MANAGEMENT DISCUSSION AND ANALYSIS

Stronger Q-Q performance anchored on discipline focus on sustainable growth

In 2Q 2019, Digi delivered stronger sequential performance across service revenue, EBITDA and PAT along with narrowed year-on-year decline, relatively resilient compared to the Malaysian mobile market. With a solid focus on driving sustainable business and investing in what matters most, we registered robust organic postpaid revenue[1] growth of 12.6% year-on-year and internet revenue growth of 9.2% along with robust EBITDA and earnings although challenged by prolonged aggressive data offerings in the market, channel transformation and device strategy shift during the year.

EXECUTIVE SUMMARY

RM million	2Q18	1Q19	2Q19[2]	Q-Q	Y-Y	1H18	1H19	1H-1H
Service revenue	1,454	1,393	1,402	0.6%	-3.6%	2,915	2,795	-4.1%
Service revenue[1]	1,484	1,441	1,451	0.7%	-2.2%	2,967	2,892	-2.5%
Total revenue	1,618	1,509	1,549	2.7%	-4.3%	3,253	3,058	-6.0%
Gross profit	1,253	1,205	1,238	2.7%	-1.2%	2,512	2,443	-2.7%
EBITDA (boi)	768	723	752	4.0%	-2.1%	1,543	1,475	-4.4%
EBITDA margin	*47%*	*48%*	*49%*	*0.6pp*	*1.1pp*	*47%*	*48%*	*0.8pp*
Profit before tax	517	485	518	6.8%	0.2%	1,032	1,003	-2.8%
Profit after tax	384	366	414	13.1%	7.8%	770	780	1.3%
Capex	147	168	261	55.4%	77.6%	328	429	30.8%
Ops cash flow	621	555	491	-11.5%	-20.9%	1,215	1,046	-13.9%
Ops cash flow margin	*38%*	*37%*	*32%*	*-5.1pp*	*-6.7pp*	*37%*	*34%*	*-3.1pp*

[1] Revenue ex-contract asset amortisation
[2] Include non-recurring cost benefit of RM62 million
All analysis and comparisons are based on post MFRS 9 and MFRS 15.
A summary of the financial impact post adoption of MFRS 16 will be included as part of Other Updates

In 2019, the effects from interconnect rate revision alongside prolonged intense data competition impacted the Malaysian mobile industry revenue growth. Nonetheless, Digi remained committed in delivering a resilient performance in 2Q 2019 with solid double digit postpaid revenue growth to RM697 million[1] and actively grew internet revenue to 62.7% of service revenue or RM879 million. Service revenue strengthened 0.7%[1] quarter-on-quarter while year-on-year decline narrowed to 2.2%.

Overall internet subscriber base strengthened to 9.3 million or 81.7% of subscriber base, an increase of 539K from a year ago while data traffic volumes surged 49% year-on-year and monthly data usage amongst our subscribers increased to 11.4GB.

We remained highly disciplined in driving operational efficiency across our organisation and key processes to maintain steady Opex year-on-year and quarter-on-quarter while we continued to invest on 4G LTE capacity upgrades and network coverage expansions. Our 4G LTE and LTE-A network coverage reached 90% and 70% of population fuelling higher 4G subscriber base to 8.5 million or 90.6% of our smartphone users.

Meanwhile, MyDigi monthly active users climbed to 3.3 million with encouraging upsell transactions on MyDigi and digital distribution channels for the quarter. Our B2B segment has also made good progress with positive growth from business solutions and connectivity.

On comparable basis, earnings per share for the quarter strengthened to 5.3 sen per share and after adjusting for MFRS 16 impact re-traced to 5.0 sen per share. The Board declared 2nd interim dividend of 5.0 sen or RM389 million for the quarter.

