MANAGEMENT DISCUSSION AND ANALYSIS

Delivered RM5.4 billion Service Revenue driven by efficient operations and transformation initiatives

4Q2020 service revenue trimmed 1.7% Quarter-on-Quarter (Q-Q) on the back of weakened consumer and business spend due to ongoing Conditional Movement Control Order (CMCO) in certain states since October 2020. Nevertheless, internet and digital revenue climbed to its highest in the last 8 quarters to RM1.01 billion, underpinned by our focus to strengthen sustainable revenue portfolio. The final quarter manifested our nimble execution on accelerating growth efforts, enhancing nationwide connectivity and protecting shareholder values.

EXECUTIVE SUMMARY

RM million	4Q2019	3Q2020	4Q2020	Q-Q	Y-Y	FY2019	FY2020	FY-FY
Service revenue	1,437	1,374	**1,350**	-1.7%	-6.1%	5,644	**5,428**	-3.8%
Service revenue excluding interconnect	1,400	1,352	**1,328**	-1.8%	-5.1%	5,498	**5,343**	-2.8%
Total revenue	1,678	1,579	**1,561**	-1.1%	-7.0%	6,297	**6,152**	-2.3%
Gross profit	1,201	1,173	**1,144**	-2.5%	-4.7%	4,864	**4,614**	-5.1%
EBITDA (before other items - boi)	817	786	**766**	-2.5%	-6.2%	3,303	**3,078**	-6.8%
EBITDA (boi) margin	48.7%	49.8%	**49.1%**	-0.7pp	0.4pp	52.5%	**50.0%**	-2.5pp
Profit before tax	461	432	**377**	-12.7%	-18.2%	1,892	**1,621**	-14.3%
Profit after tax	343	321	**280**	-12.8%	-18.4%	1,433	**1,221**	-14.8%
Capex[1]	205	134	**275**	105.2%	34.1%	753	**773**	2.7%
Ops cash flow	612	652	**491**	-24.7%	-19.8%	2550	**2,305**	-9.6%
Ops cash flow margin	36.5%	41.3%	**31.5%**	-9.8pp	-5.0pp	40.5%	**37.5%**	-3.0pp
Earnings per share (sen)[1]	4.4	4.1	**3.6**	-12.2%	-18.2%	18.4	**15.7**	-14.7%

All analysis and comparisons are based on post MFRS 16

[1] Included the recognition of Asset Retirement Obligations (2Q20: RM46 million, 3Q20: RM2 million, 4Q20: RM5 million, and FY2020: RM53 million)

Since the start of 2020, Digi has demonstrated its resilience to support societal recovery amid an unprecedented pandemic. Our robust network has proven its consistency while our commercial teams have aggressively pivoted despite the significant change in the way of work. Most importantly, Digi was able to deliver FY2020 service revenue of RM5.43 billion and EBITDA of RM3.08 billion in line with our 2020 revised guidance in a challenging operating environment.

In 4Q2020, we continued to support Malaysians through our innovative products and essential services namely:

- Ensuring high availability of reliable network services at critical and high demand locations
- Broadening the range of postpaid and prepaid offerings curated in serving our evolving customer behaviors
- Expanding ultra-fast and unlimited fiber-to-the-home (FTTH) to consumers
- Providing Covid-19 aids under Yellow Heart initiatives to support critical humanitarian efforts
- Launched new devices such as Huawei Mate 40 Pro and Iphone 12 series under Phone Freedom 365 (PF365)

Financial Highlights for 4Q 2020

- Total revenue reduced by -1.1% Q-Q and -7.0% Year-on-Year (Y-Y) to RM1.56 billion despite growth in internet and digital contribution
- Total cost improvement of -0.7% Q-Q and -8.2% Y-Y led by stringent cost saving initiatives
- Achieved sukuk rating of AAA/Stable/P1 by RAM Rating in December 2020

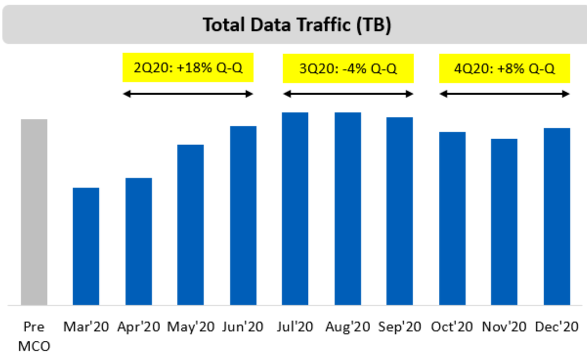
Operational Highlights for 4Q 2020

- Total data traffic grew 8.2% Q-Q and 28.2% Y-Y as a continued effect of CMCO
- Internet users of 8.7 million, equivalent to 87.3% of penetration rate led by strong internet adoption
- Monthly active users for MyDigi application rose to 4.4 million on improved features and personalised rewards
- Enlarged B2B customers by 1.8% Q-Q and 5.5% Y-Y driven by our flexible and affordable digital bundle plans

