MAXIS BERHAD

(867573 – A)

(INCORPORATED IN MALAYSIA)

QUARTERLY REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2014

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 2014 which should be read in conjunction with the audited financial statements for the financial year ended 31 December 2013 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 30/6/2014	QUARTER ENDED 30/6/2013	+ -	PERIOD ENDED 30/6/2014	PERIOD ENDED 30/6/2013	+ -
	Note	RM'm	RM'm	%	RM'm	RM'm	%
Revenue		2,082	2,294	-9	4,201	4,621	-9
Cost of sales		(652)	(787)		(1,359)	(1,588)	
Gross profit		1,430	1,507	-5	2,842	3,033	-6
Other income		11	19		25	27	
Administrative expenses		(432)	(414)		(836)	(865)	
Network operation costs		(280)	(276)		(537)	(598)	
Other expenses		(4)	(20)		(22)	(36)	
Profit from operations	19	725	816	-11	1,472	1,561	-6
Finance income		10	7		16	16	
Finance costs		(101)	(88)		(197)	(176)	
Profit before tax		634	735	-14	1,291	1,401	-8
Tax expenses	20	(183)	(205)		(352)	(395)	
Profit for the period		451	530	-15	939	1,006	-7
Attributable to:							
- equity holders of the Company		446	528	-16	930	1,003	-7
- non-controlling interest		5	2		9	3	
		451	530	-15	939	1,006	-7
Earnings per share attributable to equity holders of the Company (sen):							
- basic	27	5.9	7.0		12.4	13.4	
- diluted	27	5.9	7.0		12.4	13.4	

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QUARTERLY REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2014

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED 30/6/2014	QUARTER ENDED 30/6/2013	PERIOD ENDED 30/6/2014	PERIOD ENDED 30/6/2013
	RM'm	RM'm	RM'm	RM'm
Profit for the period	451	530	939	1,006
Other comprehensive income/(expense) [1]				
Item that will be reclassified subsequently to profit or loss:				
Net change in cash flow hedge	-	4	(18)	19
Total comprehensive income for the period	451	534	921	1,025
Attributable to:				
- equity holders of the Company	446	532	912	1,022
- non-controlling interest	5	2	9	3
	451	534	921	1,025

Note:

[1] There is no income tax attributable to the components of other comprehensive income/(expense).

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QUARTERLY REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2014

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	AS AT 30/6/2014 (Unaudited)	AS AT 31/12/2013 (Audited)
		RM'm	RM'm
Non-current assets			
Property, plant and equipment	8	3,753	4,038
Intangible assets [(2)]		11,163	11,167
Derivative financial instruments	23	100	145
Deferred tax assets		124	128
		15,140	15,478
Current assets			
Inventories		15	70
Receivables, deposits and prepayments		836	947
Amount due from penultimate holding company		1	-
Amounts due from related parties		22	24
Tax recoverable		17	3
Cash and cash equivalents		1,353	808
		2,244	1,852
Total assets		17,384	17,330
Current liabilities			
Provisions for liabilities and charges		114	135
Payables and accruals		1,988	2,434
Amounts due to fellow subsidiaries		2	4
Amounts due to related parties		14	23
Borrowings	22	1,302	910
Derivative financial instruments	23	104	84
Taxation		282	71
		3,806	3,661
Net current liabilities		(1,562)	(1,809)

Note:

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

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QUARTERLY REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2014

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

	Note	AS AT 30/6/2014 (Unaudited) RM'm	AS AT 31/12/2013 (Audited) RM'm
Non-current liabilities			
Provisions for liabilities and charges		123	110
Payables and accruals		465	372
Loan from a related party	22	29	29
Borrowings	22	7,305	6,613
Derivative financial instruments	23	55	34
Deferred tax liabilities		453	495
		8,430	7,653
Net assets		5,148	6,016
Equity			
Share capital		751	750
Reserves		4,373	5,251
Equity attributable to equity holders of the Company		5,124	6,001
Non-controlling interest		24	15
Total equity		5,148	6,016
Net assets per share (RM)		0.69	0.80

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QUARTERLY REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2014

