Directors' Statement on Risk Management and Internal Controls

Pursuant to Paragraph 15.26(b) of the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Securities), the Boards of listed companies are required to include in their annual report, a "statement about the state of internal control of the listed issuer as a group". Accordingly, TM's Board of Directors ("Board") is pleased to provide the following statement that has been prepared in accordance with the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers endorsed by Bursa Securities which outlines the nature and scope of the risk management and internal control within TM Group during the financial year under review.

RESPONSIBILITY AND ACCOUNTABILITY

The Board

The Board is responsible for the establishment as well as oversight the Group's risk management framework and internal control systems that are designed to manage the Group's risk appetite within acceptable levels of tolerance as set by the Board and Management, rather than eliminate totally the risk of failure to achieve the Group's goals and objectives in generating returns to shareholders. The Board periodically reviews the effectiveness and adequacy of the framework and systems by identifying, assessing, monitoring and communicating key business risks to safeguard shareholders' investment and the Group's assets.

The two committees at the Board level that have primary risk management and internal control oversight responsibilities are:

- **Board Risk Committee (BRC)**

  The main responsibility of the BRC is to assist the Board in ensuring a sound and robust Enterprise Risk Management framework and its implementation to enhance the Group's corporate governance practices with focus on risk issues. The Terms of Reference (ToR) and main duties of the BRC in relation to risk management are incorporated in the Board Charter which is accessible on the Company's official website at www.tm.com.my.

- **Board Audit Committee (BAC)**

  The main responsibility of the BAC is to assist the Board in assessing the effectiveness of the Group's internal control systems and overseeing the financial reporting. BAC also reviews the adequacy and integrity of the Group's internal control systems and management information systems, including compliance with applicable laws, rules, directives and guidelines through Group Internal Audit (GIA) function. The BAC's ToR is stipulated in the Board Charter which is accessible in the Company's website. The main duties of the BAC in assessing the adequacy and effectiveness of the internal control systems implementation within the Group are detailed on pages 133 to 139.

Other Board Committees such as the Nomination and Remuneration Committee, Tender Committee and Investment Committee are also established with clearly defined duties and responsibilities to oversee various key business activities involved within the Group. The Board acknowledges that it remains responsible for all the actions of the committees with regard to the execution of the delegated roles, including the outcome of the review and disclosure on key risks and internal control systems in this integrated annual report.

Management

Management is accountable to the Board and responsible for implementing the processes of identifying, evaluating, monitoring and reporting of risks and the effectiveness of internal control systems, taking appropriate and timely corrective actions as required. The Management has assured the Board that the Group's risk management and internal control systems are operating adequately and effectively in all material aspects, based on the risk management framework and internal control systems adopted by the Group. In respect of risk management, Management has implemented the necessary processes to:

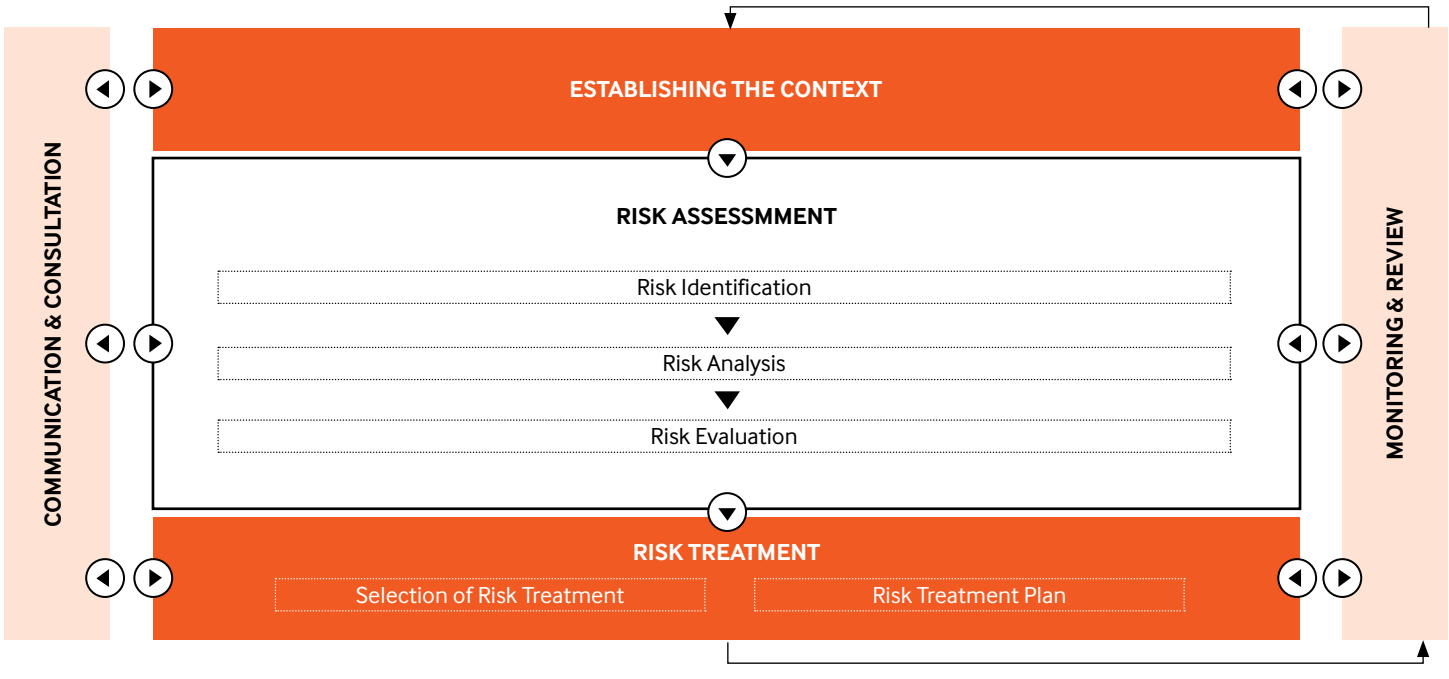
- identify and analyse the risk appetite relevant to the business and determine the level of risk tolerance towards the achievement of the Group's objectives and strategies;
- design, implement and monitor the risk management framework in accordance with the Group's strategic vision and overall risk appetite; and
- identify changes to risks or emerging risks, take appropriate actions and bring these promptly to the attention of the Board.

