6 FEB 2013

Q412 MANAGEMENT DISCUSSION & ANALYSIS

DiGi

Q412 – a positive end to 2012

Key Numbers

(RM'mil)	Q412	Q312	Q-o-Q
Revenue	RM1,629	RM1,583	+2.9%
EBITDA	RM725	RM715	+1.4%
Margin	44.5%	45.2%	-0.7pp
Net Profit	RM246	RM315	-21.9%
OpCF	RM470	RM565	-16.8%

Subscribers, ARPU & MOU

	Q412	Q312	Q-o-Q
Total customers	10,494k	10,304k	+1.8%
- Prepaid	8,832k	8,647k	+2.0%
- Postpaid	1,671k	1,657k	+0.8%
*Broadband customers	273k	298k	-8.4%
*Internet customers	5,734k	5,560k	+3.1%
Prepaid ARPU	RM41	RM41	0.0%
Prepaid MOU (mins)	245	241	+1.7%
Postpaid ARPU	RM83	RM82	+1.2%
Postpaid MOU (mins)	392	396	-1.0%

2012 financial targets	delivered ...
• mid-to high single digit revenue growth	✓ +6.7% revenue growth
• sustained EBITDA & OpCF margins	✓ 46.0% & 35.0% respectively
• capex at lower end of RM700 – RM750 million	✓ RM700 million Capex spend

DiGi reported higher q-o-q revenue growth in Q412 on the back of stronger growth traction of its data business and improved network performance.

As anticipated, the mitigation measures put in place to address the post-swap optimization of the network that had impacted voice revenues in Q312; particularly in the Klang Valley, has since resulted in significantly improved usage trends and our roll-out pace of new 3G sites have picked up significantly.

As a result, DiGi's Q412 revenue rose by 2.9% q-o-q to RM1,629 million compared to RM1,583 million in the previous quarter.

Service revenue grew 1.5% q-o-q to RM1,492 million (Q312: RM1,470 million) and this was solely driven by data revenues which grew 6.1% to RM488 million (Q312: RM460 million) whilst voice revenue contribution was slightly lower than previous quarter at RM1,004 million (Q312: RM1,010 million). As a result, data revenue contribution to service revenue strengthened to 32.7% in Q412 (Q312: 31.3%).

Overall, whilst absolute EBITDA improved by RM10 million in Q412 from effective cost savings measures, EBITDA margin for Q412 stood at 44.5% (Q312: 45.2%); and the q-o-q decline was on account of IDD margin pressure and higher handset sales. EBITDA margin of 46.0% for 2012 was in-line with our full year guidance of sustaining EBITDA margin at 2011 level (2011: 46.4%).

With higher capex spend of RM255 million in Q412 (Q312: RM150 million), operating cash-flow (OpCF) was lower at RM470 million (Q312: RM565 million).

The Board of Directors (Board) has declared a fourth interim dividend of net 2.5 sen/share, payable to shareholders on 8 March 2013.

Inclusive of the fourth interim dividend, shareholders would have received total dividends of 26.3 sen net/share for the full financial year. This is equivalent to a net yield of 5.0%, on the 2012 closing price of RM5.29/share.

In summary, the improved performance in Q412 provided a positive end to 2012 and the Group met all its financial targets stated for 2012 (please refer to adjacent table).

Operational summary

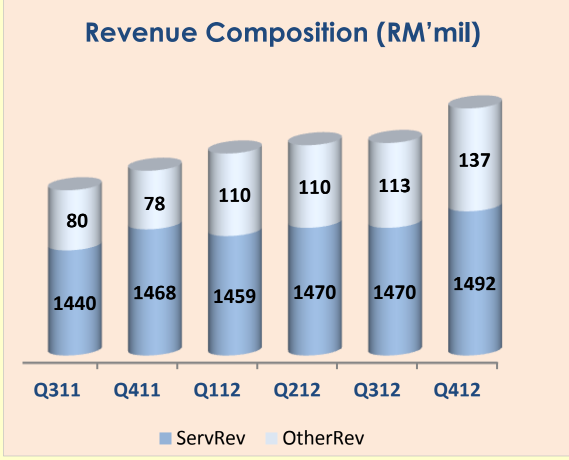
Customers & ARPU

DiGi added 190k new customers in Q412, a significant improvement over the 75k new customers added in Q312. The higher net additions were a result of good traction from our new and attractive bundled offerings as well as improved network quality. We also added more mobile internet customers, which now totaled 5.7 million, against 5.6 million at the end of Q312.

