TELEKOM MALAYSIA BERHAD (128740-P)

(Incorporated in Malaysia)

The Board of Directors of Telekom Malaysia Berhad is pleased to announce the following unaudited results of the Group for the first quarter ended 31 March 2018.

UNAUDITED CONSOLIDATED INCOME STATEMENT

	1ST QUARTER ENDED		FINANCIAL PERIOD ENDED	
	31/03/2018	31/03/2017	31/03/2018	31/03/2017
	RM Million	RM Million	RM Million	RM Million
OPERATING REVENUE	**2,848.0**	2,964.6	**2,848.0**	2,964.6
OPERATING COSTS				
- depreciation, impairment and amortisation	**(571.1)**	(645.8)	**(571.1)**	(645.8)
- other operating costs	**(2,110.3)**	(2,053.0)	**(2,110.3)**	(2,053.0)
OTHER OPERATING INCOME (net)	**29.0**	38.0	**29.0**	38.0
OTHER LOSSES (net)	**(1.7)**	(4.7)	**(1.7)**	(4.7)
OPERATING PROFIT BEFORE FINANCE COST	**193.9**	299.1	**193.9**	299.1
FINANCE INCOME	**25.8**	35.6	**25.8**	35.6
FINANCE COST	**(100.1)**	(100.0)	**(100.1)**	(100.0)
FOREIGN EXCHANGE GAIN ON BORROWINGS	**69.1**	22.7	**69.1**	22.7
NET FINANCE COST	**(5.2)**	(41.7)	**(5.2)**	(41.7)
ASSOCIATES				
- share of results (net of tax)	**5.5**	6.3	**5.5**	6.3
PROFIT BEFORE TAXATION AND ZAKAT	**194.2**	263.7	**194.2**	263.7
TAXATION AND ZAKAT (part B, note 5)	**(86.6)**	(79.3)	**(86.6)**	(79.3)
PROFIT FOR THE FINANCIAL PERIOD	**107.6**	184.4	**107.6**	184.4
ATTRIBUTABLE TO:				
- equity holders of the Company	**157.1**	230.4	**157.1**	230.4
- non-controlling interests	**(49.5)**	(46.0)	**(49.5)**	(46.0)
PROFIT FOR THE FINANCIAL PERIOD	**107.6**	184.4	**107.6**	184.4
EARNINGS PER SHARE (sen) (part B, note 11)				
- basic/diluted	**4.2**	6.1	**4.2**	6.1

(The above unaudited consolidated income statement should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017)

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1ST QUARTER ENDED		FINANCIAL PERIOD ENDED	
	31/03/2018 RM Million	31/03/2017 RM Million	31/03/2018 RM Million	31/03/2017 RM Million
PROFIT FOR THE FINANCIAL PERIOD	**107.6**	184.4	**107.6**	184.4
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified subsequently to income statement:				
- increase in fair value of investments at fair value through other comprehensive income (FVOCI)/ available-for-sale	**0.6**	5.8	**0.6**	5.8
- reclassification adjustments relating to FVOCI/ available-for-sale investments disposed	**(0.2)**	(0.3)	**(0.2)**	(0.3)
- increase in fair value of receivables at FVOCI	**6.1**	-	**6.1**	-
- cash flow hedge:				
- decrease in fair value of cash flow hedge	**(62.4)**	(10.8)	**(62.4)**	(10.8)
- change in fair value of currency basis	**(7.0)**	-	**(7.0)**	-
- reclassification of foreign exchange gain on borrowings	**37.5**	1.6	**37.5**	1.6
- fair value hedge:				
- increase in fair value	**4.6**	1.9	**4.6**	1.9
- currency translation differences				
- subsidiaries	**(5.7)**	(2.1)	**(5.7)**	(2.1)
- associate	**(0.1)**	0.6	**(0.1)**	0.6
Other comprehensive loss for the financial period	**(26.6)**	(3.3)	**(26.6)**	(3.3)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD	**81.0**	181.1	**81.0**	181.1
ATTRIBUTABLE TO:				
- equity holders of the Company	**130.5**	227.1	**130.5**	227.1
- non-controlling interests	**(49.5)**	(46.0)	**(49.5)**	(46.0)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD	**81.0**	181.1	**81.0**	181.1

(The above unaudited consolidated statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	AS AT 31/03/2018 RM Million	AS AT 31/12/2017 RM Million
SHARE CAPITAL	3,667.1	3,667.1
OTHER RESERVES	(125.5)	(81.5)
RETAINED PROFITS	4,021.3	4,257.9
TOTAL CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	7,562.9	7,843.5
NON-CONTROLLING INTERESTS	(127.1)	(76.7)
TOTAL EQUITY	7,435.8	7,766.8
Borrowings	6,928.5	7,031.2
Derivative financial instruments	295.5	287.7
Deferred tax liabilities	1,620.6	1,591.3
Deferred income	1,832.2	1,796.5
Trade and other payables	6.0	5.5
DEFERRED AND NON-CURRENT LIABILITIES	10,682.8	10,712.2
	18,118.6	**18,479.0**
Property, plant and equipment	16,368.3	16,540.7
Intangible assets	536.1	538.6
Associates	67.6	62.8
Available-for-sale investments	-	229.8
Equity investments at fair value through other comprehensive income (FVOCI)	159.2	-
Investments at fair value through profit or loss (FVTPL)	67.4	-
Available-for-sale receivables	-	1.7
Receivables at FVOCI	212.4	-
Other non-current receivables	763.6	966.6
Derivative financial instruments	200.2	265.0
Deferred tax assets	24.7	23.5
NON-CURRENT ASSETS	18,399.5	18,628.7
Inventories	257.6	258.5
Non-current assets held for sale	18.9	18.9
Customer acquisition costs	109.4	57.0
Trade and other receivables	3,668.5	3,710.2
Receivables at FVOCI	11.4	-
Contract assets	98.0	-
Available-for-sale investments	-	364.7
Investments at FVOCI	368.9	-
Investments at FVTPL	5.9	-
Financial assets at FVTPL	2.0	4.0
Cash and bank balances	1,462.6	1,719.8
CURRENT ASSETS	6,003.2	6,133.1
Trade and other payables	3,408.1	3,934.2
Contract liabilities	55.3	-
Customer deposits	384.6	398.0
Advance rental billings	792.4	779.1
Borrowings	1,121.2	1,119.0
Taxation and zakat	67.8	52.5
Dividends payable	454.7	-
CURRENT LIABILITIES	6,284.1	6,282.8
NET CURRENT LIABILITIES	(280.9)	(149.7)
	18,118.6	**18,479.0**
NET ASSETS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (sen)	201.3	208.7

(The above unaudited consolidated statement of financial position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018

