MANAGEMENT DISCUSSION AND ANALYSIS

A strong start for 2018 with positive service revenue growth year-on-year

Digi turned in another quarter of solid postpaid performance with revenue growth of 13.7% year-on-year. Service revenue strengthened 0.7% year-on-year to RM1,483 million anchored on record high internet revenue of RM761 million, representing 51.3% of total service revenue. EBITDA rose 4.2% to RM741 million or 46% margin, while ops cash flow increased 8.9% to RM560 million.

EXECUTIVE SUMMARY

RM million	1Q18	4Q17	Q-Q	Y-Y
Service revenue	1,483	1,513	-2.0%	0.7%
Total revenue	1,599	1,645	-2.8%	1.6%
Gross profit	1,223	1,230	-0.6%	1.8%
EBITDA (boi)	741	731	1.4%	4.2%
EBITDA margin	46%	*44%*	1.9pp	1.2pp
Profit before tax	481	480	0.2%	-5.7%
Profit after tax	352	360	-2.2%	-5.6%
Capex	181	170	6.5%	-8.1%
Ops cash flow	560	561	-0.2%	8.9%
Ops cash flow margin	35%	34%	0.9pp	2.4pp
EPS (sen)	4.5	4.6	(0.1)	(0.3)
DPS (sen)	4.9	4.6	0.3	0.2

All analysis and comparisons are made based on old accounting principles. A summary of the financial impact post adoption of MFRS 15 and MFRS 9 will be included as part of Other Updates

1Q 2018 paved a strong entry for Digi into FY 2018 with solid year-on-year performance:

- Positive uplifts on top line performance across service revenue, gross profit and EBITDA;
- Stronger efficiencies with continued opex reduction; and
- Improved EBITDA and ops cash flow.

During the quarter, our robust LTE-A network and 4G-LTE network backed by LTE 900Mhz deployment reached 57% and 88% of population nationwide. Meanwhile, 4G subscribers significantly increased to 6.6 million, representing 77% of our smartphone users.

Our relentless focus on continuous network upgrades and optimisation enabled us to support continued data growth demand from our customers with better 4G network experience in terms of better indoor quality, wider outdoor coverage, and enhanced capacity.

Data traffic volumes continued to surge year-on-year, with over 67% of the total traffic volumes on 4G network while average monthly data usage among our internet users surged to 7.2 GB and internet revenue rose 22.5% year-on-year to a record high of RM761 million.

With the reissuance of 2x15 Mhz, 1x5 Mhz of 2100Mhz spectrum band for a tenure of 16 years till 1 April 2034 for a one-time fee of RM118.4 million and fixed annual fee at RM50 million per year, Digi has secured a solid spectrum portfolio across low and high frequency bands essential to cater for rising customer demand for quality digital services and experience.

Consistent with current quarter's financial performance and after accounting for the financial effects from the adoption of MFRS 15 and MFRS 9, the Board declared 1st interim dividend of 4.9 sen or RM381 million for the quarter.

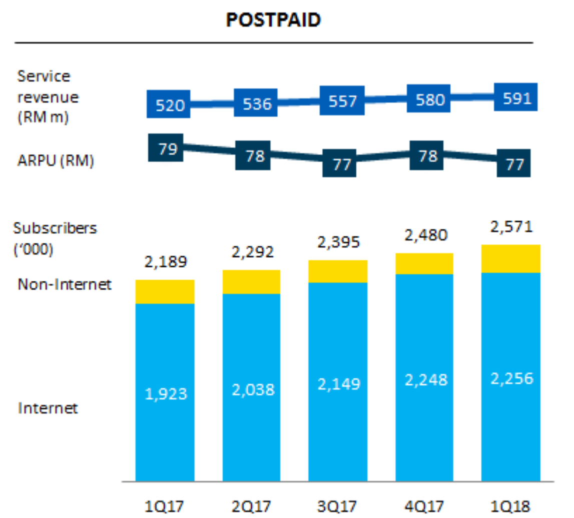
OPERATIONAL AND FINANCIAL UPDATES

13.7% year-on-year postpaid revenue growth underpinned by strong postpaid acquisitions and plan upgrades

During the quarter, Digi continued to register positive take-ups from Digi Postpaid Family RM150 and RM250 plans from both new and existing customers.

Leveraging on the *Thank You* campaign, Digi successfully secured solid acquisition and re-contracting traction using the Digi Postpaid Family device bundles.

In addition, strong take-up for the affordable RM10/month all-day internet GBoost upgrade amongst our postpaid subscribers led to stronger monetisation from existing base.