Whilst the prepaid segment remained highly competitive, DiGi continued to improve our traction in this segment with new and refreshed offerings which drove our net additions up by 176k this quarter (Q312: 67k). Usage and reload campaigns were also effective in stabilizing ARPU at RM41 for the quarter (Q312: RM41).

In the postpaid segment, DiGi added 14k new customers (Q312: 8k), all from core postpaid. Customer acquisition focus continued to be on re-contracting higher-end customers. Postpaid ARPU was RM1 higher q-o-q (Q312: RM82) and this can be attributed to higher data usage. In terms of broadband customers, we continued to record a small negative net addition of new customers in Q412, a result of more intense competition and our continued cautious stance on broadband customer acquisition.

Overall, DiGi expects improved subscriber acquisition & revenue momentum in the postpaid segment going into 2013, from wider network coverage, improved quality and capacity improvements.

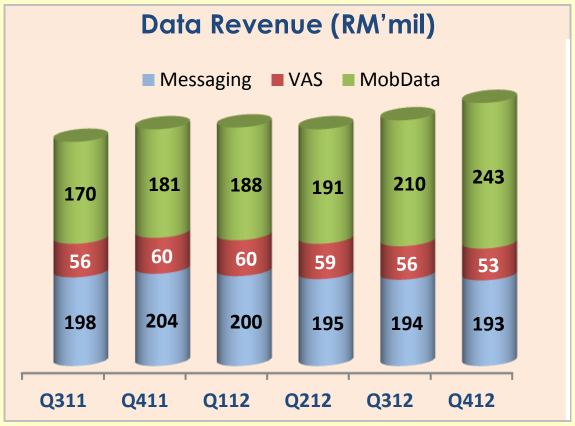


Revenue performance review

Total revenue amounted to RM1,629 million in Q412 (Q312: RM1,583 million), up by 2.9% q-o-q and 6.7% for the full year.

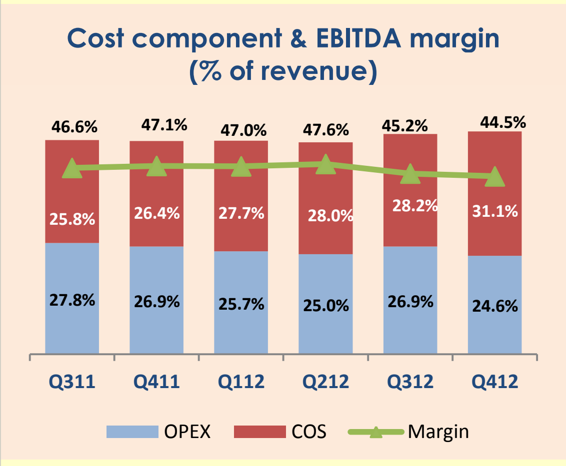
This was partially driven by an improvement in service revenue to RM1,492 million (Q312: RM1,470 million). Q412 service revenue was sustained by strong data performance in the quarter whilst voice revenues were slightly lower than previous quarter.

Handset revenues were also significantly higher in Q412 and this was solely driven by the strong demand for newly launched "in-demand" smart handsets.



Data revenue contributions grew by 6.1% q-o-q to RM488 million (Q312: +3.4%, RM460 million); driven by strong mobile internet usage. We are also seeing higher take-up of smart-phone plans and bundles and this positive trend was also reflected in the increase of smart-phone users on our network, rising from 24.8% of overall customer base in Q312 to 26.4% at the end of Q412 which is a positive sign for future data revenue growth.

The slight reduction in voice revenues in Q412 was anticipated; mainly driven by continuous data shift and competition.



