of devices, starter packs and reload to the Celcom Group's prepaid subscribers and cost of SIM cards.

Billing charges from other telecommunications companies

Billing charges from other telecommunications companies consist of cost incurred for interconnect services to other operators for calls made by the Celcom Group's subscribers terminating at such other operators' networks, including roaming charges paid to overseas telecommunication companies for calls made by the Celcom Group's subscribers using their network and transmission services.

Marketing, advertising, and promotion expenses

Marketing and promotion expenses consist primarily of advertising, marketing and promotional expenditures and dealers or sales commissions paid in respect of sales of prepaid reload and registration of new subscribers.

USP contribution

USP contribution refers to monies paid to USP fund set up by the MCMC for the provisioning of Universal Services required under the Communications and Multimedia (Universal Service Provision) Regulations. USP fund contributions are calculated annually based on 6.0% of the weighted net revenue for designated services for licensee with minimum revenue threshold of RM2.0 million. Designated services refer to licensable activities as specified in the USP regulations issued by MCMC, including local call, national call, international call, cellular mobile service, international roaming service etc.

(e) Finance costs

The Celcom Group's finance costs primarily comprise interest paid on its borrowings and lease liabilities.

The following table sets out a breakdown of the Celcom Group's finance costs for the financial years indicated:

	FYE 31 December		
	2019	**2020**	**2021**
	RM'000	**RM'000**	**RM'000**
Borrowings	(217,670)	(201,349)	(187,230)
Lease liabilities	(190,798)	(172,050)	(152,121)
Others	(7,828)	(7,046)	(2,836)
	(416,296)	(380,445)	(342,187)

(f) Tax expense

Tax expense for the period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for Malaysia adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Celcom Group's subsidiaries, joint ventures and associates operate and generate taxable income. During the FYE 31 December 2019 to FYE 31 December 2021, the Celcom Group only operates in Malaysia.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates, and joint ventures, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Celcom Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax benefit from investment tax incentive is recognised when the tax credit is utilised, and no deferred tax asset is recognised when the tax credit is claimed.

Deferred tax assets and liabilities are off-set when there is a legally enforceable right to off-set current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(ii) FYE 31 December 2021 compared to FYE 31 December 2020

The following table presents selected financial information from the Celcom Group's consolidated statements of comprehensive income for the financial years indicated:

	FYE 31 December		
	2020	**2021**	
	RM'000	**RM'000**	**% change**
Revenue	**6,218,831**	**6,622,722**	**6.5**
Other income	97,898	300,858	207.3
Operating expenses	(5,162,202)	(5,446,051)	5.5
- Depreciation of PPE	(1,052,764)	(1,201,112)	14.1
- Depreciation of right-of-use assets	(394,515)	(421,763)	6.9
- Cost of inventories	(788,807)	(890,846)	12.9
- Billing charges from other telecommunications companies	(458,249)	(428,251)	(6.5)
- Marketing, advertising and promotion expenses	(364,535)	(354,266)	(2.8)
- Staff cost	(626,295)	(551,636)	(11.9)
- USP contribution	(172,584)	(252,984)	46.6
- Impairment of trade and other receivables	(117,953)	(32,077)	(72.8)
- Other operating expenses	(1,186,500)	(1,313,116)	10.7
Profit from operations	**1,154,527**	**1,477,529**	**28.0**
Finance income	59,739	67,314	12.7
Finance costs	(380,445)	(342,187)	(10.1)
Share of results of associated company (net of tax)	20,998	13,351	(36.4)
Share of results of joint ventures (net of tax)	860	(3,777)	na
PBT	**855,679**	**1,212,230**	**41.7**
Taxation and zakat			
- Company and subsidiaries	(164,960)	(255,186)	54.7
Profit/Total comprehensive income for the financial year	**690,719**	**957,044**	**38.6**
Attributable to			
- Owner of the Company	677,435	942,792	39.2
- Non-controlling interest	13,284	14,252	7.3
Total comprehensive income for the financial year	**690,719**	**957,044**	**38.6**

Revenue

The following table sets out a breakdown of the Celcom Group's revenue for the financial years indicated:

	FYE 31 December				
	2020		2021		
	RM'000	**% of revenue**	**RM'000**	**% of revenue**	**% change**
Revenue from contracts with customers					
Telecommunication revenue	5,586,071	89.8	5,883,198	88.8	5.3
(i) Mobile	5,306,454	85.3	5,598,460	84.5	5.5
(ii) Project Contract Revenue[(1)]	73,222	1.2	78,571	1.2	7.3
(iii) Others[(2)]	206,395	3.3	206,167	3.1	(0.1)
Sale of device	573,116	9.2	675,714	10.2	17.9
Total revenue from contracts with customers	6,159,187	99.0	6,558,912	99.0	6.5
Lease income[(3)]	59,644	1.0	63,810	1.0	7.0
Total revenue	**6,218,831**	**100**	**6,622,722**	**100**	**6.5**

Notes:

(1) Project Contract Revenue represents revenue from USP projects awarded by MCMC, which is recognised upon completion of projects/services rendered.

(2) Others mainly include fibre optic transmission and other data services.

(3) Being lease income from network sharing arrangement with other main licensed mobile operators in Malaysia.

The Celcom Group's revenue increased by RM403.9 million, or 6.5%, to RM6,622.7 million for the FYE 31 December 2021 from RM6,218.8 million for the FYE 31 December 2020. This increase was primarily due to higher mobile telecommunication and sale of device revenue.

Revenue from mobile increased by RM292.0 million, or 5.5% to RM5,598.5 million for the FYE 31 December 2021. The Celcom Group had higher revenue during the year largely from recovery momentum which started to emerge in the second half of 2020 with improvements in product innovation, sales and marketing strategy, and digital channels. In the FYE 31 December 2021, the Celcom Group registered growth of more than 0.9 million subscribers in both prepaid and postpaid segments as compared to 0.3 million subscribers in the FYE 31 December 2020.

Revenue from the Celcom Group's sales of devices increased by RM102.6 million, or 17.9%, to RM675.7 million for the FYE 31 December 2021 from RM573.1 million for the FYE 31 December 2020, primarily due to positive take up on bundled device offerings with postpaid plans and newly launched smartphones.

Other income

Other income increased by RM203.0 million or 207.3%, to RM300.9 million for the FYE 31 December 2021 from RM97.9 million for the FYE 31 December 2020 primarily from:

(i) higher amortisation of Government grants amounting to RM91.9 million arising from the assessment of useful lives of USP network equipment due to technological advancements. This resulted in shorter useful lives and a corresponding increase in accelerated depreciation in FYE 31 December 2021; and

(ii) higher other income from increase in bad debts recovered and settlement sum received during the year from a settlement agreement entered into with DeTeAsia Holding GmbH in relation to two (2) litigation suits mentioned in Section 8 of Appendix I of this Circular. For further details, please refer to Note 5 and Note 30 in the Accountants' Report in Appendix VIII of this Circular.

Operating expenses

The Celcom Group's operating expenses increased by RM283.8 million, or 5.5%, to RM5,446.1 million for the FYE 31 December 2021 from RM5,162.2 million for the FYE 31 December 2020 mainly due to higher cost of inventories in tandem with increase in sales of devices and higher accelerated depreciation arising from technology advancement.

Other operating expenses increased by RM126.6 million, or 10.7%, to RM1,313.1 million for the FYE 31 December 2021 from RM1,186.5 million for the FYE 31 December 2020. The lower other operating expenses in FYE 31 December 2020 was mainly due to the recovery of indirect tax claims and resolution of dispute pertaining to network expenses in FYE 31 December 2020 contributing to the lower other operating expenses in that year.

Staff costs decreased by RM74.7 million, or 11.9%, to RM551.6 million for the FYE 31 December 2021 from RM626.3 million for the FYE 31 December 2020 mainly due to higher costs incurred in FYE 31 December 2020 stemming from an employee restructuring program whereby higher staff costs were recorded in the previous financial year, which was partially offset by an increase in performance incentives paid to employees in 2021.

Depreciation of PPE increased by RM148.3 million, or 14.1%, to RM1,201.1 million for the FYE 31 December 2021 from RM1,052.8 million for the FYE 31 December 2020 mainly due to accelerated depreciation charges amounting to RM268.9 million (FYE 31 December 2020: RM166.3 million) stemming from shorter useful lives of certain telecommunication network and technology advancement. The accelerated depreciation in FYE 31 December 2021 above includes assessment of useful lives for USP network equipment of RM91.9 million.

