

Robust earnings uplift with continued postpaid growth

Postpaid revenue registered another strong year-on-year growth of 10.4% to deliver resilient sequential service revenue performance at RM1.55 billion. Meanwhile, the relentless focus on driving sustainable growth led to 7.8% year-on-year stronger EBITDA or 48% margin, highest in the last 4 quarters and PAT year-on-year growth of 10.3% to RM438 million.

EXECUTIVE SUMMARY

RM million	3Q16	2Q16	Q-o-Q	Y-o-Y
Service revenue	1,554	1,557	-0.2%	-1.9%
Total revenue	1,619	1,655	-2.2%	-3.3%
EBITDA	775	735	5.4%	7.8%
EBITDA margin	48%	44%	3.5pp	4.9pp
PAT	438	421	4.0%	10.3%
Capex	202	167	21.0%	-9.4%
Ops cashflow	573	568	0.9%	15.5%
Ops cashflow margin	35%	34%	1.1pp	5.8pp
EPS (sen)	5.6	5.4	3.7%	9.8%
DPS (sen)	5.6	5.4	3.7%	9.8%

The journey into 2H 2016 has been rewarding with stronger earnings development and continued solid year-on-year growth from postpaid alongside with strong 4G+ network positioning.

Service revenue stood resilient sequentially and delivered with improved subscriber base quality and stronger margins, although moderated by 1.9% year-on-year.

Internet subscribers remained steady at 8.0 million while 4G LTE subscribers rapidly grew 447,000 to 3.7 million as Digi's 4G LTE and LTE-A network coverage reached more than 78% and 36% of population nationwide.

EBITDA for the quarter strengthened 5.4% quarter-on-quarter and 7.8% year-on-year to RM775 million while ops cashflow and profit after tax (PAT) rose to RM573 million and RM438 million, respectively.

Consistent with current quarter's financial performance, the Board of Directors declared a 3rd interim dividend of 5.6 sen or RM435 million, equivalent to almost 100% dividend payout.

OPERATIONAL AND FINANCIAL UPDATES

Spectrum price for 900Mhz and 1800Mhz reasonable and within market's expectation

On 30 August 2016, Malaysian Communications and Multimedia Commission (MCMC) announced the spectrum price for 900MHz and 1800MHz bands which were allocated in February 2016.

The spectrum price for the allocated 2X5MHz of 900Mhz and 2x20Mhz of 1800Mhz spectrum bands included an upfront fee of RM598.5 million and annual fees of RM51.5 million for 15 years.

Both the spectrum bands will be available for use beginning 1 July 2017 upon acceptance of the offer and upfront fee payment by 1 November 2016.

The spectrum allocation process and pricing have been viewed positively as a fair and reasonable spectrum optimisation approach to enable network providers to deliver better network planning, deployment and quality indoor coverage.

It becomes increasingly important that the remaining spectrum bands under review i.e. 700Mhz, 2100Mhz, 2300Mhz, and 2600Mhz be considered in similar fair and reasonable approach to realise Malaysia's digital nation ambition in 2020 and to cater for rising demand for quality digital services and experience.



Executing on postpaid growth strategy alongside with stronger prepaid internet proposition

During the quarter, Digi solidified its postpaid internet entry level proposition with sim plans and affordable 4G device bundles, leveraging on Digi’s strong 4G+ network position.

These postpaid plans and bundles garnered solid interests from both new postpaid customers and prepaid to postpaid conversions.

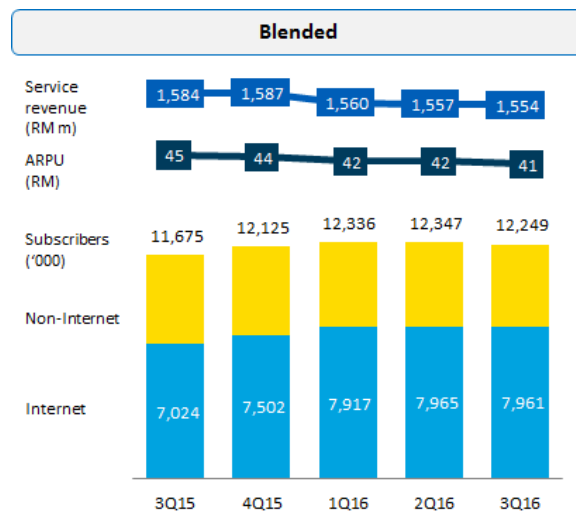
Other than constantly driving relevant and affordable postpaid products and services with quality 4G+ network, Digi relentlessly focused on ensuring best customer experience with the convenience of MyDigi platform as an intuitive and efficient self-serve channel for bill payments, subscriptions and customer support. The adoption of MyDigi among Digi subscribers continued to surge from 750K active users to almost 1 million active users.