RISK MANAGEMENT

Risk Management Framework

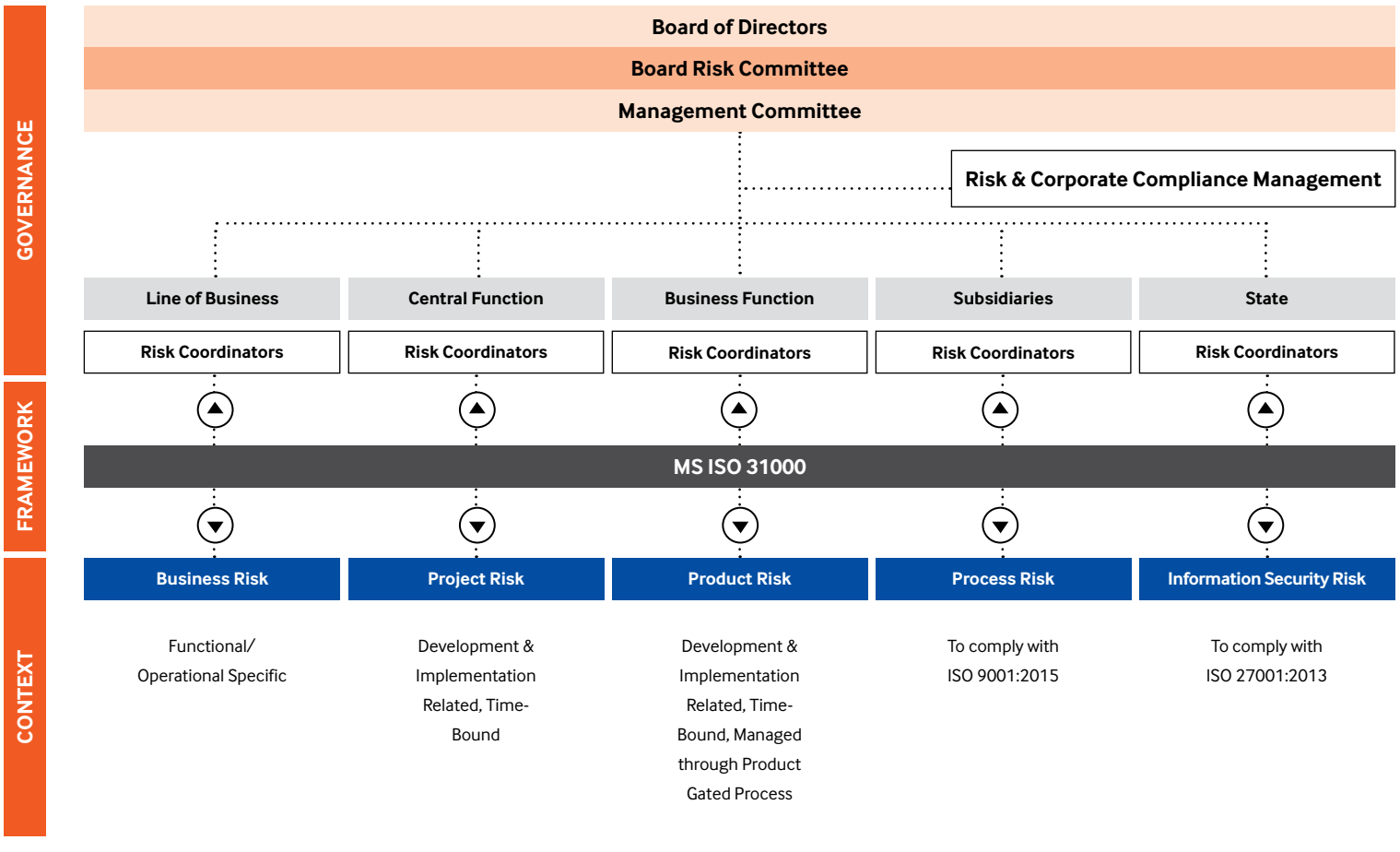
TM has adopted the MS ISO 31000 Risk Management Standard which serves as a guideline for identifying, evaluating, managing and monitoring significant risks by the Group in order to align its risk management process with industry best practices. Figure 1 illustrates TM's risk management framework.

