MANAGEMENT DISCUSSION AND ANALYSIS

Solid EBITDA margin and healthy dividend backed by strong postpaid growth and efficient operations

Digi delivered resilient performance with stronger EBITDA margin at 46% while postpaid revenue climbed 8.9% higher year-on-year to RM536 million. Prepaid revenue decline improved sequentially to 3.7% anchored by stronger prepaid subscriber base at 9.7 million. Meanwhile, ops cash flow margin remained healthy at 31% and well supported by the relentless drive for efficient operations on the back of rapid expansion of 4G LTE and LTE-A network and deployment of LTE 900Mhz.

EXECUTIVE SUMMARY

Digi continued to deliver solid postpaid performance during the quarter with robust postpaid subscriber growth to seal 1H 2017 with 10.5% postpaid revenue growth.

RM million	2Q17	1Q17	Q-Q	Y-Y
Service revenue	1,453	1,472	-1.3%	-6.7%
Total revenue	1,552	1,574	-1.4%	-6.2%
EBITDA	717	711	0.8%	-2.4%
EBITDA margin	46%	45%	1.0pp	1.8pp
Profit before tax	483	510	-5.3%	-16.1%
Profit after tax	359	373	-3.8%	-14.7%
Capex	229	197	16.2%	37.1%
Ops cash flow	488	514	-5.1%	-14.1%
Ops cash flow margin	31%	33%	-1.2pp	-2.9pp
EPS (sen)	4.6	4.8	(0.2)	(0.8)
DPS (sen)	4.6	4.7	(0.1)	(0.8)

The solid postpaid development, stronger subscriber base at 12.0 million alongside 13.3% higher year-on-year internet revenue narrowed overall service revenue decline from legacy services to 1.3% quarter-on-quarter and 6.7% year-on-year.

EBITDA remained relatively steady at RM717 million, 0.8% higher than preceding quarter but moderated 2.4% year-on-year while EBITDA margin improved to 46%.

Despite the adversity in the retail mobile (ex-wholesale) industry, Digi continued to deliver resilient performance to sustain healthy margins and returns, while actively strengthening network and IT capabilities with strategic investments in infrastructure, technology and spectrum assets.

At end 2Q 2017, our 4G LTE and LTE-A network coverage reached 86% and 45% of the population nationwide, supported by 9,000 LTE sites and 8,000 km of fiber network.

Our data traffic delivery continued to show healthy 1.4 times growth year-on-year as 4G subscribers surged to 66% of total smartphone subscribers from 43% a year ago.

With the stronger 4G Plus network enhanced with LTE 900Mhz capabilities, Digi will continue to drive postpaid growth opportunities and stabilise prepaid with higher prepaid internet revenue.

OPERATIONAL AND FINANCIAL UPDATES

Solid postpaid growth fuelled by 'Freedom to Internet' propositions and redefined roaming experience

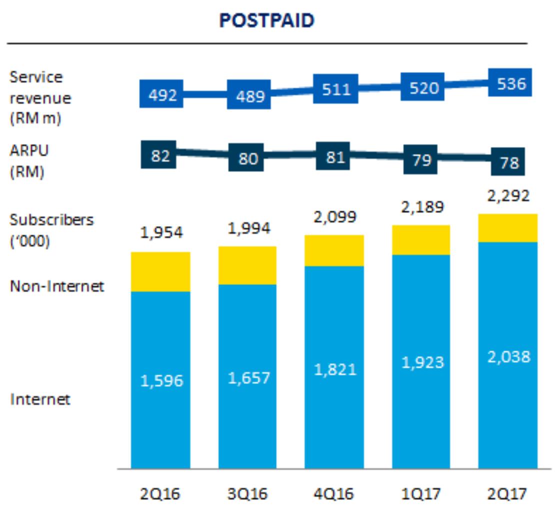
During the quarter, we continued to fuel favourable postpaid take-up for entry level 4G plans, affordable device bundles and prepaid to postpaid conversions as well as solid interests from exclusive online deals.

Our easy entry postpaid plans anchoring on 'Freedom to Internet' and mobile entertainment propositions alongside with redefined roaming experience continued to drive solid postpaid acquisition momentum.

