



11 May 2022

Minority Shareholders Watch Group (MSWG)

Level 23-2, Menara AIA Sentral
No. 30, Jalan Sultan Ismail
50250 Kuala Lumpur

ATTN: Mr Devanesan Evanson, Chief Executive Officer

Dear Mr Devanesan,

RE: Reply to the MSWG questions for the 25th Annual General Meeting of Digi.Com Berhad

Firstly, we hope you are well and staying safe. With reference to your letter dated 28 April 2022. We append below the response to your queries as highlighted in your letter.

Operational and Financial Matters

1. The proposed merger with Celcom Axiata Berhad aims to create a leading telecommunications service provider in Malaysia. The new company will have the capabilities to provide better network quality and coverage and have greater scale to invest, drive new digital solutions, catalyse new growth opportunities for large enterprises and SMEs, and attract and partner global digital giants. (page 11 of AR 2021)

What is the expected domestic market share subsequent to the proposed merger?

Digi's Response

The scale, capacity and values created by the Proposed Merger will allow the MergeCo Group to target its investments to benefit Malaysian customers and businesses through stronger combined network, multi-channel distribution, enhanced digital access and offerings and wider product offerings supporting Government initiatives.

MergeCo Group's customers are also expected to benefit from attractive and affordable products and offerings, better quality of services, leveraging on the complementary strengths from both Celcom and Digi.

The competition application process with Malaysian Communications and Multimedia Commission (MCMC) is still ongoing and contains within this process an evaluation of the combined market shares subsequent to the proposed merger. As such, it will not be possible to provide more specific details surrounding the expected market share.

Which specific areas of strengths and competitive advantages will the merger bring about?

Digi's Response

The MergeCo Group is expected to see the combination of the scale, experience, competencies and financial strength of both Telenor and Axiata telecommunication groups with the market knowledge of two well-established local Telcos. The combined scale of Celcom's and Digi's financial strengths, resources, expert capabilities, and experiences will enable the MergeCo Group to be more resilient in managing rapidly escalating data usage year-on-year coupled with continued pressure on revenue and profitability. The Proposed Merger will also enable the MergeCo Group to leverage on technology advancements and to attract global internet-based partnerships to deliver a wider range of innovative

solutions to better serve the growing demand from customers, empower businesses, enterprises, and societies in accelerating Malaysia's digital aspirations.

2. Most of Digi's RM815 million CAPEX in 2021 was spent to enhance its 4G network, catering for the increase in data consumption (more than 20GB per user, up 8.9% versus 2020) and delivering 100% of our JENDELA commitments. (page 19 of AR 2021)

(a) What is the status of the 4G network and what is the targeted coverage and timeline?

Digi's Response

As of end of March 2022, we continued to grow our network coverage and capacity by increasing new and upgraded 4G sites which led to wider 4G LTE and LTE-A network coverages of 94.0% and 76.1% of populated areas, respectively, alongside a strong fiber network of over 10.3K KM. In addition, the successful 3G network shutdown in January 2022 has enabled 3G spectrum to be repurposed to strengthen Digi's 4G network performance, allowing for better quality of internet experience. Our robust network coverage improvements have earned Digi to claim the position as the best network in Malaysia in terms of speed, quality and consistency. We continue to work closely with all industry players and government to achieve the desired ambition and targets as part of the national digitalization plans.

(b) What are the 100% JENDELA commitments? Are there further JENDELA commitments, going forward?

Digi's Response

JENDELA Phase 1 that is currently ongoing, is targeting to have 4G population coverage of 96.9% and achieving average mobile broadband speed of 35Mbps by the end of 2022. We are pleased that Digi has fulfilled all targets submitted to JENDELA, in relation to site deployments for coverage expansion. The details of the upcoming phase of JENDELA will be provided by Malaysian Communications and Multimedia Commission (MCMC) in coming months and we look forward to another round of solid collaboration across the industry to improve the nationwide population coverage and modernise our network.

3. By strengthening its offerings in core and near-core connectivity solutions within Postpaid, Fibre, and Business segments, Digi aims to return to service revenue growth in 2022, and expect the decline of the Prepaid segment to abate further. (page 20 of AR 2021)

(a) What are the expected growth rates and catalysts for each of the segments? Which segment yields the highest return?

Digi's Response

As the operating and retail environment is gradually returning to normal conditions, alongside the positive recovery momentum in 2021, our 2022 guidance is reflecting positive economic indicators and macro developments. We aim to return to growth for Service Revenue, largely underpinned by momentum in Postpaid, Business (B2B) and Fibre. The Postpaid segment has registered net additions in its subscriber base for the past six consecutive quarters, reflecting our proven execution on targeted acquisition and contracting efforts. B2B has steadily gained positive momentum throughout the year from both SME and large enterprise segments underlining our strategy to strengthen our position as an advanced connectivity solution provider. We expect this segment to yield favorable performance driven by our strong base management and effective deployment of business solutions.

