MANAGEMENT DISCUSSION AND ANALYSIS

Stronger sustainable service revenue Q-Q and Y-Y to close FY2019 as guided

Service revenue[1] climbed to its highest in the last 8 quarters to RM1.49 billion. Meanwhile, postpaid, internet and digital revenue strengthened to RM1.10 billion, representing 77% of total service revenue. Our continued strategic focus and investments in shifting revenue mix, supported by robust network expansion enabled sustainable revenue growth while delivering profitable operations and healthy returns to shareholders.

EXECUTIVE SUMMARY

RM million	4Q18	3Q19	4Q19	Q-Q	Y-Y	FY2018	FY2019	FY-FY
Service revenue	1,437	1,413	1,437	1.7%	0.0%	5,790	5,644	-2.5%
Service revenue[1]	1,482	1,464	1,488	1.6%	0.4%	5,924	5,843	-1.4%
Total revenue	1,674	1,562	1,678	7.4%	0.2%	6,527	6,297	-3.5%
Gross profit	1,239	1,214	1,203	-0.9%	-2.9%	4,983	4,860	-2.5%
EBITDA (before other items)	740	725	717	-1.1%	-3.1%	3,033	2,916	-3.9%
EBITDA margin	*44%*	*46%*	*43%*	*-3.7pp*	*-1.5pp*	*46%*	*46%*	*-0.2pp*
Profit before tax	518	497	474	-4.6%	-8.5%	2,079	1,973	-5.1%
Profit after tax	378	362	353	-2.5%	-6.6%	1,541	1,495	-3.0%
Capex	230	119	205	72.3%	-10.9%	685	753	9.9%
Ops cash flow	510	606	512	-15.5%	0.4%	2,348	2,164	-7.8%
Ops cash flow margin	*30%*	*39%*	*31%*	*-8.3pp*	*0.0pp*	*36%*	*34%*	*-1.6pp*

[1] Ex-contract asset amortisation
All analysis and comparisons are based on post MFRS 9 and MFRS 15.

In 2019, we continued to strategically prioritise investments in strengthening Digi's 4G Plus network connectivity and capacity including spectrum re-farming and fibre network expansion to enable better 4G network experience for customers nationwide.

Digi's consistent focus and discipline in driving sustainable growth mitigated the impact from moderating non-internet prepaid revenue, lower interconnect rates and MFRS 15 contract asset amortisation, while revenue mix quality improved alongside profitable operations.

Internet subscribers rose another 39K to 9.4 million or 83.3% of total subscriber base, while monthly data usage per user steadily climbed to 13.8 GB from 9.9 GB a year ago. At quarter end, Digi registered 8.9 million 4G subscribers; representing 93.9% of total smartphone users.

Increasing demand for Digi's Phone Freedom 365 (PF365) and Family plans aided in stronger postpaid subscriptions and contract renewals momentum to seal postpaid revenue on a higher note.
Postpaid, internet and digital revenue grew +2.1% Q-Q and +7.0% Y-Y while prepaid non-internet revenue decline narrowed thus resulting in 1.6% Q-Q and 0.4% Y-Y service revenue[1] growth in the final quarter of 2019, summing up to RM5.84 billion service revenue[1] for the year.

Meanwhile, Opex trimmed -1.4% Y-Y to RM495 million with improved efficiency and re-investment into growth opportunities and what matters most to close the year at RM1.96 billion (FY2018 RM1.97 billion).

Summing up the year, Digi delivered 2019 financial performance as guided on service revenue, EBITDA and Capex with healthy cumulative dividend of 18.2 sen per share or payout of RM1.42 billion.

