

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF DIGI



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REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

11 October 2022

The Board of Directors
Digi.Com Berhad
Lot 10, Jalan Delima 1/1
Subang Hi-Tech Industrial Park
40000 Subang Jaya
Selangor Darul Ehsan
Malaysia

Dear Sirs,

Report on the compilation of pro forma consolidated financial information included in the Circular to Shareholders of Digi.Com Berhad (the "Circular") in relation to the Proposed Merger of Celcom Axiata Berhad and Digi.Com Berhad ("Proposed Merger")

We have completed our assurance engagement to report on the compilation of pro forma consolidated financial information of Digi.Com Berhad ("Digi" or the "Company") and its subsidiaries (the "Group") by the Board of Directors of the Company ("Directors"). The pro forma consolidated financial information consists of the pro forma consolidated statement of financial position as at 31 December 2021, and the pro forma consolidated statement of comprehensive income for the financial year ended 31 December 2021, and related notes as set out in Appendix IX to the Circular to be issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma consolidated financial information are described in Note 2 to the pro forma consolidated financial information ("Applicable Criteria").

The pro forma consolidated financial information has been compiled by the Directors to illustrate the impact of the Proposed Merger set out in Note 1 to the pro forma consolidated financial information on the Group's financial position as at 31 December 2021 and of its financial performance for the financial year then ended as if the Proposed Merger had taken place at 31 December 2021 and on 1 January 2021 respectively. As part of this process, information about the Group's financial position and financial performance have been extracted by the Directors from the Group's financial statements for the financial year ended 31 December 2021, on which an audit report has been published.

The Directors' responsibility for the pro forma consolidated financial information

The Directors are responsible for compiling the pro forma consolidated financial information on the basis of the Applicable Criteria.

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF DIGI (Cont'd)

*Our independence and quality control*

We have complied with the independence and other ethical requirement of the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (“By-Laws”) and the International Code of Ethics for Professional Accountants (including International Independence Standards) (“IESBA Code”), which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Malaysian Approved Standard on Quality Controls (“ISQC”), ISQC 1: *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities

Our responsibility is to express an opinion, as required by the Equity Guidelines issued by the Securities Commission Malaysia and Bursa Malaysia Securities Berhad’s Main Market Listing Requirements, about whether the pro forma consolidated financial information has been compiled, in all material respects, by the Directors on the basis of the Applicable Criteria.

We conducted our engagement in accordance with Malaysian Approved Standards on Assurance Engagements, ISAE 3420: *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the pro forma consolidated financial information on the basis of the Applicable Criteria.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma consolidated financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma consolidated financial information.

The purpose of pro forma consolidated financial information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at that date would have been as presented.

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF DIGI (Cont'd)

*Our responsibilities (contd.)*

A reasonable assurance engagement to report on whether the pro forma consolidated financial information has been compiled, in all material respects, on the basis of the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the Directors in the compilation of the pro forma consolidated financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma consolidated financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the event or transaction in respect of which the pro forma consolidated financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma consolidated financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the pro forma consolidated financial information has been compiled, in all material respects, on the basis of the Applicable Criteria.

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF DIGI (Cont'd)

**Other matters**

This letter is issued for the sole purpose of complying with the Equity Guidelines issued by the Securities Commission Malaysia and Main Market Listing Requirements issued by Bursa Malaysia Securities Berhad in connection with the Proposed Merger. Our work had been carried out in accordance with Malaysian Approved Standards on Assurance Engagements and accordingly should not be relied upon as if it had been carried out in accordance with standards and practices in other jurisdictions. Therefore, this letter is not appropriate in other jurisdictions and should not be used or relied upon for any purpose other than the Proposed Merger as described above. We accept no duty or responsibility to and deny any liability to any party in respect of any use of, or reliance upon, this letter in connection with any type of transaction, including the sale of securities other than the Proposed Merger.