	Attributable to equity holders of the Company										
	Share Capital RM Million	**Fair Value Reserve RM Million**	**FVOCI Reserve RM Million**	**Hedging Reserve RM Million**	**Cost of Hedging Reserve RM Million**	**Long Term Incentive Plan Reserve RM Million**	**Other Reserve RM Million**	**Currency Translation Differences RM Million**	**Retained Profits RM Million**	**Non-controlling Interests RM Million**	**Total Equity RM Million**
At 31 December 2017, as reported	3,667.1	127.2	-	85.7	-	36.7	(352.9)	21.8	4,257.9	(76.7)	7,766.8
Impacts arising from the application of:											
- MFRS 15 (part A, note 1 and 14)	-	-	-	-	-	-	-	-	74.1	(0.9)	73.2
- MFRS 9 (part A, note 1 and 14)	-	(127.2)	96.6	(81.2)	81.2	-	-	-	(13.1)	-	(43.7)
At 1 January 2018	3,667.1	-	96.6	4.5	81.2	36.7	(352.9)	21.8	4,318.9	(77.6)	7,796.3
Profit/(loss) for the financial period	-	-	-	-	-	-	-	-	157.1	(49.5)	107.6
Other comprehensive income											
Items that may be reclassified subsequently to income statement:											
- increase in fair value of investments at fair value through other comprehensive income (FVOCI)/available-for-sale	-	-	0.6	-	-	-	-	-	-	-	0.6
- reclassification adjustments relating to FVOCI/available-for-sale investments disposed	-	-	(0.2)	-	-	-	-	-	-	-	(0.2)
- increase in fair value of receivables at FVOCI	-	-	6.1	-	-	-	-	-	-	-	6.1
- cash flow hedge:											
- decrease in fair value of cash flow hedge	-	-	-	(62.4)	-	-	-	-	-	-	(62.4)
- change in fair value of currency basis	-	-	-	-	(7.0)	-	-	-	-	-	(7.0)
- reclassification of foreign exchange gain on borrowings	-	-	-	37.5	-	-	-	-	-	-	37.5
- fair value hedge:											
- increase in fair value	-	-	-	4.6	-	-	-	-	-	-	4.6
- currency translation differences											
- subsidiaries	-	-	-	-	-	-	-	(5.7)	-	-	(5.7)
- associate	-	-	-	-	-	-	-	(0.1)	-	-	(0.1)
Total comprehensive income/(loss) for the financial period	-	-	6.5	(20.3)	(7.0)	-	-	(5.8)	157.1	(49.5)	81.0
Transactions with owners:											
- second interim dividend payable for the financial year ended 31 December 2017	-	-	-	-	-	-	-	-	(454.7)	-	(454.7)
- Long Term Incentive Plan (LTIP):											
- ordinary shares granted*	-	-	-	-	-	13.2	-	-	-	-	13.2
Total transactions with owners	-	-	-	-	-	13.2	-	-	(454.7)	-	(441.5)
At 31 March 2018	**3,667.1**	**-**	**103.1**	**(15.8)**	**74.2**	**49.9**	**(352.9)**	**16.0**	**4,021.3**	**(127.1)**	**7,435.8**

* The apportionment over the vesting period of the fair value of the Group's granting of TM shares made to eligible employees of TM and its subsidiaries subject to fulfilment of relevant vesting conditions.

(The above unaudited consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2017

	Attributable to equity holders of the Company										
	Share Capital RM Million	**Share Premium RM Million**	**Fair Value Reserve RM Million**	**Hedging Reserve RM Million**	**Long Term Incentive Plan Reserve RM Million**	**Capital Redemption Reserve RM Million**	**Other Reserve RM Million**	**Currency Translation Differences RM Million**	**Retained Profits RM Million**	**Non-controlling Interests RM Million**	**Total Equity RM Million**
At 1 January 2017	2,630.6	964.9	101.6	95.9	1.9	71.6	(352.9)	38.8	4,139.9	140.2	7,832.5
Profit/(loss) for the financial period	-	-	-	-	-	-	-	-	230.4	(46.0)	184.4
Other comprehensive income											
Items that may be reclassified subsequently to income statement:											
- increase in fair value of available-for-sale investments	-	-	5.8	-	-	-	-	-	-	-	5.8
- increase in fair value of available-for-sale receivables	-	-	#	-	-	-	-	-	-	-	#
- reclassification adjustments relating to available-for-sale investments disposed	-	-	(0.3)	-	-	-	-	-	-	-	(0.3)
- cash flow hedge:											
- decrease in fair value of cash flow hedge	-	-	-	(10.8)	-	-	-	-	-	-	(10.8)
- reclassification to foreign exchange gain on borrowings	-	-	-	1.6	-	-	-	-	-	-	1.6
- fair value hedge:											
- increase in fair value	-	-	-	1.9	-	-	-	-	-	-	1.9
- currency translation differences											
- subsidiaries	-	-	-	-	-	-	-	(2.1)	-	-	(2.1)
- associate	-	-	-	-	-	-	-	0.6	-	-	0.6
Total comprehensive income/(loss) for the financial period	-	-	5.5	(7.3)	-	-	-	(1.5)	230.4	(46.0)	181.1
Transactions with owners:											
- second interim dividend paid for the financial year ended 31 December 2016	-	-	-	-	-	-	-	-	(458.5)	-	(458.5)
- Long Term Incentive Plan (LTIP):											
- shares granted*	-	-	-	-	6.0	-	-	-	-	-	6.0
Total transactions with owners	-	-	-	-	6.0	-	-	-	(458.5)	-	(452.5)
Transfer to share capital^	964.9	(964.9)	-	-	-	-	-	-	-	-	-
At 31 March 2017	**3,595.5**	**-**	**107.1**	**88.6**	**7.9**	**71.6**	**(352.9)**	**37.3**	**3,911.8**	**94.2**	**7,561.1**

Amount less than RM0.1 million

* The apportionment over the vesting period of the fair value of the Group's 1st grant of 9,219,500 TM shares made to eligible employees of TM and its subsidiaries on 1 December 2016 which will be vested on 30 April 2019 subject to fulfilment of relevant vesting conditions.

^ The new Companies Act 2016 (CA 2016), which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amounts standing to the credit of the share premium account becomes part of the Company's share capital pursuant to the transitional provisions set out in Section 618 (2) of the CA 2016. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

(The above unaudited consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017)

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

	FINANCIAL PERIOD ENDED	
	31/03/2018	**31/03/2017**
	RM Million	**RM Million**
Receipts from customers	2,550.4	2,446.0
Payments to suppliers and employees	(2,172.3)	(1,956.4)
Payment of finance cost	(72.5)	(64.0)
Payment of income taxes and zakat (net)	(66.5)	(33.9)
CASH FLOWS FROM OPERATING ACTIVITIES	**239.1**	**391.7**
Contribution for purchase of property, plant and equipment	131.0	-
Disposal of property, plant and equipment	0.5	4.4
Purchase of property, plant and equipment	(614.6)	(665.2)
Disposal of current available-for-sale investments	-	64.1
Disposal of current investments at fair value to other comprehensive income	40.4	-
Purchase of current investments at fair value to other comprehensive income	(55.9)	-
Purchase of current available-for-sale investments	-	(74.7)
Maturity of current investments at fair value to other comprehensive income	5.0	-
Disposal of non-current assets held for sale	0.5	-
Long term deposit	(8.3)	(8.3)
Repayments of loans by employees	7.3	3.6
Loans to employees	(21.3)	(26.3)
Disposal of housing loan	-	4.6
Interests received	12.5	24.6
Dividends received	-	0.2
CASH FLOWS USED IN INVESTING ACTIVITIES	**(502.9)**	**(673.0)**
Proceeds from borrowings	417.4	401.4
Repayments of borrowings (net)	(417.1)	(532.3)
Repayments of finance lease	(3.4)	(10.2)
Dividend paid to shareholders	-	(458.5)
CASH FLOWS USED IN FINANCING ACTIVITIES	**(3.1)**	**(599.6)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	(266.9)	(880.9)
EFFECT OF EXCHANGE RATE CHANGES	11.2	(12.2)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD	1,719.0	2,925.2
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	**1,463.3**	**2,032.1**