OPERATIONAL AND FINANCIAL UPDATES

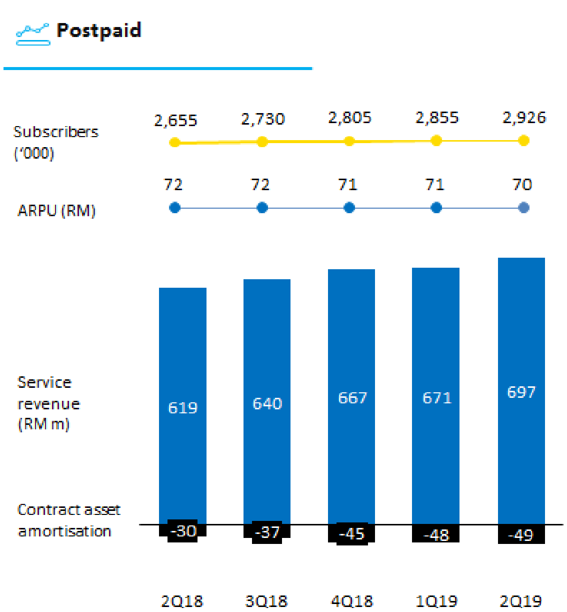
POSTPAID: *Solid growth supported by stronger subscriber acquisitions and plan upgrades from existing customers*

During the quarter, we stepped up our postpaid growth activities via the revamped Phone Freedom 365 program, Digi Postpaid Family plans along with solid demand for entry level postpaid plans from prepaid conversions. We registered another 71K postpaid net adds to 2.9 million postpaid subscribers.

Postpaid ARPU trimmed marginally to RM70 anchored on an expanded postpaid subscriber base with increased mix from entry level postpaid plans. Meanwhile, we continued to gain ARPU uplifts through plan upgrades from our existing postpaid customers.

Postpaid revenue[1] grew 12.6% year-on-year and 3.9% quarter-on-quarter to RM697 million while postpaid internet revenue rose 18.8% year-on-year and 3.0% quarter-on-quarter to RM475 million.

As a flow through from prior year's accelerated postpaid contract acquisition, contract asset amortisation for the quarter climbed up RM19 million year-on-year to RM49 million.



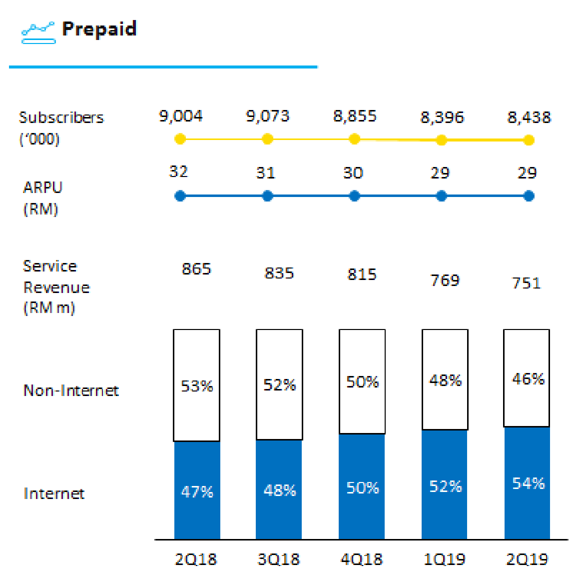
[1] Revenue ex-contract asset amortisation

PREPAID: *Data revenue growth challenged by aggressive data offerings and channel transformation although Y-Y decline improved*

In 2019, we remained focused on driving data adoption and sustainable data revenue growth amongst our prepaid customers. Our prepaid subscriber and revenue mix have progressively shifted away from voice revenue centric to now 54% internet revenue mix with continued growth in internet subscribers and usage.

Prepaid acquisition regained momentum after the implementation of channel transformation strategy initiated in 1Q 2019 with prepaid internet subscriber strengthened 253K year-on-year to 6.7 million or 79.1% of 8.4 million prepaid subscriber base.

During the quarter, we have enriched our BiGBonus internet plans to include the flexibility of voice calls to offer the convenience of worry-free internet plans to our prepaid customers. These new internet plans offer more compelling reasons and freedom for our prepaid customers to embark on their internet journey.



Despite steady internet usage growth and stronger prepaid internet subscribers, the prolonged intense data competition coupled with active postpaid conversions trimmed internet revenue growth. Prepaid internet revenue remained relatively flat year-on-year and strengthened 0.7% quarter-on-quarter to RM404 million or 53.8% of prepaid revenue.

Prepaid ARPU steadied at RM29 underpinned by improved prepaid subscriber quality that supported higher internet contribution.