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
Period ended 30/6/2014	Share capital [3]	Share premium	Merger relief [4]	Reserve arising from reverse acquisition	Other reserves	Retained earnings (Note 24)	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 1/1/2014	750	20	27,758	(22,729)	121	81	6,001	15	6,016
Profit for the period	-	-	-	-	-	930	930	9	939
Other comprehensive expense for the period	-	-	-	-	(18)	-	(18)	-	(18)
Total comprehensive income for the period	-	-	-	-	(18)	930	912	9	921
Dividends for the financial year ended 31 December 2013	-	-	(625)	-	-	(575)	(1,200)	-	(1,200)
Dividends for the financial year ending 31 December 2014	-	-	(601)	-	-	-	(601)	-	(601)
Employee Share Option Scheme ("ESOS"):									
- share options granted	-	-	-	-	3	-	3	-	3
- shares issued	1	14	-	-	(1)	-	14	-	14
Share-based incentive arrangement:									
- shares granted	-	-	-	-	*	-	*	-	*
- purchase of shares	-	-	-	-	(5)	-	(5)	-	(5)
Balance as at 30/6/2014	751	34	26,532	(22,729)	100	436	5,124	24	5,148

Notes:

[3] Issued and fully paid ordinary shares of RM0.10 each.

[4] 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 in 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.

* Less than RM1 million.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

Period ended 30/6/2013	Share capital [3]	Share premium	Merger relief [4]	Reserve arising from reverse acquisition	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
	← Attributable to equity holders of the Company →								
	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm
Balance as at 1/1/2013	750	3	28,989	(22,729)	(49)	85	7,049	8	7,057
Profit for the period	-	-	-	-	-	1,003	1,003	3	1,006
Other comprehensive income for the period	-	-	-	-	19	-	19	-	19
Total comprehensive income for the period	-	-	-	-	19	1,003	1,022	3	1,025
Dividends for the financial year ended 31 December 2012	-	-	(546)	-	-	(654)	(1,200)	-	(1,200)
Dividends for the financial year ended 31 December 2013	-	-	(380)	-	-	(220)	(600)	-	(600)
ESOS:									
- share options granted	-	-	-	-	2	-	2	-	2
- shares issued	*	2	-	-	-	-	2	-	2
Balance as at 30/6/2013	750	5	28,063	(22,729)	(28)	214	6,275	11	6,286

Notes:

(3) Issued and fully paid ordinary shares of RM0.10 each.

(4) 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 in 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.

* Less than RM1 million.

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QUARTERLY REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2014

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	PERIOD ENDED 30/6/2014	PERIOD ENDED 30/6/2013
	RM'm	RM'm
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	939	1,006
Adjustments for:		
- non-cash items	707	775
- finance costs	197	176
- finance income	(16)	(16)
- tax expenses	352	395
Payments for provision for liabilities and charges	(21)	(34)
Operating cash flows before working capital changes	2,158	2,302
Changes in working capital	(355)	(120)
Cash flows from operations	1,803	2,182
Interest received	15	16
Tax paid	(193)	(282)
Net cash flows from operating activities	1,625	1,916
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of intangible assets	(124)	(135)
Purchase of property, plant and equipment	(122)	(236)
Net cash flows used in investing activities	(246)	(371)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares pursuant to ESOS	14	2
Purchase of shares pursuant to share-based incentive arrangement	(5)	-
Drawdown of borrowing	1,150	-
Repayment of lease financing	(1)	(1)
Repayment of loan from a related party	-	(4)
Payments of finance costs	(191)	(175)
Ordinary share dividends paid	(1,801)	(1,800)
Net cash flows used in financing activities	(834)	(1,978)
NET CHANGE IN CASH AND CASH EQUIVALENTS	545	(433)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL PERIOD	808	967
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD	1,353	534

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 2013 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 2013 except for changes on the segment reporting as disclosed in Note 7 on page 10.

The adoption of the following amendments to MFRSs and IC Interpretation that came into effect on 1 January 2014 did not have any significant impact on the unaudited condensed consolidated financial statements upon their initial application.

• Amendments to MFRS 10, 12 and 127	Investment Entities (effective from 1 January 2014)
• Amendments to MFRS 132	Financial Instruments: Presentation (effective from 1 January 2014)
• Amendments to MFRS 139	Novation of Derivatives and Continuation of Hedge Accounting (effective from 1 January 2014)
• IC Interpretation 21	Levies (effective from 1 January 2014)

MFRS and amendments to MFRSs that are applicable to the Group but not yet effective

Malaysian Accounting Standards Board ("MASB") had issued the following new standards and amendments to standards which are effective for financial period beginning on or after 1 January 2015. The Group did not early adopt these new standards, amendments and improvements to published standards.

