MAXIS BERHAD
(867573 – A)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2017

ANNOUNCEMENT

The Board of Directors of Maxis Berhad ("Maxis" or "the Company") is pleased to announce the following unaudited condensed consolidated financial statements for the second quarter ended 30 June 2017 which should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes attached to the unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

		INDIVIDUAL QUARTER			CUMULATIVE QUARTER		
		QUARTER ENDED 30/6/2017	QUARTER ENDED 30/6/2016	+ -	**PERIOD ENDED 30/6/2017**	PERIOD ENDED 30/6/2016	+ -
	Note	**RM'm**	RM'm (Restated)	%	**RM'm**	RM'm (Restated)	%
Revenue		**2,172**	2,102	+3	**4,329**	4,242	+2
Traffic, commissions and other direct costs		**(474)**	(538)		**(1,000)**	(1,065)	
Spectrum licence fees		**(42)**	(36)		**(83)**	(70)	
Network costs		**(195)**	(209)		**(398)**	(391)	
Staff and resource costs		**(137)**	(135)		**(280)**	(259)	
Operation and maintenance costs		**(67)**	(69)		**(171)**	(95)	
Marketing costs		**(43)**	(63)		**(82)**	(99)	
Allowance for doubtful debts, net		**(18)**	(24)		**(34)**	(44)	
Government grant and other income		**46**	32		**119**	85	
Other operating expenses		**(19)**	34		**(68)**	(15)	
Depreciation and amortisation		**(336)**	(344)		**(673)**	(699)	
Finance income		**15**	14		**29**	28	
Finance costs		**(122)**	(116)		**(231)**	(236)	
Profit before tax	19	**780**	648	+20	**1,457**	1,382	+5
Tax expenses	20	**(206)**	(165)		**(378)**	(379)	
Profit for the period		**574**	483	+19	**1,079**	1,003	+8
Attributable to:							
- equity holders of the Company		**574**	488	+18	**1,079**	1,006	+7
- non-controlling interest		**-**	(5)		**-**	(3)	
		574	483	+19	**1,079**	1,003	+8
Earnings per share attributable to equity holders of the Company (sen):							
- basic	27	**7.6**	6.5		**14.4**	13.4	
- diluted	27	**7.6**	6.5		**14.4**	13.4	

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED 30/6/2017	QUARTER ENDED 30/6/2016	**PERIOD ENDED 30/6/2017**	PERIOD ENDED 30/6/2016
	RM'm	RM'm	**RM'm**	RM'm
Profit for the period	**574**	483	**1,079**	1,003
Other comprehensive expense				
Item that will be reclassified subsequently to profit or loss:				
Net change in cash flow hedge	**(14)**	(20)	**(29)**	(55)
Total comprehensive income for the period	**560**	463	**1,050**	948
Attributable to:				
- equity holders of the Company	**560**	468	**1,050**	951
- non-controlling interest	**-**	(5)	**-**	(3)
	560	463	**1,050**	948

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QUARTERLY REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2017

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	AS AT 30/6/2017 (Unaudited) RM'm	AS AT 31/12/2016 (Audited) RM'm
Non-current assets			
Property, plant and equipment	8	**4,551**	4,502
Intangible assets (1)		**11,325**	11,297
Receivables, deposits and prepayments		**844**	871
Derivative financial instruments	23	**282**	470
Deferred tax assets		**15**	45
		17,017	17,185
Current assets			
Inventories		**32**	6
Receivables, deposits and prepayments		**3,155**	1,582
Amount due from penultimate holding company		**2**	1
Amounts due from related parties		**33**	22
Derivative financial instruments	23	**-**	144
Tax recoverable		**20**	21
Deposits, cash and bank balances		**475**	682
		3,717	2,458
Total assets		**20,734**	19,643
Current liabilities			
Provisions for liabilities and charges		**60**	97
Payables and accruals		**3,016**	3,633
Amounts due to related parties		**23**	14
Borrowings	22	**509**	1,101
Derivative financial instruments	23	**1**	-
Taxation		**388**	152
		3,997	4,997
Net current liabilities		**(280)**	(2,539)

Note:

(1) Includes telecommunications licenses with allocated spectrum rights and goodwill of RM10,707 million and RM219 million respectively, arising from acquisition of subsidiaries.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

