MAXIS BERHAD
(867573 – A)
(INCORPORATED IN MALAYSIA)

Maxis Berhad ("Maxis" or the "Group")
- Disclosure Requirements Pursuant to Implementation of MFRS 139 "Financial Instruments: Recognition and Measurement"

Introduction

Pursuant to a directive issued by Bursa Malaysia Securities Berhad on 25 March 2010 on the above caption, the Board of Directors ("Board") of Maxis Berhad ("Maxis" or the "Group") wishes to announce that, in conjunction with the release of the Group's financial results for the 4th quarter ended 31 December 2016, in compliance with MFRS 139, which requires the recognition of gains/losses on its cross currency interest rate swaps ("CCIRS"), interest rate swaps ("IRS") and forward foreign exchange contracts ("forward contracts") that it had entered into for purpose of hedging its United States Dollar ("USD") and Singapore Dollar ("SGD") denominated borrowings, payables and forecasted transactions back into Ringgit Malaysia ("RM") and hedging its borrowings' interest rates fluctuation, a net gain of RM621 million has been recorded, representing an increase in fair value gains by RM177 million from 3rd quarter ended 30 September 2016, on remeasuring the fair values of the derivative financial instruments of which RM12 million fair value gains were recognised in the statement of profit and loss.

Reason for the gains/losses and basis in arriving at the fair value changes

The Group determines the fair values of the derivative financial instruments relating to the CCIRS, IRS and forward contracts using a valuation technique which utilises data from recognised financial information sources. Assumptions are based on market conditions existing at each reporting date. The fair values of CCIRS and IRS are calculated as the present value of estimated future cash flow using an appropriate market-based yield curve. The fair values of forward contracts are determined using the forward exchange rates as at each reporting date.

As at 31 December 2016, the Group had recognised derivative financial assets of RM614 million on remeasuring the fair values of the derivative financial instruments.

(a) Derivative designated in hedging relationship

The increase in fair values gains from 3rd quarter ended 30 September 2016 was RM165 million with the corresponding movement included in equity in the cash flow hedging reserve.

For the current quarter, RM146 million was reclassified to the statement of profit or loss to offset the foreign exchange losses of RM145 million which arose from the weakening RM against USD and SGD, and interest expense of RM1 million as the underlying interest rates were higher than the hedged rates on the borrowings. This has resulted in an increase in the credit balance of the cash flow hedging reserve as at 31 December 2016 by RM19 million to RM34 million compared with the previous financial period ended 30 September 2016.

For derivatives designated as cash flow hedge on borrowings, the gains or losses recognised in the cash flow hedging reserve in equity will be continuously released to the statement of profit or loss within finance costs until the underlying borrowings are repaid. As the Group intends to hold the borrowings and associated derivative financial instruments to maturity, any changes to the fair values of the derivative financial instruments will not impact the statement of profit or loss and will be taken to the cash flow hedging reserve in equity.

For derivatives designated as cash flow hedge on forecast transactions, the gains or losses on changes to the fair value of derivative financial instruments are recognised in the cash flow hedging reserve in equity until such time that the hedged items affect profit or loss, then the gains or losses are transferred to statement of profit or loss.

(b) Derivative not designated in hedging relationship

The increase in fair value gains from 3rd quarter ended 30 September 2016 was RM12 million which is due to changes in foreign currency exchange spot and forward rates has been charged to the statement of profit or loss within other expenses.

As the derivative financial instruments are used to hedge the fair value movement attributable to the foreign exchange rate fluctuation associated to certain payable balances denominated in USD as at reporting date, any changes to the fair values of the derivative financial instruments will impact the statement of profit or loss within other expenses until the maturity of the derivative financial instruments.

For further details, kindly refer to Maxis' 4th quarter ended 31 December 2016 Interim Financial Report.