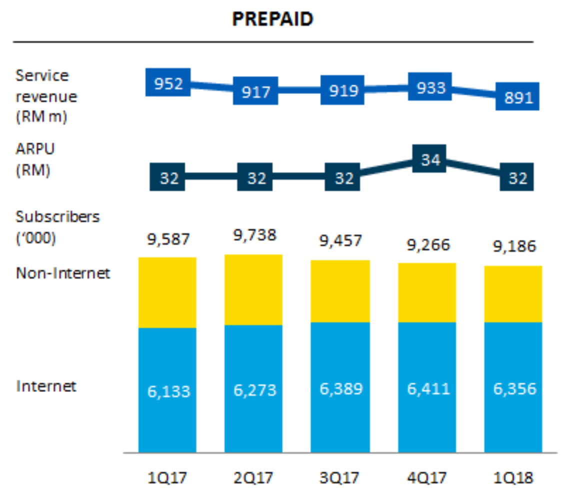
Postpaid revenue grew 13.7% year-on-year and 1.9% quarter-on-quarter to reach RM591 million while postpaid internet revenue rose 28.7% year-on-year and 5.4% quarter-on-quarter to RM368 million.

ARPU stood resilient at RM77 on the back of stronger postpaid subscriber base of 2.6 million, mainly due to continued traction from prepaid to postpaid conversions.

Stronger data monetisation with 17.3% year-on-year prepaid internet revenue growth

As part of the continued focus to drive internet adoption and usage among the prepaid subscribers, with stronger monetisation and recurring internet revenue, we continued to offer the flexibility of affordable bite-sized internet passes.

Strong demand for these internet passes along with targeted campaigns and offers led to higher internet usage amongst our prepaid subscribers with internet revenue surged 17.3% year-on-year to RM393 million or 44.1% of prepaid revenue. Sequential prepaid internet revenue trimmed 1.3% due to seasonal decline from shorter number of days in 1Q.



Prepaid revenue decline narrowed to 6.4% year-on-year and 4.5% sequentially when compared to same quarter last year (1Q 2017: -13.1% and -8.8% respectively) mainly aided by stronger prepaid internet contribution despite continued levelling of legacy prepaid voice and messaging revenue.

Prepaid ARPU trimmed to RM32 while prepaid subscriber base traced to 9.2 million amid continued impact from prepaid to postpaid conversions.

Positive service revenue growth year-on-year

Service revenue grew 0.7% year-on-year fuelled by solid postpaid growth and stronger data monetisation from prepaid despite revenue dilution from prepaid legacy services and effects from mobile termination rates revision effective from 1 January 2018 onwards.

In addition to dilutive effects from mobile termination rates revision, quarter-on-quarter service revenue development was impacted by seasonal decline from shorter number of days in 1Q although decline narrowed to 2.0% (1Q 2017: -5.3%).

Internet revenue climbed 22.5% year-on-year and 1.9% quarter-on-quarter to a record high of RM761 million or 51.3% of service revenue alongside with higher smartphone adoption to 73.6%.

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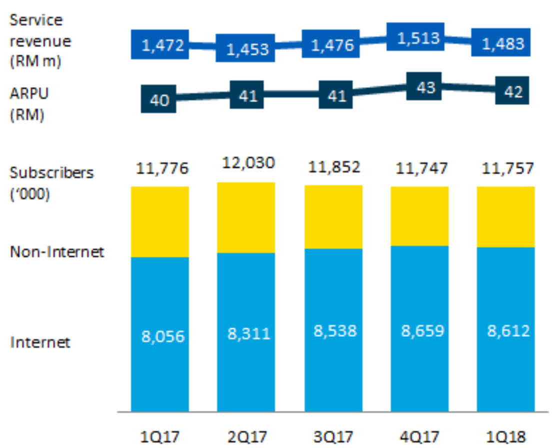
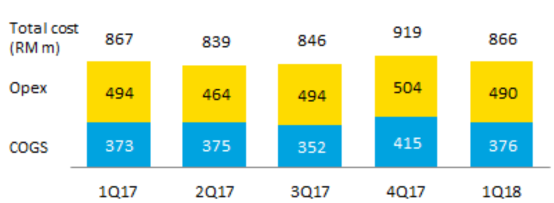


Subscriber base remained resilient at 11.8 million on the back of stronger year-on-year ARPU of RM42 supported by disciplined acquisition quality, higher postpaid subscriber mix and stronger focus on internet monetisation and usage amongst the existing prepaid subscribers.