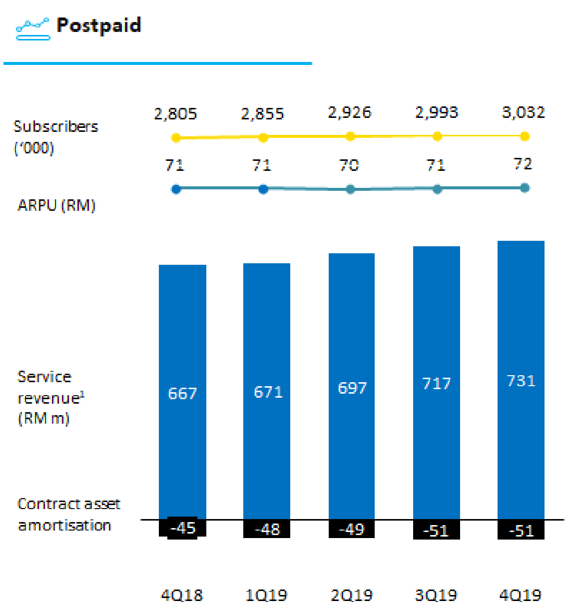
OPERATIONAL AND FINANCIAL UPDATES

POSTPAID: *Steadily strengthened postpaid base with healthy acquisition and retention momentum*

During the quarter under review, Digi registered steady take-up of PF365 and Postpaid Family plans as evidenced by the increase of subscriber base of +39k to 3.0 million and stronger contract renewals and upgrades.

This underpinned the resilience postpaid revenue[1] growth of +2.0% Q-Q and +9.6% Y-Y to RM731 million alongside ARPU uplift to RM72 to close FY2019 postpaid revenue[1] at RM2.82 billion, a solid growth of 11.9%.

Contract asset amortisation (arising from MFRS 15 adoption) for the quarter steadied at RM51 million with cumulative impact of RM199 million, 48.5% higher compared to FY 2018 as a flow through from prior year's accelerated postpaid contract acquisitions.



[1] Ex-contract asset amortisation

PREPAID: *Narrowed prepaid revenue decline with better quality subscribers and ARPU uplift*

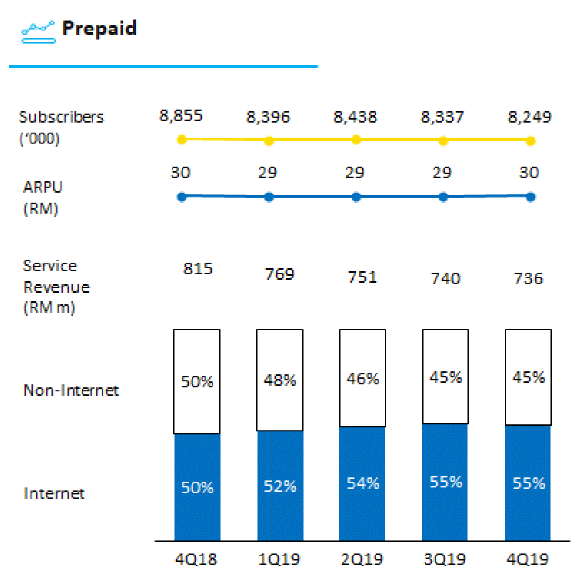
Digi's relentless focus in driving sustainable prepaid internet growth cushioned revenue dilution from non-internet and supported prepaid ARPU uplift to RM30.

Prepaid internet subscribers stood resilient at 6.7 million amid continued demand for postpaid conversions and now accounted for 80.7% of prepaid subscriber base.

Prepaid internet revenue sustained at 55% prepaid revenue mix or RM402 million in line with prepaid internet subscriber development and disciplined focus on delivering what matters most for customers, paving for sustainable value ahead of industry's focus on intense price competition and earnings trade-off.

Prepaid revenue decline narrowed to -0.5% Q-Q (3Q19: -1.5%) and -9.7% Y-Y (3Q19: -11.4%), closing the quarter with RM736 million revenue amid impact from lower interconnect rates, moderating non-internet prepaid services and continued postpaid conversions.

Our strategic shift towards sustainable prepaid revenue mix and on-going efforts to modernise and re-energise channel readiness set a solid foundation for future growth albeit challenged on immediate term revenue topline. Prepaid revenue for the year trimmed -12.0% to RM3.00 billion.

