MANAGEMENT DISCUSSION AND ANALYSIS

Disciplined operational excellence to drive lower costs led to higher EBITDA margin in 2Q2020

Service revenue trimmed to RM1,317 million on the back of limited acquisition opportunities and weaker roaming revenue due to Covid-19 outbreak and Movement Control Order (MCO) in March to June this year. EBITDA margin rose to 53% against 49% in previous quarter on stringent cost management efforts to yield total cost reduction of -15.0% Quarter-on-Quarter (Q-Q). Second Quarter results reflected Digi's continued focus on ensuring quality connectivity for customers, efficiency and simplification drive across the organisation while running business responsibly.

EXECUTIVE SUMMARY

RM million	2Q2019	1Q2020	2Q2020	Q-Q	Y-Y	1H2019	1H2020	1H-1H
Service revenue	1,402	1,387	**1,317**	-5.0%	-6.1%	2,794	**2,704**	-3.2%
Service revenue excluding interconnect	1,366	1,366	**1,297**	-5.1%	-5.1%	2,723	**2,663**	-2.2%
Total revenue	1,549	1,560	**1,452**	-6.9%	-6.3%	3,058	**3,012**	-1.5%
Gross profit	1,241	1,163	**1,134**	-2.5%	-8.6%	2,447	**2,297**	-6.1%
EBITDA	846	756	**770**	1.9%	-9.0%	1,654	**1,526**	-7.7%
EBITDA margin	55%	49%	**53%**	4.5pp	-1.6pp	54%	**51%**	-3.3pp
Profit before tax	490	435	**377**	-13.3%	-23.1%	943	**812**	-13.9%
Profit after tax	392	332	**288**	-13.3%	-26.5%	734	**620**	-15.5%
Capex[1]	260	139	**225**	61.9%	-13.5%	429	**363**	-15.4%
Ops cash flow	586	617	**545**	-11.7%	-7.0%	1,224	**1,162**	-5.1%
Ops cash flow margin	38%	40%	**38%**	-2.1pp	0.3pp	40%	**39%**	-1.4pp
Earnings per share (sen)	5.0	4.3	**3.7**	-13.3%	-26.5%	9.4	**8.0**	-15.5%

All analysis and comparisons are based on post MFRS 16

[1] Included the recognition of Asset Retirement Obligations of RM46 million

2Q2020 was a period of adaptation to a shifting landscape as the MCO period of over 85 days impacted socio-economic and market developments. Non-essential business premises were closed alongside general restriction of mass movements led to cautious consumer sentiment, employment insecurity and slower domestic economic activities.

During this period, Digi's purpose of keeping customers connected to what matters most remained more crucial than ever, as demonstrated by the key initiatives below:

- Secured high availability of reliable network at critical sites and high demand locations
- Free 1GB data daily from 8am to 6pm, a joint initiative with other industry players
- Shifted from offline to online in retail powered on established digital customer touchpoints
- Grew B2B traction in the SME segment via personalised digital solutions to support their digitalisation needs
- Seamless network and service deployments via efficient supply chain management
- Continuously engaged and motivated workforce via virtual platforms and e-learning tools

Financial Highlights for Second Quarter Q2020 ended 30 June 2020

- Total revenue declined by -6.9% Q-Q and -6.3% Year-on-Year (Y-Y) to RM1.45 billion, attributable to softer on-ground activities, coupled with free 1GB data and lesser economic activities during the MCO period
- Internet and digital revenue was RM953 million, representing 72.4% of service revenue against 62.9% a year ago, reflecting our strategic effort in strengthening sustainable revenue portfolio
- B2B revenue sustained Q-Q momentum with a Y-Y growth of 3.5% led by a growing pipeline of customers

