

DIALOG AXIATA PLC
PQ 38
CIRCULAR TO THE SHAREHOLDERS

Dear Valued Shareholders,

ACQUISITION OF THE ENTIRETY OF ISSUED SHARES IN BHARTI AIRTEL LANKA (PRIVATE) LIMITED AND ISSUANCE OF ORDINARY VOTING SHARES BY WAY OF A SHARE SWAP AS THE CONSIDERATION FOR THE ACQUISITION

As per the announcements made to the Colombo Stock Exchange on 02nd May 2023 and on 18th April 2024, the Board of Directors of Dialog Axiata PLC ("**DIAL**" or the "**Company**") has resolved to acquire, subject to obtaining the necessary corporate and regulatory approvals, the entirety of the issued shares of Bharti Airtel Lanka (Private) Limited ("**BAL**"). BAL was incorporated on 29th March 2007 under the aegis of the Board of Investment of Sri Lanka and is engaged in providing mobile telecommunication services including voice, data and enterprise solutions in Sri Lanka to over 3 million subscribers. BAL is a subsidiary of Bharti Airtel Limited ("**Airtel**" or the "**Selling Shareholder**"), a global communication service provider with over 500 million customers in 17 countries across South Asia and Africa.

1. Acquisition of shares in BAL and issue of new shares to Bharti Airtel Limited

The Company will, under the proposed transaction, acquire One Hundred Twenty One Billion, Five Hundred Thirteen Million, Six Hundred Forty-Six Thousand, Seven Hundred Seventy One (121,513,646,771) ordinary shares in Bharti Airtel Lanka ("**Airtel Sale Shares**") from the Selling Shareholder for consideration to be paid by the issuance of Nine Hundred and Fifty Two Million Six Hundred and Ninety Four Thousand Six Hundred and Eighty Nine (952,694,689) new ordinary voting shares in the Company ("**DIAL Shares**") to the Selling Shareholder, by way of a share swap (the "**Proposed Transaction**"). The Board of Directors of the Company has accordingly resolved to issue, subject to necessary corporate and regulatory approvals, the DIAL Shares to the Selling Shareholder. The Selling Shareholder has confirmed to the Company that the Selling Shareholder will duly comply with all relevant requirements under the laws of India (the jurisdiction that the Selling Shareholder is incorporated in) for the acquisition of the DIAL Shares, in the manner set out herein, so as to ensure that the Selling Shareholder is able to acquire the DIAL Shares without any restriction or limitation.

Based on the number of Airtel Sale Shares and the number of the DIAL Shares as specified above, the proportion at which the share swap will be effected will be 5,041 DIAL Shares for every 642,966 Airtel Sale Shares held by the Selling Shareholder, with the fractions arising from the computation of shares based on such proportion being [rounded up to the nearest whole number].

Pursuant to the Proposed Transaction, BAL will become a wholly owned subsidiary of the Company. Following the completion of the said acquisition, the Company proposes to amalgamate itself with BAL under Section 242 of the Companies Act No. 7 of 2007 ("Companies Act"), with the Company remaining as the amalgamated entity. The amalgamation is subject to relevant corporate and regulatory approvals. The Company will make a market announcement regarding the proposed amalgamation at the appropriate time.

Table 1: Details of the Share Issuance

Name of the Selling Shareholder	Shares to be transferred by the Selling Shareholder in BAL to DIAL	Shareholding in BAL	Shares in DIAL to be issued as consideration	Shareholding in DIAL following allotment
Bharti Airtel Limited	121,513,646,771	100%	952,694,689	10.355%

For the purpose of section 58(2) of the Companies Act, the Board of Directors of the Company has determined the total cash value of the Airtel Sale Shares, to be acquired by DIAL in consideration of which the said DIAL Shares will be issued by the Company to the Selling Shareholder, to be the product of:

- (a) the quantum of the DIAL Shares; and
- (b) the price equal to the prevailing 90-day volume weighted average price of all the issued and outstanding ordinary shares in the capital of the Company as at the date on which the transfer of the Airtel Sale Shares and the issuance of the DIAL Shares shall take place ("**Completion Date**").

For the purpose of the above paragraph, the 90-day volume weighted average price means as of the Completion Date, the volume weighted average price per share on the Colombo Stock Exchange from 9:30 a.m. on the trading day that is ninety (90) trading days preceding such date to 2:30 p.m. on the last trading day immediately preceding such date.

The cash value of the Airtel Sale Shares was determined by the Board of Directors of the Company, based on relative share of revenue, net investment, and additional spectrum contribution brought by Bharti Airtel Lanka after adjusting for proportionate share of debt absorbed by the Company.