Depreciation of right-of-use ("**ROU**") assets increased by RM27.2 million, or 6.9%, to RM421.8 million for the FYE 31 December 2021 from RM394.5 million for the FYE 31 December 2020 mainly due to additional ROU assets from the leasing of site spaces for network equipment.

Cost of inventories increased by RM102.0 million, or 12.9%, to RM890.8 million for the FYE 31 December 2021 from RM788.8 million for the FYE 31 December 2020 in tandem with higher sales of devices.

Billing charges from other telecommunications companies decreased by RM30.0 million, or 6.5%, to RM428.3 million for the FYE 31 December 2021 from RM458.2 million for the FYE 31 December 2020 due to lower international interconnection and roaming charges in line with lower IDD and roaming revenue. The impact was partially offset by higher charges from increased domestic interconnection in tandem with the higher number of subscribers.

Marketing, advertising and promotion expenses decreased by RM10.3 million, or 2.8%, to RM354.3 million for the FYE 31 December 2021 from RM364.5 million for the FYE 31 December 2020 due to cost optimisation initiatives aimed at rationalising the costs incurred on advertisements and promotion, to align the spending with the marketing plan and strategies of Celcom for the FYE 31 December 2021.

USP contribution increased by RM80.4 million, or 46.6%, to RM253.0 million for the FYE 31 December 2021 from RM172.6 million for the FYE 31 December 2020 in correlation with higher revenue.

Impairment of trade and other receivables decreased by RM85.9 million, or 72.8%, to RM32.1 million for the FYE 31 December 2021 from RM118.0 million for the FYE 31 December 2020 due to improvement in credit management and debt recovery.

EBITDA and EBITDA Margin

EBITDA increased by RM256.0 million, or 9.9%, to RM2,836.0 million for the FYE 31 December 2021 from RM2,579.9 million for the FYE 31 December 2020 in line with higher revenue and further improvements in cost management. EBITDA margin increased from 41.5% for the FYE 31 December 2020 to 42.8% for the FYE 31 December 2021 mainly due to improvements in credit management and debt recovery, and cost optimisation in relation to marketing, advertising and promotion.

Profit from operations

As a result of the foregoing factors, the Celcom Group's profit from operations increased by RM323.0 million, or 28.0%, to RM1,477.5 million for the FYE 31 December 2021 from RM1,154.5 million for the FYE 31 December 2020.

Finance costs

Finance costs decreased by RM38.3 million, or 10.1%, to RM342.2 million for the FYE 31 December 2021 from RM380.4 million for the FYE 31 December 2020 primarily due to reduction in average borrowings resulting from repayment of RM550 million in borrowings and lower interest rates arising from refinancing in August 2020.

Profit before tax

As a result of the foregoing factors, profit before tax increased by RM356.6 million, or 41.7%, to RM1,212.2 million for the FYE 31 December 2021 from RM855.7 million for the FYE 31 December 2020.

Taxation

Taxation increased by RM90.2 million, or 54.7%, to RM255.2 million for the FYE 31 December 2021 from RM165.0 million for the FYE 31 December 2020 in tandem with higher profit before taxation, which was partially offset by reversal of over accrual of tax in previous year. The Celcom Group's effective tax rate increased to 21.1% for the FYE 31 December 2021 from 19.3% for the FYE 31 December 2020. The higher effective tax rate in FYE 31 December 2021 was mainly due to higher expenses not deductible arising from provision for doubtful debts on certain classes of receivables which are deemed non-tax deductible.

Profit for the financial year and PATAMI

As a result of the foregoing, profit for the financial year increased by RM266.3 million, or 38.6%, to RM957.0 million for the FYE 31 December 2021 from RM690.7 million for the FYE 31 December 2020.

PATAMI increased by RM265.4 million, or 39.2%, to RM942.8 million for the FYE 31 December 2021 from RM677.4 million for the FYE 31 December 2020.