OPERATIONAL AND FINANCIAL UPDATES

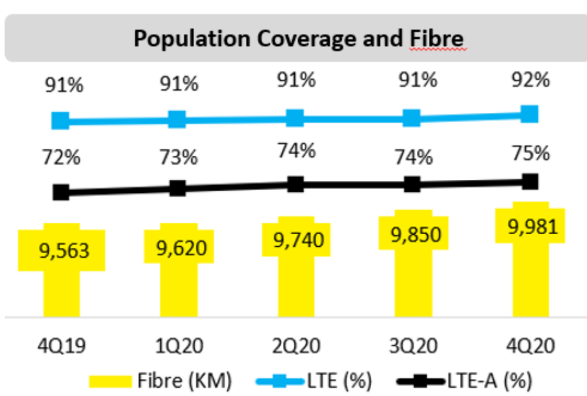
NETWORK PERFORMANCE: Providing reliable access and connection nationwide

In the last quarter of 2020, data consumption patterns changed as the movement restrictions resulted in steady geographical shift of usage to sub-urban and rural residential areas from commercial centers. We have also witnessed higher total data traffic volume driven by remote working and online learnings.



Continuous efforts on traffic management and dynamic network optimisation have been implemented to cater for rising traffic demand at essential sites such as hospitals and government agencies, as well as residential areas. These efforts have led to our achievement to sustain the leading position on network consistency and download throughput with minimal quality degradation as measured by third party data.

Additionally, our dedicated network team stayed focus to efficiently deploy sites and boost network infrastructure. As a result, our robust 4G LTE and LTE-A network coverage grew to 92% and 75% of the population nationwide, respectively alongside 9,981 KM of extensive fibre network.

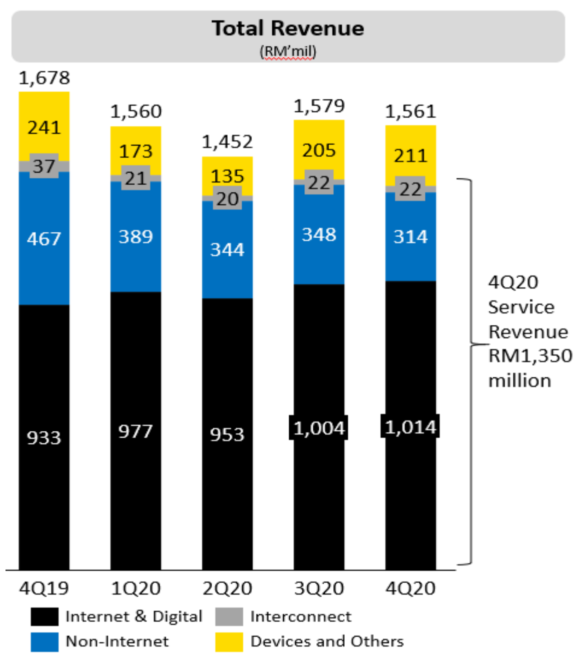


This highlighted our strategic network priorities to deliver widespread high-speed 4G mobile services, improve in-door coverage for urban and suburban areas to enable individuals and businesses to connect confidently anywhere and anytime.

Moving forward in 2021, Digi aims to efficiently manage its diverse spectrum portfolio using modernised technology with the latest radio access solutions. We are committed to deliver higher quality network experience and tap into growing customer footprint with a 5G ready network.

TOTAL REVENUE: Softer topline challenged by slower market activities from extended lockdown period

Service revenue trimmed -1.7% Q-Q and -6.1% Y-Y to RM1,350 million on reduced non-internet and voice usages as overall consumer spend, inflows of foreign workers and economic activities weakened on the back of ongoing CMCO in certain states and districts.