Each of the DIAL Shares will, upon the issue thereof, rank *pari passu* in all respects with the existing ordinary voting shares of the Company, with the right to (i) one vote on a poll at a meeting of the Company on any resolution, (ii) an equal share in dividends paid by the Company, and (iii) an equal share in the distribution of the surplus assets of the Company on liquidation.

The DIAL Shares will be directly deposited into securities account held by the Selling Shareholder with Central Depository Systems (Private) Limited within five (5) market days (excluding the date of allotment) from the date of issue of the DIAL Shares.

The Selling Shareholder is not considered a related party to the Company, as per the definitions provided by the Listing Rules of the Colombo Stock Exchange ("**Listing Rules**") and the Sri Lanka Accounting Standards.

2. Rationale of the Proposed Acquisition of Shares in BAL to the Company and its Existing Shareholders

Over the past decade, Sri Lanka's telecommunications sector has seen significant shifts in terms of its industry and cost structure – both amongst and beyond the traditional players. Within the mobile sector, there are now over 29 million subscribers served by four mobile network operators (MNOs) – representing a mobile penetration of over 130%¹). At this level of market saturation, the prevailing industry fragmentation has led to stiff competition and overlapping network investments amongst existing players – translating into sub-optimal resource utilization and higher foreign currency outflow for the country.

Amidst an exponential growth in consumer data demand, each MNO is facing a significant challenge: they need to continually invest more in their network infrastructure to maintain their current revenue. The pressure is further exacerbated by a larger battlefield as local MNOs are now also competing against global over-the-top-(OTT) players who offer direct substitutes to traditional voice and messaging services. More importantly, the unprecedented macroeconomic crisis in 2022 and subsequent steep depreciation of the Sri Lankan Rupee led to significant losses for the industry due to a combination of increased consumer wallet pressure and escalating operating costs, particularly energy costs.

All the above factors have drastically altered the long-term sustainability of the MNOs. In line with global industry developments, this phenomenon calls for a necessary market consolidation to combine resources (especially spectrum - which is the range of radio frequencies used to transmit voice, data, and video across a network), drive economies of scale, unlock synergies and avoid duplication of network investments in order to improve customer experience and build sufficient headroom to invest in subsequent generations of technology advancements and digital innovations.

With the above considerations, the Proposed Transaction brings upon the following key benefits:

1 <https://www.trc.gov.lk/content/files/statistics/SORQ4202301022024421pmforwebupdatea.pdf> (accessed on 30th April 2024)

a. Spectrum Consolidation

The Company currently has the lowest Spectrum Hz per Customer amongst all MNOs, a critical resource to meet the growing consumer data demand and provide ubiquitous broadband coverage across Sri Lanka. Without sufficient spectrum assets, the Company would have had to incur a higher investment amount for a given network coverage and capacity target.

Following the completion of the Proposed Transaction and subsequent amalgamation, the Company will own the spectrum assets currently owned by BAL, subject to the spectrum return of 5 MHz (2.5 MHz x 2) in the 900 MHz frequency band and 5 MHz (2.5 MHz x 2) in the 850 MHz frequency band, within 6 months from the date of issuance of the TRCSL letter of approval (dated 13 March 2024) as mandated by the Telecommunications Regulatory Commission of Sri Lanka ("TRCSL"). This gain will enable the Company to expand and enhance its network coverage and capacity, thereby improving the quality and availability of its services to customers. Additionally, this will improve the Company's investment returns and operational efficiencies to support future growth opportunities.

Table 2: Spectrum Ownership – Before vs After

Band	MHz		
	DIAL Group - Current	BAL – Current	Total Post Spectrum Release
850MHz	5 (2.5 X 2)	10 (5.0 X2)	10 (5.0 X2)
900MHz	15 (7.5 X 2)	10 (5.0 X 2)	20 (10.0 X 2)
1800MHz	50 (25.0 X 2)	15 (7.5 X 2)	65 (32.5 X 2)
2100MHz	30 (15.0 X 2)	20 (10.0 X 2)	50 (25 X 2)
2600MHz	40 (40.0 X 1)	20 (20.0 X 1)	60 (60.0 X 1)
2300MHz	75 (75.0 X 1)	-	75 (75.0 X 1)
Total	215	75	280

b. Market Consolidation & Operational Synergies

The Proposed Transaction will enable the Company to further enhance its market position and revenue share with approximately three million additional subscribers from BAL. Synergies are anticipated to be realized mainly through consolidation of network and IT infrastructure, enabling greater economies of scale which will create more capacity to fund future investment requirements and drive sustainable growth. Commercially, the Company will also gain from a more diversified product and services portfolio, leveraging on the complementary segment strengths of both Dialog and Airtel. Overall, the synergies and benefits from the Proposed Transaction is expected to be value accretive and will strengthen resilience of shareholders returns over the medium to long term.

