



Company No. LLO1923

(incorporated in the Federal Territory of Labuan, Malaysia with limited liability)

U.S.\$500,000,000

5.25 per cent. Guaranteed Notes due 2014

Unconditionally and irrevocably guaranteed by

Telekom Malaysia Berhad

Company No. 128740-P

(incorporated in Malaysia with limited liability)

Issue Price 99.754 per cent.

TM Global Incorporated ("TM Global" or the "Issuer") proposes to issue U.S.\$500,000,000 5.25 per cent. Guaranteed Notes due 2014 (the "Notes"). Telekom Malaysia Berhad ("Telekom" or the "Guarantor") will unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes (the "Guarantee").

The Notes will bear interest at the rate of 5.25 per cent. per annum payable semi-annually in arrear on 22 March and 22 September in each year, commencing on 22 March 2005. Payments on the Notes will be made without deduction for or on account of taxes of the Federal Territory of Labuan, Malaysia ("Labuan") or Malaysia. See "Terms and Conditions of the Notes — Taxation".

The Notes will mature on 22 September 2014 unless previously redeemed or purchased and cancelled. The Notes are subject to redemption in whole, at their principal amount, together with accrued and unpaid interest, if any, at the option of the Issuer at any time in the event of certain changes affecting taxes of Labuan or Malaysia. See "Terms and Conditions of the Notes — Redemption and Purchase".

The Notes will be offered and sold in reliance on Regulation S ("Regulation S") under the United States Securities Act of 1933, as amended (the "Securities Act") and will be represented by beneficial interests in a permanent global certificate (the "Global Note Certificate") in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about 22 September 2004 (the "Closing Date") with a common depository for, Euroclear Bank, S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme, Luxembourg ("Clearstream, Luxembourg"). Beneficial interests in the Global Note Certificate will be shown on, and transfers thereof will be effected only through, accounts at Euroclear and Clearstream, Luxembourg. Except as described herein, individual note certificates ("Individual Note Certificates") for Notes will not be issued in exchange for beneficial interest in the Global Note Certificate. See "Summary of Provisions Relating to the Notes while in Global Form".

Application has been made to list the Notes on the Luxembourg Stock Exchange and the Labuan International Financial Exchange. The Labuan International Financial Exchange takes no responsibility for the contents of this document, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon any part of the contents of this document. Investors are advised to read and understand the contents of this document before investing. If in doubt, the investor should consult his or her adviser. The Issuer cannot ensure that the application to the Luxembourg Stock Exchange or the Labuan International Financial Exchange will be approved.

For a discussion of certain factors to be considered in connection with an investment in the Notes, see "Investment Considerations" beginning on page 8.

The Notes have been rated "A3" by Moody's Investors Service ("Moody's") and "A-" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision or withdrawal at any time by the assigning rating agency.

No approval from the Securities Commission of Malaysia is or will be obtained for the offering of the Notes on the basis that the Notes will not be offered or sold to residents of Malaysia. For the purposes of this paragraph, "resident" means (a) in relation to a natural person, a citizen or permanent resident of Malaysia, or (b) in relation to any other person, a person who has established a place of business and is operating in Malaysia and includes a person who is declared to be resident pursuant to Section 43 of the Malaysian Exchange Control Act 1953, but excluding any offshore company incorporated under the Malaysian Offshore Companies Act 1990 and any foreign offshore company registered under the Malaysian Offshore Companies Act 1990.

Global Coordinators and Global Bookrunners

Deutsche Bank

UBS Investment Bank

Joint Lead Managers and Joint Bookrunners

CIMB

Deutsche Bank

UBS Investment Bank

TM Global and Telekom having made all reasonable enquiries confirm that this Offering Circular contains all information with respect to the Issuer, the Guarantor, the Guarantor and its subsidiaries and associated companies taken as a whole (the “**Group**”), the Notes and the Guarantee which is material in the context of the issue and offering of the Notes, the statements contained in this Offering Circular relating to the Issuer, the Guarantor and the Group are in all material respects true and accurate and not misleading, the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, this Offering Circular does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading and all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements. The Issuer and the Guarantor accept responsibility accordingly.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or the Joint Lead Managers (as defined in “Subscription and Sale” below) to subscribe or purchase, any of the Notes where the offer or sale is not permitted. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of this Offering Circular, see “Subscription and Sale” below.

No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor or the Joint Lead Managers. The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to its date. The Joint Lead Managers have not separately verified the information contained in this Offering Circular. Accordingly, no representation or warranty, express or implied, is made by the Joint Lead Managers or any of their affiliates or advisers as to the accuracy or completeness of the information contained herein, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Joint Lead Managers, or their affiliates or advisers.

Each person purchasing the Notes from a Joint Lead Manager acknowledges that:

- it has been afforded an opportunity to request from Telekom and the Issuer, and it has received, all additional information considered by it to be necessary to verify the accuracy of the information herein;
- it has not relied on any of the Joint Lead Managers or any person affiliated with such Joint Lead Managers in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision; and
- no person has been authorised to give any information or to make any representation concerning the Notes other than those contained in this Offering Circular and, if given or made, such other information or representation should not be relied upon as having been authorised by Telekom, the Issuer or the Joint Lead Managers.

Each of the Joint Lead Managers has agreed that it has not offered or sold and will not offer or sell the Notes to residents of Malaysia. For the purpose of this paragraph, “**resident**” means (a) in relation to a natural person, a citizen or permanent resident of Malaysia, or (b) in relation to any other person, a person who has established a place of business and is operating in Malaysia and includes a person who is declared to be resident pursuant to Section 43 of the Malaysian Exchange Control Act 1953, but excluding any offshore company incorporated under the Malaysian Offshore Companies Act 1990 and any foreign offshore company registered under the Malaysian Offshore Companies Act 1990.

The Notes and the Guarantee have not been and will not be registered under the Securities Act and, subject to certain exceptions, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see “Subscription and Sale”.

In making an investment decision, prospective investors must rely on their own examination of Telekom, the Issuer and the terms of the Notes. Telekom, the Issuer and the Joint Lead Managers are not making any representation to any purchaser of Notes regarding the legality of any investment in the Notes by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice.

IN CONNECTION WITH THE ISSUE AND DISTRIBUTION OF THE NOTES, UBS LIMITED (THE “STABILISING MANAGER”) OR ANY PERSON ACTING FOR IT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD OF TIME. HOWEVER, THE STABILISING MANAGER OR ANY PERSON ACTING FOR IT IS UNDER NO OBLIGATION TO DO SO. FURTHERMORE, SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The unconsolidated financial statements of the Issuer as at and for the years ended 31 December 2001, 2002 and 2003 and the consolidated financial statements of the Guarantor as at and for the years ended 31 December 2001, 2002 and 2003 set forth elsewhere herein have been prepared in accordance with Malaysian generally accepted accounting principles (“**Malaysian GAAP**”) and have been audited by PricewaterhouseCoopers. The summary consolidated financial information of the Guarantor as at and for the years ended 31 December 2001 and 2002 set forth in “Summary — Summary Consolidated Financial Information” has been derived from the restated consolidated financial statements of the Guarantor (which are not set forth herein) in order to present, for the Guarantor’s last three financial years, figures which have been prepared in accordance with comparable accounting policies. The Guarantor restated the consolidated financial statements as at and for the years ended 31 December 2001 and 2002 to reflect changes in accounting standards introduced by the Malaysian Accounting Standards Board (“**MASB**”) for the treatment of deferred tax and certain other items as more fully set forth in “Summary — Summary Consolidated Financial Information”. These restated figures have not been audited for the purpose of this Offering Circular. The interim unaudited consolidated financial statements of the Guarantor and the interim unaudited unconsolidated financial statements of the Issuer, as at 30 June 2004 and for the six months ended 30 June 2003 and 30 June 2004, set forth elsewhere herein, have been prepared in accordance with Malaysian GAAP.

The Guarantor files unaudited consolidated quarterly financial information with Bursa Malaysia Securities Berhad (“**Bursa Malaysia**”) (formerly known as the Kuala Lumpur Stock Exchange). In addition, the Guarantor is not required to, and generally does not, subject this quarterly financial information to a review by its independent accountants. The Issuer does not prepare interim financial statements.

Unless otherwise specified or the context requires, references to “**dollars**”, “**U.S. dollars**”, “**U.S.\$**” and “**cents**” are to the lawful currency of the United States, references to “**Ringgit**”, “**Ringgit Malaysia**”, “**RM**” and “**sen**” are to the lawful currency of Malaysia, references to the “**Government**” are to the Government of Malaysia and all financial information in respect of Telekom has been presented on a consolidated basis. Capitalised terms used but not defined herein have the meanings given to them elsewhere in this Offering Circular. Any discrepancies in the tables included herein between the amounts listed and the totals thereof are due to rounding.

Solely for the convenience of the reader, this Offering Circular contains translations of certain Ringgit amounts into U.S. dollars and *vice versa* at the prevailing fixed exchange rate of RM3.80 to U.S.\$1.00, the reference rate set by Bank Negara Malaysia (“**BNM**”) in September 1998 and still in effect as of the date of this Offering Circular. No representation is made that the Ringgit or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Ringgit, as the case may be, at any particular rate or at all. See “Exchange Rates”.

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SUMMARY

Introduction

The Group is the principal provider of telecommunications and related services in Malaysia and between Malaysia and international locations. The Group provides substantially all of the basic fixed lines in Malaysia, with a market share in excess of 95 per cent. of business and residential basic fixed local lines as at 30 June 2004, based on the number of utilised DELs. Revenues from the Group's basic fixed line services contributed 53.1 per cent. of the Group's consolidated annual revenues in the year ended 31 December 2003. As at 30 June 2004, the Group had a fixed line customer base in Malaysia comprising approximately 4.52 million DELs.

Following the acquisition of Celcom (Malaysia) Berhad ("**Celcom**") in 2003 and the merger and integration of Celcom's business with the Group's mobile business, the Group has become the largest mobile telecommunications provider in Malaysia in terms of network coverage and capacity. See — "Business — Mobile Services".

The Group's telecommunications services also include leased line, data, ISP, broadband and multimedia services. In addition to the Group's telecommunications business in Malaysia, the Group has telecommunications businesses and investments overseas in countries including South Africa, Guinea, Malawi, Bangladesh, Sri Lanka, Thailand and Cambodia.

The Group's fixed line business provides services including:

- basic fixed line services, including local, domestic long-distance and international telephone services;
- leased line and data networking services;
- VoIP services;
- payphones; and
- value-added services.

The Group provides mobile telephone services on three separate mobile systems which collectively provide nationwide coverage of the principal population centres of Malaysia and substantial international roaming capability. Following the acquisition of Celcom, the Group's mobile services are all operated under the "*Celcom*" brand name.

The Group's multimedia and ISP businesses provide products and services in the following main categories:

- access services consisting principally of various forms of internet access;
- application services consisting principally of broadband-based applications; and
- content services consisting principally of the portal bluehyppo.com.

The Government, through Khazanah Nasional Berhad ("**Khazanah**"), a corporation formed by the Government to hold investments in companies, owns a majority of the issued shares of Telekom. The Ministry of Finance Inc. ("**MOF Inc.**"), a corporation formed under the Ministry of Finance (Incorporation) Act 1957 to hold certain investments, holds the Special Rights Redeemable Preference Share, RM1.00 par value, of Telekom (the "**Special Share**") which, under Telekom's Articles of Association, entitles MOF Inc. to representation on Telekom's Board of Directors. See "Business — History — Initial Public Offering and Government Ownership". Telekom and its relevant subsidiaries operate their telecommunications and related services businesses in Malaysia under licences granted by the Government. See "Regulation".

Telekom was incorporated as a limited liability company in Malaysia on 12 October 1984 and its main business activity as described in paragraph 3(1) of its Memorandum of Association is the provision of telecommunication services and data processing services both within Malaysia and overseas. Its registered and principal office is located at Level 51, North Wing, Menara Telekom, Off Jalan Pantai Baharu, 50672 Kuala Lumpur, Malaysia.

Recent Developments

India

On 28 May 2004, Telekom, through its wholly-owned subsidiary TM International Sdn Bhd (“**TM International**”), entered into a teaming agreement with Singapore Technologies Telemedia Pte Ltd (“**STT**”), through its wholly-owned subsidiary Singapore Technologies Telemedia Communications Ltd (“**STTC**”) to acquire a strategic stake in the Indian telecommunications company, Idea Cellular Ltd (“**Idea Cellular**”). Idea Cellular is the fifth largest mobile telecommunications operator in India by number of subscribers. India has been one of the world’s fastest growing mobile telecommunications markets and Telekom seeks to capitalise on the market’s growth potential through this share acquisition.

Telekom plans to hold 40 per cent. of the joint venture interest with STT holding the remaining 60 per cent., and, if successfully completed, the share acquisition will raise Telekom’s and STT’s combined equity interest in Idea Cellular to 49 per cent., which is the maximum level of foreign ownership currently permitted by the Indian government in respect of telecommunications companies. Telekom and STT are currently negotiating the terms of a sale and purchase agreement in connection with the planned acquisition of a strategic stake in Idea Cellular. While Telekom and STT expect to execute a sale and purchase agreement in the foreseeable future, there can be no assurance that a sale and purchase agreement will be successfully negotiated and executed as planned. For a discussion of the potential risks associated with this investment, see “Investment Considerations — Considerations relating to Telekom and the Group — Telekom’s planned acquisition and expansion in India may not be successful”.

If completed as planned, this investment will be one of the Group’s largest international investments. For a discussion of the potential risks associated with this investment, see “Investment Considerations — Considerations relating to Telekom and the Group — Telekom’s planned acquisition and expansion in India may not be successful”.

South Africa

On 18 June 2004, Telekom sold 32.2 million shares in its former associate, Telkom SA Limited (“**Telkom SA**”) which resulted in Telekom recognising a profit on disposal of RM622.4 million (U.S.\$163.8 million) for the six months ended 30 June 2004. This partial disposal reduced Telekom’s effective equity interest in Telkom SA from 12.00 per cent. to 6.04 per cent. See “Business — International Ventures — Africa — Telkom SA”.

The Offering

Issuer	TM Global Incorporated.
Guarantor.	Telekom Malaysia Berhad.
Issue	U.S.\$500,000,000 aggregate principal amount of 5.25 per cent. Guaranteed Notes due 2014 unconditionally and irrevocably guaranteed by Telekom.
Issue Price	99.754 per cent.
Interest	The Notes will bear interest at the rate of 5.25 per cent. per annum. See “Terms and Conditions of the Notes — Interest”.
Interest Payment Date . . .	Interest on the Notes is payable semi-annually in arrear on 22 March and 22 September in each year, commencing on 22 March 2005.
Maturity.	22 September 2014.
Form and Denomination	The Notes will be in registered form in the denomination of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof. The Notes will be represented by the Global Note Certificate in registered form, which will be registered in the name of a nominee of, and deposited with a common depository for, Euroclear and Clearstream, Luxembourg.
Status	The Notes will constitute, subject to the negative pledge, direct, unsecured and unsubordinated obligations of the Issuer and which shall at all times rank <i>pari passu</i> among themselves and at least <i>pari passu</i> with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such exceptions as may be provided by applicable legislation. The payment obligations of the Guarantor under the Guarantee will constitute direct, unsecured and unsubordinated obligations of the Guarantor which will at all times rank at least <i>pari passu</i> with all other present and future unsecured and unsubordinated obligations of the Guarantor, save for such exceptions as may be provided by applicable legislation.
Negative Pledge and Other Covenants.	For a description of the negative pledge and other covenants applicable to the Issuer, the Guarantor, Celcom and any Future Significant Subsidiary (as defined in “Terms and Conditions” below), see “Terms and Conditions of the Notes — Negative Pledge; Limitation upon Sale and Leaseback Transactions; Consolidations, Merger and Sale of Assets”.
Taxation	In the event that certain taxes are payable in respect of payments pursuant to the Notes or under the Guarantee, TM Global or Telekom (as the case may be) will pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required. See “Terms and Conditions of the Notes — Taxation”.
Final Redemption	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 22 September 2014.
Tax Redemption	The Notes may be redeemed, at the option of TM Global, in whole but not in part, at their principal amount, if, as a result of certain changes in the laws or regulations affecting Labuan or Malaysian taxes, TM Global (or, if a demand is made under the Guarantee, Telekom) has or will become obliged to pay additional amounts in respect of such taxes. See “Terms and Conditions of the Notes — Redemption and Purchase”.

Redemption at the option of Noteholders	The Notes may be redeemed, at the option of Noteholders, if the Government or an entity controlled by the Government ceases to retain the Special Rights Preference Share of the Guarantor and ceases to own and control more than 50 per cent. of the issued and outstanding share capital of the Guarantor. See “Terms and Conditions of the Notes — Redemption and Purchase”.
Events of Default	For a description of certain events that may permit acceleration of the Notes, see “Terms and Conditions of the Notes — Events of Default”.
Sale Restrictions	The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. For a description of these and certain further restrictions on the offer and sale of the Notes, see “Subscription and Sale”.
Governing Law	English law.
Trustee	Noblehouse International Trust Ltd.
Principal Paying Agent and Transfer Agent	Deutsche Bank AG, Hong Kong Branch
Registrar and Transfer Agent	Deutsche Bank Luxembourg S.A.
Trust Deed	The Notes will be issued under a trust deed, to be dated 16 September 2004, among TM Global, Telekom and the Trustee (the “ Trust Deed ”).
Further Issues	The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.
Use of Proceeds	The net proceeds of the issue of the Notes, expected to amount to approximately U.S.\$497,020,000 after deducting underwriting fees and certain transaction related expenses, will be on-lent by the Issuer to Telekom and applied by Telekom principally for the refinancing of existing debt and general working capital purposes. See “Use of Proceeds”.
Investment Considerations	Prospective investors should carefully consider, before deciding to invest, certain factors in connection with an investment in the Notes. See “Investment Considerations” and the other information in this Offering Circular.
Rating	The Notes have been rated “A3” by Moody’s and “A-” by S&P. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision or withdrawal at any time by the assigning rating agency.
Listing	Application has been made to list the Notes on the Luxembourg Stock Exchange and the Labuan International Financial Exchange.

Summary Consolidated Financial Information

The following summary financial information as at and for the year ended 31 December 2003 has been derived from the audited consolidated annual financial statements of the Guarantor set forth elsewhere herein. The summary financial information of the Guarantor as at and for the years ended 31 December 2001 and 2002 set forth below has been derived from the restated consolidated financial statements of the Guarantor (which are not set forth herein) in order to present, for the Guarantor's last three financial years, figures which have been prepared in accordance with comparable accounting policies. These restated figures have not been audited for the purpose of this Offering Circular. The Guarantor restated the consolidated financial statements as at and for the years ended 31 December 2001 and 2002 to reflect certain changes in accounting standards introduced by MASB and in accounting policies adopted by the Guarantor. These changes in accounting standards and policies, which have been applied on a retrospective basis, are (i) the adoption of the new MASB Standard 19 "Events After the Balance Sheet Date" with respect to proposed dividends, (ii) the adoption of the new MASB Standard 25 "Income Taxes" with respect to deferred tax, and (iii) a change in the Guarantor's accounting policy with respect to goodwill. The summary financial information of the Guarantor as at and for the years ended 31 December 2001, 2002 and 2003 have not been adjusted to reflect the adoption of new MASB Standards applicable to the Guarantor for which retrospective application is not permitted by the relevant standard or where the Guarantor has relied on exemptions to apply the relevant new MASB Standard prospectively. For a fuller description of the changes in accounting policies adopted by the Guarantor, reference should be made to the note on "Significant Accounting Policies" set out on pages F-31 to F-41 and the note on "Prior Year Adjustments" set out on pages F-121 and F-122. The following summary financial information as at 30 June 2004 and for the six months ended 30 June 2003 and 30 June 2004 has been derived from the unaudited consolidated interim financial statements of the Guarantor set forth elsewhere herein. This summary financial information should be read in conjunction with, and is qualified in its entirety by reference to, the audited and unaudited consolidated financial statements of the Guarantor included elsewhere in the Offering Circular. The financial statements of the Guarantor as at and for the years ended 31 December 2001, 2002 and 2003, and as at 30 June 2004 and for the six months ended 30 June 2003 and 30 June 2004, have been prepared and presented on a consolidated basis and in accordance with Malaysian GAAP. Malaysian GAAP differs in certain respects from accounting standards issued or adopted by the International Accounting Standards Board (collectively referred to herein as "IFRS"). For a description of significant differences between Malaysian GAAP and IFRS as applicable to the Guarantor on a consolidated basis, see "Summary of Principal Differences Between Malaysian GAAP and IFRS".

Income Statements

	For the years ended 31 December				For the six months ended 30 June		
	2001	2002	2003	2003	2003	2004	2004
	RM	RM	RM	USD	RM	RM	USD
Operating revenue	9,673.2	9,834.1	11,796.4	3,104.3	5,288.9	6,500.6	1,710.7
Operating costs ⁽³⁾	(7,839.3)	(8,154.8)	(10,018.2)	(2,636.4)	(4,473.6)	(5,438.7)	(1,431.3)
Operating profit	1,833.9	1,679.3	1,778.2	467.9	815.3	1,061.9	279.4
Other operating income	137.0	112.5	87.1	22.9	45.8	97.6	25.7
Operating profit before finance cost	1,970.9	1,791.8	1,865.3	490.8	861.1	1,159.5	305.1
Net finance cost	(398.9)	(303.9)	(430.0)	(113.1)	(182.5)	(235.0)	(61.8)
Associates							
— share of profits less losses	43.8	42.5	375.2	98.7	165.0	160.6	42.2
— profit on disposal	827.8	—	—	—	—	622.4	163.8
Profit before taxation	2,443.6	1,530.4	1,810.5	476.4	843.6	1,707.5	449.3
Taxation							
— the company and subsidiaries ⁽²⁾	(630.0)	(626.7)	(253.7)	(66.8)	(225.0)	(187.2)	(49.3)
— share of taxation of associates	(38.5)	(33.0)	(112.6)	(29.5)	(40.7)	(22.4)	(5.8)
Profit after taxation	1,775.1	870.7	1,444.2	380.1	577.9	1,497.9	394.2
Minority interests	(23.9)	(26.4)	(53.8)	(14.2)	(20.4)	(38.6)	(10.2)
Profit for the year attributable to shareholders ⁽²⁾⁽³⁾	<u>1,751.2</u>	<u>844.3</u>	<u>1,390.4</u>	<u>365.9</u>	<u>557.5</u>	<u>1,459.3</u>	<u>384.0</u>

Balance Sheets

	As at 31 December				As at 30 June	
	2001	2002	2003	2003	2004	2004
	RM	RM	RM	USD	RM	USD
Share capital	3,103.5	3,167.0	3,250.7	855.4	3,345.8	880.5
Share premium	2,065.0	2,536.5	3,046.4	801.7	3,625.4	954.0
Reserves ⁽¹⁾⁽²⁾⁽³⁾	8,637.3	9,216.1	10,485.3	2,759.3	11,469.9	3,018.4
Total capital and reserves	13,805.8	14,919.6	16,782.4	4,416.4	18,441.1	4,852.9
Minority interests	175.8	225.7	245.1	64.5	282.1	74.2
Convertible Bonds	1,358.2	1,361.6	—	—	—	—
Borrowings	5,349.8	4,826.9	10,830.6	2,850.2	10,427.4	2,744.1
Customers' deposits ⁽⁴⁾	624.6	625.5	626.9	165.0	622.9	163.9
Deferred tax liabilities ⁽²⁾	1,388.2	1,590.3	2,031.5	534.6	2,013.7	530.0
Retirement benefits	318.7	—	—	—	—	—
Deferred and long term liabilities	9,039.5	8,404.3	13,489.0	3,549.8	13,064.0	3,438.0
	<u>23,021.1</u>	<u>23,549.6</u>	<u>30,516.5</u>	<u>8,030.7</u>	<u>31,787.2</u>	<u>8,365.1</u>
Intangible assets	—	—	4,072.7	1,071.8	4,072.7	1,071.8
Property, plant & equipment	18,926.7	19,566.5	21,605.9	5,685.8	20,406.1	5,370.0
Associates ⁽³⁾⁽⁴⁾	1,040.7	2,746.5	1,499.6	394.6	922.7	242.8
Investments	105.5	139.6	384.7	101.2	385.2	101.4
Long-term receivables	657.8	685.4	668.9	176.0	673.0	177.1
Deferred tax assets	—	—	160.4	42.2	162.1	42.7
Inventories	153.4	172.5	203.6	53.6	174.6	45.9
Trade and other receivables ⁽⁴⁾	3,761.4	3,592.4	3,835.0	1,009.2	4,029.0	1,060.3
Short-term investments	222.5	197.7	263.4	69.3	223.6	58.8
Cash and bank balances ⁽⁴⁾	2,527.1	1,834.8	3,346.1	880.6	5,466.7	1,438.6
Current assets	6,664.4	5,797.4	7,648.1	2,012.7	9,893.9	2,603.6
Trade and other payables ⁽⁴⁾	3,334.1	3,675.7	4,522.0	1,190.0	4,073.7	1,072.0
Borrowings ⁽⁴⁾	373.7	1,488.0	877.8	231.0	561.0	147.6
Taxation	666.2	222.1	124.0	32.6	93.8	24.7
Current liabilities	4,374.0	5,385.8	5,523.8	1,453.6	4,728.5	1,244.3
Net current assets	2,290.4	411.6	2,124.3	559.1	5,165.4	1,359.3
	<u>23,021.1</u>	<u>23,549.6</u>	<u>30,516.5</u>	<u>8,030.7</u>	<u>31,787.2</u>	<u>8,365.1</u>

Notes:

(1) Proposed dividends

During the year ended 31 December 2002, the Guarantor changed its accounting policy with respect to the recognition of liabilities for proposed dividends in compliance with the new MASB Standard 19 "Events After the Balance Sheet Date". In previous years, dividends were accrued as liabilities when proposed by the Board of Directors. The Guarantor changed this accounting policy to recognise dividends in shareholders' equity as an appropriation of retained profits for the period in which the obligation to pay is established in accordance with MASB 19. Accordingly, final dividends are now accrued as liabilities after approval by shareholders at the annual general meeting. This change in accounting policy was implemented retrospectively and has resulted in the restatement of the figures as at and for the year ended 31 December 2001.

(2) Deferred tax

During the year ended 31 December 2003, the Guarantor changed its accounting policy with respect to the recognition of provision for deferred tax in compliance with MASB Standard 25 "Income Taxes". In previous years, provision was made for deferred tax, using the liability method, on all material temporary differences except where it was considered reasonably probable that the tax effect of such deferrals would continue in the foreseeable future. The Guarantor changed this accounting policy to that of full provision in respect of all temporary differences in accordance with MASB 25. All temporary differences are now recognised as a provision in the

financial statements in the period as and when they arise. Deferred tax assets, if any, are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unutilised tax losses can be utilised. This change in accounting policy was implemented retrospectively and has resulted in the restatement of the figures as at and for the years ended 31 December 2001 and 2002.

(3) *Intangible assets*

During the year ended 31 December 2003, the Guarantor changed its accounting policy with respect to goodwill. In previous years, goodwill was written off in the year of acquisition. Following the change in accounting policy, goodwill on acquisitions occurring on or after 1 January 2002 in respect of a subsidiary is included in the consolidated balance sheet as an intangible asset or, if arising in respect of an associate, is included in the cost of investment in associates. Capitalised goodwill is tested for impairment annually and if and when events or circumstances occur indicating that an impairment may exist. Impairment of goodwill is charged to consolidated income statement as and when it arises. This change in accounting policy was implemented retrospectively and has resulted in the restatement of the figures as at and for the year ended 31 December 2002. Goodwill on acquisitions occurring prior to 1 January 2002 continues to be written off against reserves in the year of acquisition.

(4) *Reclassifications*

Reclassifications for the years ended 31 December 2001 and 2002 comprise adjustments to reflect reclassification of balances to conform with the financial statement presentation for the year ended 31 December 2003. These reclassifications have no impact on the net profit attributable to shareholders.

Operating Data:

	As at or for the year ended 31 December			As at and for the six months ended 30 June	
	2001	2002	2003	2003	2004
DEL penetration (by population)	19.6%	18.8%	18.1%	18.4%	17.8%
DEL penetration (by household)	65.1%	61.7%	58%	59.8%	56.8%
Cellular Penetration	30.8	36.9	43.9	39.6	48.5
Estimated market share	28.8%*	22%*	39%	41%	38%
Annualised post-paid churn rate	34%*	26.8%*	34.80% ⁺	53.60%	20.40%
Cellular Subscribers (in thousands)	2,130.8*	1,995.7*	4,336.9	4,055.5	4,672.8

Notes:

* Prior to the merger with TM Cellular Sdn. Bhd.

+ Assumes the merger with TM Cellular Sdn. Bhd. for the full year of 2003.

INVESTMENT CONSIDERATIONS

Before investing in the Notes, prospective investors should pay particular attention to the fact that the Group, and to a large extent its activities, are governed by the legal, regulatory and business environment in Malaysia, which differs from that which prevails in other countries. The business of the Group is subject to a number of factors, many of which are outside the control of the Group. Prior to making an investment decision, prospective investors should carefully consider, along with the other matters set forth herein, the risks and investment considerations set forth below. The risks and investment considerations set forth below are not an exhaustive list of the challenges currently facing the Group or that may develop in the future. Additional risks, whether known or unknown, may in the future have a material adverse effect on the Group or the Notes.

Considerations Relating to Telekom and the Group

The Group faces increasing competition in Malaysia and in the other markets in which it operates

Following further deregulation of the Malaysian telecommunications sector, competition in the Malaysian telecommunications market has increased in recent years. In line with trends affecting incumbent telecommunications service providers worldwide, Telekom's market share has declined in some key segments and prices for certain products and services have fallen significantly. In addition, Telekom has experienced a decline in subscriber numbers in its core fixed line sector as customers have opted to utilise mobile and other technologies such as VoIP. In addition, the market for mobile services in Malaysia is highly competitive. Increased competition from existing and new mobile operators has resulted in, and is expected to continue to result in, greater price competition in the mobile market, with operators lowering monthly access fees and tariffs, providing handset subsidies and offering more attractive product and service packages, resulting in a higher churn rate, lower average revenue per customer, slower growth in total subscribers and increased subscriber acquisition cost. These trends may continue as a result of intensifying competition, new technologies, new market entrants and new regulations that require Telekom to allow its competitors to have access to its networks. Competition could lead to a decline in Telekom's existing subscriber base as subscribers choose to receive communications services from other providers, or result in lower revenue from competitive pricing policies, increased selling costs to attract or replace subscribers, or a decrease in the rate at which Telekom attracts new subscribers for its communication services, any of which could adversely affect Telekom's profitability. See "Business — Competition" and "Regulation — Key regulatory issues — Competition".

The Group may also be subject to competition from providers of new communications services as a result of technological development and the convergence of new communications services. The introduction of any such new operators is likely to result in a decline in market share and could have an adverse effect on the Group's financial condition and results of operations.

Furthermore, the Group's international communications operations and investments face competition from a number of sources including other domestic and regional communications providers, and are subject to highly competitive market conditions. Prices for some of the services offered by its international operations have experienced significant declines in recent years and are anticipated to continue to decline at similar rates as a result of capacity additions and general price competition. There can be no assurance that companies in which the Group has invested will be able to compete successfully, or at all, or that such failure will not have an adverse effect on the Group's financial condition and results of operations.

The Group may experience difficulties in integrating the operations and businesses of Celcom

Telekom completed its acquisition of Celcom in 2003. As part of the acquisition, Celcom's mobile business was merged with TM Cellular Sdn. Bhd. ("TM Cellular"), Telekom's mobile subsidiary. See "Business — Mobile Services — Introduction". The process of effectively integrating the operations and businesses of two large telecommunications companies that previously operated independently in most respects presents significant management challenges. The management of the integration of Celcom's business and operating systems with those of TM Cellular and the Group will require the continued development of financial and management controls, in particular, information technology and training of personnel, all of which could lead to the loss of key members of Celcom's management team or require significant expenditures. Furthermore, the Group may have difficulty fully integrating its operations with

Celcom or assimilating Celcom's operations and personnel or may fail to incorporate licenced or acquired technology into its network and products in a successful manner. See "Business — Mobile Services — Integration Plan".

The Group seeks to take advantage of financial, strategic and operational synergies arising from the combination of the mobile businesses of Celcom and the Group. If these synergies do not materialise, to the extent expected by Telekom, the growth strategy, financial condition and results of operations of the Group could be adversely affected. See "Business — Mobile Services — Synergies".

In addition, due to the higher levels of debt outstanding at the Celcom level, the acquisition of Celcom resulted in an increase in the Group's levels of indebtedness and gearing ratios. As a result of additional borrowings required to finance the acquisition of Celcom and the consolidation of Celcom's indebtedness, the Group's indebtedness increased from RM7,618.4 million (representing a gearing ratio of 54.2 per cent.) as at 31 March 2003 to RM11,708.4 million (representing a gearing ratio of 69.8 per cent.) as at 31 December 2003. This increased level of indebtedness may result in the Group incurring higher debt servicing costs. See "Business — Strategy — Maintaining a balanced and efficient capital structure" and "Business — Mobile Services — Impact of Acquisition".

The Group's international operations may not be successful

A key element of the Group's business strategy involves the expansion of its telecommunications operations in the Asian region. Given the limited size of the Malaysian telecommunications market, the future growth of the Group depends, to a large extent, on its ability to successfully carry out its expansion strategy. As at 30 June 2004, the Group had investments (including subsidiary, associate and long-term investments) of RM1,461.8 million in eight countries.

The Group's ability to further expand its international network successfully depends on its ability to identify suitable opportunities for investment or acquisition and reach agreement with potential overseas partners or sellers on satisfactory commercial and technical terms. There can be no assurance that such opportunities or agreements can be established or that any of the Group's proposed acquisitions or agreements will be completed or completed on the commercial terms contemplated. Further, there is no assurance that the Group will be successful in making further acquisitions due to the limited investment opportunities, competition for the available opportunities from other potential investors, foreign ownership restrictions, government and regulatory policies, political considerations and the specific preferences of sellers. In particular, other major telecommunications companies in the region are following similar strategies or attempting to penetrate the same markets. Furthermore, some of the markets the Group has entered are dominated by large incumbent telecommunications providers. In certain markets where regulatory and legal issues pose as, or have become, major challenges, the Group has incurred substantial expenses in connection with its international operations in these markets and may impact on the return on its investment in these operations. For example, in relation to the Group's investment in Ghana Telecommunications Company Limited, the Group is involved in protracted litigation which has resulted in significant expense and may impact on the return of its investment. See "Business — Legal Proceedings".

In addition, the Group may be unable to successfully transplant and adopt its business model developed in Malaysia into new or existing ventures due to differences in market structure and regulatory environments. The Group may be unable to profitably manage new ventures and may incur substantial costs and experience delays or other operational or financial problems in trying to do so, and the Group may incur additional debt or assume contingent liabilities as a result. The Group may also face changes in the tariff structure and other regulation it faces in different countries, which may have a material adverse effect on the Group's business, financial condition and results of operations.

Furthermore, there can be no assurance that the Group will be able to generate synergies from these businesses and be successful in building a regional footprint. Any delay or failure to achieve these and other objectives may adversely affect the financial condition and results of operations of the Group.

Telekom's planned acquisition and expansion in India may not be successful

On 28 May 2004, Telekom, through its wholly-owned subsidiary TM International, entered into a teaming agreement with STT, through its wholly-owned subsidiary STTC to acquire a strategic stake in the Indian telecommunications company, Idea Cellular. Idea Cellular is the fifth largest mobile telecommunications operator in India by number of subscribers. India has been one of the world's fastest growing mobile telecommunications markets and Telekom seeks to capitalise on the market's growth potential through this share acquisition.

Telekom plans to hold 40 per cent. of the joint venture interest with STT holding the remaining 60 per cent., and, if successfully completed, the share acquisition will raise Telekom's and STT's combined equity interest in Idea Cellular to 49 per cent., which is the maximum level of foreign ownership currently permitted by the Indian government in respect of telecommunications companies. Telekom and STT are currently negotiating the terms of a sale and purchase agreement in connection with the planned acquisition of a strategic stake in Idea Cellular. While Telekom and STT expect to execute a sale and purchase agreement in the foreseeable future, there can be no assurance that a sale and purchase agreement will be successfully negotiated and executed as planned. For a discussion of the potential risks associated with this investment, see "Investment Considerations — Considerations relating to Telekom and the Group — Telekom's planned acquisition and expansion in India may not be successful".

If completed as planned, the Group's investment in Idea Cellular will be one of its largest international investments and in a market where the Group has limited experience. Idea Cellular has experienced losses since its inception and, if these losses continue, Telekom may have to revalue its investment in Idea Cellular. There can be no assurance that Telekom's investment will generate the operational and financial returns Telekom expects.

Should the Indian government increase the maximum level of foreign ownership in respect of telecommunications companies, Telekom may opt to increase its equity interest in Idea Cellular, thereby increasing the Group's exposure to Idea Cellular's financial condition and results of operations.

The Government has effective control of Telekom

The Government, primarily through Khazanah and MOF Inc., is the majority shareholder of Telekom. As at 30 June 2004, Khazanah, which is wholly-owned by MOF Inc., owned 32.26 per cent. of Telekom's ordinary shares and MOF Inc. owned 3.34 per cent. of Telekom's ordinary shares. An additional 29.71 per cent. of Telekom's ordinary shares are held through various other Governmental entities bringing aggregate Government ownership of Telekom's outstanding ordinary shares to 65.31 per cent. MOF Inc. also holds the Special Share, which enables the Government to ensure that certain decisions made by Telekom are made with its consent and are consistent with Government policies. MOF Inc., through its ownership of the Special Share, has the right to appoint between two to six of a maximum of 12 members of the Board of Directors of Telekom. As at 30 June 2004, three of the current directors of Telekom were appointed by the Government.