Device and other revenue for the quarter increased 13.7% year-on-year to RM116 million due to increase in demand for bundled smartphones.

Efficient cost management to deliver stronger Gross Profit and Opex reduction Y-Y

TOTAL COST (RM m)



Cost of goods sold (COGS) marginally increased 0.8% year-on-year but declined 9.4% quarter-on-quarter mainly due to effects from revision of mobile termination rates in addition to lower device cost and IDD traffic volumes.

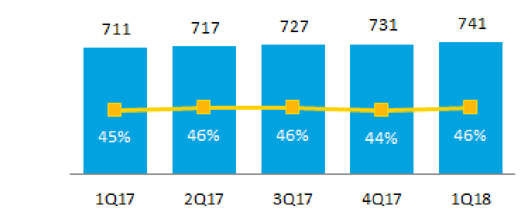
Gross profit improved 1.8% year-on-year to RM1,223 million on the back of higher internet revenue contribution and well-managed COGS.

Opex to service revenue for the quarter improved to 33.0% with 0.8% year-on-year and 2.8% quarter-on-quarter reduction aided by realized OE initiatives achieved across sales and marketing cost as well as network related opex.

Our relentless focus on solid cost discipline and operational efficiencies will enable us to drive sustainable growth and the flexibility to invest in new capabilities to deliver affordable products and service innovations to our customers

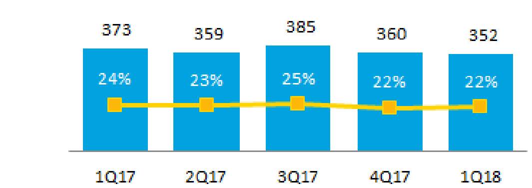
Stronger EBITDA growth and healthy margin but PAT trimmed by higher depreciation

EBITDA AND MARGIN (RM m and %)



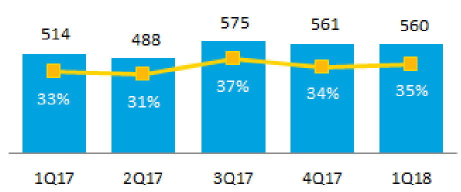
EBITDA strengthened to RM741 million this quarter as a flow through from higher service revenue and efficient cost management, while EBITDA margin strengthened to 46%.

PAT AND MARGIN (RM m and %)



PBT and PAT for the quarter slipped 5.7% and 5.6% year-on-year to RM481 million and RM352 million after accounting for higher depreciation cost from progressive capex investments in addition to amortization of spectrum assets.

OPS CASH FLOW AND MARGIN (RM m and %)

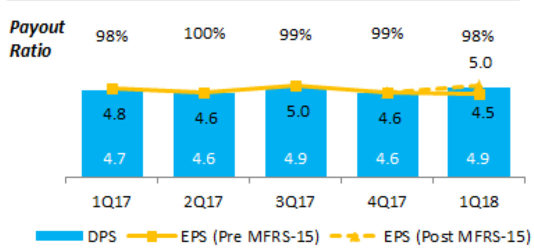


Ops cash flow strengthened to 8.9% year-on-year to RM560 million, alongside higher margin of 35% as a result of higher EBITDA and relatively lower year-on-year capex spend this quarter.

Digi invested RM181 million Capex or 12.2% of service revenue, as planned with expansion on 4G-LTE and LTE-A network coverage to 88% and 57% of population and over 8,200KM of Fiber network nationwide.

Healthy shareholders return and strong balance sheet

EPS AND DPS (sen)



Earnings per share (EPS) trimmed to 4.5 sen.

After accounting for earnings impact from the adoption of MFRS 15 and 9, the Board of Directors declared a 1st interim dividend of 4.9 sen per share equivalent to RM381 million, payable to shareholders on 29 June 2018.

BALANCE SHEET (RM m)

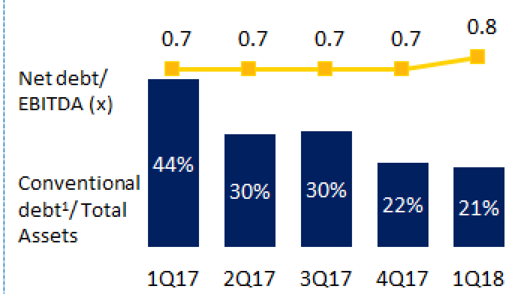
	1Q17	2Q17	3Q17	4Q17	1Q18
Total Assets	**5,729**	**5,996**	**5,869**	**5,834**	**6,027**
Total Equity	519	513	540	519	669
Interest-bearing debts	2,558	1,810	1,802	1,305	1,302
Islamic debts	0	899	899	1,399	1,398
Cash & cash equivalents	479	628	661	575	461

Total assets strengthened 5.2% year-on-year and 3.3% quarter-on-quarter to RM6.03 billion, mainly contributed by spectrum payment for 2100Mhz amounting to RM118 million as well as recognition of contract assets from the adoption of MFRS 15.

