



DIGI.COM BERHAD

Company no. 425190-X
(Incorporated in Malaysia)

Date: 22 January 2020

**Subject: INTERIM FINANCIAL REPORT FOR THE FOURTH QUARTER
AND FINANCIAL YEAR ENDED 31 DECEMBER 2019**

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INTERIM FINANCIAL REPORT FOR THE FOURTH QUARTER
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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	INDIVIDUAL QUARTER			CUMULATIVE QUARTER			
		QUARTER ENDED	QUARTER ENDED		YEAR ENDED	YEAR ENDED	
	Note	31 DEC 2019 RM'000	31 DEC 2018 RM'000	%	31 DEC 2019 RM'000	31 DEC 2018 RM'000	%
Revenue		1,678,052	1,674,718	+0	6,297,358	6,527,111	-4
Other income		3,405	4,566		16,304	19,499	
Net gain/(loss) on foreign exchange and fair value movement of foreign currency forward contracts		4,190	(2,352)		2,448	(514)	
Depreciation, amortisation and impairment		(290,778)	(196,488)		(1,197,352)	(804,790)	
Other expenses		(866,009)	(936,630)		(3,006,743)	(3,513,020)	
Operating model transition costs	B7	(8,598)	-		(8,359)	(39,638)	
Finance costs		(67,912)	(30,684)	+121	(237,029)	(129,984)	+82
Interest income		8,655	5,239		25,694	20,778	
Profit before tax		461,005	518,369	-11	1,892,321	2,079,442	-9
Taxation		(118,081)	(140,571)		(459,372)	(538,654)	
Profit for the period/year, representing total comprehensive income for the period/year, net of tax		342,924	377,798	-9	1,432,949	1,540,788	-7
Attributable to:							
Owners of the parent		342,924	377,798	-9	1,432,949	1,540,788	-7

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - CONT'D

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER			
	QUARTER ENDED	QUARTER ENDED	%	YEAR ENDED	YEAR ENDED	%
	31 DEC 2019	31 DEC 2018		31 DEC 2019	31 DEC 2018	
Earnings per share attributable to owners of the parent (sen per share):						
- Basic	4.41	4.86		18.43	19.82	
- Diluted ¹	NA	NA		NA	NA	

Note:¹NA denotes "Not Applicable"

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Notes to the Interim Financial Report on pages 9 to 17)

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	UNAUDITED AT 31 DEC 2019 RM'000	AUDITED AT 31 DEC 2018 RM'000
Non-current assets		
Property, plant and equipment	2,852,806	2,881,172
Intangible assets	324,926	981,683
Right-of-use assets	2,575,452	-
Other investments	78	78
Derivative financial instruments	18,605	569
Trade and other receivables	427,565	140,762
Contract costs	66,170	71,130
Contract assets	26,661	40,900
	<u>6,292,263</u>	<u>4,116,294</u>
Current assets		
Inventories	90,501	61,135
Trade and other receivables	1,220,923	1,460,709
Contract assets	79,590	134,800
Tax recoverable	8,448	-
Cash and short-term deposits	457,716	433,118
	<u>1,857,178</u>	<u>2,089,762</u>
TOTAL ASSETS	<u>8,149,441</u>	<u>6,206,056</u>
Non-current liabilities		
Loans and borrowings	4,461,043	2,512,683
Deferred tax liabilities	217,628	276,063
Provision for liabilities	53,295	48,964
	<u>4,731,966</u>	<u>2,837,710</u>
Current liabilities		
Trade and other payables	1,784,308	2,144,070
Contract liabilities	283,572	315,386
Derivative financial instruments	419	301
Provision for liabilities	420	5,373
Loans and borrowings	688,756	181,371
Tax payable	13	48,657
	<u>2,757,488</u>	<u>2,695,158</u>
Total liabilities	<u>7,489,454</u>	<u>5,532,868</u>

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION - CONT'D

	UNAUDITED	AUDITED
	AT	AT
	31 DEC 2019	31 DEC 2018
	RM'000	RM'000
Equity		
Share capital	769,655	769,655
Accumulated losses	(109,668)	(96,467)
Total equity - attributable to owners of the parent	<u>659,987</u>	<u>673,188</u>
TOTAL EQUITY AND LIABILITIES	<u><u>8,149,441</u></u>	<u><u>6,206,056</u></u>
Net assets per share (RM)	<u><u>0.08</u></u>	<u><u>0.09</u></u>