The Group's telephone licences contain provisions to ensure that the Group operates in the interests of consumers. Furthermore, the Government establishes, through the Minister of Energy, Water and Communications, the Malaysian Communications and Multimedia Commission (the "Commission") and other regulatory bodies, the regulatory framework in which Telekom and its subsidiaries operate their businesses within Malaysia. The Government may attempt to stimulate additional competition and lower telecommunications costs to consumers by reducing the charges payable by other telecommunications providers for the Group's provision of certain telephone services such as public payphones and emergency services which the Group is obliged to provide under its licences or require the Group to provide customer access to infrastructure established by the Group at rates that do not fully compensate the Group for its costs. Accordingly, the Government's social and political objectives could conflict with the Group's business and commercial objectives, which, in turn, could have a material adverse effect on the Group's financial condition and results of operations.

Furthermore, there can be no assurance that the Government, through MOF Inc., will continue to hold the Special Share in the future. There can also be no assurance that Khazanah will remain the controlling shareholder of Telekom or that there will not be a change of control of Telekom or the entry of another

major shareholder with the ability to exert significant influence on the direction or operations of the Group, nor that the Group's business, financial condition and results of operations would not be adversely affected by such a change in control of influence.

Prospective purchasers of the Notes should be aware that the Notes are not guaranteed by, nor do they constitute an obligation of, the Government or any instrumentality of the Government other than TM Global and Telekom.

The Group depends on key management for the growth and successful implementation of its business strategy

Telekom believes that its continued growth and the successful implementation of its business strategy, including the successful integration of Celcom and the realisation of synergies from its regional and international operations, will depend on senior management and key personnel of Telekom and Celcom. While key members of Celcom's senior management team have remained in Celcom's employment following the acquisition of Celcom by Telekom, there can be no assurance that members of the senior management team will remain with Celcom in the foreseeable future.

Any personnel difficulties encountered in the integration of Celcom's key members of the management team as a result of the integration process or otherwise could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is subject to licensing requirements

The Group's telecommunications businesses are subject to Malaysian statutory licensing requirements. See "Regulation" for a further discussion regarding the licences held by the Group. Additionally, the Group's licences in Malaysia are subject to review and revocation by the Government and additional conditions may be imposed. There can also be no assurance that a licence will be renewed after the expiration of its current term or that it will be replaced by a new licence issued under the Communications and Multimedia Act 588/1998 (the "CMA"). The failure of the Group to maintain or renew its licences could have a material adverse effect on the Group's financial condition and results of operations.

The Group has re-aligned its operations in recent years

The Group has re-aligned its operations along business lines in recent years, resulting in the creation of separate operating subsidiaries of Telekom to operate each of the mobile, multimedia, international and support and services businesses. The Group has also re-aligned its fixed line business and on 1 July 2004 established separate retail business and wholesale business units to specifically focus on, and cater for the needs of corporate, government and small and medium-sized enterprises and wholesale telecommunication operators, respectively. See "Business — Principal Products and Services". There can be no assurance that the re-alignment will be successful. While Telekom currently expects to continue to operate the fixed line telecommunications business directly, there can be no assurance that the Group will not, in the future, transfer the fixed line telecommunications business to a subsidiary and operate Telekom solely as a holding company. Telekom's subsidiaries are separate and distinct legal entities from Telekom and have no direct obligations to pay any amounts due under the Notes or the Guarantee or to make any funds available therefore, whether in the form of loans, dividends or otherwise.

The Group's operating licences, or those upon which its international operations are dependant, may change

Changes in laws, regulations or government policy in the countries where the Group have licences to operate, or which it has an interest in a business holding such a licence, or changes in those licences held by the Group's competitors, could adversely affect the Group's results of operations and prospects, particularly if any such changes result in adjustments to tariff structures. In Malaysia, fixed line tariffs are currently regulated while mobile tariffs are not.

Furthermore, the governments in most jurisdictions where the Group operates, with due regard to prevailing laws and regulations, may amend the terms of the Group's licences and business authority at its discretion. Any breach of the terms and conditions of its licences or business authority or failure to comply

with applicable regulations may result in such licences or business authority being revoked. Any revocation or unfavourable amendment of the licences or business authority, or any failure to renew them on comparable terms, could have a materially adverse effect on the Group's business, financial condition, results of operations and prospects.

The telecommunications industry is subject to rapid technological changes

The telecommunications industry is subject to rapid, ongoing technological changes. Wireless technology, satellite-based personal communications services, private and shared radio networks, VoIP and other communications services which have the technical capability to handle telephone calls compete with the businesses of the Group. Emerging and future technological changes may adversely affect the viability or competitiveness of the Group's businesses. In addition, while the Group faces little competition in its fixed line business, it is heavily regulated, particularly on price. The operators of new technologies are able to offer alternatives to the Group's fixed line customers while operating within a more lenient regulatory framework. There can be no assurance that the Group will be successful in responding in a timely and cost-effective way to these technological and competitive developments. Furthermore, changing market demand and consumer trends may require the Group to adopt new technologies that could render its existing technology less competitive or obsolete. The Group may require substantial capital expenditure and access to related and/or enabling technologies in order to integrate the new technology with existing platforms in order to respond successfully to technological advances and emerging industry standards (such as third generation, or 3G, digital wireless communications technology). Further, the Group may adopt new technologies that may prove to be unprofitable, inadequate or incompatible with the technologies of its customers or other carriers. In addition, new technologies implemented by competitors may allow them to provide lower priced, enhanced or better quality services than the Group, which could have a material adverse effect on the Group's ability to compete effectively. The Group may not be successful in enhancing its network infrastructure in a timely and cost-effective manner to facilitate integration, which could have a material adverse effect on the book value of the Group's network and the Group's quality of services, business, prospects, results of operations and financial condition.

The Group's success depends on the reliability of its network infrastructure

The Group provides fixed line services, mobile and multimedia services that rely to varying degrees on the Group's core network infrastructure. The provision of services by the Group depends on the reliability of this integrated network which is, in turn, vulnerable to damage or interruptions in operation due to natural disasters, fire, power loss, telecommunications failures, network software flaws, transmission cable cuts, breaches of security or similar events. Furthermore, parts of the Group's network infrastructure may suffer from obsolescence or may require significant enhancement to effectively service increasing capacity demand. Any failure of the Group's integrated network to service increasing capacity demand or that results in an interruption to its operations or provision of any service, could damage the Group's brand equity, reduce its ability to attract and retain customers and could have a material adverse effect on its results of operations and financial condition.

The Group's existing operations and planned investments require significant capital investment

The Group's telecommunications services are capital intensive in nature. In order to remain competitive and continue providing technologically-compatible services, the Group must continue to expand and modernise its network, which involves substantial capital investment. The Group expects to require substantial financing to broaden the existing range of telecommunications services and to develop new services. In addition to investing in improvements and upgrades to its existing systems and network, Telekom's longer term strategy includes making telecommunications-related investments. The Group has invested RM10,505.2 million over the five-year period ended 31 December 2003 and RM933.9 million for the six-month period ended 30 June 2004 in telecommunication network equipment.

Adequate financing for the expansion and modernisation of its network, support system and for telecommunications-related investments may not be available to the Group on acceptable terms, or at all. If adequate financing is not available, the Group's business prospects may be adversely affected.

The Group's mobile operations are dependent upon the availability of radio spectrum

The size and capacity of the Group's mobile networks are limited by the amount of radio spectrum allocated to it by the governments in the countries where it operates. While Telekom believes that its current radio spectrum allocation is sufficient for anticipated future subscriber growth, should the Group's radio spectrum requirements prove inadequate in the future, then the expansion of the Group's mobile businesses may be affected. Any failure by the Group to acquire additional radio spectrum on a timely basis, and on commercially acceptable terms, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The future success of the Group's business may partly depend on the public's uptake of new services including 3G

The Group holds a fifteen-year 3G spectrum for which it paid RM10 million in 2003 and will pay RM40 million over the next five years in equal instalments of RM8 million. Under the terms of the Group's 3G spectrum, the Group is required to complete nationwide roll-out of systems and provision of services by 2011. The Group has experienced certain delays in the roll-out of its 3G network due principally to uncertainties in the commercial viability, compatibility and availability of handsets. There can be no assurance that 3G technologies will be developed according to anticipated schedules or that, if developed, the Group will be able to implement such technologies successfully in order to meet its obligations under the 3G licence. The Group's success depends on its ability to offer new and appealing services to the markets in which it operates. Telekom cannot accurately predict how emerging and future technological changes will affect the Group's operations or the competitiveness of the Group's services. Similarly, the Group cannot provide any assurances that its present technologies will not become obsolete or subject to intense competition from new technologies in the future. 3G is a relatively new technology to be deployed in the market and there are no guarantees that 3G will be adopted on mass by the markets where the Group intends to offer this service. The demand for these services in some markets is unclear and, as a result, the future profitability and cash-generating ability of the Group's right to operate a 3G network remain uncertain. Any failure by the public to adopt services based on new technologies introduced by the Group, including 3G, on mass, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In the event that the Group does not meet its obligations under its 3G spectrum, the Commission may issue a written order for compliance, impose a financial penalty, cancel the spectrum or part thereof, suspend the spectrum or part thereof for a specified period or reduce the term of the spectrum, the occurrence of which could have a materially adverse effect on the Group's business, financial condition, results of operations and prospects.

High mobile penetration rates in Malaysia may limit the Group's mobile business growth

The mobile market in Malaysia has experienced rapid growth in recent years. According to figures published by the Commission, the penetration rate for mobile subscribers as at March 2004 was 46.2 per cent. (up from 43.9 per cent. as at December 2003). While Telekom expects penetration rates to continue to grow, it is likely that the growth rate will decline. If the mobile market in Malaysia is unable to continue to grow in accordance with past trends, or at all, or the Group is unable to maintain or increase its share of the mobile market in Malaysia, this could have a materially adverse effect on the Group's business, financial condition, results of operations and prospects.

Certain of the Group's subsidiaries are defendants to legal proceedings

Certain of the Group's subsidiaries, including Celcom, are party to legal proceedings, many of which involve the Group's subsidiaries defending claims by other parties. See "Business — Legal Proceedings". There can be no assurance that the relevant subsidiaries will be able to successfully defend such proceedings or that judgments will not be entered against the relevant subsidiaries. In the absence of provisions for such claims, any judgment entered against the relevant subsidiaries or any requirement for the subsidiaries to pay damages and/or costs could have a materially adverse effect on the Group's business, financial condition, results of operations and prospects. Furthermore, there can be no assurance that further substantial litigation will not be brought against the Group in the future, in respect of which any failure to successfully defend such claims could also have a materially adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group relies on new technology

The Group's ability to provide commercially viable telecommunications services depends, in part, upon its ability to access and secure the use of the latest available telecommunications technology. New applications and adaptations of existing and new technology are integral to the Group's business and may, at times, not function as expected. The Group and its service providers may not be able to keep pace with technological developments or any urgent need to replace obsolete technology. In addition, delays in the delivery of components or other unforeseen performance problems may occur and could have an adverse effect on the Group's business. Future technological changes may require the Group to make greater than expected capital expenditures in order to remain competitive.

The Group may face substantially higher insurance premiums

The Group has incurred increasing operating costs associated with the acquisition of insurance and the payment of related premiums to insure its properties, assets and projects, mobile base stations and earth stations. Since the terrorist attacks on the United States on 11 September 2001, many insurance companies have substantially increased their premiums. Insurance companies are also seeking to specifically exclude insurance claims related to terrorism or related activities when current policies expire. In addition, insurance for certain of the Group's operations may be more difficult to obtain due to insurance companies' uncertainty about their ability to assess risk levels in certain commercial activities. As a result of the foregoing, there can be no assurance that the Group will be able to obtain appropriate insurance on commercially reasonable terms, if at all. Failure to obtain insurance could reduce the Group's ability to obtain bank loans and other financing for future construction projects and other commercial activities and may subject the Group to potentially significant financial loss upon the occurrence of a large uninsurable event. The inability of the Group to obtain or renew insurance coverage at a reasonable cost, or at all, may cause the Group's operating costs to increase and may have an adverse effect on the financial condition and results of operations of the Group.

Considerations Relating to Malaysia and the Asian Region

Developments in other Asian countries may negatively impact the Group

A substantial portion of the Group's revenues are derived from activities in Malaysia. In mid-1997, following the substantial depreciation of the Thai Baht, many countries in Asia, including Malaysia, experienced a significant economic downturn and related economic, financial and social difficulties. As a result of the decline in value of a number of the region's currencies, many Asian governments and companies had difficulty in servicing foreign-currency denominated debt and many corporate customers defaulted on their debt repayments. As the economic crisis spread across the region, governments raised interest rates to defend weakening currencies, which adversely impacted domestic growth rates. In addition, liquidity was substantially reduced as foreign investors withdrew or reduced investment in the region and domestic banks restricted additional lending activity. The currency fluctuations, as well as higher interest rates and other factors, materially and adversely affected the economies of many countries in Asia. A recurrence of similar adverse economic developments in Asia could have a material adverse effect on Malaysia and its economy and consequently on the Group's financial condition and results of operations. In addition, any other adverse change in trends or a general economic slowdown as a result of changes in labour costs, inflation, interest rates, taxation or other political or economic developments in Malaysia could materially affect the financial condition or results of operations of the Group and the ability of the Issuer to pay the principal of, or interest on, the Notes.

Political, economic and social developments in Malaysia may adversely affect the Group

The Group's business, prospects, financial condition and results of operations of the Group may be adversely affected by political, economic and social developments in Malaysia. Any change in Government policy, changes to senior positions within the Government, or any political instability in Malaysia, arising from these changes, may have a material adverse effect on the Group, its business, operations, financial condition and prospects. Furthermore, any changes in the composition of the Government could result in a change in Government policy, including with respect to the telecommunications industry in Malaysia. Any such change in Government policy may result in increasing competition and/or increasing regulation of the Group's activities. Any change to the regulation of the Group's telecommunications activities may have a material adverse effect on the Group's business results of operations and financial condition. In addition to

the recent change in the leadership of the Government, other political and economic uncertainties include but are not limited to the risks of war, terrorism, riots, expropriation, nationalism, renegotiations or nullifications of existing contracts, changes in interest rates and methods of taxation.

The outbreak of an infectious disease in Asia may negatively impact the Group's business, financial condition and results of operations

Demand for much of the Group's products may be affected by, among other things, the strength or weakness of the Malaysian economy as well as the economies of other Asian countries. An infectious disease outbreak in Malaysia or other parts of Asia could have a significant impact on the Malaysian economy as well as the economies of other Asian countries. The occurrence or recurrence of Severe Acute Respiratory Syndrome (SARS) in Malaysia or in other Asian countries, could lead to a decline in the Malaysian economy or the economies of other Asian countries, as the case may be, which may have a material adverse effect on the Group's business, financial condition and results of operations. An epidemic or outbreak could also require quarantine and other safeguard measures resulting in temporary closures or work stoppages at the Group's main office and branches, which may also have a material adverse effect on the Group's business, financial condition and results of operations.

Government debt ratings may affect the ratings of the Notes

Due to the Government's voting control of Telekom, the ratings assigned to the Notes by statistical rating organisations may be based in part on the corresponding ratings of sovereign debt issued by the Government. Any downgrading in rating of the debt of the Government may have a negative impact on the ratings of the Notes.

Exchange rate fluctuations may affect the Group

BNM, Malaysia's Central Bank, has in the past intervened in the foreign exchange market to stabilise the Ringgit and has, since 2 September 1998, maintained a fixed exchange rate of RM3.80 to U.S.\$1.00. However, there can be no assurance that BNM will, or would be able to maintain this fixed exchange rate in the future. Changes in the current exchange rate policy may result in significantly higher domestic interest rates, liquidity shortages, capital or further exchange controls.

There can be no assurance that the Government will not impose more restrictive or other foreign exchange controls. Any imposition, variation or removal of exchange controls may adversely affect the value of the Notes and the ability of the Issuer or Guarantor to redeem the Notes or the investors to repatriate the proceeds arising from redemption of the Notes from Malaysia.

Malaysian accounting, corporate and other disclosure standards differ from those in other jurisdictions and changes are proposed to Malaysian GAAP

The consolidated financial statements of the Group are prepared in accordance with Malaysian GAAP, which differs in certain significant respects from IFRS. For example, under Malaysian GAAP, there is no requirement that goodwill be amortised over a fixed time period. As a result, the Group's consolidated financial statements and reported earnings could be significantly different from those which would be reported under IFRS. This Offering Circular does not contain a reconciliation of the Group's consolidated financial statements to IFRS, and there is no assurance that such a reconciliation would not reveal material differences. See "Summary of Principal Differences between Malaysian GAAP and IFRS" for a summary of significant accounting differences applicable to the Group.

Considerations Relating to the Notes

There has been no prior market for the Notes

The Notes comprise a new issue of securities for which there is currently no public market. There can be no assurance as to the liquidity of any market that may develop for the Notes, the ability of holders to sell their Notes or the prices at which holders would be able to sell their Notes. Application has been made to list the Notes on the Luxembourg Stock Exchange and the Labuan International Financial Exchange. There can be no assurance that the Notes will be accepted for trading on these exchanges. The Notes could trade at prices that may be lower than the initial market value thereof depending on many factors, including prevailing interest rates, the Group's operating results and the markets for similar securities. Although TM Global and Telekom have an obligation under the Trust Deed to use reasonable endeavours to maintain the listing of the Notes on the Luxembourg Stock Exchange, TM Global, Telekom and the Joint Lead Managers have no obligation to make a market in the Notes or to maintain the listing of the Notes on the Labuan International Financial Exchange. In addition, the market for debt securities in emerging markets has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. There can be no assurance that the markets for the Notes, if any, will not be subject to similar disruptions. Any disruptions in these markets may have a material adverse effect on the holders of the Notes.

The ratings assigned to the Notes may be lowered or withdrawn in the future

The Notes have been rated "A3" by Moody's and "A-" by S&P. A rating is not a recommendation to buy, sell, or hold securities and may be subject to suspension, revision or withdrawal at any time by the assigning rating agency. The ratings address the Issuer's and the Guarantor's ability to perform their respective obligations under the terms of the Notes and the Guarantee and credit risks in determining the likelihood that payments will be made when due under the Notes and the Guarantee. No assurances can be given that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. The Issuer and Guarantor have no obligation to inform Noteholders of any such revision, downgrade or withdrawal. A suspension, downgrade or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes (the “**Conditions**”) which (subject to completion and amendment) will be endorsed on each Individual Note Certificate and will be attached and (subject to the provisions thereof) apply to the Global Note Certificate:

The U.S.\$500,000,000 5.25 per cent. Guaranteed Notes due 2014 (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of TM Global Incorporated (the “**Issuer**”) are constituted by, are subject to, and have the benefit of, a trust deed dated 16 September 2004 (as amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer, Telekom Malaysia Berhad (the “**Guarantor**”) and Noblehouse International Trust Ltd. as trustee (the “**Trustee**”, which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 22 September 2004 (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, the Guarantor, the Trustee, Deutsche Bank Luxembourg S.A. as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Notes), Deutsche Bank AG, Hong Kong Branch, as principal paying agent (the “**Principal Paying Agent**”, which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the transfer agents named therein (the “**Transfer Agents**”, which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). References herein to the “**Agents**” are to the Registrar, the Principal Paying Agent, the Transfer Agents and the Paying Agents and any reference to an “**Agent**” is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof Level 1, Lot 7, Block F Saguking Commercial Building, Jalan Patau-Patau, 87000 Federal Territory of Labuan, Malaysia and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination, Status and Guarantee

- (a) *Form and denomination:* The Notes are in registered form in the denomination of U.S.\$100,000. Notes may be held in holdings in the aggregate principal amount of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof (each, an “**Authorised Holding**”).
- (b) *Status of the Notes:* The Notes constitute (subject to Condition 3 (*Negative Pledge; Limitation Upon Sale and Leaseback Transactions; Consolidation, Merger and Sale of Assets*)) direct, unsecured and unsubordinated obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such exceptions as may be provided by applicable legislation.
- (c) *Guarantee of the Notes:* The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the “**Guarantee**”) constitutes (subject to Condition 3 (*Negative Pledge; Limitation Upon Sale and Leaseback Transactions; Consolidation, Merger and Sale of Assets*)) direct, unsecured and unsubordinated obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor, save for such exceptions as may be provided by applicable legislation.

2. Register, Title and Transfers

- (a) *Register:* The Registrar will maintain a register (the “**Register**”) in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the “**Holder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly. A certificate (each, a “**Note Certificate**”) will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.
- (b) *Title:* Title to the Notes passes by registration in the Register. The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.
- (c) *Transfers:* Subject to paragraphs (f) (*Closed Periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.
- (d) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, “**business day**” means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (e) *No charge:* The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Guarantor, the Registrar or any Transfer Agent but against such indemnity as the Issuer, the Guarantor, the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (f) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.
- (g) *Regulations concerning transfers and registration:* All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3. Negative Pledge; Limitation Upon Sale and Leaseback Transactions; Consolidation, Merger and Sale of Assets

(a) *Negative Pledge*

- (i) So long as any of the Notes are outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor shall, and the Guarantor shall procure that no Future Significant Subsidiary will, create, incur, issue or assume any Lien upon the whole or any part of its Core Properties or Assets, present or future, to secure for the benefit of the holders of any existing or future Indebtedness of itself or any other person (or to secure for the benefit of the holders thereof any guarantee or indemnity in respect thereof) without, in any such case, effectively providing that the Notes shall be secured equally and rateably with or prior to such Indebtedness (or such guarantee or indemnity in respect thereof), unless, after giving effect thereto, the aggregate principal amount of all such secured Indebtedness of the Issuer, the Guarantor or any Future Significant Subsidiary (without duplication) plus Attributable Debt of the Issuer, the Guarantor or any Future Significant Subsidiary (without duplication) in respect of Sale/Leaseback Transactions as described in paragraph (b) below plus the aggregate principal amount of any guarantee or indemnity referred to in sub-paragraph (ii)(B) below, in each case entered into after 22 September 2004 (the “Closing Date”), would not exceed 15 per cent. of Consolidated Net Tangible Assets.
- (ii) So long as any Note remains outstanding (as defined in the Trust Deed) and so long as Celcom remains a Subsidiary of the Guarantor, the Guarantor (A) shall procure that Celcom does not create, incur, issue or assume any Lien upon the whole or any part of its properties or assets, present or future, to secure for the benefit of the holders of any Relevant Indebtedness (or to secure for the benefit of the holders thereof any guarantee, indemnity or similar obligation in respect thereof) without (a) at the same time or prior thereto securing the Notes equally and rateably therewith to the satisfaction of the Trustee or (b) providing such other security for the Notes as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders and (B) shall not grant a guarantee or an indemnity in respect of any Secured RM Indebtedness of Celcom or any Subsidiary of Celcom, whether in whole or part, unless, after giving effect thereto, the aggregate principal amount of all secured Indebtedness, Attributable Debt and guarantees or indemnities referred to in sub-paragraph (i) above would not exceed 15 per cent. of Consolidated Net Tangible Assets.

In these Conditions:

“**Attributable Debt**” means, with respect to any Sale/Leaseback Transaction, the lesser of (x) the fair market value of the property or other assets subject to such transaction and (y) the present value (discounted at a rate per annum equal to the discount rate of a capital lease obligation with a like term in accordance with generally accepted accounting principles in Malaysia) of the obligations of the lessee for net rental payments (excluding amounts on account of maintenance and repairs, insurance, taxes, assessments, water rates and similar charges and contingent rents) during the term of the lease;

“**Celcom**” means Celcom (Malaysia) Berhad;

“**Consolidated Net Tangible Assets**” means the total amount of assets of the Issuer, the Guarantor or any Future Significant Subsidiary, as the case may be, in each case including its consolidated subsidiaries (including investments in unconsolidated subsidiaries), after deducting therefrom (i) all current liabilities, (ii) expenditures carried forward, including all goodwill, trade names, trademarks, patents, unamortised debt, discount and expense and other like intangible assets, if any, and (iii) all write-ups of fixed assets, net of accumulated depreciation thereon, after 30 June 2004, all as set forth on the most recent consolidated balance sheet of the Issuer, the Guarantor or any Future Significant Subsidiary, as the case may be, and computed in accordance with generally accepted accounting principles in Malaysia;

“**Core Properties or Assets**” means all properties or assets of the Issuer, Guarantor or Future Significant Subsidiary, as the case may be, other than (i) undeveloped real property, (ii) undeveloped real estate, (iii) buildings leased to unaffiliated companies, (iv) buildings used principally for billing, collection, support of the corporate center or other administrative functions, (v) loans and other financial assistance granted by the Guarantor to its employees, (vi) any other properties or assets not employed directly by the Guarantor, the Issuer or any Future Significant Subsidiary in its fixed-line telephone, data, cellular, multimedia or related telecommunications businesses or networks and (vii) the Guarantor’s corporate headquarters located at Menara Telekom, Off Jalan Pantai Baharu, 50672 Kuala Lumpur, Malaysia, and “**Core Property or Asset**” means any one of such properties or assets, respectively;

“**Future Significant Subsidiary**” means any future Subsidiary that (i) holds the licence to operate and (ii) operates the Guarantor’s fixed line basic telephony telecommunications business in Malaysia;

“**Indebtedness**” means any obligation for the payment or repayment of money borrowed which has a final maturity of one year or more from its date of incurrence or issuance;

“**Lien**” means a mortgage, pledge, lien, charge, encumbrance or any other security interest;

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“**Relevant Indebtedness**” means any future or present Indebtedness in the form of, or represented by any bond, note, debenture, debenture stock, or other securities instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) and which (i) is by its terms payable, or confers a right to receive payment, in any currency other than RM or (ii) is denominated or payable in RM and more than 50 per cent. of the aggregate principal amount of which is initially distributed outside Malaysia (including the Federal Territory of Labuan, Malaysia) by or with the authorisation of the issuer thereof;

“**RM**” means the lawful currency of Malaysia for the time being;

“**Sale/Leaseback Transaction**” means any arrangement with any person that provides for the leasing by the Issuer, the Guarantor or any Future Significant Subsidiary, for an initial term of three years or more, of any Core Property or Asset, whether now owned or hereafter acquired, which is to be sold or transferred by the Issuer or, as the case may be, the Guarantor after the Closing Date to such person for a sale price of U.S.\$1,000,000 (or the equivalent thereof) or more, *provided that* any arrangement pursuant to which the Issuer, the Guarantor or any Future Significant Subsidiary, as the case may be, has defeased or otherwise transferred its rental or other payment obligations to a third party which is not controlled by the party effecting such defeasance or transfer, who may not assign or transfer any such obligations to the Issuer or the Guarantor or any of their respective subsidiaries, and, as a result of such defeasance or transfer, the Issuer, the Guarantor or any Future Significant Subsidiary, as the case may be, has been unconditionally and irrevocably released from any further obligations to any party in connection with such arrangement, shall not be a Sale/Leaseback Transaction;

“**Secured RM Indebtedness**” means any future or present Indebtedness in the form of, or represented by any bond, note, debenture, debenture stock or other securities instrument (i) which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market), (ii) which is by its terms payable, or confers a right to receive payment, in RM and (iii) the holders of which have the benefit of a Lien created, incurred, issued or assumed by Celcom upon the whole or any part of its properties or assets, present or future; and

“**Subsidiary**” means in relation to any Person (the “**first Person**”) at any particular time, any other Person (the “**second Person**”): (i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint

or remove members of the governing body of the second Person or otherwise; or (ii) whose financial statements are or should be, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

A report by the Guarantor addressed to the Trustee, and certified by two directors of the Guarantor, that, in its opinion, a Subsidiary is or is not, or was or was not, at any particular time or throughout any specified period, a Future Significant Subsidiary, shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Guarantor, the Trustee and the Noteholders, all as further provided in the Trust Deed. The Guarantor shall, if requested by the Trustee, use its best efforts to ensure that the Auditors (as defined in the Trust Deed) deliver a report to the Trustee, whether or not such report is addressed to the Trustee, confirming the mathematical accuracy of the calculation performed by the Guarantor for the purpose of determining whether any Future Significant Subsidiary is or is not, or was or was not, in existence for the relevant time or period and that the figures used for such calculation have been accurately derived from the Guarantor's most recent consolidated balance sheet at such time or for such period.

Notwithstanding the foregoing, the restriction imposed in Condition 3(a)(i) above will not apply to Indebtedness secured by:

- (aa) any Lien existing on any property or asset prior to the acquisition thereof by the Issuer, the Guarantor or any Future Significant Subsidiary or arising after such acquisition pursuant to contractual commitments entered into prior to and not in contemplation of such acquisition;
 - (bb) any Lien on any property or asset securing Indebtedness incurred or assumed for the purpose of financing the purchase price thereof or the cost of construction, improvement or repair of all or any part thereof, *provided* that such Lien attaches to such property concurrently with or within 12 months after the acquisition thereof or completion of construction, improvement or repair thereof; or
 - (cc) any Lien arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by any Lien permitted by any of the foregoing clauses or existing at the Closing Date, *provided* that such Indebtedness is not increased.
- (b) *Limitation Upon Sale and Leaseback Transactions:* So long as any of the Notes are outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor shall, and the Guarantor shall procure that no Future Significant Subsidiary will, enter into any Sale/Leaseback Transaction, unless either (i) the aggregate Attributable Debt (without duplication) of the Issuer, the Guarantor or any Future Significant Subsidiary, as the case may be, in respect of such Sale/Leaseback Transaction and all other such Sale/Leaseback Transactions entered into after the Closing Date (other than such transactions as are permitted by (ii) below), plus the aggregate principal amount of their respective Indebtedness secured by Liens then outstanding (excluding any such Indebtedness secured by Liens described in sub-paragraphs (aa), (bb) or (cc) of Condition 3(a) (*Negative Pledge*) above or existing at the Closing Date) without equally and rateably securing the Notes, would not exceed 15 per cent. of Consolidated Net Tangible Assets, or (ii) the Issuer or, as the case may be, the Guarantor, within 12 months after such Sale/Leaseback Transaction, applies to the retirement of Indebtedness of the Issuer or, as the case may be, the Guarantor which is not subordinate to the Notes or, as the case may be, the Guarantee, an amount equal to the greater of (x) the net proceeds of the sale or transfer of the property or other assets which are the subject of such Sale/Leaseback Transaction and (y) the fair market value of the property or other assets so leased (in each case as determined by the Issuer or, as the case may be, the Guarantor). The foregoing restrictions shall not apply to any transaction between the Issuer or the Guarantor and a Subsidiary of the Issuer or, as the case may be, the Guarantor.

- (c) *Consolidation, Merger and Sale of Assets:* Subject to the further terms and conditions of the Trust Deed, the Issuer or the Guarantor, as the case may be, shall not consolidate with or merge into any other company or entity, and the Issuer or the Guarantor, as the case may be, may not, directly or indirectly, sell, convey, transfer or lease all or substantially all of its properties and assets to any company or other entity unless:
- (i) the company or other entity formed by or surviving such consolidation or merger or the person, company or other entity which acquires by conveyance or transfer, or which leases, all or substantially all of the properties and assets of the Issuer or the Guarantor, as the case may be, shall be a corporation organized and existing under the laws of Malaysia, and shall expressly assume the due and punctual payment of the principal of, and interest on, the Notes and the performance of every covenant of the Notes, the Trust Deed and the Agency Agreement on the part of the Issuer to be performed or observed or assume the obligations under the Guarantee;
 - (ii) immediately after giving effect to such transaction, no Event of Default with respect to the Notes, and no event which, after notice or lapse of time, or both, would become an Event of Default with respect to the Notes, shall have happened and be continuing; and
 - (iii) the Issuer or the Guarantor, as the case may be, has delivered to the Trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indenture comply with this paragraph and that all conditions precedent herein provided for relating to such transaction have been complied with.

4. Interest

The Notes bear interest from the Closing Date at the rate of 5.25 per cent. per annum (the "**Rate of Interest**"), payable in arrear on 22 March and 22 September in each year (each, an "**Interest Payment Date**") commencing on 22 March 2005, subject as provided in Condition 6 (*Payments*). Each period beginning on (and including) the Closing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "**Interest Period**".

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation of the relevant Note Certificate, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment to the Noteholders).

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any period of less than a full year, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each.

5. Redemption and Purchase

- (a) *Final redemption:* Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 22 September 2014, subject as provided in Condition 6 (*Payments*).
- (b) *Redemption for tax reasons:* The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that (A) it (or, if a demand is made under the Guarantee, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of

the Federal Territory of Labuan, Malaysia, or Malaysia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 16 September 2004 and (B) such obligation cannot be avoided by the Issuer or the Guarantor, as the case may be, taking all reasonable measures available to it *provided, however*, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee were then made. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Trustee (a) a written opinion of independent Malaysian counsel stating that the Issuer or the Guarantor, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment, together with (b) a certificate signed by a Director of the Issuer or the Guarantor, as the case may be, stating that the circumstances referred to in (A) and (B) above prevail and setting out the details of such circumstances. The Trustee shall be entitled to accept such legal opinion and certificate as sufficient evidence of the satisfaction of the circumstances set out in (A) and (B) above, in which event the same shall be conclusive and binding on the Noteholders. Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(b).

- (c) *Redemption at the option of Noteholders:* The Guarantor shall give notice to each Noteholder, the Principal Paying Agent and to the Trustee within 30 days following a Change in Control Event and in accordance with the Trust Deed and the Agency Agreement, stating:
- (i) that a Change in Control Event has occurred and that such Holder has the right to require the Guarantor to redeem such Noteholder's Notes at a redemption price in cash equal to 100 per cent. of the principal amount thereof plus accrued and unpaid interest;
 - (ii) the redemption date (which shall be no earlier than 30 and no later than 60 days after such notice is given) (the "**Put Settlement Date**");
 - (iii) that interest accrued to the Put Settlement Date will be paid upon such presentation or surrender of Notes and that interest will cease to accrue on Notes surrendered for redemption as of the Put Settlement Date;
 - (iv) whether tenders will be irrevocable;
 - (v) the instructions that a Noteholder must follow in order to have Notes redeemed (including, but not limited to, the place at which Notes shall be presented and surrendered for redemption and the time prior to which Notes must be presented and surrendered) as set out in, and in accordance with, the Agency Agreement; and
 - (vi) the materials necessary to comply with any applicable tender rules and any other applicable laws.

In these Conditions:

"**Change in Control Event**" means an event or series of events by which the Government of Malaysia or any entity controlled by the Government of Malaysia (i) ceases to retain the Special Rights Redeemable Preference Share, RM1.00 par value, of the Guarantor and (ii) ceases to own and control more than 50 per cent. of the issued and outstanding share capital of the Guarantor.

- (d) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Final redemption*), (b) (*Redemption for tax reasons*) and (c) (*Redemption at the option of the Noteholders*) above.
- (e) *Purchase:* The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the

Holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating the quorum at any meeting of the Noteholders or for the purposes of Condition 12(a) (*Meetings of Noteholders*).

- (f) *Cancellation:* All Notes so redeemed or purchased by the Issuer, the Guarantor or any of their respective Subsidiaries shall be cancelled and may not be reissued or resold.

6. Payments

- (a) *Principal:* Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (b) *Interest:* Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (c) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (d) *Payments on business days:* Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, “**business day**” means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).
- (e) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) *Record date:* Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar’s Specified Office on the fifteenth day before the due date for such payment (the “**Record Date**”). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed on the due date for payment to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

7. Taxation

All payments of principal and interest in respect of the Notes (including payments by or on behalf of the Issuer or the Guarantor) shall be made free and clear of, and without withholding or making any deduction for or on account of, any taxes, duties, assessments or other governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Federal Territory of Labuan, Malaysia, or Malaysia or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after such withholding or deduction shall equal the amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

- (i) to or on behalf of a Holder or beneficial owner who is subject to such taxes, duties, assessments or governmental charges by reason of having (or by reason of a fiduciary, settlor, beneficiary, member or shareholder of such holder having) some connection with Malaysia otherwise than by reason only of the holding of any Notes or the receipt of principal or interest in respect of any Notes; or
- (ii) to or on behalf of a Holder or beneficial owner who would not be liable for or subject to such deduction or withholding by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such Holder fails to do so; or
- (iii) to or on behalf of a Holder or beneficial owner who presents such Note (where presentation is required) for payment more than 30 days after the Relevant Date except to the extent that the Holder or beneficial owner thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such 30-day period; or
- (iv) any combination of (i), (ii) and (iii) above; or
- (v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26–27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (vi) held by a Holder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a member state of the European Union.

As used herein, the “**Relevant Date**” means the date on which such payment first becomes due, except that, if the amount of the monies payable have not been received in New York City by the Principal Paying Agent on or prior to such date, it means the date on which, the full amount of such monies having been so received, notice to that effect shall have been duly given to the holders of the Notes.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than Malaysia or the Federal Territory of Labuan, Malaysia, respectively, references in these Conditions to Malaysia or the Federal Territory of Labuan, Malaysia, shall be construed as references to Malaysia or (as the case may be) the Federal Territory of Labuan, Malaysia, and/or such other jurisdiction.

