

Directors' Report

The Directors hereby submit their Report to the members together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding, whilst the principal activities of the Group, comprising the Company and its subsidiaries, are to offer a full suite of converged telecommunications, digital and related services and solutions, and corporate support and services functions for the Group. Details of the principal activities of the subsidiaries are shown in Note 18 to the financial statements.

There have been no significant changes in the nature of the principal activities of the Group and of the Company during the financial year.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit for the financial year attributable to:		
- equity holders of the Company	2,013,161	1,830,332
- non-controlling interest	(535)	-
	2,012,626	1,830,332

DIVIDENDS

The dividends on ordinary shares paid by the Company since the end of the previous financial year were as follows:

	RM'000
In respect of the financial year ended 31 December 2015:	
- Fourth interim single-tier tax-exempt dividend of 5.0 sen per ordinary share on 7,510,147,400 ordinary shares of RM0.10 each, paid on 25 March 2016	375,507
In respect of the financial year ended 31 December 2016:	
- First interim single-tier tax-exempt dividend of 5.0 sen per ordinary share on 7,510,262,300 ordinary shares of RM0.10 each, paid on 29 June 2016	375,513
- Second single-tier tax-exempt dividend of 5.0 sen per ordinary share on 7,510,279,900 ordinary shares of RM0.10 each, paid on 29 September 2016	375,514
- Third single-tier tax-exempt dividend of 5.0 sen per ordinary share on 7,510,291,000 ordinary shares of RM0.10 each, paid on 29 December 2016	375,515
	1,126,542

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DIVIDENDS (CONTINUED)

Subsequent to the financial year, on 8 February 2017, the Directors declared a fourth interim single-tier tax-exempt dividend of 5.0 sen per ordinary share in respect of the financial year ended 31 December 2016 which will be paid on 28 March 2017. The financial statements for the financial year ended 31 December 2016 do not reflect these dividends. Upon declaration, the cash dividend payment will be accounted for in equity as an appropriation of retained earnings during the financial year ending 31 December 2017.

The Directors do not recommend the payment of any final dividend in respect of the financial year ended 31 December 2016.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year have been disclosed in the financial statements.

SHARE CAPITAL

During the financial year, the issued and paid-up share capital of the Company was increased from 7,509,975,800 ordinary shares of RM0.10 each to 7,510,313,500 ordinary shares of RM0.10 each by the issuance of 337,700 new ordinary shares for cash pursuant to the exercise of share options under the Employee Share Option Scheme. The details of the new ordinary shares issued during the financial year are as follows:

Exercise price per share	Number of issued and paid-up ordinary shares of RM0.10 each '000
RM5.45	260
RM6.41	78
	338

These new ordinary shares issued during the financial year ranked pari passu in all respects with the existing ordinary shares of the Company.

EMPLOYEE SHARE OPTION SCHEME ("ESOS") AND LONG-TERM INCENTIVE PLAN ("LTIP")

(a) ESOS

Pursuant to the ESOS implemented on 17 September 2009, the Company will make available new shares, not exceeding in aggregate 250,000,000 shares during the existence of the ESOS/LTIP, to be issued under the share options granted. The ESOS is for the benefit of eligible employees and eligible directors (executive and non-executive) of the Group. The ESOS is for a period of 10 years and is governed by the ESOS Bye-Laws as set out in the Company's Prospectus dated 28 October 2009 issued in relation to its initial public offering.

An ESOS/LTIP Committee comprising Directors of the Company has been set up to administer the ESOS/LTIP. The ESOS/LTIP Committee may from time to time, offer share options to eligible employees and eligible directors of the Group to subscribe for new ordinary shares of RM0.10 each in the Company.

Details of the ESOS are disclosed in Note 31(b) to the financial statements.

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EMPLOYEE SHARE OPTION SCHEME ("ESOS") AND LONG-TERM INCENTIVE PLAN ("LTIP") (CONTINUED)

(a) ESOS (continued)

The movements of the total share options issued under the ESOS are as follows and there were no new share options granted during the financial year:

	Quantity '000
Total outstanding as at 1 January 2016	96,797
Total exercised	(338)
Total forfeited/lapsed	(6,903)
Total outstanding as at 31 December 2016	89,556

(b) LTIP

The Company's LTIP is governed by the By-Laws which was approved by the shareholders on 28 April 2015 and is administered by the ESOS/LTIP Committee which is appointed by the Board of Directors of the Company, in accordance with the By-Laws. The ESOS/LTIP Committee may from time to time, offer LTIP to eligible employees (including an executive director) of the Group and includes any person who is proposed to be employed as an employee of the Group (including an executive director).

The maximum number of new shares which may be made available under the LTIP and/or allotted and issued upon vesting of the new shares under the LTIP shall not, when aggregated with the total number of new shares allotted and issued and/or to be allotted and issued under the existing ESOS, exceed 250,000,000 shares at any point of time during the duration of the LTIP.

The LTIP comprises a Performance Share Grant ("PS Grant") and a Restricted Share Grant ("RS Grant") which shall be in force for a period of 10 years commencing from the effective date of the implementation of the LTIP. The LTIP took effect on 31 July 2015.

Details of the LTIP are disclosed in Note 31(c) to the financial statements.

During the financial year, 6,075,200 PS Grant under the LTIP were granted to the eligible employees of the Group. Subject to the terms and conditions of the By-Laws governing the LTIP, the employees shall be entitled to receive new ordinary share of RM0.10 each in the Company, to be allotted and issued pursuant to the LTIP ("new shares"), upon vesting of the new shares after meeting the vesting conditions as set out in the letter of offer for the shares under the LTIP. The vesting conditions comprise, amongst others, the performance targets and/or conditions for the period commencing from 1 January 2016 and ending on 31 December 2018, as stipulated by the ESOS/LTIP Committee. The vesting date is on 30 June 2019, subject to meeting such performance targets.