(The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Interim Financial Report on pages 9 to 17)

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital RM'000	Accumulated losses RM'000	Total RM'000
At 31 December 2018/ 1 January 2019 ²	769,655	(96,467) ¹	673,188
Total comprehensive income	-	1,432,949	1,432,949
Transaction with owners:			
Dividend for the financial year ended 31 December 2018			
- fourth interim dividend	-	(373,200)	(373,200)
Dividend for the financial year ended 31 December 2019			
- first interim dividend	-	(334,325)	(334,325)
- second interim dividend	-	(388,750)	(388,750)
- third interim dividend		(349,875)	(349,875)
At 31 December 2019	<u>769,655</u>	<u>(109,668)</u>	<u>659,987</u>

Note:¹ The deficit was a result of the Group's capital management initiatives carried out during the financial year ended 31 December 2012. The Company ("Digi.Com Berhad") received dividends from one of its subsidiaries in the form of bonus issue of redeemable preference shares and capital repayment amounting to RM509.0 million and RM495.0 million respectively. The Company had declared part of these as special dividends to its shareholders. The deficit arose from the elimination of these intra-group dividends at Group level.

Note:² The Group has adopted MFRS 16 on 1 January 2019. Under the transition method elected, comparatives were not restated. The Group recognised lease liabilities in the statement of financial position based on the remaining payment obligations from existing operating leases which were discounted using the incremental borrowing rate; and opted to measure the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of the prepaid or accrued lease payments. Accordingly, there's no impact to the accumulated losses of the Group as at 1 January 2019. Further details of significant effects arising from adoption of the new standard are disclosed in Note A1.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - CONT'D

	Share capital RM'000	Accumulated losses RM'000	Total RM'000
At 31 December 2017	769,655	(250,937) ¹	518,718
Impacts arising from adoption of:			
- MFRS 15 ³	-	128,187	128,187
- MFRS 9 ³	-	(6,155)	(6,155)
At 1 January 2018 (adjusted)	<u>769,655</u>	<u>(128,905)</u>	<u>640,750</u>
Total comprehensive Income	-	1,540,788	1,540,788
Transaction with owners:			
Dividend for the financial year ended 31 December 2017			
- fourth interim dividend	-	(357,650)	(357,650)
Dividend for the financial year ended 31 December 2018			
- first interim dividend	-	(380,975)	(380,975)
- second interim dividend	-	(380,975)	(380,975)
- third interim dividend	-	(388,750)	(388,750)
At 31 December 2018	<u><u>769,655</u></u>	<u><u>(96,467)</u></u>	<u><u>673,188</u></u>

Note:³ The Group has adopted MFRS 15 and MFRS 9 on 1 January 2018. Under the transition methods elected, cumulative impacts arising from the adoption of the new standards were adjusted to the accumulated losses of the Group as at 1 January 2018.

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Interim Financial Report on pages 9 to 17)

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED 31 DEC 2019 RM'000	YEAR ENDED 31 DEC 2018 RM'000
Cash flows from operating activities		
Profit before tax	1,892,321	2,079,442
Adjustments for:		
Non-cash items	1,209,635	854,191
Finance costs	237,029	129,984
Interest income	(25,694)	(20,778)
Operating cash flow before working capital changes	<u>3,313,291</u>	<u>3,042,839</u>
Changes in working capital:		
Net change in current assets	(347,272)	(519,930)
Net change in contract assets	(32,470)	(89,518)
Net change in contract costs	71,764	4,220
Net change in current liabilities	(316,775)	(107,948)
Net change in contract liabilities	(31,814)	318,862
Cash generated from operations	<u>2,656,724</u>	<u>2,648,525</u>
Advance payment for bandwidth	(57,881)	(21,418)
Interest paid	(228,536)	(138,469)
Government grant received	278,572	203,383
Payments for provisions	(93)	(621)
Taxes paid	(574,899)	(515,316)
Net cash generated from operating activities	<u>2,073,887</u>	<u>2,176,084</u>
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(750,728)	(818,452)
Purchase of unquoted investment	-	(15)
Interest received	18,448	20,895
Proceeds from disposal of property, plant and equipment	612	659
Net cash used in investing activities	<u>(731,668)</u>	<u>(796,913)</u>
Cash flows from financing activities		
Drawdowns of loans and borrowings	1,000,000	-
Repayments of loans and borrowings	(871,823)	(12,767)
Dividends paid	(1,446,150)	(1,508,350)
Net cash used in financing activities	<u>(1,317,973)</u>	<u>(1,521,117)</u>