Yours faithfully

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants
Kuala Lumpur, Malaysia

Tseu Tet Khong @ Tsau Tet Khong
03374/06/2024 J
Chartered Accountant

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF DIGI (Cont'd)

Digi.Com Berhad
Pro forma consolidated statement of financial position as at 31 December 2021

	Audited 31.12.2021 RM'000	Drawdown of borrowings and related expenses RM'000 (Note 3.1)	Proforma 1 RM'000	Acquisition of Celcom Axiata Berhad RM'000 (Note 3.2)	Proforma 2 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	2,863,675	-	2,863,675	4,030,019	6,893,694
Intangible assets	284,057	-	284,057	15,820,984	16,105,041
Right of use assets	2,828,720	-	2,828,720	5,663,364	8,492,084
Other investment	78	-	78	-	78
Investment in an associate	-	-	-	140,528	140,528
Deferred tax assets	-	-	-	226,045	226,045
Trade and other receivables	320,862	-	320,862	441,561	762,423
Contract costs	71,687	-	71,687	51,478	123,165
Contract assets	21,757	-	21,757	31,976	53,733
Derivative financial assets	26,365	-	26,365	43,342	69,707
	<u>6,417,201</u>	<u>-</u>	<u>6,417,201</u>	<u>26,449,297</u>	<u>32,866,498</u>
Current assets					
Inventories	116,568	-	116,568	61,935	178,503
Trade and other receivables	1,050,392	-	1,050,392	938,060	1,988,452
Contract assets	51,127	-	51,127	107,743	158,870
Financial assets at fair value through profit or loss	-	-	-	26	26
Income tax recoverable	-	-	-	91,408	91,408
Cash and short-term deposits	204,527	1,697,907	1,902,434	(463,510)	1,438,924
	<u>1,422,614</u>	<u>1,697,907</u>	<u>3,120,521</u>	<u>735,662</u>	<u>3,856,183</u>
Total assets	<u>7,839,815</u>	<u>1,697,907</u>	<u>9,537,722</u>	<u>27,184,959</u>	<u>36,722,681</u>
EQUITY AND LIABILITIES					
Non-current liabilities					
Loans and borrowings	3,835,854	1,697,907	5,533,761	5,533,270	11,067,031
Deferred tax liabilities	303,027	-	303,027	1,368,918	1,671,945
Other liabilities	136,053	-	136,053	175,366	311,419
	<u>4,274,934</u>	<u>1,697,907</u>	<u>5,972,841</u>	<u>7,077,554</u>	<u>13,050,395</u>
Current liabilities					
Trade and other payables	1,444,024	-	1,444,024	2,623,593	4,067,617
Contract liabilities	346,088	-	346,088	392,006	738,094
Derivative financial liabilities	183	-	183	-	183
Loans and borrowings	1,123,421	-	1,123,421	3,697,806	4,821,227
Income tax payable	18,354	-	18,354	11	18,365
	<u>2,932,070</u>	<u>-</u>	<u>2,932,070</u>	<u>6,713,416</u>	<u>9,645,486</u>
Total liabilities	<u>7,207,004</u>	<u>1,697,907</u>	<u>8,904,911</u>	<u>13,790,970</u>	<u>22,695,881</u>
Equity					
Share capital	769,655	-	769,655	13,372,997	14,142,652
Accumulated losses	(136,844)	-	(136,844)	(66,727)	(203,571)
Total equity attributable to owners of the company	<u>632,811</u>	<u>-</u>	<u>632,811</u>	<u>13,306,270</u>	<u>13,939,081</u>
Non-controlling interests	-	-	-	87,719	87,719
Total equity	<u>632,811</u>	<u>-</u>	<u>632,811</u>	<u>13,393,989</u>	<u>14,026,800</u>
Total equity and liabilities	<u>7,839,815</u>	<u>1,697,907</u>	<u>9,537,722</u>	<u>27,184,959</u>	<u>36,722,681</u>

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF DIGI (Cont'd)

Digi.Com Berhad

Pro forma consolidated statement of comprehensive income for the financial year ended 31 December 2021