The movement of the PS Grant under the LTIP is as follows:

	Quantity '000
Total outstanding as at 1 January 2016	8,285
Total granted	6,075
Total forfeited	(1,081)
Total outstanding as at 31 December 2016	13,279

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EMPLOYEE SHARE OPTION SCHEME ("ESOS") AND LONG-TERM INCENTIVE PLAN ("LTIP") (CONTINUED)

An analysis of the percentage of share options and share grants to key management personnel including directors is as follows:

	Aggregate maximum allocation		Actual allocation ⁽¹⁾	
	Since implementation date	Financial year 31.12.2016	Since implementation date	Financial year 31.12.2016
Key management personnel	50%	50%	11%	34%

Note:

⁽¹⁾ The Directors and Chief Executive Officer of the Company have not, since the implementation of the ESOS and LTIP, been granted any share options and shares.

DIRECTORS

The Directors who have held office during the period since the date of the last report are as follows:

Non-Executive Directors

Raja Tan Sri Dato' Seri Arshad bin Raja Tun Uda
 Tan Sri Mokhzani bin Mahathir
 Alvin Michael Hew Thai Kheam
 Dato' Hamidah Naziadin
 Lim Ghee Keong
 Mohammed Abdullah K. Alharbi
 Robert Alan Nason (appointed on 7 March 2016)
 Robert William Boyle (retired on 20 April 2016)
 Fraser Mark Curley (resigned on 1 August 2016)
 Mazen Ahmed M. AlJubeir (appointed on 8 September 2016)
 Naser Abdulaziz A. AlRashed (appointed on 8 September 2016)
 Dr. Kaizad B. Heerjee (appointed on 15 November 2016)

Executive Director

Morten Lundal

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DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than those arising from an incentive arrangement, the details of which are disclosed in Note 2 and 4 on Directors' Interests below.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than remuneration received or due and receivable by the Directors as shown in Note 8 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he/she is a member, or with a company in which he/she has a substantial financial interest.

DIRECTORS' INTERESTS

According to the Register of Directors' shareholdings, particulars of interests of the Directors who held office at the end of the financial year in shares in the Company are as follows:

	Number of ordinary shares of RM0.10 each in the Company			
	At 1.1.2016	Vested/ Acquired	Sold	At 31.12.2016
<u>Direct Interest</u>				
Raja Tan Sri Dato' Seri Arshad bin Raja Tun Uda	750,000 ⁽¹⁾	-	-	750,000 ⁽¹⁾
Tan Sri Mokhzani bin Mahathir	750,000	-	-	750,000
Morten Lundal	-	361,155 ⁽²⁾	-	361,155
<u>Indirect Interest</u>				
Tan Sri Mokhzani bin Mahathir	1,000 ⁽³⁾	-	-	1,000 ⁽³⁾
Morten Lundal	1,002,390 ⁽⁴⁾	591,788 ⁽⁴⁾	-	1,594,178 ⁽⁴⁾

Notes:

- ⁽¹⁾ Held through a nominee, namely CIMSEC Nominees (Tempatan) Sdn. Bhd.
- ⁽²⁾ Shares vested under an incentive arrangement which forms part of the employment contract which the Director has entered into with the Company.
- ⁽³⁾ Deemed interest in 1,000 shares in the Company held by spouse pursuant to Section 134(12)(c) of the Companies Act, 1965.
- ⁽⁴⁾ These shares are currently held by CIMB Commerce Trustee Berhad or its nominee pursuant to the terms and conditions of the incentive arrangement which forms part of the employment contract which the Director has entered into with the Company, the cash incentives payable to the Director were used to acquire shares of the Company from the open market. Subject to fulfilment of the vesting conditions and the terms of the incentive arrangement, these shares will vest on the Director on a deferred basis. In addition to his interest in these shares, the Director is also deemed interested in such additional number of shares in the Company which shall only be determinable in the future, to be acquired using future cash incentives payable to the Director, pursuant to the terms and conditions of such incentive arrangement.

Other than those disclosed above, according to the Register of Directors' shareholdings, none of the Directors in office at the end of the financial year held any interest in shares and options over shares in the Company and its related corporations during the financial year.

IMMEDIATE HOLDING, INTERMEDIATE HOLDING, PENULTIMATE HOLDING AND ULTIMATE HOLDING COMPANIES

The Directors regard BGSM Equity Holdings Sdn. Bhd. as the immediate holding company, BGSM Management Sdn. Bhd. as the intermediate holding company, Maxis Communications Berhad as the penultimate holding company and Binariang GSM Sdn. Bhd. as the ultimate holding company. All these companies are incorporated and domiciled in Malaysia.

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STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the statements of profit or loss, statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the Directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for impairment and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for impairment; and
- (b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Group and of the Company, had been written down to an amount which they might be expected so to realise.

At the date of this Report, the Directors are not aware of any circumstances:

- (a) which would render the amounts written off for bad debts or the amount of the allowance for impairment in the financial statements of the Group and of the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company, misleading or inappropriate.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of 12 months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or of the Company to meet their obligations when they fall due.

At the date of this Report, there does not exist:

- (a) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

At the date of this Report, the Directors are not aware of any circumstances not otherwise dealt with in this Report or the financial statements which would render any amount stated in the financial statements misleading.

In the opinion of the Directors:

- (a) the results of the Group's and of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, other than as disclosed in Note 15, 18, 28, 38 and 39 to the financial statements; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this Report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this Report is made.

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SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 39 to the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 8 February 2017.



RAJA TAN SRI DATO' SERI ARSHAD BIN RAJA TUN UDA
DIRECTOR



MORTEN LUNDAL
DIRECTOR

Kuala Lumpur