Postpaid subscriber base steadily rose 17.3%, an uplift of 338K to 2.3 million from a year ago.

Consequentially, postpaid revenue surged 8.9% year-on-year and 3.1% quarter-on-quarter to RM536 million on the back of robust postpaid internet revenue contribution of RM302 million.

Meanwhile, postpaid ARPU stood relatively steady at RM78 backed by solid postpaid subscriber growth especially within the easy entry and affordable postpaid segments.



Stabilising prepaid subscriber and ARPU alongside with stronger prepaid internet revenue

Our decision to rationalise prepaid legacy services and to sharpen our focus on prepaid internet services with stronger data monetisation contributed to a more stable and sustainable prepaid development amid challenging prepaid market conditions.

During the quarter, we further capitalised on Digi's 4G Plus network to reposition Digi Prepaid LiVE simpack to strengthen prepaid internet acquisitions and to grow recurring internet revenue commitments via affordable and innovative time or app based prepaid internet subscription passes for video, social and internet services.

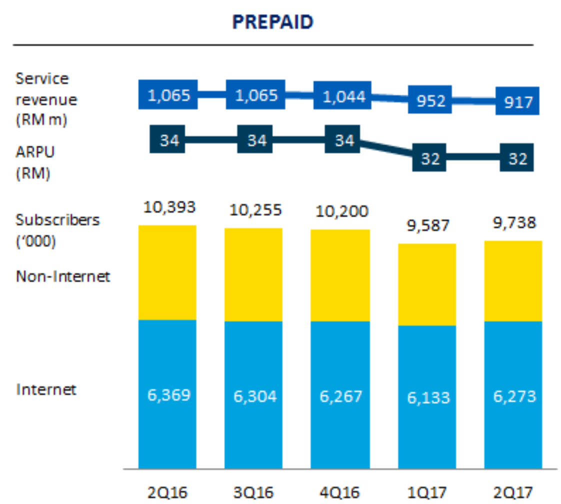
Digi's intensified market focus backed by enhanced prepaid internet offers and robust 4G Plus network enabled a stronger comeback into the market to drive growth opportunities and retention.

Prepaid subscriber base rebounded with net adds of 151K to 9.7 million subscribers while prepaid internet subscribers significantly surged 140K to 6.3 million.

At the same time, prepaid ARPU remained steady at RM32, fairly resilient against seasonally softer prepaid activities during the Ramadan month.

Although challenging prepaid market conditions persisted, our solid internet propositions coupled with strong market execution support strengthened prepaid internet revenue by 3.7% year-on-year to RM335 million or 36.5% of prepaid revenue.

Meanwhile, sequential prepaid revenue decline significantly improved and narrowed to 3.7%. Similar to preceding quarter, the relatively lower prepaid revenue contribution from legacy services mainly from IDD services, 3rd party contents and pay-per-use internet services resulted in 13.9% lower prepaid revenue, when compared to a year ago.



Stronger subscriber base with improved ARPU

Over the quarter, we continued to strengthen and shape our product offerings with stronger 'Freedom to Internet' propositions relevant to customers' evolving digital lifestyle.

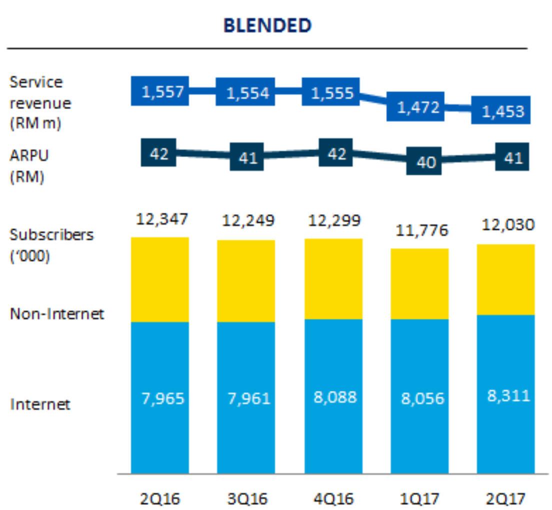
The sharper focus on internet and mobile entertainment supported by stronger 4G Plus network nationwide alongside with redefined roaming experience spurred robust subscriber development with incremental net adds of 254K to 12.0 million subscribers while LTE subscriber base rose 61.0% year-on-year to 5.3 million.