c. Customer Benefits

Once fully integrated, the combined scale and value created by the Proposed Transaction will allow the Company to optimize its investments to benefit Sri Lankan customers and businesses through a stronger network with better coverage and enhanced capacity. As elaborated above, the combination of the Dialog and Airtel brands will also bring upon a wider array of exciting products and services to customers. More importantly, customers of Dialog and Airtel will benefit from the Company's increased scale, capacity, and network efficiency – all of which will translate into better quality of experience following the completion of the post-acquisition network integration activities.

d. Sustained Gearing Level Post Acquisition

As part of the agreement between the Company and the Selling Shareholder, the balance sheet of BAL will be restructured prior to the transfer of Airtel Sale Shares to the Company. Accordingly, the Selling Shareholder shall ensure that the net debt position of BAL at the date of acquisition is proportionate to the Selling Shareholder's equity stake in the Company post transfer of shares. This restructuring exercise will ensure that the Company's gearing level remains sustainable following completion of the Proposed Transaction.

3. Capital structure of the Company

The current stated capital of the Company is LKR 29,349,706,104.60. Pursuant to the issue of the DIAL Shares, the stated capital of the Company will increase by the cash value of the Airtel Sale Shares (being the consideration for the DIAL shares to be issued to the Selling Shareholder computed based on the formula set out in Section 1 above.)

The public shareholding (as defined in the Listing Rules) of the Company at present is [17.65%] and pursuant to the issue of the DIAL Shares, the public shareholding of the Company will be 15.82%.

The top twenty (20) shareholders of the Company as at 31st March 2024 are as follows:

Table 3: List of Top 20 shareholders of the Company (as at 31st March 2024)

	Shareholder Name	Number of Shares	Shareholding %
1	AXIATA INVESTMENTS (LABUAN) LIMITED	6,785,252,765	82.27%
2	EMPLOYEES PROVIDENT FUND	237,424,082	2.88%
3	BBH LUXFIDELITY FUNDS - PACIFIC F	147,311,909	1.79%
4	CITIBANK HONG KONG S/A HOSTPLUS POOLED SUPERANNUATION TRUST	121,193,085	1.47%
5	SSBT-SUNSUPER PTY. LTD. AS TRUSTEE FOR SUNSUPER SUPERANNUATION FUND	117,218,622	1.42%
6	CITIBANK NEWYORK S/A NORGES BANK ACCOUNT 2	112,779,336	1.37%
7	BBH - FIDELITY FUNDS	53,560,648	0.65%
8	NORTHERN TRUST COMPANY S/A HOSKING GLOBAL FUND PLC	52,016,940	0.63%
9	EMPLOYEES TRUST FUND BOARD	49,134,030	0.60%
10	J.B. COCOSHELL (PVT) LTD	40,051,159	0.49%
11	JPMCB NA-FIDELITY ASIAN VALUES PLC	38,530,079	0.47%
12	CACEIS BANK, LUXEMBOURG BRANCH-NEF	26,206,391	0.32%
13	MR. D.P. PIERIS	22,496,254	0.27%
14	HATTON NATIONAL BANK PLC - CAPITAL ALLIANCE QUANTITATIVE EQUITY FUND	15,256,536	0.18%
15	INVENCO CAPITAL PRIVATE LIMITED	14,194,553	0.17%
16	DEUTSCHE BANK AG AS TRUSTEE FOR JB VANTAGE VALUE EQUITY FUND	11,143,441	0.14%
17	UNION ASSURANCE PLC-UNIVERSAL LIFE FUND	9,580,192	0.12%
18	MERCANTILE INVESTMENTS AND FINANCE PLC	9,300,000	0.11%
19	DEUTSCHE BANK AG AS TRUSTEE TO ASSETLINE INCOME PLUS GROWTH FUND	8,875,349	0.11%
20	BNPP SIN/2S-BNP PARIBAS AS TRUSTEE FOR HARVEST FUND SERIES (HONG KONG)-ASIA FRONTIER EQUITY FUND	8,323,606	0.10%
	OTHER SHAREHOLDERS	388,972,530	4.44%
	TOTAL SHARES	8,247,640,305	100.00%

4. Market Price of Shares

The highest, lowest and closing prices of the Company's shares for the preceding three (03) months are given below:

Table 4: Details of Share Price Movement

Month	Highest Price (LKR)	Lowest Price (LKR)	Closing Price (LKR)
February 2024	10.60	9.00	10.40
March 2024	12.00	10.40	11.70
April 2024	12.20	11.50	11.90

The closing price of DIAL's shares as of the date of printing this circular was LKR 11.50.