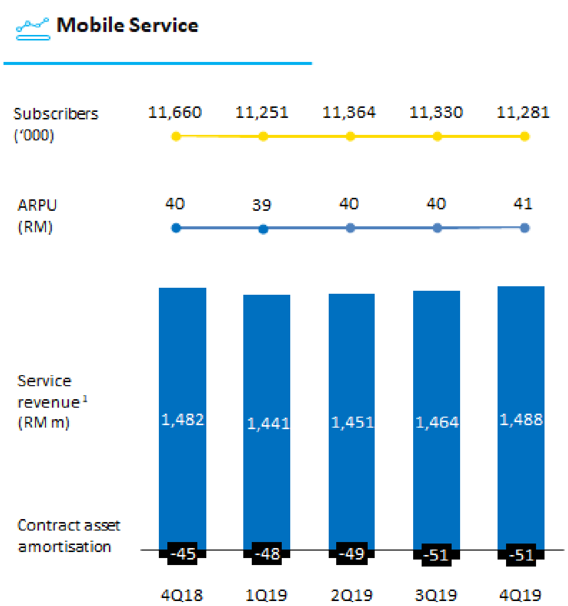


MOBILE SERVICE: *Robust internet growth to drive sequential improvement*

Mobile service revenue[1] registered +1.6% Q-Q and +0.4% Y-Y growth underpinned by solid growth from postpaid, internet and digital revenue which fully offset the decline from prepaid non-internet and interconnect revision.

Amid competition from cheaper rich data quota plans in the market, Digi remained resilient and continued to register quality customer acquisitions to strengthen its revenue mix, increased demand for customer re-contracting and upgrades via PF365 and Family plans.

Our consistent efforts to drive internet growth led to 2.3% Q-Q and 9.9% Y-Y higher internet and digital revenue of RM933 million or 64.9% of service revenue supported by 9.4 million internet subscribers alongside smartphone penetration rate of 85.0% and growing monthly data usage of 13.8 GB per user.



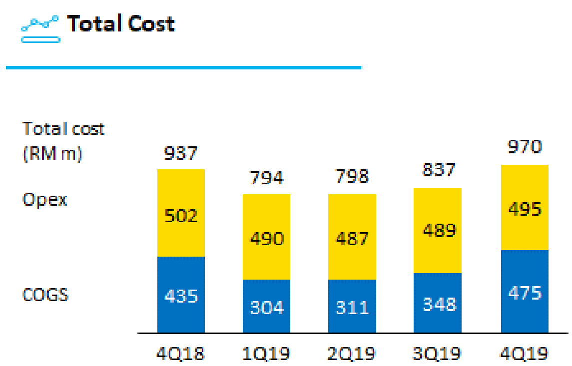
[1] Revenue ex-contract asset amortisation

Blended ARPU strengthened to RM41 on the back of 11.3 million subscriber base.

Mobile service revenue[1] for the year declined -1.4% to RM5.84 billion or RM5.65 billion net of contract assets amortisation, a result from lower interconnect and shift in revenue mix with lower reliance on traditional voice. Excluding effects from contact assets amortisation and interconnect revision, mobile service revenue for FY2019 would have been almost at par with FY2018.

COST: *Strategic investment to drive customer contracts, network expansion and experience while delivering efficient operations*

Higher device cost from increased demand for PF365 bundles and investment into contract renewals and plan upgrades resulted in +36.5% Q-Q and +9.2% Y-Y higher cost of goods sold (COGS), net of non-recurring cost benefit of RM3 million.



Opex remained fairly consistent as the last 3 quarters at RM495 million or 34.4% of service revenue, aided by non-recurring cost of RM21 million related to adjustments as well as efficiency benefits (1Q19: RM22 million; 2Q19: RM28 million; 3Q19: RM17 million).

This was achieved while we prioritized investments in key growth areas with stronger 4G Plus network connectivity and experience to deliver quality and reliable service to our customers and stakeholders in addition to operating model shifts to deliver efficient operations in our core operations.

Consequentially, FY2019 Opex declined -0.5% to RM1.96 billion aided by approximately RM95 million adjustments and benefits that were one-off for the current year.

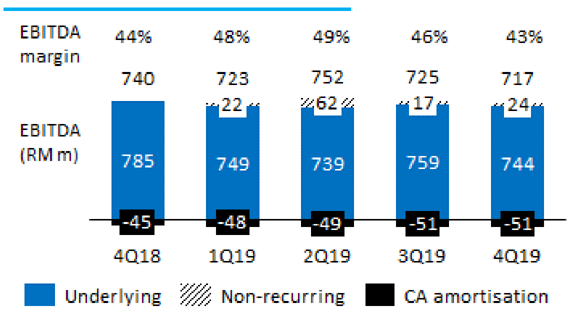
EBITDA and PAT: *Moderated underlying earnings after accounting for investments for future growth opportunities*

Underlying EBITDA moderated to RM744 million as a result of higher investments into driving higher postpaid contracts and plan upgrades via device bundles as well as better network connectivity and experience for customers.