	Audited 31.12.2021 RM'000	Drawdown of borrowings and related expenses RM'000 (Note 4.1)	Acquisition of Celcom Axiata Berhad RM'000 (Note 4.2)	Proforma RM'000
Revenue	6,335,674	-	6,444,110	12,779,784
Other income	25,775	-	104,973	130,748
Cost of materials and traffic expenses	(1,753,764)	-	(1,191,902)	(2,945,666)
Sales and marketing expenses	(376,675)	-	(349,787)	(726,462)
Operations and maintenance expenses	(164,079)	-	(305,181)	(469,260)
Rental expenses	(57,253)	-	(127,767)	(185,020)
Staff expenses	(244,569)	-	(551,636)	(796,205)
Depreciation expenses	(1,180,305)	-	(1,714,455)	(2,894,760)
Amortisation expenses	(83,160)	-	(228,073)	(311,233)
Other expenses	(771,715)	-	(818,280)	(1,589,995)
Finance costs	(245,585)	(61,200)	(404,658)	(711,443)
Interest income	30,541	-	67,314	97,855
Share of results of an associate (net of tax)	-	-	13,351	13,351
Profit before tax	1,514,885	(61,200)	938,009	2,391,694
Income tax expense	(352,780)	-	(196,866)	(549,646)
Profit for the financial year, representing total comprehensive income for the financial year	1,162,105	(61,200)	741,143	1,842,048
Attributable to:				
- Owners of the parent	1,162,105	(61,200)	726,891	1,827,796
- Non-controlling interest	-	-	14,252	14,252
Total comprehensive income for the financial year	1,162,105	(61,200)	741,143	1,842,048
Pro forma earnings per share attributable to owners of the parent (sen)				15.58

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Appendix A

Digi.Com Berhad
Notes to the pro forma consolidated financial information
1. Introduction

The pro forma consolidated financial information, comprising the pro forma consolidated statement of financial position as at 31 December 2021 and the pro forma consolidated statement of comprehensive income for the financial year ended ("FYE") 31 December 2021, have been prepared for inclusion in the the Circular to shareholders of Digi.Com Berhad ("Digi") in connection with the proposed acquisition of Celcom Axiata Berhad ("Celcom") ("Proposed Acquisition" or "Proposed Merger").

The Proposed Acquisition will be satisfied by:

- (i) Digi issuing concurrently:
 - (a) 73,378,844 fully paid-up new ordinary shares of Digi ("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 (the "0.63% Digi Shares") to Telenor Asia Pte Ltd ("Telenor Asia") as nominee of Axiata Group Berhad ("Axiata") subject to, amongst others, the payment by Telenor Asia to Axiata of a cash consideration of RM297,918,107. The cash consideration for the 73,378,844 Digi Shares of RM297,918,107 translates into RM4.06 per Digi Share; and
 - (b) 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; and
- (ii) Digi making a cash payment of RM1,692,733,818 to Axiata (which is subject to adjustment under the terms of the Share Purchase Agreement ("SPA")).

2. Basis of preparation

2.1 Digi is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The principal place of business is located at Lot 10, Jalan Delima 1/1, Subang Hi-Tech Industrial Park, 40000 Shah Alam, Selangor Darul Ehsan. The registered office of the Company is located at 12th Floor, Menara Symphony, No. 5, Jalan Professor Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor.

The immediate and ultimate holding companies are Telenor Asia and Telenor ASA, incorporated in Singapore and Norway respectively. The ultimate holding company is listed on the Oslo Stock Exchange, Norway.

The principal activity of the Company is investment holding, whilst the principal activities of the subsidiaries are establishment, maintenance and provision of telecommunications and related services.

The financial year end of Digi is 31 December and the pro forma consolidated financial information is prepared based on the latest available audited financial statements.

- 2.2** The pro forma consolidated statement of financial position as at 31 December 2021 has been prepared for illustrative purposes to show the effects of the Proposed Acquisition, drawdown of borrowing and transaction expenses, with the assumption that these transactions were completed on 31 December 2021.
- 2.3** The pro forma consolidated statement of comprehensive income for the FYE 31 December 2021 has been prepared for illustrative purposes to show the aggregate results of the enlarged group, on the assumption that those transactions detailed in Note 2.2 have been completed at the beginning of the FYE 31 December 2021.

