MANAGEMENT DISCUSSION AND ANALYSIS

Stronger margins and solid postpaid revenue growth into 2017

Digi started off 2017 with another quarter of strong postpaid performance with revenue growth of 12.1% year-on-year alongside solid acquisition momentum. However, overall service revenue moderated as a flow through from continued prepaid challenges and rationalisation strategy to focus on sustainable prepaid services to move forward with digital opportunities. EBITDA stayed healthy at 45% margin or RM711 million, an uplift of 1.0% year-on-year while ops cash flow remained steadfast at RM514 million.

EXECUTIVE SUMMARY

2017 unfolded with new opportunities as Digi continued to thrive on adversity and registered:

- Stronger profitability with 2.5% higher gross profit and 1.0% EBITDA growth while EBITDA margin improved 2.6pp to 45%;
- Improved prepaid margins and sustainability;
- Solid postpaid revenue growth of 12.1% and internet revenue growth of 15.2%;
- Robust LTE subscriber base at 4.7 million or 60% of smartphone subscriber base;
- Solid progress on digitisation of core business;
- Completion of spectrum re-farming and LTE 900Mhz sites deployment; and
- Healthy ops cash flow and profit after tax.

RM million	1Q17	4Q16	Q-o-Q	Y-o-Y
Service revenue	1,472	1,555	-5.3%	-5.6%
Total revenue	1,574	1,670	-5.7%	-4.8%
EBITDA	711	741	-4.0%	1.0%
EBITDA margin	45%	44%	0.8pp	2.6pp
Profit before tax	510	544	-6.3%	-4.5%
Profit after tax	373	375	-0.5%	-6.5%
Capex	197	240	-17.9%	15.2%
Ops cash flow	514	501	2.6%	-3.6%
Ops cash flow margin	33%	30%	2.7pp	0.4pp
EPS (sen)	4.8	4.8	0.0%	-5.9%
DPS (sen)	4.7	4.8	-2.1%	-7.8%

However, our prepaid business remained challenging with prolonged restrained consumer sentiment from macro economy headwinds and effects of weaker MYR currency into 2017.

Our decision to focus on sustainable prepaid services and digital opportunities led to sharper targeted prepaid acquisitions into 2017 while continued intense competition accelerated prepaid subscriber rotational churns especially among price sensitive prepaid segments although partially cushioned by healthy prepaid to postpaid conversions.

Although, Digi turned in improved prepaid margins and resilient internet revenue, prepaid subscribers, ARPU and revenue trimmed steeper for the quarter.

Beset by the sharper prepaid contraction and seasonal decline, service revenue trimmed 5.6% year-on-year and 5.3% quarter-on-quarter on the back of stronger profitability.

Going forward, Digi will strive to strengthen internet propositions in targeted segments to continue to grow postpaid and stabilise prepaid with sustainable customer base contribution.

OPERATIONAL AND FINANCIAL UPDATES

Fuelling postpaid growth with ‘Freedom To Internet’ proposition and online exclusive offers

During the quarter, we registered favourable postpaid take-up for entry level 4G plans and prepaid to postpaid conversions as well as solid interests from exclusive online deals. The solid acquisition momentum led to 15.1% higher postpaid subscribers to 2.2 million from a year ago.

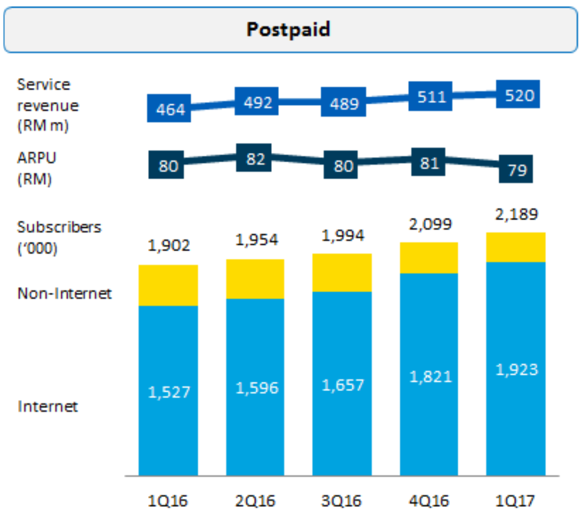
Meanwhile, postpaid revenue surged another 12.1% year-on-year to RM520 million or an increase of 1.8% quarter-on-quarter on the back of robust postpaid internet revenue contribution of RM286 million.