5. Dividend History

The dividend history of the Company for the last three (3) years is as follows:

Table 5: Dividend History

Year	Dividend per Share (Rs)	Dividend Payout Ratio	Dividend Yield	Total Payout (Rs Bn)
2023 (Proposed)	1.34	55%	14.9%	11.1
2022	No Dividend Declared			
2021	1.24	60%	11.4%	10.2

6. Compliance with Law

6.1 Approval from TRCSL

The Company has obtained the approval of the TRCSL by way of letter dated 13th March 2024, for the acquisition of Airtel Sale Shares by the Company and the amalgamation to follow, subject to certain conditions as set out in the said letter of approval. Such conditions, however, will not affect the ability of the Company to proceed with the Proposed Transaction and the amalgamation.

6.2 Notice of an issue of shares to the Board of Investment of Sri Lanka

In terms of agreement dated 23rd February 1994 entered into between the Company and the Board of Investment of Sri Lanka, the shares of the Company may be allotted within and outside Sri Lanka to residents or non-residents subject to the Board of Investment of Sri Lanka being informed of the same thirty days in advance. The Company has written to the Board of Investment of Sri Lanka on the 18 August 2023 providing the Board of Investment of Sri Lanka with notice of the proposed issue of DIAL Shares to the Selling Shareholder.

Furthermore, the approval of the Board of Investment of Sri Lanka has been duly sought by DIAL for the proposed amalgamation of the Company with BAL following the acquisition of the entirety of the issued shares of BAL by DIAL.

6.3 Compliance with Listing Rules of Colombo Stock Exchange (CSE)

The Company has taken all steps to comply with all relevant provisions of Section 5 of the Listing Rules in relation to the issue of DIAL Shares by way of a share swap, including obtaining the in – principle approval from the Colombo Stock Exchange for the issue and listing of the DIAL Shares by letter dated 08th May 2024.

In terms of the Listing Rules, the issue of the DIAL shares requires the approval of the shareholders of the Company by special resolution.

6.4 Compliance with the Companies Act

In terms of section 52 of the Companies Act, the Board has resolved on 17th April 2024 that in its opinion, the consideration for which the DIAL Shares will be issued, being the One Hundred Twenty One Billion, Five Hundred Thirteen Million, Six Hundred Forty-Six Thousand, Seven Hundred Seventy One (121,513,646,771) ordinary shares in BAL having a total cash value of a sum that is computed as per the formula set out in Section 1 hereof is fair and reasonable to the Company and to all existing shareholders of the Company.

The Board has complied with the requirements of Section 58 (2) of the Companies Act by determining that the cash value of the consideration of the DIAL Shares shall be a sum computed as per the formula set forth in Section 1 hereof.

6.5 Compliance with Articles of Association

Article 9 of the Company's Articles of Association requires the Company to obtain the approval of the shareholders by a special resolution to issue shares of the Company without offering such new shares to the holders of the existing shares of the Company in a manner which would, if accepted, maintain the relative voting and distribution rights of the shareholders.

6.6 Applicability Company Take-overs and Mergers Code 1995

Since the issuance of the DIAL Shares will result in the Selling Shareholder holding voting rights percentage of 10.355% in the Company, there is no requirement for the Selling Shareholder to make a mandatory offer under Rule 31 of the Company Take-overs and Mergers Code 1995, as amended (the "Code") which is promulgated under the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021.

In terms of Rule 36 of the Code however, when a person or persons acting in concert with such person acquires or holds ten per cent (10%) or more of the shares or voting rights of a listed company, such person must report his or their holdings to such company, the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange within two (2) market days of such acquisition. As such, the Selling Shareholder is required to make a disclosure accordingly, within two (2) market days of being issued with the DIAL Shares, to the Company, the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange.

The special resolution to obtain the approval of the shareholders of the Company in terms of the Listing Rules and the Articles of Association of the Company, will be submitted for consideration at an Extraordinary General Meeting ("**EGM**") which will be held on 13 June 2024 immediately after the Annual General Meeting. The Resolution giving effect to the above proposal is given in the Notice of Meeting enclosed herewith.

Yours sincerely,
DIALOG AXIATA PLC



GROUP COMPANY SECRETARY
13th May 2024