Fibre is one of our potential growth areas through continuous efforts to upsell our existing customer base via Family Unlimited Bundles and attractive rebates. Our Fibre subs have grown over six times to over 16K users as of end-March 2022. We are confident on driving growth through trusting customer relationships along with our strategic acquisition and contracting efforts.

We do not disclose expected growth rates and yields by segment for competitive reasons.

(b) What is the basis for Digi expecting the decline of the Prepaid segment to abate further?

Digi's Response

We have seen the industry competition heightened with speed-tiered unlimited data plans being introduced in the market since 2020. Digi is the only telco focusing on high-speed proposition internet passes, enabling customers to enjoy the highest quality of internet experiences. This has attributed to the growing Malaysian base throughout the Covid pandemic, mitigating the continued decline from the low-quality migrant segment.

Moving forward, we expect the Prepaid segment to sustain the positive momentum in active Malaysian base, while leveraging on the relaxation of Covid restrictions to increase traction from tourists and migrants. Moreover, we believe most of the effect from the strategic decision to exit from the lower end of the Migrant segment has now materialised. We will continue to build sales momentum to drive quality prepaid acquisitions in targeted segments while modernising our customer and trade channels for better digital engagements.

4. Among the Group's initiatives in 2022 are to:

- (i) Continue working with the government and industry on advancing technology adoption among customers and businesses leveraging potential of 5G, artificial intelligence (AI) and internet of things (IoT); and
- (ii) Continue serving consumers with consistent network experience and B2B solutions to drive business growth (page 26 of AR 2021)

(a) What is the Group's progress in terms of leveraging potential of 5G including collaborations with any partners?

Digi's Response

As part of our ambition to be a digital telco and grow beyond connectivity, Digi is working and have entered into agreements with hyperscalers such as Amazon Web Services (AWS) and Google. In addition, we have been conducting trials for 5G edge computing use cases by collaborating with key business partners and exploring strategic technology partnerships to expand into beyond-connectivity solutions for business customers.

(b) What headway has the Group made in regard to AI and IoT?

Digi's Response

Similarly, the Group has also entered into agreements with hyperscalers such as Google and Cisco to explore further growth potential in AI and IoT aspects. Digi is leveraging on our managed service provider partners to provide advanced Operations Support System (OSS), key relevant advanced Robotic Process Automation (RPA) and improved network operations efficiency to drive overall efficiency by removing manual processes and increase our speed to market, amongst other things.

IoT encompasses any Machine Type Communications (MTC) including conventional 2G M2M, 4G IoT and beyond. We have leveraged on Telenor's Connexion platform which is built on the 2G/3G

M2M businesses for some years. Since 2019, we have deployed Narrow-Band IoT (NB-IoT) for a key utility provider in Malaysia, a solution that will persist to exist as one of the MTC in 5G-era.

(c) What further enhancements in network and B2B solutions does the Group plan to make in 2022?

Digi's Response

Digi continues to play our part in enhancing the quality and reliability of our 4G network in both coverage and consistent data experiences in line with our strategy and in supporting the government JENDELA's ambition. With regards to the B2B segment, we will continue to improve and expand our portfolio of managed services, digital solutions and adjacent products. In parallel, we are also actively exploring possibilities using 5G technologies such as Mobile Edge computing (MEC), high speed bandwidth, low latency and massive IoT connections support through potential collaborations with technology partners and Malaysian businesses such as ports and oil & gas companies.

Sustainability and Corporate Governance Matters

5. In 2021, Digi improved its MSCI environmental, social and governance (ESG) rating from 'A' to 'AA', and the company is well on track to achieving its ambition to be among the best performing companies in Malaysia on sustainable business standards and ESG practices. (page 8 of AR 2021).

(a) What are the key elements and achievements that have enabled Digi to improve its ESG rating?

Digi's Response

ESG is a fundamental aspect within Digi's Responsible business strategy. During the year, among other developments, we have stepped up efforts to strengthen governance and improved leadership oversight over material Sustainability matters. These efforts included:

- Transparent reporting of our material ESG indicators and performances
- Enhanced our Responsible Business Forum and Governance, Risk and Compliance (GRC) Committee to increase leadership oversight
- Continued efforts to raise standards in safety, security and privacy with customers, partners and employees
- Aligned towards internationally recognised standards (e.g. ISO) and guiding principles in executing the focus areas under our Responsible Business strategy
- Yellow Heart Safe Internet and Future Skills digital enablement in line with our focus for United Nations Sustainable Development Goals #10 – Reduced Inequalities

As a result of our efforts, Digi has been one of the members in FTSE4Good Bursa Malaysia Index since 2016. We have also been rated AA by MSCI ESG and ranked within 18th percentile by Sustainalytics Rating.