Our strong postpaid performance and record high postpaid revenue continued to be supported by:

- Sharper product fundamentals with ‘Freedom to Internet’ network proposition and worry-free roaming services, which extended to more countries, including Greater China;

- Stronger easy-entry proposition through affordable 4G device bundled plans; and
- Online exclusive deals for sign-ups including limited time promotional offers for Digi Postpaid Infinite plans on Digi's online retail store.

Meanwhile, postpaid ARPU stood at RM79, similar level to prior year, alongside rapid postpaid subscriber base expansion.



Strategic decision to drive sustainable prepaid revenue with affordable and innovative internet passes

With the prepaid market continued to be beleaguered by prolonged effects from macro economy headwinds and weaker MYR currency into 2017, our prepaid business remained relatively vulnerable to contractions from price sensitive segments, restrained spending and revenue dilutions from highly intense competition.

Our decision to rationalise IDD pricing and to focus on sustainable prepaid services in 2016 while competition remained intense alongside rapid prepaid to postpaid conversions accelerated prepaid subscriber churn. Prepaid subscriber base trimmed 613K to 9.6 million.

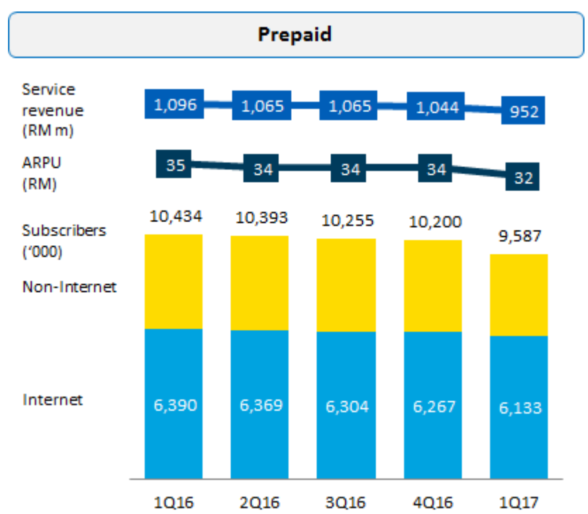
Meanwhile, lower prepaid revenue from legacy prepaid services mainly from IDD services, 3rd party contents and pay-per-use internet services coupled with seasonal decline trimmed prepaid ARPU to RM32.

Consequentially, prepaid revenue decline widened to 13.1% year-on-year and 8.8% quarter-on-quarter to RM952 million, albeit cushioned by healthier profitability development with improved margins and stronger internet revenue contribution to 35.2% of prepaid revenue.

As part of the initiative to stabilise prepaid, we have capitalised on 4G+ internet positioning focusing on best value, simple and clear propositions with continued enhancements to our 2 core Digi Prepaid plans, Digi Prepaid LiVE and Digi Prepaid Best as a preferred choice for digital entertainment, social and best value.

At the same time, we continued our focus on driving sustainable prepaid services with rationalisation of legacy prepaid services and stabilise prepaid revenue with affordable and innovative subscription passes for video, social and internet services as well as worry-free passes for bundled data quotas, voice and Facebook access.