Consequentially, overall internet revenue strengthened 13.3% year-on-year and 2.6% quarter-on-quarter to RM637 million and made up 43.8% of service revenue, supported by 69.1% active internet users and 68.6% smartphone users within the subscriber base.

At the same time, we made good progress on digital customer experience with monthly active users on MyDigi surged another 400K sequentially to 2.0 million active users with over 13 million of up sell transactions made in 2Q 2017.

During the quarter, we reached another new milestone towards digitisation of our core operations with almost 100% adoption of Mobile Sales App (MSA) across our retail and controlled channels. This new digital capability in our retail channels will empower our agents and dealers with significantly improved speed to execution and to serve more customers nationwide efficiently.

Although overall service revenue growth remained challenging, sequential service revenue decline improved to 1.3% on the back of stronger sequential postpaid growth and stabilising prepaid operations.



Sales of device and other revenue remained flat year-on-year at RM99 million with relatively higher quantity of affordable device bundles sold during the quarter.

Sustainable margins anchored by efficient cost management

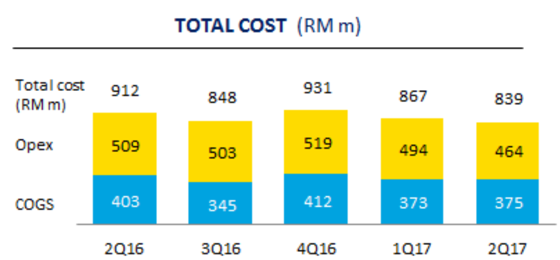
During the quarter, Digi continued to demonstrate discipline cost management with 8.0% year-on-year and 3.2% quarter-on-quarter improvement on total cost.

Cost of goods sold (COGS) improved 6.9% year-on-year and remained stable quarter-on-quarter mainly due to lower year-on-year traffic volumes from legacy IDD services while supporting higher data transmission cost from increasing data demand.

Opex for the quarter trimmed 8.8% year-on-year and 6.1% sequentially mainly from the realisation of one-time savings in network related cost from relentless initiatives to drive efficient operations.

Opex to service revenue ratio moderated to 31.9%, 1.7pp lower than preceding quarter amid Digi's continued focus to intensify its market presence and deliver a great network and digital customer experience.

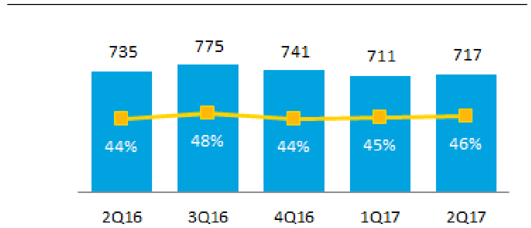
Operational excellence remained a core priority to drive market resilience, deliver reliable and affordable services to customers as well as generate sustainable returns.



Resilient EBITDA with 46% margin supported by healthy ops cash flow

EBITDA margin climbed up 1.8pp year-on-year and 1.0pp quarter-on-quarter to 46% with absolute EBITDA strengthened sequentially to RM717 million despite moderated service revenue during the quarter.

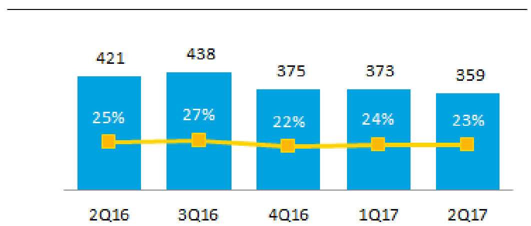
EBITDA AND MARGIN (RM m and %)



Profit before tax stood at RM483 million after accounting for progressively higher depreciation to RM194 million, up 35.7% year-year and 10.2% quarter-on-quarter and additional finance cost from the issuance of RM900 million Islamic bond (Sukuk) in April 2017.

Consequentially, profit after tax (PAT) for the quarter ended at RM359 million while PAT margin stood healthy at 23%.