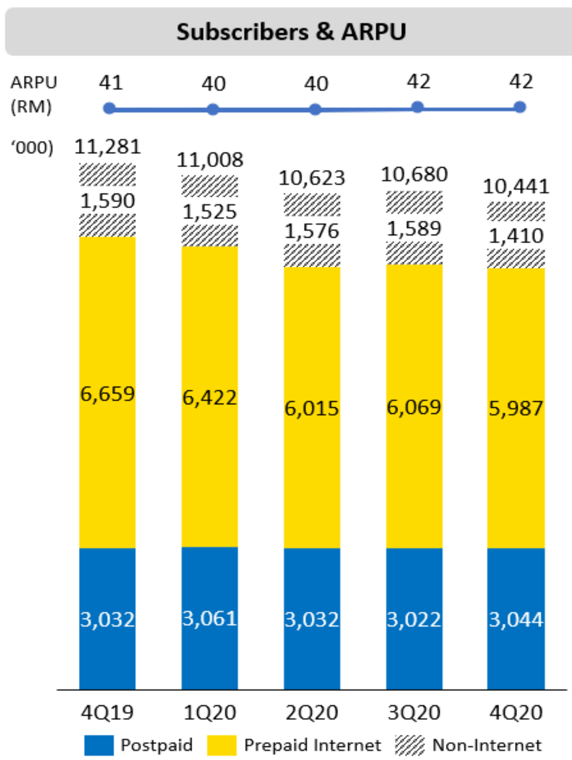
The Y-Y contribution was also adversely impacted by poor roaming activities on closed international borders. Nevertheless, our Malaysian active subscriber base enlarged 1.7% Q-Q and 5.9% Y-Y, above pre-lockdown levels to offset shrinking migrant base.

Excluding interconnect contribution of RM22 million (4Q19: RM37 million), Y-Y service revenue would have been better at -5.1%.

Consequently, FY2020 service revenue contraction of -3.8% recorded as previously guided mainly coming from roaming revenue reduction of -61.4% Y-Y.

Internet and digital revenue rose 1.0% Q-Q and 8.7% Y-Y yielded by improved overall data usages and strong take-ups from gaming activities and digital services. This led to a larger internet and digital revenue mix of 75.1% over service revenue (4Q19: 64.9%).

Similarly, monthly data usage per subscriber surged to 19.0GB from 13.8GB a year ago (3Q20: 17.4GB), supported by 8.72 million of internet subscribers to underscore our consistent efforts to drive internet growth.



On postpaid development, we launched several strategic commercial initiatives such as richer data quota and additional plan rebates for price-conscious consumers and various smart bundle offerings for healthcare front-liners. These tactical efforts allowed us to capture customer loyalty, retain long-tenure subs, as well as creating new revenue opportunities.

As such, postpaid subscriber base sustained its Q-Q momentum by securing net adds of 22K to 3.04 million (+12K Y-Y). ARPU however trimmed to RM66 (4Q19: RM72, 3Q20: RM67) partially attributed to lower roaming and interconnect ARPU.

On prepaid development, our relentless focus to enhance customers' digital lifestyle were demonstrated through a foray of renewed products such as multi-tiered Digi Prepaid Next plans and affordable high-speed internet passes.

However, the slowdown during CMCO compounded with shrinking purchasing power affected overall usages across Malaysians and migrant workers. This resulted in lower subscriber base by 261k Q-Q to 7.40 million, along with lower ARPU by RM1 Q-Q to RM32 (4Q19: RM30).

Therefore, total subscriber base lowered to 10.44 million whilst blended ARPU maintained at RM42, underpinned by our resilience and innovative offerings to support quality and loyal subscribers. Overall, we have also witnessed larger Malaysian base of 1.7% Q-Q and 5.9% Y-Y to offset declining migrant segment.

Finally, device and other revenues of RM211 million, increased 2.9% Q-Q on steady take-ups for value-accretive PF365 plans and newly launched smartphones. Y-Y contribution of -12.4% was challenged as previous year's demand was seasonally high, compounded with effects from the CMCO in key market centers.

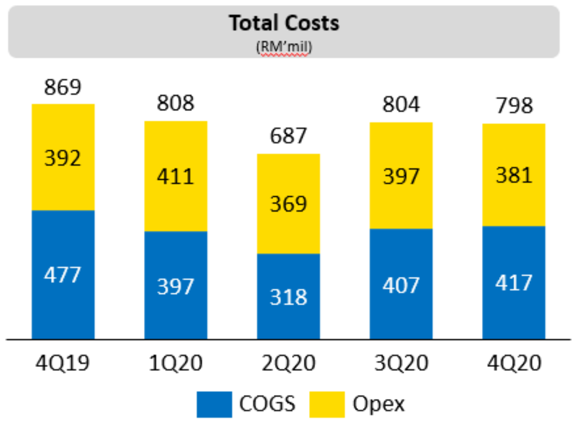
Moving forward, Digi is aggressively investing to drive convergence across our fixed and mobile customer base. Our recent launch of Digi Fibre Broadband service for SME and enterprise segment provides us with new revenue potentials whilst tapping on mobile data growth.