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Appendix A

2. Basis of preparation (cont'd.)

- 2.4** The pro forma consolidated financial information have been prepared for illustrative purposes, based on:
- (a) the audited financial statements of Digi for the FYE 31 December 2021; and
 - (b) the audited financial statements of Celcom for the FYE 31 December 2021,
- which have been prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards, and in a manner consistent with the presentation of the financial statements and accounting policies adopted by Digi, and adjusted for the events and transactions detailed in Notes 3 and 4.
- 2.5** The Board of directors of Digi have compiled the pro forma consolidated financial information in accordance with the Equity Guidelines issued by the Securities Commission Malaysia and the Guidance Note For Issuers of Pro Forma Financial Information issued by Malaysian Institute of Accountants.

The pro forma consolidated financial information, of which the Board of directors of Digi is solely responsible, has been prepared for illustrative purpose only, and because of their nature, may not reflect of the actual financial position and result of operations of the enlarged group. Furthermore, such pro forma consolidated financial information does not purport to predict the future financial position and result of operations of the enlarged group.

- 2.6** The pro forma consolidated financial information and the notes thereto, are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand ("RM'000") except when otherwise indicated.

3. Pro forma adjustments to the pro forma consolidated statement of financial position

The pro forma consolidated statement of financial position illustrated the effects of the following events or transactions:

3.1 Pro forma 1 - Drawdown of borrowings and related expenses

Pro forma 1 incorporates the audited consolidated statement of financial position of Digi as at 31 December 2021 and the effects of the drawdown of borrowings by Digi. The cash drawdown of RM1,697,907,000 (net of the borrowing costs of RM2,093,000) is to be used for the settlement of the cash payment for the Proposed Acquisition amounting to RM1,692,734,000 and the remaining RM5,173,000 is to be used for the partial settlement of the transaction expenses in relation to the Proposed Acquisition.

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF DIGI (Cont'd)

Appendix A

3. Pro forma adjustments to the pro forma consolidated statement of financial position (cont'd.)
3.2 Pro forma 2 - Acquisition of Celcom

Pro forma 2 incorporates the effects of pro forma 1 and the Proposed Acquisition as follows:

(a) Acquisition accounting

In accordance with Malaysian Financial Reporting Standard 3: *Business Combinations*, the Proposed Acquisition is accounted for using the acquisition method resulting in a goodwill on consolidation calculated as follows:

	RM'000
Purchase consideration ⁽¹⁾	15,222,041
Less: Fair value of net identifiable assets acquired ⁽²⁾	(2,828,970)
Goodwill on consolidation	<u>12,393,071</u>

⁽¹⁾ The following table summarises the components of the purchase consideration:

Total shares issued (in '000)	3,956,508
Estimated price per share (RM)	<u>3.38</u>
Total share consideration (RM'000)	13,372,997
Cash payment (RM'000) ⁽³⁾	<u>1,849,044</u>
Total purchase consideration (RM'000)	<u>15,222,041</u>

The agreed transaction price of Digi Shares of RM4.06 (as referred to in Note 1(i)(a)) has taken into consideration, amongst others, the 12-months weighted average market price of Digi Shares up to 7 April 2021, being the last full trading day of Digi Shares prior to the date of Digi's 8 April 2021 announcement on the Proposed Merger.

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, in accordance with the Guidance Note For Issuers of Pro forma Financial Information issued by the Malaysian Institute of Accountants, the most appropriate value to use is the value at the latest practicable date ("LPD") as this is likely to be the best indication of the effect of the transaction.

Consequently, the estimated price per share of RM3.38 is based on the closing price of Digi Shares as at 30 September 2022, being the LPD for the purpose of the pro forma consolidated financial information.

The requirement to base the final share consideration on the share price as of the completion date could result in a share consideration that is materially different from that assumed in the pro forma consolidated financial information, and the total purchase consideration included in this pro forma should not be taken to represent what the actual consideration transferred will be when the Proposed Acquisition is completed.