	Note	AS AT 30/6/2017 (Unaudited) RM'm	AS AT 31/12/2016 (Audited) RM'm
Non-current liabilities			
Provisions for liabilities and charges		**174**	164
Payables and accruals		**328**	418
Borrowings	22	**9,049**	8,763
Derivative financial instruments	23	**18**	-
Deferred tax liabilities		**479**	580
		10,048	9,925
Net assets		**6,689**	4,721
Equity			
Share capital		**2,469**	751
Reserves		**4,220**	3,970
Total equity		**6,689**	4,721
Net assets per share (RM)		**0.86**	0.63

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QUARTERLY REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2017

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Period ended 30/6/2017	Share capital	Share premium	Merger relief [2]	Reserve arising from reverse acquisition	Other reserves	Retained earnings (Note 24)	Total equity
	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm
Balance as at 1/1/2017	751	62	22,729	(22,729)	145	3,763	4,721
Transition to no par value regime [3]	62	(62)	-	-	-	-	-
Profit for the period	-	-	-	-	-	1,079	1,079
Other comprehensive expense for the period	-	-	-	-	(29)	-	(29)
Total comprehensive (expense)/income for the period	-	-	-	-	(29)	1,079	1,050
Issuance of new shares, net of expenses	1,655	-	-	-	-	-	1,655
Dividends for the financial year ended 31 December 2016	-	-	-	-	-	(376)	(376)
Dividends for the financial year ending 31 December 2017	-	-	-	-	-	(375)	(375)
Employee Share Option Scheme ("ESOS") and Long-term Incentive Plan ("LTIP"):							
- share-based payment expense	-	-	-	-	6	-	6
- shares issued	1	-	-	-	-	-	1
Incentive arrangement:							
- share-based payment expense	-	-	-	-	7	-	7
Balance as at 30/6/2017	2,469	-	22,729	(22,729)	129	4,091	6,689

Notes:

(2) Pursuant to Section 60(4)(a) of the Companies Act, 1965, the premium on the shares issued by the Company as consideration for the acquisition of subsidiaries during the financial year ended 31 December 2009 is not recorded as share premium. The difference between the issue price and the nominal value of shares issued is classified as merger relief.

(3) Pursuant to Section 618(2) of the Companies Act 2016 ("New Act") which came into effect on 31 January 2017, the credit standing in the share premium account of RM62m has been transferred to and became part of the share capital account. Pursuant to Section 618(3) of the New Act, the Group may exercise its rights to use the credit amounts from share premium account within 24 months after the commencement of the New Act. The Board of Directors will make a decision thereon by 31 January 2019.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	← Attributable to equity holders of the Company →								
Period ended 30/6/2016	**Share capital**	**Share premium**	**Merger relief**	**Reserve arising from reverse acquisition**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm
Balance as at 1/1/2016	751	60	23,004	(22,729)	141	2,963	4,190	30	4,220
Profit for the period	-	-	-	-	-	1,006	1,006	(3)	1,003
Other comprehensive expense for the period	-	-	-	-	(55)	-	(55)	-	(55)
Total comprehensive (expense)/income for the period	-	-	-	-	(55)	1,006	951	(3)	948
Dividends for the financial year ended 31 December 2015	-	-	(275)	-	-	(101)	(376)	-	(376)
Dividends for the financial year ended 31 December 2016	-	-	-	-	-	(375)	(375)	-	(375)
ESOS and LTIP:									
- share-based payment expense	-	-	-	-	17	-	17	-	17
- shares issued	*	2	-	-	-	-	2	-	2
Incentive arrangement:									
- share-based payment expense	-	-	-	-	4	-	4	-	4
- shares acquired	-	-	-	-	(2)	-	(2)	-	(2)
Balance as at 30/6/2016	751	62	22,729	(22,729)	105	3,493	4,411	27	4,438

Notes:
*	Less than RM1 million.

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QUARTERLY REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2017

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	PERIOD ENDED 30/6/2017	PERIOD ENDED 30/6/2016
	RM'm	RM'm
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	1,079	1,003
Adjustments for:		
- non-cash items	737	673
- finance costs	231	236
- finance income	(29)	(28)
- tax expenses	378	379
Payments for provision for liabilities and charges	(97)	(86)
Operating cash flows before working capital changes	2,299	2,177
Changes in working capital	(538)	(106)
Cash flows from operations	1,761	2,071
Interest received	15	21
Tax paid	(212)	(258)
Net cash flows from operating activities	1,564	1,834
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of intangible assets	(223)	(147)
Purchase of property, plant and equipment	(594)	(600)
Proceeds from disposal of property, plant and equipment	1	2
Net cash flows used in investing activities	(816)	(745)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares pursuant to ESOS	1	2
Shares acquired pursuant to incentive arrangement	-	(2)
Drawdown of borrowings	744	3,500
Repayment of borrowings	(766)	(3,921)
Repayment of lease financing	(3)	(4)
Payments of finance costs	(181)	(236)
Ordinary share dividends paid	(751)	(751)
Net cash flows used in financing activities	(956)	(1,412)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(208)	(323)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL PERIOD	662	1,296
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD[4]	454	973

Note:

[4] The difference between the cash and cash equivalents and deposits, cash and bank balances represent deposits with financial institutions that carry maturity periods of more than three months.