Operational Highlights for 2Q 2020

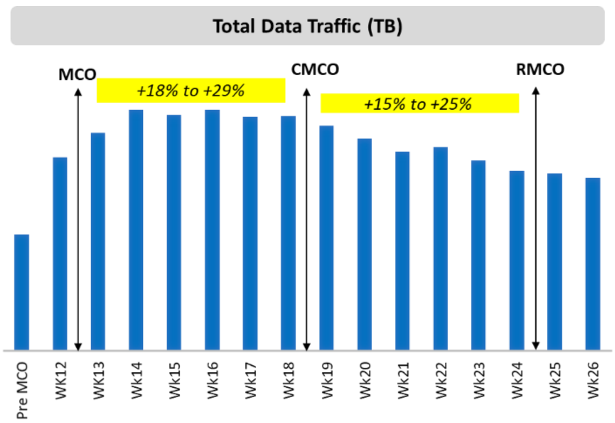
- Total data usage grew 17.8% Q-Q and 50.7% Y-Y from higher data quota utilisation for remote working
- Active subscriber base remained steady despite lower total subscriber base of 10.6 million

- Monthly active users for MyDigi application elevated to 4.3 million, up 30.3% Y-Y as we steered customer engagements on digital touchpoints

OPERATIONAL AND FINANCIAL UPDATES

NETWORK PERFORMANCE: Maintaining Network Consistency and Quality Nationwide

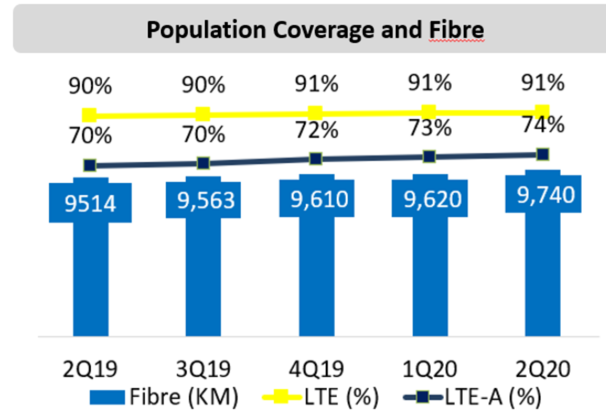
In 2Q2020, we saw data usage patterns stabilise post the MCO period. There was also a significant increase in resource demand for commonly used applications, educational and productivity platforms.



As such, continuous efforts on traffic management and dynamic network optimisation have been implemented to cater for rising traffic demand at essential sites such as hospitals, government agencies, media centers, as well as residential and commercial areas. We also prioritised key applications and services.

Amidst the restricted movement order, Digi was able to accelerate site deployments and optimisation activities in June 2020 to manage backlog experienced in April and May 2020. Our network team successfully deployed an additional 29% Y-Y of new and upgraded sites in 1H2020.

We also expanded our 4G LTE and LTE-A network coverage to 91% and 74% of the population nationwide, alongside extending our fiber network to 9,740 KM. This underlined our strategic investments in high consumption locations to increase overall service coverage, reliability and quality.



Throughout this period, Digi was able to sustain #1 position on network consistency and download throughput with minimal quality degradation as measured by third party data. This reflected our commitment to maintain consistent user experience, delivered by our dedicated frontliners who worked around the clock to support day-to-day operations, onsite rectifications and additional activities required to manage increased network demands.

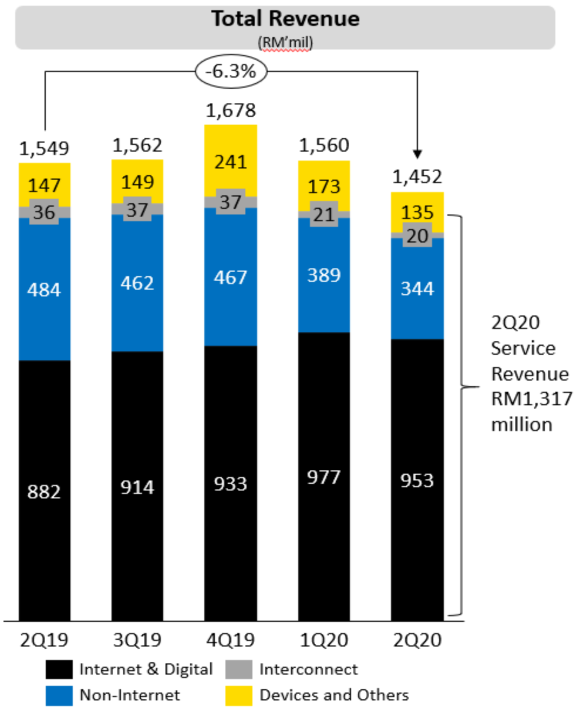
TOTAL REVENUE: Topline development challenged by socioeconomic effects from Covid-19 outbreak

Mobile service revenue contracted by -5.0% Q-Q and -6.1% Y-Y due to weaker data monetisation, as a result of industry-wide free data and softer acquisitions hampered by closure of physical channels. In addition, Digi's performance was also impacted by lower traditional voice and roaming revenues due to closed borders.