• MFRS 9	Financial Instruments (effective date to be announced by MASB)
• Amendments to MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation (effective from 1 January 2016)
• Amendments to MFRS 119	Defined Benefit Plans: Employee Contributions (effective from 1 July 2014)
• Annual Improvements to MFRSs	2010-2012 Cycle (effective from 1 July 2014)
• Annual Improvements to MFRSs	2011-2013 Cycle (effective from 1 July 2014)

2. SEASONAL / CYCLICAL FACTORS

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

3. UNUSUAL ITEMS

Save for below items as disclosed in Notes 15(A) and 15(B), there were no other significant unusual items affecting the assets, liabilities, equity, net income or cash flows during the six-month ended 30 June 2014:

(a) accelerated depreciation due to the network modernisation programme; and
(b) reversal for contract obligation in relation to Home's network cost.

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-month ended 30 June 2014, except for the change in estimates in asset useful lives of certain telecommunications network equipment as a result of the network modernisation programme being undertaken.

The impact of the change in estimates for the current quarter and six-month ended 30 June 2014 have reduced the carrying value of property, plant and equipment by RM60 million and RM91 million respectively with a corresponding additional depreciation charge to the statement of profit or loss.

5. DEBT AND EQUITY SECURITIES

(a) On 2 April 2014, the Company entered into an agreement with RHB Islamic Bank Berhad for Commodity Murabahah Term Financing Facility of RM2.5 billion ("RM2.5 billion Financing Facility") with a tenure of 10 years for the purposes set out below:
   (i) to refinance borrowings of the Group; and
   (ii) to finance capital expenditure and general working capital requirements of the Group.

   For the six-month ended 30 June 2014, the Company had drawn down RM1.15 billion of the RM2.5 billion Financing Facility.

(b) During the six-month ended 30 June 2014, a total of 2,268,000 ordinary shares of RM0.10 each were issued under the ESOS.

Save for the above, there were no other issuance, repurchase and repayment of debt and equity securities by the Group during the six-month ended 30 June 2014.

6. DIVIDENDS PAID

The following dividend payments were made during the six-month ended 30 June 2014:

	RM'm
In respect of the financial year ended 31 December 2013:	
- fourth interim single-tier tax-exempt dividend of 8.0 sen per ordinary share, paid on 8 April 2014	600
- final single-tier tax-exempt dividend of 8.0 sen per ordinary share, paid on 27 June 2014	600
In respect of the financial year ending 31 December 2014:	
- first interim single-tier tax-exempt dividend of 8.0 sen per ordinary share, paid on 27 June 2014	601
	1,801

7. SEGMENT REPORTING

Previously, the Group disclosed four key operating segments namely Mobile, International gateway, Enterprise fixed and Home services. During the financial period, the Group refined its operations and management reporting structure in providing integrated telecommunication services to its customers. International gateway, Enterprise fixed and Home services are currently not managed as separate standalone businesses and hence, are not reported as separate segments. Segmental reporting by geographical locations is also not disclosed as the Group's operations are mainly in Malaysia.

8. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

There were no revaluations of property, plant and equipment during the six-month ended 30 June 2014. As at 30 June 2014, 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-month ended 30 June 2014.

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, indemnities given to financial institutions on bank guarantees and claims from the authorities. No material losses are currently 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 2014 are as follows:

	RM'm
Contracted for	326
Not contracted for	486
	812

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 commercial terms that are no more favourable than that available to other third parties.

	Transactions for the financial period ended 30/6/2014	Balances due from/(to) as at 30/6/2014	Commitments as at 30/6/2014	Total balances due from/(to) and commitments as at 30/6/2014
	RM'm	RM'm	RM'm	RM'm
(a) Sales of goods and services to:				
- MEASAT Broadcast Network Systems Sdn. Bhd. (1) (VSAT, telephony, bandwidth and broadband services)	35	11	-	11
- Saudi Telecom Company ("STC") (2) (roaming and international calls)	10	6	-	6
- MEASAT Global Berhad Group (3) (revenue share for the leasing of satellite bandwidth)	3	4	-	4

13. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

	Transactions for the financial period ended 30/6/2014	Balances due from/(to) as at 30/6/2014	Commitments as at 30/6/2014	Total balances due from/(to) and commitments as at 30/6/2014
	RM'm	RM'm	RM'm	RM'm
(b) Purchases of goods and services from:				
- Tanjong City Centre Property Management Sdn. Bhd. [4] (rental, signage, parking and utility charges)	20	2	(3)	(1)
- MEASAT Global Berhad Group [3] (transponder and teleport lease rental)	14	-	(101)	(101)
- Astro Digital 5 Sdn. Bhd. [1] (content provision, publishing and advertising agent, consultancy and IPTV development services)	3	(4)	-	(4)
- MEASAT Broadcast Network Systems Sdn. Bhd. [1] (mobile TV and IPTV contents)	11	-	(16)	(16)
- UTSB Management Sdn. Bhd. [4] (corporate management services fees)	13	(2)	(56)	(58)
- SRG Asia Pacific Sdn. Bhd. [5] (call handling and telemarketing services)	9	(3)	-	(3)
- UMTS (Malaysia) Sdn. Bhd. [6] (usage of 3G spectrum)	43	(5)	-	(5)

13. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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 wholly-owns Maxis Communications Berhad ("MCB") which in turn is the penultimate 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 and TAK are deemed to have an interest in the shares of the Company through UTSB's deemed interest in BGSM and MCB, they do not have any economic or beneficial interest in the shares as such interest is held subject to the terms of the discretionary trust.

(1) Subsidiary of a joint venture of UTSB
(2) A major shareholder of BGSM, as described above
(3) Subsidiary of a company in which TAK has a 99% direct equity interest
(4) Subsidiary of UTSB
(5) Subsidiary of a company in which a person connected to TAK has a deemed equity interest
(6) Subsidiary of the Company and associate of a joint venture of UTSB. The transaction values and outstanding balances are eliminated in the unaudited condensed consolidated financial statements

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 2014 except as set out below, measured using Level 3 valuation technique:

	CARRYING AMOUNT	FAIR VALUE
	RM'm	RM'm
Borrowings		
- finance lease liabilities	9	7
- Islamic Medium Term Notes	2,483	2,526

14. FAIR VALUE MEASUREMENTS (CONTINUED)

(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 2014:

	RM'm
Recurring fair value measurements	
Derivative financial instruments (Cross Currency Interest Rate Swaps ("CCIRS") and Interest Rate Swaps ("IRS")):	
- assets	100
- liabilities	(159)

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 2014 versus 1st Quarter 2014)

Financial indicators (RM'm unless otherwise indicated)	2nd Quarter 2014 (unaudited)	1st Quarter 2014 (unaudited)	Variance	% Variance
Revenue	2,082	2,119	(37)	(2)
Service revenue [1]	2,049	2,037	12	1
EBITDA [2]	1,086	1,073	13	1
EBITDA margin (%)	52.2	50.6	1.6	NA
Depreciation	284	269	15	6
Amortisation	65	63	2	3
Profit before tax	634	657	(23)	(4)
Profit for the period	451	488	(37)	(8)
Adjustments for one-off items:				
Accelerated depreciation due to network modernisation programme [3]	***60***	*39*	*21*	*54*
Reversal for contract obligation [4]	***(22)***	*-*	*(22)*	*>(100)*
Tax effects of the above adjustments	***(9)***	*(10)*	*1*	*10*
Comparable profit for the period	480	517	(37)	(7)

Notes:

(1) Service revenue is defined as Group revenue excluding device and hubbing revenues.

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

(3) The network modernisation programme enables the Group to strengthen its access network to enhance the customer experience and usage to drive revenue growth. The modernisation programme will also lower overall operational costs and simplify the network architecture across 2G, 3G and LTE technologies.

(4) Reversal for contract obligation was made in relation to Home's network costs.

15. ANALYSIS OF PERFORMANCE (CONTINUED)

(A) Performance of the current quarter against the preceding quarter (2nd Quarter 2014 versus 1st Quarter 2014) (continued)

Operational indicators	2nd Quarter 2014	1st Quarter 2014	Variance	% Variance
Mobile subscriptions ('000) (Market definition)	12,401	12,602	(201)	(2)
- Postpaid	***2,828***	*2,794*	*34*	*1*
- Prepaid	***9,042***	*9,238*	*(196)*	*(2)*
- Wireless Broadband	***531***	*570*	*(39)*	*(7)*
ARPU (Monthly) (RM)				
- Postpaid	***97***	*96*	*1*	*1*
- Prepaid	***34***	*33*	*1*	*3*
- Wireless Broadband	***67***	*67*	*-*	*-*
- Blended	***50***	*48*	*2*	*4*
MOU per subscription (Monthly) (minutes)				
- Postpaid	***283***	*278*	*5*	*2*
- Prepaid	***124***	*118*	*6*	*5*
- Blended	***161***	*154*	*7*	*5*

Whilst the Group reported a 1.7% decline in total revenue to RM2,082 million, service revenue grew by 0.6% to RM2,049 million in the quarter under review.