(The above unaudited consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017)

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

1. Basis of Preparation

The unaudited interim financial statements for the 1st quarter ended 31 March 2018 of the Group have been prepared in accordance with Malaysian Financial Reporting Standards (MFRS) 134 "Interim Financial Reporting" issued by Malaysian Accounting Standards Board (MASB), paragraph 9.22 and Appendix 9B of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, and should be read in conjunction with the Group's audited financial statements for the financial year ended 31 December 2017. The accounting policies, method of computation and basis of consolidation applied in the unaudited interim financial statements are consistent with those used in the preparation of the 2017 audited financial statements except for the changes arising from the adoption of the amendments to MFRS issued by MASB that are effective for the Group's financial year beginning on 1 January 2018.

(a) Amendments to published standards that are effective and applicable for the Group's financial year beginning on 1 January 2018

The amendments to published standards issued by MASB that are effective and applicable for the Group's financial year beginning on 1 January 2018 are as follows:

MFRS 9	Financial Instruments (IFRS 9 issued by IASB in July 2014) (with subsequent amendments)
MFRS 15	Revenue from Contracts with Customers
Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions
Annual Improvements to MFRS 128	Investment in Associates and Joint Ventures
Amendments to MFRS 140	Transfers of Investment Property

The adoption of the above amendments to published standards does not have any material impact to the Group's financial result, position or disclosure for the current or previous periods nor any of the Group's significant accounting policies other than MFRS 9 and 15 as disclosed below:

(i) MFRS 15 Revenue from Contracts with Customers

MFRS 15 is a new Standard to improve financial reporting of revenue and provide better clarity on revenue recognition. MFRS 15 establishes principles for reporting revenue to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Under MFRS 15, revenue is only recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. MFRS 15 replaces MFRS 118 "Revenue" and MFRS 111 "Construction Contracts" and related interpretations.

1. Basis of Preparation (continued)

(a) Amendments to published standards that are effective and applicable for the Group's financial year beginning on 1 January 2018 (continued)

(i) MFRS 15 Revenue from Contracts with Customers (continued)

Specifically MFRS 15 establishes a five-step model related to revenue recognition:

Step 1: Identify the contract(s) with customers
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies performance obligation

The resultant impact of conversion will be recognised in equity as of 1 January 2018, thus having no effect on the income statement. The prior year's amounts will not be restated. MFRS 15 have resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements as explained below:

<u>Revenue from unifi and Customer Projects</u>

A portion of the total consideration received in a bundled contract will be recognised earlier as this is attributable to the component delivered at contract inception or towards the beginning of the contract period (i.e. typically a customer premise equipment or content which is only provided part of the contract period). Consequently, this reduces the monthly service revenue. This results in the recognition of a contract asset when the device or content is deliver before the payment is due whereas if the payment happens before the delivery of device or content, then a contract liability is recognised.

<u>Cost of contract acquisition</u>

Under MFRS 15, sales commission and other third party acquisition costs resulting directly from securing contracts with customers will be capitalised as intangibles when they are incremental and expected to be recovered over a year. These are then amortised over either the average customer retention period or the contract term, depending on the circumstances.

1. Basis of Preparation (continued)

(a) Amendments to published standards that are effective and applicable for the Group's financial year beginning on 1 January 2018 (continued)

(ii) MFRS 9 Financial Instruments

MFRS 9 introduces the expected credit loss (ECL) model on impairment instead of the current incurred loss model used in MFRS 139 to be applied to its financial assets classified at amortised cost and contract assets under MFRS 15. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Similarly to MFRS 15 adoption, the Group uses the cumulative catch-up transition method and will therefore not restate comparative periods. Hence, the cumulative effect of initially applying the Standard will be recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018 and comparatives will not be restated.

A summary of the new accounting policies and impact of the new accounting standards and amendments to the published standards and IC Interpretations to existing standards on the financial statements of the Group is set out in part A, note 14.

(b) New Standards, Interpretation Committee (IC) Interpretation and amendments to published standards that are not yet effective and have not been early adopted

The new standards, IC Interpretation and amendments to published standards that are applicable to the Group, which the Group has not early adopted, are as follows:

Effective for annual periods beginning on or after 1 January 2019

Amendments to MFRS 3, 11, 112 and 123	Annual Improvements to MFRS Standards 2015 to 2017 Cycle
Amendments to MFRS 9	Prepayment Features with Negative Compensation
MFRS 16	Leases
Amendments to MFRS 119	Plan Amendment, Curtailment or Settlement (Employee Benefits)
Amendments to MFRS 128	Long-term Interests in Associates and Joint Ventures
IC Interpretation 23	Uncertainty Over Income Tax Treatments

Effective for annual periods to be announced by MASB

MFRS 2, 3, 6, 14, 101, 108, 134, 137, 138 & IC Interpretations 12, 14, 21, 22 and 132	Amendments to References to the Conceptual Framework in MFRS Standards

1. Basis of Preparation (continued)

(b) New Standards, Interpretation Committee (IC) Interpretation and amendments to published standards that are not yet effective and have not been early adopted (continued)

Effective for annual periods to be announced by MASB

Amendments to MFRS 10 and 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The adoption of the above applicable new standards, IC Interpretation and amendments to published standards are not expected to have a material impact on the financial statements of the Group except for MFRS 16. The Group continues to assess the full impact of MFRS 16. The Group has commenced the project to implement MFRS 16 group-wide including the assessment of the impact of adopting. At the time of preparing this financial statements, the impact from the adoption of this standard has yet to be fully quantified.

There are no other standards, amendments to published standards or IC Interpretation that are not yet effective that would be expected to have a material impact on the Group.

2. Seasonal or Cyclical Factors

The operations of the Group were not materially affected by any seasonal or cyclical factors.

3. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows due to their nature, size or incidence for the 1st quarter ended 31 March 2018.

4. Material Changes in Estimates

There were no material changes in estimates reported in the prior interim period or prior financial year.

5. Issuances, Repurchases and Repayments of Debt and Equity Securities

(a) Islamic Stapled Income Securities due within 12 months

The Group's net current liability position as at 31 March 2018 is in view of RM925.0 million worth of Islamic Stapled Income Securities that will be due on 28 December 2018 and thus classified as current borrowings. This obligation will be paid via a combination of internal cash flows and/or new borrowings.

The Group manages refinancing risk by limiting the amount of borrowings that mature within any specific period and by having appropriate strategies in place to manage refinancing needs as they arise. As at 31 March 2018, with a remaining combined limit of up to RM2.7 billion in nominal value of its Islamic Medium Term Notes (IMTN) and Multi-Currency Euro Medium Term Notes (EMTN) programmes, the Group and Company have sufficient financial capacity and existing financing facilities to meet capital expenditure and business operating requirements as and when they fall due in the 12 months from the date of financial statements. Notes on the IMTN and Multi-Currency EMTN programmes were disclosed in notes 17(d) and (g) of the Group's audited financial statements for the financial year ended 31 December 2017.