PART A - EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD 134

1. BASIS OF PREPARATION

The quarterly report has been prepared in accordance with the reporting requirements as set out in Malaysian Financial Reporting Standard ("MFRS") 134 "Interim Financial Reporting" and Paragraph 9.22 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements ("Bursa Securities Listing Requirements") and should be read in conjunction with the Group's audited financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes attached to the unaudited condensed consolidated financial statements.

The significant accounting policies and methods adopted for the unaudited condensed consolidated financial statements are consistent with those adopted for the audited financial statements for the financial year ended 31 December 2016 except for changes made to:

(i) comply to the requirements of the Companies Act, 2016 in Malaysia; and
(ii) the presentation of the statements of profit or loss as management is of the view this will be more useful to the financial statements users. As a result, certain reclassifications were made to the comparatives of the statements of profit and loss to conform to the current financial period's presentation.

The adoption of the following amendments to MFRS and improvements to published standards that came into effect on 1 January 2017 did not have any significant impact on the unaudited condensed consolidated financial statements upon their initial application.

• Amendments to MFRS 107	Disclosure Initiative
• Amendments to MFRS 112	Recognition of Deferred Tax Assets for Unrealised Losses
• Annual Improvements to MFRSs	2014-2016 Cycle

MFRSs, amendments to MFRSs and IC Interpretation that are applicable to the Group but not yet effective

The Malaysian Accounting Standards Board had issued the following new standards, amendments to MFRSs and IC Interpretation. All of which are effective for the financial period beginning on or after 1 January 2018 unless otherwise mentioned. The Group did not early adopt these new standards, amendments to MFRSs and IC Interpretation.

• MFRS 9	Financial Instruments
• MFRS 15 and amendments to MFRS 15	Revenue from Contracts with Customers
• MFRS 16	Leases (effective from 1 January 2019)
• Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions
• IC Interpretation 22	Foreign Currency Transactions and Advance Consideration

2. SEASONAL / CYCLICAL FACTORS

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

3. UNUSUAL ITEMS

Save for those disclosed in Note 5 and 15, there were no other significant unusual items affecting the assets, liabilities, equity, net income or cash flows for the six months ended 30 June 2017.

4. MATERIAL CHANGES IN ESTIMATES

There were no material changes in estimates of amounts reported in the prior financial year that have a material effect in the six months ended 30 June 2017.

5. DEBT AND EQUITY SECURITIES

Save for below items, there were no other issuance, repurchase and repayment of debt and equity securities during the six months ended 30 June 2017:

(a) early repayment of the Company's existing United States Dollar ("USD") and Singapore Dollar ("SGD") borrowings and their underlying Cross Currency Interest Rate Swaps ("CCIRS") totalling to RM766 million;

(b) Maxis Broadband Sdn. Bhd. ("MBSB"), a wholly-owned subsidiary of the Company, entered into loan facility agreements with financial institutions for USD50 million (equivalent to RM222 million) and SGD70 million (equivalent to RM222 million) term loans. It had also entered into corresponding CCIRS contracts to hedge against exchange and interest rates fluctuation on these loans.

The loans had been fully drawn down to part settle the remaining purchase consideration in relation to the purchase of businesses and undertakings including relevant assets and liabilities of the Company's wholly-owned subsidiaries under the internal reorganisation as announced by the Company on 2 December 2015;

(c) On 24 February 2017, MBSB issued its fourth series of the Unrated Islamic Medium Term Notes ("Sukuk Murabahah") for a nominal value of RM300 million. Total nominal value of Sukuk Murabahah issued as at 30 June 2017 amounted to RM4,090 million;

(d) On 30 June 2017, the Company issued 300 million new ordinary shares at an issue price of RM5.52 per share ("Placement Shares") pursuant to a private placement exercise. This exercise was completed on 3 July 2017 and the proceeds will be utilised for the repayment of borrowings and related incidental costs within 12 months from issuance.

The Placement Shares rank pari passu in all respects with the existing ordinary shares of the Company; and

(e) 197,100 ordinary shares were issued under the ESOS.