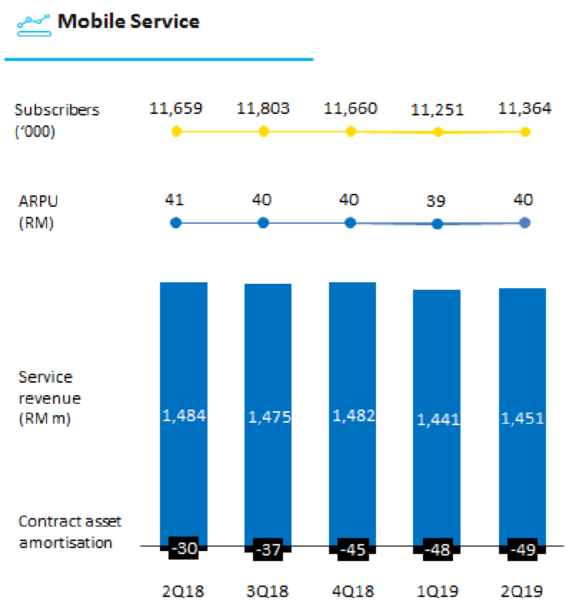
MOBILE SERVICE: *Better Q-Q and improving Y-Y trajectory supported by solid postpaid growth and growing internet subscribers*

Mobile service revenue[1] strengthened 0.7% sequentially to RM1.45 billion or RM1.40 billion net of contract assets amortisation, supported by narrowed prepaid decline and solid growth from postpaid.

The revamped Phone Freedom 365 program launched in March 2019 and steady internet uptake from prepaid alongside slower prepaid voice decline provided a solid boost to the topline performance for the quarter and narrowed year-on-year service revenue[1] decline to -2.2% (1Q 2019: -2.8%).

Our efforts to drive growth from prepaid to postpaid conversions, stronger internet subscribers and usage resulted in 9.2% higher internet revenue year-on-year to RM879 million or 62.7% of service revenue, 83.1% smartphone adoption alongside increasing data demand and usage.

Internet subscribers increased to 81.8% of our 11.4 million subscriber base while ARPU returned back to RM40 post seasonal effect and increasing postpaid subscriber mix.

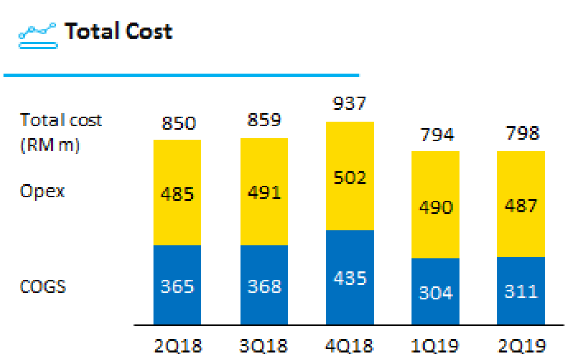


[1] Revenue ex-contract asset amortisation

Device and other revenue increased 26.7% quarter-on-quarter to RM147 million, boosted by easy device ownership program, Phone Freedom 365 which now have been sharpened and enhanced to cater for both new and existing customers.

COST: *Efficient operations to support capacity upgrades and enhanced digital capabilities*

Cost of goods sold (COGS) improved 14.8% year-on-year mainly due to lower traffic cost from reduction in regulated interconnect rate as well as lower device bundles sold compared to a year ago. The higher device volumes sold sequentially contributed to 2.3% higher COGS quarter-on-quarter to RM311 million.



Opex remained flat year-on-year and slightly lower quarter-on-quarter supported by continued efficient operations discipline across all business functions.

Opex to service revenue trimmed marginally to 34.7% (1Q 2018: 35.2%) while we continued investing on network coverage and capacity expansions to serve our 11.4 million subscriber base as well as marketing activities to drive stronger postpaid and internet subscriptions.

Total cost development for the quarter included a non-recurring traffic cost benefit of RM34 million and RM28 million cost benefit in efficiency initiatives (1Q 2019: RM22 million).