On prepaid, Digi stepped up its internet value proposition to cater for customers’ growing demand for digital lifestyle through the launch of two (2) new prepaid plans, Digi Prepaid LiVE and Digi Prepaid Best.

Digi Prepaid LiVE is designed to provide an ultimate video and music streaming plan for Malaysian prepaid users while Digi Prepaid Best is enriched as the best value internet starter pack for basic and light internet use. These new prepaid plans offer more compelling reasons for worry-free digital services amongst the prepaid community in Malaysia.

In addition, as part of the price rationalisation exercise initiated in the preceding quarter, Digi has made good progress in stabilising IDD prices and strengthening the quality of prepaid subscribers with healthier margins.

Steady sequential service revenue with sharper focus on sustainable growth



Digi’s service revenue sustained at RM1.55 billion, fairly consistent with prior quarter albeit 1.9% lower when compared against same quarter last year. This was a notable feat considering that the industry service revenue in 1H 2016 declined 5.0% amid challenging market conditions.

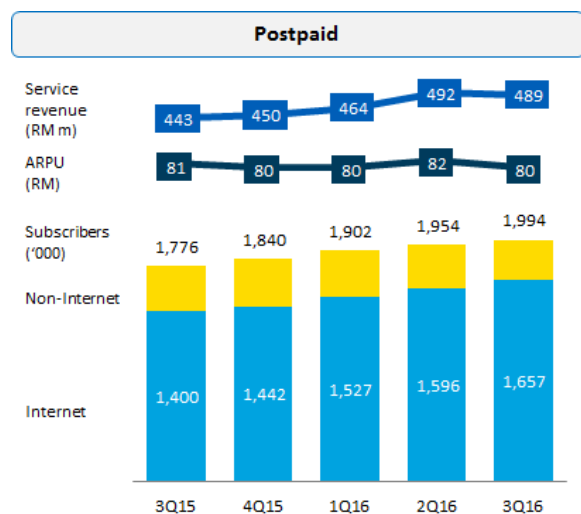
Internet revenue made up 38.4% of the total service revenue for the quarter and continued to grow 6.2% quarter-on-quarter and 12.6% year-on-year as smartphone adoption rose to 63.7% and active internet subscribers to 65.0% of total subscriber base.

Subscriber base remained strong at 12.2 million while ARPU moderated to RM41 but substantiated with better quality revenues and margins from sustainable growth focus.

Device and other revenue trimmed to RM65 million (2Q 2016: RM98 million; 3Q 2015: RM91 million) with increased focus on sim-only packages and affordable device bundles.



Solid year-on-year postpaid revenue growth supported by stronger subscriber base



Postpaid revenue recorded another solid growth of 10.4% year-on-year to RM489 million although moderated marginally quarter-on-quarter while postpaid subscriber base strengthened 2.0% quarter-on-quarter and 12.3% year-on-year to almost 2.0 million subscribers.

Postpaid internet subscribers climbed steadily to 1.7 million, representing 83.1% of postpaid subscriber base and contributed to higher postpaid internet revenue of RM249 million, up 4.2% quarter-on-quarter and 27.7% year-on-year.

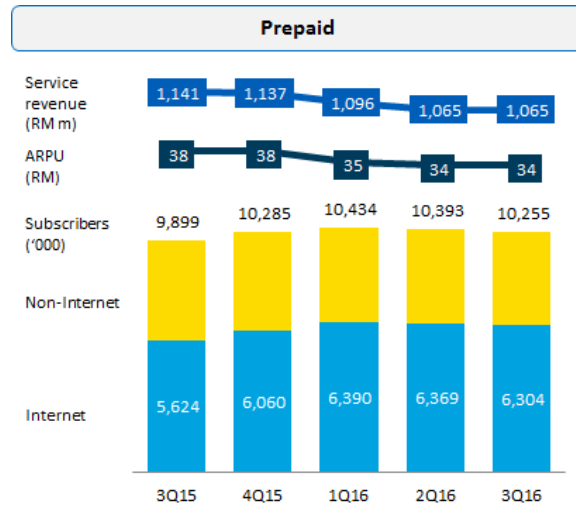
Consistent with the increasing take-up of entry level postpaid plans and affordable 4G bundles, ARPU moderated marginally to RM80 against a larger postpaid subscriber base.

Sustained prepaid revenue with better subscriber quality and margins

Prepaid revenue remained steady sequentially at RM1.07 billion and well-substantiated with better subscriber quality and margins despite challenged by increasing demand for prepaid to postpaid conversions.