FIGURE 1: MS ISO 31000



The risk management practice has been implemented throughout TM including its subsidiaries to support convergence and the PERFEXE 10 execution model. Figure 2 below illustrates TM's risk management governance, context and framework.

FIGURE 2: TM'S ENTERPRISE RISK MANAGEMENT (ERM) GOVERNANCE AND FRAMEWORK



Directors' Statement on Risk Management and Internal Controls

TM's ERM structure spans the entire organisation, from the Board right down to the operational level. Through such architecture, material risk is consolidated from all Business Segments to the Management Committee, escalated up to the Board Risk Committee (BRC) and finally to the Board. Risk Coordinators are handpicked at every Line of Business (LOB), central function, business function and subsidiary to coordinate the risk management activities as well as support the building of a risk awareness culture. In all risk management activities, the role of staff is always emphasised.

Risk Appetite

A key BRC focus on effective risk oversight is to approve the Board's acceptable corporate risk appetite as identified and reviewed by the Group. Operational level risk will be based on either the approved tolerance in Corporate Risk Appetite by BRC or to customise its own risk appetite (Customised Risk Appetite) to align with its strategic objectives.

To ensure uniformity and clear understanding on the risk appetite process, the Group has established risk appetite guidelines which have been communicated through a series of engagements and awareness sessions. It contains the risk appetite statement that emphasises TM's commitment to allocate necessary resources in ensuring risks are managed within acceptable levels, ensuring sustainable profitability and upholding TM's reputation/brand to safeguard the Company's assets and enhance shareholder value. The process of establishing the risk appetite is depicted in Figure 3 below:

FIGURE 3: TM'S RISK APPETITE ESTABLISHMENT PROCESS

Corporate Risk Selection Methodology

The Corporate Risk Selection Methodology was introduced with the objective of optimising the Board Risk Committee (BRC) and Management Committee meetings by focusing and deliberating on key risk issues. Through this approach, corporate risks that meet any of the predefined criteria will be identified and reported in the Corporate Risk Dashboard for Board and Management Committee attention as depicted in Figure 4 below. Risks that do not qualify for escalation to the Board and/or Management Committee level, will be monitored and reviewed by the respective divisions.

FIGURE 4: CORPORATE RISK SELECTION CRITERIA FOR BOARD AND MANAGEMENT ATTENTION

Corporate Risk Selection Criteria

Residual Risk Rating
Residual Risk impact and likelihood reached above the acceptable threshold level.

Risk Outlook Rating
Risk outlook impact and likelihood reached above the acceptable threshold level.

Key Risk Indicator
The indicators give signal that the risk is likely to trigger.

Key Control Indicator
The indicators give signal that the control is far from meeting its target.

Risk Rating Movement
The movement if residual risk rating and risk outlook rating is deteriorating.

Principal Risks

A reporting format by risk cluster has been introduced in which risks have been categorised and prioritised based on their rating and impact, namely Strategic Risk, Financial Risk, Technology/System Risk and Operational Risk. The principal risks that have been clustered and are being monitored by the Board are listed in Figure 5 below.

FIGURE 5: TM'S PRINCIPAL RISKS, BASED ON RISK CLUSTER

Strategic	Financial	Technology/System	Operational
Regulatory Landscape	Forex Sensitivity	Inadequate Digital Enablers	Revenue Leakage
Loss of Reputation	Credit	Corporate Security Threat	Service Fraud
Competition	Revenue Gap		OSHE
Financial Loss due to Broadband Improvement Plan	Profitability Shortfall		Inadequacy of BCM
			Compliance

Exposure to compliance risk is monitored through the Corporate Compliance Dashboard with potential and actual impacts of non-compliance presented to BRC.

INTERNAL CONTROL SYSTEMS

The Board acknowledges that the internal control systems are designed to manage and reduce risks that will hinder the Group from achieving its goals and objectives. It provides reasonable assurance against the occurrence of any material misstatement of management inclusive of financial information, business, operational, environmental, compliance and financial losses or fraud. The internal control systems are embedded within the Group's operating activities and exist for fundamental business reasons. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The internal control systems are developed based on the COSO (Committee of the Sponsoring Organisations of the Treadway Commission) Internal Control Integrated Framework. They are reviewed regularly throughout the year by the Board, taking into consideration any changes in regulation, applicable laws or the business environment to ensure the adequacy and integrity of the internal control systems.