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS - CONT'D

	YEAR ENDED 31 DEC 2019 RM'000	YEAR ENDED 31 DEC 2018 RM'000
Net increase/(decrease) in cash and cash equivalents	24,246	(141,946)
Effect of exchange rate changes on cash and cash equivalents	352	19
Cash and cash equivalents at beginning of year	433,118	575,045
Cash and cash equivalents at end of year	<u>457,716</u>	<u>433,118</u>

(The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Interim Financial Report on pages 9 to 16)

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NOTES TO THE INTERIM FINANCIAL REPORT

A1. Basis of Preparation

The interim financial report is unaudited and has been prepared in compliance with MFRS 134: Interim Financial Reporting.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2018.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the most recent audited financial statements for the financial year ended 31 December 2018 except for the newly-issued Malaysian Financial Reporting Standards (“MFRS”), interpretation and amendments to standards to be applied by all Entities Other Than Private Entities for the financial periods beginning on or after 1 January 2019:

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

The adoption of the above did not have any significant effects on the interim financial report upon their initial application, other than as disclosed below:

MFRS 16 Leases

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117 and does not impact leases where the Group is the lessor.

The Group adopted MFRS 16 using modified retrospective method and comparatives are not restated.

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NOTES TO THE INTERIM FINANCIAL REPORT - CONT'D

A1. Basis of Preparation – cont'd

MFRS 16 Leases – cont'd

(a) Impact of adoption of MFRS 16

In summary, the impact of adopting MFRS 16 to opening balances is as follows:

Statement of financial position

1 January 2019

In RM'000	Impact of change in accounting policies		
	As previously reported	MFRS 16 adjustments	After adjustments
Assets			
Property, plant and equipment	2,881,172	(12,997)	2,868,175
Intangible assets	981,683	(657,223)	324,460
Right-of-use assets	-	2,773,459	2,773,459
Trade and other receivables	1,601,471	(10,660)	1,590,811
Impact to assets	<u>5,464,326</u>	<u>2,092,579</u>	<u>7,556,905</u>
Liabilities			
Non-current lease liabilities	(2,081)	(1,794,307)	(1,796,388)
Current lease liabilities	(6,371)	(347,829)	(354,200)
Trade and other payables	(2,144,070)	49,557	(2,094,513)
Impact to liabilities	<u>(2,152,522)</u>	<u>(2,092,579)</u>	<u>(4,245,101)</u>
Equity			
Accumulated losses	<u>(96,467)</u>	<u>-</u>	<u>(96,467)</u>

The Group assesses whether a contract is or contains a lease based on the definition of a lease and related guidance set out in MFRS 16.

Leases previously classified as finance leases

The Group recognised the carrying amount of the leased asset and lease liability as at 31 December 2018 as the carrying amount of the right-of-use ("ROU") asset and the lease liability at the date of initial application.

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NOTES TO THE INTERIM FINANCIAL REPORT - CONT'D

A1. Basis of Preparation – cont'd

MFRS 16 Leases – cont'd

(a) Impact of adoption of MFRS 16 – cont'd

Leases previously accounted for as operating leases

The Group recognised ROU assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application and the Group has opted for the ROU assets to be carried at an amount equal to the lease liabilities, adjusted by the amount of the prepaid or accrued lease payments.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous before the date of initial application
- Excluded the initial direct costs from the measurement of the ROU assets at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

(b) Reconciliation of operating lease commitment as at 31 December 2018 to the opening balance of lease liabilities as at 1 January 2019

The operating lease commitments as of 31 December 2018 is reconciled to arrive at the lease liabilities as at 1 January 2019 as follows:

	RM'000
Operating lease commitments disclosed as at 31 December 2018	840,536
(Less): short-term leases and low-value leases recognised on a straight-line basis as expense	(818)
	839,718
Weighted average incremental borrowing rate as at 1 January 2019	5%
Discounted using the lessee's incremental borrowing rate at the date of initial application	733,154
Add: finance lease liabilities recognised as at 31 December 2018	8,452
Add: accrued lease payments recognised as at 31 December 2018	49,557
Add: existing contracts as at 31 December 2018 assessed to contain a lease under MFRS 16	1,204,027
Add: extension options reasonably certain to be exercised	155,398
Lease liabilities recognised as at 1 January 2019	2,150,588