We are also expanding a wider range of quality products and services, such as virtual human resource management tools and mobile security to defend our leading position as a trusted digital service provider.

COST: Q-Q total cost improvement underlined our strategic execution on cost allocation

Sequential cost of goods sold (COGS) increased 2.5% attributed to higher digital expenses to fuel stronger digital demand. This was offset by lower device expenses and traffic cost while previous quarter included a non-recurring reversal of traffic cost of RM17 million. Meanwhile, Y-Y improvement of -12.6% was largely due to lower roaming volumes and softer on-ground activities.

For FY2020, COGS of RM1.54 billion was 7.5% higher in line with the growth in device and digital businesses.



The opex savings of -4.0% Q-Q and -2.8% Y-Y were the outcomes of strategic channel transformation to online platforms resulted in lower spend on sales and marketing.

Provision for doubtful debts (PFDD) also reduced to RM18 million (4Q19 and 3Q20: RM30 million) on efficient bad debt management. Nonetheless, PFDD for the year of RM81 million, equivalent to PFDD ratio over postpaid revenue of 3.2%, below industry benchmark reflected our ability to manage collection risk.

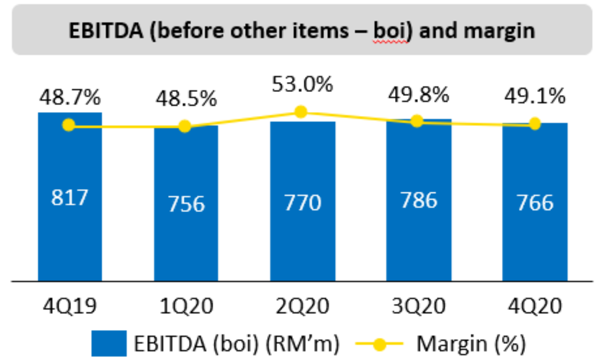
Notwithstanding these, 4Q 2020 opex was partially lifted by non-recurring items attributed site rentals of RM10 million.

Lastly, opex for FY2020 totaled to RM1.56 billion, an improvement of -1.4% as we continued to prioritise network investments in critical areas along with discipline execution on cost containment.

EBITDA (before other items – boi) and PAT: Moderated earnings mitigated by cost control and investment prioritisation

4Q20 EBITDA (boi) re-traced to RM766 million, -2.5% Q-Q and -6.2% Y-Y on softer topline development arising from weaker affordability and business spend. The EBITDA (boi) margin of 49.1%, an improvement of 0.4 percentage points Y-Y underlined our strength in protecting profitability margins.

For FY2020, EBITDA (boi) decreased to RM3.08 billion by -6.8% as guided, alongside margin of 50.0% which was ahead of industry average.



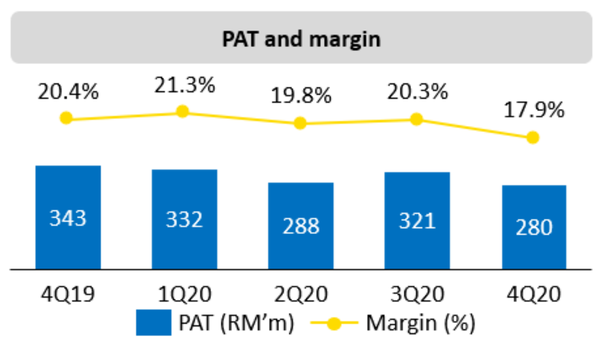
In 4Q2020, we also recognised a write-off on network asset of RM51 million following a reconciliation of fixed asset register. This was subsequently offset by a lower depreciation of RM54 million.

As such, depreciation and amortisation cost declined to RM276 million, while FY2020's cost amounted to RM1.22 billion. The full year increment of 2.3% was mainly attributed to MFRS 16 adjustment and recognition of Asset Retirement Obligations.

Profit before tax (PBT) fell to RM377 million versus RM461 million in the same period last year, as flow through from EBITDA (boi), depreciation and amortisation cost and after accounting for higher net finance cost of RM63 million.