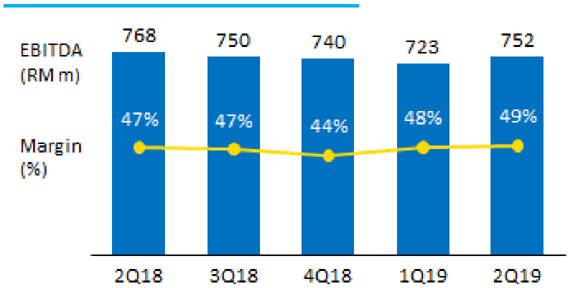
Digi continued to lead on efficient operations with a lean and robust cost structure relative to industry players in the Malaysian mobile market to deliver sustainable business operations with the flexibility to invest in what matters most for our customers.

EBITDA and PAT: *Delivering sustainable operations with stronger sequential performance*

EBITDA strengthened 4.0% quarter-on-quarter to RM752 million while EBITDA margin improved to 49% underpinned by disciplined focus on driving sustainable postpaid and internet growth while delivering on efficient cost management.

However, EBITDA trimmed 2.1% year-on-year as a flow through of lower top line revenue and effects from accelerated contract assets amortisation year-on-year.

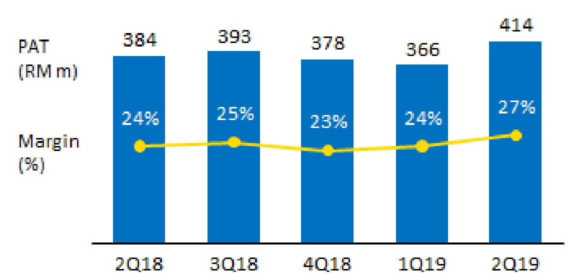
EBITDA and Margin



Profit before tax (PBT) rose 0.2% year-on-year in the absence of RM40 million restructuring cost incurred in 2Q 2018 and after accounting for RM213 million depreciation cost and RM21 million finance cost to RM518 million.

Meanwhile, PBT strengthened 6.8% quarter-on-quarter as a flow through from sequentially stronger EBITDA and coupled with lower depreciation and financial cost for the quarter.

Profit After Tax (PAT) and Margin



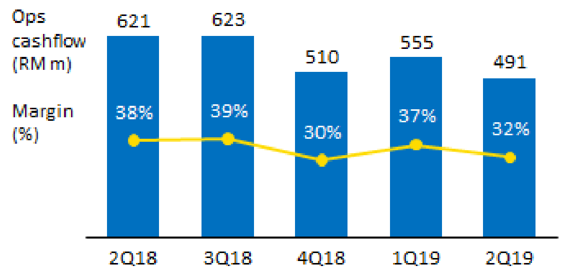
Consequentially, profit after tax (PAT) surged to 7.8% year-on-year and 13.1% quarter-on-quarter to RM414 million or 27% margin after accounting for prior years' deferred tax overprovision of RM16 million during the quarter.

CAPEX AND OPS CASH FLOW: *Strategically accelerate capex to activate growth opportunities in 2H 2019*

Digi continued to invest on what matters most with frontloading of RM261 million Capex or 18.6% of service revenue, mainly for capacity upgrades and fibre network expansion to 9,100KM, deployment of Network Function Virtualisation (NFV) and LTE-A network coverage to 70% of population.

Ops cashflow moderated 20.9% year-on-year and 11.5% quarter-on-quarter to RM491m or 32% margin in line with higher Capex investment for the quarter.

Ops Cashflow and Margin

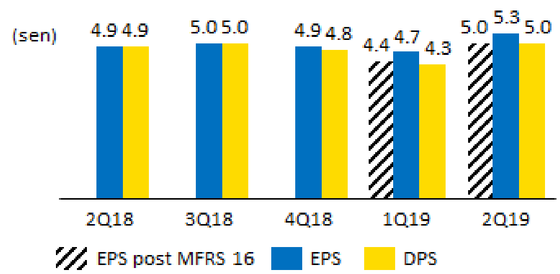


SHAREHOLDERS RETURN: *5 sen dividend per share for the quarter*

Earnings for the quarter stood at 5.3 sen per share and trimmed 0.3 sen per share to 5.0 sen after accounting for impact from MFRS 16 adoption.

The Board of Directors declared 2nd interim dividend of 5.0 sen per share equivalent to RM389 million, payable to shareholders on 27 September 2019.