(iii) FYE 31 December 2020 compared to FYE 31 December 2019

The following table presents selected financial information from the Celcom Group's consolidated statements of comprehensive income for the financial years indicated:

	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000	% change
Revenue	**6,706,135**	**6,218,831**	**(7.3)**
Other income	90,112	97,898	8.6
Operating expenses	(5,412,389)	(5,162,202)	(4.6)
- Depreciation of PPE	(838,887)	(1,052,764)	25.5
- Depreciation of right-of-use assets	(407,833)	(394,515)	(3.3)
- Cost of inventories	(719,645)	(788,807)	9.6
- Billing charges from other telecommunications companies	(680,998)	(458,249)	(32.7)
- Marketing, advertising and promotion expenses	(418,938)	(364,535)	(13.0)
- Staff cost	(551,627)	(626,295)	13.5
- USP contribution	(268,458)	(172,584)	(35.7)
- Impairment of trade and other receivables	(183,059)	(117,953)	(35.6)
- Other operating expenses	(1,342,944)	(1,186,500)	(11.6)
Profit from operations	**1,383,858**	**1,154,527**	**(16.6)**
Finance income	88,494	59,739	(32.5)
Finance costs	(416,296)	(380,445)	(8.6)
Share of results of associated company (net of tax)	2,408	20,998	772.0
Share of results of joint ventures (net of tax)	(6,613)	860	na
PBT	**1,051,851**	**855,679**	**(18.7)**
Taxation and zakat			
- Company and subsidiaries	(262,790)	(164,960)	(37.2)
Profit/Total comprehensive income for the financial year	**789,061**	**690,719**	**(12.5)**
Attributable to			
- Owner of the Company	789,369	677,435	(14.2)
- Non-controlling interest	(308)	13,284	na
Total comprehensive income for the financial year	**789,061**	**690,719**	**(12.5)**

Revenue

The following table sets out a breakdown of the Celcom Group's revenue for the financial years indicated:

	FYE 31 December 2019 RM'000	2019 % of revenue	FYE 31 December 2020 RM'000	2020 % of revenue	% change
Revenue from contracts with customers					
Telecommunication revenue	6,135,294	91.5	5,586,071	89.8	(9.0)
(i) Mobile	5,894,343	87.9	5,306,454	85.3	(10.0)
(ii) Project Contract Revenue[(1)]	44,357	0.7	73,222	1.2	65.1
(iii) Others[(2)]	196,594	2.9	206,395	3.3	5.0
Sale of device	512,647	7.6	573,116	9.2	11.8
Total revenue from contracts with customers	6,647,941	99.1	6,159,187	99.0	(7.3)
Lease income[(3)]	58,194	0.9	59,644	1.0	2.5
Total revenue	6,706,135	100.0	6,218,831	100.0	(7.3)

Notes:

(1) Project Contract Revenue represents revenue from USP projects awarded by MCMC, which is recognised upon completion of projects/services rendered.

(2) Others mainly include fibre optic transmission and other data services.

(3) Being lease income from network sharing arrangement with other main licensed mobile operators in Malaysia.

The Celcom Group's revenue decreased by RM487.3 million, or 7.3%, to RM6,218.8 million for the FYE 31 December 2020 from RM6,706.1 million for the FYE 31 December 2019. This decrease was primarily due to the economic downturn caused by the pandemic, escalated by a complimentary 1GB of mobile data provided daily to customers during the MCO period beginning 18 March 2020 and up to early June 2020, which was subsequently made applicable for productivity related applications only following the telecommunication industry's consultation with the MCMC. The revenue decline was moderated by an uplift from MVNO as its distribution channel was not interrupted during the MCO period and growth in the Home segment from higher subscription of FWA broadband services.

Revenue from mobile declined by RM587.9 million, or 10.0% to RM5,306.5 million for the FYE 31 December 2020. The Celcom Group had lower revenue during the year largely due to the loss of approximately 344,000 subscribers in the first half of 2020 and blended ARPU declined from RM51 for FYE 31 December 2019 to RM48 FYE 31 December 2020 due to impact from the pandemic and industry conditions. Encouraging signs of recovery emerged in the second half of the year with improvements in product innovation, sales and marketing strategy, and digital channels which led Celcom to secure positive mobile subscriber net adds with the addition of 306,000 new customers in 2020.

Revenue from the Celcom Group's sales of devices increased by RM60.5 million, or 11.8%, to RM573.1 million for the FYE 31 December 2020 from RM512.6 million for the FYE 31 December 2019, primarily due to positive take up on bundled offerings of devices with postpaid plans and newly launched smartphones. The details of the bundled offerings are disclosed in Section 3.6 of Appendix II of this Circular.