⁽²⁾ For illustrative purpose only, the preliminary assessment of the fair value of net identifiable assets acquired is performed by an external valuer, based on limited information and key assumptions derived from publicly available information, market research, internal assumptions and historical analysis. External and internal factors that influence the fair value of the net identifiable assets may change at the completion date which may or may not materially change the fair values of the net identifiable assets from what is disclosed above.

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF DIGI (Cont'd)

Appendix A

3. Pro forma adjustments to the pro forma consolidated statement of financial position (cont'd.)

3.2 Pro forma 2 - Acquisition of Celcom (cont'd.)

(a) Acquisition accounting (cont'd.)

⁽³⁾ The cash payment is adjusted based on the pre-determined ratio on the changes in net debt and net working capital amounts of Digi and Celcom respectively between 31 December 2020 and as at the closing date, as per the terms under the SPA. For illustrative purpose only, the closing date of the Proposed Acquisition is 31 December 2021. This has resulted in additional cash payment of RM156,310,000 to be paid by Digi to Axiata.

(b) Harmonisation of the accounting policies

The pro forma adjustments for the harmonisation of the accounting policies of Celcom to the accounting policies of Digi which have significant effects on the pro forma consolidated financial information are as follows:

Reclassifications made to the historical financial statements presentation of Celcom to conform to the financial statements presentation of Digi

- (i) Reclassification of Celcom's contract acquisition costs of RM13,085,000 from trade and other receivables to contract cost;
- (ii) Reclassification of Celcom's softwares of RM155,499,000 from property, plant and equipment to intangible assets;
- (iii) Reclassification of Celcom's spectrum assignment costs of RM662,375,000 from intangible assets to right-of-use ("ROU") assets;
- (iv) Reclassification of Celcom's contract assets of RM139,719,000 from trade and other receivables to contract assets; and
- (v) Reclassification of Celcom's contract liabilities of RM392,006,000 from trade and other payables to contract liabilities.

Adjustments made to the transactions treatment in Celcom's financial statements to align with Digi's accounting policy, arising from the different significant judgements made

- (vi) Digi capitalises sales commissions paid to acquire postpaid customers as contract acquisition costs, and amortised on a straight line basis over the expected customer life cycle. This pro forma adjustment reflects the capitalisation of sales commissions, net of amortisation, of RM38,393,000 which was previously expensed off to profit or loss in Celcom's financial statements;
- (vii) Digi recognises government grant relating to the asset by deducting the grant in arriving at the carrying amount of the asset. This pro forma adjustment reflects the reclassification of the government grants recognised in Celcom's financial statements as deferred income of RM240,257,000 under non-current liabilities, against Celcom's property, plant and equipment; and

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Appendix A

3. Pro forma adjustments to the pro forma consolidated statement of financial position (cont'd.)**3.2 Pro forma 2 - Acquisition of Celcom (cont'd.)****(b) Harmonisation of the accounting policies (cont'd.)**

Adjustments made to the transactions treatment in Celcom's financial statements to align with Digi's accounting policy, arising from the different significant judgements made (cont'd.)

- (viii) Digi accounts for rental expenses on telecommunication network sites and stores, as well as the annual fees component of spectrum bandwidths as ROU assets and lease liabilities, except for short-term leases and leases of low-value assets. In determining the lease term, Digi considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. For example, for leases of certain telecommunication network sites, if Digi expects to use significant non-removable leasehold improvements beyond the date on which the lease can be terminated, the existence of those leasehold improvements may indicate that Digi might incur a more than insignificant penalty if it terminates the lease. Other factors to consider in assessing the lease term include the technology development and potential changes in business models.

Consequently, the lease terms of certain telecommunication network sites and stores which management of Celcom previously assessed to be short-term leases have been reassessed, as well as the annual fees component of spectrum bandwidths that Celcom previously expensed off to profit or loss have been accounted for as ROU assets and lease liabilities. This pro forma adjustment reflects the accounting of these additional ROU assets and lease liabilities amounting to RM1,997,497,000 and RM2,121,219,000 respectively based on Digi's accounting policy.