PAT AND MARGIN (RM m and %)

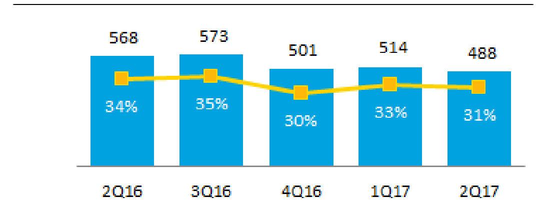


Ops cash flow remained healthy at RM488 million or 31% margin with 37.1% higher year-on-year capex of RM229 million frontloaded to maximise spectrum opportunities with the deployment of LTE 900Mhz sites in addition to 4G LTE and LTE-A network and fiber network expansion, as planned.

4G-LTE coverage	LTE-A coverage	Fiber network
86%	45%	8,000 KM

With the activation of LTE 900Mhz network in July 2017, Digi customers will be able to enjoy better indoor network quality and capacity on our 4G LTE network.

OPS CASH FLOW AND MARGIN (RM m and %)



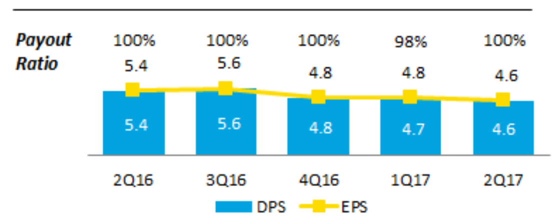
Healthy returns and dividend payout

Earnings per share (EPS) for the quarter levelled to 4.6 sen with cumulative EPS in 1H 2017 at 9.4 sen, after accounting for progressively higher depreciation and higher finance cost to support strategic investments in network and IT capabilities and spectrum assets.

The Board of Directors declared 2nd interim dividend of 4.6 sen per share equivalent to RM358 million or almost 100% dividend payout, payable to shareholders on 29 September 2017.

The consistent 100% dividend payout ratio exceeded the Company's dividend policy of distributing a minimum 80% of our net profits and demonstrated our commitment in delivering long-term shareholder value commitment.

EPS AND DPS (sen)



Total assets strengthened 27.4% 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 Plus network expansion.

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

BALANCE SHEET (RM m)

	2Q16	3Q16	4Q16	1Q17	2Q17
Total Assets	4,708	4,739	5,498	5,729	5,996
Total Equity	562	580	519	519	513
Interest-bearing debts	1,424	1,461	2,282	2,558	1,809
Islamic debts	0	0	0	0	900
Cash & cash equivalents	366	331	377	479	628

Going forward, we will continue to fortify Digi's 4G Plus network, driving customer focused innovative products and digital services and best digital customer experience as part of our key value propositions.

Further to that, we will step up on developing new capabilities and leverage on new technologies to drive our business forward towards realising our digital service ambition to be customers' favourite partner in their digital life.

Striving for stronger operational and financial performance in 2H 2017

In 1H 2017, we continued to deliver a fairly resilient performance in an increasingly competitive and tough market environment especially within the retail mobile industry, where traditional revenue streams are threatened, beset further by macroeconomic challenges.

Our focus for the next 6 months will be to strengthen operational and financial performance, continue to deliver on operational excellence and ensure solid execution to deliver value for our customers and shareholders.

As part of the focus, we will continue to drive postpaid core propositions with 'Freedom to Internet' and digital entertainment offerings and strengthen prepaid operations with stronger internet revenue growth.

We will further capitalise on Digi's robust 4G Plus network, now enhanced with LTE 900Mhz, VoLTE and VoWiFi capabilities to strengthen our products and services offering and to drive new opportunities from enterprise business and solutions

In addition, we will strive to ensure prudent financials with operational efficiencies and manage net debt/EBITDA ratio not exceeding 1.0 time for FY2017.

We continued to be highly driven and passionate to deliver stronger agility and capability to realise our digital ambitions in bringing engaging digital products and services that are meaningful to customers while ensuring sustainable returns in our operations.

The 2017 updated financial guidance is summarised as follows:

	Updated 2017 Guidance	FY2016
Service revenue growth	Low - mid single digit decline	-1.9%
EBITDA margin	Around 2016 level	45%
Capex to service revenue ratio	11% - 13%	12.5%

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 2nd Quarter, 2017 result.