Key elements of the internal control systems established by the Board that provide good governance and effective internal control systems include:

- **Clearly defined lines of responsibility and authority**

  The Group has clearly defined lines of responsibility and authority to facilitate prompt responses in the continuously evolving business environment, effective supervision of day-to-day business conduct and accountability. These include a formal organisation structure and establishment of a Limit of Authority (LoA) matrix that clearly outlines the Board and Management's limits and approval authorities across various key processes. The LoA is duly approved by the Board and subject to regular review and enhancement to ensure it reflects changes in accountability and the Group's risk appetite.

- **Strategic Theme, Objectives and Core Values**

  In achieving the Group's vision to materialise "Life and Business Made Easier, for a better Malaysia", Management has introduced the PERFEXE10 to accelerate convergence and empower digitisation in becoming the Convergence Champion. This is supported by internalisation of the Group's KRISTAL Core Values, namely Total Commitment to Customers, Uncompromising Integrity and Respect & Care.

Directors' Statement on Risk Management and Internal Controls

- **Risk Management and Internal Control Policy Statement**

  Our Risk Management and Internal Control Policy Statement is issued by the Board and Management to provide reasonable assurance that the Group will achieve our business objectives, safeguarding and enhancing shareholders' investments and the Group's assets. The Group CEO and Deputy Group CEO, Heads of Lines of Business, Heads of Business and Support Groups and the CEOs of TM subsidiaries are responsible for implementing the risk management framework and practices.

- **Establishment of Framework, Policy, Manual and Procedures**

  - **Business Policy & Governance (BPG)**
    TM's Business Policy & Governance (BPG) is the main reference document that outlines the overall business policies and governance with clearly defined process owners across key functional areas in the Group. The sub-policies, processes, procedures and guidelines are developed, periodically reviewed and maintained by the respective process owners to provide the details in supporting the overall policies and governance in BPG.

- **Insurance and physical safeguards**

  Adequate insurance and physical safeguards for major assets are in place to ensure the Group's assets are sufficiently covered to minimise material loss against any mishap.

- **Business Continuity Management (BCM)**

  The BCM Steering Committee chaired by the Group CEO is committed to enhancing service reliability and resilience via an improved BCM programme. The programme serves as guidance to identify potential adversities to the Group and its impacts to business operations. Subsequently, an overall framework is established to build organisational resilience with an effective response capability mechanism to safeguard the interest of TM's key stakeholders, reputation and brand.

- **Control Self-Assessments (CSAs)**

  As TM moves up its risk maturity level, CSA allows employees to identify risks within their business environment and evaluate the adequacy and effectiveness of the internal control systems in place. Results from CSA feature as key information in identifying high-risk areas within the Group.

- **Management Committee and Group Leadership Team**

  Two top level committees, namely the Management Committee (MC) and the Group Leadership Team (GLT) chaired by Group CEO with clear demarcation of roles in managing the Group's strategies and policies effectively. The MC focuses on providing guidance and making decisions on strategic matters, while the GLT concentrates on matters pertaining to business performance and ensures the effective execution and supervision over key operational issues.

- **Best Practice Committee (BPC)**

  BPC is a Management committee that reports to the BAC. The BPC serves as a platform to update and discuss developments in best practices, corporate governance as well as statutory and regulatory requirements set by all statutory bodies and relevant authorities.

- **Recording to Reporting (R2R) Framework**

  R2R is a non-compliance reporting framework adopted by Management to enhance the quality and integrity of the recording to reporting process by instilling and enforcing behaviour change across the organization. It serves as a mechanism for determining financial non-compliance incidents, the arising consequence management and at the same time promotes awareness of compliance and increase senior management's accountabilities.

- **The People Compliance Committee (P2C)**

  The People Compliance Committee (P2C) was established to serve as the governing body to address audit issues on employees committing non-compliances. The P2C aims to instil a high standard of integrity, provide continuous awareness to the employees in developing high working compliance culture and establish clear lines of accountability in TM.

- **TM Tender Evaluation Centre (TMTEC)**

  As part of the Group's continuous efforts to mitigate the risk of sensitive information leakage during tender evaluations, TMTEC was established at Menara TM to centralise all procurement evaluation activities. The location is equipped with enhanced physical and IT security systems for detection and integrated audit trail of tender documents and information movement.

- **Internal Control Incident (ICI)**

  Periodic ICI reporting captures and disseminates lessons learnt from significant internal control incidents to Senior Management to prevent reoccurrences in other divisions and operating companies within the Group.

- **Audit and Business Assurance Committee (ABAC)**

  The ABAC, comprises members of Senior Management from the respective LOBs and Support function and is chaired by the GCFO. ABAC monitors and tracks internal and external audit issues to ensure these are resolved in a timely manner and that all recommendations are implemented.