Earnings Per Share and Dividend Per Share



Total assets strengthened to RM8.20 billion, up 35.8% year-on-year and 2.3% quarter-on-quarter underpinned by recognition of MFRS 16 Rights of Use assets.

Balance Sheet

	2Q18	3Q18	4Q18	1Q19	2Q19
Total Assets	6,035	6,202	6,212	8,012	8,197
Total Equity	673	684	673	641	700
Conventional borrowings	1,287	1,287	1,289	1,289	1,290
Islamic borrowings	1,397	1,398	1,397	1,497	1,497
Finance lease	13	10	8	2,024	2,124
Cash & cash equivalents	428	565	433	244	369

Balance sheet remained robust with strong financial capability and flexibility to fund investments and operational commitments backed by AAA rated RM5.0 billion Sukuk Programmes established in 2017 along with diverse bilateral loan facilities.

Digi's net debt to EBITDA ratio remained at 0.8 times[1] while conventional debt over total assets steady at 21%[1], well-within the Shariah threshold.

[1] Ratio based on pre-MFRS 16. Post MFRS 16 Net debt/EBITDA stood 1.5 times and Conventional debt over total assets at 16%.

OTHER UPDATES

Adoption of MFRS 16: Leases

With effect from 1 January 2019, Digi adopted MFRS 16: Leases using a modified retrospective approach.

A summary of the accounting impact from MFRS 16 on 2Q 2019 income statement is as follows:

MFRS 16: Leases

RM million	2Q 2019 (Without MFRS 16)	2Q 2019 (With MFRS 16)	Delta	%
Total revenue	1,549	1,549	-	0.0%
COGS	311	309	(2)	-0.6%
Opex	487	393	(94)	-19.3%
EBITDA	752	848	96	12.8%
EBITDA margin	*48.5%*	*54.7%*	*6.2pp*	
Deprn &A	213	308	95	44.6%
Finance cost	21	50	29	138.1%
Profit before tax	518	490	(28)	-5.4%
Profit after tax	414	392	(22)	-5.3%
Capex	261	261	-	0.0%
Ops cash flow	491	587	96	19.6%
Ops cash flow margin	*31.7%*	*37.9%*	*6.2pp*	
EPS (sen)	5.3	5.0		
DPS (sen)	5.0			

Meanwhile, the adoption of MFRS 16 also resulted in higher assets and liabilities recognised in the current quarter's Balance Sheet, mainly in Rights of Use Assets and Finance Leases balances.

2019 OUTLOOK AND PRIORITIES

In 1H 2019, Digi demonstrated relatively resilient performance with solid organic postpaid revenue growth of 13.1% and internet revenue growth of 11.2% while EBITDA margin stood at 48%, stronger compared to the mobile market. This was underpinned by stronger sequential performance in 2Q 2019 across service revenue, EBITDA and PAT.

However, the slower data revenue growth from prepaid challenged by prolonged intense data competition coupled with effects from regulatory changes in interconnect rates and continued decline from legacy mobile services trimmed overall growth trajectory. Consequentially, service revenue growth and EBITDA growth guidance for 2019 is now revised to low single digit decline, in line with 1H 2019 performance although anticipating improving sequential performance in 2H 2019.

In the remaining quarters of 2019, we will continue to leverage on the solid foundation set in 2018 and continue our focus to deliver on our strategies and key priorities on:

- Capturing growth from existing customers
- Continue to drive postpaid growth and SME/B2B opportunities
- Deploy network for best internet experience
- Continue focus and execution of OE initiatives
- Build 'Customer Obsessed' and 'Innovation 360' culture, cultivate growth and efficiency mindset

We will continue to sharpen our focus on executing on the right strategies, building competitive network and resources in place to support this ambition and continuously drive value creation for our stakeholders.

The updated 2019 guidance is summarised as follows:

	2019 Updated Guidance[1]	1H 2019
Service revenue	Low single digit decline	**-4.1%** -2.5%[2]
EBITDA		**-4.4%**
Capex to service revenue ratio	11% - 12%	**15.3%**

[1] Guidance above excludes impact of MFRS 16: Leases
[2] Excluding Contract Assets amortisation

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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, 2019 result.