Nonetheless, steady recovery momentum was observed as restrictions eased alongside increased data monetisation and opening of economic sectors post MCO.

Internet and digital revenue eased -2.5% Q-Q despite a Y-Y growth of 8.0%. This was largely supported by solid growth on overall internet usage, demand from gaming activities, subscription management services and customised digital solutions for our increasing B2B base.

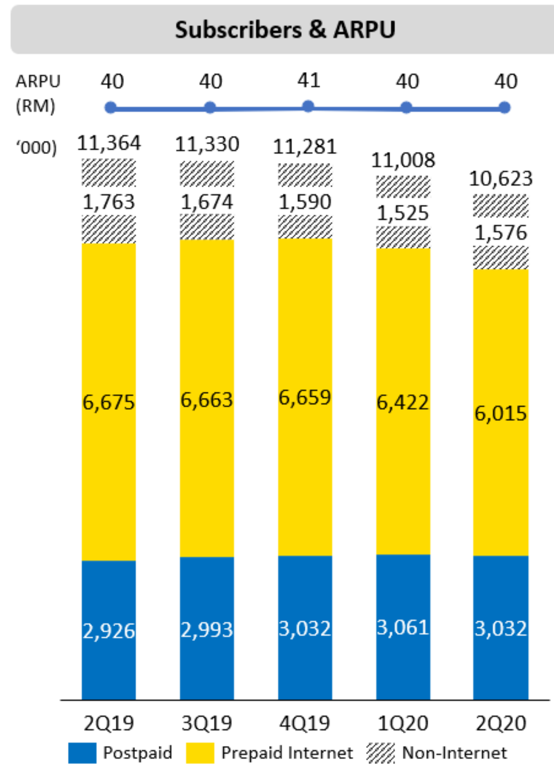
The strategic shifts undertaken to reduce reliance on traditional prepaid voice significantly changed the revenue and subscriber mix to be more internet centric compared to a year ago.



Monthly data usage amongst our 9.0 million internet subscribers grew from 11.4GB in 2Q2019 and 14.5GB in 1Q2020 to 18.0GB in 2Q2020. This was also driven by encouraging engagements on MyDigi as part of our efforts on channel modernisation to drive digital adoption.

Meanwhile, device and other revenues trimmed -22.0% Q-Q and -8.2% Y-Y given the change in consumer behaviour due to the MCO and shifting spending priorities.

We recorded a lower subscriber base of 10.6 million against challenging market conditions this quarter. The reduction was due to a decrease in non-active users, lesser on-ground activities on our channels, leading to involuntary churn, no inbound subscriptions and continued sim consolidation. Despite these factors, blended ARPU steadied at RM40 underpinned by our best-in-value offerings and loyalty rewards to drive retention of long-tenure, quality and revenue generating subs.



Our postpaid growth activities remained intact driven by innovative and value-accretive PhoneFreedom 365 plans and bundle offerings for Family Packages, This was evidenced by a 3.6% Y-Y increase in postpaid subscriptions, in spite of lower volume Q-Q as challenged by the MCO. Conversely, Postpaid ARPU diluted to RM68 due to lower roaming and interconnect ARPU.

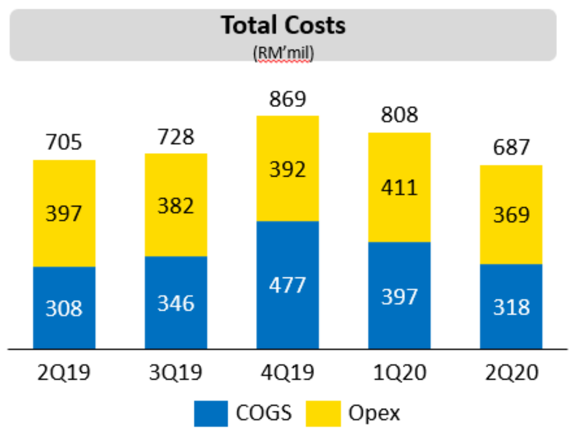
Prepaid ARPU remained at RM29 reinforced by our segmentised approach of re-calibrating products to meet consumer sentiments and segment needs. In 2Q2020, Digi launched Digi Abadi, a first of its kind product with free Covid-19 insurance coverage for B40 group and a best-in-value Digi Prepaid Next for price-conscious consumers to continuously grow and retain our active Malaysian base.