- **Ethics and Integrity**

  TM is committed to conducting our business in an open, honest and ethical manner. Our Code of Business Ethics (CBE) has always been the main reference for all employees when dealing with various stakeholders; both internal and external. The Group's commitment to upholding integrity in carrying out its duties is evidenced by:

  - Our Corporate Integrity Pledge which was signed on 27 April 2011 with the aim to build a culture of integrity within the workforce and to the best effort, ensure that TM is free from corruption.

- The Integrity Pact which was implemented in 2012. The Integrity Pact is a set of integrity declaration by TM employees, Procurement Committees as well as TM suppliers involved in procurement activities. Implementation of the Revised Integrity Pact for TM Business Partners features a reciprocal terms and conditions indicating TM's commitment to equally uphold the integrity practices when dealing with TM's Business Partners.
- Procurement Ethics Rules & Practices to demonstrate greater transparency and cultivate ethical behaviours among employees, suppliers and business partners in procurement activities. The implications of non-compliance with the Procurement Ethics Rules & Practices will result in the imposition of necessary consequence management.
- TM Anti-Corruption Guide, which supplements the CBE by setting out the policy statements and guidelines for all TM Employees in relation to improper solicitation, bribery or other corrupt activities and issues that may arise in the course of business. TM adopts a zero tolerance approach to all forms of corruption.
- TM Integrity Movers i.e. the selection of 45 employees who have a master trainer programme to help them disseminate knowledge on ethics and integrity to others through knowledge sharing sessions.
- Annual Declaration of Assets (DOA) and Integrity Agreement, requiring all Management and employees to declare their assets and interest via the online SAP platform which is aimed to create more transparent and accountable workforce.

- **Whistle-Blowing Policy**

  The Whistle-Blowing Policy enables any employee or supplier to report actual or suspected malpractice, misconduct or violation of the Group's policies and regulations in a safe and confidential manner through the Ethics Line.

- **Fraud Investigation and Management**

  Internal investigations are carried out by Group Internal Audit and Corporate Investigation Unit (CIU) on any misconduct and corporate fraud committed by employees or parties who deal with TM. On the other hand, investigations on telecommunications fraud are carried out by the Fraud Management & Intelligence Unit (FMI) under Group Business Assurance.

- **Customer & LOBs in Fraud Frontier (CLIFF)**

  CLIFF was launched to provide a web-based fraud monitoring system to detect potential fraud as well as facilitate fraud case management. Irregularities detected are escalated to the relevant LOBs and business partners. Fraud detection covers voice, broadband and IPTV products across all LOBs

INTERNAL AUDIT

Group Internal Audit (GIA) is an in-house internal audit function that reports to the BAC with the objective of providing risk-based and objective assurance, advice, and insight designed to enhance and protect organisational value. GIA helps the Group to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. During the financial year, the internal audit function provided continuous assurance that risks which may hinder TM's ability from achieving its objectives were being adequately evaluated, managed, monitored and mitigated. It further evaluated the effectiveness and efficiency of the governance, risk management framework and internal control systems and provided recommendations for improvement. The Management then followed through and reviewed the status of actions taken on recommendations made by the internal and external auditors.

Audit reviews are carried out on units that are identified through a risk-based approach, in line with the Group's objectives and policies in the context of its evolving business and regulatory environment, taking into consideration input from the Senior Management and the Board.

Further information on Internal Audit is provided on pages 148 to 149 of this integrated annual report.

ADEQUACY AND EFFECTIVENESS OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board has received assurance from the Group Chief Executive Officer, Deputy Group Chief Executive Officer and Group Chief Finance Officer that the Group's risk management framework and internal control systems were operating adequately and effectively, in all material aspects, during the financial year under review. Taking into consideration the Management Team's assurance and input from the relevant assurance providers, the Board is of the view that the risk management framework and internal control systems are satisfactory and adequate to safeguard shareholders' investments, customers' interests and the Group's assets and have not resulted in any material loss, contingency or uncertainty. TM's internal control systems do not apply to its associate companies, which fall within the control of their majority shareholders.

Nonetheless, TM's interests are served through representation on the boards of directors and Senior Management posting(s) to the various subsidiaries as well as through the review of management accounts received. These provide the Board with performance-related information to enable informed and timely decision-making on the Group's investments in such companies.

REVIEW OF THE STATEMENT BY THE EXTERNAL AUDITORS

As required by paragraph 15.23 of Bursa Securities Berhad MMLR, the external auditors have reviewed this Statement on Risk Management and Internal Control. This was performed in accordance with Recommended Practice Guide [RPG] 5 (Revised) issued by the Malaysian Institute of Accountants. Based on their review, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that this statement is inconsistent with their understanding of the process the Board has adopted in the review of the adequacy and integrity of the risk management and internal controls of the Group. RPG 5 does not require the external auditors to, and they did not, consider whether this statement covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control systems.