Digi's new prepaid plans spurred positive demand especially among the Malaysian prepaid community and contributed to prepaid internet revenue

accelerated growth of 7.7% quarter-on-quarter and 3.9% year-on-year to RM348 million.

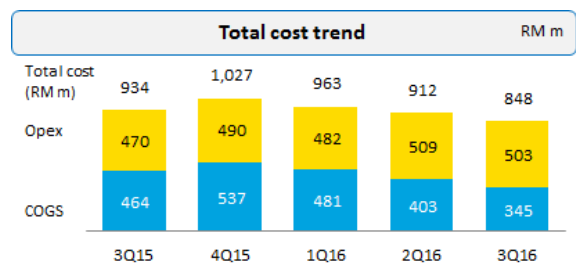


Prepaid revenue registered 6.7% decline year-on-year, consistent with the preceding quarter's development but delivered stronger earnings following the move to step away from irrational IDD price war.

Prepaid subscriber base moderated sequentially by 1.3% to 10.3 million as a flow through from prudent acquisitions and sharper focus on subscriber quality.

Prepaid ARPU remained steady at RM34.

Well managed cost structure in support of sustainable earnings growth



Cost of goods sold (COGS) improved 14.4% quarter-on-quarter and 25.6% year-on-year contributed by lower traffic cost and decline in device sales volumes.

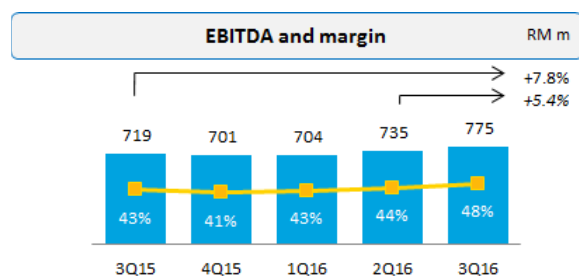


Traffic cost trimmed 12.5% quarter-on-quarter and 25.4% year-on-year to RM273 million mainly from lower IDD traffic cost.

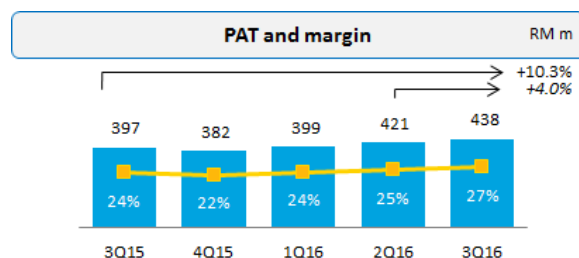
Opex to service revenue ratio remained healthy at 32.4% amid rapid expansion on 4G+ network nationwide.

Operational excellence remained a core priority for Digi and well-supported by strong governance structure including innovative platform to ideate, brainstorm and crowd source value-accretive ideas.

Solid earnings growth and stronger margins



EBITDA strengthened 5.4% quarter-on-quarter and 7.8% year-on-year to RM775 million or 48% margin, anchored by better IDD margins, stronger internet revenue contribution alongside with well-managed cost structure.



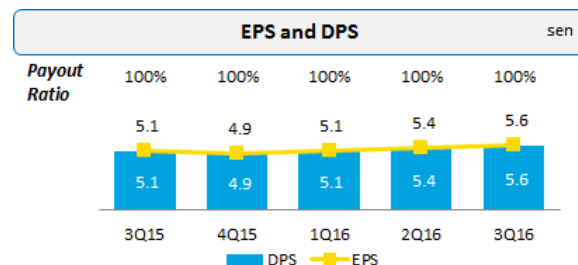
PAT increased 4.0% quarter-on-quarter and 10.3% year-on-year to RM438 million as a flow through from stronger EBITDA.

During the quarter, Digi invested another RM202 million capex, as planned, with year-to-date cumulative investment at RM540 million or 11.6% of service revenue, predominantly to support Digi's rapid 4G+ and fiber network expansion nationwide.

Digi's 4G LTE and LTE-A network reached 78% and 36% population coverage nationwide while fiber network stretched across 7,200 km.

Consequential from the stronger EBITDA, ops cashflow for the quarter increased 0.9% quarter-on-quarter and 15.5% year-on-year to RM573 million or 35% margin.

Healthy shareholders' returns amid challenging market conditions



Earnings per share (EPS) strengthened to 5.6 sen, up 3.7% quarter-on-quarter and 9.8% year-on-year as a flow through from stronger earnings and margins.