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NOTES TO THE INTERIM FINANCIAL REPORT - CONT'D

A1. Basis of Preparation – cont'd

MFRS 16 Leases – cont'd

(c) Change in accounting policies

Applying MFRS 16 for all leases (except as noted below), the Group as a lessee:

- i) recognises ROU assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments;
- ii) recognises depreciation of ROU assets and interest on lease liabilities in profit or loss; and
- iii) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

The Group has adopted the following accounting policy choices and elected to apply the following practical expedients:

- Fixed non-lease components embedded in the lease contract are not separated out from lease payments in measuring lease liabilities and capitalised as ROU assets
- Leases with a lease term of 12 months or shorter are exempted from recognition
- Leases for low-value assets, mainly refers to office equipment, are exempted from recognition
- Intangible assets, such as spectrum and licences, are considered under MFRS 16

(d) Amounts recognised in the statement of financial position as at 31 December 2019

The following table summarises the carrying amounts of the Group's ROU assets and lease liabilities and the movements during the year:

	Right-of-use assets			Lease liabilities (Note B8) RM'000
	Telecommunication network and trans- mission facilities RM'000	Spectrum rights RM'000	Others* RM'000	
As at 1 January 2019	1,101,801	1,655,426	16,232	(2,150,588)
Additions	239,936	-	7,988	(247,924)
Termination	(4,642)	-	(119)	4,815
Depreciation	(290,501)	(128,180)	(12,133)	-
Interest expense	-	-	-	(110,501)
Remeasurement	-	(10,356)	-	10,356
Payments	-	-	-	445,910
As at 31 December 2019	1,046,594	1,516,890	11,968	(2,047,932)

**Included in others are leases for retail stores and equipment, and office buildings*

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NOTES TO THE INTERIM FINANCIAL REPORT - CONT'D

A2. Seasonality or Cyclical of Interim Operations

The operations of the Group were not significantly affected by any seasonal and cyclical factors.

A3. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no items affecting assets, liabilities, equity, net income or cash flows that were unusual because of their nature, size or incidence for the current quarter and financial year ended 31 December 2019, other than as disclosed in Note A5:

- (i) the drawdown and repayment of floating-rate term financing-i ("FRTF-i");
- (ii) the repayment of floating-rate term loan ("FRTL");
- (iii) the issuance of second series of Islamic Medium Term Notes ("IMTN"); and
- (iv) an arrangement to transfer receivables on deferred payment schemes for mobile devices to receive upfront payment of the transferred face value less transaction fee.

A4. Material Changes in Estimates

There were no changes in estimates of amounts reported in prior financial years that have a material effect in the current quarter and financial year ended 31 December 2019.

A5. Debts and Equity Securities

There were no issuance, repurchase and repayment of debt and equity securities for the current quarter and financial year ended 31 December 2019, other than:

(i) Floating rate term financing-i ("FRTF-i") and floating-rate term loan ("FRTL")

For the financial year ended 31 December 2019, the Group had:

- (a) drawdown of FRTF-i amounting to RM100.0 million in March 2019;
- (b) repayment of FRTF-i amounting to RM75.0 million in September 2019;
- (c) repayment of FRTL amounting to RM62.5 million in September 2019;
- (d) early full settlement of FRTL amounting to RM400.0 million in September 2019 (refer Note B8); and
- (e) repayment of FRTL amounting to RM50.0 million in December 2019.

(ii) Islamic Medium Term Notes ("IMTN")

On 20 September 2019, Digi Telecommunications Sdn Bhd ("DTSB"), a wholly-owned subsidiary of the Group, issued the second series of IMTN consisting of:

IMTN	Nominal value RM' million	Tenure	Profit rate per annum	Maturity date
Tranche 004	450.0	7 years	3.50%	18 September 2026
Tranche 005	450.0	10 years	3.60%	20 September 2029
Total	900.0			

Proceeds from the issuance of IMTN are utilised for capital expenditure, working capital requirements, other general funding requirements and/or general corporate purposes of DTSB and/or its subsidiaries, which are Shariah-compliant.