6. DIVIDENDS PAID

The following dividend payments were made during the six months ended 30 June 2017:

	RM'm
In respect of the financial year ended 31 December 2016:	
- Fourth interim single-tier tax exempt dividend of 5.0 sen per ordinary share, paid on 28 March 2017	**376**
In respect of the financial year ending 31 December 2017:	
- First interim single-tier tax exempt dividend of 5.0 sen per ordinary share, paid on 29 June 2017	**375**
	751

7. SEGMENT REPORTING

Segment reporting is not presented as the Group is primarily engaged in providing integrated telecommunication services in Malaysia.

8. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

There were no revaluations of property, plant and equipment during the six months ended 30 June 2017. As at 30 June 2017, all property, plant and equipment were stated at cost less accumulated depreciation and impairment losses.

9. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

There were no material events subsequent to the end of the financial period up to the date of this report.

10. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the six months ended 30 June 2017.

11. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the normal course of business, there are contingent liabilities arising from legal recourse sought by the Group's customers or vendors and indemnities given to financial institutions on bank guarantees. There were no material losses anticipated as a result of these transactions.

12. CAPITAL COMMITMENTS

Capital expenditure for property, plant and equipment approved by the Board of Directors and not provided for in the unaudited condensed consolidated financial statements as at 30 June 2017 are as follows:

	RM'm
Contracted for	**293**
Not contracted for	**324**
	617

13. SIGNIFICANT RELATED PARTY DISCLOSURES

The significant related party transactions, balances and commitments described below were carried out in the ordinary course of business and on agreed commercial terms with the related parties.

	Transactions for the financial period ended 30/6/2017	Balances due from/(to) as at 30/6/2017	Commitments as at 30/6/2017	Total balances due from/(to) and commitments as at 30/6/2017
	RM'm	RM'm	RM'm	RM'm
(a) Sales of goods and services to:				
- MEASAT Broadcast Network Systems Sdn. Bhd. [(1)] (telephony and broadband services)	49	26	-	26
(b) Purchases of goods and services from:				
- Saudi Telecom Company ("STC") [(2)] (roaming and international calls)	9	(15)	-	(15)
- MEASAT Global Berhad Group[(3)] (transponder and teleport lease rental)	24	-	(32)	(32)

13. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

	Transactions for the financial period ended 30/6/2017	Balances due from/(to) as at 30/6/2017	Commitments as at 30/6/2017	Total balances due from/(to) and commitments as at 30/6/2017
	RM'm	RM'm	RM'm	RM'm
(b) Purchases of goods and services				
From (continued):				
- Tanjong City Centre Property Management Sdn. Bhd.[4]				
(rental, signage, parking and utility charges)	17	1	(204)	(203)
- UTSB Management Sdn. Bhd.[4]				
(corporate management services)	13	(4)	(60)	(64)
- SRG Asia Pacific Sdn. Bhd.[5]				
(call handling and telemarketing services)	7	(2)	-	(2)
- MBNS Multimedia Technologies Sdn. Bhd. and/or its related corporations[1]				
(goods and services)	-	-	(3)	(3)

Notes:

The Group has entered into the above related party transactions with parties whose relationships are set out below.

Usaha Tegas Sdn. Bhd. ("UTSB"), STC and Harapan Nusantara Sdn. Bhd. are parties related to the Company, by virtue of having joint control over Binariang GSM Sdn. Bhd. ("BGSM"), pursuant to a shareholders' agreement in relation to BGSM. BGSM is the ultimate holding company of the Company.

The ultimate holding company of UTSB is PanOcean Management Limited ("PanOcean"). PanOcean is the trustee of a discretionary trust, the beneficiaries of which are members of the family of Ananda Krishnan Tatparanandam ("TAK") and foundations including those for charitable purposes. Although PanOcean is deemed to have an interest in all of the Company shares in which UTSB has an interest, it does not have any economic or beneficial interest over the Company shares, as such interest is held subject to the terms of the discretionary trust.

(1) Subsidiary of a company which is an associate of UTSB
(2) A major shareholder of BGSM, as described above
(3) Subsidiary of a company in which TAK has a 99.999% direct equity interest
(4) Subsidiary of UTSB
(5) Subsidiary of a company whereby a person connected to TAK has a deemed equity interest

14. FAIR VALUE MEASUREMENTS

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(a) Financial instruments carried at amortised cost

The carrying amounts of financial assets and liabilities of the Group approximated their fair values as at 30 June 2017 except as set out below, measured using Level 3 valuation technique:

	CARRYING AMOUNT	FAIR VALUE
	RM'm	RM'm
Financial asset:		
Receivables, deposits and prepayments	83	74
Financial liability:		
Borrowings		
- finance lease liabilities	1	1
- Islamic Medium Term Notes	4,142	4,210

(b) Financial instruments carried at fair value

The following table represents the assets and liabilities measured at fair value, using Level 2 valuation technique, as at 30 June 2017:

	RM'm
Recurring fair value measurements	
Derivative financial instruments (CCIRS, Interest Rate Swaps ("IRS") and forward foreign exchange contracts):	
- assets	282
- liabilities	(19)

The valuation technique used to derive the Level 2 valuation is as disclosed in Note 23.