8. Events of Default

If any of the following events occurs and is continuing, then the Trustee at its discretion may, and if so requested in writing by Holders of at least one quarter in principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution shall, (subject to the Trustee having been indemnified or provided with security to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. The Notes shall not, however, be due and payable immediately if, prior to the time when the Issuer receives such notice, all Events of Default provided for in the Notes and the Trust Deed shall have been cured. If, at any time after the principal in respect of the Notes shall have been so declared due and payable, and before any judgment or decree for the payment of monies due shall have been obtained or entered, the Issuer or the Guarantor shall pay or deposit with the Principal Paying Agent a sum sufficient in the judgment of the Trustee to pay all monies then due with respect to the Notes (other than amounts due solely because of such declaration) and cures all other Events of Default, then the holders of more than 50 per cent. in aggregate outstanding principal amount of the Notes may instruct the Trustee to waive any defaults which have occurred and are continuing and rescind and annul such declaration and its consequences:

- (a) *Non-Payment of Principal:* the Issuer fails to pay all or any part of the principal in respect of any of the Notes as and when the same shall become due and payable, whether at maturity, upon redemption or otherwise; or
- (b) *Non-Payment of Interest:* the Issuer fails to pay any amount of interest on any of the Notes when due and such default continues for 30 days; or
- (c) *Breach of Other Obligations:* the Issuer or the Guarantor fails to observe or perform any one or more of its respective covenants or agreements contained in the Notes or the Trust Deed which default is not remedied within 60 days after notice of such default shall have been given to the Issuer or the Guarantor by the Trustee; or
- (d) *Cross-Default:* any indebtedness of the Issuer, the Guarantor or any of their consolidated Subsidiaries for monies borrowed in the aggregate outstanding principal amount of U.S.\$35,000,000 or more or its equivalent in any other currency or currencies either becomes (or becomes capable of being declared) due and payable prior to the due date for payment thereof by reason of acceleration thereof following default by the Issuer, the Guarantor or any of their consolidated Subsidiaries or if not repaid at, and remaining unpaid after, maturity as extended by the period of grace, if any, applicable thereto, or any guarantee given by the Issuer, the Guarantor or any of their consolidated Subsidiaries in respect of indebtedness of any other person in the aggregate outstanding principal amount of U.S.\$35,000,000 or more or its equivalent in any other currency or currencies not being honoured when, and remaining dishonoured after becoming, due and called, *provided that*, if any such default under any such indebtedness shall be cured or waived, then the default under the Notes by reason thereof shall be deemed to have been cured and waived; or
- (e) *Insolvency:* the Issuer, the Guarantor, Celcom (so long as Celcom remains a Subsidiary of the Guarantor) or any Future Significant Subsidiary is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts as they fall due, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of any creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any material part of the debts of the Issuer, the Guarantor, Celcom (so long as Celcom remains a Subsidiary of the Guarantor) or any Future Significant Subsidiary, or any event occurs which under the laws of any relevant jurisdiction has an analogous effect; or
- (f) *Winding-up:* an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the Issuer, the Guarantor, Celcom (so long as Celcom remains a Subsidiary of the Guarantor) or any Future Significant Subsidiary, or the Issuer, Celcom (so long as Celcom remains a Subsidiary of the Guarantor), the Guarantor or any Future Significant Subsidiary ceases or through an official action of its Board of Directors threatens to cease to carry on all or a material part of its business or operations (on a consolidated basis), or any event

occurs which under the laws of any relevant jurisdiction has an analogous effect, except (i) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Trustee (such approval not to be unreasonably withheld), or by an Extraordinary Resolution of the Noteholders or; (ii) transfers of assets or cessation of a part of the Issuer's, Guarantor's, Celcom's (so long as Celcom remains a Subsidiary of the Guarantor) or Future Significant Subsidiary's business or operations in the ordinary course of business; or

- (g) *Ownership*: subject as provided in Condition 3(c) (*Consolidation, Merger and Sale of Assets*), the Issuer ceases to be wholly-owned and controlled by the Guarantor; or
- (h) *Guarantee*: the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect.

9. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

10. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Transfer Agent having its Specified Office in Luxembourg, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity relating to the Issuer or the Guarantor without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer, the Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or principal paying agent and additional or successor paying agents and transfer agents; *provided, however, that* the Issuer and the Guarantor shall at all times maintain (a) a principal paying agent and a registrar, (b) so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, a paying agent and a transfer agent in Luxembourg and (c), if European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26–27 November 2000 is brought into force, a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to such Directive or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. Meetings of Noteholders; Modification and Waiver

- (a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal (i) to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest or any additional amounts payable on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity or the date for any such payment; (ii) to effect the exchange, conversion or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer, the Guarantor or any other person or body corporate formed or to be formed (other than as permitted under Clause 7.3 (*Consolidation, Merger and Sale of Assets*) of the Trust Deed); (iii) to change the places of payment or the currency in which amounts due in respect of the Notes are payable; (iv) to modify any provision of the Guarantee (other than as permitted under Clause 7.3 (*Consolidation, Merger and Sale of Assets*) of the Trust Deed); (v) to change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution; or (vi) to amend the definition of Reserved Matters (each, a “**Reserved Matter**”)) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification and waiver:* The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any breach or proposed breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

13. Enforcement

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

- (i) it has been so requested in writing by the Holders of at least one quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

- (ii) it has been indemnified or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. Further Issues

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

15. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices to Noteholders will be published on the date of such mailing in a daily newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe as approved by the Trustee.

16. Governing Law and Jurisdiction

- (a) *Governing law:* The Trust Deed and the Notes are governed by, and shall be construed in accordance with, English law.
- (b) *Jurisdiction:* Each of the Issuer and the Guarantor has in the Trust Deed, *inter alia* (i) submitted irrevocably to the jurisdiction of the courts of England for the purposes of hearing and determining any suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed or the Notes; (ii) waived any objection which it might have to any such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; (iii) designated a person in England to accept service of any process on its behalf; and (iv) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process including, without limitation, enforcement of any judgment, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction.

There will appear at the foot of the Conditions endorsed on or (as the case may be) attached to each Individual Note Certificate and Global Note Certificate the names and Specified Offices of the Registrar, the Paying Agents and the Transfer Agents as set out at the end of this Offering Circular.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Global Note Certificate contains provisions which apply to the Notes while they are in global form, some of which modify the effect of the Conditions set out in this Offering Circular. Terms defined in the Conditions have the same meanings in the paragraphs below. The following is a summary of certain of those provisions:

The Notes will be represented by a Global Note Certificate which will be registered in the name of BT Globenet Nominees Limited as nominee for, and deposited with, a common depository for Euroclear and Clearstream, Luxembourg.

The Global Note Certificate will become exchangeable in whole, but not in part, for Individual Note Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Notices

Notwithstanding Condition 15 (*Notices*), so long as the Global Note Certificate is held on behalf of or for Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to Holders of Notes represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System; *provided, however, that*, so long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Global Note Certificate will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 9 (*Prescription*)).

Meetings

The holder of the Global Note Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each Note for which the Global Note Certificate may be exchanged. A person with an interest in the Notes in respect of which the Global Note Certificate is issued will be allowed to attend and speak at a meeting of Noteholders on appropriate proof of his/her identity and interest.

Purchase and Cancellation

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Note Certificate.

Trustee's Powers

In considering the interests of Noteholders while the Global Note Certificate is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Note Certificate and may consider such interests as if such accountholders were the holder of the Global Note Certificate.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Notes in respect of which the Global Note Certificate is issued shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interests in the Notes set out in the certificate of the holder, as if they were themselves the holders of Notes in such principal amounts.

Transfers

So long as the Global Note Certificate representing the Notes is held on behalf of one or more clearing systems, transfer of book-entry interests in the Notes between accountholders of such clearance systems may be made in accordance with the rules of the relevant clearing system.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to approximately U.S.\$497,020,000 after deducting underwriting fees and certain transaction related expenses, will be on-lent by the Issuer to Telekom and applied by Telekom principally for the refinancing of existing debt and general working capital purposes.

EXCHANGE RATES

Since 1 September 1998, the Ringgit has been fixed at an exchange rate against the U.S. dollar of U.S.\$1.00 to RM3.80. The exchange rate as at 13 September 2004 was U.S.\$1.00 to RM3.80. No representation is made that the Ringgit amounts actually represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rates indicated, any other rate or at all.

TM GLOBAL

General

TM Global was incorporated in the Federal Territory of Labuan, Malaysia with limited liability on 22 April 1999 and its main business activity as described in paragraph C(1) of its Memorandum of Association is that of investment holding. TM Global is a wholly-owned subsidiary of Telekom. TM Global's registered office is located at Lots 2 and 3, Level 3, Wisma Lazenda, Jalan Kemajuan, 87000 Federal Territory of Labuan, Malaysia. TM Global does not have any subsidiaries.

Capitalisation

Except as described below, there has been no material change in the capitalisation and indebtedness of TM Global since 30 June 2004. The following table sets forth the unaudited capitalisation and indebtedness of TM Global as at 30 June 2004, and as adjusted to reflect the issue of the Notes, (excluding underwriting fees and certain transaction related expenses) and has been derived from the unaudited financial statements of the Issuer as at and for the six months ended 30 June 2004:

	As at 30 June 2004			
	Actual (unaudited)		As adjusted (unaudited)	
	(RM)	(U.S.\$)	(RM)	(U.S.\$)
Short-term debt				
Total short term debt (including current portion of long-term debt)	—	—	—	—
Long-term debt				
Long-term borrowings	1,140,000,000	300,000,000	1,140,000,000	300,000,000
The Notes now being offered ⁽¹⁾ .	—	—	1,900,000,000	500,000,000
Total long-term debt	1,140,000,000	300,000,000	3,040,000,000	800,000,000
Shareholders' equity				
Share capital (ordinary shares) .	3,800	1,000	3,800	1,000
Reserves	100,613	26,477	100,613	26,477
Total capital and reserves. . . .	104,413	27,477	104,413	27,477
Total capitalisation (total long-term debt plus shareholders' equity)	1,140,104,413	300,027,477	3,040,104,413	800,027,477

Note:

(1) The aggregate principal amount of the Notes has been translated into Ringgit at the rate of RM3.80 equals U.S.\$1.00.

Management

The Directors of TM Global (neither of whom has any share qualifications) are set out below:

<u>Name (Age)</u>	<u>Address</u>	<u>Designation/Occupation</u>
Wang Cheng Yong (49)	c/o Lots 2 and 3 Level 3, Wisma Lazenda Jalan Kemajuan 87000 Federal Territory of Labuan, Malaysia	Company Secretary, Telekom
Jaffa Sany bin Md Arifin (38).	c/o Lots 2 and 3 Level 3, Wisma Lazenda Jalan Kemajuan 87000 Federal Territory of Labuan, Malaysia	Group Chief Financial Officer, Telekom

As at December 2003, TM Global’s authorised share capital is U.S.\$100,000 with a nominal value of U.S.\$1.00 per share, of which U.S.\$1,000 has been issued and paid up. TM Global does not prepare interim financial statements. The auditors of TM Global are PricewaterhouseCoopers.

In September 1999, TM Global issued U.S.\$100 million of Guaranteed Floating Rate Notes due 2006 (the “**1999 Notes**”) which were unconditionally and irrevocably guaranteed by Telekom. The proceeds of the issue were on-lent to Telekom to refinance its short-term debt obligations and to meet the general corporate funding requirements of the Group. TM Global has since redeemed the entire outstanding amount of the 1999 Notes. In November 2000, TM Global issued U.S.\$300 million of Guaranteed Notes due 2010 (the “**2000 Notes**”) which were also unconditionally and irrevocably guaranteed by Telekom. The proceeds of this issue were on-lent to Telekom to refinance then existing indebtedness and other obligations in an amount of U.S.\$200 million and to meet capital expenditure and general corporate funding requirements of the Group. Apart from the issue of the 1999 Notes and the 2000 Notes, TM Global has not undertaken any other fund raising activities and has not traded since its incorporation. There has been no material change to the operations, financial condition or results of operations of TM Global since 31 December 2003.

CAPITALISATION OF TELEKOM

Except as described below, there has been no material change in the unaudited consolidated capitalisation and indebtedness of the Guarantor since 30 June 2004.

The following table sets forth the unaudited consolidated capitalisation and indebtedness of the Guarantor as at 30 June 2004, and as adjusted to reflect the issue of the Notes and the application of the proceeds thereof as described under "Use of Proceeds", (excluding underwriting fees and certain transaction related expenses) and has been derived from the unaudited consolidated financial statements of the Guarantor as at and for the six months ended 30 June 2004:

	As at 30 June 2004			
	Actual (unaudited)		As adjusted (unaudited)	
	(RM millions)	(U.S.\$ millions)	(RM millions)	(U.S.\$ millions)
Short-term debt				
Total short-term debt (including current portion of long-term debt)	561.0	147.6	561.0	147.6
Long-term debt				
Long-term borrowings	10,427.4	2,744.1	8,869.4	2,334.1
The Notes now being offered ⁽¹⁾	—	—	1,900.0	500.0
Total long-term debt	10,427.4	2,744.1	10,769.4	2,834.1
Shareholders' equity				
Share capital	3,345.8	880.5	3,345.8	880.5
Share premium account	3,625.4	954.0	3,625.4	954.0
Reserves	11,469.9	3,018.4	11,469.9	3,018.4
Total capital and reserves	18,441.1	4,852.9	18,441.1	4,852.9
Total capitalisation (total long-term debt plus shareholders' equity)	28,868.5	7,597.0	29,210.5	7,687.0

Note:

- (1) The aggregate principal amount of the Notes has been translated into Ringgit at the rate of RM3.80 equals U.S.\$1.00.
- (2) See F-11 and F-17 to F-21 for details of the Guarantor's contingent liabilities as at 30 June 2004.

BUSINESS

Introduction

The Group is the principal provider of telecommunications and related services in Malaysia and between Malaysia and international locations. The Group provides substantially all of the basic fixed lines in Malaysia, with a market share in excess of 95 per cent. of business and residential basic fixed local lines as at 30 June 2004, based on the number of utilised DELs. Revenues from the Group's basic fixed line services contributed 53.1 per cent. of the Group's consolidated annual revenues in the year ended 31 December 2003. As at 30 June 2004, the Group had a fixed line customer base in Malaysia comprising approximately 4.52 million DELs.

Following the acquisition of Celcom in 2003 and the merger and integration of Celcom's business with the Group's mobile business, the Group has become the largest mobile telecommunications provider in Malaysia in terms of network coverage and capacity. See — "Mobile Services".

The Group's telecommunications services also include leased line, data, ISP, broadband and multimedia services. In addition to the Group's telecommunications business in Malaysia, the Group has telecommunications businesses and investments overseas in countries including South Africa, Guinea, Malawi, Bangladesh, Sri Lanka, Thailand and Cambodia. See "International Ventures — Recent Developments".

The Group's fixed line business provides services including:

- basic fixed line services, including local, domestic long-distance and international telephone services;
- leased line and data networking services;
- VoIP services;
- payphones; and
- value-added services.

The Group provides mobile telephone services on three separate mobile systems which collectively provide nationwide coverage of the principal population centres of Malaysia and substantial international roaming capability. Following the acquisition of Celcom, the Group's mobile services are all operated under the "*Celcom*" brand name.

The Group's multimedia and ISP businesses provide products and services in the following main categories:

- access services consisting principally of various forms of internet access;
- application services consisting principally of broadband-based applications; and
- content services consisting principally of the portal bluehyppo.com.

The Government, through Khazanah, owns a majority of the issued shares of Telekom. MOF Inc. holds the Special Share which, under Telekom's Articles of Association, entitles MOF Inc. to representation on Telekom's Board of Directors. See "History — Initial Public Offering and Government Ownership". Telekom and its relevant subsidiaries operate their telecommunications and related services businesses in Malaysia under licences granted by the Government. See "Regulation".

Telekom was incorporated as a limited liability company in Malaysia on 12 October 1984 and its main business activity as described in paragraph 3(1) of its Memorandum of Association is the provision of telecommunication services and data processing services both within Malaysia and overseas. Its registered and principal office is located at Level 51, North Wing, Menara Telekom, Off Jalan Pantai Baharu, 50672 Kuala Lumpur, Malaysia.

Strategy

Telekom aims to maintain its over-all market-leading position in the fixed line, mobile and multimedia businesses in Malaysia while increasing returns from overseas operations by focusing on existing profitable ventures and expanding into new markets.

Telekom has adopted a strategy focused on:

- maximising revenue derived from, and utilisation of, its core networks in Malaysia through the introduction of new value-added services and bundling of products and services across the Group;
- capitalising on the strong position of the integrated Celcom and TM Cellular mobile businesses;
- increasing operational efficiencies to improve customer service;
- optimising its international operations by consolidating and rationalising its most profitable ventures and expanding into growing regional markets; and
- maintaining a balanced and efficient capital structure.

Maximising revenue derived from, and utilisation of, its core networks in Malaysia through the introduction of new value-added services and bundling of products and services across the Group

Telekom believes that its market leadership and integrated communications network infrastructure enable it to control the quality and availability of its services in Malaysia and to offer high-quality value-added services. Telekom also believes that its network infrastructure will enable it to offer packaged services that combine fixed line, mobile and multimedia services tailored to the needs of customers. Telekom plans to capitalise on its core networks by providing enhanced fixed and mobile data services, expanding broadband and mobile access coverage and offering new Internet applications, contents and services. In the fixed line and mobile businesses, Telekom aims to defend its dominant market share and plans to introduce new value-added services such as 3G and broadband television services.

Capitalising on the strong position of the integrated Celcom-TM Cellular mobile businesses

The Group plans to capitalise on the Celcom and TM Cellular merger and integration to further strengthen Telekom's mobile services business in Malaysia. The Group plans to leverage its strong position to capture a larger share of those customers migrating from fixed line to mobile services and also position itself to capture the anticipated mobile data growth in the coming years. Through further integration with Celcom's business, the Group's mobile operations are expected to benefit from the combined market share, operational synergies and cost savings, including synergies derived from infrastructure sharing. The Group aims to benefit from the synergies of the business integration to expand coverage and services nationwide, while rationalising its mobile network infrastructure to improve service quality.

Increasing operational efficiencies to improve customer service

In response to the further deregulation of the telecommunications market in Malaysia and intensified competition Telekom plans to increase further its customer focus in order to sustain its leadership position.

The Group is undertaking various initiatives to implement this strategy including a customer relationship management ("CRM") initiative. The CRM initiative aims to improve customer service by enhancing the Group's capability to target, acquire, and retain profitable customers by seeking to integrate information technology ("IT") and business objectives into the Group's operations relating to customers. Furthermore, the Group is pursuing a marketing and service provision strategy targeted towards the different segments of its customer base. To this end, Telekom has established separate retail business and wholesale business units to specifically focus on, and cater to the needs of, corporate, government and small and medium-sized enterprises and wholesale telecommunications operators, respectively.

The Group is also undertaking a review to reposition Telekom's brand. The review aims to enable the Group to provide a more consistent "Touch and Feel" for the Group in order to improve customer perception and image of the Group.

Optimising international operations by consolidating and rationalising its most profitable ventures and expanding into growing regional markets

As part of its long-term growth strategy, the Group plans to seek additional strategic opportunities for telecommunications-related investments, both domestically and abroad. The Group will continue to review opportunities to expand in other less developed telecom markets in Asia with the principal focus on mobile and value-added services. These opportunities may include acquisitions, strategic partnerships or other strategic business opportunities in the Group's core fixed line, mobile and multimedia businesses. Telekom plans to establish a presence in certain strategic emerging markets in Asia with growth potential and to develop additional markets for new products and value-added services. In evaluating opportunities, the Group intends to focus on the potential investments' strategic fit with the Group's core businesses, as well as the investments' anticipated investment returns. The Group will also monitor its investments in subsidiaries and associated companies to identify exit strategies, including divestitures and public listings that realise reasonable investment returns.

Maintaining a balanced and efficient capital structure

The Group intends to maintain a balanced and efficient capital structure. To this end, the Group plans to maintain a stable gearing position by monitoring and managing capital expenditures, investments and foreign currency exposures. The Group also plans to focus increasingly on its cost base and improve Group-wide cost management through increased operating efficiencies, more focused marketing and sales initiatives and managing its non-core cost base. The Group also expects to derive cost efficiencies through synergies arising from the integration of Celcom's business with the Group's mobile business. See "Business — Mobile Services — Synergies".

History

Background

Before 1946, all telecommunications services throughout Malaysia were provided by the Postal and Telegraph Department. In 1946, the postal service was separated with the formation of the Telecommunications Department in Peninsular Malaysia. In 1968, the Telecommunications Department in Peninsular Malaysia was merged with the Telecommunications Department in Sabah and Sarawak to form the Department of Telecommunications Malaysia, or JTM.

The privatisation of telecommunications services in Malaysia was made possible by the introduction of the Telecommunications Services (Successor Company) Act 1985 (the "**Telecommunications Act**"). The Telecommunications Act empowered the Government to transfer to and vest in a company all property, rights and liabilities in respect of telecommunications services (other than certain lands and designated properties) to which the Government was entitled. In addition, the Telecommunications (Amendment) Act was passed in 1985 designating the Minister with responsibility for overseeing the telecommunications sector in Malaysia. In accordance with the Government's privatisation policy, the Group was incorporated under the Companies Act, 1965 as a public company limited by shares on 12 October 1984 under the name of Syarikat Telekom Malaysia Berhad ("**STMB**"), to take over the telecommunications operations of JTM. On 1 January 1987, all of the property, rights and liabilities to which JTM was entitled (other than certain lands and designated properties, which were leased to STMB by the Government) were transferred to STMB. STMB changed its name to Telekom Malaysia Berhad on 6 June 1991.

Initial Public Offering and Government Ownership

On 29 October 1990, Telekom completed the initial public offering (the "**IPO**") of its ordinary shares in Malaysia, and on 7 November 1990 Telekom's shares were listed on Bursa Malaysia. Immediately following the IPO, Telekom became the largest privatised company in Malaysia. As at 30 June 2004, Telekom was, in terms of market capitalisation, the second largest listed company on Bursa Malaysia with a market capitalisation of RM34,461 million.

Following the IPO, MOF Inc. owned 76.1 per cent. of the enlarged ordinary share capital of Telekom and the Special Share. The Special Share, which is still owned by the Government, enables it to ensure that major decisions affecting Telekom’s operations are in line with national interests. See “Investment Considerations — Considerations Relating to Telekom and the Group — The Government has voting control of Telekom”, “Investment Considerations — Considerations relating to Telekom and the Group — The Government may not retain its Special Share in Telekom” and “Share Ownership”.

Since the IPO, MOF Inc. has divested a portion of its shares in transactions with parties outside of the Government. The Government has also transferred shares to Khazanah, which was formed in 1994 to hold and manage certain of the Government’s strategic and high-technology investments and is wholly-owned by MOF Inc.

On 2 March 2004, Temasek Holdings (Private) Limited (“**Temasek Holdings**”), a corporation formed by the Singapore government to hold investments in companies, acquired 165 million shares of Telekom (5 per cent. of Telekom’s shares) from Khazanah. As at 30 June 2004, Temasek Holdings together with its related corporations held 169,320,900 shares in Telekom representing 5.06 per cent. of Telekom’s shares.

As at 30 June 2004, the Government remained the largest shareholder of Telekom. The table below sets forth the shareholding in Telekom of various Government entities as at 30 June 2004:

<u>Shareholder</u>	<u>Number of Ordinary Shares Held</u>	<u>Percentage of Shares</u>
Khazanah Nasional Berhad ⁽¹⁾	1,079,424,854	32.26
Employees Provident Fund Board ⁽²⁾	449,341,000	13.43
Bank Negara Malaysia ⁽³⁾	251,680,000	7.52
MOF Inc. ⁽⁴⁾	111,901,219	3.34
Others ⁽⁵⁾	<u>292,866,247</u>	<u>8.76</u>
Total	<u><u>2,185,213,320</u></u>	<u><u>65.31</u></u>

Notes:

- (1) MOF Inc. owns all the shares in Khazanah.
- (2) The Employee Provident Fund Board was established under the Employee Provident Fund Ordinance 1951 which was later amended to the Employee Provident Fund Act 1991. It is a trustee of the Employees Provident Fund.
- (3) Bank Negara Malaysia, the Malaysia’s central bank, is wholly-owned by the Government.
- (4) MOF Inc. is a corporation formed under the Minister of Finance (Incorporation) Act 1957 to hold certain investments of the Government.
- (5) Other Government agencies or institutions such as pensioner and state funds.

Organisational Structure

Following a strategic realignment of its key business units in 2004, the following chart illustrates the organisational structure of the Group and the Group's principal subsidiaries.



Note:

* Special business unit of Telekom and not a separate legal entity.

Principal Products And Services

Fixed Line Voice and Data Services

The Group's principal business is the provision of fixed line telephony and data-based products and services in Malaysia. Telekom is the principal provider and operator of domestic fixed line telecommunications services within Malaysia and its fixed line services include:

- basic fixed line services, including local, domestic long-distance and international telephone services;
- leased line and data networking services;
- VoIP services;
- payphones; and
- value-added services.

The Group provides its fixed line services through two customer-focused business units established on 1 July 2004:

- the Retail Business Unit; and
- the Wholesale Business Unit.

These business units offer a full range of fixed line telephony and data-based products and services tailored to the specific needs of individual retail and wholesale customers, local and international corporates and government agencies. The Retail Business Unit serves residential fixed line customers, corporate, government and small and medium-sized enterprises in Malaysia. The unit consists of 11 departments and employs 5,877 personnel. The Wholesale Business Unit serves wholesale telecommunications operators in Malaysia and consists of five departments and employs 11,700 personnel.

The table below sets out the Group's fixed line customer base as at the dates specified:

Customer Base	31 December 2002	31 December 2003	30 June 2004
	('000)	('000)	('000)
DEL — cumulative	4,593	4,531	4,521
Business.	1,265	1,295	1,306
Residential.	3,328	3,236	3,215

Basic Fixed Line Services

General

The Group is the principal provider and operator of domestic fixed line telecommunications services within Malaysia. As at 30 June 2004, the total number of DELs subscribed by the Group's customers was approximately 4.52 million.

The Group's basic fixed line services form the current core business of the Group, with a combined contribution from domestic business and residential calls and payments for the settlement of international calls (both business and residential) of 53.1 per cent. of the Group's consolidated operating revenue in the year ended 31 December 2003 and 46.9 per cent. of the Group's consolidated operating revenue for the six months ended 30 June 2004. As at 30 June 2004, the Group had approximately 1.306 million business fixed line subscribers and 3.215 million residential fixed line subscribers.

While usage and revenue for fixed line subscribers remains relatively stable, the number of subscribers has declined due to a migration to mobile services. Nevertheless, Telekom believes that there is potential growth in the data business as well as in value-added services and it aims to continue to increase its market share in the fixed line business through the introduction of value-added services. See "Investment Considerations".

Enhanced Voice Products

Telekom has introduced several new enhanced voice products aimed at retaining customers and increasing DEL usage and sales, including:

- *TM Home Prepaid*: Targeted at low-income customers, rental is free and calls are made through a "Ring Ring" telephone card;
- *Fixed SMS*: Launched in November 2003, Fixed SMS is a service that enables fixed line customers of Telekom to send short messages through their telephone line using a special Fixed SMS phone; and
- *Ria Resident Package and Package Business Plus*: These packages offer DEL, enhanced facilities such as call waiting and call transfer, caller line identifier and fixed SMS.

Domestic Tariffs

Telekom derives revenues from local services and domestic long-distance services to residential and business customers throughout Malaysia; from settlements of domestic telephone calls originated by competing fixed line and wireless service providers; fees from leased line services to business customers; and fees from payphones.

Telekom requires its fixed line telephone subscribers to pay a fully refundable deposit before service is installed. Thereafter, the subscriber is charged a fixed monthly rental fee. The amount of the monthly rental fee varies according to whether the subscriber is a business or residential customer.

On 19 February 2002, the Government announced the introduction of a new tariff structure. The fixed line tariff structure involves several components, which include local calls, national calls, international calls and rental. The new tariff structure seeks to align line rentals with the cost of providing the relevant service.

The new line rental for residential category was increased by RM5.00. In line with the provision of the Communications and Multimedia (Rates) Rules 2002 under the CMA, the RM5.00 increase was implemented in two stages. In the first stage, monthly rental was increased by RM2.00 to RM22.00 from RM20.00, effective from 1 March 2002 to 14 March 2003. In the second stage, effective from 15 March 2003, monthly rental was increased by RM3.00, to a monthly rental of RM25.00. This increase in rentals was deemed necessary by the Government to reduce cross-subsidies between call revenues and fixed rental tariffs and the new tariff structure is applicable to all telecommunications companies providing fixed line telephone services. In addition, the new tariff is designed to ensure that line rentals are competitive and attractive enough to stimulate and attract inflow of investments for expansion of the fixed line infrastructure in Malaysia.

The tariff review in March 2002 also changed the local call rate. Local calls are now charged at a fixed rate of:

- 8 sen for the first two minutes (the previous rate was 9 sen for the first three minutes); and
- 4 sen for each additional minute or part thereof (the previous rate was 3 sen for each additional minute or part thereof).

National calls are self-dialed calls from a town to another town beyond the adjacent charge area. Each national call is charged in units which are based on call duration and the time when the call is initiated. The charge per unit is at 10 sen. These are three types of rate charges:

<u>National Calls</u>	<u>Full rate from 7 a.m. to 6.59 p.m.</u>	<u>Reduced rate from 7 p.m. to 6.59 a.m.</u>
Distance:		
Not exceeding 50 km.	50 seconds	75 seconds
Exceeding 50 km but not exceeding 150 km.	20 seconds	40 seconds
Exceeding 150 km.	7 seconds	14 seconds

The tables below outline the current tariff structure for domestic fixed line telephone services for Telekom:

<u>One-time Fixed line Charge</u>	<u>Per line</u>
	<i>(RM)</i>
Deposits:	
Residential line.	75
Business line ⁽¹⁾	200-500
ISDN line (BRI) ⁽²⁾	
Business.	200
Residential.	100
ISDN line (PRI) ⁽³⁾	
Business.	1,000

Notes:

- (1) Business line charges vary depending on the type of business. For example, the business line charge for a sole proprietorship is RM200 while the business line charge for a private limited company is RM400.
- (2) Basic Rate Interference.
- (3) Primary Rate Interference.

<u>Monthly Fixed Line Rental Charges</u> <i>Exchange line capacity</i>	<u>Business</u> <i>(RM/month)</i>	<u>Residential</u> <i>(RM/month)</i>
Peninsular Malaysia:		
Exceeds 10,000	45	25
1,001–10,000	45	25
501–1,000	45	13
500 & below	20	13
Sabah/Sarawak:		
Exceeds 10,000	40	25
1,001–10,000	40	25
501–1,000	40	13
500 & below	20	13

International Tariffs

Telekom derives revenues from outgoing international calls made by the Group’s customers in Malaysia and from settlements with overseas telecommunications organisations for incoming calls which use Telekom’s facilities. Telekom, in turn, makes payments to overseas telecommunications organisations for the use of their facilities when outgoing calls are made from Malaysia to these countries. Accounting rates and settlement procedures are agreed bilaterally between international telecommunications carriers.

International accounting settlement rates, which may be measured in terms of “Special Drawing Rights”, are used to determine settlements between international operators for the use of their network facilities to connect incoming international calls. Historically, there has been a higher volume of international calls originating from Malaysia than going to Malaysia, resulting in a net outpayment by the Group to foreign telecommunications companies in respect of international calls.

Previously, Telekom charged a “full rate” and a “reduced rate” for IDD calls, each of which varied according to destination and time of day.

As from 15 June 2002, Telekom’s IDD charges have been based on a “Single Rate Per Country” concept whereby a customer is charged the same rate 24 hours a day. The “Single Rate Per Country” concept has been implemented to simplify the international tariff and this concept provides convenience to customers. IDD calls are charged in blocks of 6 seconds or part thereof. The charge for each 6 seconds block depends on the country to which the IDD call is made.

IDD charges from Malaysia to the top six major traffic destinations (excluding calls to Singapore, which are treated as domestic long-distance calls) as at 30 June 2004 are summarised in the table below:

<u>Call destination</u>	<u>Charge Per 6 seconds</u> <i>(RM)</i>
Australia	0.09
Hong Kong	0.18
Indonesia	0.18
Japan	0.18
United Kingdom	0.09
United States	0.09

Other Fixed Line Services

Telekom's other fixed line services include ISDN services and Code Division Multiple Access ("CDMA") services.

- *ISDN*

ISDN is a high-speed digital network which allows transmission of voice, data, text, images and video over a single telephone line. Consequently, the ISDN service is popular with heavy Internet users because of its ability to transmit large amounts of data. ISDN is a switched service and customers are charged based on the duration of usage. The Group offers two types of ISDN interfaces. Basic Rate Interface ("BRI") provides access for two channels, while Primary Rate Interface ("PRI") provides access for up to 30 channels. The Group's ISDN service was introduced in July 1993. As at 30 June 2004, there were approximately 61,000 ISDN subscribers.

- *CDMA Services*

CDMA is wireless technology which provides voice, fax and internet data applications at high speed. Telekom has introduced CDMA as a telephony service in rural areas and semi-urban areas where the fixed line network is not available. CDMA was launched in January 2002 and there were approximately 94,000 subscribers as at 30 June 2004.

The Group also provides services such as videoconferencing services; "Call Point" (a reverse charge call service), Teleinfo services, which provide information on various subjects of public and community interest; and telegram services. The Group also provides international administration, lease and telecommunications support for broadcast services.

Leased Line Services

The Group is a principal provider of leased line services in Malaysia and also provides leased line services to and from Malaysia. The Group's leased line services contributed 5 per cent. and 6 per cent. of the Group's consolidated operating revenue for the year ended 31 December 2003 and the six months ended 30 June 2004, respectively. As at 30 June 2004, the Group had a total of 53,807 leased lines in Malaysia.

Private leased lines are lines typically used by large organisations for voice, facsimile and data transmissions. By paying a fixed rental fee for continuous use of the communications line rather than per minute charges, organisations which are heavy users of telecommunications services are able to reduce their unit telecommunications costs.

The following are the principal leased line services provided by the Group:

- *Digital Leased Line*

Digital Leased Line is a network that offers high-speed connectivity between headquarters and branch offices with data transmission speeds of 64 kbps, n x 64 kbps up to 2 Mbps.

- *Broadband Leased Line*

Broadband Leased Line is a high bandwidth digital connectivity with speeds of 4, 6, 8, 34, 45 and 155 Mbps utilising the Group's Digital Data Network ("DDN") platform.

- *International Private Leased Circuit*

International Private Leased Circuit is a dedicated point-to-point leased service between various business premises around the world. It is designed to fulfil the demands of a privately-owned secure global network between dispersed locations at exceptional high speeds.

The Group is the sole provider of analogue leased lines in Malaysia, while some of the Group's competitors provide digital leased line services. Telekom believes that the capacity and geographic reach of the Group's fibre-optic network gives it a competitive advantage over these other service providers.

The Group plans to launch a wholesale business for licenced operators, traffic resellers, ISP and application services providers, through differentiated wholesale packages of fixed line facilities, products and services. By expanding its wholesale business, the Group will seek to focus on revenue growth, cost containment and asset utilization.

Data Services

Telekom's data networking services include, a Corporate Information Highway service ("COINS") and a data hosting and recovery service ("MyLoca"). For the year ended 31 December 2003 and the six months ended 30 June 2004, these services accounted for 3 per cent. and 1 per cent., respectively, of Telekom's consolidated operating revenues.

- *COINS*

COINS is a globally-connected, nationwide, broadband communications network which supports multimedia applications, networked computing and communications. COINS offers better speed and efficiency than traditional network services. The Group offers two customised COINS virtual private network ("VPN") packages; COINS Premium and COINS Enhanced. COINS uses dense wavelength division multiplexing with a capacity of 40 Gigabits per second. It offers of different access channels including ATM, Frame Relay and IP. As at 30 June 2004, COINS had 170 customers with more than 7,500 total connections nationwide.

- *Myloca*

Myloca is the Group's data hosting and recovery solution which is designed to withstand natural disasters, power disruption and network connectivity failure. It aims to provide round-the-clock data integrity and availability with uninterrupted transmission. Myloca provides services such as internet data centre, telehousing and business continuity as outsourcing alternatives that can help reduce customers' IT costs.

- *TM IP VPN*

TM IP VPN was soft launched in February 2003. It is a secure managed site-to-site and remote wide area network solution based on IP Networking Technology.

- *TM VSAT*

TM VSAT offers a cost-effective means of implementing a high quality, reliable communications link to widely distributed sites or isolated areas via satellite communications. It allows rapid, low-cost network re-configuration and expansion to meet new or unexpected business requirements.

- *Global Frame Relay*

Global Frame Relay offers an international wide area network connection with a fully managed global network.

- *Global ATM*

Global ATM offers an organisation flexibility and simplicity in managing high speed networks across the globe. It supports broadband multimedia applications with its secure managed global network with speeds up to 155 Mbps.

VoIP Services

In May 2000, the Group launched a VoIP service, “*iTalk*”, that provides subscribers with a lower rate for international and long-distance domestic calls. This service allows voice and facsimile to be transmitted over the IP network, resulting in a more cost-effective service. This service is currently provided using pre-paid *iTalk* cards available in denominations of RM30, RM60 and RM100. *iTalk* IDD charges start at RM0.15 per minute.

The increase in sales of *iTalk* has helped to offset the loss of revenue in national and IDD calls. For the six months ended 30 June 2004, the Group sold approximately 1.5 million pre-paid cards.

Public Payphones

The Group installs payphones throughout Malaysia in urban and rural areas and leases telephone lines to another licenced provider of payphones from which the Group receives a percentage of revenue. The Group’s payphones contributed 3.9 per cent. and 3.6 per cent. of the Group’s consolidated operating revenue for the year ended 31 December 2003 and the six months ended 30 June 2004, respectively. Consumers can place calls on the Group’s payphones by using coins or pre-paid cards. In order to reduce vandalism to public payphones, Telekom has encouraged the use of pre-paid cards and, accordingly, is continuing to increase the number of public telephones that accept only pre-paid cards. In addition, the increased use of pre-paid cards provides a platform to promote other telephone access services. Telekom also owns Citifon Sdn. Bhd., which has a licence to operate a public payphone service throughout Malaysia, and currently provides service mainly in urban areas.

Mobile Services

Introduction

Following the acquisition of Celcom in 2003 and the merger and integration of its business with the Group’s mobile businesses, the Group has become the largest mobile telecommunication provider in Malaysia in terms of network coverage and capacity.

The Group held a 31.25 per cent. equity interest in Celcom as at 1 January 2003. Following shareholders’ approval during an Extraordinary General Meeting held on 31 March 2003, the Group acquired an additional equity interest of 16.68 per cent. in Celcom on 17 April 2003 in exchange for Telekom’s 100 per cent. interest in TM Cellular. As a result of this share acquisition, the Group’s equity interest in Celcom increased to 47.93 per cent. and Celcom became a subsidiary of Telekom.