(b) What areas are the Group working on to achieve its ambition to be among the best performing companies in Malaysia on sustainable business standards and ESG practices?

Digi's Response

We continue to maintain the highest standards of ethics and integrity in our business conduct. Key focus in the year has been:

- Refreshed our Employer Value Proposition to further develop a diverse, future-ready workforce
- Undertaken measures to improve on our Climate governance, initiatives and controls
- Conducted a Human Rights Due Diligence to address any human rights gaps across the value chain
- Continued our Yellow Heart social programmes to Reduce Inequalities and to Empower societies

6. Digi takes a pragmatic approach in addressing climate change and will work in collaboration with the industry, government, environmental agencies and partners towards achieving a net zero greenhouse gas emissions by 2050, in line with a 1.5- degree pathway. (page 68 of AR 2021).

What are the key areas that Digi will embark on to address climate change?

Digi's Response

Digi recognises the urgent call for climate action. Our climate roadmap guides our short to long term actions namely to strengthen our climate governance, address climate-related risks, achieve our Group science-based targets, and to support our customers to reduce their own emissions using digital and connectivity solutions. Some notable key areas we have worked on during the year under review included:

- Developing carbon reduction strategy and conducting climate risk assessment to guide strategies and target setting
- Driving operational efficiencies, network modernisation (e.g. 3G sunset), adopting AI solutions and embarking on e-waste management
- Mitigating future physical climate risks such as extreme weather and floods by enhancing resilience in our network and tower sites

Digi is part of the CEO Action Network (CAN), a coalition of over 50 Malaysian corporate leaders with the purpose to shape policies and create a favourable ecosystem for sustainable development in Malaysia. More details on our climate actions can be obtained in Page71 of our Annual Integrated Report 2021.

What are the KPIs and achievements and status to date?

Digi's Response

Digi takes a pragmatic approach in addressing climate change risks. Large scale carbon reductions remain a challenge due to our dependency on the national grid, as we recorded a 5% carbon emission increase in 2021 attributed to data growth and network expansion to meet rising consumer demands. However, we have improved Carbon Intensity per Data Usage by 13.7% Year-on-Year, reflecting a lower carbon footprint per unit of data consumed. We will continue to adopt and implement consistent climate actions to ensure positive climate impact across business. More details on our targets will be shared upon finalisation of our climate action.

7. During the financial year, the amount incurred by Digi and the Group with respect to audit fees and non-audit related fees paid to external auditors for the financial year ended 31 December 2021 are as follows: -

	Company (RM)	Group (RM)
Audit Services	37,000	558,000
Non-Audit Services	<u>832,000</u>	<u>1,086,000</u>
Total Fees	<u>869,000</u>	<u>1,644,000</u>

(page 126 of AR 2021).

We note that for FY 2021, the total fees for Group Non-Audit Services was almost double that of total fees for Audit Services. There is a risk that the statutory auditors' independence may be impaired.

What were the major components for the Non-Audit Services and the respective amounts?

Digi's Response

One of major components of the non-audit services during the year under review was in relations to the reporting accountant's fees for the proposed merger exercise, amounting to RM770,000. The remaining services were relating to annual audit engagement for regulatory reporting and group reporting, as part of the ordinary course of business.

What is the likelihood or probability of such a scenario occurring again in FY 2022?

Digi's Response

We do expect some spillover of reporting accountant's fees in view of the ongoing proposed merger exercise.

Does the Audit and Risk Committee and the Board have a threshold percentage as to such fees between non-audit and audit fees?

Digi's Response

In FY2021, the percentage of the total non-audit fees to total audit fees amounted to 55%, excluding the non-recurring reporting accountant's fees of RM770,000 which was well within the 70% threshold mark. For FY2022, the threshold mark for non-audit services has been reduced to 50% and we forecasted an expected non-audit fee of about 48%. Digi Management periodically provides quarterly updates pertaining to the audit fees to Audit & Risk Committee for its review and approval, given its responsibility to provide overall oversight of the company's entire financial reporting process whilst ensuring our internal controls and processes are in accordance with Bursa Malaysia's laws and regulations.

We value your questions and trust that the above response provides clarity to the queries raised. Please do not hesitate to contact us further, should you have any further clarifications.

Thank you.

Yours sincerely,

Christine lauf

Christine Lau
Head of Investor Relations
for **Digi.Com Berhad**