Save for the above, there were no other issuances, repurchases and repayments of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the 1st quarter ended 31 March 2018.

6. Dividends Paid

No dividends have been paid during the 1st quarter ended 31 March 2018.

The second interim single-tier cash dividend of 12.1 sen per share amounting to RM454.7 million in respect of financial year ended 31 December 2017 declared on 27 February 2018 was paid on 13 April 2018, subsequent to the quarter ended 31 March 2018.

7. Segmental Information

Segmental information for the Group are as follows:

<u>By Business Segment</u>

All amounts are in RM Million 1st Quarter Ended 31 March 2018	**unifi>**	**TM ONE**	**TM GLOBAL**	**Shared Services /Others**	**Total**
Operating Revenue					
Total operating revenue	1,335.6	1,034.1	554.7	1,225.8	4,150.2
Inter-segment @	(2.8)	(73.6)	(124.3)	(1,101.5)	(1,302.2)
External operating revenue	1,332.8	960.5	430.4	124.3	2,848.0
Results					
Segment profits/(losses)	12.8	134.2	130.9	(10.1)	267.8
Unallocated income/other gains*					21.8
Unallocated costs^					(95.7)
Operating profit before finance cost					193.9
Finance income					25.8
Finance cost					(100.1)
Foreign exchange gain on borrowings					69.1
Associates					
- share of results (net of tax)					5.5
Profit before taxation and zakat					194.2
Taxation and zakat					(86.6)
Profit for the financial period					107.6

7. Segmental Information (continued)

All amounts are in RM Million 1st Quarter Ended 31 March 2017	**unifi>**	**TM ONE**	**TM GLOBAL**	**Shared Services /Others**	**Total**
Operating Revenue					
Total operating revenue	1,309.7	1,158.2	552.1	1,248.0	4,268.0
Inter-segment @	(2.7)	(90.7)	(95.3)	(1,114.7)	(1,303.4)
External operating revenue	1,307.0	1,067.5	456.8	133.3	2,964.6
Results					
Segment profits/(losses)	15.5	202.8	126.4	(2.8)	341.9
Unallocated income/other gains*					8.8
Unallocated costs^					(51.6)
Operating profit before finance cost					299.1
Finance income					35.6
Finance cost					(100.0)
Foreign exchange gain on borrowings					22.7
Associates					
- share of results (net of tax)					6.3
Profit before taxation and zakat					263.7
Taxation and zakat					(79.3)
Profit for the financial period					184.4

7. Segmental Information (continued)

All amounts are in RM Million	**unifi[>]**	**TM ONE**	**TM GLOBAL**	**Shared Services /Others**	**Total**
Segment assets and liabilities					
As at 31 March 2018					
Segment assets	1,221.3	1,542.6	1,520.0	5,484.6	9,768.5
Associates					67.6
Unallocated assets[<]					14,566.6
Total assets					**24,402.7**
Segment liabilities	1,230.9	843.7	1,353.9	3,429.0	6,857.5
Borrowings					8,049.7
Unallocated liabilities[+]					2,059.7
Total liabilities					**16,966.9**
As at 31 December 2017					
Segment assets	1,461.3	1,709.8	1,550.6	5,329.6	10,051.3
Associates					62.8
Unallocated assets[<]					14,647.7
Total assets					24,761.8
Segment liabilities	1,225.3	840.2	1,347.7	3,413.6	6,826.8
Borrowings					8,150.2
Unallocated liabilities[+]					2,018.0
Total liabilities					16,995.0

7. Segmental Information (continued)

@ Inter-segment operating revenue relates to inter-division recharge and inter-company revenue and has been eliminated at the respective segment operating revenue. The inter-division recharge was agreed between the relevant lines of business. These inter-segment trading arrangements are subject to periodic review. The inter-company revenue was entered into in the normal course of business.

* Unallocated income/other gains or losses comprises other operating income and other gains or losses such as dividend income and gain or losses on disposal of available-for-sale investments which has not been allocated to a particular business segment.

^ Unallocated costs represent expenses incurred by corporate divisions such as Group Human Capital Management, Group Finance, Group Legal, Compliance & Company Secretary, Group Procurement and special purpose entities and foreign exchange differences arising from translation of foreign currency placements which were not allocated to a particular business segment.

< Unallocated assets mainly include available-for-sale investments, available-for-sale receivables, other non-current receivables, financial assets at fair value through profit or loss, deferred tax assets, cash and bank balances of the Company and general telecommunication network and information technology property, plant and equipment at business function division as well as those at corporate divisions.

+ Unallocated liabilities mainly include interest payable on borrowings, taxation and zakat liabilities, deferred tax liabilities and dividend payable.

> unifi segment for the current quarter and financial year as well as comparatives includes financial information of Webe Digital Sdn Bhd (webe) and its subsidiaries, reflective of webe’s current customer profile in aligning to the Group’s overall operational segmentation.

8. Material Events Subsequent to the End of the Quarter

There is no other material event subsequent to the reporting date that requires disclosure or adjustments to the unaudited interim financial statements.

9. Effects of Changes in the Composition of the Group

There is no change in the composition of the Group for the 1st quarter ended 31 March 2018.

10. Changes in Contingent Liabilities Since the Last Annual Reporting Period

Other than material litigations as disclosed in part B, note 10 of this announcement, there was no other material changes in contingent liabilities since the latest audited financial statements of the Group for the financial year ended 31 December 2017.

11. Capital Commitments

	Group	
	As at 31/3/2018	**As at 31/12/2017**
	RM Million	**RM Million**
Property, plant and equipment:		
Commitments in respect of expenditure approved and contracted for	**2,871.9**	2,941.2

12. Related Party Transactions

Khazanah Nasional Berhad (Khazanah) is a major shareholder with 26.21% equity interest and is a related party of the Group. Khazanah is a wholly-owned entity of MoF Inc, which is in turn owned by the Ministry of Finance, a ministry of the Federal Government of Malaysia. Therefore, the Government of Malaysia and bodies controlled or jointly controlled by the Government of Malaysia are also related parties to the Group.

The individually significant transactions that the Group entered into with identified related parties and their corresponding balances for the provision of telecommunications related services as at the respective reporting dates are as follows:

	Total amount of individually significant transactions for the financial period ended		**Corresponding outstanding balances as at**	
	31/3/2018 RM Million	**31/3/2017 RM Million**	**31/3/2018 RM Million**	**31/12/2017 RM Million**
Sales and Receivables	**160.0**	162.1	**8.1**	107.7

The Group also has individually significant contracts with other Government-related entities where the Group was provided funding for projects of which the amortisation of grants to the income statement in the current year was RM75.6 million (YTD March 2017: RM60.9 million) with corresponding receivables of RM383.4 million (31 December 2017: RM5.1 million).

In addition to the above, the Group has transactions that are collectively, but not individually significant with other Government-related entities in respect of the provision of telecommunications related services as well as procurement of telecommunications and related equipment and services in the normal course of business.

13. Fair Value

The following should be read in conjunction with note 47 of the Group's audited financial statements for the financial year ended 31 December 2017.