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NOTES TO THE INTERIM FINANCIAL REPORT - CONT'D

A5. Debts and Equity Securities – cont'd

(iii) Risk transfer facility for receivables on deferred payment schemes for mobile devices

The Group entered an arrangement to transfer certain receivables on deferred payment schemes for mobile devices that passed internal credit assessment (refer as "transferred receivables" from here on) to a financial institution on a non-recourse basis. The Group receives funding from the financial institution at face value of the transferred receivables less a transaction fee to impute the transferred credit risk.

The Group transferred substantially all of the risks and rewards related to the cash flows of transferred receivables to the financial institution, and derecognised carrying amounts of the transferred receivables from statement of financial position. The differences between consideration received and amount derecognised from receivables are recognised in profit and loss as finance cost. The total amount of receivables transferred during the year were RM84.8 million.

A6. Dividend Paid

For the financial year ended 31 December 2019:

- (i) The fourth interim tax exempt (single-tier) dividend of 4.8 sen per ordinary share amounting to RM373.2 million in respect of the financial year ended 31 December 2018 was paid on 29 March 2019;
- (ii) The first interim tax exempt (single-tier) dividend of 4.3 sen per ordinary share amounting to RM334.3 million in respect of the financial year ended 31 December 2019 was paid on 28 June 2019; and
- (iii) The second interim tax exempt (single-tier) dividend of 5.0 sen per ordinary share amounting to RM388.8 million in respect of the financial year ended 31 December 2019 was paid on 27 September 2019.
- (iv) The third interim tax exempt (single-tier) dividend of 4.5 sen per ordinary share amounting to RM349.9 million in respect of the financial year ended 31 December 2019 was paid on 19 December 2019.

A7. Segment Information

Segmental information is not presented as the Group is primarily engaged in the provision of mobile communication services and its related products in Malaysia.

A8. Material Events Subsequent to the End of the Financial Year

There are no material events subsequent to the current quarter and financial year ended 31 December 2019 up to the date of this report.

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NOTES TO THE INTERIM FINANCIAL REPORT - CONT'D

A9. Changes in the Composition of the Group

There were no material changes in the composition of the Group for the current quarter and financial year ended 31 December 2019 including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings and discontinuing operations.

A10. Changes in Contingent Liabilities

There were no material changes in contingent liabilities or contingent assets arising since the last audited financial statements for the financial year ended 31 December 2018.

A11. Capital Commitments

Capital commitments of the Group in respect of property, plant and equipment and intangible assets not provided for as of 31 December 2019 are as follows:

	RM'000
Approved and contracted for	227,000
Approved but not contracted for	530,000

A12. Related Party Transactions

Related party transactions ("RPT") entered into by the Group were carried out in the normal course of business and on agreed commercial terms with the related parties. Listed below are the significant transactions and balances with related parties of the Group during the current financial year:

	Transactions for the year ended 31 DEC 2019 RM'000	Balance due from/(to) at 31 DEC 2019 RM'000
With the ultimate holding company and fellow subsidiaries		
- Telenor ASA		(3,697)
Consultancy services rendered	47,166	
Licenses and trademarks	9,491	
- Telenor Procurement Company Pte Ltd		(8,018)
Managed services rendered	19,383	
- Telenor GO Pte Ltd		(824)
Personnel services rendered	5,289	

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A12. Related Party Transactions – cont'd

	Transactions for the year ended 31 DEC 2019 RM'000	Balance due from/(to) at 31 DEC 2019 RM'000
With the ultimate holding company and fellow subsidiaries – cont'd		
- Telenor Global Services AS		(3,067)
Sales of interconnection services on international traffic	9,982	
Purchases of interconnection services on international traffic	8,254	
Purchases of global connectivity	2,678	
Clearing house services rendered for international roaming arrangement	507	
- Total Access Communication Public Company Limited		(433)
Sales of international roaming services	680	
Purchases of international roaming services	119	
- dtac TriNet Co. Ltd		(2,099)
Sales of interconnection services on international traffic	1,824	
Purchases of interconnection services on international traffic	957	
Sales of international roaming services	245	
Purchases of international roaming services	2,086	
- Telenor Digital Services AS		(543)
Consultancy fees receivable	955	
Services rendered on digital marketing and distribution platform	156	
Purchases of cloud based software infrastructure services	6,112	
Technical services rendered	4,637	
- Telenor Global Shared Services AS		(7,742)
Services rendered on Enterprise Resource Planning (“ERP”) and Enterprise applications	7,504	