Statement of Internal Audit

Group Internal Audit (GIA) assists TM Group in achieving our business objectives by implementing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management measures, control and governance processes. GIA provides independent, objective assurance and consulting services designed to enhance and protect organisational value. The internal audit charter approved by the BAC defines GIA's purpose, authority and responsibility.

GIA reports directly to the BAC to preserve its independence and objectivity, and ensure audit personnel are free from any relationships or conflicts of interest which could impair their objectivity and independence. BAC reviews and approves GIA's audit plans, annual budget and human resources requirements to ensure the function is well resourced and aligned with the Group's objectives. The CIA periodically reports on activities performed by GIA as well as key strategic and control issues observed to the BAC. In addition, the BAC approves and periodically reviews GIA's and the CIA's performance to observe their progress and achievements. CIA has an administrative reporting line to the MD/Group CEO which enables the requisite stature and authority of Internal Audit to fulfil its responsibilities.

GIA adopts the International Professional Practices Framework (IPPF)® inclusive of the mandatory elements – Core Principles for the Professional Practice of Internal Auditing, International Standards for the Professional Practice of internal Auditing of the Institute of Internal Auditors (IIA), the definition of Internal Auditing, and Code of Ethics – to manage its functions and perform the audit engagements.

Practices and Framework

GIA is guided by the internal policies, procedures and framework as well as the Internal Control Framework of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and Control Objectives for Information and Related Technology (COBIT) in assessing and reporting on the adequacy and effectiveness of the design, implementation and efficiency of the Group's overall system of internal controls, risk management and governance.

Scope and Coverage

GIA continues to adopt a risk-based audit plan approach to provide assurance to the Board that programmes being carried out have been prioritised based on the Group's strategies, objectives, key risks and core/priority areas. Input from various sources – inclusive of Enterprise Risk Management (ERM), Business Plan, past internal and external audits, Management and the Board – permits the identification of auditable risk areas. In 2017, the Group's audit universe expanded to include mobile and wireless.

During the year, GIA conducted reviews on governance, risk management and controls in the areas of finance, compliance, human resources, operations, project management, network and information technology as well as data analytics. Among the key areas covered were:

- Sales and marketing
- Service agreement management
- Customer experience management
- Credit management
- Product lifecycle management
- Service fulfilment management
- IT security and governance
- ID management
- Billing and revenue assurance
- Major project deliverables and management
- Procurement, inclusive of contract management
- Asset and customer premises equipment management
- Accounting and financial reviews

All internal audit reports were presented to the BAC with recommendations from GIA and feedback from Management. GIA subsequently monitor and verify the implementation status on a quarterly basis through the ABAC.

In addition to performing audit engagements, GIA has been actively involved with Management in developing compliance teams within management units, sharing best practices and its knowledge on internal auditing, risk management and internal controls.

Resources

A total of RM6.91 million was spent on internal audit activities in 2017. A summary of the internal audit costs are as follows:

Category	RM (million)	% of Total Cost
Manpower	6.3	91.1
Supplies and Material	0.08	1.2
Other operating costs	0.51	7.4
Depreciation	0.02	0.3
Total	6.91	100

All internal audit activities in 2017 were performed in-house by a group of 44 internal auditors from various backgrounds and competencies as follows:

Discipline	No. of Internal Auditors	Percentage %
Accounting and Finance	12	27
Information Technology	8	18
Engineering/Network	11	25
Marketing	4	9
Business Administration	6	14
Procurement/Human Resources	3	7
Total	44	100

INTERNAL AUDIT QUALITY

The CIA develops and maintains a Quality Assurance and Improvement Programme that covers all aspects of internal audit activities. The quality assurance programme assesses the efficiency and effectiveness of GIA processes and identifies opportunities for improvement via internal and external assessments.

GIA has a peer reviewer mechanism to ensure relevant, reliable and sufficient assessment to support audit engagement's results and conclusions. Peer reviewers with relevant expertise among Senior Auditors or the GIA Management team are selected to provide professional advice and ensure that all risk areas are adequately covered prior to communicating the final engagement results to the appropriate parties.

Professional Qualifications & Continuous Competency Development

GIA is committed to equipping TM's internal auditors with sufficient knowledge, skills and competencies to discharge their duties and responsibilities. The internal auditors are also encouraged to obtain appropriate professional certifications and qualifications. To date, 14 of our internal auditors hold a total of 29 certifications and qualifications between them. These have been awarded by various recognised professional bodies.

In 2017, the internal auditors attended 3,315 hours of external and internal training, seminars and workshops in multiple technical disciplines and internal soft skills training on leadership, communication and negotiation to enhance their job performance and career prospects.