(a) Financial Instruments Carried at Fair Value

The following table presents the Group's financial assets and liabilities that are measured at fair value as at the respective reporting date.

	As at 31/3/2018				As at 31/12/2017			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	RM	**RM**	**RM**	**RM**	RM	RM	RM	RM
Assets								
Financial assets at fair value through profit or loss								
- quoted securities	**2.0**	**-**	**-**	**2.0**	4.0	-	-	4.0
Derivatives accounted for under hedge accounting	**-**	**82.9**	**117.3**	**200.2**	-	99.1	165.9	265.0
Available-for-sale financial assets								
- investments	**-**	**-**	**-**	**-**	-	447.9	146.6	594.5
- receivables	**-**	**-**	**-**	**-**	-	1.7	-	1.7
Investments at fair value through OCI	**-**	**368.9**	**-**	**368.9**	-	-	-	-
Investments at fair value through profit or loss	**-**	**5.9**	**67.4**	**73.3**	-	-	-	-
Equity investments at fair value through OCI	**-**	**107.2**	**52.0**	**159.2**	-	-	-	-
Receivables at fair value through OCI	**-**	**223.8**	**-**	**223.8**	-	-	-	-
Total	**2.0**	**788.7**	**236.7**	**1,027.4**	4.0	548.7	312.5	865.2
Liabilities								
Put option liability over shares held by non-controlling interest	**-**	**-**	**295.5**	**295.5**	-	-	287.7	287.7
Total	**-**	**-**	**295.5**	**295.5**	-	-	287.7	287.7

There has not been any change to the valuation techniques applied for the different financial instruments since 31 December 2017 and there were no transfers of any instruments between level 1, 2 and 3 of the fair valuation hierarchy during the financial period.

13. Fair Value (continued)

(b) Financial Instruments Other Than Those Carried at Fair Value

There has not been significant changes in the differences between the carrying amount and fair value of financial instruments carried at other than fair value from the disclosures in note 47(b) of the Group's audited financial statements for the financial year ended 31 December 2017, other than below:

	As at 31/3/2018		As at 31/12/2017	
	Carrying amount RM Million	Net fair value RM Million	Carrying amount RM Million	Net fair value RM Million
Liabilities				
Borrowings	**8,049.7**	**8,454.8**	8,150.2	8,584.8

14. Changes in Accounting Policies

(a) Changes and adoption of new accounting policies applied from 1 January 2018

A. MFRS 15 Revenue from Contracts with Customers (MFRS 15)

Revenue recognition and allocation for bundled contracts with customers

Portions of the total consideration received in a bundled contract are attributed and allocated to each performance obligation in the contract. Some performance obligations are delivered at contract inception or towards the beginning of the contract period e.g. typically a customer premise equipment or a separate performance obligation such as content or services which are only provided for a part of the contract period.

For performance obligations such as the installation of hardware, revenue for the hardware is recognised at a point in time when the hardware is delivered, the legal title has passed and the customer has accepted the hardware. Where installation work is involved and moreover for multiple sites, it is accounted for as a separate performance obligation based on percentage of completion.

Allocation of the total consideration received to the different components of the contract is based on the separate stand-alone selling price of each component. Where these are not directly observable, they are estimated based on expected cost plus margin.

14. Changes in Accounting Policies (continued)

(a) Changes and adoption of new accounting policies applied from 1 January 2018 (continued)

A. MFRS 15 Revenue from Contracts with Customers (MFRS 15) (continued)

Wholesale services

Certain wholesale services are contracted with retrospective volume discounts based on aggregated cumulative volume. Revenue from these contracts is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience and expected trends are used to estimate and provide for the discounts, using the expected value method. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

Estimates of revenues, costs or extent of progress toward completion are revised as and when circumstances change. Changes in such estimates are taken to profit or loss.

B. MFRS 9 Financial Instruments (MFRS 9)

Investments and other financial assets Classification

From 1 January 2018, the Group classifies its financial assets as follows:

- those to be measured subsequently at fair value (either through Other Comprehensive Income (OCI), or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

14. Changes in Accounting Policies (continued)

(a) Changes and adoption of new accounting policies applied from 1 January 2018 (continued)

B. MFRS 9 Financial Instruments (MFRS 9) (continued)

Investments and other financial assets Classification (continued)

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

14. Changes in Accounting Policies (continued)

(a) Changes and adoption of new accounting policies applied from 1 January 2018 (continued)

B. MFRS 9 Financial Instruments (MFRS 9) (continued)

<u>Investments and other financial assets Classification (continued)</u>

- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis any expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applicable depends on whether there has been any significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by MFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

<u>Derivatives and hedging</u>

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other income (expenses).

14. Changes in Accounting Policies (continued)

(a) Changes and adoption of new accounting policies applied from 1 January 2018 (continued)

B. MFRS 9 Financial Instruments (MFRS 9) (continued)

Derivatives and hedging (continued)

Cash flow hedges that qualify for hedge accounting (continued)

When forward contracts are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within OCI in the costs of hedging reserve within equity.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

(b) Impact from changes and adoption of new accounting policies

The Group's adoption of MFRS15 and 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

An overall view of the impact of the Group's adoption of MFRS 9 and 15 to the Group's retained earnings is as follow:

Reported as at 31 December 2017 RM million	MFRS 9 RM million	MFRS 15 RM million	Restated as at 1 January 2018 RM million
4,257.9	(13.1)	74.1	4,318.9

A. MFRS 15

In accordance with the transition provisions in MFRS 15, the Group has elected to apply the modified retrospective approach for the initial adoption of MFRS 15. In accordance with this transitional method, MFRS 15 is applied retrospectively only for those contracts which have not been fulfilled as of 1 January 2018. The resultant impact of conversion will be recognised in equity as of 1 January 2018, thus having no effect on the income statement. The prior year's amounts will not be restated.

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

14. Changes in Accounting Policies (continued)

(b) Impact from changes and adoption of new accounting policies (continued)

A. MFRS 15 (continued)

(i) The impact to the Group's retained earnings on 1 January is as follows:

	2018
	RM million
Retained earnings – before MFRS 15 and MFRS 9 restatement	**4,257.9**
Recognition of contract assets from recognition of allocation of revenue to performance obligations fulfilled	121.5
Recognition of contract liability from tiered discounts and other related scenarios	(84.4)
Capitalisation of commission and installation cost related to new customers net of amortisation over contract period	59.1
Increase in deferred tax liabilities	(22.1)
Adjustment to retained earnings from adoption of MFRS 15	74.1
Opening retained earnings 1 January – after MFRS 15 before MFRS 9	**4,332.0**

14. Changes in Accounting Policies (continued)

(b) Impact from changes and adoption of new accounting policies (continued)

A. MFRS 15 (continued)

(ii) MFRS 15 impact to the Group's 1st quarter ended 31 March 2018 reporting is as follows:

	Q1 2018 (Pre-MFRS 15) RM million	**Q1 2018 MFRS 15 Impact RM million**	**Q1 2018 (Post-MFRS 15) RM million**
Operating revenue	2,845.3	2.7	2,848.0
Operating expenses	(2,665.6)	(15.8)	(2,681.4)
Other operating income (net)	29.0	-	29.0
Other losses (net)	(1.7)	-	(1.7)
Operating profit before finance cost	207.0	(13.1)	193.9
Net finance cost	(5.2)	-	(5.2)
Associates	5.5	-	5.5
Profit before taxation and zakat	207.3	(13.1)	194.2
Taxation	(89.7)	3.1	(86.6)
Profit for the financial period	**117.6**	**(10.0)**	**107.6**
Profit for the financial period attributable to equity holders of the Company	**167.1**	**(10.0)**	**157.1**

Certain estimates were made in applying MFRS 15 for the Group. These estimates were made, amongst others, on volume commitments, transaction prices and future discounts, which took into consideration the circumstances and information that were available at the reporting date. Accordingly, the Group will continue to refine these estimates, where applicable.