On 22 April 2003, Telekom acquired an additional 2.10 per cent. equity interest in Celcom, thereby increasing its total equity interest in the company to 50.03 per cent. and making Celcom a subsidiary of Telekom. Telekom subsequently acquired the remaining 49.97 per cent. equity interest in Celcom, thereby making Celcom a wholly-owned subsidiary of Telekom on 29 September 2003.

Prior to April 2003, the Group’s mobile services were provided through TM Cellular, which offered its mobile services through three separate systems:

- digital mobile services through a GSM 1800 system under the “*TMTOUCH*” brand name;
- dual band analogue and digital mobile services through an AMPS/TDMA system under the “*Mobifon*” brand name; and
- analogue mobile services through a NMT 450 system under the “*ATUR 450*” brand name.

Since April 2003, Celcom and its subsidiaries have been the Group’s main mobile services provider, with Telekom continuing to provide analogue mobile services to rural areas in Malaysia. Celcom was the first privately owned company in Malaysia to offer mobile services when it launched its “*ART900*” analogue mobile system in 1989. Celcom and its wholly-owned subsidiaries, namely Celcom Transmission (M) Sdn. Bhd. and TM Cellular, have licences to provide a broad range of voice and data communications services. Celcom currently offers its customers a choice of postpaid or prepaid services, which operate on three nationwide mobile networks:

- digital mobile services through a GSM 900 system under the “*CELCOM 019*” brand name which accounted for 64 per cent. of Celcom’s subscribers as at 30 June 2004;
- digital mobile services through a GSM 1800 system under the “*CELCOM 013*” brand name, which was formerly marketed under the “*TMTOUCH*” brand name and which accounted for 34 per cent. of Celcom’s subscribers as at 30 June 2004; and
- analogue mobile services through the ETACS analogue network under the “*ART900*” brand name.

Total mobile telephone revenues, including interconnection fees, comprised 31 per cent. of the Group’s consolidated operating revenues for the year ended 31 December 2003. As at 30 June 2004, Celcom had a total subscriber base of 4,672,804 (consisting of 1,159,606 postpaid and 3,513,198 prepaid subscribers) compared to a total subscriber base of 4,055,503 (consisting of 1,300,221 postpaid and 2,755,282 prepaid subscribers) as at 30 June 2003.

Impact of Acquisition

The Group held a 31.25 per cent. equity interest in Celcom as at 31 December 2002 and was accounted as an associate of Telekom as at that date. Celcom remained accounted for as an associate up to and including 17 April 2003. Following the acquisition of a further 16.68 per cent. equity interest on 17 April 2003, Celcom became a subsidiary of Telekom. The effect of Telekom’s acquisition of Celcom on the financial results of the Group during the year ended 31 December 2003 is shown below.

	2003			2002
	As an associate	As a subsidiary	Total as an associate and subsidiary	As an associate
	RM	RM	RM	RM
	(in millions)			
Operating revenue	—	1,862.6	1,862.6	—
Operating costs	—	(1,614.1)	(1,614.1)	—
Operating profit	—	248.5	248.5	—
Other operating income	—	13.9	13.9	—
Operating profit before finance cost	—	262.4	262.4	—
Net finance cost	—	(67.3)	(67.3)	—
Share of results of associate	44.2	8.0	52.2	(15.6)
Profit before taxation	44.2	203.1	247.3	(15.6)
Taxation	—	(60.6)	(60.6)	—
Profit after taxation	44.2	142.5	186.7	(15.6)
Minority interests	—	(24.9)	(24.9)	—
Less: Group’s share of net profit had the Group not acquired the additional 68.75% interest	(44.2)	(44.5)	(88.7)	—
Profit/(loss) attributable to shareholders . . .	—	73.1	73.1	(15.6)

For details of Celcom’s assets and liabilities at the time of acquisition by Telekom in April 2003, see note 2 of Telekom’s audited consolidated financial statements as at and for the years ended 31 December 2001, 2002 and 2003 contained herein.

The acquisition of Celcom also resulted in an increase in the Group’s levels of indebtedness and gearing ratios. As a result of additional borrowings required to finance the acquisition of Celcom and the consolidation of Celcom’s indebtedness, the Group’s indebtedness increased from RM7,618.4 million

(representing a gearing ratio of 54.2 per cent.) as at 31 March 2003 to RM11,708.4 million (representing a gearing ratio of 69.8 per cent.) as at 31 December 2003. This increased level of indebtedness may result in the Group incurring higher debt servicing costs. See “Investment Considerations — The Group may experience difficulties in integrating the operations and businesses of Celcom”.

Integration Plan

On 17 April 2003, a management team comprising executives from Telekom, Celcom and TM Cellular was appointed to implement an agreed integration plan. Since 22 October 2003, Celcom and TM Cellular have managed their operations under the single unified brand of “*Celcom*”. As part of the integration, Telekom introduced a new organisational structure divided into three major groups:

- a customer management group comprising sales and marketing, regional business operations and customer services and billing;
- a technology group, which includes network and IT products and services; and
- the corporate services group, which supports the customer management group and the technology group.

The integration also involved the formation of Board integration management committees to lead and execute the integration to monitor progress of the integration on the Board’s behalf.

The integration plan covers two phases over a period of eighteen months. The first phase, which was completed on 31 October 2003, focused on integrating the organisation, standardising and improving the customer experience and repositioning the Celcom group in the market and consolidating the new brand position. The second phase focuses on the integration of network infrastructure including the consolidation of IT platforms. Following the network integration, “*CELCOM 013*” subscribers (formerly TM Cellular’s subscribers) and “*CELCOM 019*” subscribers currently enjoy seamless roaming in 10 of the 13 states in Malaysia. The integration process is expected to be completed by the fourth quarter of 2004.

The number of new subscribers of Celcom’s mobile services was 226,796 for the three months ended 30 June 2004 (representing 35.5 per cent. of total new mobile subscribers) as compared to 194,032 for the three months ended 30 June 2003 (representing 20.3 per cent. of total new mobile subscribers).

Synergies

Telekom expects to derive advantages of scale, revenue enhancement and operating cost savings as a result of the integration.

The principal benefits that the Group has or aims to achieve as a result of the integration are as follows:

- *Customer Base*

The following table sets out the combined subscriber base for both Celcom and TM Touch as at 30 June 2003 and 30 June 2004:

<u>Customer Base</u>	<u>30 June 2003</u>	<u>30 June 2004</u>
Post-paid	1,300,221	1,159,606
Pre-paid	<u>2,755,282</u>	<u>3,513,198</u>
Total	<u>4,085,503</u>	<u>4,672,804</u>

- *Network Infrastructure*

The combination offers an enhanced and expanded network infrastructure consisting of Celcom's GSM-900 and TMTouch's GSM-1800 network, affording its customers with one of the most comprehensive network coverage in the country.

- *Network Quality*

Along with an expanded infrastructure, customers enjoy a higher level of network quality through the rationalization of TM Touch's GSM-1800 bandwidth with Celcom's GSM-900 bandwidth.

- *Capital and Operational Savings*

By operating the combined network infrastructure, Telekom believes that the Group will experience significant capital and operational expenditure savings. The Group expects further reductions in capital and operational expenditure due to leveraging costs and synergies, such as in promotion and advertising, sales and marketing, product development, outlet rationalization, dealers' incentive rationalization, corporate office consolidation and billing and IT platform consolidation.

- *Product Offerings*

By offering packaged services that combine fixed line, mobile and multimedia services tailored to the needs of different market and customer segments, Telekom plans to capitalise on its core networks by providing enhanced fixed and mobile data services and expanding broadband and mobile access coverage.

Service Offerings and Price Structure

Mobile services are considered to be premium services and attract tariffs that are higher than fixed line calls and are charged based on the duration and destination of the calls. All Malaysian mobile services are charged on a "calling party pays system" whereby mobile services customers are charged solely for making calls and not receiving them.

Celcom offers a wide range of pre-paid and post-paid service packages tailored to the needs of different customer groups.

Its principal post-paid service offerings are "EZY", a service targeted towards high-usage customers, "BIZ", which is tailored for businesses users, "Chat", a service targeted at mobile users with extended chat time, "Imperial", a service tailored for high-end customers and "Salam", a service tailored for the Islamic market. Celcom's principal pre-paid service offerings include "X'cel", a service targeted towards high-usage consumers, "X'ceed", a service tailored to mid-end mobile users and "X'plore", a service tailored for new and low-usage customers.

The Group's general tariff structure for its postpaid and prepaid mobile services is set forth in the following tables and may vary based on package offerings from time to time:

POSTPAID PACKAGE	Salam		EZY		BIZ		Chat		Imperial		Supplementary Plan	
Billing Information												
Deposits	RM50		RM50		RM200		RM125		RM500		RM50	
Access fees/month	RM30		RM30		RM0		RM0		—		RM15	
Connection fees (once only)	RM50											
Reconnection fees	RM10											
Commitment fee	—		—		RM200		RM125		—		—	
Tariff (per minute)⁽¹⁾	Peak	Off-peak										
Local call	RM0.30	RM0.15	RM0.30	RM0.15	RM0.30	RM0.30	RM0.30	RM0.30	RM0.30	RM0.15	RM0.30	RM0.30
Adjacent charge zone	RM0.80	RM0.40	RM0.80	RM0.40	RM0.40	RM0.80	RM0.80	RM0.40	RM0.30	RM0.15	RM0.80	RM0.40
Non-adjacent call zone	RM1.50	RM0.75	RM1.50	RM0.75	RM0.75	RM1.50	RM1.50	RM0.75	RM0.30	RM0.15	RM1.50	RM0.75
	Special Zonal Tariff		Special Zonal Tariff		Special Zonal Tariff		Special Zonal Tariff		Special Zonal Tariff		Special Zonal Tariff	
Sarawak to Sarawak	RM0.30	RM0.15	RM0.30	RM0.15	RM0.20	RM0.30	RM0.30	RM0.30	RM0.30	RM0.15	RM0.30	RM0.30
Sabah to Sabah	RM0.30	RM0.15	RM0.30	RM0.15	RM0.20	RM0.30	RM0.30	RM0.30	RM0.30	RM0.15	RM0.30	RM0.30
Sarawak to Sabah	RM0.80	RM0.40	RM0.80	RM0.40	RM0.40	RM0.80	RM0.80	RM0.40	RM0.30	RM0.15	RM0.80	RM0.40
Sabah to Sarawak	RM0.80	RM0.40	RM0.80	RM0.40	RM0.40	RM0.80	RM0.80	RM0.40	RM0.30	RM0.15	RM0.80	RM0.40

⁽¹⁾ With the exception of "Biz", peak rates apply from 7:00 a.m. to 7:00 p.m. with off-peak rates applying from 7:00 p.m. to 7:00 a.m. "Biz" peak rates apply from 9:00 a.m. to 5:00 p.m. with off-peak rates applying from 5:00 p.m. to 9:00 a.m.

PREPAID PACKAGE	X'cel		X'ceed		X'plore		Intm		Touch Advance				
Billing information													
Starter pack	RM108		RM78		RM38		RM58		RM58				
									Call Local		Call Nation		
Tariff: (per mtn)	Peak⁽¹⁾	Off-peak⁽²⁾	FLAT Rate	Peak⁽¹⁾	Off-peak⁽²⁾	Peak⁽³⁾	Off-peak⁽⁴⁾	Peak⁽³⁾	Off-peak⁽⁴⁾	Peak⁽³⁾	Off-peak⁽⁴⁾	Peak⁽³⁾	Off-peak⁽⁴⁾
Local call	RM0.30	RM0.15	RM0.45	RM0.58	RM0.38	RM0.54	RM0.39	RM0.54	RM0.39	RM0.66	RM0.51	RM0.66	RM0.51
Adjacent charge zone	RM0.80	RM0.40	RM1.40	RM1.50	RM0.90	RM1.20	RM0.75	RM1.20	RM0.75	RM1.08	RM0.66	RM1.08	RM0.66
Non-adjacent call zone	RM1.50	RM0.75	RM2.60	RM2.70	RM1.80	RM2.16	RM1.41	RM2.16	RM1.41	RM2.04	RM1.29	RM2.04	RM1.29

⁽¹⁾ Peak rates apply from 7:00 a.m. to 11:59 p.m.

⁽²⁾ Off-peak rates applying from 12:00 midnight to 6:59 a.m.

⁽³⁾ Peak rates apply from 12:00 noon to 11:59 p.m.

⁽⁴⁾ Off-peak rates apply from 12:00 midnight to 11:59 a.m.

Multimedia

General

In July 2002, the Group transferred its multimedia division, TM Multimedia, to a newly incorporated company known as TM Net, a wholly-owned subsidiary of Telekom. Previously, Telekom provided multimedia services directly through its TM Multimedia division, which was established in 1995.

TM Net provides the following services:

- access services consisting principally of various forms of internet access;

- application services consisting principally of broadband-based applications; and
- content services consisting principally of the portal, bluehyppo.com.

Access Services

In July 1996, Telekom commenced its ISP operations in Malaysia through its multimedia division, TM Multimedia. TM Multimedia's dial-up service was launched in November 1996 under the name "TMnet" which was subsequently changed to "tmnet" after the incorporation of TM Net Sdn. Bhd. ("TM Net") in July 2002.

As at 30 June 2004, TM Net had a subscriber base of 2.52 million, of which 1.99 million were subscribers to its access services, 7,433 were subscribers to its application services and 520,203 were subscribers to its content services.

Revenues derived from TM Net for the year ended 31 December 2003 amounted to RM290 million.

The table below sets out the customer base of TM Net as at 31 December 2003 and 30 June 2004:

Customer Base	As at 31 December 2003	As at 30 June 2004	Percentage Change
Internet — Dial Up	1,550,841	1,791,854	15.5%
Internet — tmnet streamyx	101,107	174,552	72.6%

TM Net offers various forms of Internet access including:

- "tmnet 1515", which is a basic dial-up Internet access service, available on both a pre-paid and post-paid basis, using PSTN with speeds of up to 56.6 kbps;
- "tmnet 1525", which is an end-to-end, digital dial-up service that supports multimedia applications such as voice, data, image and video at high speeds from 64Kbps to 128Kbps;
- "tmnet streamyx", which a high-speed access service which provide "always on" connection to the Internet with speeds from 384K up to 2Mb/s; and
- "tmnet direct", which provides a 24-hour digital link between business and corporate subscribers and the Internet.

TM Net's tariff structure for "tmnet 1515" and "tmnet 1525" are set forth in the following tables:

In-line with the 2004 Government budget speech, TM Net has started implementing reductions in its broadband internet access charges to ensure wider access at lower cost. The reductions are on-going.

tmnet 1515

Categories	Registration Fee (RM)	Annual Subscription (RM)	Access Fee (sen/min)
Personal	10.00	24.00	1.0
Student/Disable	10.00	18.00	1.0
School	25.00	24.00	1.0
Organisation	50.00	60.00	2.5

Categories	Registration Fee (RM)	Annual Subscription (RM)
Personal	10.00	24.00
Student/Disable	10.00	18.00
School	25.00	24.00
Organisation	50.00	60.00
Usage Charges	Access Fee (per 64k channel)	Call Charges (per 64k channel)
1525 access code	3 sen/min	2 sen/min
8, 7 or 6 digit access code	3 sen/min	4 sen/min

The “tmnet streamyx” requires the payment of an installation and service activation fee of RM125.00 and a monthly subscription fee ranging from RM44.00 per month to RM1,188.00 per month depending on whether the type of package required is for home or business use. As part of its strategy to prioritise broadband service to meet the demand of the market, TM Net has enabled 345 exchanges nationwide with streamyx coverage. More exchanges are expected to be commissioned by the end of 2004. As at June 2004, TM Net, through Telekom, had successfully deployed 363,000 broadband ports throughout Malaysia.

In addition to the Internet access connections mentioned above, TM Net also offers the following value-added services:

- “powerSurf”, which is an application that allows users to connect to the network at three times the normal internet connection speed;
- “Virus Shield”, which is an anti-virus solution that provides real-time screening of the Internet gateway;
- “Anti-Spamming”, which filters unsolicited emails;
- “Global roaming”, which allows users to access the Internet from remote locations around the world via wired or wireless connection services; and
- “hotspot”, which is wireless broadband Internet access provided at shopping malls, coffee shops, food outlets and hotels in Malaysia where TM Net customers can use their laptop, PDA or tablet PC to connect to the Internet. Non-TM Net customers can enjoy this service by purchasing “tmnet hotspot” access cards.

Application Services

TM Net’s Applications Services provide customers with hosting, communications and commerce applications and solutions. Web hosting services help customers develop, enhance and deploy their Websites, while commerce applications including online shopping carts, payment processing solutions, and security solutions are offered to customers to assist them in their business administrative activities.

With the aim of increasing broadband usage, TM Net offers a number of broadband-based applications, including:

- “e-Health”, which is an integrated Internet solution that improves healthcare benefits management systems through online applications;
- “e-Conference”, which is an e-commerce solution that uses audio, video and web-conferencing tools to communicate multipoint-to-multipoint in real time over the Internet;
- “e-Bina”, which is an integrated construction industry IT platform;

- “*e-Supplychain*”, which is an application that manages the supply chain of business transactions from manufacturers to the community of vendors, logistic partners and small and medium-sized enterprises; and
- “*e-View*”, which is a video communication application that offers communication via video messaging services, video postcard and audio messaging service.

Content Services

TM Net offers a trilingual local portal — *bluehyppo.com* which is currently the main local content and consumer application aggregator in Malaysia. *bluehyppo.com* offers 21 information-rich channels and 18 services. It also offers broadband channels that can be viewed via PCs. Since 1 September 2004, TM Net has begun deploying broadband content via television in order to optimise its broadband service. As at 30 June 2004, Bluehyppo had more than 30 million monthly hits with 520,203 members accessing 537,241 contents via 21 channels.

Sales and Marketing

Telekom’s sales and marketing activities are directed towards supporting the Group’s overall corporate strategy of maintaining its market-leading position in the fixed line, mobile and multimedia businesses in Malaysia. While Telekom sets the strategic direction of the Group’s marketing initiatives, the implementation and targeting of marketing activities is undertaken by the relevant business sector.

The Group generally markets and sells its products and services through market and customer segmentation. Accordingly, the specific type of marketing activities undertaken by the Group vary according to the target markets. The Group also markets its products and services on a bundled basis, offering customers a range of packaged services tailored to their specific needs in the fixed line, mobile and multimedia sectors.

In its fixed line business the Group has introduced a customer-focused retail business unit to specifically focus on, and cater for the needs of small and medium-sized enterprises, local and international corporates and government agencies. For business customers within these sectors the Group offers services that are tailored to their specific needs. Likewise, the Group has established a wholesale business unit to target and cater for the needs of the wholesale telecommunications operators in Malaysia. The Group also uses national and regional marketing campaigns through varied media, as well as customer and dealer promotions, to target the mass-market end of its retail customer base.

In its mobile business, the Group has decided to adopt Celcom’s brand in its mobile business services in order to capitalise on the perceived strength of the “*Celcom*” brand for marketing purposes. While Telekom and Celcom continue to operate separate sales and marketing teams, they collaborate closely on sales and marketing strategies and campaigns which are specific to mobile services.

In its multimedia business, the Group plans to further develop the “*TM Net*” brand and leverage on its perceived strength as a vibrant service provider with particular emphasis on the younger market.

Telekom has also implemented a number of Group-wide customer-focused marketing initiatives:

- *CRM programme*: The Group is undertaking various initiatives to implement this strategy including a customer relationship management (“**CRM**”) initiative. The CRM initiative aims to significantly enhance the Group’s capability to target, acquire, and retain profitable customers by seeking to integrate IT and business objectives into the Group’s customer operations. Furthermore, the Group has introduced retail and wholesale business units in its fixed line business to specifically focus on, and cater for the needs of, small and medium-sized enterprises and wholesale telecommunication operators, respectively.
- *Brand enhancement* The focus of the Group’s marketing efforts is to leverage the “*Telekom Malaysia*”, “*Celcom*” and “*TM Net*” brands and the Group’s strengths in each of the key sectors of the fixed line, mobile and multimedia markets in order to increase subscriber bases and to market and sell the full range of the Group’s products and services to a broader range of customers. The Group is reviewing ways in which to revitalise the “Telekom” brand. The

review aims to enable the Group to consolidate its branding and enhance brand equity via rationalisation of various brands. The Group also plans to provide a more consistent “Touch and Feel” for the Group in order to improve customer perception and image of the Group.

Customer Service and Billing

Telekom believes that the quality of its customer service is critical to attracting and retaining customers. In this regard, the Group has historically invested, and will continue to invest, in the equipment and information systems associated with customer services.

Celcom and Telekom currently maintain separate customer service and billing functions. However, the Group is introducing a billing platform in order to produce bills for all services provided by Telekom and its subsidiaries (including Celcom) through a single system.

In addition, the Group is integrating its retail service outlets to offer a “one-stop shop” convenient service for customers who use Celcom’s mobile services in addition to services provided by the Group. This will provide customers with a single source at which their fixed line, mobile and multimedia requirements will be met. The Group’s call centres are also being integrated, offering customers access to fixed line, mobile and multimedia product, price information and customer assistance. In addition, the Group continues to focus on improved efficiency and productivity of its customer services through the development and training of employees and increased automation. The Group has introduced “Total Customer Satisfaction” (“TCS”) and “Total Quality Management” (“TQM”) concepts and has also implemented advanced network management systems aimed at maintaining network quality and monitoring network performance.

The Group’s billing systems allow it to capture and timely process call data records, fixed service fees, product plan discounts, credit adjustments and payments. Most fixed line services are billed on a monthly basis with all payments due on receipt of the bill. The Group imposes a late payment fee on subscriber accounts that are not paid by the due date. The Group will generally provide customers requesting service with access unless the customer has failed to pay for the Group’s services in the past.

The Network

Domestic Network

The Group provides voice, data, mobile and multimedia services over a network infrastructure that relies on the Group’s fibre-optic network. This extensive telecommunications network extends to all urban centres and to a major portion of the rural areas in Malaysia.

As part of the Group’s efforts to create a nationwide digital transmission network, the Group is deploying fibre-optic routes linking most parts of Peninsular Malaysia. In 1995, two additional submarine fibre-optic routes with a route distance of 4,130 kilometres were commissioned to link Peninsular Malaysia to Sabah and Sarawak. The cable is currently being upgraded to handle three times its current capacity to meet future demand. The upgrade is expect to be completed by the fourth quarter of 2005.

The Group is deploying land-based fibre-optic systems to provide a high quality and high capacity digital transmission network. This is in addition to existing microwave systems, which are used primarily as back-up and for broadcasting services. As at 30 June 2004, the Group’s network comprised approximately 506,000 kilometres of fibre-optic lines and 31,183,000 kilometres of copper lines. The Group is also deploying a wireless CDMA network for the “last-mile” access for network expansion and coverage, particularly in suburban and rural areas.

As at 30 June 2004, approximately 8.7 million access lines for basic telephony services were available in the local network. These lines are connected to telephone exchanges which have a capacity of approximately 7.7 million exchange lines. The telephone exchanges are located throughout Malaysia and are interconnected by a junction and trunk link which forms an integrated national and international telecommunications network.

The Group is also in the process of migrating the existing telephone exchanges to a next generation network IP softswitch, a packet technology, which provides a cost effective and flexible platform capable for fast deployment of IP-based value-added services. The first deployment of trunk softswitch is expected

to be commissioned in September 2004 and the first deployment of IP-based value-added services i.e. pre-paid, post-paid and IP centrex a packet technology using the new IP softswitch platform is scheduled to be commissioned in 1st quarter 2005.

For the broadband “last-mile” access, the Group is deploying both wire-line and broadband wireless technology. However, the majority of the broadband deployment uses DSL technology on existing copper and fibre cable. All the major towns in Malaysia have been provided with a broadband infrastructure network and a deployment program is on-going to extend the coverage to sub-urban and rural areas. The Group’s data network is also undergoing a major expansion program. The existing Frame-Relay and ATM data network will be maintained and the expansion will only relate to the new IP network.

International Network

The Group owns and operates three international telephone gateways that can accommodate current and future growth in international telephony traffic. These gateways, two of which are located in the Klang Valley and the other in the Federal Territory of Labuan, have a combined capacity of 45,710 circuits. The Group also operates two centres for operator assisted international telephone services in the Klang Valley.

The Group’s network provides direct international services to most countries in the world. International network connections are achieved through a combination of submarine fibre-optic and satellite links. The Group is a member of the International Telecommunications Satellite Organisation (“INTELSAT”) and the International Maritime Satellite Organisation (“INMARSAT”) and the satellite capacity provided by these international organisations establishes direct links with other telecommunications administrations. Through these various links, the Group’s network is directly connected to most major destinations.

Fixed Line Network Capacity and Utilisation

The table below shows the capacity and utilisation of the Group’s customer access, switching, trunk and junction fixed line networks:

<u>Network Capacity, Utilisation and Digitalisation</u>	<u>As at December 31,</u>			<u>As at</u>
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>June 30,</u>
				<u>2004</u>
Customer Access Network:				
Capacity (million access lines)	9.2	9.4	10.0	10.1
Utilisation (%)	50.6	48.6	46.2	47.7
Switching Network:				
Capacity (million exchange lines)	8.5	8.6	8.7	8.7
Utilisation (%)	54.6	53.0	53.4	55.6
Trunk and Junction Network:				
Capacity (million channel ends)	9.6	10.2	10.5	10.7

Network Management Systems

The Group’s network is monitored by the business units providing services over the network from a centralised network operation centre. A new network operation center is currently being develop to integrate all the stand-alone network management systems in order to provide end-to-end on-line network monitoring of performance to ensure network quality and is expected to be completed by the end of 2004. The Group’s existing Network Management System is able to do the following functions for all networks including telephone, broadband, wireless, data, leased circuit, fiber-optic, microwave networks from a centralised network operation centre:

- monitor and control system alarms and faults;
- monitor network quality performance;

- configure system for network provisioning;
- manage system security;
- measure network traffic and capture call data records in real-time; and
- provide a centralised surveillance system for fraud management and control.

Capital Expenditure

Telekom's telecommunications businesses are capital intensive in nature. In order to continue to be competitive and to provide services and technology compatible with the more advanced telecommunications providers, Telekom plans to continue to expand and modernise its telecommunication network, which may involve substantial capital investment. During the years ended 31 December 2001, 2002 and 2003, Telekom invested, on a consolidated basis, RM2,717 million, RM3,185 million and RM2,678 million, respectively, in property, plant and equipment. This capital expenditure was primarily related to the expansion and modernisation of its telecommunications network, including the replacement and upgrading of its switches with digital switching equipment, and the installation of fibre optic cable.

In respect of its domestic telecommunications businesses, Telekom expects to continue to incur substantial capital expenditure to broaden the existing range of its telecommunications services and to develop new services. Telekom plans to invest RM5,936 million, in aggregate and on a consolidated basis, during the three financial years ending 31 December 2006, to complete the Celcom integration, expand its 3G network and upgrade its submarine cables, mobile, long distance and data networks. Telekom expects to meet these capital expenditures primarily through cash flows from operations and, to a lesser extent, through external borrowings.

Materials Supply

The Group's principal material and equipment purchases are switching and transmission equipment, fibre-optic cables and equipment, copper cables, poles, subscriber apparatus and ducts and payphones. The Group spent RM351.9 million on supplies and inventories in the year ended 31 December 2003 and RM150 million for the six months ended 30 June 2004.

The Group purchases switches from five local affiliates of international producers. As the Group procures switches from a range of suppliers, the Group does not believe it is dependent on any one supplier, and the Group believes that the Group will be able to secure a sufficient supply of switches for the foreseeable future.

The Group purchases fibre-optic cables and equipment from a number of local and international suppliers. Using fibre-optic cables and equipment will enable the Group to provide a broader range of telecommunications services. Telekom believes that it will be able to secure a sufficient supply of fibre-optic cables and equipment for the foreseeable future.

Apart from fibre-optic cables, the Group's local network is also supported by copper cables. Currently, the Group has several local copper cable suppliers, which typically source their materials overseas. Telekom believes that the Group will be able to secure a sufficient supply of copper cable for the foreseeable future.

The Group's other purchases included information technology systems, including management systems, as well as miscellaneous supplies of poles, pole fittings, pipes, ducts, prefabricated manholes and stationery.

International Ventures

General

In recent years, the Group has embarked on a strategy of overseas investment in telecommunications-related ventures in order to capitalise on its expertise in developing telecommunications networks in emerging markets. As at 30 June 2004, the Group's total investments in its principal international

telecommunications-related ventures amounted to RM1,461.8 million (U.S.\$384.7 million). Through the acquisition of Celcom, the Group also acquired a number of shareholdings in overseas telecommunication companies which continue to be managed by Celcom. See “Celcom’s International Ventures”.

In the year ended 31 December 2003, the Group’s overseas investments contributed 28.76 per cent. to the Group’s profit after tax or RM399.85 million, compared to RM115.5 million the previous year. With mobile services serving as the cornerstone of its investments, The Group’s presence in South Africa, Guinea, Malawi, Bangladesh, Sri Lanka and Cambodia provided access to a mobile subscriber base of approximately 11 million as at 31 December 2003.

In line with the Group’s vision of becoming a leading communications service provider in Asia, TM International, a wholly-owned subsidiary of the Group has been set up to oversee and manage its foreign ventures. Initially, the Group’s international ventures were overseen by its International Venture Division (IVD). During the year ended 31 December 2002, the Group began to consolidate all of its international ventures under TM International. The restructuring is expected to be completed by end of 2004.

The Group’s policy is generally to participate actively in the management of its international investments including seeking representation on the relevant Board of Directors where possible. The Group has formed strategic partnerships with national telecommunications companies in Guinea, and has also established a presence in Cambodia, Thailand, Sri Lanka, Bangladesh and Malawi.

The Group has strategically expanded the Group’s operations internationally to capitalise on opportunities throughout Asia and in selected African countries. The Group has focused on investment opportunities in telecommunications and related industries, particularly in mobile, paging and other network-related businesses. The Group continues to explore opportunities to add to the Group’s investments in Asia.

The Group closely monitors its investments in international subsidiaries and associated companies to identify exit strategies in order to realise investment returns, including divestitures and public offerings. See “— Recent Developments”.

Recent Developments

India

On 28 May 2004, Telekom, through its wholly-owned subsidiary TM International, entered into a teaming agreement with STT, through its wholly-owned subsidiary STTC to acquire a strategic stake in the Indian telecommunications company, Idea Cellular. Idea Cellular is the fifth largest mobile telecommunications operator in India by number of subscribers. India has been one of the world’s fastest growing mobile telecommunications markets and Telekom seeks to capitalise on the market’s growth potential through this share acquisition.

Telekom plans to hold 40 per cent. of the joint venture interest with STT holding the remaining 60 per cent., and, if successfully completed, the share acquisition will raise Telekom’s and STT’s combined equity interest in Idea Cellular to 49 per cent., which is the maximum level of foreign ownership currently permitted by the Indian government in respect of telecommunications companies. Telekom and STT are currently negotiating the terms of a sale and purchase agreement in connection with the planned acquisition of a strategic stake in Idea Cellular. While Telekom and STT expect to execute a sale and purchase agreement in the foreseeable future, there can be no assurance that a sale and purchase agreement will be successfully negotiated and executed as planned. For a discussion of the potential risks associated with this investment, see “Investment Considerations — Considerations relating to Telekom and the Group — Telekom’s planned acquisition and expansion in India may not be successful”.

If completed as planned, this investment will be one of the Group’s largest international investments. See “Investment Considerations — Considerations relating to Telekom and the Group — Telekom’s planned acquisition and expansion in India may not be successful”.

South Africa

On 18 June 2004, Telekom sold 32.2 million shares in its former subsidiary, Telkom SA, which resulted in Telekom recognising a profit on disposal of RM622.4 million (U.S.\$163.8 million) for the six months ended 30 June 2004. This partial disposition reduced Telekom's effective equity interest in Telkom SA from 12.00 per cent. to 6.04 per cent. See "Business — International Ventures — Africa — Telkom SA".

Telekom's International Ventures

The following table lists the foreign subsidiaries, associates and significant long term investments of Telekom which provide telecommunications services:

Name	Country	Percentage of shareholding ⁽¹⁾ %
Asia		
Cambodia Samart Communication Co. Ltd	Cambodia	51
MTN Networks (Private) Limited	Sri Lanka	100.00
TM International (Bangladesh) Limited	Bangladesh	70.0
Samart Corporation Public Company Limited	Thailand	19.57
Africa		
Telekom SA Limited.	South Africa	6.04
Société Des Télécommunications De Guinee.	Guinea	60.0
Telekom Networks Malawi Limited.	Malawi	60.0
Ghana Telecommunications Company Limited	Ghana	25.50

Note:

(1) Direct holding as at 30 June 2004.

Asia

Cambodia Samart Communication Co. Ltd. ("Casacom")

In August 1998, the Group, through Telekom Malaysia International Sdn. Bhd., invested RM73.95 million (U.S.\$19.46 million) for its 51 per cent. stake in Casacom, a company incorporated in Cambodia, which it purchased from Samart Corporation Public Company Limited ("**Samart**"). As at 30 June 2004, Samart, in which Telekom holds an indirect equity interest of 19.57 per cent., currently controls 49 per cent. of Casacom, resulting in an effective equity ownership of Casacom by Telekom of 60.58 per cent. Casacom provides services on the GSM 900 and NMT 900 Mhz frequency bands in Cambodia. It operates under a 35 year mobile concession commencing in 1996 from the Ministry of Posts and Telecommunications. Casacom is currently the third largest mobile operator in Cambodia with approximately 95,400 subscribers, of which approximately 1,000 were post-paid subscribers and approximately 94,300 were pre-paid subscribers as at 30 June, 2004.

MTN Networks (Private) Limited ("MTN Networks")

In 1994, the Group, through Telekom Malaysia International Sdn. Bhd., entered into a joint venture with Sunpower Systems (Private) Limited, a subsidiary of the Maharaja Organisation Limited to operate MTN Networks, a GSM mobile system in Sri Lanka, under a licence valid until 2013, through TM International Lanka (Private) Limited. The system was launched in April 1995. Pursuant to this joint venture, Telekom acquired a 90 per cent. equity interest while Sunpower Systems (Private) Limited held a 10 per cent. equity interest. In August 1996, Telekom purchased Sunpower Systems (Private) Limited's 10 per cent. equity interest. For its ownership of MTN Networks, Telekom invested RM92.2 million (U.S.\$24.3 million). As at 30 June 2004, MTN Networks had a total subscriber base of approximately 1,061,000 of which approximately 267,000 were post-paid customers and approximately 794,000 were pre-paid

customers. MTN Networks is supported by over 370 base stations and international roaming facilities with 302 operators in 177 countries. A key development for its mobile business has been the roll-out of a GSM dual band network on the 1800 frequency band. Sri Lanka Telecom's monopoly on International Direct Dialing (IDD) calls came to an end in the year ended 31 December 2003 and MTN Networks was awarded an international gateway licence.

Samart Corporation Public Company Limited ("Samart")

In 1997, Telekom, through Telekom Malaysia International Sdn. Bhd., invested RM198.9 million (U.S.\$52.3 million) for its 24.99 per cent. stake in Samart, a public company listed on the Stock Exchange of Thailand. As at 30 June 2004, following a debt restructuring in 2000, 2001 and 2003 which involved a debt for equity refinancing and an employee stock options exercise, Telekom held a 19.57 per cent. stake in the company.

Samart provides a wide range of value-added telecommunications equipment including the manufacture and distribution of telecommunications equipment such as TV antennas and satellite dishes in Thailand.

TM International (Bangladesh) Limited ("TMIB")

On 1 October 1996, Telekom entered into a joint venture agreement with A.K. Khan & Co. Ltd. of Bangladesh and obtained a licence to establish TMIB, a mobile telephone network company which also provides GSM services. As at 30 June 2004, Telekom owns a 70 per cent. equity interest in TMIB while A. K. Khan & Co. Ltd. owns the remaining 30 per cent. Telekom invested RM22.58 million (U.S.\$5.94 million) for its 70 per cent. equity interest in the joint venture.

TMIB operates a GSM mobile service on the 900Mhz frequency band under a 15-year licence. As at 30 June 2004, its customer base was approximately 704,000 subscribers. TMIB's customer base increased by approximately 245,000 customers in the year ended 31 December 2003. As at 30 June 2004, TMIB's network coverage extended to 53 out of 64 districts in Bangladesh, with 369 base stations. The acquisition of a nationwide ISP licence and the Bangladeshi Government's decision to liberalise the provision of VoIP services, have opened up new opportunities for TMIB's operations.

Africa

Telkom SA

As at 30 June 2004, Telekom has a 6.04 per cent. effective shareholding in Telkom SA through Thintana Communications LLC, a Delaware limited liability company ("**Thintana**"), a partnership between Telekom and South Western Bell Corp (SBC Communications Inc. of the United States). Telkom SA also owns 50 per cent. of Vodacom Group Proprietary Ltd, the dominant mobile operator in South Africa with approximately six million customers.

Telkom SA was awarded a 25-year licence from 7 May 1997 to provide public switched telecommunication services in South Africa, which included the exclusivity period of five years ended 7 May 2002. During the year ended 31 December 2002, Telkom SA expanded its services, which saw an improvement in the call quality of its mobile services. Telkom SA launched its initial public offering on 4 March 2003 on the New York Stock Exchange and Johannesburg Stock Exchange. Following Telekom's disposal of a 5.96 per cent. equity interest in Telkom SA for 2,386.3 million South African Rand (RM1,373 million or U.S.\$361.2 million), which reduced Telekom's effective shareholding in the company from 12.00 per cent. to 6.04 per cent.