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NOTES TO THE INTERIM FINANCIAL REPORT - CONT'D

A12. Related Party Transactions – cont'd

	Transactions for the year ended 31 DEC 2019 RM'000	Balance due from/(to) at 31 DEC 2019 RM'000
With the ultimate holding company and fellow subsidiaries – cont'd		
- Valyou Sdn Bhd		122
Sales of telecommunication and related services	289	
- Telenor Global Services Singapore Pte Ltd		391
Bandwidth leasing income	5,569	
Bandwidth leasing expenses	3,977	
Purchases of IP transit	388	
- Tapad Inc. US		(1,403)
Services rendered on digital marketing and distribution platform	2,066	
- Telenor Norge AS		(2,249)
Sales of international roaming services	70	
Purchases of international roaming services	22	
Business security strategy execution rendered	7,154	
	<u>7,154</u>	

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B1. Review of the Performance of the Company and its Principal Subsidiaries

Analysis of the Group's performance is provided in the "Management Discussion & Analysis" enclosed.

B2. Explanatory Comments on Any Material Change in the Profit Before Tax for the Quarter Reported on as Compared with the Immediate Preceding Quarter

Analysis of material changes in the Group's Profit Before Tax for current quarter ("4Q 2019") compared with immediate preceding quarter ("3Q 2019") is provided in the "Management Discussion & Analysis" enclosed.

B3. Prospects For The Next Financial Year Ending 31 December 2020

Analysis of the Group's prospects up to 31 December 2020 is provided in the "Management Discussion & Analysis" enclosed.

B4. Explanatory Notes for Variance of Actual Profit from Forecast Profit/Profit Guarantee

Not applicable.

B5. Revenue

Disaggregation of revenue from contracts with customers

In the following table, revenue is disaggregated by major products or service lines (which also represented our defined performance obligations).

	Note	Year ended 31 DEC 2019 RM'000	Year ended 31 DEC 2018 RM'000
Major products/service lines			
Telecommunication revenue	(a)	5,644,111	5,827,450
Sales of devices	(b)	566,734	624,835
Lease income	(c)	86,513	74,826
		6,297,358	6,527,111

Timing of revenue recognition for respective major products/service lines represented by:

- (a) Services transferred over time
- (b) Products transferred at a point in time
- (c) Income not within the scope of MFRS 15

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-CONT'D**

B6. Taxation

The Group's taxation charge for the current quarter and financial year ended 31 December 2019 respectively were made up as follows:

	Individual quarter	Cumulative quarter
	Quarter ended 31 DEC 2019 RM'000	Year ended 31 DEC 2019 RM'000
Income tax:		
- Current tax expense	(116,101)	(522,096)
- Over-provision in prior years	-	4,289
Deferred tax		
- Net originating and reversal of timing differences	(1,980)	46,891
- Over-provision of deferred tax liabilities in prior years	-	11,544
Total	(118,081)	(459,372)

The Group's effective tax rates for the current quarter and financial year ended 31 December 2019 of 25.6% and 24.3% respectively are higher than the statutory tax rate of 24.0%, mainly due to certain expenses not deductible for tax purposes.

B7. Status of Corporate Proposals

There are no corporate proposal announced but not completed in the interval from the date of the last report and the date of this announcement, other than:

Operating model transition costs

During the quarter, the Group announced to collaborate with a managed service provider in establishing a Common Delivery Centre ("CDC") that takes over the Group's Information Technology ("IT") operation.

The following changes are expected after CDC in place with transition process targeted to be completed in 2Q 2020:

- relocation of Group's in-house IT operation & development team
- IT operations and related support services are externally managed

The Group made a provision for expected operating model transition costs of RM8.6 million for redeployment of in-house IT operation & development team during and after the transition period.

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–CONT'D**

B8. Group Borrowings

	Note	As at 31 DEC 2019 RM'000	As at 31 DEC 2018 RM'000
Non-current			
Floating-rate term loans ("FRTL")	(a)	555,162	1,180,674
Floating-rate term financing-i ("FRTF-i")	(a)	373,486	430,945
Islamic Medium Term Notes ("IMTN")	(b)	1,798,219	898,983
Lease liabilities	(d)	1,734,176	2,081
		<u>4,461,043</u>	<u>2,512,683</u>
Current			
Floating-rate term loans ("FRTL")	(c)	225,000	112,500
Floating-rate term financing-i ("FRTF-i")	(c)	150,000	62,500
Lease liabilities	(d)	313,756	6,371
		<u>688,756</u>	<u>181,371</u>
Total loans and borrowings		<u>5,149,799</u>	<u>2,694,054</u>

The above unsecured loans and borrowings and debt securities are denominated in Ringgit Malaysia.