B. MFRS 9

	Notes	**2018 RM million**
Closing retained earnings 31 December 2017 - As reported		**4,257.9**
Reclassify investments from available-for-sale to FVTPL	(i)	6.4
Increase in provision for trade receivables and contract assets	(vii)	(19.6)
Reclassify fair value of corporate bonds from available-for-sale to FVTPL	(v)	0.1
Adjustment to retained earnings from adoption of MFRS 9 on 1 January 2018		(13.1)
Opening retained earnings 1 January 2018 - MFRS 9 (before restatement for MFRS 15)		**4,244.8**

14. Changes in Accounting Policies (continued)

(b) Impact from changes and adoption of new accounting policies (continued)

B. MFRS 9 (continued)

Reclassification & Measurement

On 1 January 2018 (the date of initial application of MFRS 9), the Group's Management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate MFRS 9 categories as follows:

Financial assets- 1 January 2018	Notes	FVTPL* RM million	FVOCI RM million	Available-for-sale RM million	Amortised Cost (Staff Loan Receivables) RM million
Closing balance 31 December 2017 - MFRS 139		**-**	**-**	**596.2**	**260.2**
Reclassify investments from available-for-sale to FVTPL	(i)	70.6	-	(70.6)	-
Reclassify investments in non-trading equities from available-for-sale to FVOCI	(ii)	-	159.2	(159.2)	-
Reclassify listed and unlisted corporate bonds from available-for-sale to FVOCI	(iii)	-	358.8	(358.8)	-
Reclassify housing loans to employees and education loans to FVOCI	(iv)	-	220.4	(1.7)	(218.7)
Reclassify listed corporate bonds from available-for-sale to FVTPL	(v)	5.9	-	(5.9)	-
Opening balance 1 January 2018 - MFRS 9		**76.5**	**738.4**	**-**	**41.5**

* Excluding derivative financial instruments

14. Changes in Accounting Policies (continued)

(b) Impact from changes and adoption of new accounting policies (continued)

B. MFRS 9 (continued)

Reclassification & Measurement (continued)

The impact of these changes on the Group's equity is as follows:

	Notes	Effect on AFS Reserves RM million	Effect on FVOCI Reserves RM million	Hedging Reserve RM million	Cost of Hedging Reserve RM million	Effect on Retained Earnings RM million
Closing balance 31 December 2017-MFRS 139		**127.2**	**-**	**85.7**	**-**	**4,257.9**
Reclassify investments from available-for-sale to FVTPL	(i)	(6.4)	-	-	-	6.4
Reclassify investments in non-trading equities from available-for-sale to FVOCI	(ii)	(117.1)	117.1	-	-	-
Reclassify listed and unlisted corporate bonds from available-for-sale to FVOCI	(iii)	(1.3)	1.3	-	-	-
Reclassify loans to employees and others from amortised cost and available-for-sale to FVOCI	(iv)	(2.3)	(21.8)	-	-	-
Reclassify listed corporate bonds from available-for-sale to FVTPL	(v)	(0.1)	-	-	-	0.1
Reclassify cost of hedging to cost of hedging reserve	(vi)	-	-	(81.2)	81.2	-
Increase in provision for trade receivables and contract assets	(vii)	-	-	-	-	(19.6)
Total impact		**(127.2)**	**96.6**	**(81.2)**	**81.2**	**(13.1)**
Opening balance 1 January 2018-before MFRS 9 adjustments		**-**	**96.6**	**4.5**	**81.2**	**4,244.8**

(i) Reclassification of investments from available-for-sale to FVTPL

Certain Technology Investment Fund were reclassified from available-for-sale to financial assets at FVTPL (RM70.6 million as at 1 January 2018). The investment does not meet the MFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

Related fair value gains of RM6.4 million were transferred from the available-for-sale financial assets reserves to retained earnings on 1 January 2018. In the three months to 31 March 2018, net fair value gains of RM nil million relating to these investments were recognised in profit or loss.

14. Changes in Accounting Policies (continued)

(b) Impact from changes and adoption of new accounting policies (continued)

B. MFRS 9 (continued)

Reclassification & Measurement (continued)

(ii) Reclassification of investments in non-trading equities from available-for-sale to FVOCI

The Group elected to present in OCI changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of RM159.2 million were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value gains of RM117.1 million were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 January 2018.

There were no fair value movements recognised in OCI during the quarter ended 31 March 2018 as there were no significant movement in fair value nor disposal of these investments, nor were there any other income recognised in income statement as there were no dividends received from any of the investments.

(iii) Reclassification of investments in listed and unlisted corporate bonds from available-for-sale to FVOCI

Investments in listed and unlisted bonds were reclassified from available-for-sale to FVOCI, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest.

As a result, listed and unlisted bonds with a fair value of RM358.8 million were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value gains of RM1.3 million were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 January 2018.

(iv) Reclassification of loans to employees and others from available-for-sale to FVOCI

Loans extended to employees arrangement for the disposal of the loans to a third-party when certain pre-determined condition are met. In addition, RM1.7 million education loans that are convertible to scholarship upon fulfilment of certain performance based criteria are also reclassified to FVOCI. As a result, the Solely Payment of Principal and Interest (SPPI) test of MFRS 9 is not met and hence the reclassification to FVOCI. An amount of RM21.8 million had been recognised to Fair Value Reserve arising from recognition of the amortised cost receivables at fair value and RM6.1 million has been recognised during the quarter ended 31 March 2018 as current year movement in fair value.

14. Changes in Accounting Policies (continued)

(b) Impact from changes and adoption of new accounting policies (continued)

B. MFRS 9 (continued)

Reclassification & Measurement (continued)

(v) Reclassification of investment in rated corporate bonds from available-for-sale to FVTPL

Certain investments in a rated Corporate Social Responsibility (CSR) sukuk were reclassified from available-for-sale to financial assets at FVTPL (RM5.9 million as at 1 January 2018). The investment do not meet the MFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

Related fair value gains of RM0.1 million were transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018. In the three months to 31 March 2018, net fair value gains of RM# million relating to these investments were recognised in profit or loss.

Amount less than RM0.1 million

Derivatives & Hedging Activities

Impact from the adoption of MFRS 9 on prior periods

(vi) Reclassification of cost of hedging to cost of hedging reserve

The cross currency interest rate swaps (CCIRS) in place as at 31 December 2017 qualified as cash flow hedges under MFRS 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of MFRS 9 and these relationships are therefore treated as continuing hedges.