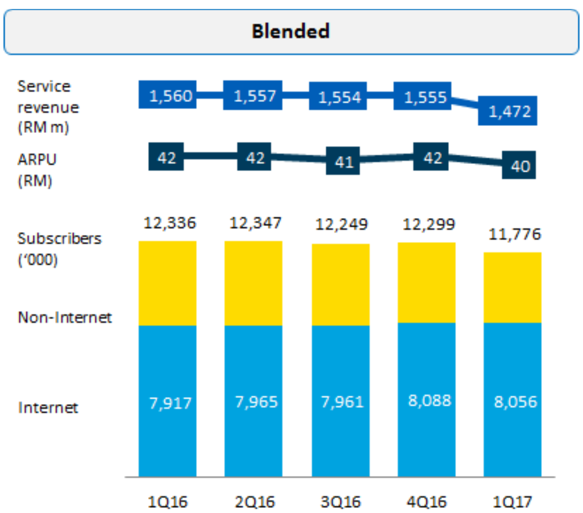
With prepaid headwinds unlikely to recede in immediate terms, Digi will capitalise on game changing opportunities to overcome challenges and step up efforts to strengthen customer base contribution and fortify its position in targeted segments with service innovation and stronger internet proposition.



More sustainable service revenue albeit moderated top line and subscriber base

Although Digi delivered continued solid postpaid growth for the quarter, overall subscriber base, ARPU and service revenue were undermined by prepaid contraction.

Service revenue moderated 5.6% year-on-year and 5.3% quarter-on-quarter amid continued strong prepaid to postpaid conversions, improved margins and more sustainable earnings. Internet revenue strengthened 15.2% year-on-year to RM621 million and made up 42.2% of service revenue, alongside higher smartphone adoption to 68.0%.



Sales of device and other revenue rose 9.7% year-on-year to RM102 million mainly due to inclusion of shared site rental income which was only included from 2Q 2016 onwards but trended 11.3% lower when compared to previous quarter due to lower revenue from sales of device.

Sprinting ahead with improved efficient operations

We continued to pursue efficient operations and new operating models, leveraging on Telenor's global and regional cluster synergies on areas such as procurement and sourcing, network and IT collaborations as well as strategic digital services and innovations to re-shape our business with stronger agility and efficiency, in addition to capturing growth potential from the digital ecosystem.

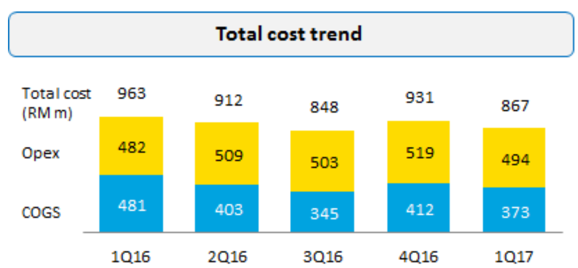
During the quarter, Digi continued to demonstrate discipline cost management with 10.0% year-on-year and 6.9% quarter-on-quarter improvement on total cost.

Cost of goods sold (COGS) improved 22.5% year-on-year and 9.5% quarter-on-quarter mainly due to lower traffic volumes from legacy prepaid services as well as favourable traffic cost development.

Gross profit strengthened 2.5% year-on-year to RM1.20 billion, although sequentially lower due to relatively higher demand for 4G bundled devices.

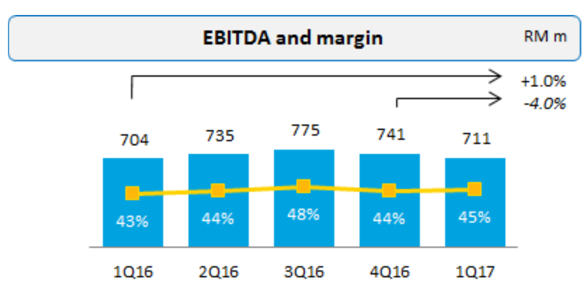
Excluding the shared site rental cost which was included only from 2Q 2016 onwards, absolute opex remained relatively flat year-on-year although core operations significantly expanded with larger 4G+ network footprint and more advanced IT capabilities from a year ago.

Opex for the quarter ended 4.8% leaner sequentially consistent with moderated service revenue and improved operational efficiencies.



Stronger year-on-year EBITDA at 45% margin and resilient ops cash flow

Digi delivered relatively stronger year-on-year EBITDA at RM711 million or 45% margin on the back of stronger gross profit alongside a well-managed cost structure.