Any difference between proceeds (net of transaction costs) and the settlement or redemption of borrowings and debt securities is recognised in profit and loss over the period of the borrowings and debt securities using the effective interest rate method.

The Group's borrowings and debt securities portfolio of fixed and floating interest/profit rate are as follows:

	As at 31 DEC 2019 RM'000	As at 31 DEC 2018 RM'000
Borrowings and debt securities:		
Floating rate	1,303,648	1,786,619
Fixed rate	3,846,151	907,435
	<u>5,149,799</u>	<u>2,694,054</u>

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–CONT'D**

B8. Group Borrowings – cont'd

- (a) Repayments of FRTL and FRTF-i will commence 42 months from first drawdown. Repayments for non-current portion of FRTL and FRTF-i are as disclosed below:

No.	Outstanding amount as at 31 DEC 2019 RM'000	Month of next repayment
Non-current		
FRTL: i	-	Note (i)
ii	312,500	March 2021
iii	250,000	June 2021
Non-current		
FRTF-i: iv	375,000	March 2021

Note (i): The Group had made an early full settlement of a FRTL amounting to RM400.0 million in September 2019.

- (b) The details of the Group's outstanding IMTN as at 31 December 2019 are set out as follow:

IMTN	Nominal value RM' million	Tenure	Profit rate per annum	Maturity date
Tranche 001	300.0	5 years	4.38%	14 April 2022
Tranche 002	300.0	7 years	4.53%	12 April 2024
Tranche 003	300.0	10 years	4.65%	14 April 2027
Tranche 004	450.0	7 years	3.50%	18 September 2026
Tranche 005	450.0	10 years	3.60%	20 September 2029
Total	1,800.0			

The details of issuance of second series of IMTN in third quarter 2019 is disclosed in Note A5.

The proceeds from IMTN have been partially hedged against interest rate risk using interest rate swaps as disclosed in Note B9.

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-CONT'D**

B8. Group Borrowings – cont'd

- (c) The amount of FRTL and FRTF-i classified as current liabilities are due within the next 12 months.

The current portion of FRTL consists of:

- (i) tranches of RM62.5 million each which are repayable in March 2020 and September 2020 respectively; and
- (ii) tranches of RM50.0 million each which are repayable in June 2020 and December 2020 respectively.

The current portion of FRTF-i consists of tranches of RM75.0 million each which are repayable in March 2020 and September 2020 respectively.

- (d) Included in lease liabilities are those leases previously classified as operating leases under MFRS 117 that are recognised on-balance sheet under MFRS 16 which was effective on 1 January 2019. Details on impact of the adoption of MFRS 16 and the changes in accounting policies are disclosed in Note A1.

B9. Financial Instruments

As at 31 December 2019, the Group's outstanding net derivative financial instruments are detailed below:

Type of derivative	Notional value (RM'000)	Fair value - (liability)/asset (RM'000)
Foreign currency forward contracts: - Less than one year	31,578	(419)
Interest rate swaps contracts		
- One year to three years	300,000	3,800
- More than three years	775,000	14,805

Accounting Policy

The Group uses derivatives comprising of foreign currency forward contracts and interest rate swaps to manage risk exposures related to changes in foreign currency and interest rates.

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CONT'D**

B9. Financial Instruments – cont'd

Accounting Policy – cont'd

(a) Foreign currency risk

The Group enters into foreign currency forward contracts to minimise its exposure to foreign currency risks as a result of transactions denominated in currencies other than its functional currency, arising from the normal business activities; in accordance with the Group's hedging policy. In line with the Group's hedging policy, hedging is only considered for firm commitments and highly probable transactions of which hedging shall not exceed 100% of the net exposure value. Firm commitments are netted-off against receivables denominated in the same currency, and only the net exposures are hedged so as to maximise the Group's natural hedge position.

(b) Interest rate risk

The Group manages its interest rate risk by having a balanced portfolio of fixed and floating rate financial liabilities that is consistent with the interest rates profiles acceptable to the Group. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, a fixed interest rate for floating rates.