*Société Des Telecommunications De Guinee ("**Sotelgui, S.A.**")*

In December 1995, Telekom became a strategic partner actively participating in the management of the national telecommunications company of the Republic of Guinea. Telekom contributed RM141.5 million (U.S.\$37.24 million) for a 60 per cent. equity interest in Sotelgui, S.A. which provides both fixed and mobile services in the Republic of Guinea. As at 30 June 2004, Telekom held a 60 per cent. stake in Sotelgui, S.A. while the Guinea Government owned the remaining 40 per cent. 2003 marked important structural achievements for Sotelgui, S.A., with GSM being deployed in 19 towns in Guinea's provinces. As

at 30 June 2004, Sotelgui, S.A. had approximately 86,000 GSM subscribers of which approximately 17,000 were post-paid customers and approximately 69,000 were pre-paid customers. Sotelgui, S.A.'s exclusive fixed line licence is due to expire in December 2005 and the company intends to apply for a renewal of this licence.

Telekom Networks Malawi Limited (“Telekom Networks”)

In March 1995, Telekom entered into a joint venture agreement with the Malawi Post and Telecommunications Corporation and obtained a licence to establish Telekom Networks, a GSM900 mobile telephone network which also provides data packet switching services in the South East African nation of Malawi. Telekom invested RM6.5 million (U.S.\$1.7 million) for its 60 per cent. interest in the joint venture. The project was launched in December 1995 and commenced operations in 1996. As at 30 June 2004, Telekom Networks had a total of approximately 64,000 GSM subscribers of which approximately 17,000 were post-paid customers and approximately 56,000 were pre-paid customers.

Ghana Telecommunications Company Limited (“GT”)

Telekom's 25.5 per cent. interest in GT is held through TM International and G-Com Limited (“G-Com”). On 3 June 2002, the Extraordinary General Meeting of GT passed a resolution to reconstitute the Board of GT consisting of four nominees from G-Com (which is 85 per cent. owned by Telekom) and three nominees from the Government of Ghana to three nominees from G-Com and six nominees from the Government of Ghana. This resolution was passed despite the objection from G-Com whose consent is required under the Company Regulations of GT. Subsequently, G-Com filed for an application in the High Court of Ghana on 13 June 2002 to seek a declaration that the EGM held on 3 June 2002 was null and void. On 11 July 2002, the Government of Ghana unilaterally terminated the contract of employment of the Managing Director of GT and appointed an Interim Management Committee to oversee and manage the day to day affairs of GT pending the appointment of a Managing Director by the shareholders of GT. On 31 July 2002, the High Court of Ghana dismissed G-Com's application for a declaration to nullify the EGM held on 3 June 2002. On 25 September 2002, G-Com filed for an appeal in the Supreme Court of Ghana against the decision of the High Court dated 31 July 2002. Following the above events, Telekom lost significant influence over the financial and operating policy decisions of GT. Accordingly, Telekom has since ceased to equity account for its share of results in GT. The carrying value of investment in GT has been reclassified from associated company to long term investment. Telekom is pursuing the recovery from the Government of Ghana of a deposit for further investment in GT. See “Legal Proceedings”.

Celcom's International Ventures

Celcom Ventures and Consultancy Department was established to oversee and manage all international and domestic ventures. The main objective is to ensure maximisation of its shareholders funds and provide consultancy services to all its joint venture companies.

Until recently, Celcom had two operating international ventures companies, namely Mobile Telecommunications Company of Esfahan in Iran and Sheba Telecom (Pvt) Ltd in Bangladesh.

Mobile Telecommunications Company of Esfahan (“MTCE”)

On 10 December 1997, Technology Resources Industries Berhad, formerly Celcom's parent and currently a wholly-owned subsidiary of Celcom (“TRI”), entered into a joint venture agreement with the Telecommunication Company of Esfahan (“TCE”) to set up a joint venture in Iran under the name of MTCE to carry on the business of planning, designing, installing, operating and maintaining a GSM cellular telecommunications network for customers in the province of Esfahan, Iran. Under the joint venture agreement, TCE's and TRI's shareholdings in MTCE were 51 and 49 per cent. respectively.

On 14 July 1998, TRI and TCE entered into a supplementary agreement with Iran Telecom Industries (“ITI”) to transfer a 2 per cent. shareholding in MTCE from TCE to ITI. As a result of the supplementary agreement, ITI currently holds 2 per cent. of MTCE's shares with TCE and TRI each holding 49 per cent.

MTCE was awarded a licence to provide and operate GSM mobile services in Esfahan for 15 years commencing from 23 May 2001 with initial capacity of 20,000. Due to the limited licence capacity, Celcom intends to dispose of its holding in MTCE.

Sheba Telecom (Pvt.) Limited (“Sheba”)

TRI entered into a joint venture agreement with Integrated Services Limited (“ISL”), a company incorporated in Bangladesh, in 1995 for the incorporation of Sheba. TRI and ISL hold 86.4 per cent. and 13.6 per cent. stakes respectively in Sheba, as at 31 December 2003.

Sheba has been awarded the following licences:

- A wireless local loop licence for operating rural telecommunication in 191 thanas in southern Bangladesh. This licence was issued on 8 June 1994 for a tenure of 25 years.
- A GSM licence issued on 11 November 1996 for operating nationwide GSM mobile services until year 2011.

Sheba’s financial statements have not been consolidated into Celcom’s group accounts due to a shareholders dispute in connection with the joint venture which has resulted in a series of litigation and arbitration. On 15 June 2004, a settlement agreement between ISL and TRI was signed to settle all such disputes. Under the settlement, which took place on 2 September 2004 (as per announcement), ISL and/or its nominees purchased all of TRI’s legal and beneficial shares in Sheba free from encumbrances for a sum of approximately U.S.\$15 million and ISL also paid TRI approximately U.S.\$10 million to replace a cash deposit which TRI paid Standard Chartered Bank, Dhaka Branch, in respect of Sheba’s banking facility. Consequently, Sheba has ceased to be an associate of TRI.

Celcom’s Domestic Ventures

In addition to its international ventures, Celcom also has three domestic ventures, namely Celcom Timur (Sarawak) Sdn. Bhd., Celcom Timur (Sabah) Sdn. Bhd. and Fibrecomm Network (M) Sdn. Bhd..

Fibrecomm Network (M) Sdn. Bhd. (“Fibrecomm”)

Fibrecomm, incorporated in May 1992, is a joint venture company between Tenaga Nasional Bhd (“TNB”) and Celcom Transmission (M) Sdn. Bhd. (“CTX”), which is a wholly owned subsidiary of Celcom. As at 31 December 2003, TNB holds 59 per cent. of Fibrecomm’s shares with CTX holding the remaining 41 per cent. Fibrecomm is principally engaged in the provision of fibre optic transmission network services in Peninsular Malaysia.

On 12 December 2003, Celcom and TNB entered into a memorandum of understanding to agree in-principle to pursue a restructuring exercise. The restructuring would result in Fibrecomm becoming a wholly owned subsidiary of CTX and TNB holding a 49 per cent. equity interest in CTX. All of Fibrecomm’s business activities would be carried out by CTX. The memorandum of understanding lapsed on 12 May 2004 and Celcom is currently discussing restructuring plans with the TNB’s new management.

Celcom Timur (Sabah) Sdn. Bhd. (“CT Sabah”)

CT Sabah was established in 1995 and is a joint venture company between Celcom (which holds a 60 per cent. equity interest as at 31 December 2003), Hugold Success Sdn. Bhd. (which holds a 30 per cent. equity interest) and Warisan Harta Sabah Sdn. Bhd. (which holds the remaining 10 per cent. equity interest). The company is principally engaged in the provision of fibre optic transmission network services. Currently, CT Sabah has commissioned approximately 1,100 km of fibre optic cables that link up all major towns in Sabah. CT Sabah has the most comprehensive trunk fibre network in the state.

Celcom Timur (Sarawak) Sdn. Bhd. (“CT Sarawak”)

CT Sarawak, incorporated in May 1992, is a joint venture company between Celcom and Sarawak Electricity Supply Corp. (“SESCO.”). As at 31 December 2003, Celcom has a 60 per cent. equity interest in the company while SESCo holds the remaining 40 per cent. equity interest. The principal activity of the company is the provision of telecommunications related services. CT Sarawak owns approximately 1,800 km of fibre optic cables covering the major towns in Sarawak. Celcom plans to dispose of its shareholding in CT Sarawak and invest in Sacofa Sdn. Bhd., a newly-formed telecommunications infrastructure provider, to maintain its foothold in Sarawak.

Competition

Fixed and Leased Line Services

Prior to deregulation of the telecommunications industry in Malaysia, Telekom had a virtual monopoly on telecommunications services in Malaysia. In the recent years, the Government introduced managed competition in the industry by awarding various telecommunications licences. In addition, the introduction of equal access has further increased competition in the Malaysian telecommunications industry, as well as all fixed line network operators have equal access to customers of the other operators in the provision of international and domestic long-distance services. See “Investment Considerations — Considerations relating to Telekom and the Group — The Group faces increasing competition in Malaysia and the other markets in which it operates” and “Regulation — Key regulatory issues — Competition”.

As at 30 June 2004, there are five operators currently providing fixed line services in Malaysia. Telekom’s competitors in the fixed line segment include Maxis, DiGi, Celcom and Time. Telekom’s main leased line competitor is Time. Telekom believes that the main competitive factors for the fixed and leased line segments are pricing and network infrastructure. Telekom believes that while competition for leased line services is mainly driven by price, the quality of Telekom’s services and the capacity and geographic reach of its network differentiate it from its competitors on a qualitative basis.

Telekom believes that it currently has the most comprehensive network coverage in Malaysia and that its established network, coupled with the capital intensive nature of these business segments, may discourage competitors from making large network infrastructure investments required for the fixed and leased line businesses. Telekom’s fixed line business is facing competition from mobile service providers and other competitors as fixed line users migrate to mobile services and, to a lesser extent, broadband, VoIP, wireless and other technologies.

Mobile Services

As a result of regulatory constraints, Telekom entered the market for digital mobile services at a later stage, relative to other market players. As at 30 June 2004, there are three operators providing mobile phone services in Malaysia. Telekom’s main competitors in this segment are Maxis Mobile and DiGi. Telekom believes that the main competitive factors in the mobile services market are network coverage, service quality and pricing. Telekom has increased its market share through its acquisition of Celcom. Telekom believes that with its established brand and the ability to cross-sell services and offer integrated fixed and wireless applications, and through aggressive marketing and promotion and strengthening of its distribution channels, Telekom can compete effectively against the leading mobile providers in order to position itself as one of the leading service providers in the mobile market.

Multimedia Services

Telekom has been active in the multimedia industry in Malaysia since its beginning in mid-1992, which has allowed it to secure a large market share. Telekom believes that the main competitive factors in its multimedia business are reliability, access speed, effective customer support, pricing, and the quality and range of products and services offered. Telekom’s main competitor in the multimedia services segment is MIMOS Berhad (“**Jaring**”). Telekom believes that, by virtue of its network infrastructure and customer base, it is well-positioned to compete in Malaysia’s multimedia services segment. The Group launched its ISP service in 1996 and has gained a significant market share of new Internet subscribers since that time. Telekom is currently the largest Internet service provider in Malaysia. Telekom also leads the market in broadband services.

Research and Development

Telekom’s subsidiary, Telekom Research and Development Sdn. Bhd. (“**Telekom Research and Development**”), co-ordinates all research and development efforts and focuses on emerging technological opportunities. Telekom has sought to improve customer equipment and systems and exchange capabilities, and develop more cost-effective ways of providing services to rural areas. As part of its research and development efforts, Telekom also participates in various joint research projects with local universities and commercial associations.

Telekom spent approximately RM50 million on research and development in 2003 and expects to spend approximately RM100 million on research and development in 2004.

Property

Telekom owns freehold and leasehold land for the placement of offices, exchanges and transmission and corporate equipment throughout Malaysia, in respect of which it has entered into lease arrangements with the Government for a term of 60 years commencing 1 January 1987. Telekom is also renting land and buildings for offices, customer service centres, technical facilities and research and development in several locations throughout Malaysia. Telekom believes its properties are adequately maintained and suitable for their intended use.

The following table sets out the brief details of the properties owned or leased by Telekom in Malaysia as at 31 December 2003:

Location	Freehold		Leasehold		Other land		Excepted land ⁽¹⁾		Net book value of land	Net book value of buildings
	No. of Lots	Area ('000 sq ft)	No. of Lots	Area ('000 sq ft)	No. of Lots	Area ('000 sq ft)	No. of Lots	Area ('000 sq ft)	RM (million)	RM (million)
Federal Territory										
a. Kuala Lumpur	16	1,192	8	502	12	1,141	—	—	145.7	1,492.0
b. Labuan	—	—	—	—	5	710	—	—	—	8.5
Selangor	9	9,413	18	25,479	9	1,856	97	16,698	150.5	704.0
Perlis	—	—	4	52	—	—	14	750	0.4	4.3
Perak	5	61	17	679	5	297	119	7,780	58.7	83.9
Pulau Pinang	8	18	19	1,465	—	—	60	15,431	9.2	77.4
Kedah	9	511	14	1,404	—	—	55	2,818	12.1	82.8
Johor	11	148	28	1,302	16	516	138	14,097	4.8	131.2
Melaka	2	3	26	63,141	2	10,318	38	4,457	54.7	128.6
Negeri Sembilan	20	47,593	9	321	6	317	71	9,371	53.8	39.0
Terengganu	—	—	20	1,585	4	129	41	6,285	2.0	47.3
Kelantan	—	—	11	463	4	173	41	2,234	2.4	28.0
Pahang	4	80	44	1,856	17	691	98	8,409	6.5	103.4
Sabah	—	—	18	351	6	655	76	26,290	12.2	100.8
Sarawak	7	522	30	919	10	468	109	10,284	29.6	116.0
Sri Lanka	4	89	—	—	—	—	—	—	9.5	12.1
Malawi	—	—	18	92	—	—	—	—	0.2	0.5
Republic of Guinea . .	68	7,502	—	—	13	272	—	—	8.3	13.1
Bangladesh	7	90	—	—	—	—	—	—	0.9	1.3
South Africa	3	34	—	—	—	—	—	—	2.2	2.0
Cambodia	—	—	—	—	—	—	—	—	—	1.4
Total	<u>173</u>	<u>67,256</u>	<u>284</u>	<u>99,611</u>	<u>109</u>	<u>17,543</u>	<u>957</u>	<u>124,904</u>	<u>563.7</u>	<u>3,177.6</u>

Note:

- (1) "Excepted land" is land situated outside the Federal Territories of Kuala Lumpur and Labuan which is either alienated land, reserved land owned by the Government or land occupied, used, controlled and managed by the Government for federal purposes (in Melaka, Pulau Pinang, Sabah and Sarawak) as set out in Section 3(2) of the Telecommunication Services (Successor Company) Act, 1985. The Government has agreed to lease this land to Telekom for a term of 60 years with an option to renew, under article 85 and 86 of the Federal Constitution.

Intellectual Property

Telekom relies on a combination of trade mark, service mark, patent, domain name registrations, copyright protection and contractual restrictions to establish and protect its technologies, brand name and logos, marketing and advertising designs and Internet domain names.

Trademarks and Servicemarks

The Group owns various trademarks and servicemarks, including “Telekom” and “TMnet” in addition to “Celcom” through Celcom. Telekom’s management believes that the brand value of its marks is preserved through the Group’s market-leading position and has the potential to increase with the growth of Telekom’s business. The business of the Group as a whole, however, is not materially dependent on such marks.

Patents

The Group has several patent applications in Malaysia including applications for “Adapter & Battery Charger for a Transceiver Module”, “Integrated Fibre Amplifier” and “Optical Add-Drop Multiplier”.

Copyrights

The Group’s copyrights are principally in the area of computer software for service applications developed in connection with the Group’s products and services.

Domain Names

The Group owns numerous Internet domain names, the most significant of which include “telekom.com.my”, “tmnet.com.my”, “tm.net.my”, “netmyne.com”, “celcom.com.my” and “bluehyppo.com”.

Insurance

The Group maintains insurance policies with registered insurance companies in Malaysia which cover material damage to property, business interruption, comprehensive general liability, employer’s liability, money-in-transit, money on premises, marine-related liabilities, goods-in-transit group accident and term life and fidelity guarantees. The Group also has a global political risks insurance policy, covering its overseas ventures.

Notwithstanding the Group’s insurance coverage, damage to the Group’s facilities, equipment, machinery, buildings or other properties as a result of occurrences such as fire, explosion, power loss, telecommunications failure, intentional unlawful act, human error or natural disaster could nevertheless have a material adverse effect on the Group’s financial condition and results of operations to the extent such occurrences disrupt the normal operation of the Group’s business.

Related Party Transactions

Companies within the Group have in the past, and may in the future, perform transactions and enter into contracts with related companies, subsidiaries and associate companies both within Malaysia and overseas. It is a policy of companies within the Group not to enter into transactions with related parties unless the terms thereof are no less favourable to the contracting company than those which such company could obtain on an arm’s length basis from an unrelated third party. Accordingly, management of Telekom believes that these transactions are undertaken on terms and conditions similar to those with unrelated companies, and in compliance with applicable laws and regulations.

Environmental Matters

Telekom believes that it is in compliance in all material respects with applicable environmental regulations in Malaysia and in other jurisdictions in which it operates. The Group is not aware of any environmental proceedings or investigations to which it is or might become a party.

Legal Proceedings

Save as disclosed below, neither Telekom nor its subsidiaries have been or are engaged in any litigation, claims or arbitration (including those settled or concluded) as at 13 September 2004 (being the latest practicable date prior to the printing of this Offering Circular), either as plaintiff or defendant, which has or may have a material adverse effect on the financial position of Telekom or its subsidiaries. Provisions

have not been made by Telekom or Celcom in respect of the below-mentioned claims because of the early stages of certain of the proceedings and the relative merits of the parties involved in the other proceedings. See “Investment Considerations — Certain of the Group’s subsidiaries are defendants to legal proceedings”.

Proceedings involving Telekom and its subsidiaries (excluding Celcom)

Ghana Telecommunications Company Limited

G-Com, a subsidiary of Telekom, brought suit against GT in the High Court of Ghana in 2002. The suit alleged that a resolution at an extraordinary general meeting of Ghana Telecommunications to reconstitute the Board violated GT’s constitutive documents, which required G-Com’s consent for the resolution. See “International Ventures”. On 31 July 2002, the High Court of Ghana dismissed G-Com’s suit and G-Com filed an appeal in the Court of Appeal of Ghana against the High Court’s decision. The Court of Appeal has yet to fix the hearing date for the appeal. Based on the legal advice provided by G-Com’s external solicitors, G-Com believes it has a reasonable basis for appealing the decision of the High Court.

In addition, Telekom is seeking the recovery of a U.S.\$50 million deposit it had paid the Government of Ghana for an additional 15 per cent. equity interest in GT. The deadline to conclude the proposed acquisition of this additional interest in GT lapsed on 19 February 2002 and consequently the deposit became due and payable to Telekom.

In 2002, Telekom issued a Notification of Claim to the Government of Ghana, pursuant to the Bilateral Investment Treaty between the Government of Malaysia and the Government of Ghana, in relation to the recovery of this deposit and its investment in GT. When these issues could not be settled between the parties on an amicable basis, Telekom delivered, in 2003, a Notice of Arbitration to the Government of Ghana for the commencement of arbitration proceedings in accordance with the provisions of the bilateral treaty. The arbitration proceedings were held in July 2004 and an award is expected to be made in September 2004.

Telekom vs Business Focus Sdn. Bhd.

Under an agreement between Telekom and Business Focus Sdn. Bhd. (“**Business Focus**”) in 1997, Business Focus agreed to procure a third party to purchase Telekom’s shares in Penang Shipbuilding and Construction Industries Berhad (“**PSCI**”). If it failed to procure a purchaser, Business Focus agreed to purchase Telekom’s shares in PCSI and, under the terms of a supplemental agreement, pay for these shares by transferring certain properties and cash. Business Focus only transferred the properties forming part of the total consideration and no cash payment was made to Telekom.

In 2002, Telekom served a writ of summons and statement of claim on Business Focus for RM174.7 million (U.S.\$46.0 million) together with interest and other costs. Although summary judgment was given in favour of Telekom, Business Focus obtained a stay of execution. Telekom’s appeal against the stay of execution was held on 26 August 2004 and a decision is expected to be handed down on 23 September 2004.

Proceedings involving Celcom

DeTeAsia Holding GmbH v. Celcom

In 2003, DeTeAsia Holding GmbH (“**DeTeAsia**”) initiated arbitration in the International Court of Arbitration in Paris against Celcom for monetary damages caused by Celcom’s alleged breach of an agreement between Celcom and DeTeAsia. DeTeAsia claimed that Celcom’s acquisition of TM Cellular, and its entry into the sale and purchase agreement for the acquisition without the consent of DeTeAsia, breached the agreement between Celcom and DeTeAsia. Celcom maintains that the consent of DeTeAsia was not required for Celcom’s acquisition of TM Cellular. The arbitration proceedings were held in July 2004 in Geneva. The parties have been directed to submit their final submissions by 8 November and to present their oral submissions on 7 and 8 January 2005. DeTeAsia has quantified its claim at RM674 million (U.S.\$177.37 million). Celcom’s external solicitors are of the opinion that Celcom has reasonable prospects of successfully defending the claim.

TRI Telecommunications Tanzania Limited (“Tritel”)

In 1993, VIP Engineering and Marketing Limited (“**VIPEM**”) and TRI (formerly Celcom’s parent) established Tritel as a joint venture to provide telecommunications services in Tanzania. In 2001, VIPEM filed a suit against TRI claiming U.S.\$18.6 million for loss of profits caused by the mismanagement of Tritel. A date is yet to be set for the hearing of VIPEM’s suit. Celcom’s external solicitors are of the opinion that the allegations of mismanagement are unsubstantiated.

In 2003, The Tanzanian Communications Commission (“**TCC**”) revoked Tritel’s licence and Citibank Tanzania appointed receivers and managers to manage Tritel. Subsequently, four creditors of Tritel, including VIPEM, filed an application to wind up Tritel with the High Court of Tanzania. In June 2003, the High Court of Tanzania approved the winding up of Tritel, declared that a debenture issued by Tritel to Citibank was invalid and appointed a liquidator. Citibank has challenged the High Court’s ruling. In the light of the winding-up order made against Tritel, TRI filed a claim of RM123.4 million (U.S.\$32.5 million) with the liquidator in July 2003. The Citibank and TRI claims are still pending.

CT Sarawak v. Celcom

On 10 March 2000, CT Sarawak filed a claim against Celcom by way of a Writ of Summons for a sum of RM103 million (U.S.\$27.1 million) with interest accruing thereon at the rate of 9.30 per cent. per annum from the date of commencement of action until the date of full and final settlement. This claim arose pursuant to the alleged failure on the part of Celcom to make full payments to CT Sarawak for services provided by CT Sarawak to Celcom for the lease of fibre optic links.

On 13 September 2000, CT Sarawak filed an application for summary judgment whilst Celcom filed an application to strike out CT Sarawak’s claim on 17 July 2000 (the “**Striking Out Application**”). The summary judgment application was dismissed by the Senior Assistant Registrar on 13 September 2000. CT Sarawak then filed an appeal to the Judge In Chambers against this dismissal on 14 September 2000. On 23 February 2001, the judge partially allowed the appeal and granted summary judgment against Celcom for the amount of RM90.6 million (U.S.\$23.8 million) with interest at the rate of 9.30 per cent. per annum from 10 March 2001 until the date of full payment and costs (the “**Summary Judgment**”). The balance of the claim amounting to RM12 million (U.S.\$3.2 million) is subject to a full trial.

On 1 March 2001, Celcom filed an appeal to the Court of Appeal against the Summary Judgment. On 7 March 2001, Celcom filed an application for stay of execution pending disposal of the appeal against the Summary Judgment (the “**Stay Application**”). On 17 May 2001, the Deputy Registrar of the Kuching High Court (the “**DR**”) dismissed the Striking Out Application. On 24 May 2001, the DR further dismissed the Stay Application. On 31 May 2001, Celcom filed two appeals to the Judge in Chambers against the DR’s dismissal of both the Striking Out Application and the Stay Application. On 22 June 2001, the Judge dismissed the appeal with regards to the Striking Out Application and conditionally allowed the appeal with respect to the Stay Application. The Judge granted a stay of execution conditional upon Celcom making certain payments to CT Sarawak (the “**Conditional Stay Order**”). On 28 June 2001, Celcom filed an application for clarification of the Conditional Stay Order.

On 6 July 2001, the Judge in Chambers substituted the Conditional Stay Order with a new conditional order (the “**Clarification Order**”) whereby a stay of execution of the Summary Judgment was granted subject to the following terms:

- Celcom paying to Utama Merchant Bank Berhad (“**UMBB**”) all charges, interest and other dues to be paid under a RM100 million (U.S.\$26.3 million) revolving underwriting facility (“**RUF Facility**”) granted by UMBB to CT Sarawak. Celcom subsequently paid RM73.7 million (U.S.\$19.4 million) (inclusive of interest and fees) to UMBB on behalf of CT Sarawak and obtained a full discharge of the RUF Facility; and
- Celcom paying to CT Sarawak the sum of RM12 million (U.S.\$3.2 million) within 14 days of the Clarification Order to enable it to meet the demands of its creditors.

On 10 July 2001, Celcom filed an appeal to the Court of Appeal against the Clarification Order.

On 27 July 2001, Celcom applied for a fresh stay of execution (the “**Fresh Stay Application**”) from the Court of Appeal in relation to the Summary Judgment. On 14 August 2001, the Court of Appeal decided that the appeal against the Clarification Order should be heard prior to or instead of the Fresh Stay Application. The solicitors for CT Sarawak then provided an undertaking to the Court of Appeal that CT Sarawak would not execute on the Summary Judgment, including but not limited to winding up options, pending disposal of the appeal against the Clarification Order.

On 8 January 2002, the Kuching High Court granted Celcom’s application for stay of all further proceedings in relation to the disputed amount of RM12 million (U.S.\$3.2 million) pending disposal of the appeal against the Summary Judgment Order and the Conditional Stay Order by the Court of Appeal. Celcom’s solicitors are of the view that the appeal against the Summary Judgment is likely to be successful as there are triable issues as to whether the agreement between Celcom and CT Sarawak imposes an obligation on CT Sarawak to apply a rate which is beneficial to Celcom, as a majority shareholder of CT Sarawak.

As at 13 September 2004, no hearing date has been fixed by the Court of Appeal for the two appeals on the Summary Judgment and Conditional Stay.

SESCo. v. Celcom

On 3 August 2001, SESCO. filed in the Kuching High Court a Writ of Summons for a declaration that the joint venture agreement relating to CT Sarawak (the “**JVA**”) be terminated.

On 8 August 2001, SESCO. obtained an ex-parte injunction to restrain Celcom from transferring its shares in CT Sarawak to Celcom Telecommunications Consulting Sdn Bhd, a wholly owned subsidiary of Celcom. On 21 September 2001, SESCO. obtained an inter-parte injunction until trial or arbitration. On 16 October 2001, Celcom filed an appeal to the Court of Appeal against the injunction and the date of hearing is yet to be fixed. On 27 August 2001, Celcom had applied for stay of proceedings and for the dispute to be referred to arbitration pursuant to an arbitration clause in the JVA. On 9 November 2001, the High Court dismissed Celcom’s application whereupon Celcom filed an appeal to the Court of Appeal together with an application in the High Court for an interim stay pending appeal. On 20 March 2002, the Deputy Registrar of the High Court dismissed the application for interim stay and Celcom appealed to the Judge in Chambers. The Judge in Chambers directed Celcom to write to the Court of Appeal to request for the arbitration stay appeal to be fixed for hearing. On 25 July 2002, the Court of Appeal heard and dismissed the arbitration stay appeal. Accordingly, on 13 August 2002, the Judge dismissed the appeal for interim stay.

On 13 September 2001, SESCO. filed an application for “disposal of case on point of law” under Order 14A of the Rules of the High Court 1980 and to enter judgment on its claim. The Order 14A hearing has been fixed for mention on 23 September 2004 to enable the parties to pursue discussions for an amicable settlement.

Celcom v. SESCO. & 4 Others

On 10 May 2001, Celcom was served a notice under Section 218 of the Companies Act, 1965 (the “**Act**”) for the sum of RM100 million (U.S.\$26.3 million) demanding payment in connection with the Summary Judgment. The notice expired on 31 May 2001. Consequently, Celcom filed a petition pursuant to Section 181 of the Act against SESCO., SESCO.’s nominee directors on the board of CT Sarawak and the general manager of CT Sarawak, Dr Abang Azhari Hadari (the “**Petition**”).

On 25 May 2001, Celcom filed an interim ex-parte injunction to restrain CT Sarawak from filing or proceeding with a winding-up petition until further order of the court. The injunction was granted but lapsed on 19 June 2001. On 28 May 2001, Celcom filed a summons in Chambers for an inter-parte injunction to restrain CT Sarawak on the same terms as the ex-parte injunction and SESCO. filed a summons to strike out the Petition for want of jurisdiction and to set aside the ex-parte interim injunction. At the hearing on 14 June 2001, the High Court judge made an order restraining SESCO. from filing or proceeding with the winding-up petition pending disposal of the application to strike out the Petition and the inter-parte injunction application. In addition, since the ex-parte injunction had already lapsed, SESCO. was not allowed to proceed with its application to set aside the same.

On 1 August 2001, CT Sarawak gave notice to Celcom of its intention to sell Celcom's shares in CT Sarawak within 14 days in the event Celcom failed to make payment of the Summary Judgement sum (referred to under "*CT Sarawak v. Celcom*").

On 14 August 2001, Celcom successfully obtained an interim injunction restraining CT Sarawak from selling the shares pending disposal of the inter-parte injunction application. Celcom has raised a preliminary objection with regards to CT Sarawak's solicitors acting on behalf of SESCo., which was allowed by the Court. The Court has fixed 21 October 2004 for mention of the Respondents' application to strike out Celcom's Petition. The parties are pursuing discussions for an amicable settlement.

Employees

As at 30 June 2004, the Group had 31,301 employees. The table below sets forth the number of employees in each of the Group's different business segments as well as the Group's corporate centre:

<u>Business</u>	<u>No. of Employees</u>
Fixed line.	22,708
Mobile.	4,154
Multimedia.	1,146
International ventures	72
Corporate centre	1,357
Services.	<u>1,864</u>
Total	<u><u>31,301</u></u>

As at 30 June 2004, the Group had 31,301 employees of which 8,874 were executive and 22,427 were non-executive.

Unions

Employees in the Group's fixed line business are currently represented by three recognised trade unions which represent the majority of non-executive employees: Kesatuan Pekerja-Pekerja Telekom Malaysia Berhad (National Union of Telekom Employees ("**NUTE**")), Kesatuan Pekerja Telekom Malaysia Berhad Sarawak (Union of Telekom Employees of Sarawak ("**UTES**")) and Kesatuan Pekerja-Pekerja Telekom Malaysia Berhad Sabah (Sabah Union of Telekom Employees ("**SUTE**")). NUTE covers non-executive employees in Peninsular Malaysia and as at 30 June 2004 had a membership of 12,860 out of 19,783 non-executives in Peninsular Malaysia. UTES covers non-executive staff in Sarawak and as of 30 June 2004 has a membership of 1,545 out of 1,364 non-executives in Sarawak. SUTE covers non-executive staff in Sabah and as at 30 June 2004 had a membership of 898 out of 1,062 non-executive employees in Sabah.

Since Telekom Malaysia's privatisation in 1990, the Group has not experienced any disruptive labour disputes, and Telekom believes that its relationships with the trade unions and with employees in general are satisfactory.

The current collective bargaining agreements between the Group and the recognised unions became effective on 1 January 2004 and are scheduled to remain in effect until 31 December 2006.

There is no trade union representing executives of the Group. However, there is an association for executives called Persatuan Eksekutif Telekom ("**PET**"), also known as Telekom's Executive Association. PET provides a forum for executives to communicate with upper management on improvements to the terms and conditions of service for executives. The employees of Celcom are not currently represented by any trade unions.

Employee Benefits

A new Employee Share Option Scheme (“ESOS 3”) was approved by the shareholders at an Extraordinary General Meeting held on 21 May 2002. As at 30 June 2004, a total of options for 259,078,000 shares under ESOS 3 had been granted to 27,929 employees and 183,453,000 shares had been allotted by virtue of the exercise of options granted under ESOS 3. The subscription price of most of the options granted was RM7.09 per share. The principal features of ESOS 3 are as follows:

- the eligibility for participation in ESOS 3 is at the discretion of the Option Committee as appointed by the Board of Directors;
- the maximum number of shares to be offered shall not exceed 10 per cent. of the issued and paid-up share capital of Telekom;
- no option shall be granted for less than 1,000 shares nor more than 500,000 shares; and
- the subscription price of each share shall be the average of the middle market quotation of the shares as shown in the daily official list issued by Bursa Malaysia for the five trading days preceding the date of offer.

As at 30 June 2004, 95,070,000 shares had been allotted by virtue of the exercise of options granted under ESOS 3 during the current year. The options granted do not confer any right to participate in any share issue of any other company.

All Executive Directors, officers and other employees of the Guarantor with at least three years of service are eligible for housing loans. All loans carry a fixed interest rate of 4 per cent. as at 30 June 2004. As at 30 June 2004, there were a total of 17,108 outstanding loans with an outstanding principal amount of RM624.45 million. The term of each loan depends on the age of the relevant employee, subject to a maximum term of 25 years. Each of these loans is secured by a first mortgage on the related property. Participating employees are required to repay any outstanding balance upon termination of their employment.

Employee Career Development Schemes

Telekom has established several development programs to nurture and retain talent as well as to continuously improve the strategic competencies of its executives. Such programs include Fast Track Executives, High Potential Managers and High Potential Senior Managers which focus on identifying, developing and retaining the talent of high potential executives.

These development programs consist of customised training programmes, the opportunity to obtain higher degree qualifications and the implementation of career and mobility plans to provide job exposure and experience.

Training and development programs for the remaining executives are based on a group-wide competency framework that seek to align leadership, behavioural and technical skills with Telekom’s strategic needs.

Telekom has introduced its Structured Training Programme to cater for the development needs of its executives. The Structured Training Programme encompasses competency based assessment, job rotations, performance appraisals and development programs for executive staff of all levels.

Subsidiaries and Associated Companies

Telekom’s subsidiaries and associated companies are involved in telecommunications and telecommunications-related services, including publishing telephone directories, providing payphones, telematics, selling customer premises equipment and operating a telecommunications tower.

As at 30 June 2004, Telekom’s wholly-owned subsidiary, Celcom, had issued share capital of RM2,619 million and RM1,082.2 million in the Group’s reserves. For the year ended 30 June 2004, Celcom Group’s profits after tax amounted to RM280.8 million. For the year ended 30 June 2004, Telekom did not receive any dividends in respect of its shareholding in Celcom. As at 30 June 2004, there was no outstanding indebtedness between Celcom and Telekom. Celcom’s registered office is the 15th Floor, Menara Celcom, No. 82, Jalan Raja Muda Abdul Aziz, 50300, Kuala Lumpur, Malaysia.

Details of Telekom's subsidiaries and associated companies as at 30 June 2004 are set out below. See also "International Ventures".