The growth in service revenue this quarter was primarily driven by mobile Internet, which partially mitigated lower voice and SMS usage. Mobile data grew by more than 8% quarter-on-quarter, positively contributed by the initiative undertaken in the previous quarter to eliminate pay per use charges and higher smart-phone penetration. In the quarter under review, the Group's blended smart-phone penetration stood at 48%, up 5% point quarter-on-quarter, and this was primarily driven by new mid-tier smart-phones.

15. ANALYSIS OF PERFORMANCE (CONTINUED)

(A) Performance of the current quarter against the preceding quarter (2nd Quarter 2014 versus 1st Quarter 2014) (continued)

EBITDA for the quarter, which stood at RM1,086 million, was 1.2% higher than the RM1,073 million recorded in the previous quarter, resulting in EBITDA margin of 52.2%. On a comparable basis, EBITDA was marginally lower at RM1,064 million after taking into account the one-off item relating to the reversal for contract obligation as shown above, resulting in EBITDA margin of 51.1% compared to 50.6% reported in previous quarter. This was primarily driven by lower traffic and device related expenses, in spite of an increase in sales and marketing expenses. Device expenses will continue to step down, in-line with the adoption of an out-sourced model. As stated previously, the Group intends to invest more in sales and marketing and on network to strengthen competitiveness in the current financial year.

The Group's comparable profit for the quarter declined by 7.2% to RM480 million against RM517 million in the previous quarter after taking into account one-off items (net of tax effect) relating to the contract obligation reversal and accelerated depreciation amounted to RM29 million for both quarters.

15. ANALYSIS OF PERFORMANCE (CONTINUED)

(B) Performance of the current year against the preceding year (YTD June 2014 versus YTD June 2013)

Financial indicators (RM'm unless otherwise indicated)	YTD 2014 (unaudited)	YTD 2013 (unaudited)	Variance	% Variance
Revenue	4,201	4,621	(420)	(9)
Service revenue [1]	4,086	4,279	(193)	(5)
EBITDA [2]	2,159	2,287	(128)	(6)
EBITDA margin (%)	51.4	49.5	1.9	NA
Depreciation	553	590	(37)	(6)
Amortisation	128	120	8	7
Profit before tax	1,291	1,401	(110)	(8)
Profit for the period	939	1,006	(67)	(7)
Adjustments for one-off items:				
Accelerated depreciation due to network modernisation programme [3]	***99***	*100*	*(1)*	*(1)*
Reversal for contract obligation [4]	***(22)***	-	*(22)*	*>(100)*
Tax effects of the above adjustments	***(19)***	*(25)*	*6*	*24*
Comparable profit for the period	997	1,081	(84)	(8)

Notes:

[1] Service revenue is defined as Group revenue excluding device and hubbing revenues.

[2] Defined as profit before finance income, finance costs, tax, depreciation, amortisation and allowance for write down of identified network costs.

[3] The network modernisation programme enables the Group to strengthen its access network to enhance the customer experience and usage to drive revenue growth. The modernisation programme will also lower overall operational costs and simplify the network architecture across 2G, 3G and LTE technologies.

[4] Reversal for contract obligation was made in relation to Home's network costs.

15. ANALYSIS OF PERFORMANCE (CONTINUED)

(B) Performance of the current year against the preceding year (YTD June 2014 versus YTD June 2013) (continued)

Operational indicators	YTD 2014	YTD 2013 (Restated)	Variance	% Variance
Mobile subscriptions ('000) (Market definition)	12,401	13,873	(1,472)	(11)
- Postpaid	***2,828***	*2,713*	*115*	*4*
- Prepaid	***9,042***	*10,497*	*(1,455)*	*(14)*
- Wireless Broadband	***531***	*663*	*(132)*	*(20)*
ARPU (Monthly) (RM) [(1)]				
- Postpaid	***97***	*103*	*(6)*	*(6)*
- Prepaid	***34***	*31*	*3*	*10*
- Wireless Broadband	***67***	*65*	*2*	*3*
- Blended	***49***	*46*	*3*	*7*
MOU per subscription (Monthly) (minutes) [(1)]				
- Postpaid	***281***	*307*	*(26)*	*(8)*
- Prepaid	***121***	*122*	*(1)*	*(1)*
- Blended	***157***	*158*	*(1)*	*(1)*

Note:
(1) With effect from 1 July 2013, ARPU and MOU per subscription have been computed based on market definition. Comparatives have been restated to conform with the new definition.