Consequently, profit after tax (PAT) trimmed -12.8% Q-Q and -18.4% Y-Y to RM280 million after deducting RM97 million of taxation.

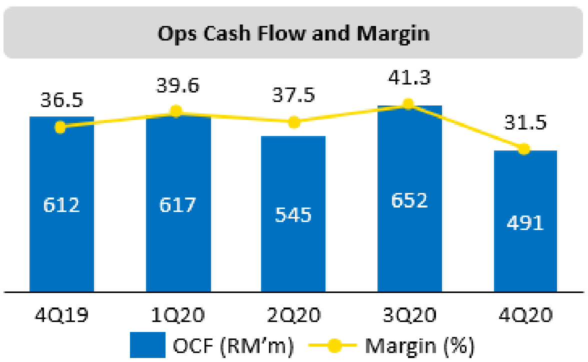
Lastly, PAT for the year summed up to RM1.22 billion (FY2019: RM1.43 billion), or margin of 19.8% amid challenging topline development and Covid-19 impact.



We remain steadfast in our commitment to deliver value-creating initiatives alongside efficient operations and investments for future growth.

CAPEX AND OPS CASH FLOW: Smart investments to drive customer value and better network experience

Our 4Q2020 Capex expanded to RM275 million, to close FY2020 with a total of RM773 million after accounting for Asset Retirement Obligation of RM53 million or 14.2% of service revenue. This was in line with our trajectory to expand robust LTE-A network coverage whilst enhancing our digital capabilities.

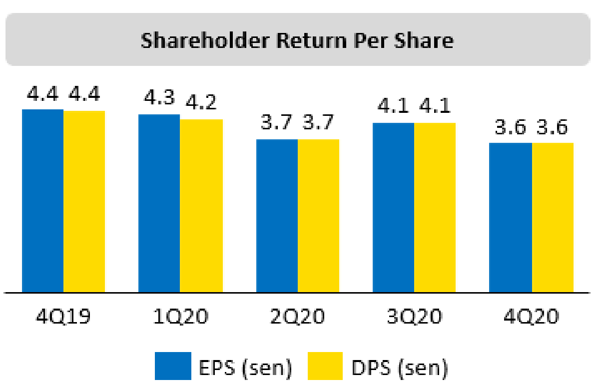


Ops Cash Flow and Margin

Ops cashflow lowered to RM491 million, or 31.5% margin following higher Capex in the final quarter, as planned.

SHAREHOLDER RETURN: Close to 100% dividend payout ratio with FY2020 dividend per share of 15.6 sen

Earnings per share (EPS) for the quarter lessened to 3.6 sen, to effectively deliver total EPS for the year of 15.7 sen (FY2019: 18.4 sen).



Shareholder Return Per Share

Additionally, the Board has approved final interim dividend of 3.6 sen per share equivalent to RM280 million, payable to shareholders on 26 March 2021.

SUMMARISED BALANCE SHEET: Robust financial position with ample liquidity and financial headroom

Total Assets as at 31 December 2020 expanded to RM8.22 billion on enlarged Right-of-use assets. Total borrowings increased to RM2.87 billion, of which 80.7% comprised of Islamic borrowings.

Balance Sheet
(RM'mil)

	4Q19	1Q20	2Q20	3Q20	4Q20
Total Assets	8,149	7,997	8,169	8,036	8,215
Total Equity	660	650	611	644	606
Borrowings	3,102	2,965	2,907	2,770	2,871
Finance lease	2,048	2,062	2,251	2,250	2,581
Cash & cash equivalents	458	307	519	365	303

Net debt to EBITDA ratio remained healthy at 1.7 times while conventional debt over total assets of 6.8% was well-within the Shariah threshold.

2021 OUTLOOK AND GUIDANCE

The market conditions continue to be unpredictable amid continued challenges arising from the ongoing health crisis.

Digi is focused on our long-term strategic goals whilst running business responsibly, as well as committed to maintain our sukuk rating.

In the months ahead in 2021, we will prioritise:

- Accelerating growth in core and digital businesses to re-capture the need for connectivity across prepaid, postpaid, B2B, and FTTH segments
- Investing in network and IT infrastructure modernisation to enhance customer experience
- Driving financial sustainability via structural efficiency initiatives and cost containment efforts
- Committing to the highest standards of Responsible Business

Lastly, our 2021 guidance is summarised as follows:

	2021 Guidance
Service revenue	Low single digit decline
EBITDA	Medium single digit decline
Capex-to-total revenue ratio	14.0% - 15.0%