Subsidiaries

<u>Name</u>	<u>Place and Date of Incorporation</u>	<u>% of shareholding</u>	<u>Principal Activities</u>
Citifon Sdn. Bhd.	Malaysia 15.07.93	100	Provision of national payphone network and related services
Fiberail Sdn. Bhd.	Malaysia 12.12.89	60	Installation and maintenance of optic fibre telecommunication system along the railway corridor in Peninsula Malaysia
GITN Sdn. Bhd.	Malaysia 13.03.96	100	Provision of managed network services and enhanced value added telecommunication and information technology services
Intelsec Sdn. Bhd.*1	Malaysia 06.10.95	100	Installation and maintenance of computerised security systems and security related imaging technology
Mediatel (Malaysia) Sdn. Bhd.	Malaysia 06.06.95	100	Investment holding
Meganet Communications Sdn. Bhd.	Malaysia 06.10.95	70	Provision of interactive multimedia communication services and solution
Menara Kuala Lumpur Sdn. Bhd.	Malaysia 25.10.89	100	Management and operation of the telecommunication and tourism tower of Menara Kuala Lumpur
Mobikom Sdn. Bhd.	Malaysia 11.12.89	100	Provision/transmission of voice and data through the cellular system
Rebung Utama Sdn. Bhd.	Malaysia 28.06.03	100	Special purpose entity
Tekad Mercu Berhad	Malaysia 03.07.03	100	Special purpose entity
Parkside Properties Sdn. Bhd.*1	Malaysia 23.11.93	100	Dormant
Societe Des Telecommunications De Guinee	Republic of Guinea 17.05.93	60	Provision of telecommunication and related services in the Republic of Guinea
Telekom Applied Business Sdn. Bhd.	Malaysia 16.12.97	70	Provision of software development and sale of software products
Telekom Consultancy Sdn. Bhd.*1	Malaysia 21.01.89	51	Dormant
Telekom Enterprise Sdn. Bhd.	Malaysia 11.12.89	100	Investment holding and provision of services relating to telecommunication, computer, data and information inside and outside Malaysia

<u>Name</u>	<u>Place and Date of Incorporation</u>	<u>% of shareholding</u>	<u>Principal Activities</u>
Telekom Infotech Sdn. Bhd.* ¹	Malaysia 24.08.95	100	Dormant
Telekom Malaysia-Africa Sdn. Bhd.	Malaysia 16.02.94	100	Investment holding
Telekom Management Services Sdn. Bhd.	Malaysia 16.11.94	100	Provision of consultancy and engineering services in telecommunications
Telekom Multi-Media Sdn. Bhd.	Malaysia 06.06.95	100	Investment holding and provision of interactive multimedia communication services and solutions
Telekom Networks Malawi Limited.	Republic of Malawi 24.03.95	60	Provision of telecommunication and related services in Malawi
Telekom Payphone Sdn. Bhd.	Malaysia 21.01.89	100	Investment holding and public telephone services
Telekom Publications Sdn. Bhd.	Malaysia 21.01.89	100	Provision of printing and publication services
Telekom Research & Development Sdn. Bhd.	Malaysia 01.07.97	100	Provision of research and development activities in the areas of telecommunication and multimedia, hi-tech applications and products and services in related business
Telekom Sales and Services Sdn. Bhd.	Malaysia 11.12.89	100	Trading in customer premises equipment and maintaining telecommunication equipment
Telekom Technology Sdn. Bhd.	Malaysia 17.10.97	70	Development, operation and marketing e-commerce services
Telesafe Sdn. Bhd.* ¹	Malaysia 07.09.95	100	Dormant
Telekom Malaysia (S) Pte Ltd.	Singapore 10.04.02	100	Provision of international telecommunication facilities
Telekom Malaysia (UK) Limited.	United Kingdom 21.12.00	100	Provision of international telecommunication facilities
Telekom Malaysia (Hong Kong) Limited.	Hong Kong 05.12.00	100	Provision of international telecommunication facilities
Telekom Malaysia (USA) Inc.*	United States of America 26.08.00	100	Provision of international telecommunication facilities
TM Cellular (Holdings) Sdn. Bhd.	Malaysia 22.07.94	100	Market and provide voice, data, video, wireless multimedia & interactive content and application

Name	Place and Date of Incorporation	% of shareholding	Principal Activities
<i>Subsidiaries held through TM International Sdn. Bhd.</i>			
MTN Networks (Private) Limited.	Sri Lanka 27.08.93	100	Provision of mobile telecommunication services in Sri Lanka
TM International (L) Limited	Labuan 21.02.97	100	Investment holding
TM International Lanka (Private) Limited	Sri Lanka 22.03.96	100	Investment holding
TMI Mauritius Limited . . .	Mauritius 03.06.97	100	Investment holding
G-Com Limited.	Ghana 20.11.96	85	Investment holding
Cambodia Samart Communication Co. Ltd .	Cambodia 19.10.92	51	Provision of mobile telecommunication services in Cambodia
<i>Subsidiary held through TM International (L) Limited</i>			
TESS International Ltd* ¹ . .	Mauritius 18.11.98	100	Investment holding
<i>Subsidiary held through Universiti Telekom Sdn. Bhd.</i>			
Unitele Multimedia Sdn. Bhd.	Malaysia 25.01.99	100	Adopting research ideas from Multimedia University (MMU) for further development and prototyping, directing consultancy project to faculties and centres at MMU and collaborating with other business partners in joint tender exercise
<i>Subsidiaries held through VADS Berhad</i>			
VADS e-Services Sdn. Bhd.	Malaysia 17.08.95	100	Provision of managed e-services and managed application services
VADS Solutions Sdn. Bhd..	Malaysia 22.08.95	100	Provision of system integration services
<i>Subsidiaries held through Celcom (Malaysia) Berhad</i>			
Celcom Academy Sdn. Bhd.	Malaysia 21.05.92	100	Provision of training related services
Celcom Multimedia (Malaysia) Sdn. Bhd.* ¹ . .	Malaysia 22.06.99	100	Dormant
Celcom Technology (M) Sdn. Bhd.	Malaysia 21.05.92	100	Provision of telecommunication value added services through cellular or other forms of telecommunication network

<u>Name</u>	<u>Place and Date of Incorporation</u>	<u>% of shareholding</u>	<u>Principal Activities</u>
Celcom Timur (Sabah) Sdn. Bhd.	Malaysia 17.01.95	60	Provision of fibre optic transmission network
Celcom Transmission (M) Sdn. Bhd.	Malaysia 30.03.90	100	Provision of transmission network related services
Celcom Trunk Radio (M) Sdn. Bhd. *1	Malaysia 04.10.89	100	Ceased operations
CT Paging Sdn. Bhd. *1	Malaysia 04.08.88	100	Inactive
Technology Resources Industries Berhad.	Malaysia 01.12.66	100	Investment holding and provision of management services
TM Cellular Sdn. Bhd.	Malaysia 15.07.76	100	Establishment, maintenance and provision of telecommunication and related services under licence issued by the Ministry of Energy, Water and Multimedia
Alpha Canggih Sdn. Bhd.	Malaysia 24.08.94	100	Property investment
<i>Subsidiaries held through Celcom Trunk Radio (M) Sdn. Bhd.</i>			
CT Communication Sdn. Bhd. ~ *1	Malaysia 06.07.87	100	Dormant
Firent Management Services Sdn. Bhd. ~ *1	Malaysia 28.03.84	100	Dormant
<i>Subsidiaries held through Technology Resources Industries Berhad</i>			
Alpine Resources Sdn. Bhd. *1	Malaysia 08.09.87	100	Inactive
Freemantle Holdings (M) Sdn. Bhd.	Malaysia 07.09.90	100	Investment Holding
Malaysian Motorhomes Sdn. Bhd. *1	Malaysia 15.06.89	62.4	Ceased operations
Rego Multi-Trades Sdn. Bhd.	Malaysia 01.11.83	100	Dealing in marketable securities
Technology Resources Management Services Sdn. Bhd. *1	Malaysia 20.12.85	100	Inactive
Technology Resources Manufacturing Sdn. Bhd. **	Malaysia 07.04.86	100	Inactive
Technology Resources (Nominees) Sdn. Bhd.	Malaysia 30.05.91	100	Dormant

<u>Name</u>	<u>Place and Date of Incorporation</u>	<u>% of shareholding</u>	<u>Principal Activities</u>
TR Components Sdn. Bhd. .	Malaysia 18.04.91	100	Investment Holding
TR International Limited . .	Hong Kong 19.08.93	100	Investment Holding
<i>Associated Companies of Telekom</i>			
Sistem Iridium Malaysia Sdn. Bhd.	Malaysia 27.01.95	40	Dormant
mySPEED.com Sdn. Bhd. . .	Malaysia 23.11.98	16.22	Creating, implementing and operating e-business activities including electronic commerce delivery services, multimedia related activities and other computerised or electronic services
<i>Associates held through Telekom Multi-Media Sdn. Bhd.</i>			
Mahirnet Sdn. Bhd.	Malaysia 25.08.97	49	Development, management and marketing of educational products offered by local overseas educational institutions electronically
Mutiara.com Sdn. Bhd. . . .	Malaysia 26.10.99	30	Provision and promotion of internet-based communication services
<i>Associate held through TM International Sdn. Bhd.</i>			
Samart Corporation Public Company Limited	Thailand 07.03.89	19.57	Design, implementation and installation of telecommunication systems and the sale and distribution of telecommunication equipment
<i>Associate held through TM International (L) Limited</i>			
Thintana Communications LLC.	United States of America 16.06.95	40	Investment holding
<i>Associate held through Technology Resources Industries Berhad</i>			
Mobile Telecommunications Company of Esfahan (J.V-P.J.S).	Islamic Republic of Iran 06.04.98	49	Planning, designing, installing operating and maintaining GSM cellular telecommunication network to customers in the province of Esfahan, Iran
Sheba Telecom (Pvt) Ltd Bangladesh Co. >^	Bangladesh 25.06.95	86.4	Provision of Telecommunication Services
TRI Telecommunication Tanzania Limited >@	Republic of Tanzania 11.05.94	60	Provision of Telecommunication Services

Name	Place and Date of Incorporation	% of shareholding	Principal Activities
<i>Associate held through Celcom Transmission (M) Sdn. Bhd.</i>			
Fibrecomm Network (M) Sdn. Bhd.	Malaysia 21.05.92	41	Provision of fibre optic transmission network services
<i>Associate held through Celcom (Malaysia) Berhad</i>			
Celcom Timur (Sarawak) Sdn. Bhd ^{>}	Malaysia 21.05.92	60	Telecommunications Services

Legends

*1 Inactive as at 30 June 2004

~ Undergoing members' voluntary winding up under Section 254 of the Companies Act 1965

** In the process of being deregistered under Section 308 of the Companies Act, 1965

> Treated as associated company due to loss of control while maintaining significant influence

@ Liquidator appointed

^ The records lodged with Bangladesh Registrar of Companies ("Bangladesh Registrar") shows that Technology Resources Industries Berhad ("TRI") is holding 49 per cent. shares in the capital of Sheba Telecom (Pvt) Ltd ("Sheba"). TRI expects that the increase in the shareholdings to 51 per cent. will be lodged with the Bangladesh Registrar. However, no records have been lodged with the Bangladesh Registrar in respect of the increase in TRI's shareholding in Sheba from 49 per cent. to 86.4 per cent., as this is pending resolution in the Bangladesh Courts. See "International Ventures — Celcom's International Ventures" for further information.

* Formerly known as TM (USA) Inc.

REGULATION

Regulatory regime

Objectives and legislation

In 1994, the government issued the National Telecommunications Policy of Malaysia (1994–2020) (“NTP”) setting forth its objectives for Malaysia’s telecommunications industry, namely the creation of a robust and vibrant communications and multimedia industry as the primary platform for developing a knowledge-based economy.

To achieve the NTP’s objectives, the government introduced a new legal framework for the telecommunications and broadcasting sectors based on the:

- Malaysian Communication and Multimedia Commission Act 1998 (the “MCMCA”), which came into force on 1 November 1998; and
- CMA, which came into force on 1 April 1999 (except for certain sections which came into force at later stages).

The CMA and its subsidiary legislation is the primary legislation regulating the converging communications and multimedia industries. The CMA applies to communications over electronic media but not print media. It also sets out the licensing and regulatory framework in relation to the communications and multimedia industry, establishes the powers and functions for the Minister and the Commission and the powers and procedures for the administration of the Act.

Under the CMA, the national policy objectives for the communications and multimedia industry include but are not limited to:

- establishing Malaysia as a major global centre and hub for communications and multimedia information and content services;
- ensuring an equitable provision of affordable services over ubiquitous national infrastructure;
- facilitating the efficient allocation of resources; and
- promoting the development of capabilities and skills within Malaysia’s convergence industries.

Regulator

The Commission is responsible for the regulation of the communications and multimedia industry. The Commission’s principal functions include:

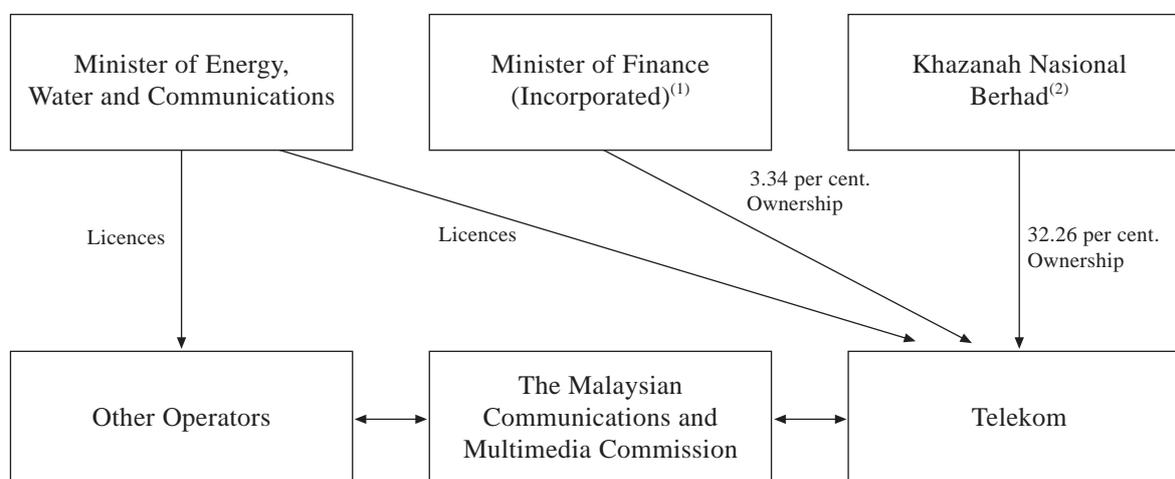
- advising the Minister on all matters concerning the national policy objectives for communications and multimedia activities;
- implementing and enforcing the provisions of the communications and multimedia laws;
- regulating all matters relating to communications and multimedia activities not provided for in the communications and multimedia laws;
- considering and recommending reforms to the communications and multimedia laws;
- supervising and monitoring communications and multimedia activities;
- encouraging and promoting the development of the communications and multimedia industry, including in the area of research and training;
- encouraging and promoting self-regulation in the communications and multimedia industry;

- promoting and maintaining the integrity of all persons licenced or otherwise authorised under the communications and multimedia laws;
- rendering assistance in any form to, and promoting co-operation and co-ordination among, persons engaged in communications and multimedia laws; and
- carrying out any function under any written law as may be prescribed by the Minister by notification published in the official Gazette, a government publication containing regulations and other pronouncements.

The Minister's powers and functions are stipulated in the CMA. Some of the Minister's powers and functions include issuing directions to the Commission on the exercise of its powers and the performance of its functions and duties under the CMA. The Minister may also from time to time determine any matter specified by the CMA as being subject to Ministerial determination without consultation with any licencees or other persons.

Institutional Framework

The diagram below sets forth the relationships among Telekom, other operators and relevant regulators and between Telekom and its principal Government shareholders:



Notes:

- (1) MOF Inc. is a corporation formed under the Minister of Finance (Incorporation) Act 1957 to hold certain investments. As at 30 June 2004, MOF Inc. held 3.34 per cent. of the ordinary shares of Telekom and the Special Share.
- (2) Khazanah is a corporation formed by the Government to hold investment in companies. MOF Inc. owns all the shares in Khazanah and as at 30 June 2004, Khazanah held 32.26 per cent. of the ordinary shares of Telekom.

Licensing Regime

Malaysia's communications licensing regime is set out in the CMA. The CMA provides that, unless exempted by the Minister, no person may:

- own or provide any network facilities;
- provide any network services;
- provide any applications services; or
- provide any content applications services,

except under and in accordance with the terms and conditions of either an individual licence granted or a class licence registered under the Act.

The regulatory framework established by the CMA and the licensing regulations provide for four categories of provider licences:

- *network facilities provider:*

network facilities provider licences are for owners of facilities on which network services, applications services and content application services are provided;

- *network services provider:*

network services provider licences are for providers of basic connectivity and bandwidth which support a variety of applications. Network services enable connectivity or transport between different networks. A network service provider is typically also the owner of the network facilities. However, connectivity service may be provided by a person using network facilities owned by another;

- *applications service provider:*

applications service provider licences are for providers of particular functions, such as voice, data, content, electronic commerce and other transaction services, over the network service. Applications services are essentially the functions or capabilities which are delivered to end-users; and

- *content applications service provider:*

content applications service provider licences are for providers of certain content-based applications services, including traditional broadcasting, online publishing and information services.

Malaysia's licensing framework distinguishes two types of licences: (i) individual licences and (ii) class licences. Generally, individual licences are required for communications businesses, which require higher degree of the regulatory control. Within the above four categories, the CMA provides for the issuance of individual and class licences which are discussed below.

Individual Licences

Individual licences are generally granted to providers of services or owners of facilities which have national or social significance or where there is a need to control market entry, establish conditions of operation or limit the scope of licenced activities which necessitate a higher degree of regulation. Licenced companies must be incorporated in Malaysia and shareholdings in such companies must comply with Malaysian foreign investment restrictions. The Minister shall consider the recommendation of the Commission before making a decision to issue an individual licence.

Generally, individual licences are valid for 10 years unless cancelled by the Minister before expiry. However, where licences have been issued pursuant to predecessor legislation (the repealed Telecommunications Act 1950 and the repealed Broadcasting Act 1988) for a similar activity or service and such licences have a residual term exceeding 10 years from the date of the grant of the individual licence under the CMA, the validity period of the individual licence under the CMA shall be equivalent to the residual term of the licence granted under the predecessor legislation.

Pursuant to an amendment to the Licensing Regulations which came into operation on 1 October 2001:

- an individual applications service provider licence shall be valid for a period not exceeding five years from 1 April 2000; and

- where a licence granted under predecessor legislation for a similar activity or service has a residual term exceeding five years from 1 April 2000, the validity period of that individual applications service provider licence shall be equivalent to the residual term of the licences granted under the predecessor legislation.

Standard licence conditions applicable to individual licences include but are not limited to the following:

- the licensee shall notify the Minister of any changes in substantial shareholdings;
- the licensee shall comply with the provisions of the CMA;
- the licensee shall comply with the provisions of any subsidiary legislation made pursuant to, or other instruments, guidelines or regulatory policies issued, under the CMA;
- the licensee shall indemnify the Minister and the Commission against any claims or proceedings arising from any breaches or failings on part of the licensee; and
- the licensee shall comply with other standard conditions and matters declared by the Minister, or provided in any subsidiary legislation, under the CMA.

The Minister may declare special licence conditions applicable to individual licences which may include but are not limited to the following:

- the term of the licence;
- licence fees;
- licenced areas and location of control centres;
- specific undertakings with respect to levels of investment, specific activities and operations;
- specific rights and privileges agreed between the licensee and the Government which are conditional upon the undertakings entered into by the licensee; and
- other special conditions and matters as declared by the Minister, or provided in any subsidiary legislation, under the CMA.

Under the CMA, the Minister is vested with the power to make a declaration at any time:

- to modify or vary the special or additional conditions (as distinguished from standard conditions) of an individual licence;
- to revoke the special or additional conditions of an existing individual licence; or
- to impose further special or additional conditions on an existing individual licence.

Before making any such declaration, the Minister must give the affected licensee written notice of his intention to do so together with a draft copy of the declaration. The licensee may make submissions in response to any such declaration to the Minister by submitting them to the Commission within a specified period of time. After the expiry of the notice, the Minister, on the recommendation of the Commission, must decide on the next course of action, taking into account any submission made by the affected licensee. Any declaration must be consistent with those objects and provisions of the CMA which are relevant to the particular matter or activity.

A licensee cannot assign or transfer an individual licence to any other party without the prior written approval of the Minister. The Minister may seek the advice of the Commission before granting such approval.

Class Licences

Class licences relate to services and facilities which are subject to a lesser degree of regulatory control. Under the Licencing Regulations, subject to the applicant submitting the requisite information and paying the applicable licence fee, the Commission must endorse a registration notice submitted by an applicant, which evidences registration.

Class licence conditions require, among other things, the licensee to:

- comply with the provisions of the CMA;
- comply with the provisions of any subsidiary legislation made, or other instruments, guidelines or regulatory policies issued, under the CMA;
- indemnify the Minister and the Commission against any claims or proceedings arising from any breaches or failings on the part of the licensee; and
- comply with any other standard conditions and matters as may be declared by the Minister, or provided in any subsidiary legislation, under the CMA.

All class licences are valid for one year and are renewed by annual registration. The Minister may by declaration amend the conditions of class licences.

Exempt Services

The CMA exempts a range of network facilities, network services, application services and content applications services from its licensing requirements. The Communications and Multimedia (Licensing) (Exemption) Order 2000, which came into operation on 1 April 2000, provides that the following facilities and services are exempt from licensing under the CMA:

- *exempt network facilities:*
broadcasting and production studios, incidental network facilities, Internet cross-connect equipment and private network facilities;
- *exempt network services:*
incidental network services, LAN services, private network services and router Internet working;
- *exempt applications services:*
electronic transaction services, interactive transaction services, networked advertising boards and cineplexes and Web hosting/client servers; and
- *exempt content applications:*
Internet content applications services.

Spectrum allocation

The spectrum regulations regulate, amongst other things, the establishment of a spectrum plan, the issuance of spectrum assignment, apparatus assignment, class assignment and the compulsory acquisition of a spectrum assignment.

The spectrum regulations are further supported by the Notification of Issuance of Class Assignments, which confer rights on any person to use any frequency band or bands for a specified purpose. The following devices are subject to a class assignment:

- citizen band communications;

- mobile access;
- leased channel radio access;
- spread spectrum; and
- trunked radio access.

On 1 April 2000, the Commission issued the Communications and Multimedia (Spectrum) Exemption Order 2002 (the “**Spectrum Exemption Order**”) which provides for the utilisation of frequency without the issuance of a spectrum, apparatus or class assignment. The operation of certain specified devices, equipment and systems are exempt from an assignment of spectrum if operating within the frequency bands set out in the Spectrum Exemption Order and they comply with the standard conditions for the relevant devices, equipment and systems.

IMT-2000 Spectrum Assignment

On 2 April 2003, the Commission officially awarded the IMT-2000 Spectrum Assignment to Telekom. The duration of the spectrum assignment is 15 years commencing from 2 April 2003 until 1 April 2018.

As part of the IMT-2000 Spectrum Assignment, the following frequency bands have been assigned to Telekom:

- 1950 MHz — 1965 MHz;
- 2020 MHz — 2025 MHz; and
- 2140 MHz — 2155 MHz.

Telekom has provided the Commission with the following:

- RM10,000,000 as part payment for the Spectrum Assignment Fee paid during the year ended 31 December 2003. The remaining RM40,000,000 will be made by way of equal instalments of RM8,000,000 each year over the next five years; and
- An irrevocable Bank Guarantee of RM50,000,000 payable on demand by the Commission, for Telekom’s due performance and compliance with the conditions of the spectrum assignment and the 3G Detailed Business Plan. The Bank Guarantee is valid until 1 April 2018.

Telekom will deploy a mobile communications network based on IMT-2000 standard specifications and is currently evaluating the 3G business. To this effect, a 3G pilot trial was launched in July 2003 to assess technology and market readiness, prior to committing any further investment in this technology.

Telekom's Licences

The Group holds the following licences issued or registered pursuant to the CMA:

<u>Entity</u>	<u>Commencement Date</u>	<u>Licences</u>	<u>Expiry Date</u>
Telekom Malaysia Berhad	8 May 2001	Individual Licence: Network Facilities Provider Individual Licence for the ownership or provision of earth stations, fixed links and cables, public payphone facilities, radiocommunications transmitters and links, satellite hubs and towers, poles, ducts and pits used in conjunction with other network facilities.	19 February 2013
	8 May 2001	Network Services Provider Individual Licence for the provision of any network services subject to an individual licence.	19 February 2013
	8 May 2001	Applications Services Provider Individual Licence for the provision of any applications services subject to an individual licence.	31 December 2006
	16 June 2004	Class Licence: Applications Services Provider Class Licence for the provision of any application services subject to a class licence.	15 June 2005
Celcom (Malaysia) Berhad	8 May 2001	Individual Licence: Network Facilities Provider Individual Licence for the ownership or provision of earth station, fixed links and cables, radiocommunications transmitters and links, satellite hubs, and towers, poles, ducts and pits used in conjunctions with other network facilities.	31 March 2014
	8 May 2001	Network Services Provider Individual Licence for the provision of any network services subject to an individual licence.	31 March 2014
	8 May 2001	Applications Services Provider Individual Licence for the provision of any applications services subject to an individual licence.	31 March 2014
	9 October 2003	Class Licence: Applications Services Provider Class Licence for the provision of any applications services subject to a class licence.	8 October 2004

<u>Entity</u>	<u>Commencement Date</u>	<u>Licences</u>	<u>Expiry Date</u>
Celcom Transmission (M) Sdn. Bhd. .	8 May 2001	Individual Licence: Network Facilities Provider Individual Licence for the ownership or provision of earth station, fixed links and cables, radiocommunications transmitters and links, satellite nubs and towers, poles, ducts and pits used in conjunction with other network facilities.	4 May 2014
	8 May 2001	Network Services Provider Individual Licence for the provision of any network services subject to an individual licence.	4 May 2014
	8 May 2001	Applications Services Provider Individual Licence for the provision of any applications services subject to an individual licence.	4 May 2014
TM Cellular Sdn. Bhd.	8 May 2001	Individual Licence: Network Facilities Provider Individual Licence for the ownership or provision of radiocommunications transmitters and links and towers, poles, ducts and pits used in conjunction with other network facilities.	31 May 2014
	8 May 2001	Network Services Provider Individual Licence for the provision of any network services subject to an individual licence.	31 May 2014
	8 May 2001	Applications Services Provider Individual Licence for the provision of any applications services subject to an individual licence.	31 May 2014
	8 January 2004	Class Licence: Applications Services Provider Class Licence for the provision of any application services subject to a class licence.	7 January 2005
Mobikom Sdn. Bhd.	8 May 2001	Individual Licence: Network Facilities Provider Individual Licence for the ownership or provision of radiocommunications transmitters and links and towers, poles, ducts and pits used in conjunction with other network facilities.	30 June 2013
	8 May 2001	Network Services Provider Individual Licence for the provision of any network services subject to an individual licence.	30 June 2013
	8 May 2001	Applications Services Provider Individual Licence for the provision of any applications services subject to an individual licence.	30 June 2013

<u>Entity</u>	<u>Commencement Date</u>	<u>Licences</u>	<u>Expiry Date</u>
	29 September 2003	Class Licence: Applications Services Provider Class Licence for the provision of any application services subject to a class licence.	28 September 2004
Citifon Sdn. Bhd.	8 May 2001	Individual Licence: Network Facilities Provider Individual Licence for the ownership or provision of public payphone facilities and towers, poles, ducts and pits used in conjunction with other network facilities.	7 May 2011
	8 May 2001	Application Services Provider Individual Licence for the provision of any applications services subject to an individual licence.	31 July 2009
VADS Berhad. . .	16 April 2002	Individual Licence: Network Services Provider Individual Licence for the provision of any network services subject to an individual licence.	15 April 2012
	1 November 2001	Applications Services Provider Individual Licence for the provision of any applications services subject to an individual licence.	31 March 2005
	29 August 2004	Class Licence: Applications Services Provider Class Licence for the provision of any application services subject to a class licence.	28 August 2005
Fiberail Sdn. Bhd.	8 May 2001	Individual Licence: Network Facilities Provider Individual Licence for the ownership or provision of fixed links and cables and towers, poles, ducts and pits used in conjunction with other network facilities.	7 May 2011
	8 May 2001	Network Services Provider Individual Licence for the provision of any network services subject to an individual licence.	7 May 2011
TM Net Sdn. Bhd.	29 April 2003	Individual Licence: Network Services Provider Individual Licence for the provision of any network services subject to an individual licence.	29 April 2013
	20 May 2003	Applications Services Provider Individual Licence for the provision of any applications services subject to an individual licence.	31 March 2005

<u>Entity</u>	<u>Commencement Date</u>	<u>Licences</u>	<u>Expiry Date</u>
	16 June 2004	Class Licence: Applications Services Provider Class Licence for the provision of any application services subject to a class licence.	15 June 2005
Cybermall Sdn. Bhd.	16 October 2003	Class Licence: Applications Services Provider Class Licence for the provision of any application services subject to a class licence.	15 October 2004
GITN Sdn. Berhad	25 May 2004	Class Licence: Applications Services Provider Class Licence for the provision of any application services subject to a class licence.	24 May 2005
Telekom Publications Sdn. Bhd.	25 May 2004	Class Licence: Applications Services Provider Class Licence for the provision of any application services subject to a class licence.	24 May 2005
Celcom Technology (M) Sdn. Bhd. .	9 October 2003	Class Licence: Applications Services Provider Class Licence for the provision of any application services subject to a class licence.	8 October 2004

Telekom believes that its licences are in good standing and expects to be able to continue to fulfil its licence obligations to the satisfaction of the Commission. Further, Telekom expects to be able to successfully renew the licences it currently holds.

Self Regulation

As part of the Government’s objective to promote greater industry self-regulation, the CMA provides that the Commission may designate and register an industry body to be an industry “forum”. Four industry forums are recognised by the CMA: the Access Forum; the Technical Standards Forum; the Consumer Forum and the Content Forum. A forum may, either by itself or at the Commission’s request, prepare a voluntary industry code to govern the industry. In order to take effect, the Commission must register a voluntary industry code which would be done only if the code is consistent with the objectives of the CMA and if the Commission is satisfied that there has been sufficient opportunity for public consultation. Compliance with a voluntary code is not mandatory but compliance is a defence against any prosecution, action or proceeding of any nature, relating to a matter dealt with in that code. However, the Commission may direct any person to comply with a registered voluntary industry code, and failure to comply could lead to a fine of up to RM200,000. In the event that a voluntary code is not developed and the Commission is satisfied that a voluntary code is unlikely to develop, the Commission has the power to determine a voluntary industry code in accordance with the provisions of the CMA

Pursuant to section 104(1) of the CMA, the Commission may determine a mandatory standard if it is satisfied that a voluntary industry code has failed to promote industry conduct which is consistent with the objects of the CMA, any relevant instrument under the CMA or the relevant provisions of the CMA and its subsidiary legislation. Further, pursuant to section 104(2) of the CMA, the Commission shall determine a mandatory standard if so directed by the Minister. Compliance with mandatory standards is compulsory.

Access Regime

Introduction

The Access Regime is a regime established under the CMA to ensure that all network facilities providers, network service providers, applications service providers and content applications service providers can gain access to the necessary facilities on reasonable terms and conditions in order to prevent the inhibition of downstream services. The regime, which is overseen by the Commission, consists of rules and procedures to develop codes and undertakings to ensure that the provision of access by an access provider to an access seeker is provided on reasonable terms and that it complies with the standard access obligations. There is also a dispute resolution process under the regime.

The Access List, voluntary industry codes on access, mandatory standards on access and access pricing, and the Access Forum all fall within this regime.

Access List

The Access List is a specific list of facilities and/or services which have been determined by the Commission to be essential to the provision of network services and application services unless exempted by the Minister. An “Access Provider” shall, upon written request by an “Access Seeker”, provide the “Access Seeker” with access to its facilities and/or services which are listed in the Access List on reasonable terms and conditions and in accordance with the standard access obligations.

Voluntary Access Codes

Under the Access Regime, the Access Forum may develop voluntary industry access codes (“**Access Codes**”) incorporating model terms and conditions for the provision of access to facilities and/or services in the Access List by an “Access Provider” to an “Access Seeker”. Such model terms and conditions must comply with the standard access obligations, being obligations on the Access Provider to provide access on at least the same or more favourable technical standards and quality as the technical standards and quality the Access Provider provides on its network facilities and network services and on an equitable and non-discriminatory basis.

Access Codes may include, but are not limited to, the following matters:

- the time frame and procedures for negotiation and concluding access agreements;
- rate methodologies;
- protection of intellectual property;
- protection of commercial information;
- provision of facilities; and
- sharing of technical information.

On 31 March 2003, the Commission designated the Malaysian Access Forum Berhad (“**MAFB**”), an industry body, as the Access Forum. Section 153(1) of the CMA provides that the Commission shall make a written request to the MAFB to prepare an Access Code. An Access Code is only effective once it is registered by the Commission. As at 13 September 2004, no Access Codes have been registered.

Mandatory Standards on Access

Pursuant to the Ministerial Direction No. 2 of 2003, the Commission via the Commission Determination on Mandatory Standard on Access (“**Commission’s Determination No. 2 of 2003**”) determined a mandatory standard on access which came into force on 14 August 2003.

The Mandatory Standard on Access generally sets out principles and model terms and conditions for the provision of access to facilities and/or services in the Access List by an “Access Provider” to an “Access Seeker”. Compliance with the Mandatory Standard on Access is mandatory.

Interconnection Arrangement and Access Pricing

Interconnection Arrangement

The interconnection arrangements between Telekom and other licencees are currently governed by the Access Regime and interconnection agreements signed between the respective parties. Telekom’s existing interconnection arrangements with other licenced operators have been replaced with new access agreements to be consistent with the Mandatory Standard on Access. Telekom has submitted to the Commission the access agreements entered into pursuant to the Mandatory Standard on Access, which the Commission is currently reviewing.

Mandatory Standard on Access Pricing

Previously, the interconnection charges provided for in the interconnection agreements were in accordance with the Determination of Cost-based Interconnect Prices and the Cost of Universal Obligations, TRD 006/98 issued by the Director General of JTM prior to the promulgation of the CMA.

However, the Commission issued a determination on mandatory standard on Access Pricing, which is cited as “the Commission’s Mandatory Standard on Access Pricing, Determination No. 1 of 2003” which came into operation on 1 July 2003 (the “**Access Pricing Determination**”). The Access Pricing Determination sets out the maximum standard prices for fixed network origination/termination services and mobile network origination/termination services in the form of 24-hour weighted average prices which will be fixed until 2005.

The Access Pricing Determination has revoked, amongst others, the provisions in the TRD 006/98 pertaining to access pricing for fixed network and mobile network origination/termination services. Therefore, with the issuance of the Access Pricing Determination, the access agreements entered into by Telekom pursuant to the Mandatory Standard on Access has incorporated the revised access charges to be consistent with the Access Pricing Determination which applies retrospectively from 1 July 2003.

Key regulatory issues

Competition

To further stimulate competition, “equal access” on a call-by-call basis was introduced in Malaysia on 1 January 1999. Equal access allows consumers to choose, each time they make a call, which fixed network operator they want to provide their domestic long-distance and international telephone services, irrespective of the local network to which the consumers are directly connected. With equal access, a fixed network operator has the opportunity to supply domestic long-distance and international telephone services to customers who may be directly connected to other fixed network operators.

Under the present equal access regime, if a Telekom customer does not select a code prior to making a long-distance or international call, that call would, so long as Telekom remains the local access provider, automatically be routed through Telekom’s network.

Under equal access, the local access provider receives an originating and/or terminating access charge for any calls requiring access to or from that local access provider’s networks. In March 2001, the Minister issued the Direction on Equal Access No. 2/2001, which stated that the implementation of equal access by pre-selection targeted for completion by January 2001 would be deferred pending review. The Commission is currently reviewing equal access by pre-selection. On 5 August 2004, it issued a Consultation Paper on Implementation on Pre-selection, the purpose of which is to develop the policy direction on pre-selection. Members of the public have until 1 October 2004 to provide written submissions.

General competition practices are also addressed by the CMA. In particular, a licensee may not engage in conduct which has the purpose of substantially lessening competition in the Malaysian communications market. Furthermore, if the Commission determines that a licensee is in a dominant

position, it may direct that licensee to cease conduct in that Malaysian communications market which has or may have the effect of substantially lessening competition in any Malaysian communications market and to implement appropriate remedies. The Commission has issued two guidelines on “Substantial Lessening of Competition” and “Dominant Position in a Communications Market”.

The Commission recently launched a public inquiry into the “Assessment of Dominance in Communication Markets”, the objective of which is to obtain the public’s and licensees’ views on the Commission’s recent study on the assessment of dominance in selected communication markets in Malaysia. Submissions to the Commission must be made by 8 November 2004 and the Commission is, thereafter, required under the CMA to publish a report within 30 days of the conclusion of its inquiry.

The CMA also prohibits a licensee from entering into any understanding, agreement or arrangement which provides for rate fixing, market sharing, boycott of a supplier of apparatus or boycott of a competitor. Furthermore, the CMA prohibits mandatory tying or linking arrangements regarding the provision or supply of products and services in a Malaysian communications market.

Competition in the Access Network

As part of the national policy objective to promote competition, the Commission has considered introducing competition in the access network, which is the connection between a customer’s premises and the local exchange. The Commission issued a “Public Consultation Paper on Effective Competition in the Access Network” on 23 July 2003. Based on the comments received, the Commission reported, generally, that all respondents (excluding Telekom) have welcomed the Commission’s initiative to introduce competition in the access network.

On 24 April 2004, the Commission issued a “Tender for Provision of Consultancy Services on Review and Expansion of the Access List Determination”. The purpose of this tender is to engage a consultant to carry out a comprehensive analysis with respect to the inclusion of additional facilities and services to the Access List, one of which is “Access to Network Elements.” This analysis is yet to be carried out. The Commission has indicated that it will issue the “Determination on the Access List and guidelines on the implementation of the access to network element” in June 2005. See “Investment Considerations — Competition”.

Universal Service Provision

Under the new universal service system which came into operation on 1 January 2002, the Commission will, subsequent to a bidding process, designate a licensee in underserved areas targeted by the Commission and the designated universal service provider will receive payment from the universal payment fund operated by the Commission. Unlike the old system, Telekom will no longer receive contributions from industry participants for the loss-making universal services it was obliged to provide under the old system. The Commission may, in certain circumstances, designate an operator as an universal service provider in a particular area if the operator did not make a bid for service in that area.

The “Universal Service Provision Determination No. 6 of 2002” was made by the Commission on 13 December 2002 and it was subsequently varied by the Commission on 30 October 2003 via the “Variation to Commission’s Determination on Universal Service Provision (Determination No. 6 of 2002, Variation No.1 of 2003)” (collectively referred to as “**2002 USP Determination (Amendment)**”). The 2002 USP Determination (Amendment) came into operation on 1 November 2003 and it revoked Determination No. 2 of 2001. The 2002 USP Determination (Amendment), among other things, introduced certain changes in connection with the calculation of contributions to the Universal Service Fund including:

- For services regulated under the Communications and Multimedia (Rates) Rules 2002:
 - from 1 January 2004, national calls, operator assisted calls and audio text hosting have had a weightage factor of zero, a decrease from the previous weightage factor of one.
- For services not regulated under the Communications and Multimedia (Rates) Rules 2002:
 - from 1 January 2004, cellular mobile services and international roaming services have had a weightage factor of one, an increase from the previous weightage factor of 0.5;

- from 1 January 2004, other activities subject to individual or class licences (which are not specifically listed in the 2002 USP Determination (Amendment)) have had a weightage factor of one, an increase from the previous weightage factor of zero.

The revision of the weightage factor will benefit the Group's fixed line business as their contribution to the USP Fund is expected to be less. However, the revision is not favourable to the Group's mobile business as it will have to contribute a higher sum to the USP Fund.

The 2002 USP Determination (Amendment) also changed the minimum revenue threshold for contributions to the USP Fund. Up until 31 December 2003, the minimum revenue threshold was RM500,000. With effect from 1 January 2004, it increased to RM2 million.

Under the Revised Determination, provisioning of network is extended to include mobile-based network as against the current confinement to PSTN.

The above changes introduced by the 2002 USP Determination (Amendment) are also reflected in the Communications and Multimedia (Universal Service Provision) Regulations 2002 (as amended).