Other income

Other income increased by RM7.8 million or 8.6%, to RM97.9 million for the FYE 31 December 2020 from RM90.1 million for the FYE 31 December 2019 primarily from higher amortisation of Government grants, in line with the work done for the projects.

Operating expenses

The Celcom Group's operating expenses decreased by RM250.2 million, or 4.6%, to RM5,162.2 million for the FYE 31 December 2020 from RM5,412.4 million for the FYE 31 December 2019.

Other operating expenses decreased by RM156.4. million, or 11.6%, to RM1,186.5 million for the FYE 31 December 2020 from RM1,342.9 million for the FYE 31 December 2019 mainly due to recovery of indirect tax claims, resolution of dispute pertaining to network expenses and reduction in other revenue related operating expenses in line with the decline in revenue.

Impairment of trade and other receivables decreased by RM65.1 million, or 35.6%, to RM118.0 million for the FYE 31 December 2020 from RM183.1 million for the FYE 31 December 2019 mainly due to lower allowance for doubtful debt as a result of improvement in credit management.

Staff costs increased by RM74.7 million, or 13.5%, to RM626.3 million for the FYE 31 December 2020 from RM551.6 million for the FYE 31 December 2019 due to payments to employees associated with the voluntary employee restructuring program in FYE 31 December 2020 amounting to RM101.0 million, which was partially offset by a decrease in performance incentives paid to employees. The employee restructuring program was undertaken in 2020 to enhance productivity across the organisation to ensure sustainability in this highly competitive and challenging industry.

Depreciation of PPE increased by RM213.9 million, or 25.5%, to RM1,052.8 million for the FYE 31 December 2020 from RM838.9 million for the FYE 31 December 2019 mainly due to accelerated depreciation charges amounting to RM166.3 million due to shorter useful lives of certain telecommunication network and technology advancement.

Depreciation of right-of-use assets decreased by RM13.3 million, or 3.3%, to RM394.5 million for the FYE 31 December 2020 from RM407.8 million for the FYE 31 December 2019, mainly attributable to the reduction in lease liabilities arising from the new lease agreement entered by Celcom for its office building. Concurrently, the previous agreement for the office building was terminated.

Cost of inventories increased by RM69.2 million, or 9.6%, to RM788.8 million for the FYE 31 December 2020 from RM719.6 million for the FYE 31 December 2019 in tandem with higher sales of devices.

Billing charges from other telecommunications companies decreased by RM222.8 million, or 32.7%, to RM458.2 million for the FYE 31 December 2020 from RM681.0 million for the FYE 31 December 2019 due to lower interconnection and roaming charges stemming from changes in domestic termination rates, which are rates set by the MCMC and charged between operators, and closure of international borders which restricted travelling globally.

Marketing, advertising and promotion expenses decreased by RM54.4 million, or 13.0%, to RM364.5 million for the FYE 31 December 2020 from RM418.9 million for the FYE 31 December 2019 due to lower commissions from slower sales and trade activities.

USP contribution decreased by RM95.9 million, or 35.7%, to RM172.6 million for the FYE 31 December 2020 from RM268.5 million for the FYE 31 December 2019 in correlation with lower revenue.

EBITDA and EBITDA Margin

EBITDA decreased by RM38.5 million, or 1.5%, to RM2,579.9 million for the FYE 31 December 2020 from RM2,618.5 million for the FYE 31 December 2019 primarily due to lower revenue, partially offset by cost improvements. EBITDA margin increased from 39.0% for the FYE 31 December 2019 to 41.5% for the FYE 31 December 2020 primarily due to improvement in credit management and recovery of claims.

Profit from operations

As a result of the foregoing factors, the Celcom Group's profit from operations decreased by RM229.3 million, or 16.6%, to RM1,154.5 million for the FYE 31 December 2020 from RM1,383.9 million for the FYE 31 December 2019.

Finance costs

Finance costs decreased by RM35.9 million, or 8.6%, to RM380.4 million for the FYE 31 December 2020 from RM416.3 million for the FYE 31 December 2019 primarily due to a reduction in average borrowings and lower interest rates.

Profit before tax

As a result of the foregoing factors, profit before tax decreased by RM196.2 million, or 18.7%, to RM855.7 million for the FYE 31 December 2020 from RM1,051.9 million for the FYE 31 December 2019.