15. ANALYSIS OF PERFORMANCE

(A) Performance of the current quarter against the preceding quarter (2nd Quarter 2017 versus 1st Quarter 2017)

Financial indicators (RM'm unless otherwise indicated)	2nd Quarter 2017 (unaudited)	1st Quarter 2017[1] (unaudited)	Variance	% Variance
Revenue	**2,172**	2,157	15	1
Service revenue [2]	**2,122**	2,129	(7)	<1
EBITDA [3]	**1,223**	1,111	112	10
Adjusted for:				
Unrealised foreign exchange (gains)/losses	***(52)***	*7*	*(59)*	*>(100)*
Service fee (reduction)/charge[4]	***(67)***	*5*	*(72)*	*>(100)*
Normalised EBITDA	**1,104**	1,123	(19)	(2)
Normalised EBITDA margin on service revenue (%)	**52.0**	52.7	(0.7)	NA
Profit before tax	**780**	677	103	15
Profit for the period	**574**	505	69	14
Adjusted for:				
Unrealised foreign exchange (gains)/losses	***(52)***	*7*	*(59)*	*>(100)*
Service fee (reduction)/charge[4]	***(67)***	*5*	*(72)*	*>(100)*
Tax effects of the above adjustments	***29***	*(3)*	*32*	*>100*
Normalised profit for the period	**484**	514	(30)	(6)

Notes:
[1] The comparative results were restated to provide more comparable information with the current period.
[2] Service revenue is defined as Group revenue excluding device, hubbing revenues and network income.
[3] Defined as profit before finance income, finance costs, tax, depreciation, amortisation and allowance for write down of identified network costs.
[4] Write back of service fees accrued for prior years which are no longer required.

15. ANALYSIS OF PERFORMANCE (CONTINUED)

(A) Performance of the current quarter against the preceding quarter (2nd Quarter 2017 versus 1st Quarter 2017) (continued)

Operational indicators	2nd Quarter 2017	1st Quarter 2017	Variance	% Variance
Revenue generating subscriptions ("RGS") ('000)	**10,420**	10,673	(253)	(2)
- Postpaid	***2,785***	*2,744*	*41*	*1*
- Prepaid	***7,482***	*7,754*	*(272)*	*(4)*
- Wireless Broadband	***153***	*175*	*(22)*	*(13)*
ARPU (Monthly) (RM)				
- Postpaid	***102***	*102*	-	-
- Prepaid	***42***	*42*	-	-
- Wireless Broadband	***72***	*71*	*1*	*1*
- Blended	***58***	*57*	*1*	*2*

For the quarter ended 30 June 2017, the Group recorded stable service revenue of RM2,122 million amidst continued intense market competition.

Postpaid service revenue grew 0.9% to RM998 million supported by a higher RGS base. The Group added 41k new subscriptions, achieving the highest net additions following the revamp of the Group's flagship MaxisONE plan ("MOP"). The Power of ONE campaign which enabled subscribers to own a wide range of devices for RM1 continued to attract high ARPU customers. As a result, the Group has grown its MOP subscription base to 1.9 million with monthly ARPU of RM120, which is higher than the blended ARPU of RM102.

Prepaid service revenue declined 2.1% to RM984 million on the back of a lower subscription base in a market that is undergoing SIM consolidation. Prepaid ARPU was stable at RM42 per month supported by continuous growth in mobile Internet revenue. The Group's Hotlink FAST pack continued to maintain a strong market leadership position in the 4G segment, attracting high mobile Internet ARPU users. The Group is also seeing encouraging traction from the "Happy Hour" mobile Internet passes launched early April this year. The Group's Hotlink FAST base has now surpassed 1.8 million subscriptions with monthly ARPU of RM44.