Tariffs

The CMA provides that a facilities or services provider may set prices in accordance with market rates on the basis of the following principles:

- rates must be fair and, for similarly situated persons, not unreasonably discriminatory;
- rates should be oriented towards costs and, in general, cross-subsidies should be eliminated;
- rates should not contain discounts that unreasonably prejudice the competitive opportunities of other providers;
- rates should be structured and levels set to attract investment into the communications and multimedia industry; and
- rates should take account of the regulations pertaining to rate setting and recommendations of the international organisations of which Malaysia is a member.

However, the Minister may, on the Commission's recommendation, intervene in determining and setting the rates for any competitive facilities or services for good cause, or as the public interest may require.

The Communications and Multimedia (Rates) Rules 2002 regulates the tariffs for local calls, national calls, payphone, operator assistance, Internet access service, audio text hosting service, rental, connection fees and reconnection fees for the fixed telephony services. The rates for mobile service are not regulated and may be set according to market forces.

Mandatory Standards on the Quality of Service

In 2002, the Commission issued the following mandatory standards on the quality of services:

- Public Switched Telephone Network Service (Determination No. 1 of 2002);
- Public Cellular Service (Determination No. 2 of 2002);
- Dial Up Internet Access Service (Determination No. 3 of 2002); and
- Content Application Service (Determination No. 4 of 2002).

These above four standards were registered on 28 June 2002 and came into operation on 1 January 2003.

In addition to the above-mentioned standards, the Commission also issued the following standards in 2003:

- Public Payphone Service (Determination No. 3 of 2003);
- Digital Leased Line Service (Determination No. 4 of 2003); and
- Broadband Access Service (Determination No. 5 of 2003).

The three above-mentioned quality of service standards were registered on 17 November 2003. The quality of service standards for digital leased line services and broadband access service came into effect on 1 January 2004, while the quality of services standards for public payphone service came into effect on 1 June 2004.

Non-compliance with the mandatory standards on quality of service is a breach of Section 105(3) of the CMA and is liable to a fine of up to RM100,000 and/or imprisonment for a maximum term of 2 years.

Malaysia's World Trade Organisation Commitments

In April 1997, the Government entered into a Schedule of Specific Commitments (the “**Schedule**”) with respect to telecommunications services under the General Agreement on Trade in Services (“**GATS**”) among members of the World Trade Organisation (“**WTO**”), and, more specifically, the Agreement on Basic Telecommunications (“**ABT**”) among WTO members. In the Schedule, the Government made a commitment that foreign suppliers from other WTO member countries would be free to provide telecommunications services cross-border into Malaysia. Malaysian consumers would be free to purchase telecommunications services from providers in other WTO member countries, and foreign individuals who enter and temporarily stay in Malaysia to work in the telecommunications sector will be provided with the same opportunities as foreigners entering Malaysia to work in other sectors. Under the Schedule, the Government stipulated that foreign telecommunications services providers may establish, operate or expand a commercial presence in Malaysia only through the acquisition of shares of existing telecommunications operators in Malaysia. Furthermore, such foreign shareholdings are limited on an ongoing basis to a total of 30 per cent. of those individual existing telecommunications operators.

Under the GATS, the Government is obligated to accord to the services, service suppliers and employees of any other WTO member operating in Malaysia treatment no less favourable than that which is accorded to domestic services, service suppliers and employees. The Government has also undertaken to adhere to the Pro-competitive Regulatory Principles set out in the Reference Paper to the ABT, with respect to, inter alia, providing interconnection and protecting competition in the telecommunications sector.

MANAGEMENT

Board of Directors

The Board of Directors is responsible for the overall management of the Group and for developing its strategies and policies. Telekom's Board of Directors currently consists of nine Directors of which three have been appointed by the Government through its ownership of the Special Share and one is a representative of Telekom's substantial shareholder, Khazanah. One Alternate Director has been appointed by one of the Government Appointed Directors. The Government, through ownership of the Special Share, is entitled to appoint between two and six out of a maximum of 12 members of the Board of Directors.

The current members of the Board of Directors of Telekom as at 1 September 2004 are as follows:

<u>Name (Age)</u>	<u>Address</u>	<u>Designation/Occupation</u>
Tan Sri Dato' Ir Muhammad Radzi bin Haji Mansor (63) ⁽¹⁾	No. 7, Lorong Setiarasa, Bukit Damansara, 50490 Kuala Lumpur	Chairman, Non-Independent Non-Executive Director
Dato' Abdul Wahid bin Omar (40) ⁽¹⁾	17-6-6 The Palladium, Jalan Gurney Dua, 54000 Kuala Lumpur	Managing Director/Chief Executive Officer, Non-Independent Executive Director
Dato' Dr Abdul Rahim bin Haji Daud (56)	No. 43, Jalan 14/3, Taman Tun Abdul Razak, 68000 Ampang, Selangor Darul Ehsan	Non-Independent Non-Executive Director
Dato' Abdul Majid bin Haji Hussein (55) ⁽¹⁾	139, Jalan SS 20/1, Damansara Utama, 47400 Petaling Jaya, Selangor Darul Ehsan	Non-Independent Non-Executive Director
Azman bin Haji Mokhtar (43) ⁽²⁾	No. 28 Jalan SS 21/3, Damansara Utama, 47400 Petaling Jaya, Selangor Darul Ehsan	Non-Independent Non-Executive Director
Dato' Lim Kheng Guan (61) . .	No. 32, Persiaran Burhanuddin Helmi, Taman Tun Dr Ismail, 60000 Kuala Lumpur	Senior Independent Non-Executive Director
YB Datuk Nur Jazlan bin Tan Sri Mohamed (38)	1A-4-1, Sri Kasturina Apartment, Jalan Medang Kapas, Bukit Bandaraya, Bangsar, 59100 Kuala Lumpur	Independent Non-Executive Director
Ir Prabahar N. K. Singam (42)	No. 33, Jalan BU 4/9, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan	Independent Non-Executive Director
Rosli bin Man (51)	No. 19, Taman Bukit Mewah, Jalan Bukit Antarabangsa, 68000 Ampang, Selangor Darul Ehsan	Independent Non-Executive Director
Mohammad Zanudin bin Ahmad Rasidi (51) ⁽¹⁾ (Alternate Director to Dato' Abdul Majid bin Haji Hussein)	No. 17, Jalan Rimba Riang 9/3, Kota Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan	Non-Independent Non-Executive Director

Notes:

- (1) Denotes Government Appointed Directors through the Special Shareholder.
- (2) Denotes Representative from Telekom's Substantial Shareholder, Khazanah.

Save as disclosed below, the Directors have no significant outside appointments.

Biographies of Directors

Tan Sri Dato' Ir Muhammad Radzi bin Haji Mansor

Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor, aged 63, is the Chairman of Telekom. He graduated with a Diploma in Electrical Engineering from Faraday House Engineering College in London and a Masters in Science (Technological Economics) from the University of Stirling in Scotland. During his career with Telekom, he has served as Director of Operations, Director of Marketing and Customer Services and Director of Regulatory Management and External Affairs. A Chartered Professional Engineer registered with the Board of Engineers in Malaysia and the Engineering Council in United Kingdom, he is also a corporate member of the Institute of Engineers in Malaysia, the Institution of Electrical Engineers and the Institute of Management in United Kingdom. He serves as Chairman of the Board Nominating and Remuneration Committee and the Board Employees' Share Option Scheme Committee. He is also a Board Member of a number of subsidiaries and associate companies of Telekom.

Dato' Abdul Wahid bin Omar

Dato' Abdul Wahid bin Omar, aged 40, is the Managing Director/Chief Executive Officer of Telekom. A qualified accountant, he is a Fellow of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Malaysian Institute of Accountants. He previously served as the Managing Director/Chief Executive Officer of United Engineers (Malaysia) Berhad and UEM World Berhad and also as the Executive Vice Chairman of PLUS Expressways Berhad. Prior to that, he was the Chief Financial Officer of Telekom, the Director of Group Corporate Services and a Divisional Director of Capital Markets and Securities at Amanah Capital Partners Berhad, Chairman of Amanah Short Deposits Berhad and the Association of Discount Houses in Malaysia as well as a Director of Amanah Merchant Bank Berhad. He is currently a Director of Bursa Malaysia, VADS Berhad and Celcom. Dato' Abdul Wahid serves as Chairman of Telekom's Board Re-listing of Celcom Committee and is also a Member of the Board Employees' Share Option Scheme Committee and Board Tender Committee TelCo. He is also a Board Member of a number of subsidiaries of Telekom.

Dato' Dr Abdul Rahim bin Haji Daud

Dato' Dr Abdul Rahim bin Haji Daud, aged 56, holds a Bachelor of Engineering (Hons.) degree in Electronics from the University of Liverpool in the United Kingdom, a Masters in Science (Telecommunications Engineering) from the University of Birmingham, a Doctorate in Engineering (Telecommunication) from the University of Bath and a Masters in Business Administration from Ohio University. He has attended the Harvard Business School's Advanced Management Program and the Senior Executive Development Program at the Wharton School of Business at the University of Pennsylvania. He is a Member of the Board of Engineers in Malaysia and is a Fellow of the Institution of Engineers in Malaysia. He joined JTM as a Telecommunications Engineer in 1973 and has wide experience in managing telecommunications and information technology operations. He has served as Telekom's General Manager of Information Systems, Senior General Manager of National Network Operations, Senior Vice President of Network Services, Chief Operating Officer, Executive Director of Corporate Strategy and Development and Deputy Chief Executive/Executive Director. Dato' Dr. Abdul Rahim serves as a Member of the Board Audit Committee, the Board Employees' Share Option Scheme Committee and the Board Tender Committee TelCo. He is also a Board Member of a number of subsidiaries and associate companies of Telekom.

Dato' Abdul Majid bin Haji Hussein

Dato' Abdul Majid bin Haji Hussein, aged 55, holds a Bachelor of Economics majoring in Accountancy from University of Malaya, a Masters in Business Management from the Asian Institute of Management in Manila and has attended the Advanced Management Program at the Harvard Business School in the United States. Prior to being appointed to his present position as Deputy Secretary of General Treasury (Operations) in the Ministry of Finance, he served at the Accountant General's Office, the National Institute of Public Administration, the Federal Agricultural Marketing Authority, the Budget Division of the Ministry of Finance, the Public Services Department and the State Secretary of Perak. He currently serves as a Non-Executive Chairman of the Board Tender Committee TelCo and is a Member of the Board Employees' Share Option Scheme Committee as well as the Board Re-listing of Celcom Committee. He is a Director of Perusahaan Otomobil Nasional Berhad and Keretapi Tanah Melayu Berhad.

Azman bin Haji Mokhtar

Azman bin Haji Mokhtar, aged 43, is the Managing Director of Khazanah. He has served as Managing Director of BinaFikir Sdn. Bhd., Director and Head of Country Research at Salomon Smith Barney in Malaysia and Director and Head of Research of the Union Bank of Switzerland in Malaysia. A Fellow of the Association of Chartered Certified Accountants and a Chartered Financial Analyst of the Association of Investment Management and Research, he obtained his Masters in Philosophy (Development Studies) from Darwin College at Cambridge University as a British Chevening Scholar. He is also a Director of United Engineers (Malaysia) Berhad, UEM World Berhad and Tenaga Nasional Berhad. He is a Non-Executive Director nominated by the Company's Substantial Shareholder, Khazanah.

Dato' Lim Kheng Guan

Dato' Lim Kheng Guan, aged 61, is a Chartered Accountant by profession and an Associate Member of the Malaysian Institute of Accountants, an Associate of the Malaysian Institute of Certified Public Accountants, a Fellow of Australian Society of Certified Practising Accountants, an Associate of the Australian Institute of Bankers and a Member of the Malaysian Institute of Management. He has attended Advanced Management Programs at the Manchester Business School, INSEAD and London Business School. He has more than 30 years of experience in accounting, management consulting and senior managerial positions in local and multinational public listed companies. Currently, he is the Executive Director of Malaysian Management Consultants Sdn. Bhd. He also serves as an Independent Non-Executive Chairman of the Board Commercial Dispute Resolution Committee and a Member of the Nominating and Remuneration Committee, the Board Audit Committee and the Board Disciplinary Appeal Committee of Telekom. He is also a Board Member of a number of subsidiaries and associate companies of Telekom.

YB Datuk Nur Jazlan bin Tan Sri Mohamed

Y.B. Datuk Nur Jazlan bin Tan Sri Mohamed, aged 38, is a Fellow of the Association of Chartered Certified Accountants in the United Kingdom, a Council Member and Chairman of Public Relations Committee of Malaysian Institute of Accountants and a Council Member of the Asean Federation of Accountants. In addition to his corporate experience in the financial arena, Y.B. Datuk Nur Jazlan is also active in politics, being an Exco Member of UMNO Youth as well as division chief of UMNO and Chairman of Barisan Nasional for Pulai, Johor. He was elected in the last general election, as Member of Parliament for Pulai parliamentary constituency, Johor. Y.B. Datuk Nur Jazlan is the Chairman of Telekom's Board Audit Committee and a member of the Board Tender Committee Telco. He is also a Director of United Malayan Land Berhad, Prinsiptek Corporation Berhad as well as several other private limited companies.

Ir Prabahar N. K. Singam

Ir. Prabahar N.K. Singam, aged 42, holds a Bachelor of Science (Civil Engineering) degree from Portsmouth Polytechnic in the United Kingdom. He is a member of the Board of Engineers in Malaysia, the Institute of Engineers in Malaysia and the Environmental and Research Association of Malaysia (ENSEARCH). He has extensive experience in the civil engineering sector, especially in the areas of consultancy, contracting, project management and project financing. Ir. Prabahar currently serves as a

Member of the Board Nominating and Remuneration Committee, the Board Tender Committee TelCo and the Board Disciplinary Appeal Committee. He is also a Board Member of a number of subsidiaries and associate companies of Telekom.

Rosli bin Man

Rosli bin Man, aged 51, has more than 26 years of experience in the telecommunications industry. He holds a Bachelor in Science in Electrical and Electronic Engineering (Electrical Design and Instrumentation) from the University of Glasgow and a Diploma in Electrical and Electronic Engineering (Communications) from the Technical College in Kuala Lumpur. He joined JTM in 1976 as Assistant Controller where he implemented the country's first mobile telecommunication service. As Group Manager of Technical Services at Fleet group, he was part of the team responsible for overseeing the roll-out and operations of the nation's first privately operated terrestrial television station, namely Sistem Televisyen Malaysia Berhad (TV3). He was instrumental in setting up Celcom and has also served at Prismanet Sdn. Bhd. and Natrindo Telpon Sellular (NTS), and Lippo Telecom. He currently serves as a Member of the Board Audit Committee, the Board Commercial Dispute Resolution Committee, Board Tender Committee TelCo and the Board Disciplinary Appeal Committee. He is also a Board Member of a number of subsidiaries of Telekom.

Mohammad Zanudin bin Ahmad Rasidi

Mohammad Zanudin bin Ahmad Rasidi, aged 51, is the Alternate Member/Director to Dato' Abdul Majid bin Haji Hussein on the Board Employees' Share Option Scheme Committee, the Board Tender Committee TelCo and the Board Re-listing of Celcom. He has a Bachelor of Economics from Universiti Kebangsaan in Malaysia and a Masters Degree in Public Management from Carnegie-Mellon University. He has also completed the Harvard International Tax Program at Harvard University. He has served as the Assistant Secretary in the Government's Economic and International Division and the Tax Analysis Division. Currently, he is the Principal Assistant Secretary of the Public Enterprises, Privatisation and Minister of Finance Incorporated Coordination.

Remuneration

The Directors' total remuneration for the year ended 31 December 2003 was RM2,305,840, consisting of salaries of RM528,000, fees and allowances of RM1,220,476, ex-gratia payments of RM156,000 and benefits in kind of RM401,364.

Group Management Committee

The Group Management Committee of Telekom is primarily responsible for developing and implementing long-term plans and establishing strategies based on the policies and guidelines established by the Board of Directors. The Group Management Committee is also responsible for organising and controlling the Group's operations.

The Group Management Committee is comprised of Telekom's Managing Director/Chief Executive Officer as well as senior management including the Chief Operating Officers and Chief Executive Officers of Telekom's operating companies, namely TM Wholesale, TM Retail, Celcom, TM Net, TM International and TM Facilities Sdn. Bhd.

The members of the Group Management Committee are as follows:

Name	Designation/Occupation
Dato' Abdul Wahid bin Omar	Managing Director/Chief Executive Officer, Telekom
Dato' Dr Haji Mohd Khir bin Harun	Chief, Group Business Restructuring & Co-ordination, Telekom
Dato' Dr Idris bin Ibrahim	Chief Operating Officer, TM Wholesale
Dato' Adnan bin Rofiee	Chief Operating Officer, TM Retail
Dato' Mohamed Yunus Ramli bin Abbas	Chief Executive Officer, Celcom
Dato' Baharum bin Salleh	Chief Executive Officer, TM Net
Christian Manuel de Faria	Chief Executive Officer, TM International
Hamzah bin Yacob	Chief Executive Officer, TM Facilities
Jaffa Sany bin Md Ariffin	Group Chief Financial Officer, Telekom
Ranbir Singh Nanra	Senior Vice President, Group Marketing, Telekom
Hashim bin Mohammed	Group Chief Auditor, Telekom
Ahmad Azhar bin Yahya	Group Chief Information Officer, Telekom
Mohamad Akib bin Abdul Hamid	Acting Vice President, Group Human Resource Management, Telekom
Abdul Majid bin Abdullah	Vice President, Corporate Strategy and Planning, Telekom
Kairul Annuar Mohamed Zamzam	General Manager, Corporate Affairs, Telekom
Mohd Zakri bin Hasan	General Manager, Corporate Regulatory, Telekom

Biographies of Members of the Group Management Committee

Dato' Abdul Wahid bin Omar

See biography above.

Dato' Dr Haji Mohd Khir bin Harun

Dato' Dr Haji Mohd Khir bin Harun, aged 54, is the Chief, Group Business Restructuring and Coordination of Telekom. He started his career with JTM in 1973 as a Telecommunications Engineer. Thereafter, he was appointed as the Senior General Manager of TelCo Strategy and promoted as the Senior Vice President, Major Business and Government Division of TelCo before being seconded as the Chief Executive Officer of TM Cellular Sdn. Bhd. He holds a Bachelor of Science degree in Electrical Engineering and Electronics, a Masters of Science degree in Communications Engineering and a Doctorate in Electronic Engineering from the Institute of Science and Technology at the University of Manchester.

Dato' Dr Idris bin Ibrahim

Dato' Dr Idris bin Ibrahim, aged 52, is the Chief Operating Officer of TM Wholesale. He holds a Bachelor of Engineering (Hons) degree in Electrical and Electronics Engineering, a Masters of Engineering in Microwave Communication Engineering and a Doctorate in Microwave Engineering from the University of Sheffield. He started his career with JTM in 1974 and has held various positions in the areas of engineering, marketing and human resource management. He was promoted as Vice President of Integrated Network Planning in 1996 and Vice President of Network Development in 1997. He was appointed as the Chief Operating Officer of TM TelCo in February 2001.

Dato' Adnan bin Rofiee

Dato' Adnan bin Rofiee, aged 49, is the Chief Operating Officer of TM Retail. He holds a Bachelors Degree in Electronic Engineering from Brighton Polytechnic. During his 24-year career in the telecommunications industry he has served as the General Manager of the Sarawak Operations Area, the Managing Director of Ghana Telecommunication Co. Ltd, Chief Executive Officer at TM Cellular Sdn. Bhd. and the Senior Vice President of Major Business & Government.

Dato' Mohamed Yunus Ramli bin Abbas

Dato' Mohamed Yunus Ramli bin Abbas, aged 55, is the Group Chief Executive Officer of Celcom. He holds a Bachelors Degree in Economics from the University of Malaya, a Masters degree in Business Administration from Nova South Eastern University and has attended an Executive Programme in Business Management at the University of Michigan. He started his career at Motorola Malaysia and during his 25 years in the organisation was the Executive Assistant to the General Manager, Director of Human Resources of Motorola South Asia, Regional Director of Organisational Development of Motorola Asia Pacific and Vice President, Director of Strategy of Motorola Incorporated and the Vice President and Country Manager of Motorola Malaysia. Prior to joining Celcom, he was the Group Chief Executive Officer of Encorp Group.

Dato' Baharum bin Salleh

Dato' Baharum bin Salleh, aged 49, is the Chief Executive Officer of TM Net. He holds a degree in Electronics Engineering from the University of Bath and a Masters of Business Administration from the University of Leicester. He has been involved in the telecommunications industry for more than 25 years, during which time he has served as Telekom's Area Manager for Negeri Sembilan, the General Manager of Corporate Strategy and Chief Operating Officer at TM Multimedia.

Christian Manuel de Faria

Christian Manuel de Faria, aged 51, is the Chief Executive Officer of TM International. He holds a degree in Finance and Administration from the University of Toulouse in France and has held various positions including Finance Manager, Group Financial Controller, Group Finance Director and Business Development Director for the Grundig Group of Companies, a noted leader in consumer electronics in different countries in Europe as well as in Asia. He has valuable experience in telecommunication and multimedia technologies by holding various related positions in Malaysia and Germany.

Hamzah bin Yacob

Hamzah bin Yacob, aged 50, is the Chief Executive Officer of TM Facilities Sdn. Bhd. He holds a Bachelor of Electronics degree from University of Technology in Malaysia. He joined JTM in 1978 and has served as the Head of Specialised Network Services, General Manager of TM Mobile Services, General Manager of Customer Network Operations, State General Manager of Johor, Chief Executive Officer of Fiberrail Sdn. Bhd., a subsidiary of Telekom Malaysia, and General Manager of Supply, Services and Contract Management, TelCo.

Jaffa Sany bin Md Ariffin

Jaffa Sany bin Md Ariffin, aged 38, is the Group Chief Financial Officer of Telekom. He is a qualified accountant with a Bachelor of Economics in Accounting and Finance (Hons) from the London School of Economics, a Fellow of the Chartered Association of Certified Accountants in the United Kingdom and a member of the Malaysian Institute of Accountants. Prior to joining Telekom, he was previously with Tenaga Nasional Berhad and the Renong Group, and was the Chief Financial Officer of Pernas International Holdings Berhad and Pelabuhan Tanjung Pelepas Sdn. Bhd.

Ranbir Singh Nanra

Ranbir Singh Nanra, aged 42, is the Senior Vice President of Group Marketing. He has had extensive experience in telecommunications in the Asia Pacific region, particularly in sales and marketing, market/business development, strategy and line of business management. He holds a Bachelor of Science (Mathematics & Economics) from the Australian National University, a Diploma in Applied Finance and Investment from Securities Institute of Australia and a Master of Business Administration from Macquarie University. He is a Member of the Australian Institute of Management and the Securities Institute of Australia.

Hashim bin Mohammed

Hashim bin Mohammed, aged 45, is Telekom's Group Chief Auditor. He holds a Bachelor of Science from Queen Elizabeth College at the University of London and holds a Masters in Business Administration in International Management from RMIT University in Australia. He started his career with Shell Malaysia Trading Sdn. Bhd. where he spent 21 years in various management positions including marketing, sales, manufacturing, operations, logistics, information technology and internal audit. He is the Vice President and Fellow Member of the Institute of Internal Auditors of Malaysia, a Member of the Malaysian Institute of Management and a Chartered Chemist of the Royal Society of Chemistry in London.

Ahmad Azhar bin Yahya

Ahmad Azhar bin Yahya, aged 40, is Telekom's Group Chief Information Officer. He holds a Bachelor of Science in Electrical Engineering from Oklahoma State University. He was formerly a Partner with Accenture (formerly known as Andersen Consulting) where he serviced clients in the communications, high technology and multimedia industries. Ahmad Azhar bin Yahya started his career at Agilent Technologies in Penang (formerly known as Hewlett Packard (M) Sdn. Bhd.) as a production engineer, and later joined Accenture in 1990. His industry experiences include strategic planning and change management, business and operations support systems, revenue management and customer relationship management and his client portfolio covers communication companies in Malaysia, Indonesia, Thailand, Brunei, Japan and Hong Kong.

Mohamad Akib Abdul Hamid

Mohamad Akib Abdul Hamid, aged 54, is Acting Vice President of Group Human Resource Management of Telekom Malaysia. He graduated from the University of Malaya and has an Advanced Diploma in Human Resources from the Malaysian Institute of Personnel Management. He served the Federal Government from 1973 until 1986 when he joined Telekom to prepare service and salary terms and option papers on behalf of the Government of Malaysia and STMB as part of the Government policy to privatise Telekom in 1987. He was previously the Vice President of Human Resources for TM Cellular.

Abdul Majid bin Abdullah

Abdul Majid bin Abdullah, aged 51, is the Vice President of Corporate Strategy and he holds a Bachelor of Engineering (Hons) from the University of Technology in Malaysia and a post graduate engineering degree in Computers/Telecommunications from the University of Southampton. In his 23 years of service, he has worked within several of Telekom's key divisions including Regulatory Management, Corporate Planning, Research and Development, TelCo Strategy and Training. He was previously the acting Chief Operating Officer of TM Multimedia.

Kairul Annuar Mohamed Zamzam

Kairul Annuar Mohamed Zamzam, aged 41, is the General Manager of Corporate Affairs Division. He holds a Degree of Engineering Science from the University of Western Ontario in Canada and a Master of Business Administration from Multimedia University in Malaysia. He commenced his career with Telekom in 1985 as Assistant Controller of Manpower Planning. He has wide experience in transmission, customer network operations and business administration.

Mohd Zakri bin Hasan

Mohd Zakri bin Hasan, aged 51, is the General Manager of Corporate Regulatory. He holds a Bachelor of Science in Electrical and Electronic Engineering from the University of Portsmouth in the United Kingdom and a Master in Business Administration from Southern Pacific University in the United States. He started his career with Telekom in 1977 as a Telecommunication Engineer and has served as Assistant General Manager of the Corporate Planning Division, the Head of the Tariff, International and Demand Forecasting Unit and General Manager of Business Strategy Development and TelCo Strategy Development.

SHARE OWNERSHIP

Government Ownership

As at 30 June 2004, Khazanah (which is owned by MOF Inc.) owned 32.26 per cent. of Telekom's shares; the Employees Provident Fund Board owned 13.43 per cent.; Bank Negara Malaysia, the Malaysian Central Bank, owned 7.52 per cent. of Telekom's shares; and MOF Inc. owned 3.34 per cent. of Telekom's shares.

Under the provisions of the Articles of Association of Telekom, any person other than the Government, anyone acting on the Government's behalf, a trustee of any employees' share scheme of Telekom and Bursa Malaysia Depository Sdn. Bhd. (previously known as Malaysia Central Depository Sdn. Bhd.) is restricted from holding more than 5 per cent. of the issued shares or from exercising more than 5 per cent. voting control of Telekom. As at 30 June 2004, Temasek Holdings held a 5.06 per cent. shareholding in Telekom and had been granted a waiver by the Government which has allowed it to maintain its equity interest in Telekom.

Pursuant to the Articles of Association of Telekom, there is a maximum foreign ownership level of 30.0 per cent. The proportion of registered foreign shareholding has increased to 17.67 per cent. as at 30 June 2004.

The Special Share

The Special Share enables MOF Inc. to exercise a veto power that ensures major decisions affecting the operations of Telekom, such as the universal provision of telecommunications and related services, are consistent with Government policy. The Articles of Association of Telekom provide that the holder of the Special Share (the "**Special Shareholder**"), shall be MOF Inc., a body corporate established under the Minister of Finance (Incorporation) Act 1957, its successor or any Minister or any representative or person acting on behalf of the Government. The Special Share entitles the holder thereof to receive notices of annual general meetings of shareholders, but does not carry any right to vote at those meetings. However, the Special Shareholder is entitled to attend and speak at such meetings.

Certain matters, particularly the alteration of certain clauses of the Articles of Association of Telekom, insofar as they relate to the rights of the holder of the Special Share, the dissolution of Telekom, any substantial acquisitions or disposals of assets, amalgamations, mergers or takeovers, require the prior consent of the holder of the Special Share. The Special Shareholder makes its decisions through Directors appointed to the Board of Telekom by the Government.

The holder of the Special Share has the right to require Telekom to redeem the Special Share at par at any time. The Special Shareholder does not have any right to participate in the capital or profits of Telekom.

As the holder of the Special Share, the Government retains the right to appoint between two to six out of a maximum of 12 Directors of Telekom. As at 1 September 2004, three of Telekom's directors are Government appointees. The provisions of the Articles of Association of Telekom apply to the Government Appointed Directors in the same manner as they apply to the other Directors, except that any vacancy in the Government Appointed Directors may only be filled by a person appointed by the holder of the Special Share, and the provisions of the Articles of Association relating to the appointment of Directors do not apply to the Government Appointed Directors.

There is no guarantee that the Government will retain its ownership of Telekom or that it will not reduce its shareholdings in Telekom in the future.

Substantial Shareholders

As at 30 June 2004, the substantial shareholders of Telekom holding five per cent. or more of Telekom's total issued capital as recorded in the register of members included:

<u>Shareholder</u>	<u>Number of Ordinary Shares Held</u>	<u>Percentage of Shareholding</u> %
Khazanah Nasional Berhad	1,079,424,854	32.26
Employees Provident Fund Board	449,341,000	13.43
Bank Negara Malaysia	251,680,000	7.52
Temasek Holdings ⁽¹⁾	169,320,900	5.06
Cimsec Nominees (Tempatan) Sdn. Bhd. — Security Trustee (KCW Issue 2)	194,000,000	5.80

Note:

- (1) Temasek Holdings, a corporation formed by the Singapore government, was granted a waiver by the Government which allowed it to maintain an equity interest greater than the maximum permissible shareholding of 5 per cent.

CLEARING AND SETTLEMENT

Custodial and depository links have been established with Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and transfers of the Notes associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry of changes in the accounts of their participants. Euroclear and Clearstream, Luxembourg provide their respective participants with, among other things, services for safekeeping, administrative, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Principal Payment Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's and procedures.

Registration and Form

Book-entry interests in the Notes held through Euroclear and Clearstream, Luxembourg will be evidenced by the Global Note Certificate registered in the name of a nominee of the common depository of Euroclear and Clearstream, Luxembourg. The Global Note Certificate will be held by a common depository for Euroclear and Clearstream, Luxembourg. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of Euroclear and Clearstream, Luxembourg to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg respectively. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

The aggregate holdings of book-entry interests in the Notes in Euroclear, and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear or Clearstream, Luxembourg, as the case may be, and every other intermediate holder in the chain to the beneficial interests in the Notes, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interest in the Notes. The Registrar will be responsible for maintaining a record of the aggregate holdings of the Notes registered in the name of a common nominee for Euroclear and Clearstream, Luxembourg. The Principal Paying Agent will be responsible for ensuring that payments received by it from the Issuer for holders of interests in Notes holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be.

The Issuer will not impose any fees in respect of the Notes; however, holders of book-entry interests in the Notes may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream, Luxembourg

Global Clearance and Settlement Procedures

On original issue, the Notes will be in global form and evidenced by the Global Note Certificate. Interests in the Notes will be in uncertificated book-entry form. Purchasers electing to hold book-entry interests in the Notes through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional eurobonds. Book-entry interests in the Notes will be credited to Euroclear and Clearstream, Luxembourg participant securities clearance accounts on the business day following the Closing Date against payment (for value the Closing Date).

Secondary Market Trading

Trading between Euroclear and/or Clearstream, Luxembourg participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional participants.

General

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the Notes among participants of Euroclear and Clearstream, Luxembourg, neither Euroclear and Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

None of the Issuer, the Guarantor or any of their respective agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

TAXATION

Malaysian Tax Considerations

Malaysian Taxation

The statements made herein regarding Malaysian taxation are based on the laws in force as at the date of this Offering Circular and are subject to any changes in law occurring after such date, which changes could be made on a retrospective basis. The following summary does not purport to be a comprehensive description of all of the Malaysian tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of Notes.

Malaysian Residency

Under the Malaysian Income Tax Act, 1967, a company is regarded as a resident if the management and control of its affairs are exercised in Malaysia at any time by its directors or other controlling authority. The rules regarding the residence of individuals are complex, but generally are based upon the length of time spent in Malaysia.

Withholding Tax

As the Issuer is incorporated under the Offshore Companies Act 1990, interest paid by the Issuer to a non-resident person as determined under the Income Tax Act, 1967 or another offshore company (as defined in the Labuan Offshore Business Activity Tax Act, 1990) is exempted from income tax and thus not subject to withholding tax by virtue of a specific tax exemption. However, no exemption is available in respect of interest which accrues to a business carried on by a non-resident person in Malaysia where that non-resident person is licenced to carry on a business under the Banking and Financial Institution Act, 1989, the Islamic Banking Act, 1983, the Takaful Act, 1984 or the Insurance Act, 1996.

Income Tax

Proceeds from the sale, assignment, transfer or other disposition by a holder of the Notes would not be subject to Malaysian income tax unless such proceeds constitute income to such holder accruing in, earned or otherwise derived from Malaysia as a result of speculation in the Notes or in the ordinary course of carrying on any business in Malaysia.

Capital Gains Tax

There is no tax on capital gains from the disposition of securities (including shares, notes, bonds and loan stocks) of companies which are not real property companies. Real property companies are companies whose assets are primarily made up of real property or shares in other real property companies. Accordingly, there is no tax on capital gains derived from disposal of the Notes since the Issuer is not a real property company.

There is also no capital gains tax from the redemption of the Notes as such redemption constitutes a capital transaction which is not considered a disposition of securities.

Stamp Duty

Pursuant to the Stamp Duty (Exemption) Order 2000, all instruments which are executed by an offshore company in connection with an offshore business activity as defined in the Labuan Offshore Business Activity Tax Act, 1990 are exempted from stamp duty.

Holders of the Notes are advised to consult their tax advisors concerning the Malaysian tax implications of holding, exchanging, selling, assigning, transferring or otherwise disposing of the Notes.

Relief from Taxation

Non-resident holders receiving interest income and any gains on the sale or other disposition of the Notes may also be liable to tax in their respective jurisdictions. Subject to the domestic tax laws of the respective foreign tax jurisdictions and any double taxation agreements with Malaysia, there could be double tax relief or unilateral tax relief available for the Malaysian tax suffered on the dividend income and gains (if applicable).

Under Malaysian law, a company is regarded as a “non-resident” if the management and control of its affairs are not exercised in Malaysia at any time by its directors or other controlling authority. The rules regarding the residency status of individuals are complex but are generally based upon the length of time spent in Malaysia.

Malaysia has no estate, inheritance or capital transfer tax in respect of the Notes. In addition, neither the issuance nor transfer of the Notes outside Malaysia will give rise to any capital gains, stamp, issue, registration or similar taxes or duties in Malaysia.

Payments of or in respect of principal and interest on the Notes, and any capital gains realized on the sale or exchange of the Notes, are not subject to the payment of any repatriation levy under Malaysia’s exchange control measures.

European Union Directive on the Taxation of Savings Income

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from 1 July 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

SUBSCRIPTION AND SALE

CIMB (L) Limited, Deutsche Bank AG, Singapore Branch and UBS Limited (the “**Joint Lead Managers**”) have, pursuant to a subscription agreement dated 14 September 2004 (the “**Subscription Agreement**”), jointly and severally agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to purchase and pay for their respective principal amount of Notes at 99.754 per cent. of their principal amount. The Issuer and the Guarantor have agreed to pay certain fees to the Joint Lead Managers in connection with the offering of the Notes.

Pursuant to and subject to the terms of the Subscription Agreement, the Issuer and the Guarantor will also reimburse the Joint Lead Managers in respect of certain of their expenses and have agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Issuer and the Guarantor have agreed that no other foreign currency denominated borrowings or debt instruments or securities issued or guaranteed by the Issuer or the Guarantor are either placed or syndicated, directly or on its behalf, for a period of 30 days after the date of this Offering Circular, in any manner which might, in the opinion of the Joint Lead Managers (following consultation with the Guarantor, if practicable), have a detrimental effect on the successful placement of the Notes.

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S. In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead Manager represents, warrants and agrees that:

- (i) it has not offered or sold and, prior to the expiry of a period of six months from the issue date of the Notes, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and
- (ii) it has not issued or had in its possession, and will not issue or have in its possession for purposes of issue, any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

Singapore

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not circulated or distributed nor will it circulate or distribute this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes nor has it offered or sold or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a sophisticated investor and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Malaysia

Each Joint Lead Manager has represented and agreed that:

- (i) no offer, sale or invitation has been or will be made in relation to the Notes to Residents of Malaysia and no invitation to subscribe for the Notes has been or will be made to Residents of Malaysia;
- (ii) no offer, sale or invitation in relation to, and will not offer, sell or make any invitation in relation to, the Notes, has been made nor has such Joint Lead Manager distributed or published nor will it distribute or publish the Offering Circular or any notice that issues, offers for subscription or purchase of the Notes, directly or indirectly, to any Residents of Malaysia; and
- (iii) no approval from the Securities Commission of Malaysia is or will be obtained for the offering of the Notes in Malaysia on the basis that the Notes will not be issued and offered to Residents of Malaysia.

For the purposes of the above paragraph, “**Resident**” means (a) in relation to a natural person, a citizen or permanent resident of Malaysia; or (b) in relation to any other person, a person who has established a place of business and is operating in Malaysia and includes a person who is deemed to be resident pursuant to Section 43 of the Malaysian Exchange Control Act 1953, but excluding any offshore company incorporated under the Malaysian Offshore Companies Act 1990 and any foreign offshore company registered under the Malaysian Offshore Companies Act 1990.

Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in Italy in a solicitation to the public and that sales of the Notes in Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Each of the Joint Lead Managers has represented and agreed that it will not offer, sell or deliver any Notes or distribute copies of the Offering Circular or any other document relating to the Notes in Italy except:

- (i) to “**Professional Investors**” as defined in Article 31, paragraph 2 of *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) Regulation No. 11522 of 1 July 1998 as amended (“**Regulation No. 11522**”), pursuant to Article 30, paragraph 2 and Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (“**Decree No. 58**”); or
- (ii) in any other circumstances where an express exemption from compliance with the solicitation restrictions provided under Decree No. 58, Regulation No. 11971 of 14 May 1999, as amended, applies.