Digi is committed to regain acquisition momentum and expand market position through targeted base management and retention strategies. This is achieved by balancing customer offerings and consistent experiences to meet the persistent need for connectivity and related services.

COST: Cost improvement underscored our disciplined cost allocation

Cost of goods sold (COGS) decreased by -19.9% Q-Q, albeit an increase of 3.2% Y-Y as previous year included a non-recurring traffic cost benefit of RM34 million. Excluding that, cost development would have improved by 7.0% Y-Y.

In 2Q2020, higher costs were incurred due to increased bandwidth arrangements for better network coverage during MCO as well as higher digital costs from gaming activities and sales of digital solutions. This was offset by lower device cost and reduction in regulated interconnect rate.



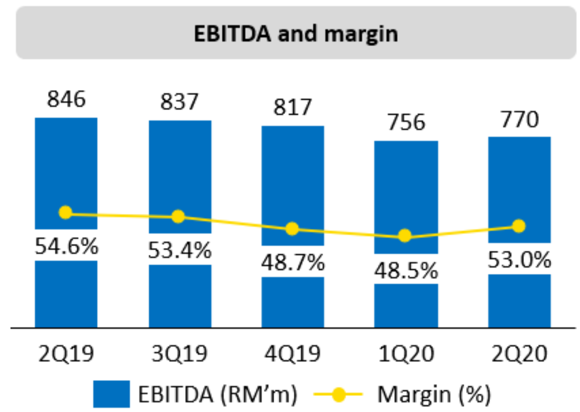
Opex improved to RM369 million, a reduction of -10.2% Q-Q and -7.1% Y-Y yielded by optimisation of sales and marketing cost levers, network expenditure and staff cost. This was also achieved through prioritised investments on network coverage expansions to support higher data consumption.

Notwithstanding the cost improvement, a non-recurring cost adjustment of RM16 million was recorded in lower site rental expenses attributable to 1Q2020 where contract renewals for expired sites have been capitalised under MFRS 16 as right-of-use assets and finance lease liabilities.

Meanwhile, additional RM4 million of provision for doubtful debt (PFDD) for our PhoneFreedom 365 programme was added; resulting in total PFDD for the company of RM20 million; equivalent to 3.1% of postpaid revenue. Cash collection mechanisms are in place, namely tightening of credit score eligibility and device sales volume control to manage bad debt risk effectively.

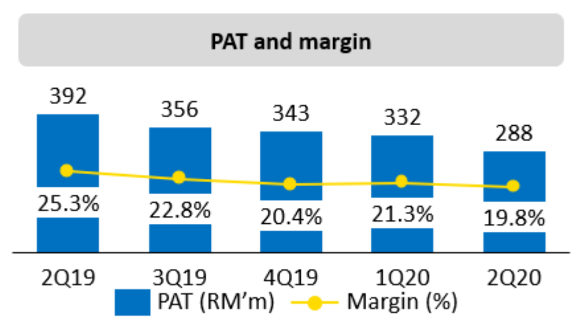
EBITDA and PAT: Protecting profitability margins fortified by effective OE mandates

Our relentless focus on cost optimisation resulted in stronger Q-Q reported EBITDA of RM770 million and 53.0% margin, up 1.9% Q-Q despite the Y-Y decline of -9.0% amid topline challenges from Covid-19.



Meanwhile, our EBITDA excluding PF365 PFDD totaled to RM774 million, or EBITDA margin of 53.3%.