Reported EBITDA re-traced to RM717 million or 43% EBITDA margin after accounting for non-recurring cost effects.

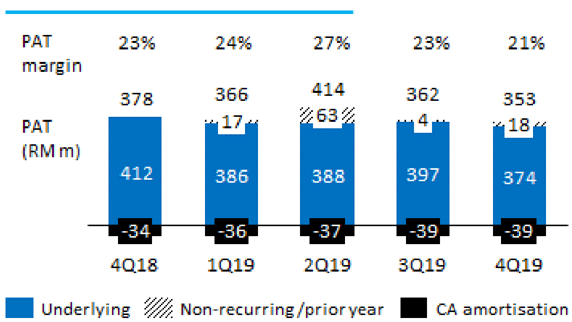
For FY2019, the reported EBITDA amounted to RM2.92 billion, a decline of -3.8% as guided while sustaining profitable operations with 46% EBITDA margin ahead of industry peers. Underlying EBITDA for the year remained solid at RM2.98 billion.

EBITDA and Margin



Profit before tax (PBT) recorded a decrease of -4.4% Q-Q and -8.3% Y-Y to RM475 million as a flow through from EBITDA and after accounting for RM202 million depreciation and amortization cost coupled with RM32 million finance cost as well as RM9 million re-structuring cost.

Profit After Tax (PAT) and Margin



Reported Profit after tax (PAT) remained resilient at RM353 million or 21% PAT margin alongside delivering sustainable growth and strategic re-investment to strengthen customer retention and growth. PAT for the year summed up to RM1.50 billion (FY2018: RM1.54 billion).

Underlying PAT for the year stood at RM1.54 billion, with improved revenue mix and resilience to unlock future growth opportunities.

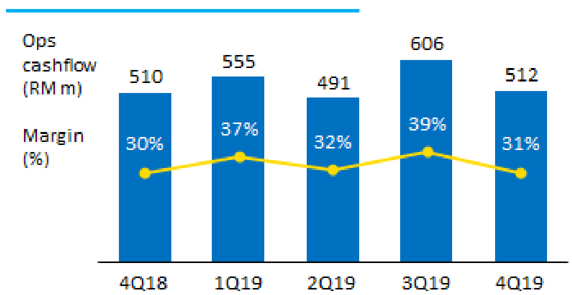
CAPEX AND OPS CASH FLOW: *Investing in what matters most for our customers and stakeholders*

In the final quarter, Digi invested RM205 million Capex or 14.3% of service revenue, amounting to a total of RM753 million capex investment or 13.3% of service revenue for FY2019 to support LTE-A network coverage expansion to 72% of population (FY2018: 65%), on top of the nationwide network and infrastructure upgrades.

At end 2019, Digi's fibre network expansion reached 9,610 KM to deliver best 4G network experience for our 11.3 million customers. In the recent speed test report in December 2019, Digi is recognised amongst the top-ranking 4G network nationwide.

Ops cashflow re-traced to RM512 million or 31% margin following higher Capex in the final quarter, as planned.

Ops Cashflow and Margin

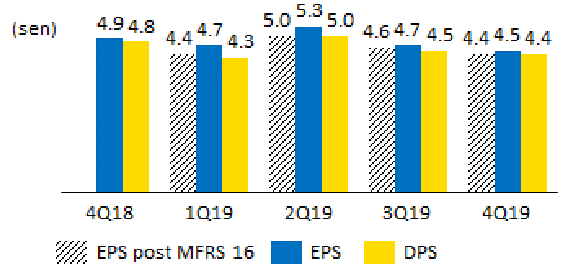


SHAREHOLDERS RETURN: *4.4 sen dividend per share*

Earnings for the quarter stood at 4.5 sen per share and trimmed 0.1 sen per share to 4.4 sen after accounting for impact from MFRS 16 adoption.