EBITDA margin improved 0.8pp quarter-on-quarter but absolute EBITDA trimmed on sequentially lower service revenue.

As a flow through from EBITDA development, profit before tax stood at RM510 million after accounting for progressively higher depreciation (1Q 2017: RM176 million, 1Q 2016: RM156 million) from robust annual investments in network and IT infrastructure capabilities.

PAT remained healthy at 24% margin or RM373 million, steady quarter-on-quarter, as effective tax rate re-traced back to corporate tax rate level.

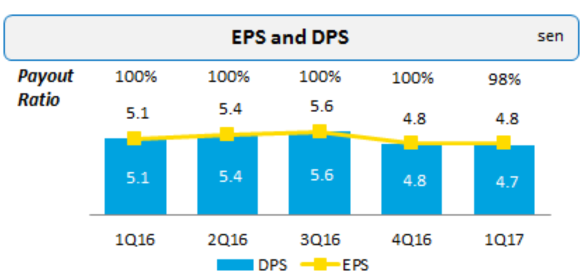
Meanwhile, ops cash flow resilient at RM514 million or 33% margin, an uplift of 2.6% sequentially alongside with 15.2% higher capex at RM197 million compared to the start of 2016, as planned, to complete the spectrum re-farming exercise and the deployment of LTE 900Mhz sites.

With the re-farming and deployment completion in place, our LTE 900Mhz network is ready to support customers with better network quality and capacity to complement our existing 4G+ network, once approval for activation is obtained.

4G-LTE coverage	LTE-A Coverage	Fiber network
85%	42%	7,700 KM

Beyond the network expansion, we are strategically investing into new technologies such as virtualisation and scalable network and IT infrastructure, digitisation of core business to take the necessary digital leaps in the most efficient manner to innovate and evolve around what our customers increasingly want.

Resilient shareholders' return with healthy dividend yield



Earnings per share (EPS) for the quarter stood resilient at 4.8 sen, same level as previous quarter amid weaker top line development.

The Board of Directors declared 1st interim dividend of 4.7 sen per share equivalent to RM365 million, payable to shareholders on 30 June 2017.

Total assets strengthened 16.4% from a year ago with the inclusion of RM598.5 million advance payments for 900Mhz and 1800Mhz spectrum and continued investments to support Digi's 4G+ network expansion.

Digi's net debt to EBITDA ratio remained healthy at 0.7 times while balance sheet continued to demonstrate solid financial capability and flexibility to fund immediate as well as future investments and operational commitments.

Balance sheet RM m

	1Q16	2Q16	3Q16	4Q16	1Q17
Total Assets	4,922	4,708	4,739	5,498	5,729
Total Equity	537	562	580	519	519
Interest-bearing debts	1,631	1,424	1,461	2,282	2,558
Cash & cash equivalents	503	366	331	377	479

Post 1Q 2017, we raised RM900 million funding through the issuance of Islamic Medium Term Notes (IMTN) in 3 tranches of RM300 million each for 5 years, 7 years and 10 years tenor as part of the RM5.0 billion Sukuk Programmes.

Digi's AAA rated IMTN issuance was fully subscribed with favourable coupon rates as follows:

Issued Amount	Issue Date	Maturity Date	Coupon	Rating
Islamic Medium Term Notes (IMTN)				
• 5 years tenor – RM300 million	14 Apr 2017	14 Apr 2022	4.38% p.a.	RAM: AAA, Stable
• 7 years tenor – RM300 million	14 Apr 2017	12 Apr 2024	4.53% p.a.	RAM: AAA, Stable
• 10 years tenor – RM300 million	14 Apr 2017	14 Apr 2027	4.65% p.a.	RAM: AAA, Stable

With the establishment of diverse funding to complement our existing funding facilities, we are now well-positioned to fund investments in data and digital growth opportunities as well as future investments in strategic assets and spectrum.

We are committed to manage a prudent net debt-to-EBITDA of below 2.0 times in the next 3 years.