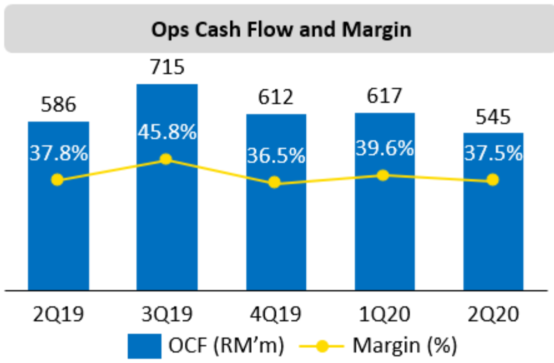
Depreciation and amortisation cost rose to RM328 million which included the depreciation of RM13 million from MFRS 16 adjustment and RM3 million impact on the recognition of Asset Retirement Obligations (ARO). Consequently, Profit before tax (PBT) declined to RM377 million, -13.3% Q-Q and -23.1% Y-Y after accounting for net finance cost of RM65 million.



Profit after tax (PAT) moderated to RM288 million, a decrease of -13.3% Q-Q and -26.8% Y-Y; or 19.8% margin after accounting for taxation of RM89 million. Excluding the net effect of MFRS 16 adjustment and recognition of ARO, PAT would have equaled to RM299 million, or margin of 20.6%.

CAPEX AND OPS CASH FLOW: Prioritisation of investments to support escalating demand

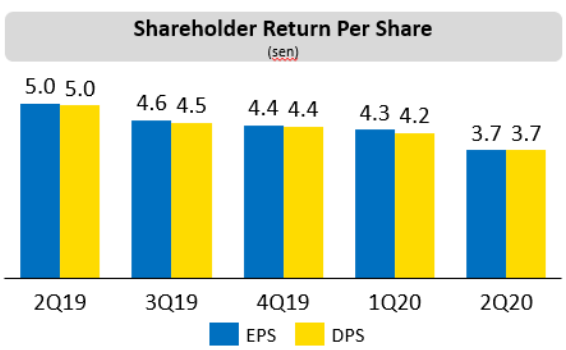
Digi invested RM225 million Capex or 17.1% of service revenue after accounting for ARO adjustment of RM46 million as well as 4G Plus network rollout acceleration for capacity upgrades, fiber network expansion and traffic management.



Subsequently, ops cashflow moderated by -11.7% Q-Q and -7.0% Y-Y to RM545 million or 37.5% margin.

SHAREHOLDER RETURN: Lower EPS, supported by sustainable dividend payout of close to 100%

Earnings Per Share (EPS) for the quarter shaved 0.6 sen Q-Q and 1.3 sen Y-Y to 3.7 sen.



The Board of Directors declared 2nd interim dividend of 3.7 sen per share equivalent to RM288 million, payable to shareholders on 25 September 2020.

SUMMARISED BALANCE SHEET: Healthy financial position for future growth

Total Assets as at 30 June 2020 sustained at RM8.2 billion the back of dynamic allocation of resources and asset management.

Balance Sheet

	2Q19	3Q19	4Q19	1Q20	2Q20
Total Assets	8,197	8,483	8,149	7,997	8,169
Total Equity	700	667	660	650	611
Borrowings	2,787	3,152	3,102	2,965	2,907
Finance lease	2,124	2,154	2,048	2,062	2,251
Cash & cash equivalents	369	749	458	307	519

Total borrowings of RM2.91 billion, comprised 77.1% of Islamic borrowings. The net debt to EBITDA ratio remained healthy at 1.5 times while conventional debt over total assets at 8.2%, well-within the Shariah threshold.

2020 OUTLOOK AND PRIORITIES

Mobile subscription developments may continue to face headwinds given the following factors: the evolving Covid-19 situation, its uncertain effect on the country's economic outlook, the expected pace of market recovery, and growing industry competition.

Nevertheless, Digi remains committed to execute its efficiency, modernisation and responsible business agenda driven by our near-term priorities, which are:

- Stepping up growth efforts through targeted and best-in-value propositions to deliver on core products
- Strengthening network and IT infrastructure to support growing internet and digital adoption
- Optimising spending and cash management efforts to secure resilient cash flow while adapting to changing environment

The revised 2020 Guidance is summarised as follows:

	2020 Guidance[1]	1H2020
Service Revenue	Low single digit decline	-3.3%
EBITDA	Medium single digit decline	-7.5%
Capex	Similar to 2019 level	RM318m*

[1] Included the impact of MFRS 16 adoption
* Excluded the one-off adjustment for ARO in 2Q20, which was a non-cash item