15. ANALYSIS OF PERFORMANCE (CONTINUED)

(A) Performance of the current quarter against the preceding quarter (2nd Quarter 2017 versus 1st Quarter 2017) (continued)

Customer demand for data continues to grow strongly, supported by the rising consumption of social media, increasing availability of TV and video on mobile devices and better user experience on mobile network. The Group ended the quarter with 5.6 million 4G LTE users (1Q17: 5.1 million) with average usage of 7.0GB per month (1Q17: 6.5GB). 4G LTE population coverage has reached 89% on a comparable peer basis and the Group continued to lead the market in terms of coverage, quality and best digital experience. This has translated to an all-time high touch point net promoter score of +49.

Quarter-on-quarter, normalised EBITDA stood at RM1,104 million with a margin on service revenue of 52.0%, against RM1,123 million and 52.7% respectively in the previous quarter. The decline in EBITDA was mainly driven by higher realised foreign exchange losses coupled with continuous investment for future efficiencies.

The Group reported lower normalised profit of RM484 million compared to RM514 million in the preceding quarter on the back of lower EBITDA.

15. ANALYSIS OF PERFORMANCE (CONTINUED)

(B) Performance of the current year against the preceding year (YTD June 2017 versus YTD June 2016)

Financial indicators (RM'm unless otherwise indicated)	YTD 2017	YTD 2016[(1)]	Variance	% Variance
Revenue	**4,329**	4,242	87	2
Service revenue [(2)]	**4,251**	4,177	74	2
EBITDA [(3)]	**2,334**	2,263	71	3
Adjusted for:				
Home services – Reversal of contract obligation provision	**-**	*(47)*	*47*	*>100*
Unrealised foreign exchange gains	***(45)***	*(54)*	*9*	*(17)*
Service fee (reduction)/charge[(5)]	***(62)***	*9*	*(71)*	*>(100)*
Normalised EBITDA	**2,227**	2,171	56	3
Normalised EBITDA margin on service revenue (%)	**52.4**	52.0	0.4	NA
Profit before tax	**1,457**	1,382	75	5
Profit for the period	**1,079**	1,003	76	8
Adjusted for:				
Accelerated depreciation due to IT and network modernisation programmes [(4)]	**-**	*17*	*(17)*	*>(100)*
Home services:				
• *Reversal of contract obligation provision*	**-**	*(47)*	*47*	*>(100)*
• *Reversal of asset impairment*	**-**	*(47)*	*47*	*>(100)*
Unrealised foreign exchange gains	***(45)***	*(54)*	*9*	*(17)*
Service fee (reduction)/charge[(5)]	***(62)***	*9*	*(71)*	*>(100)*
Tax effects of the above adjustments	***26***	*30*	*(4)*	*(13)*
Normalised profit for the period	**998**	911	87	10

Notes:

(1) The comparative results were restated to provide more comparable information with the current period.

(2) Service revenue is defined as Group revenue excluding device, hubbing revenues and network income.

(3) Defined as profit before finance income, finance costs, tax, depreciation, amortisation and allowance for write down of identified network costs.

(4) The IT and network modernisation programmes enable the Group to strengthen its access network to enhance the customer experience and usage to drive revenue growth. The modernisation programmes also lower overall operational costs and simplify the network architecture.

(5) Write back of service fees accrued for prior years which are no longer required.

15. ANALYSIS OF PERFORMANCE (CONTINUED)

(B) Performance of the current year against the preceding year (YTD June 2017 versus YTD June 2016) (continued)

Operational indicators	YTD 2017	YTD 2016	Variance	% Variance
RGS ('000)	**10,420**	11,015	(595)	(5)
- Postpaid	***2,785***	*2,660*	*125*	*5*
- Prepaid	***7,482***	*8,108*	*(626)*	*(8)*
- Wireless Broadband	***153***	*247*	*(94)*	*(38)*
ARPU (Monthly) (RM)				
- Postpaid	***102***	*102*	*-*	*-*
- Prepaid	***42***	*39*	*3*	*8*
- Wireless Broadband	***71***	*71*	*-*	*-*
- Blended	***57***	*54*	*3*	*6*

The Group recorded positive service revenue growth of 1.8% to RM4,251 million (YTD 2016: RM4,177 million) on the back of steady Prepaid and Postpaid performance amidst continuous price competition.

Prepaid service revenue grew 1.3% to RM1,989 million (YTD 2016: RM1,964 million) supported by higher mobile Internet revenue which negated the impact of lower RGS base caused mainly by SIM consolidation. On the back of a higher Hotlink FAST subscription base which has surpassed 1.8 million, mobile Internet revenue now accounts for close to 50% of Prepaid revenue against 39% a year ago. This corresponds with an increase in ARPU to RM42 per month from RM39 in the same period last year. The increase in mobile Internet usage was further supported by Prepaid smart-phone penetration which has risen to 78% from 68% a year ago.