On a year-on-year basis, Group revenue declined by 9.1% to RM4,201 million whilst service revenue declined by 4.5% to RM4,086 million.

In the period under review, the decline in service revenue was primarily driven by lower voice and SMS usage. Mobile Internet revenue, however, grew by 13.4% year-on-year to RM1,090 million despite the adverse revenue impact from the elimination of pay per use charges.

Consequently, reported EBITDA for the period, which stood at RM2,159 million, was 5.6% lower than the RM2,287 million reported last period. However, EBITDA margin was higher at 51.4%, against 49.5% previously.

15. ANALYSIS OF PERFORMANCE (CONTINUED)

(B) Performance of the current year against the preceding year (YTD June 2014 versus YTD June 2013) (continued)

On a comparable basis, EBITDA was marginally lower at RM2,137 million after taking into account the one-off reversal for contract obligation (shown above), resulting in EBITDA margin of 50.9%. The margin improvement in the period under review against 49.5% reported last period, was primarily driven by lower traffic and device related expenses.

The Group's comparable profit for the period was 7.8% lower at RM997 million, against RM1,081 million in the same period last year after taking into account one-off items (net of tax effect) relating to the contract obligation reversal and accelerated depreciation amounted to RM58 million and RM75 million in the respective periods.

16. PROSPECTS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2014

The Group's service revenue will increasingly be driven by mobile Internet, in-line with higher Internet adoption and usage. For the financial year 2014, taking into account that the industry is fast maturing and as the Group continues with its transformation and market initiatives to deliver the best mobile Internet access and an unmatched customer experience, the Group expects its service revenue to be slightly below that of the preceding financial year, with similar EBITDA margin.

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 2013.

19. PROFIT FROM OPERATIONS

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

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED 30/6/2014	QUARTER ENDED 30/6/2013	PERIOD ENDED 30/6/2014	PERIOD ENDED 30/6/2013
	RM'm	RM'm	RM'm	RM'm
Allowance/(reversal) (net) for:				
- impairment of receivables, deposits and prepayments	13	20	30	45
- inventory obsolescence	2	1	(7)	1
Amortisation of intangible assets	65	63	128	120
Bad debts recovered	(4)	(4)	(9)	(9)
Gain on foreign exchange	(3)	(6)	(3)	6
Inventories written down	4	-	4	-
Property, plant and equipment:				
- depreciation	284	277	553	590
- gain on disposal	-	(1)	-	(1)
- impairment/written off	12	10	6	17
Reversal for contract obligation	(22)	-	(22)	-

Other than as presented in the statements of profit or loss and as disclosed above, there were no gain/loss on disposal of quoted and unquoted investments or properties, gain/loss on derivatives and other exceptional items for the current quarter and six-month ended 30 June 2014.

20. TAX EXPENSES

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED 30/6/2014	QUARTER ENDED 30/6/2013	**PERIOD ENDED 30/6/2014**	PERIOD ENDED 30/6/2013
	RM'm	RM'm	**RM'm**	RM'm
Income tax:				
- current tax	**253**	269	**390**	475
Deferred tax:				
- origination and reversal of temporary differences	**(70)**	(64)	**(21)**	(80)
- changes in tax rate	**-**	-	**(17)**	-
Total	**183**	205	**352**	395

The Group's effective tax rates for the current quarter and six-month ended 30 June 2014 was 28.9% and 27.3% respectively, higher than the statutory tax rate of 25% mainly due to certain expenses not being deductible for tax purposes.

21. STATUS OF CORPORATE PROPOSALS ANNOUNCED

There were no corporate proposals announced but not completed.