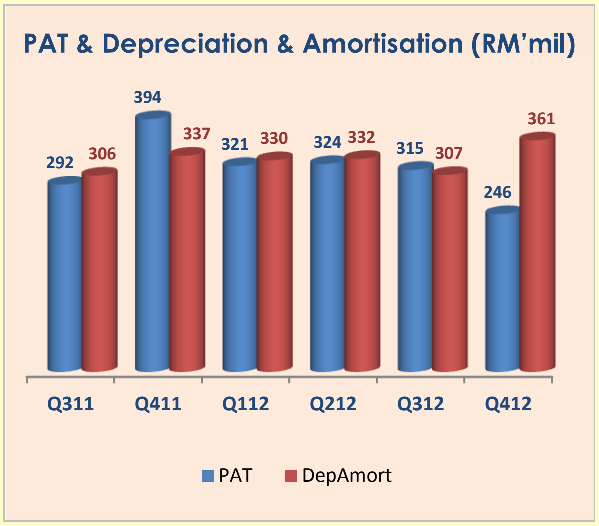
Cost and margin review

In Q412, the Group's total cost base rose by 3.8% q-o-q to RM906 million (Q312: +4.3%; RM873 million) whilst total revenue increased by 2.9% in the same period.

The increase in total cost base in the quarter was driven by two items, namely higher handset related expenses and a small increase in traffic related expenses. The increase in handset expenses was due to a combination of reasons: *higher handset volume, clearance of old stocks and the mix impact of handset sold*.

More importantly, we were able to grow data revenue significantly on lower overall operating expenses (OPEX) in Q412.

Whilst absolute EBITDA improved by RM10 million in Q412, ending at RM725 million (Q312: RM715 million), EBITDA margin was lower at 44.5% (Q312: 45.2%), resulting from competitive IDD pricing and higher handset sales.

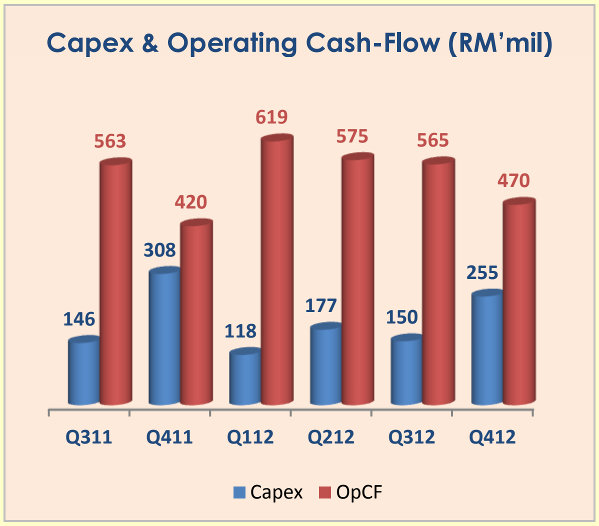


Profit After Tax

DiGi reported slightly lower net profit of RM246 million this quarter (Q312: RM315 million), on the back of higher accelerated depreciation and amortization charges as well as higher tax expense.

Capital expenditure (capex) and network updates

DiGi's capex spend totaled RM255 million in Q412 (Q312: RM150 million). The bulk of capex was spent on coverage expansion, capacity upgrades as well as works related to network modernisation.



In terms of population coverage, the Group's current 2G coverage stood at 95% while 3G coverage increased to 67% from 59% in Q312.

Network modernization: We have upgraded >3,200 sites to-date (Q312: 2,500), close to 60% of the sites to be swapped. We have completed the upgrades and optimisation in the Klang Valley and this has resulted in improvement in voice and data quality across-the-board.

We have also seen a strong pick-up in voice traffic minutes carried on our network post Q312; signifying the effectiveness of the mitigation measures put in place.

DiGi-Celcom network collaboration: We are making good progress on site sharing and joint-fiber build.

Regulatory updates

We have officially received notification from the regulator, SKMM on the allocation of **2600 MHz spectrum** and we will launch LTE services in 2013.

On **access pricing**, SKMM has fixed the new rates effective from 1 Jan to 31 Dec 2013. The new fixed and mobile termination rates are at 4.70 sen and 4.63 sen respectively.