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF DIGI (Cont'd)

Appendix A

3. Pro forma adjustments to the pro forma consolidated statement of financial position (cont'd.)
3.2 Pro forma 2 - Acquisition of Celcom (cont'd.)
(c) Modification to spectrum leases

Pursuant to the Undertaking to the Malaysian Communications and Multimedia Commission ("MCMC"), Pro forma 2 has taken into consideration the effects of the Spectrum Divestment. The Spectrum Divestment which will cause a reduction in the spectrum useful life has been accounted for as a lease modification with a corresponding decrease in ROU assets and lease liabilities of RM252,699,000 and RM228,090,000 respectively.

(d) Intercompany balances elimination

The pro forma adjustments for the elimination of intercompany balances are as follows:

	RM'000
Amount receivable by Digi for the provision of telecommunication related services to Celcom such as domestic interconnect services, domestic roaming services, leased line related services and infrastructure sharing revenue	6,097
Amount payable by Digi for the provision of telecommunication related services from Celcom such as domestic interconnect services, domestic roaming services, leased line related services and infrastructure sharing cost	6,323

(e) Transaction expenses

Pro forma 2 has also incorporated the transaction expenses in relation to the Proposed Acquisition of RM72,508,000.

It is estimated that RM53,268,000 will be incurred as stamp duty whilst the other transaction expenses are estimated to be RM19,240,000.

(f) Amendment to the maturity date of Celcom's shareholder loan

One of the terms and conditions of the Proposed Acquisition is to amend the maturity date of the Mudharabah facility of RM2,400,000,000 granted by Axiata to Celcom to 6 months after the Proposed Acquisition is completed.

This pro forma adjustment is for the reclassification of Celcom's shareholder loan in Celcom's non-current borrowings of RM2,400,000,000 as current borrowings, to illustrate the effect of the amendment to the maturity date of Celcom's shareholder loan.

4. Pro forma adjustments to the pro forma consolidated statement of comprehensive income

The pro forma consolidated statement of comprehensive income illustrated the effects of the following events or transactions:

4.1 Drawdown of borrowings and related expenses

The effects of the interest expense for drawdown of new borrowings by Digi. Interest expense is estimated to be RM61,200,000 per annum based on estimated interest rate of 3.6% per annum on the bank borrowings. The estimated interest rate of 3.6% per annum is based on the weighted average interest rate of Digi's existing unsecured floating rate borrowings as at 30 September 2022, being the LPD for the purpose of the pro forma consolidated financial information.

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF DIGI (Cont'd)

Appendix A

4. Pro forma adjustments to the pro forma consolidated statement of comprehensive income (cont'd.)
4.2 Acquisition of Celcom

The profit or loss impacts arising from the Proposed Acquisition are as follows:

- (a) Adjustments to depreciation and amortisation of RM40,717,000 and RM135,819,000 respectively, arising from the fair value adjustments to the net identifiable assets acquired during the preliminary purchase price allocation exercise.
- (b) The pro forma adjustments for the harmonisation of the accounting policies of Celcom to the accounting policies of Digi are as follows:
 - (i) Reclassification of amortisation of software of RM92,254,000 in Celcom financial statements from depreciation expenses (refer to Note 3.2(b)(ii) for the details);
 - (ii) Reclassification of depreciation of spectrum of RM182,102,000 in Celcom's financial statements from other operating expenses (refer to Note 3.2(b)(iii) for the details);
 - (iii) Capitalisation of sales commissions paid to acquire postpaid customers which have been expensed off to profit or loss, and the subsequent amortisation on a straight line basis over the expected customer life cycle. The net effect of this adjustment is a decrease in sales and marketing expenses of RM4,479,000 (refer to Note 3.2(b)(vi) for the details);
 - (iv) Recognition of government grant relating to the asset in profit or loss over the life of the depreciable asset as a reduced depreciation expense, which was previously recognised as other income in Celcom's financial statements. The effects of this adjustment are reduction in depreciation expenses and other income of RM163,383,000 and RM195,885,000 respectively (refer to Note 3.2(b)(vii) for the details); and
 - (v) Accounting for rental expenses on telecommunication network sites and stores, as well as the annual fees component of spectrum bandwidths as lease liabilities and ROU assets. The effects of this adjustment are decrease in rental expenses of RM237,355,000, and increase in depreciation expenses and finance costs of RM168,573,000 and RM100,125,000 respectively (refer to Note 3.2(b)(viii) for the details).