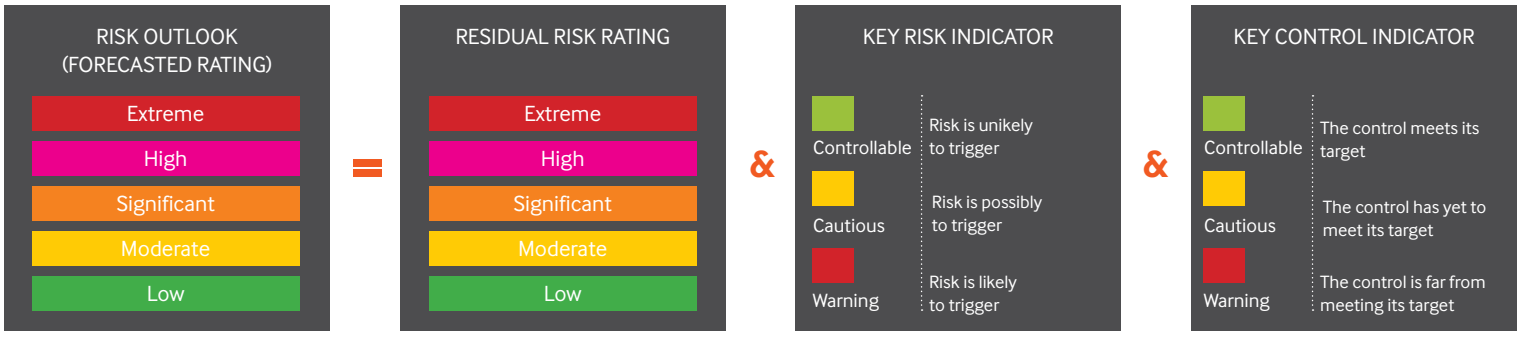
Enterprise Risk Management

As the Company embraces convergence and digitalisation, our ERM governance and framework will play an increasingly vital role in assuring business sustainability and profitability.

Our Risk Management practices provide reasonable assurance that the Company is identifying and evaluating risks that might impact our business, and that those risks are being addressed and mitigated accordingly. The Management Committee identifies, evaluates, addresses and tracks corporate risks while the Board Risk Committee ensures that the Company's corporate risk profile is reviewed periodically and that proper controls are in place to address them.

The ERM framework has been enhanced by implementing a forward-looking risk management approach which involves anticipating and monitoring not only current risks but also risks which might arise in the near future. This will assist the Company in managing risk eventuality at an early stage before it escalates. Our forward-looking risk outlook, meanwhile, provides important signals on future risks through the following methodology:

INTEGRATING ALL ELEMENT TO FORMULATE RISK OUTLOOK



We have also strengthened our ERM practice by implementing Corporate Risk Selection Criteria to provide focus on core risk issues. Corporate risks that meet any of the predefined criteria will be identified and reported in the Corporate Risk Dashboard for Board and Management Committee attention. These criteria can be found in the Directors' Statement on Risk Management and Internal Control on pages 144 to 145.

For ease of reporting, in 2017 we clustered our Corporate Risks into four main categories, namely Strategic Risk, Financial Risk, Technology/System Risk and Operational Risk. Emerging risks that could potentially affect TM's bottom line are also highlighted. These include risks related to our digitalisation journey.

Summary of Principal Activities:

In 2017, TM carried out various activities to increase the maturity and level of awareness among our risk fraternity. They include the following:

- Communication and engagement initiatives - such as Risk Fraternity Huddle, quarterly Risk Monitor e-newsletters, and engagement with Risk Champions as well as ERM resource persons.
- War game scenario exercise involving Top Management to better prepare the Company for future risks and eventualities.
- Refresher sessions to encourage better use of the MERCIS risk system, covering five modules ie Risk, Compliance, Insurance, Incident and Information Security Management System.
- Mega ERM workshop organised by TM ONE to unearth hidden risks and related root causes, which was essential in view of the recent transformation initiatives.
- State Risk Assessments, expanding our risk assessment practices to cover states nationwide.
- Southeast Asia Regional Centre for Counter-Terrorism (SEARCCT) workshop on terrorism awareness for senior management, security and risk fraternities.
- Process risk assessment, thus widening the scope of ERM to divisions undergoing migration to the new revised ISO 9001:2015 certification.

Managing Our Corporate Risks

Through the implementation of our ERM framework and best practices, we were able to identify, assess, mitigate and monitor corporate risks encountered throughout 2017, and ensure these were adequately managed across the Company.

Competition and Revenue Erosion

In response to intense competition and revenue erosion, we rolled out a new execution model – PERFEXE 10 – to improve our customer focus hence gain their trust; enhance branding with a single unified brand; and align TM ONE's business vertically to prioritise go-to-market strategies.

Fraud

Fraud risk in TM encompasses service and staff fraud. There have been several cases of unauthorised withdrawal of cables from TM stores and misuse of TM staff identification to grant special offers to ineligible customers. We continue to implement necessary controls and validation systems, including in our online systems, to prevent such incidents.