Digi's net debt to EBITDA ratio remained healthy at 0.8 times while conventional debt over total asset trimmed to 21% during the quarter.

Balance sheet remained robust with solid financial capability and flexibility to fund investments and operational commitments.

DEBT RATIOS



4Q16 and 1Q17 Drawdown of existing loan facility for 900Mhz and 1800Mhz spectrum fees

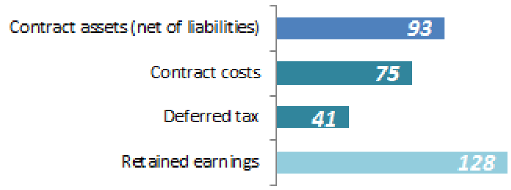
2Q17 Establishment of RM5 billion Islamic bond facilities (Sukuk) to enhance funding flexibility to support the business and growth opportunities **(Issued: RM900 million; Available Funds: RM4.1 billion)**

OTHER UPDATES

Impact of MFRS 15 and 9 from 1 January 2018 onwards

With effect from 1 January 2018, Digi has adopted *MFRS 15 Revenue From Contracts With Customers* using a modified retrospective approach.

As a result, there has been one-off retrospective adjustment to account balances on 1 January 2018 as follows:



These contract assets and contract costs will be amortised over the remaining contract period.

Post MFRS 15 impact to 1Q 2018 income statement as follows:

- Reduction in RM22 million service revenue
- Increase in RM58 million device revenue
- Increase in RM2 million dealers and staff commission cost
- EPS uplift of 0.5 sen to 5.0 sen

RM million	Q1 2018 (Pre MFRS 15)	Q1 2018 (Post MFRS 15)	Delta	%
Service revenue	1,483	1,461	(22)	-1.5%
Total revenue	1,599	1,635	36	2.3%
Opex	490	492	2	0.4%
EBITDA	741	775	34	4.6%
Margin	46.3%	47.4%	1.1	1.1
Profit before tax	481	515	34	7.1%
Profit after tax	352	386	34	9.7%
Capex	181	181	-	0.0%
Ops cash flow	560	594	34	6.1%
Margin	35.0%	36.3%	1.3	1.3
EPS (sen)	4.5	5.0	0.5	9.7%
DPS (sen)	4.9			

In addition to the above, a one-off retrospective adjustment was also made to balances on 1 January 2018 following the adoption of MFRS 9 Financial Instruments

- Reduction to retained earnings of RM8 million
- Increase in provision for doubtful receivables of RM8 million

2018 OUTLOOK AND PRIORITIES

Aiming at sustainable growth opportunities with efficient operations and digital transformation

With a strong head start into 2018 and a sharper focus anchored on connecting our customers to what matters most, we will continue to pursue sustainable growth opportunities ahead.

We will further streamline operations and digital transformation with the ambition of:

- Driving sustainable growth from core telco revenue streams and resilient performance,
- Delivering on cost agenda on a platform of sustainable and efficient cost structure,
- Continuing with our journey of digitisation of core business, and
- Building and growing new digital revenue streams.

In recognition of the importance of our core telco revenue streams, our key focus areas will be on:

- Accelerating Consumer postpaid and Enterprise revenue growth,
- Growing our Malaysian subscriber base,
- Increase internet adoption and internet usage among our migrant subscribers, and
- Monetise data and grow internet revenue.

Although market conditions remains challenging, Digi aims to improve 2018 service revenue growth development and to sustain EBITDA at around 2017 level leveraging on sustainable growth, disciplined cost management and innovating on operational efficiencies.

Digi is committed to investing for growth opportunities and aspire to deliver efficient Capex between 10% - 12% of service revenue.

	2018 Guidance[1]	**YTD 1Q 2018**
Service revenue growth	Flat - low single digit decline	0.7%
EBITDA	Around 2017 level (2017: 2,886m)	741m
Capex to service revenue ratio	10% - 12%	12.2%

[1] FY 2018 Guidance based on old accounting principles

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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, 2018 result.