Taxation

Taxation decreased by RM97.8 million, or 37.2%, to RM165.0 million for the FYE 31 December 2020 from RM262.8 million for the FYE 31 December 2019, primarily due to lower profit before tax, higher income not subject to tax from recovery of claims and reversal of over accrual in previous years. the Celcom Group's effective tax rate decreased to 19.3% for the FYE 31 December 2020 from 25.0% for the FYE 31 December 2019 primarily due to higher income not subject to tax and reversal of over accrual from previous years.

Profit for the financial year and PATAMI

As a result of the foregoing, profit for the financial year decreased by RM98.4 million, or 12.5%, to RM690.7 million for the FYE 31 December 2020 from RM789.1 million for the FYE 31 December 2019.

PATAMI decreased by RM111.9 million, or 14.2%, to RM677.4 million for the FYE 31 December 2020 from RM789.4 million for the FYE 31 December 2019.

2.5 Liquidity and capital resources

(i) Working capital

The Celcom Group's working capital is funded through cash generated from operating activities, borrowings from financial institutions, borrowings from holding company, as well as the Celcom Group's cash and bank balances.

As at 31 December 2021, the Celcom Group had cash and bank balances of RM1,385.5 million, total borrowings of RM4,192.8 million, and total lease liabilities of RM3,309.9 million. As at 31 December 2021, the Celcom Group was in a net current liability position of RM1,425.9 million, calculated as the difference between the Celcom Group's current assets of RM2,610.2 million and current liabilities of RM4,036.2 million. The net current liability position of RM1,425.9 million as at 31 December 2021 is mainly attributable to RM642.8 million borrowings and RM440.6 million lease liabilities due within 1 year. Generally, mobile telecommunication players have high current liabilities due to the nature of its business which uses current assets (i.e. cash generated from operations) and borrowings to fund its investment in the long term assets such as network infrastructure. In addition, mobile telecommunication sector typically provides a higher dividend payout to its shareholders compared to other sectors, and thus have relatively low current assets. For these reasons, the Celcom Group was in a net current liability position throughout the financial years under review of FYE 31 December 2019 to FYE 31 December 2021. For comparison, the Digi was also in a net current liability position as at 31 December 2019, 31 December 2020 and 31 December 2021 mainly due to historical dividend payout ratio to its shareholders.

Notwithstanding the above, the Celcom Group has been generating net cash from its operating activities in excess of RM2.0 billion annually for the past 3 financial years. The Celcom Group's net cash flow generated from operating activities for the FYE 31 December 2019, 2020 and 2021 were RM2,023.3 million, RM2,741.7 million and RM2,911.8 million respectively. With the cash generated from operations, the Celcom Group repaid RM550.0 million Sukuk in 2021. Based on the above and taking into consideration the net current liability position, funding requirements for committed capital expenditure and other contractual obligations, expected cash flows from operations, cash and bank balances, and available funding under the Sukuk programmes available and the short term funding, its Board believes that it has sufficient working capital for at least 12 months from the date of this Circular.

(ii) Cash flows

The following table summarises the Celcom Group's consolidated statements of cash flows for the FYE 31 December 2019, 2020 and 2021:

	FYE 31 December		
	2019	**2020**	**2021**
	RM'000	**RM'000**	**RM'000**
Net cash generated from operating activities	2,023,329	2,741,748	2,911,841
Net cash used in investing activities	(1,062,911)	(55,907)	(665,349)
Net cash used in financing activities	(1,592,673)	(1,507,982)	(2,313,651)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(632,255)**	**1,177,859**	**(67,159)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR	907,089	274,834	1,452,693
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	**274,834**	**1,452,693**	**1,385,534**

Most of the Celcom Group's cash and cash equivalents are held in RM. There are no legal, financial or economic restrictions on Celcom's subsidiaries' ability to make payment to Celcom in the form of cash dividends, loan or advances to meet cash obligations of the Celcom Group, subject to availability of distributable reserves, loans or advances in compliance with any applicable financial covenants.