For foreign currency portion of the CCIRS, the Group only designates the spot component of the change in fair value in cash flow hedge relationships. The spot component is determined with reference to the relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as forward points. It is discounted, where material. Changes in the fair value related to forward points were accounted for under hedge accounting and recognised through the OCI prior to 1 January 2018.

Since adoption of MFRS 9, the Group recognises changes in the fair value of foreign currency forwards attributable to forward points in the costs of hedging reserve within equity. The deferred costs of hedging are included within the initial cost of the related hedged item (borrowings) when it is recognised.

14. Changes in Accounting Policies (continued)

(b) Impact from changes and adoption of new accounting policies (continued)

B. MFRS 9 (continued)

Derivatives & Hedging Activities (continued)

(vii) Expected credit loss on trade receivables

MFRS 9 introduces the expected credit loss (ECL) model on impairment instead of the current incurred loss model used in MFRS 139 to be applied to TM's financial assets classified at amortised cost and contract assets under MFRS 15. The ECL model is forward-looking and removes the need for a trigger event before credit losses are recognised. The Group's allowance for impairment has increased by RM19.6 million as at 1 January 2018 as a result of applying the ECL model on receivables and contract assets.

PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

1. Review of Performance

(a) Quarter-on-Quarter

(i) Group Performance

For the current quarter under review, Internet and multimedia services increased 4.4% (RM43.0 million) from RM969.1 million recorded in 1st quarter of 2017 to RM1,012.1 million in the current quarter. This was driven by increase in revenue contribution from higher customer base at unifi Mobile as well as unifi for home and Small and Medium sized Enterprises (SMEs). The latter was 1,176,873 at the end of the current quarter compared to 978,769 at the end of 1st quarter of 2017.

Group revenue decreased by 3.9% (RM116.6 million) to RM2,848.0 million from RM2,964.6 million in the same quarter last year due to decline in voice, data and other telecommunication-related services.

This led to 35.2% (RM105.2 million) decrease in operating profit before finance cost from RM299.1 million in the 1st quarter of 2017 to RM193.9 million.

Group profit after tax and non-controlling interests (PATAMI) decreased by 31.8% (RM73.3 million) from RM230.4 million to RM157.1 million despite higher foreign exchange gain on the Group's borrowings in the current quarter compared to corresponding quarter of 2017.

(ii) Segment Performance

unifi

Revenue increased by 2.0% (RM25.9 million) from RM1,309.7 million to RM1,335.6 million in the current quarter mainly due to higher cumulative unifi for home and SMEs. Customer base was at 1,155,898 as at the end of 1st quarter of 2018 as compared to 959,499 as at the end of corresponding quarter last year. Increase in number of buys of Premium Channels and Video-on-Demand (VOD) together with continuing increase in the customer base of unifi Mobile further contributed to the increase. Despite the revenue growth, profit however decreased by 17.4% (RM2.7 million) to RM12.8 million in the current quarter compared to RM15.5 million in the corresponding quarter last year.

PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

1. Review of Performance (continued)

(a) Quarter-on-Quarter (continued)

(ii) Segment Performance (continued)

TM ONE

TM ONE recorded 10.7% (RM124.1 million) decrease in revenue from RM1,158.2 million to RM1,034.1 million in the 1st quarter of 2018 due to lower revenue from voice, data and other telecommunication services, despite growth in revenue from Internet and multimedia. This led to 33.8% (RM68.6 million) decrease in profits to RM134.2 million in the current quarter from RM202.8 million in the corresponding quarter last year.

TM GLOBAL

Revenue for the current quarter increased by 0.5% (RM2.6 million) from RM552.1 million in 1st quarter last year to RM554.7 million mainly contributed by voice service. Correspondingly, profit for the current quarter also increased by 3.6% (RM4.5 million) from RM126.4 million in the corresponding quarter last year to RM130.9 million.

PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

1. Review of Performance (continued)

(b) Economic Profit Statement

	1st Quarter Ended	
	31/3/2018 RM Million	**31/3/2017 RM Million**
EBIT	**195.6**	303.8
Adjusted Tax	**46.9**	72.9
NOPLAT	**148.7**	230.9
AIC	**4,235.5**	3,925.8
WACC	**6.57%**	7.11%
ECONOMIC CHARGE	**278.3**	279.1
ECONOMIC LOSS	**(129.6)**	(48.2)

Definitions:
EBIT = Earnings before Interest & Taxes
NOPLAT = Net Operating Profit after Tax
AIC = Average Invested Capital
WACC = Weighted Average Cost of Capital

TM Group recorded higher Economic Loss during first quarter 2018 due to lower NOPLAT despite slightly lower economic charge attributed to higher AIC and lower WACC. The higher AIC was due to higher property, plant and equipment, trade and other receivables and other non-current receivables. Lower cost of equity led to lower WACC. Lower revenue and decrease in cost led to lower EBIT and correspondingly reduced NOPLAT.

PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

2. Comparison with Preceding Quarter's Results

The current quarter Group revenue decreased by 11.0% (RM351.9 million) to RM2,848.0 million as compared to RM3,199.9 million recorded in the 4th quarter of 2017 due to lower revenue from all services.

In line with revenue, operating profit before finance cost decreased to RM193.9 million from RM284.3 million recorded in the preceding quarter.

This led to a 43.3% (RM119.9 million) decrease in Group PATAMI from RM277.0 million in the preceding quarter to RM157.1 million.

3. Prospects for the Current Financial Year

As we move forward in 2018, our strategy to Accelerate Convergence and Empower Digital remains relevant. Guided by our PERFEXE 10 execution plan, we have prioritised Group-wide initiatives to be more focused in delivering results faster in light of the current challenging market landscape.

4. Variance of Actual Profit from Forecast Profit/Profit Guarantee

The Group has not provided any profit forecast or profit guarantee in any public document in respect of the 1st quarter ended 31 March 2018.

PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

5. Taxation

The taxation charge for the Group comprises:

	1st Quarter Ended	
	31/3/2018	**31/3/2017**
	RM Million	**RM Million**
Malaysia		
Income Tax:		
Current year	**78.5**	66.2
Prior year	**1.3**	(2.3)
Deferred tax (net)	**5.7**	14.0
	85.5	77.9
Overseas		
Income Tax:		
Current year	**1.0**	#
Prior year	**0.1**	-
Deferred tax (net)	#	#
	1.1	#
Taxation	**86.6**	77.9
Zakat	#	1.4
Taxation and Zakat	**86.6**	79.3

Amount less than RM0.1 million

The effective tax rates of the Group for the current period and comparative are higher than the statutory tax rate primarily due to losses before tax from webe for which no corresponding tax losses or deferred tax asset has been recognised at this juncture.

6. Status of Corporate Proposals

There is no corporate proposal announced and not completed as at the latest practicable date.

7. Group Borrowings and Debt Securities

(a) Analysis of the Group's borrowings and debt securities are as follows:

	As at 31/3/2018		As at 31/12/2017	
	Short Term Borrowings RM Million	Long Term Borrowings RM Million	Short Term Borrowings RM Million	Long Term Borrowings RM Million
Total Secured	**25.1**	**54.2**	35.5	67.8
Total Unsecured	**1,096.1**	**6,874.3**	1,083.5	6,963.4
Total Borrowings	**1,121.2**	**6,928.5**	1,119.0	7,031.2

(b) Foreign currency borrowings and debt securities are as follows:

Foreign Currency	As at 31/3/2018 RM Million	As at 31/12/2017 RM Million
US Dollar	**2,216.4**	2,361.8
Canadian Dollars	**2.6**	2.7
Japanese Yen	**-**	-
Total	**2,219.0**	2,364.5

(c) There has not been any significant changes in the Group's borrowings since the end of the previous financial year (as disclosed in note 17 of the Group's audited financial statements for financial year ended 31 December 2017) except for repayments of borrowings as they become due and impact of foreign exchange retranslation for the year.

PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

8. Derivative Financial Instruments

(a) Analysis of the Group's Derivative Financial Instruments is as follows:

		Fair value as at 31/3/2018		Fair value as at 31/12/2017	
Derivatives (by maturity)	**Contract or notional amount RM Million**	**Assets RM Million**	**Liabilities RM Million**	**Assets RM Million**	**Liabilities RM Million**
1. Interest Rate Swaps (IRS)					
- more than 3 years	193.2	10.1	-	5.5	-
	193.2	**10.1**	**-**	5.5	-
2. Cross Currency Interest Rate Swaps (CCIRS)					
- 1 year to 3 years	316.8	72.8	-	93.5	-
- more than 3 years	310.5	117.3	-	166.0	-
	627.3	**190.1**	**-**	259.5	-
3. Put Option liability over shares held by non-controlling interest					
- more than 3 years	-	-	295.5	-	287.7
	-	**-**	**295.5**	-	287.7
Total	**820.5**	**200.2**	**295.5**	265.0	287.7

8. Derivative Financial Instruments (continued)

(b) Financial Risk Management Objectives and Policies

There have been no changes since the end of the previous financial year in respect of the following:

(i) The types of derivative financial contracts entered into and the rationale for entering into such contracts, as well as the expected benefits accruing from these contracts; and
(ii) The risk management policies in place for mitigating and controlling the risks associated with these derivative financial instrument contracts.

The details on the above, the valuation and the financial effects of derivative financial instruments that the Group has entered into are discussed in note 4, 19 and 46 to 49 to the Group's audited financial statements for the financial year ended 31 December 2017.

(c) Related Accounting Policies

The related accounting policies of the Group in respect of derivative financial instruments and hedge accounting are disclosed in note 2 to the Group's audited financial statements for the financial year ended 31 December 2017.

8. Derivative Financial Instruments (continued)

(d) Gains/(Losses) Arising from Fair Value Changes of Financial Instruments

The amount of gains/(losses) arising from fair value changes of derivative financial instruments for the current and cumulative quarters ended 31 March 2018 are as follows:

Derivatives (by maturity)	Contract or notional value RM Million	Fair value RM Million	Gains/(Losses) arising from fair value changes for the quarter RM Million
Financial Liabilities			
1. Put Option liability over shares held by non-controlling interest[(i)] - more than 3 years	-	295.5	(7.8)
	-	**295.5**	**(7.8)**
Total	**-**	**295.5**	**(7.8)**
Financial Assets			
1. Interest Rate Swaps[(ii)] - more than 3 years	193.2	10.1	4.6
	193.2	**10.1**	**4.6**
2. Cross Currency Interest Rate Swaps[(iii)] - 1 year to 3 years - more than 3 years	 316.8 310.5	 72.8 117.3	 (20.7) (48.7)
	627.3	**190.1**	**(69.4)**
Total	**820.5**	**200.2**	**(64.8)**

[(i)] Derivative relating to equity instrument accounted for under MFRS 132 Financial Instruments: Presentation for which the obligation at inception is recognised in Other Reserves. Gain for the financial year includes fair value movement arising from a dilution of non-controlling interests' effective shareholding of a subsidiary.

[(ii)] Fair value hedges accounted for under hedge accounting.

[(iii)] Cash flow hedges accounted for under hedge accounting.

8. Derivative Financial Instruments (continued)

(d) Gains/(Losses) Arising from Fair Value Changes of Financial Instruments (continued)

The fair value of existing interest rate swaps arise from the changes in present value of its future cash flows against the prevailing market interest rates. The fair value of existing forward foreign exchange contracts is determined by comparing forward exchange market rates at the balance sheet date against its prevailing foreign exchange rates.

The Marked to Market (MTM) on the IRS is positive when the expectation of relevant future interest rate decreases and vice versa. The MTM on forward contract is positive when the expectation of USD against RM currency is strengthened and vice versa.

The MTM on the CCIRS is positive when the expectation of the relevant foreign currency against RM strengthens or the expectation of future RM interest rate increases and vice versa.

PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

9. Additional Disclosures

Additional disclosures of items not disclosed elsewhere in this announcement, which have been included in the Consolidated Income Statement for the 1st quarter and financial period ended 31 March 2018:

	1st Quarter Ended	
	31/3/2018 RM Million	**31/3/2017 RM Million**
Impairment of trade and other receivables (net of recoveries)	**(9.5)**	(4.4)
Inventory (charges)/reversal for write off and obsolescence	**(1.0)**	0.5
Gain on disposal of fixed income securities	**0.2**	0.3
(Loss)/Gain on foreign exchange on settlements and placements	**(26.7)**	1.1

10. Material Litigation

There is no material litigation cases apart from the material litigation cases disclosed under Contingent Liabilities in note 50 to the audited financial statements of the Group for the financial year ended 31 December 2017 which have all been duly concluded.

The Directors are not aware of any other proceedings pending against the Company and/or its subsidiaries or of any facts likely to give rise to any proceedings which might materially affect the financial position or business of the Company and/or its subsidiaries.

11. Earnings per Share (EPS)

	1st Quarter Ended 31/3/2018	31/3/2017
(a) Basic earnings per share		
Profit attributable to equity holders of the Company (RM million)	**157.1**	230.4
Weighted average number of ordinary shares (million)	**3,757.9**	3,757.9
Basic earnings per share (sen) attributable to equity holders of the Company	**4.2**	6.1

Basic earnings per share was calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of issued and paid-up ordinary shares during the financial period.

	1st Quarter Ended 31/3/2018	31/3/2017
(b) Diluted earnings per share		
Profit attributable to equity holders of the Company (RM million)	**157.1**	230.4
Weighted average number of ordinary shares (million)	**3,757.9**	3,757.9
Adjustment for dilutive effect of Long Term Incentive Plan (million)	**22.0**	9.2
Weighted average number of ordinary shares (million)	**3,779.9**	3,767.1
Diluted earnings per share (sen) attributable to equity holders of the Company	**4.2**	6.1

Diluted earnings per share for the current financial period was calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of issued and paid-up ordinary shares adjusted for potential conversion of all dilutive ordinary shares from shares granted to employees under the Group's Long Term Incentive Plan (LTIP), as disclosed in note 14 to the Group's audited financial statements for financial year ended 31 December 2017.

12. Qualification of Preceding Audited Financial Statements

The audited financial statements for the financial year ended 31 December 2017 were not subject to any qualification.

PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

13. Dividends

No dividend has been recommended during the 1st quarter ended 31 March 2018 in respect of the financial year.

By Order of the Board

Hamizah Abidin (LS0007096)
Zaiton Ahmad (MAICSA 7011681)

Secretaries

Kuala Lumpur
22 May 2018