The Group uses interest rate swaps to hedge the fair value risk in relation to the fixed interest rates of IMTN with notional principal amounts of RM1,075.0 million. The interest rate swaps entitles the Group to receive interest at a fixed rate ranging from 3.50% to 4.65% per annum, and in return, pays interest quarterly at floating rate plus a spread. The swaps mature at varying dates based on the maturity of different tranches of IMTN.

Speculative activities are strictly prohibited. The Group adopts a layered approach to hedging, where a higher percentage of hedging will be executed for closer-dated exposures and with time, increase the hedge as the probability of the underlying exposure increases. The derivatives and their underlying exposures will be monitored on an on-going basis.

There were no changes in the cash requirement of the derivatives since the end of the previous financial year ended 31 December 2018.

Derivatives are stated at fair value which is equivalent to the marking of these derivatives to market, using prevailing market rates. Derivatives with positive market values (unrealised gains) are included under assets, whereas derivatives with negative market values (unrealised losses) are included under liabilities in the statement of financial position. Any gains or losses arising from derivatives held for trading purposes, or changes in fair value on derivatives during the financial period that do not qualify for hedge accounting are recognised in profit and loss.

Credit Risk Management Policy

Foreign currency forward contracts and interest rate swap transactions are executed only with credit-worthy financial institutions in Malaysia that are governed by appropriate policies and procedures.

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CONT'D**

B10. Material Litigation

There are no pending material litigations as at the date of this report.

B11. Dividends

The Board of Directors has declared a fourth interim tax exempt (single-tier) dividend of 4.4 sen per ordinary share (4Q 2018: 4.8 sen per ordinary share) in respect of the financial year ended 31 December 2019, which will be paid on 27 March 2020. The entitlement date is on 28 February 2020.

A Depositor shall qualify for the entitlement only in respect of:

- (i) shares transferred to the Depositor's Securities Account before 4.30 p.m. on 28 February 2020 in respect of transfers; and
- (ii) shares bought on Bursa Malaysia Securities Berhad ("Bursa Securities") on a cum entitlement basis according to the Rules of Bursa Securities.

Year-to-date ("YTD") dividend for the financial year ended 31 December 2019 is 18.2 sen per ordinary share (YTD 2018: 19.6 sen).

B12. Earnings Per Share

Basic Earnings Per Share

The basic earnings per share for the current quarter and financial year ended 31 December 2019 have been calculated as per the summary below:

	Individual Quarter		Cumulative Quarter	
	Quarter ended 31 DEC 2019 RM'000	Quarter ended 31 DEC 2018 RM'000	Year ended 31 DEC 2019 RM'000	Year ended 31 DEC 2018 RM'000
Earnings				
Profit for the period/year, Amount attributable to owners of the parent	342,924	377,798	1,432,949	1,540,788
Weighted average number of ordinary shares ('000)	7,775,000	7,775,000	7,775,000	7,775,000
Basic earnings per share (sen)	4.41	4.86	18.43	19.82

Diluted Earnings Per Share - Not applicable

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CONT'D**

B13. Auditors' Report on Preceding Annual Financial Statements

The latest audited financial statements for the financial year ended 31 December 2018 were not subject to any qualification.

B14. Additional Disclosures

	Individual Quarter		Cumulative Quarter	
	Quarter ended 31 DEC 2019 RM'000	Quarter ended 31 DEC 2018 RM'000	Year ended 31 DEC 2019 RM'000	Year ended 31 DEC 2018 RM'000
Impairment losses on trade receivables and contract assets	(28,839)	(12,014)	(77,660)	(48,020)
Impairment of intangible assets	(54)	-	(54)	-
Written down of other investment	-	-	-	(100)
(Allowance for)/reversal of inventory obsolescence	(3,263)	188	(3,104)	(804)
Gain/(loss) on disposal of property, plant and equipment	734	69	(640)	357
Gain on disposal of right-of-use assets	5	-	54	-
Foreign exchange gain/(loss)	4,840	(2,002)	2,566	(1,660)
Fair value (loss)/gain on foreign currency forward contracts	(650)	(350)	(118)	1,146
Fair value (loss)/gain on interest rate swaps	(232)	1,915	14,678	622

Other than the items highlighted above which have been included in the condensed consolidated statement of comprehensive income, there were no profits/(losses) on any other items and sale of quoted securities, investments and properties included in the results for the current quarter and financial year ended 31 December 2019.