There will be further reductions in these rates in 2014 and 2015 in this order:

- 2014 & 2015 fixed termination rates: 4.40 sen and 4.10 sen
- 2014 & 2015 mobile termination rates: 4.25 sen & 3.88 sen

We believe these new rates will not have any significant impact on our revenues based on current traffic pattern.

On the proposed implementation of **'accounting separation'**, we are still awaiting further updates from SKMM.

Balance Sheet & Shareholder Returns

In view of the continued good operational performance of the Group, the Board has declared a fourth interim dividend of 2.5 sen/share (net) payable to shareholders on 8 March 2013.

In total, in 2012, all shareholders would have received dividend per share (net) of 26.3 sen versus 17.5 sen in the previous year.

The Board will continue to ensure active management of our balance sheet and this would include ongoing assessment of alternatives to optimize our balance sheet and return excess cash to shareholders. The new business trust framework will be included in our assessment as and when deemed relevant.

Going into 2013

The shift from voice to data continues as evident by the rapid rise in data revenue contributions to service revenues as well growing adoption of smart-phones by our customers. Nevertheless, the voice and messaging segments are still important revenue contributors and we will continue to strengthen our already strong market positions in these two segments.

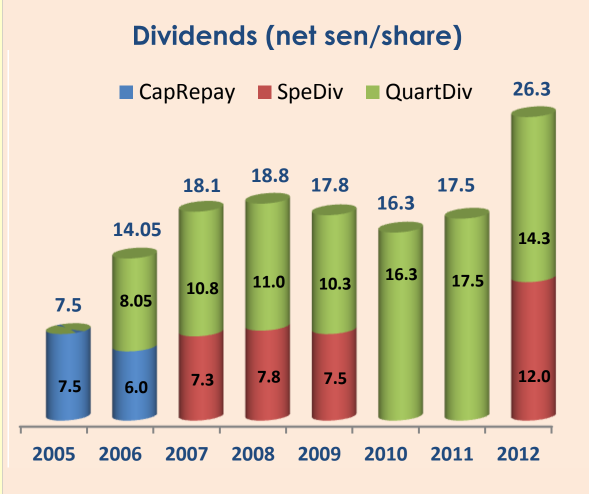
Strategically, the Group is well placed to continue tapping and growing data revenues through its all encompassing 'Internet for All' proposition.

The Group is fast approaching the point where it would start realizing the benefits of the transformation program put in place two years back. These will include the completion of the network modernization by the second half of 2013 which will provide a fully LTE-enabled network. Our 3G footprint will be expanded and the population coverage will reach 80% by the end of this year. We will also launch LTE related services in the near future. Our ambition is to capture a bigger share of data revenues going forward.

The Group is continuously working to optimize its cost base to compete effectively in the market, as shown by its ability to sustain EBITDA margin at current levels despite increasing competition within selected market segments.

For the current year, our ambition is to continue to outgrow our industry peers in terms of revenue growth. We believe industry revenue growth still will be around 5% and that the Group can deliver higher growth in the range of 5% to 7%. We expect EBITDA and cash-flow margins to be at 2012 levels. It is also our ambition to keep delivering strong returns to our shareholders.

Our 2013 guidance is summarised in the adjacent table.



- *2012 = Q1+Q2+Q3+Q4 interim dividends +Q3 special dividends*

Financial Ratios

RMmil	2012	2011	2010	2009
Total Assets	4,013.9	4,863.3	5,136.6	4,732.4
Total Equity	261.3	1,411.4	1,346.6	1,521.5
Interest bearing debts	1,080.1	670.9	1,076.9	921.8
Cash & equivalents	708.8	1,098.2	850.6	430.5
Gearing ratio	4.1x	0.5x	0.8x	0.6x

RMmil	2012	2011	2010	2009
Total S/holders' Return	36.3%	57.7%	12.0%	-0.7%
Payout ratio	169.6%	108.5%	107.6%	138.4%
ROE	462.1%	88.9%	87.5%	65.8%

2013 Preliminary Guidance

- 5% - 7% revenue growth
- sustaining EBITDA & cash-flow margins at 2012 levels

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

This report is to be read in conjunction with the announcement to Bursa Malaysia and all other disclosures related to our Q412 results.