The Board of Directors declared 4th interim dividend of 4.4 sen per share equivalent to RM342 million, payable to shareholders on 27 March 2020. This effectively brought our total dividend per share for the year to 18.2 sen.

Earnings Per Share and Dividend Per Share



Total Assets as at end 2019 traced to RM8.15 billion; +31.2% higher underpinned by the recognition of MFRS 16 Rights of Use assets and continued investment for growth opportunities.

Digi's credit rating was re-affirmed with AAA/Stable/P1 rating by RAM Rating in its latest rating review report published on 6 January 2020 based on the Company's well-established position in the mobile telecommunications industry, robust profitability and cashflow.

Balance Sheet

	4Q18	1Q19	2Q19	3Q19	4Q19
Total Assets	6,212	8,012	8,197	8,483	8,149
Total Equity	673	641	700	667	660
Conventional borrowings	1,289	1,289	1,290	830	780
Islamic borrowings	1,397	1,497	1,497	2,322	2,322
Finance lease	8	2,024	2,124	2,154	2,048
Cash & cash equivalents	433	244	369	749	458

OTHER UPDATES

MFRS 16: Leases impact

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 4Q19 income statement is as follows:

RM million	4Q 2019 Pre MFRS 16	4Q 2019 Post MFRS 16	Delta	%
Revenue	1,678	1,678	-	0.0%
COGS	475	478	3	0.6%
Opex	495	389	(106)	-21.4%
EBITDA	717	820	103	14.4%
EBITDA margin	42.7%	48.9%	6.2	
Depreciation and amortisation	202	291	89	44.1%
Net Finance cost	32	59	27	84.4%
Profit before tax	474	461	(13)	-2.7%
Profit after tax	353	343	(10)	-2.8%
Capex	205	205	-	0.0%
Ops cash flow	512	615	103	20.1%
Ops cash flow margin	30.5%	36.7%	6.2	
EPS (sen)	4.5	4.4		
DPS (sen)	4.4			

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.

Mobile Termination Rate Revision in 2020

Based on the Mandatory Standard on Access Pricing (MSAP) which came into effect on 1 January 2018, there will be further revision to MTR rate in 2020 as follows:

CHANGES TO MOBILE TERMINATION RATES (MTR)

Sen	2017	2018	2019	2020
Local	3.65	2.92	1.96	0.99
National	3.88	2.92	1.96	0.99
Sub-marine	15.73	2.92	1.96	0.99

Public Inquiry Report on Allocation of Spectrum Bands

The report takes an innovative approach to spectrum utilisation and we welcome the decision to extend the 2600Mhz until 31 December 2021 which assures continued delivery of consistent connectivity experience for our customers nationwide and absence of upfront spectrum payment commitment.

Particularly on the approach to 5G, we trust that it will help deploy 5G in a more concerted manner across industry. We view partnerships as a positive way forward in delivering efficient and widespread access to Malaysians as seen in our various collaborations across towers, fibre, undersea cables, WiFi hotspots, and more.

2020 OUTLOOK AND PRIORITIES

In 2019, Digi demonstrated service revenue resilience and disciplined focus in driving sustainable growth and profitable operations with solid organic postpaid revenue[1] growth of 11.9% and internet & digital revenue growth of 11.0% while delivering profitable operations ahead of industry peers with 46% EBITDA margin.

We have made solid improvement in delivering best 4G network experience with our customers enjoying marked improvement in data download performance nationwide according to the recent speed test report.

Looking ahead into FY2020, our priorities will be to deliver:

- Network for **Best Internet Experience** and **5G readiness**
- **Best in Value** and **Digital Experience** in connecting customers to what matters most
- **Discipline OE Execution** and operating model innovation to create value
- **Leadership on Responsible Business & Sustainability**

We will continue to sharpen our focus on structural operational efficiencies, investing in what matters most for our customers and continuously drive value creation for our stakeholders.

2020 guidance is summarised as follows:

<table>
<tr><th></th><th>2020 Guidance[2]</th></tr>
<tr><td>Service revenue</td><td rowspan="2">Flat – low single digit decline</td></tr>
<tr><td>EBITDA</td></tr>
<tr><td>Capex</td><td>Similar to FY2019</td></tr>
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[2] Guidance based on post MFRS 16 financials

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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 4th Quarter, 2019 result.