Net cash generated from operating activities

<u>FYE 31 December 2021 compared to FYE 31 December 2020</u>

The Celcom Group's net cash generated from operating activities was RM2,911.8 million for the FYE 31 December 2021 compared to RM2,741.7 million for the FYE 31 December 2020. The Celcom Group's net cash from operating activities increased by RM170.1 million primarily due to:

(i) increase in EBITDA by RM256.0 million due to reasons as described under the Section 2.4(ii) of Appendix III of this Circular;

(ii) settlement sum received from DeTeAsia Holding Gmbh arising from a settlement agreement in relation to the two (2) litigation suits mentioned in Section 8 of Appendix I of this Circular; and

(iii) partially offset by lower decrease in receivables in FYE 31 December 2021 as compared to FYE 31 December 2020 by RM94.5 million due to higher collection in FYE 31 December 2020.

<u>FYE 31 December 2020 compared to FYE 31 December 2019</u>

The Celcom Group's net cash generated from operating activities was RM2,741.7 million for the FYE 31 December 2020 compared to RM2,023.3 million for the FYE 31 December 2019. The Celcom Group's net cash from operating activities increased by RM718.4 million primarily due to:

(i) lower decrease in payables in FYE 31 December 2020 as compared to FYE 31 December 2019 by RM531.5 million mainly due to payment made to a vendor in FYE 31 December 2019 in accordance with the negotiated credit terms;

(ii) decrease in receivables in FYE 31 December 2020 of RM213.5 million (FYE 31 December 2019: increase of RM4.1 million) due to better credit management and improvement in collection; and

(iii) income tax paid for FYE 31 December 2020 was RM196.7 million, which was RM97.1 million lower than income tax paid for FYE 31 December 2019 of RM293.8 million due to lower tax payable.

Net cash used in investing activities

FYE 31 December 2021

The Celcom Group's net cash used in investing activities was RM665.3 million for the FYE 31 December 2021, primarily attributable to:

(i) purchase of PPE amounting to RM949.6 million;

(ii) spectrum payments of RM120.3 million; and

(iii) partially offset by:

  (a) repayment of advances due from holding company amounting to RM330.1 million (which was set-off with dividend payments made to holding company amounting to RM1,000.1 million as set out under net cash used in financing activities of the Celcom Group below);

  (b) Government grant received amounting to RM32.8 million; and

  (c) interest received amounting to RM36.3 million.

FYE 31 December 2020

The Celcom Group's net cash used in investing activities was RM55.9 million for the FYE 31 December 2020, primarily attributable to:

(i) purchase of PPE amounting to RM984.1 million;

(ii) spectrum payments of RM120.3 million; and

(iii) partially offset by:

  (a) repayment of advances due from holding company amounting to RM449.9 million (which was set-off with dividend payments made to holding company amounting to RM749.9 million as set out under net cash used in financing activities of the Celcom Group below);

  (b) withdrawal of deposits maturing more than 3 months of RM409.9 million;

  (c) Government grant received amounting to RM137.0 million; and

  (d) interest received amounting to RM46.7 million.

FYE 31 December 2019

The Celcom Group's net cash used in investing activities was RM1,062.9 million for the FYE 31 December 2019, primarily attributable to:

(i) purchase of PPE amounting to RM1,017.4 million;

(ii) investment in deposits maturing more than 3 months of RM178.5 million; and

(iii) partially offset by repayment from holding company of RM100.0 million.

Net cash used in financing activities

FYE 31 December 2021

The Celcom Group's net cash used in financing activities was RM2,313.7 million for the FYE 31 December 2021, primarily attributable to:

(i) payment for principal portion of lease liabilities of RM414.9 million;

(ii) dividend paid to holding company of RM1,000.1 million;

(iii) interest paid for borrowings and lease liabilities of RM344.8 million; and

(iv) repayment of Sukuk borrowings of RM550.0 million.

FYE 31 December 2020

The Celcom Group's net cash used in financing activities was RM1,508.0 million for the FYE 31 December 2020, primarily attributable to:

(i) payment for principal portion of lease liabilities of RM383.7 million;

(ii) dividend paid to holding company of RM749.9 million; and

(iii) interest paid for borrowings and lease liabilities of RM370.5 million.

FYE 31 December 2019

The Celcom Group's net cash used in financing activities was RM1,592.7 million for the FYE 31 December 2019, primarily attributable to:

(i) payment for principal portion of lease liabilities of RM376.4 million;

(ii) dividend paid to holding company of RM497.0 million;

(iii) interest paid for borrowings and lease liabilities of RM416.3 million; and

(iv) net repayment of Sukuk borrowings of RM300.0 million.