Postpaid service revenue grew 0.6% to RM1,987 million (YTD 2016: RM1,975 million) supported by a solid MOP subscription base of 1.9 million. The Group added 597k new MOP subscriptions with ARPU of RM120 per month in the period under review.

Blended smart-phone penetration stood at 79% against 70% in the same period last year. Blended data usage grew more than double in the last 12 months and is now at 5.0GB/month. The Group's expanded 4G LTE network, with a nationwide population coverage of 89% on a comparable peer basis, continued to be an important differentiator for customers to enjoy high speed unmatched digital experience.

15. ANALYSIS OF PERFORMANCE (CONTINUED)

(B) Performance of the current year against the preceding year (YTD June 2017 versus YTD June 2016) (continued)

Normalised EBITDA and EBITDA margin on service revenue stood at RM2,227 million and 52.4% (YTD 2016: RM2,171 million and 52.0%) respectively, mainly a result of higher revenue base and efficient marketing spend which were partially offset by higher one-time resource costs and investment to enhance the Group's efficiencies for long term structural cost benefits.

Normalised profit for the period under review was higher at RM998 million (YTD 2016: RM911 million) driven by higher EBITDA coupled with lower property, plant and equipment related charges.

16. PROSPECTS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2017

For the financial year ending 31 December 2017, the Group expects service revenue, absolute EBITDA and base capital expenditure to remain at similar levels to financial year 2016. The Group will continue to focus on strengthening its network leadership and deliver differentiated digital experience for its customers.

17. PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable as the Group did not publish any profit forecast.

18. QUALIFICATION OF PRECEDING AUDITED FINANCIAL STATEMENTS

There was no qualification to the preceding audited financial statements for the financial year ended 31 December 2016.

19. PROFIT BEFORE TAX

The following items have been charged/(credited) in arriving at the profit before tax:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED 30/6/2017	QUARTER ENDED 30/6/2016	**PERIOD ENDED 30/6/2017**	PERIOD ENDED 30/6/2016
	RM'm	RM'm	**RM'm**	RM'm
Fair value losses/(gains) on forward foreign exchange contracts	**2**	(4)	**3**	4
Impairment of intangible assets	**-**	-	**-**	1
(Gains)/losses on foreign exchange	**(36)**	27	**(32)**	(38)
Property, plant and equipment:				
- gain on disposal	**(2)**	-	**(3)**	(2)
- (impairment reversals)/write offs	**-**	(44)	**3**	(25)
Reversal of contract obligation provision	**-**	(47)	**-**	(47)

Other than as presented in the statements of profit or loss and as disclosed above, there were no material gains/losses on disposal of quoted and unquoted investments or properties and other exceptional items for the current quarter and six months ended 30 June 2017.

20. TAX EXPENSES

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED 30/6/2017	QUARTER ENDED 30/6/2016	**PERIOD ENDED 30/6/2017**	PERIOD ENDED 30/6/2016
	RM'm	RM'm	**RM'm**	RM'm
Income tax:				
- current tax	**228**	224	**449**	478
Deferred tax:				
- origination and reversal of temporary differences	**(22)**	(59)	**(71)**	(99)
Total	**206**	165	**378**	379

20. TAX EXPENSES (CONTINUED)

The Group's effective tax rates for the current quarter and six months ended 30 June 2017 were 26.4% and 25.9% respectively, higher than the statutory tax rate of 24% mainly due to recognition of temporary differences for prior years.

21. STATUS OF CORPORATE PROPOSALS ANNOUNCED

Save as disclosed in Note 5(d), there were no corporate proposals announced but not completed.

22. BORROWINGS

The borrowings as at 30 June 2017 are as follows:

	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	TOTAL
	RM'm	RM'm	RM'm
<u>Secured</u>			
Finance lease liabilities	8	1	9
<u>Unsecured</u>			
Revolving credit	501	-	501
Term loans	-	1,967	1,967
Syndicated term loans	-	434	434
Commodity Murabahah Term Financing	-	2,505	2,505
Islamic Medium Term Notes	-	4,142	4,142
	509	9,049	9,558

Currency profile of borrowings is as follows:

	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	TOTAL
RM	509	7,648 [1]	8,157
USD	-	1,182 [2]	1,182
SGD	-	219 [2]	219
	509	9,049	9,558

Notes:

[1] Includes a term loan facility which has been partially hedged using IRS as disclosed in Note 23.

[2] All USD and SGD borrowings have been hedged using CCIRS as disclosed in Note 23.

23. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Disclosure of derivatives

Details of derivative financial instruments outstanding as at 30 June 2017 are set out below:

TYPE OF DERIVATIVE	CONTRACT/ NOTIONAL VALUE	FAIR VALUE
	RM'm	RM'm
Derivatives designated in hedging relationship (cash flow hedge):		
CCIRS:		
- more than three years	1,139	(263)
IRS:		
- more than three years	700	(1)
Forward foreign exchange contracts:		
- less than one year	21	*
	1,860	(264)
Derivatives not designated in hedging relationship:		
Forward foreign exchange contracts:		
- less than one year	35	1
	1,895	(263)

Note:
* Less than RM1 million.

During the six months ended 30 June 2017, the Group entered into:

(a) CCIRS contracts to hedge against USD/RM and SGD/RM exchange rate fluctuations on USD50 million and SGD70 million term loans respectively; and

(b) forward foreign exchange contracts to hedge against USD/RM exchange rate fluctuations on certain payable balances and forecast transactions.

There have been no changes since the end of the previous financial year ended 31 December 2016 in respect of the following:

(a) the market risk and credit risk associated with the derivatives;

(b) the cash requirements of the derivatives except the contract value of CCIRS has increased by RM125 million following the CCIRS settlements and new CCIRS contracts as disclosed in Note 5;

(c) the policies in place for mitigating or controlling the risks associated with the derivatives; and

(d) the related accounting policies.

23. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(b) Disclosure of gains/losses arising from fair value changes of financial liabilities

The Group determines the fair values of the derivative financial instruments relating to the CCIRS, IRS and forward foreign exchange 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 foreign exchange contracts are determined using the forward exchange rates as at each reporting date.

As at 30 June 2017, the Group had recognised a loss of RM12 million arising from fair value changes of derivative financial liabilities where the instruments are designated as cash flow hedge on borrowings. 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 statements of profit or loss and will be taken to the cash flow hedging reserve in equity. The gains or losses recognised in the cash flow hedging reserve in equity will be continuously released to the statements of profit or loss within finance costs until the underlying borrowings are repaid.

24. REALISED AND UNREALISED RETAINED EARNINGS

The following analysis of realised and unrealised retained earnings is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Securities Listing Requirements, as issued by the Malaysian Institute of Accountants whilst the disclosure is based on the prescribed format by Bursa Malaysia Securities Berhad.

	AS AT 30/6/2017	AS AT 31/12/2016
	RM'm	**RM'm**
Retained earnings of the Company and its subsidiaries:		
- realised	**6,535**	6,341
- unrealised	**(470)**	(580)
	6,065	5,761
Less: Consolidation adjustments	**(1,974)**	(1,998)
Total retained earnings as per Consolidated Statements of Financial Position	**4,091**	3,763

25. MATERIAL LITIGATION

There is no material litigation as at 13 July 2017.

26. DIVIDENDS

The Board of Directors has declared a second interim single-tier tax-exempt dividend of 5.0 sen per ordinary share in respect of the financial year ending 31 December 2017, to be paid on 28 September 2017. The entitlement date for the dividend payment is 30 August 2017.

A depositor shall qualify for entitlement to the dividend only in respect of:

(i) shares transferred to the depositor's securities account before 4.00 pm on 30 August 2017 in respect of transfers; and

(ii) shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

The total dividends for the six months ended 30 June 2017 is 10.0 sen per ordinary share (2016: 10.0 sen).

27. EARNINGS PER SHARE

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		QUARTER ENDED 30/6/2017	QUARTER ENDED 30/6/2016	**PERIOD ENDED 30/6/2017**	PERIOD ENDED 30/6/2016
(a) Basic earnings per share					
Profit attributable to the equity holders of the Company	(RM'm)	**574**	488	**1,079**	1,006
Weighted average number of issued ordinary shares	('m)	**7,512**	7,509	**7,511**	7,509
Basic earnings per share	(sen)	**7.6**	6.5	**14.4**	13.4
(b) Diluted earnings per share					
Profit attributable to the equity holders of the Company	(RM'm)	**574**	488	**1,079**	1,006
Weighted average number of issued ordinary shares	('m)	**7,512**	7,509	**7,511**	7,509
Adjusted for share options	('m)	**-**	-	**-**	-
Adjusted weighted average number of ordinary shares	('m)	**7,512**	7,509	**7,511**	7,509
Diluted earnings per share	(sen)	**7.6**	6.5	**14.4**	13.4

By order of the Board

Dipak Kaur
(LS 5204)
Company Secretary
20 July 2017
Kuala Lumpur