22. BORROWINGS

The borrowings as at 30 June 2014 are as follows:

	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	TOTAL
	RM'm	RM'm	RM'm
<u>Secured</u>			
Finance lease liabilities	8	9	17
<u>Unsecured</u>			
Revolving credit	500	-	500
Term loans	-	2,884	2,884
Syndicated term loans	794	1,929	2,723
Islamic Medium Term Notes	-	2,483	2,483
Loan from a related party	-	29	29
	1,302	7,334	8,636

Currency profile of borrowings is as follows:

	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	TOTAL
Ringgit Malaysia ("RM")	508	4,667 [1]	5,175
United States Dollar ("USD")	794 [2]	2,488 [2]	3,282
Singapore Dollar ("SGD")	-	179 [2]	179
	1,302	7,334	8,636

<u>Notes:</u>
[1] Includes a term loan facility which has been partially hedged using IRS as disclosed in Note 23.
[2] Includes borrowings of RM3,461 million which 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 2014 are set out below:

TYPE OF DERIVATIVE	CONTRACT/ NOTIONAL VALUE	FAIR VALUE
	RM'm	RM'm
Cash flow hedge derivatives:		
CCIRS:		
- less than one year	842	104
- one year to three years	1,708	55
- more than three years	1,014	(62)
IRS:		
- less than one year	-	-
- one year to three years	-	-
- more than three years	700	(38)
Total	4,264	59

Other than those disclosed in the Group's audited financial statements for the financial year ended 31 December 2013, there were no additional derivative financial instruments entered by the Group during the six-month ended 30 June 2014. Also, there have been no changes since the end of the previous financial year ended 31 December 2013 in respect of the following:

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

(b) the cash requirements of the derivatives;

(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 instruments

The Group determines the fair values of the derivative financial instruments relating to the CCIRS and IRS 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 are calculated as the present value of the estimated future cash flow using an appropriate market-based yield curve.

As at 30 June 2014, the Group has recognised derivative financial assets and derivative financial liabilities of RM100 million and RM159 million respectively, an increase in fair value losses by RM57 million from the previous quarter, on remeasuring the fair values of the derivative financial instruments. The corresponding increase has been included in equity in the cash flow hedging reserve.

For the current quarter, RM57 million of the cash flow hedging reserve was reclassified to the statement of profit or loss to offset the unrealised foreign exchange gain of RM57 million which arose from the strengthening RM against USD and SGD. The cash flow hedging reserve as at 30 June 2014 remained as 1st quarter 2014 at RM43 million.

The gains recognised in the cash flow hedging reserve in equity of RM43 million as at 30 June 2014 represents the net deferred fair value gains relating to the CCIRS and IRS which 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.

24. REALISED AND UNREALISED RETAINED EARNINGS

The following analysis of realised and unrealised retained earnings at the legal entity level 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 at the Group level is based on the prescribed format by Bursa Malaysia Securities Berhad.

	AS AT 30/6/2014	AS AT 31/12/2013
	RM'm	RM'm
Retained earnings of the Company and its subsidiaries:		
- realised	885	600
- unrealised	(400)	(479)
	485	121
Less: Consolidation adjustments	(49)	(40)
Total retained earnings as per Consolidated Statements of Financial Position	436	81

25. MATERIAL LITIGATION

There is no material litigation as at 16 July 2014.

26. DIVIDENDS

The Board of Directors has declared a second interim single-tier tax-exempt dividend of 8.0 sen per ordinary share in respect of the financial year ending 31 December 2014, to be paid on 26 September 2014. The entitlement date for the dividend payment is 29 August 2014.

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 29 August 2014 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-month ended 30 June 2014 is 16.0 sen per ordinary share (2013: 16.0 sen).

27. EARNINGS PER SHARE

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		QUARTER ENDED 30/6/2014	QUARTER ENDED 30/6/2013	PERIOD ENDED 30/6/2014	PERIOD ENDED 30/6/2013
(a) Basic earnings per share					
Profit attributable to the equity holders of the Company	(RM'm)	446	528	930	1,003
Weighted average number of issued ordinary shares	('m)	7,505	7,501	7,504	7,501
Basic earnings per share	(sen)	5.9	7.0	12.4	13.4
(b) Diluted earnings per share					
Profit attributable to the equity holders of the Company	(RM'm)	446	528	930	1,003
Weighted average number of issued ordinary shares	('m)	7,505	7,501	7,504	7,501
Adjusted for share options granted	('m)	2	3	3	2
Adjusted weighted average number of ordinary shares	('m)	7,507	7,504	7,507	7,503
Diluted earnings per share	(sen)	5.9	7.0	12.4	13.4

By order of the Board

Dipak Kaur
(LS 5204)
Company Secretary
22 July 2014
Kuala Lumpur