(iii) Borrowings

As at 31 December 2021, the Celcom Group's total borrowings amounted to RM4,192.8 million.

	RM'000
Short term	
Sukuk (Unsecured)	624,969
Shareholder loans	17,813
	642,782
Long term	
Sukuk (Unsecured)	1,150,000
Shareholder loans	2,400,000
	3,550,000
Total Borrowings	
Sukuk (Unsecured)	1,774,969
Shareholder loans	2,417,813
	4,192,782

In August 2012, Celcom Networks undertook a fund-raising exercise through the issuance of RM5.0 billion nominal value Sukuk under a Sukuk Programme. The tenure of the Sukuk Programme ranged from 3 to 10 years from the date of the first issuance under the Sukuk Programme. The Sukuk Programme was rated AA+ by Malaysian Rating Corporation Berhad agency. The Sukuk was unsecured and was utilised primarily for the refinancing of the Celcom Group's existing debt as well as to finance the Celcom Group's capital expenditure and working capital requirements. The Sukuk Programme was issued under Islamic financing principle of Murabahah, a Shariah principle and concept approved by the SC Shariah Advisory Council.

The Sukuk Programme issuance as at 31 December 2021 is as follows:

Series	Interest rate	Tenure	Issue date	Maturity	RM'000
Series 6	4.20%	10 years	29/08/2012	29/08/2022	400,000
Series 8	5.27%	10 years	28/10/2016	28/10/2026	350,000
Series 9	4.85%	5 years	29/08/2017	29/08/2022	200,000
Series 10	5.05%	7 years	29/08/2017	29/08/2024	350,000
Series 11	5.20%	10 years	29/08/2017	29/08/2027	450,000
Total					1,750,000

As at the LPD, Series 6 and Series 9 of the Sukuk Programme had been fully repaid by Celcom Group upon maturity via a new short term revolving credit facility of RM450.0 million and internally generated funds of RM150.0 million.

The key financial covenants of the Sukuk are as follows:

(i) The Celcom Group's total debts over total assets ratio shall, at all times, not exceed 1.8 times. Total debts include borrowings and lease liabilities.

(ii) Celcom Networks, being the issuers shall maintain an EBITDA to Borrowing/Financing Costs ratio of not less than 2.5 times. Borrowing/Financing Costs include finance costs of lease liabilities.

The shareholder loans as at 31 December 2021 are as follows:

Tranche	Interest rate	Tenure	Issue date	Maturity	RM'000
1	3.3%	10 years	28/08/2020	27/08/2030(1)	1,200,000
2	3.6%	15 years	27/11/2020	27/08/2035(1)	1,200,000
Total					2,400,000

Note:

(1) Pursuant to the SPA, the CNSB Shareholder Loan is to be fully settled within 6 months after the completion of the Proposed Merger, or may be extended for a further 6 months by Axiata at its sole discretion, upon the request of the Celcom Group.

The Sukuk and shareholder loans are denominated in RM. In summary, the maturity profile of the Celcom Group's total borrowings as at 31 December 2021 is set out below:

Maturity of borrowings	**As at 31 December 2021 RM'000**
Fixed-rate borrowings:	
- Within 1 year	642,782
- Within 1 to 2 years	-
- More than 2 years	3,550,000
	4,192,782
Floating rate borrowings:	
- Within 1 year	-
- Within 1 to 2 years	-
- More than 2 years	-
	-

In addition to the above, the table below sets out the banking facilities granted to the Celcom Group for its short term financing needs:

	As at the LPD		
	Facilities granted	**Utilised**	**Unutilised**
	RM'000	**RM'000**	**RM'000**
Revolving credit	480,000	(450,000)	30,000
Banker acceptance	12,791	(3,163)	9,628
Bank overdraft	6,800	-	6,800
Term loan	2,753	(2,753)	-

The Celcom Group has not been in default on payments of either interest and/or principal for any of its borrowings throughout FYE 31 December 2021 and from 1 January 2022 up to the LPD. As at the LPD, the Celcom Group is not in breach of the terms and conditions or covenants under its borrowings which would materially affect its financial position and results of operations.