Compliance

To enhance and strengthen our corporate compliance management, we established a Corporate Compliance Steering Committee (CCSC) and Compliance Project Management Office (Compliance PMO). The Steering Committee is responsible for reviewing business cases for compliance initiatives, debottlenecking issues and for recommending additional compliance initiatives. The Compliance PMO, meanwhile, identifies and resolves potential risk issues and common problems across compliance action plans.

Corporate Security Threat

- **Cable Theft**
  The incidence of cable theft has continued to decrease due to effective controls such as anti-cable theft features for underground and overhead cables, installation of alarm systems focusing on hot-spots and strategic patrolling activities in collaboration with the Royal Malaysia Police.

- **Logical/Cyber Security**
  2017 saw numerous infamous cases of global cyber-attack, including a malware attack named 'Ransomware'. To protect our business, we have further enhanced our logical security controls through the establishment of a 24/7 Security Operation Centre and a Security Incident Response Team while upgrading our firewalls to higher capacity. Continuous updates were also provided to TM employees, guiding them to prevent and counter cyber threats.

Credit Risk

On top of controls already in place to verify genuine customer acquisition through biometric validation, we further enhanced our end-to-end credit management activities in 2017 through the following activities:

- unifi – we promoted our autopay facilities; minimised the inconvenience of service suspension via close collaboration with the customer experience team; leveraged our contact centre capacity and capability to expand calls to good paymaster SME customers with delinquent status; and sent SMS notifications for bill readiness and payment due dates.
- TM ONE – we continued to monitor collections through analysis of customers with outstanding bills of more than six months with a focus on the top 20 customers by sector; and helped to clear credit balances through contra arrangements as well as initiating legal action against defaulters.
- TM GLOBAL - concerted efforts were made to monitor payments for special projects involving huge ad hoc billing with some agreed instalment plans.

We expect to further improve our collections in the near future via an enhanced credit management system. The system will provide tools to implement multiple collection strategies based on customer credit risk profiles and automation of credit reminders and notification.

Forex Sensitivity

The continued strengthening of the Ringgit throughout 2017 had a favourable impact on TM's foreign borrowings and procurement spending. Nonetheless, we maintained a cautious stand and took necessary controls in the form of financial hedging from borrowings (subject to favourable rate), while conducting procurement via e-bidding to obtain the best price and minimise adverse forex exposure.

OSHE

We are committed to taking every reasonable and practicable step to eliminate the risk of injury and health hazard at our work sites because we value life. Additionally, it helps to protect our business continuity and reputation. During the year we conducted compliance audits, awareness programmes for supervisors, and enforced our Safety Work Instructions (SWI) for working on towers and for hot work.

Inadequate Digital Enablers

We set up a 'Jemaah Digital' Council (JEDI Council), with support from Group Digital Centre (GDC) led by the Chief Digital Officer, to spearhead our digitalisation programmes to enhance the customer experience, improve process optimisation, and create new business opportunities. We also organised the TM Digital CX Summit 2017 to inculcate a digital way of working among employees.

Regulatory Landscape

Changes in the regulatory landscape may have a significant impact on our business operations. We therefore continued to engage with the regulators and work closely with other stakeholders to address any regulatory issues.

Revenue Leakage

Failure in billing processes, billing systems and human error may lead to revenue leakage and irrecoverable loss to TM. In 2017, financial loss due to revenue leakage was insignificant as compared to the industry's benchmark. Nevertheless, we continued to further control and mitigate our risk through the TM Revenue Assurance System (TRACE).

Broadband Improvement Plan (BIP)

Based on the Broadband Improvement Plan (BIP) announced by the Government in the 2017 Budget, fixed line broadband service providers were required to offer free speed upgrades at the same price starting from early 2017. We immediately rolled out and completed the upgrades of unifi customers as planned. In addition, we have introduced special packages for entrepreneurs and students. We will continue to engage the Government to provide more value services to support this initiative.

Emerging Risks

The proactive identification of emerging risks has better prepared the Company to face uncertainties and at the same time take advantage of any opportunities that may arise.

- **Nationwide Fiberisation Plan (NFP)**
  The Government has launched a Nationwide Fiberisation Plan (NFP) to expand the country's fixed broadband infrastructure. This plan will also ensure the Government's target of doubling the speed of fixed broadband can be achieved. TM recently signed a Memorandum of Understanding (MoU) with Tenaga Nasional Berhad to realise the NFP.

- **Digitalisation Risk**
  The digital market is borderless and characterised by low barriers to entry. This allows intense competition across the globe. Having one of the highest internet penetration rates in the region, Malaysia is quickly becoming an attractive market for new and established digital companies. To address the risk of intensifying competition, TM will liberalise digitalisation across the organisation, enabling a digital culture and accelerating Digitisation to Digitalisation (D2D) initiatives. This entails offering digitisation solutions developed internally to external customers as a new source of monetisation. There is a sizable market for these solutions, as it addresses common problems faced by our customers, especially enterprises.