Digi remains committed to its dividend policy of a minimum of 80% payout, with excess payouts at the discretion of the Board of Directors.

In line with current quarter's performance, the Board of Directors declared 3rd interim dividend of 5.6 sen per share (net) equivalent to RM435 million, payable to shareholders on 30 December 2016.

On a year-to-date basis, a total of 16.1 sen dividend per share, equivalent to RM1,252 million has been declared for FY 2016.

Balance sheet RM m

	3Q15	4Q15	1Q16	2Q16	3Q16
Total Assets	4,449	4,662	4,922	4,708	4,739
Total Equity	534	519	537	562	580
Interest-bearing debts	1,296	1,294	1,631	1,424	1,461
Cash & cash equivalents	306	234	503	366	331

Total assets strengthened to RM4,739 million from progressive network and IT investments while cash balance moderated after repayment of RM400 million revolving credit (RC) facilities and RM112 million term loan.



Cash balance at end 3Q 2016 continued to reflect efficient working capital management where Digi maintains minimal but sufficient cash balances for timely payment obligations and thus not to be construed as a full representation of financial strength on available funding facilities and capability.

With its relatively low net debt/EBITDA level of 0.4x and strong balance sheet, Digi has solid financial capability and flexibility to fund its investments, operational commitments and any spectrum obligations arising.

Relentless drive in enabling digital innovation opportunities and culture

As Digi prepares itself on the journey towards becoming Customers' Favourite Partner in Digital Life, Digi took a bold move to enable digital innovation within the organisation through Disrupt@Digi program for Digizens to flex their innovation muscles and explore new ideas for products and services. The 30-hour challenge included ideation, customer validation, service design, prototyping and pitching digital innovation ideas.

There were also a series of "Digital Day" showcase organised to share and engage the organisation with digital initiatives and new forefront technologies to drive transformation culture and way-of-work.

On the external front, Digi through its Challenge For Change (CFC) program collaborated with MDec, MaGIC, Unicef, Google, Microsoft and Facebook to drive revolutionary mobile app ideas that can address current issues surrounding three main target groups, namely children, youth and women. The winning teams of ideators and developers will proceed to the proof-of-concept stage with a seed grant to mobilise their solution to the community.

2016 Customer First Day celebrated to nurture digital resilience and awareness for safer internet

Together with 12 other Business Units in Telenor Group, Digi celebrated its Customer First Day (CFD) on 29 September 2016 and mobilised more than 1,400 Digizens across six major cities to learn, share and interact with customers.

During the event, Digizens took the opportunity to introduce MyDigi service and functionalities to customers, gathered valuable feedback and raised awareness on cyberbullying to promote safer and better internet experience.



Beyond being an enabler for internet in Malaysia, Digi believes it is crucial to drive society awareness on the importance of making wise online choices while enjoying the benefits of the internet.

The day was followed up with "Us vs. Cyberbullying" event on 1 October 2017 which included education activities and performances in partnership with Astro, regulatory bodies, UNICEF and several non-government organisations.

Paving the future with sustainable growth towards becoming Customers' Favourite Partner in Digital Life

During the first 9 months of 2016, Digi demonstrated relatively resilient performance against the backdrop of sharp industry service revenue decline and in 3Q 2016 registered solid margins and earnings growth.

However, the persistent headwinds in prepaid during the year have adversely led to weaker year-to-date service revenue by 1.9%. Consequentially, service revenue growth guidance for 2016 is now revised to low single digit decline, consistent with year-to-date 3Q 2016 performance.

Digi's relentless focus on driving sustainable growth and efficiency becomes increasingly vital amid softer service revenue development in 2016. Digi aims to deliver EBITDA margin slightly below 45% level, an improvement from 2015's margin of 43% and



continuously drive innovative value propositions as well as healthy shareholders return.

Digi remains committed to its 2016 investment plans with greater focus on delivery efficiency and aims to manage its capex investment at around 13% of service revenue with healthy ops cashflow margin. It will continue to leverage on Telenor Global sourcing's strengths, and industry collaboration to deliver growth opportunities and innovative digital capabilities.

The remaining final quarter will be exciting with the stepping up of postpaid growth engine, now fortified with new proposition and solid 4G+ network to unlock further growth opportunities.

Digi will relentlessly pursue digital innovation and deliver refreshing products and services relevant to customers' digital lifestyle.

The 2016 financial guidance is summarised as follows:

	2016 Guidance (revised)	YTD 3Q 2016
Service revenue growth	Low single digit decline	-1.9%
EBITDA margin	Slightly below 45%	44.9%
Capex	Around 13% of service revenue	11.6%

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 3rd Quarter, 2016 result.

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