(c) Modification to spectrum leases

Pursuant to the Undertaking to MCMC, Pro forma 2 has taken into consideration the effects of the Spectrum Divestment. The Spectrum Divestment which will cause a reduction in the spectrum useful life has been accounted for as a lease modification. The modification to the useful life of the spectrum has resulted in a decrease in finance costs (unwinding of discount on lease liabilities) of RM37,513,000.

- (d) The pro forma adjustments for the elimination of intercompany transactions are as follows:

	RM'000
Revenue recognised by Digi for the provision of telecommunication related services to Celcom such as domestic interconnect services, domestic roaming services, leased line related services and infrastructure sharing revenue	65,575
Expenses recognised by Digi for the provision of telecommunication related services from Celcom such as domestic interconnect services, domestic roaming services, leased line related services and infrastructure sharing cost	113,037

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF DIGI (Cont'd)

Appendix A

4. Pro forma adjustments to the pro forma consolidated statement of comprehensive income (cont'd.)
4.2 Acquisition of Celcom (cont'd.)

- (e) Adjustments for the transaction expenses in relation to the Proposed Acquisition of RM72,508,000 (refer to Note 3.2(e) for the details) which are reflected as expenses under other expenses. These adjustments are not expected to have a continuing effect on the business, and given the nature of the expenses, no tax effect has been assumed.
- (f) Adjustment to interest expense of RM7,080,000 as a result of settlement of the Celcom's shareholder loan due to the amendment to the maturity date (refer to Note 3.2(f) for the details) from 12 to 6 months, of which is refinanced using Digi's Sukuk programme. The additional interest expense on Digi's Sukuk programme is estimated at the weighted average interest rate of Digi's existing Sukuk programme as at 31 December 2021 of 4.04% per annum.

4.3 Pro forma earnings per ordinary share

Pro forma earnings per ordinary share is calculated by dividing pro forma profit for the financial year, net of tax, attributable to owners of the parent by the weighted average number of ordinary shares in issue during the financial year.

Profit attributable to owners of the parent (RM'000)	1,827,796
Weighted average number of ordinary shares in issue ('000) ⁽¹⁾	11,731,508
Pro forma earnings per share (sen)	15.58

⁽¹⁾ After the issuance of 3,956,507,988 enlarged Digi shares to acquire Celcom.

5. Subsequent event - Conditional share subscription agreement for equity stake in Digital Nasional Berhad ("DNB")

The following subsequent events have not been reflected in the unadjusted financial information of the Digi or Celcom, as it does not qualify as adjusting events after the end of the reporting period (as defined in MFRS 110: *Events After the Reporting Period*) and they are not directly related to the Proposed Acquisition. Additionally, the pro forma consolidated financial information has not been adjusted to illustrate the effects of the subscription of equity stake in DNB in view that the proportion of:

- (i) the aggregated net assets or liabilities; and
- (ii) the aggregated profits or losses before tax

of DNB (based on its latest audited financial statements for the FYE 31 December 2021) which attributable to the enlarged group based on its equity stake, do not exceed 10% of Digi's aggregated net assets and aggregated profit before tax, in accordance with paragraph 12.04 of Appendix 2A of Equity Guidelines.

On 7 October 2022, Digi Telecommunications Sdn. Bhd. ("Digi Tel"), a wholly-owned subsidiary of Digi has entered into a conditional Share Subscription Agreement with DNB ("SSA") for the proposed subscription of:

- (i) 100,000 new ordinary shares in DNB ("DNB Shares"); and
- (ii) 178,471,429 rights to allotment of new ordinary shares in DNB ("DNB Rights to Allotment"),

which represents 12.5% equity interest in the enlarged DNB for a total cash consideration of RM178,571,429 ("Digi Tel's Subscription Consideration") ("Digi Tel's Proposed Subscription").