Creating value as Customers' Favourite Partner in digital life

Our renewed promise to inspire customers' digital lifestyle by innovating across every area of our business, built on strong foundations in being a responsible, people-oriented company, anchors our business priorities and strategic focus.

In the recent quarters, we constantly pivoted, re-shaped, and re-designed our products and services proposition and go-to-market approach, anchoring on these 3 core principles:

- Digital Customer Experience;
- Freedom to Internet; and
- Best Value.

We accelerated our digitisation journey and successfully delivered new capabilities that supported engaging digital customer experience and stronger operational efficiencies.

These hallmark achievements included the all-new MyDigi app with enhanced features for Digi customers to have greater control over their digital lifestyle while being rewarded with exclusive deals and personalised offers, mobile sales app for dealers, self-serve kiosks at Digi Stores as well as the convenience of electronic Queue Management System.

Active users on our all-new MyDigi app rapidly grew to 1.7 million with many more customers turning to MyDigi for their regular bill payments, reloads and quota top-up transactions.

During the quarter, we made a bold step to be the first mobile operator in Malaysia to launch a fully capable online retail store, an expansion of Digi's distribution channel to serve our increasingly digitally-savvy customers.

Meanwhile, our 'Freedom to Internet' and 4G+ (4G LTE and LTE-A) network proposition successfully led to growing customer demand and use of digital services on Digi's 4G+ network as their preferred partner in digital entertainment.

Our commitment to deliver consistent best internet experience on our 4G+ network anchored solid LTE subscriber growth of 63.1% year-on-year while data traffic surged 1.3 times year-on-year or 0.3 times quarter-on-quarter in line with the growing LTE subscriber base and rising data demand in customers' digital lifestyle.

Venturing into digital opportunities - a new impetus of revenue growth

As part of the move to unlock new digital revenue streams, Digi initiated several notable digital ventures via Digi-X to pave the way for future growth opportunities.

The digital ventures include a partnership with Tink Labs to be the sole distributor of *Handy* devices in Malaysia, a mobile travel solution for hotel guests that will run on Digi's 4G+ network.

We also established iFleet, an intelligent fleet management solution for businesses to monitor the activity and gather vital data of their fleet vehicles.

With Digi well-positioned to capitalise on mobile and digital strengths, we established Hyperlocal Media, an online digital media solution for indoor and outdoor advertising, from digitally-branded vehicles, in-store screens and large format digital billboards, without the hassle of lengthy and often costly procedures for static billboards.

These ventures together with future possible adjacent business opportunities will be Digi's new impetus of revenue growth.

Stronger foundation to embrace digital transformation

We have a clear ambition to be Customers' Favourite Partner in their digital life and the opportunities from the increasing digital demand will fuel our growth.

With the digital world expanding and customers becoming more digitally-engaged than ever, Digi plays an important role in enabling customers to experience reliable, high-quality internet and digital service on their smartphones and devices.

Although 2017 outlook remains challenging, we will continue to intensify and deliver on our strategic focus in:

- Enabling freedom to internet with best 4G+ network that is suitable for all types of digital entertainment;
- Stronger operational efficiencies to deliver best value and affordable products and services to more Malaysians;
- Driving profitable revenue growth – with solid growth from postpaid and internet; and
- Bringing engaging digital products, richer retail and digital experiences that are meaningful to customers.

Our capex commitments will be reviewed periodically on a dynamic basis as we prioritise investments in growth opportunities and strategic capabilities that will enable Digi to be Customers' Favourite Partner in their digital life.

The 2017 financial guidance is summarised as follows:

	2017 Guidance	1Q 2017 Actual
Service revenue (RM)	Around 2016 level	1.47 billion
EBITDA margin		45%
Capex to service revenue ratio	11% - 13%	13%

These are internal management targets which will be reviewed periodically by the Board of Directors. Hence, these internal targets have not been reviewed by our external auditors.

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This report is to be read in conjunction with the announcement to Bursa Malaysia and all other disclosures related to our 1st Quarter, 2017 result.