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF DIGI (Cont'd)

Appendix A

5. Subsequent event - Conditional share subscription agreement for equity stake in Digital Nasional Berhad ("DNB") (cont'd.)

Celcom Mobile Sdn. Bhd. ("Celcom Mobile"), a wholly-owned subsidiary of Celcom has also entered into a similar SSA with DNB on 7 October 2022 for the proposed subscription of:

- (i) 100,000 DNB Shares; and
- (ii) 178,471,429 DNB Rights to Allotment,

which represents 12.5% equity interest in the enlarged DNB for a total cash consideration of RM178,571,429 ("Celcom Mobile's Subscription Consideration") ("Celcom Mobile's Proposed Subscription").

Upon fulfillment of all conditions set out in the SSAs and the completion of the Proposed Merger of Digi and Celcom by 30 June 2023, collectively, the enlarged group will have 25% equity stake in DNB at a total investment cost of RM357,142,858.

Celcom Mobile's Subscription Consideration will be funded through internally generated funds and Digi Tel's Subscription Consideration will be funded through a combination of internally generated funds and external borrowings of Digi Tel. The effect of the borrowings has not been adjusted in this pro forma consolidated financial information as no borrowing has been drawdown for the purpose of the Digi Tel's Subscription Consideration as at the date of this report.

The following disclosure illustrates the effects of the subscription of the 25% equity stake in DNB by the enlarge group, based on the following assumptions:

- (a) for the pro forma consolidated statement of financial position, the investment is completed on 31 December 2021;
- (b) for the pro forma consolidated statement of comprehensive income, the investment is completed on 1 January 2021;
- (c) the investment in DNB meets the definition of an associate and is accounted using the equity method;
- (d) Digi Tel's Subscription Consideration is to be fully funded via external borrowings, at the estimated interest rate of 3.6% per annum on the bank borrowings (refer to Note 4.1 for the details of the estimated interest rate);
- (e) Celcom Mobile's Subscription Consideration is to be fully funded through internally generated funds; and
- (f) the proposed investment in DNB by both Digi Tel and Celcom Mobile are completed at the same time with the Proposed Merger.

	Assumption reference	As per Proforma 2 RM'000	Increase/ (decrease) RM'000	Illustrative amount RM'000
<u>Pro forma consolidated statement of financial position as at 31 December 2021</u>				
Non-current assets				
Investment in associates	(c)	140,528	357,143	497,671
Current assets				
Cash and short-term deposits	(e)	1,438,924	(178,571)	1,260,353
Non-current liabilities				
Loans and borrowings	(d)	11,067,031	178,571	11,245,602

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF DIGI (Cont'd)

Appendix A

5. Subsequent event - Conditional share subscription agreement for equity stake in Digital Nasional Berhad ("DNB") (cont'd.)

	Assumption reference	As per Proforma 2 RM'000	Increase/ (decrease) RM'000	Illustrative amount RM'000
<u>Pro forma consolidated statement of comprehensive income for the financial year ended 31 December 2021</u>				
Finance costs	(d)	711,443	6,429	717,872
Share of results of associates (net of tax)	(c)	13,351	(41,147) ⁽¹⁾	(27,796)

⁽¹⁾ Based on the audited financial statements of DNB for the FYE 31 December 2021.

Based on the illustration above, the investment in DNB is expected to have the following net effects on:

	Increase/ (decrease) RM'000
Pro forma consolidated net assets	-
Pro forma consolidated loans and borrowings	178,571
Pro forma consolidated earnings	(47,576)
Pro forma earnings per share (sen)	(0.41)

Pursuant to the terms of the SSA, in the event that the Proposed Merger between Digi and Celcom does not complete by 30 June 2023, Digi Tel and Celcom Mobile each will subscribe for an additional 113,095,239 rights to allotment of DNB shares for the sum of RM113,095,239. Consequently, both Digi Tel's and Celcom Mobile's equity stake in DNB will be increased from 12.5% to 17.5%. The effects of these additional subscriptions are not illustrated, on the basis that the pro forma consolidated financial information is prepared to illustrate the effects of transactions with the assumption that the Proposed Merger was completed.