Any such offer, sale or delivery of the Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in Italy must be:

- (i) made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of 1 September 1993, as amended (“**Decree No. 385**”), Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations;
- (ii) in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy (*Istruzioni di Vigilanza della Banca d'Italia*), pursuant to which the issue, offer, trading or placement of securities in Italy is subject to a prior notification to the Bank of Italy, unless an exemption, depending inter alia on the aggregate amount and the characteristics of the Notes issued, offered, traded or placed in Italy, applies; and
- (iii) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Japan

Each Joint Lead Manager has represented and agreed that the Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “**Securities and Exchange Law**”) and that the Notes which it subscribes will be subscribed by it as principal and that, in connection with the initial offering of the Notes, it will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other applicable laws and regulations of Japan.

The Netherlands

Each of the Joint Lead Managers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in The Netherlands any Notes other than to individuals or legal entities situated in The Netherlands who or which trade or invest in securities in the conduct of a business or profession (“**Professional Investors**”, which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, collective investment institutions, central governments, large international and supranational organisations, other institutional investors and other parties, including treasury departments of commercial enterprises, which as an ancillary activity regularly invest in securities) provided that it is made clear both upon making the offer and in any

documents or advertisements in which a forthcoming offering of such Notes is publicly announced (whether electronically or otherwise) in The Netherlands that such offer is exclusively made to such Professional Investors.

Republic of France

Each of Joint Lead Managers has represented and agreed that the Notes are being issued outside the Republic of France and that it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in the Republic of France, and that it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in the Republic of France, the Offering Circular or any other offering material relating to the Notes and that such offers, sales and distributions have been and shall be made in the Republic of France only to qualified investors (*investisseurs qualifiés*), as defined in and in accordance with L411-2 of the Code Monétaire et Financier (the “**Code**”) and décret no. 98-880 dated 1 October 1998. Notes may only be issued, offered or sold, directly or indirectly, in the Republic of France in accordance with the Code. Where an issue, offer or sale of the Notes is effected as an exception to the public offer rules (*appel public à l'épargne*) in the Republic of France by way of an offer or sale to qualified investors (*investisseurs qualifiés*), as defined in, and in accordance with the Code and décret no. 98-880 dated 1 October 1998, such qualified investors must be informed that:

- (a) the issue, offer or sale of the Notes does not require an information document to be submitted to the approval of the Autorité des Marchés Financiers;
- (b) they can only invest in the Notes for their own account; and
- (c) the direct or indirect offer or sale, to the public in the Republic of France, of the Notes so purchased can only be made in accordance with the Code.

Germany

Each of the Joint Lead Managers has confirmed that it will comply with the Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*, the “**Act**”) of the Federal Republic of Germany and all other applicable legal and regulatory requirements. In particular, each of the Joint Lead Managers has represented that it has not engaged and has agreed that it will not engage in a public offering (*öffentliches Angebot*) within the meaning of the Act with respect to any Notes otherwise than in accordance with the Act.

General

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or any Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer, the Guarantor and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense. Accordingly, the Notes may not be offered or sold, directly or indirectly, and no offering circular, prospectus, form of application, advertisement, or other document or information may be distributed or published in any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

GENERAL INFORMATION

- (1) The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg. The common code of the Notes is 020095938 and the International Securities Identification Number (“ISIN”) for the Notes is XS0200959384.
- (2) The Issuer and the Guarantor will have obtained all necessary consents, approvals and authorisations and have taken all action necessary in Malaysia in connection with the issue and performance of the Notes and the Guarantee by 22 September 2004. The issue of the Notes was authorised by resolution of the Board of Directors of the Issuer passed on 16 August 2004 and the giving of the Guarantee by the Guarantor was authorised by resolution of the Board of Directors of the Guarantor passed on 27 July 2004.
- (3) Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Guarantor or of the Group since 31 December 2003 and no material adverse change in the financial position or prospects of the Issuer or of the Group or of the Guarantor since 31 December 2003.
- (4) Neither the Issuer nor the Guarantor nor any member of its Group is involved in any litigation or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the financial position of the Issuer, of the Guarantor or of the Group nor is the Issuer or the Guarantor aware that any such proceedings are pending or threatened.
- (5) Copies in English of the latest annual report and consolidated accounts of the Guarantor and any published interim consolidated accounts of the Guarantor and the unconsolidated accounts of the Issuer may be obtained, and copies of the Trust Deed and Agency Agreement will be available for inspection, at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Notes is outstanding. The Issuer does not publish interim financial statements, although for the purposes of the offering of the Notes, interim financial statements for the six months ended 30 June 2003 and 30 June 2004 have been prepared and are included on pages F-210 to F-215. The Guarantor prepares and publishes annual non-consolidated financial statements. The Guarantor also prepares quarterly non-consolidated interim financial statements for internal purposes but does not publish those financial statements.
- (6) The audited consolidated and unconsolidated financial statements of the Guarantor for the financial years ended 31 December 2001, 2002 and 2003 have been reported on without qualification by the independent auditors, PricewaterhouseCoopers, to the shareholders of the Guarantor as a whole in accordance with section 174 of the Malaysian Companies Act 1965. The auditors reports are reproduced on pages F-23 to F-25. The audited unconsolidated financial statements of the Issuer for the financial years ended 31 December 2001, 2002 and 2003 have been reported on without qualification by the auditors, PricewaterhouseCoopers, to the shareholder. The auditors reports are reproduced on pages F-216 to F-218. In accordance with section 37(1) of the Malaysian Offshore Companies Act 1990, PricewaterhouseCoopers have given and have not withdrawn their consent to the issue of this Offering Circular with the inclusion in it of their reports in the form and context in which they are included. The interim financial statements of the Issuer and the Guarantor, as at 30 June 2004 and for the six months ended 30 June 2003 and 30 June 2004 have not been audited.
- (7) In connection with the application for the Notes to be listed on the Luxembourg Stock Exchange, copies of the Memorandum and Articles of Association of the Issuer and the Guarantor and a legal notice relating to the issue of the Notes will be deposited prior to listing with the *Régistre de Commerce et des Sociétés à Luxembourg*, where they may be inspected and copies obtained upon request. For so long as the Notes are listed on the Luxembourg Stock Exchange, the Issuer will publish all notices to holders of the Notes in the *Luxemburger Wort* in Luxembourg.
- (8) Pursuant to Section 30(3) of the Offshore Companies Act 1990, the Issuer shall not without the approval of a special resolution of its shareholders vary the terms of a contract referred to in this Offering Circular unless the variation is made subject to the approval of a special resolution. As required under Section 31(1) (b) of the Offshore Companies Act 1990, the Issuer undertakes that it will issue the Global Note Certificate within two (2) months after acceptance of any money from any person in response to this offer.

SUMMARY OF PRINCIPAL DIFFERENCES BETWEEN MALAYSIAN GAAP AND IFRS

The consolidated and unconsolidated financial statements included in this Offering Circular have been prepared and presented in accordance with applicable approved accounting standards issued by the Malaysian Accounting Standards Board, also referred to in this circular as Malaysian GAAP. Malaysian GAAP is consistent in all material respects with the accounting standards issued or adopted by the International Accounting Standards Board (collectively known herein as “IFRS”) except for certain areas. The following paragraphs summarise the areas in which differences between Malaysian GAAP and IFRS applicable for annual periods beginning on 1 January 2004 could be significant to the Guarantor’s financial position and results of operations. No attempt, however, has been made to quantify the effects of such differences, nor has a reconciliation of Malaysian GAAP to IFRS been undertaken. Had any such quantification or reconciliation been done for the Guarantor, other potential significant accounting and disclosure differences may have come to its attention which are not identified below.

Further no attempt has been made to identify future differences between Malaysia GAAP and IFRS as the result of prescribed changes in accounting standards. Finally, no attempt has been made to identify future differences between Malaysian GAAP and IFRS that may affect the financial statements as a result of transactions or events that may occur in the future.

In making an investment decision, investors must rely upon their own examination of the Group, the terms of the offering and the financial information. Potential investors should consult their own professional advisors for an understanding of the principal differences between Malaysia GAAP and IFRS and how this information might affect the financial information herein.

Goodwill

Malaysian GAAP does not prescribe the treatment of goodwill representing the excess of the purchase price over the fair value of the net assets of an acquired company subsequent to its initial recognition.

The Guarantor’s policy is that, goodwill on acquisition of a subsidiary arising on or after 1 January 2002 is capitalised. Such capitalised goodwill is tested for impairment at least annually, or if events or circumstances occur indicating that impairment may exist. Impairment of goodwill is charged to Consolidated Income Statement as and when it arises. Impairment of goodwill will not be reversed unless its reversal is due to the effect of a special external event of an exceptional nature. Goodwill on acquisition prior to 1 January 2002 was written off against reserves in the year of acquisition. Such goodwill was not retrospectively capitalised and subjected to impairment test, as it was impractical to reinstate.

Under IFRS, IAS 22 “Accounting for Business Combinations” is effective for business combinations for which the agreement date is before 31 March 2004 only. From 31 March 2004 onwards, IFRS 3 “Business combinations” would apply. However, there were no new business combinations undertaken by the Guarantor after 31 March 2004. IAS 22 states that goodwill is capitalised and carried at cost less accumulated amortisation and any accumulated impairment losses. The amortisation period should not be more than 20 years unless there is persuasive evidence that the life is more than 20 years. IFRS 3 states that goodwill is capitalised and not amortised but tested for impairment at least annually.

Derivative instruments and hedging activities

The Guarantor uses financial derivatives in the Group’s risk management of foreign currency and interest rate exposures of its financial liabilities. Hedge accounting principles are applied for the accounting of the underlying exposures and their hedge instruments. These hedge instruments are not recognised in the financial statements on inception. The underlying foreign currency liabilities are translated at their respective hedged exchange rate, and different interest receipts and payments arising from interest rate derivative instruments are accrued, so as to match the net differential with the related expenses on the hedged liabilities. Exchange gains and losses relating to hedge instruments are recognised as a component of finance costs in the Income Statement in the same period as the exchange differences on the underlying hedged items. No amounts are recognised in respect of future periods.

Prior to January 2002, there was no standard on accounting for derivative instruments and hedging activities under Malaysian GAAP and such instruments are not required to be recorded in the balance sheet.

Effective 1 January 2002, MASB 24 “Financial Instruments: Disclosure and Presentation” prescribes certain requirements for presentation of on-balance-sheet financial instruments and identifies the information that should be disclosed both on-balance-sheet (recognised) and off-balance-sheet (unrecognised) financial instruments. Fair value of financial assets and financial liabilities must be disclosed in the notes to the financial statements. Malaysian GAAP does not address the recognition and measurement of derivative instruments.

IFRS specifies rules for the recognition and measurement of derivatives. All derivative instruments are recorded as either financial assets or financial liabilities in the balance sheet and measured at fair value. Changes in a derivative’s value are recognised in the income statement as they arise, unless they satisfy certain conditions. If certain conditions are met, a derivative may be specifically designated as a hedge. If so, an entity is required to formally designate and document at the inception of the hedge specific information regarding the hedging relationship including the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge.

IFRS recognises three types of hedge relationships: fair value hedges, cash flow hedges and hedges of net investment in a foreign entity. Fair value hedges are where the risk being hedged is a change in the fair value of a recognised asset or liability. The hedging instruments are measured at fair value and the hedge item is adjusted for changes in its fair value, but only due to the risks being hedged. Gains and losses on fair value hedges, for both the hedging instrument and the item being hedged, are recognised in the income statement. Cash flow hedges are where the risk being hedged is the potential volatility in future cash flows. The gains and losses on the fair valued hedging instruments, where they are effective, are initially deferred in equity and subsequently released to the income statement concurrent with the earnings pattern of the hedged items. A hedge of a net investment in a foreign entity is where a hedging instrument is used to hedge the currency risk of a net investment in a foreign entity. The exchange gains and losses on the hedging instruments are deferred in equity to the extent that the hedge is effective, together with exchange differences arising on the entity’s investment in the foreign operation. These gains or losses are transferred to the income statement on disposal of the foreign operation.

Derivatives not designated as hedges are marked to market and changes in fair value are charged to the income statement. Hence, depending on the nature of the instruments it is possible that the treatment of these instruments could result in different carrying amounts in the Group’s balance sheet and different amounts being recognised as gains and losses under IFRS.

Compound instruments

Compound instruments are financial instruments that contain both a liability and equity component. The Guarantor had during the year ended 31 December 2002 taken advantage of the exemption granted under MASB 24 for compound instruments in the first adoption of the standard. MASB 24 states that only compound instrument issued during reporting periods beginning on or after 1 January 2003 have to be classified based on the instrument’s component parts. In applying the exemption, the Guarantor maintained the classification of its U.S.\$359.9 million Convertible Eurobonds, which were due for redemption by 2004 as liabilities. During the financial year ended 31 December 2003, the bonds were fully redeemed.

IFRS does not provide for such exemption.

Investment classification

Under Malaysian GAAP,

- (i) “short term investments” are securities that are available for sale in the short-term; and
- (ii) “long-term investments” are securities that are acquired and held for yield or capital growth and are not investments in subsidiaries, associates or joint ventures.

Under IFRS, investments in equity securities and all investments in debt securities are classified into one of three categories as follows:

- (i) “trading” securities are debt and equity securities which are brought and held for the purpose of resale in the near future;
- (ii) “held-to-maturity” securities (“HTM”) are debt securities that an enterprise has a positive intent and ability to hold to maturity; and
- (iii) “available for sale” securities (“AFS”) are debt and equity securities that are not classified either as HTM or “trading” securities.

Investments carrying value

Under Malaysian GAAP,

- (i) “short-term investments” are stated at the lower of cost and market value on aggregate portfolio basis by category of investment. Any reduction in carrying value is taken to income; and
- (ii) “long-term investments” are stated at cost and provision is made in the event of any permanent diminution in value.

Under IFRS,

- (i) “trading” securities are reported at fair value, with unrealised gains and losses included in the income statement;
- (ii) HTM are recognised at amortised cost using the effective yield method; and
- (iii) AFS are recognised at fair value. For changes in fair value a one off choice exists. Either a) all changes in fair value recognised in the income statement or; b) unrealised gains and losses recognised net of tax effects in equity and recycled to the income statement when sold, impaired or collected.

Leasehold land classification

Under Malaysian GAAP, leasehold land is classified under Property, Plant and Equipment and amortised over the periods of the respective leases.

Under IFRS, leasehold land is treated as an operating lease. Upfront payment made for leasehold land is treated as an operating lease prepayment. Such prepayment will be amortised over the leasehold period.

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TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

The audited consolidated and unconsolidated financial statements set out in the offering circular from pages F-25 to F-203 are extracted without material adjustments, from the audited statutory financial statements of the Guarantor. These financial statements have been prepared by the Guarantor in accordance with the provisions of the Malaysian Companies Act, 1965 and conform with the applicable approved accounting standards in Malaysia (“Malaysian GAAP”) for the relevant financial years for presentation to its shareholders.

During the years presented, the Guarantor changed the following accounting policies:

- Financial statements in respect of the year ended 31 December 2002
 - proposed dividends (adoption of new MASB Standard 19 “Events after the Balance Sheet Date”)
- Financial statements in respect of the year ended 31 December 2003
 - deferred tax (adoption of new MASB Standard 25 “Income Taxes”)
 - goodwill

These accounting policies were applied retrospectively as a prior year adjustment in the financial statements in the year of change.

The summary financial information of the Guarantor as at and for the years ended 31 December 2001, 2002 and 2003 have not been adjusted to reflect the adoption of new MASB Standards applicable to the Guarantor for which retrospective application is not permitted by the relevant standard or where the Guarantor has relied on exemptions to apply the relevant new MASB Standard prospectively.

For a full appreciation of the changes in accounting policies adopted by the Guarantor, reference can be made to the note on Significant Accounting Policies as set out in pages F-31 to F-41 and F-138 to F-146.

The audited consolidated and unconsolidated financial statements of the Guarantor for the years ended 31 December 2001, 2002 and 2003 have been reported on without qualification by the auditors, PricewaterhouseCoopers to the shareholders of the Guarantor as a whole, and for no other purpose, in accordance with Section 174 of the Malaysian Companies Act, 1965 and the auditors’ reports are reproduced on pages F-23 to F-25.

The audited financial statements set out in the offering circular from pages F-219 to F-228 are extracted from the audited statutory financial statements on the Issuer. These financial statements have been prepared in accordance with Malaysian GAAP for the relevant financial years for presentation to its shareholder.

The audited financial statements of the Issuer for the years ended 31 December 2001, 2002 and 2003 have been reported on without qualification by the auditors, PricewaterhouseCoopers to its shareholder and for no other purpose. The auditor’s reports are reproduced on pages F-216 to F-218.

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2004
(All amounts are in millions unless otherwise stated)

	<u>For the six months</u> <u>ended 30 June,</u>	
	<u>2004</u>	<u>2003</u>
	RM (Unaudited)	RM (Unaudited)
Operating revenue	6,500.6	5,288.9
Operating costs	<u>(5,438.7)</u>	<u>(4,473.6)</u>
Operating profit	1,061.9	815.3
Other operating income	<u>97.6</u>	<u>45.8</u>
Operating profit before finance cost	1,159.5	861.1
Net finance cost	(235.0)	(182.5)
Associates		
— share of profit less losses	160.6	165.0
— profit on disposal	<u>622.4</u>	<u>—</u>
Profit before taxation	1,707.5	843.6
Taxation	<u>(209.6)</u>	<u>(265.7)</u>
Profit after taxation	1,497.9	577.9
Minority interests	<u>(38.6)</u>	<u>(20.4)</u>
Profit attributable to shareholders	<u><u>1,459.3</u></u>	<u><u>557.5</u></u>
Earnings per share (sen) (Note B12)		
— basic	44.1	17.6
— diluted	43.7	17.5
Dividends per share (sen) (Note B13)		
— interim	10.0	—

The Unaudited Condensed Consolidated Income Statements should be used in conjunction with the Audited Annual Financial Statements for the year ended 31 December 2003.

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AS AT 30 JUNE 2004

(All amounts are in millions unless otherwise stated)

	<u>As at</u> <u>30.6.2004</u>	<u>As at</u> <u>31.12.2003</u>
	RM (Unaudited)	RM (Audited)
Share capital	3,345.8	3,250.7
Share premium	3,625.4	3,046.4
Reserves	<u>11,469.9</u>	<u>10,485.3</u>
Total capital and reserves	18,441.1	16,782.4
Minority interests	282.1	245.1
Borrowings	<u>10,427.4</u>	<u>10,830.6</u>
Customers' deposits	622.9	626.9
Deferred tax liabilities	<u>2,013.7</u>	<u>2,031.5</u>
Deferred and long term liabilities	<u>13,064.0</u>	<u>13,489.0</u>
	<u>31,787.2</u>	<u>30,516.5</u>
Intangible assets	4,072.7	4,072.7
Property, plant and equipment	20,406.1	21,605.9
Associates	922.7	1,499.6
Investments	385.2	384.7
Long term receivables	673.0	668.9
Deferred tax assets	162.1	160.4
Inventories	<u>174.6</u>	<u>203.6</u>
Trade and other receivables	4,029.0	3,835.0
Short term investments	223.6	263.4
Cash and bank balances	<u>5,466.7</u>	<u>3,346.1</u>
Current assets	<u>9,893.9</u>	<u>7,648.1</u>
Trade and other payables	<u>4,073.7</u>	<u>4,522.0</u>
Borrowings	561.0	877.8
Taxation	<u>93.8</u>	<u>124.0</u>
Current liabilities	<u>4,728.5</u>	<u>5,523.8</u>
Net current assets	<u>5,165.4</u>	<u>2,124.3</u>
	<u>31,787.2</u>	<u>30,516.5</u>
Net tangible assets per share (sen)	429.4	391.0

The Condensed Consolidated Balance Sheet should be used in conjunction with the Audited Annual Financial Statements for the year ended 31 December 2003.

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2004
(All amounts are in millions unless otherwise stated)

	Issued and Fully Paid of RM1 each	Non-distributable		Distributable	Total
	Share Capital	Share Premium	Exchange Fluctuation Reserves	Retained Profits	
	RM	RM	RM	RM	
At 1 January 2004	3,250.7	3,046.4	(199.9)	10,685.2	16,782.4
Exchange fluctuation not recognised in income statement	—	—	6.5	—	6.5
Profit for the period	—	—	—	1,459.3	1,459.3
Dividends paid for year ended					
— 31.12.2003 (Note A7) . . .	—	—	—	(481.2)	(481.2)
Issue of shares					
— exercise of share options	95.1	579.0	—	—	674.1
At 30 June 2004	<u>3,345.8</u>	<u>3,625.4</u>	<u>(193.4)</u>	<u>11,663.3</u>	<u>18,441.1</u>
At 1 January 2003	3,167.0	2,536.5	(307.1)	9,523.2	14,919.6
Exchange fluctuation not recognised in income statement	—	—	36.5	—	36.5
Profit for the period	—	—	—	557.5	557.5
Dividends paid for year ended					
— 31.12.2002	—	—	—	(228.4)	(228.4)
Issue of shares					
— exercise of share options	9.7	59.1	—	—	68.8
At 30 June 2003	<u>3,176.7</u>	<u>2,595.6</u>	<u>(270.6)</u>	<u>9,852.3</u>	<u>15,354.0</u>

The Unaudited Condensed Consolidated Statement of Changes in Equity should be used in conjunction with the Audited Annual Financial Statements for the year ended 31 December 2003.

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2004
(All amounts are in millions unless otherwise stated)

	For the six months ended 30 June,	
	2004	2003
	RM	RM
Receipts from customers	6,216.2	5,412.4
Payments to suppliers and employees.	(3,330.0)	(3,210.6)
Payment of finance cost	(343.2)	(208.9)
Payment of income taxes	<u>(236.9)</u>	<u>(289.8)</u>
Cash flows from operating activities	<u>2,306.1</u>	<u>1,703.1</u>
Disposal of property, plant and equipment	6.1	21.9
Purchase of property, plant and equipment	(1,162.0)	(1,229.3)
Payment of intangible asset (3G Spectrum).	(8.0)	(10.0)
Disposal of short term investments	36.8	7.8
Purchase of short term investments	(21.1)	(13.2)
Acquisition of a subsidiary	—	(790.9)
Disposal of an associate	1,372.7	—
Repayments of loans by employees	58.5	66.1
Loans to employees	(45.2)	(51.9)
Interest received	61.3	39.1
Dividends received	<u>2.0</u>	<u>2.3</u>
Cash flows from/(used in) investing activities	<u>301.1</u>	<u>(1,958.1)</u>
Issue of share capital	674.1	68.8
Issue of share capital to minority interests	2.6	—
Proceeds from borrowings	69.2	2,326.0
Repayments of borrowings	(719.9)	(1,065.5)
Dividends paid to shareholders	(481.2)	(228.4)
Dividends paid to minority interests.	<u>(4.2)</u>	<u>(3.6)</u>
Cash flows (used in)/from financing activities.	<u>(459.4)</u>	<u>1,097.3</u>
Net increase in cash and cash equivalents.	2,147.8	842.3
Effect of exchange rate changes	(13.7)	(19.5)
Cash and cash equivalents at beginning of the period.	<u>3,279.3</u>	<u>1,821.0</u>
Cash and cash equivalents at end of the period	<u><u>5,413.4</u></u>	<u><u>2,643.8</u></u>

The Unaudited Condensed Consolidated Cash Flow Statements should be used in conjunction with the Audited Annual Financial Statements for the year ended 31 December 2003.

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

**NOTES TO THE ANNOUNCEMENT OF RESULTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2004**
(All amounts are in millions unless otherwise stated)
PART A: EXPLANATORY NOTES OF MASB 26 — PARAGRAPH 16

1. BASIS OF PREPARATION OF INTERIM FINANCIAL REPORTS

The interim financial reports of the Group have been prepared in accordance with MASB 26 “Interim Financial Reporting” and paragraph 9.22 and Appendix 9B of the Bursa Malaysia Securities Berhad Listing Requirements, and should be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2003. The accounting policies, method of computation and basis of consolidation are consistent with those used in the preparation of the 2003 audited financial statements.

The principal closing rates (units of Malaysian Ringgit per foreign currency) used in translating significant balances at 30 June 2004 are as follows:

<u>Foreign currency</u>	<u>Exchange rate</u>
US Dollar	3.80000
Japanese Yen	0.03491
Guinea Franc	0.00190
Bangladesh Taka	0.06457
Sri Lanka Rupee	0.03715
South African Rand	0.61814
Special Drawing Rights	5.57160
Gold Franc Currency	1.82019

2. QUALIFICATION OF PRECEDING AUDITED ANNUAL FINANCIAL STATEMENTS

The audited financial statements for year ended 31 December 2003 were not subject to any material qualification.

3. SEASONAL OR CYCLICAL FACTORS

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

4. UNUSUAL ITEMS AFFECTING ASSETS, LIABILITIES, EQUITY, NET INCOME OR CASH FLOWS

- (a) Revenue adjustment with respect to data and telephony services of RM164.4 million being discounts and resolution of disputed bills in favour of major clients.
- (b) Recognition of additional Universal Service Obligation fund of RM90.0 million with respect to year 2000 and 2001 as revenue from other telecommunication related services.
- (c) During the second quarter, the Company reviewed the estimated economic useful life of submarine cables. Arising from this revision, the estimated useful life of submarine cables has been reduced from 15 years to 10 years. The change in estimate has increased the depreciation charge by RM61.0 million and resulted in a corresponding decrease in profit after tax.
- (d) Following impairment tests carried out on relevant assets; impairment loss with respect to property, plant and equipment (PPE) amounting to RM220.4 million and RM76.0 million for the Company and a subsidiary respectively, was identified and recognised in the Income Statement. In addition, RM60.9 million impairment losses with respect to PPE arising from the integration of Celcom/TM Cellular were also recognised. Hence, PPE and profit after tax reduced accordingly.

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PART A: EXPLANATORY NOTES OF MASB 26 — PARAGRAPH 16 — (Continued)

4. UNUSUAL ITEMS AFFECTING ASSETS, LIABILITIES, EQUITY, NET INCOME OR CASH FLOWS (CONTINUED)

- (e) Partial disposal of Telkom SA Limited as disclosed in note A11(b) of this announcement resulted in an exceptional gain and increase in profit after tax of RM622.4 million. The disposal also increased cash flows by RM1,372.7 million.

There were no other unusual items affecting assets, liabilities, equity, net income or cash flows due to their nature, size or incidence for the financial period ended 30 June 2004.

5. MATERIAL CHANGES IN ESTIMATES

There were no material changes in estimates of amounts reported in the prior interim period or prior financial year except for the revision of economic useful life of submarine cables as mentioned in note A4(c) of this announcement.

6. ISSUANCES, CANCELLATIONS, REPURCHASES, RESALE AND REPAYMENTS OF DEBT AND EQUITY SECURITIES

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the financial period ended 30 June 2004 except for the increase in issued and paid up capital of RM95.1 million of the Company from 3,250.7 million shares of RM1.00 each to 3,345.8 million shares of RM1.00 each as a result of employees exercising their options under the Employees' Share Option Scheme (ESOS) at the exercise price of RM7.09 per share.

7. DIVIDENDS PAID

Final gross dividend of 10.0 sen per share less 28% income tax and special gross dividend of 10.0 sen per share less 28% income tax amounting to RM481.2 million in respect of financial year ended 31 December 2003 were paid on 21 June 2004.

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PART A: EXPLANATORY NOTES OF MASB 26 — PARAGRAPH 16 — (Continued)

8. SEGMENTAL INFORMATION

Segmental information of the financial period ended 30 June 2004 and 30 June 2003 were as follows:

By Business segment

	2004			
	Fixed line, data internet and multimedia	Cellular	Others	Total
	RM	RM	RM	RM
<i>Operating revenue</i>				
Total operating revenue	4,093.7	2,591.2	198.3	6,883.2
Inter-segment*	<u>(118.6)</u>	<u>(175.9)</u>	<u>(88.1)</u>	<u>(382.6)</u>
External operating revenue	<u>3,975.1</u>	<u>2,415.3</u>	<u>110.2</u>	<u>6,500.6</u>
<i>Results</i>				
Segment result	775.8	524.1	12.7	1,312.6
Unallocated income				79.9
Corporate expenses				(236.5)
Foreign exchange gains				<u>3.5</u>
Operating profit before finance cost.				1,159.5
Finance cost				(298.2)
Finance income				63.2
Associates				
— share of profits less losses	114.8	45.8	—	160.6
— profit on disposal				<u>622.4</u>
Profit before taxation				1,707.5
Taxation				<u>(209.6)</u>
Profit after taxation				1,497.9
Minority interests				<u>(38.6)</u>
Profit attributable to shareholders				<u>1,459.3</u>

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PART A: EXPLANATORY NOTES OF MASB 26 — PARAGRAPH 16 — (Continued)

8. SEGMENTAL INFORMATION (CONTINUED)

By Business segment

	2003			
	Fixed line, data internet and multimedia	Cellular	Others	Total
	RM	RM	RM	RM
<i>Operating revenue</i>				
Total operating revenue	4,010.5	1,435.3	205.8	5,651.6
Inter-segment*	(183.8)	(96.9)	(82.0)	(362.7)
External operating revenue	<u>3,826.7</u>	<u>1,338.4</u>	<u>123.8</u>	<u>5,288.9</u>
<i>Results</i>				
Segment result	852.7	62.4	36.8	951.9
Unallocated income				25.9
Corporate expenses				(113.3)
Foreign exchange losses				<u>(3.4)</u>
Operating profit before finance cost . . .				861.1
Finance cost				(221.2)
Finance income				38.7
Associates				
— share of profits less losses	79.8	85.2	—	<u>165.0</u>
Profit before taxation				843.6
Taxation				<u>(265.7)</u>
Profit after taxation				577.9
Minority interests				<u>(20.4)</u>
Profit attributable to shareholders				<u>557.5</u>

* Inter-segment operating revenue has been eliminated at the respective segment operating revenue. The inter-segment operating revenue was entered into in the normal course of business and at prices available to third parties or at negotiated terms.

9. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

There was no revaluation of property, plant and equipment brought forward from the previous audited financial statements. The Group does not adopt a revaluation policy on its property, plant and equipment.

10. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE QUARTER

There were no material events subsequent to the end of the quarter that have not been reflected in the interim financial statements.

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PART A: EXPLANATORY NOTES OF MASB 26 — PARAGRAPH 16 — (Continued)

11. EFFECTS OF CHANGE IN THE COMPOSITION OF THE GROUP

Change in the composition of the Group for the current quarter and financial period ended 30 June 2004 were as follows:

(a) Samart Corporation Public Co Limited (Samart)

During the first quarter, the shareholding of TM's wholly owned subsidiary, TM International Sdn. Bhd. in Samart has reduced from 19.59% to 19.57% due to issuance of shares under its Employees' Share Option Scheme. The dilution has no material effect to the results of the Group.

(b) Telkom SA Limited (Telkom SA)

During the second quarter, TM's indirect shareholding in Telkom SA, a listed company on the Johannesburg Stock Exchange and the New York Stock Exchange, held via Thintana Communications Llc, has reduced from 12.00% to 6.04% on 18 June 2004 due to the disposal/placement to institutional investors. This disposal was announced to Bursa Malaysia on 18 June 2004. Following the above disposal, TM has lost significant influence over the financial and operating policy decisions of Telkom SA. Consequently, TM has since ceased to equity account its share of results in Telkom SA.

(c) Masterpage Sdn. Bhd.

During the second quarter, Masterpage Sdn. Bhd., a wholly owned subsidiary of TM, held via Celcom (Malaysia) Berhad (Celcom), had been deregistered by the Companies Commissions of Malaysia (CCM), and struck off from the CCM's Register pursuant to Section 308 (4) of the Companies Act 1965 with effect from 13 April 2004, being the date of the publication of the Government Gazette dated 8 April 2004.

12. CHANGES IN CONTINGENT LIABILITIES SINCE THE LAST ANNUAL BALANCE SHEET DATE

There was no material change in contingent liabilities (other than material litigation disclosed in note B11 of this announcement) since the latest audited annual financial statements of the Group for the year ended 31 December 2003.

13. CAPITAL COMMITMENTS

	Group	
	30.6.2004	30.6.2003
	RM	RM
Property, plant and equipment:		
Commitments in respect of expenditure approved and contracted for	<u>2,954.6</u>	<u>2,708.7</u>
Commitments in respect of expenditure approved but not contracted for	<u>171.7</u>	<u>19.0</u>

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PART B: EXPLANATORY NOTES OF BURSA MALAYSIA LISTING REQUIREMENTS

1. REVIEW OF PERFORMANCE

For the current quarter and financial period under review, the Group revenue increased by 9.9% (RM292.7 million) and 22.9% (RM1,211.7 million) respectively, driven primarily by the cellular segments internet and multimedia services as well as one off recognition of additional Universal Service Obligation (USO) fund for year 2000 and 2001. Significant increase in cellular revenue is mainly due to the inclusion of 6 months consolidation of Celcom's results, as compared to only 2.5 months for the financial period ended 30 June 2003.

The Group profit before taxation for the current quarter and financial period under review increased by 142.8% (RM589.0 million) and 102.4% (RM863.9 million) respectively, mainly due to higher contribution from the cellular segment and exceptional gain of RM622.4 million arising from the partial disposal of an associate, net off accelerated depreciation and impairment with respect to property, plant and equipment of RM61.0 million and RM281.3 million respectively.

2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

Compared to the preceding quarter, the current quarter revenue decreased marginally by RM13.4 million (0.4%) from RM3,257.0 million to RM3,243.6 million mainly due to lower revenue from data services after netting off higher revenue contribution from cellular, internet and multimedia services and recognition of additional USO fund as mentioned in note B1 above. Profit before taxation increased by RM295.3 million (41.8%) from RM706.1 million to RM1,001.4 million mainly due to exceptional gain, improved performance of the cellular segment mitigated by the recognition of accelerated depreciation and impairment with respect to property, plant and equipment as mentioned in note B1 above.

3. PROSPECTS FOR THE CURRENT FINANCIAL YEAR

In line with the Group's effort at streamlining its network and product offerings to be more competitive as well as achieving greater cost efficiency, TM TelCo has been restructured into two Strategic Business Units consisting of TM Wholesale and TM Retail. TM Wholesale will cater to the provisioning of infrastructure network services to local and international licenced operators while TM Retail will focus more on enhancing customer services and the provisioning of core and value added products and services to end-users or consumers in both the business and residential markets.

Supported with the continuing increase in demand and the completion of the Celcom/TM Cellular integration exercise targeted in October 2004, the Group expects stronger revenue growth for mobile, data, broadband and value added services in 2004.

With the government's optimism on an expected GDP growth of more than 6.7% and barring unforeseen circumstances, the Board of Directors is confident that the Group will achieve better operating performance in the second half of 2004.

4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT/PROFIT GUARANTEE

The Group has not provided any profit forecast or profit guarantee in a public document in respect of the financial period ended 30 June 2004.

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PART B: EXPLANATORY NOTES OF BURSA MALAYSIA LISTING REQUIREMENTS — (Continued)

5. TAXATION

The taxation charge for the Group comprises:

	Current year quarter <u>30.6.2004</u> RM	Current year to date <u>30.6.2004</u> RM
Malaysia		
Current year taxation	87.4	240.8
In respect of prior year	(35.0)	(34.3)
Deferred taxation — net.	(14.5)	(19.5)
	37.9	187.0
Overseas		
Current year taxation	0.2	1.0
In respect of prior year	—	(0.8)
Deferred taxation — net.	—	—
	<u>0.2</u>	<u>0.2</u>
	38.1	187.2
Share of taxation of associates	<u>(9.7)</u>	<u>22.4</u>
Total taxation	<u><u>28.4</u></u>	<u><u>209.6</u></u>

The current quarter and financial period to date effective rate of taxation of the Group was lower than the statutory rate due to capital gain on partial disposal of an associate during the quarter, which was not taxable. Higher profit registered by subsidiaries with low or zero tax charge due to utilisation of capital allowances brought forward and tax exemption status also contributed to the lower effective tax rate. Reversal of excess tax provisions for the Company and an associate was another contributing factor.

6. PROFIT ON SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There were no other profit on sale of unquoted investments and/or properties other than in the ordinary course of the Group's business for the financial period ended 30 June 2004.

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PART B: EXPLANATORY NOTES OF BURSA MALAYSIA LISTING REQUIREMENTS — (Continued)

7. PURCHASE AND DISPOSAL OF QUOTED SECURITIES

- (a) Total purchases and disposals of quoted securities for the current quarter and financial period ended 30 June 2004 are as follows:

	Current year quarter 30.6.2004	Current year to date 30.6.2004
	RM	RM
Total purchases	1.1	21.1
Total disposals	15.8	36.8
Total profit on disposal	1.6	7.3

- (b) Total investments in quoted securities as at 30 June 2004 are as follows:

	RM
At cost	262.9
At book value	223.6
At market value	223.6

8. STATUS OF CORPORATE PROPOSALS

There were no corporate proposals announced and not completed as at the date of this announcement.

9. GROUP BORROWINGS AND DEBT SECURITIES

- (a) Group borrowings and debt securities as at 30 June 2004 were as follows:

	Short Term Borrowings	Long Term Borrowings
	RM	RM
Secured	511.1	1,382.0
Unsecured	49.9	9,045.4
Total	561.0	10,427.4

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PART B: EXPLANATORY NOTES OF BURSA MALAYSIA LISTING REQUIREMENTS — (Continued)

9. GROUP BORROWINGS AND DEBT SECURITIES (CONTINUED)

- (b) Foreign currency borrowings and debt securities in Ringgit Malaysia equivalent as at 30 June 2004 were as follows:

<u>Foreign currency</u>	<u>RM</u>
US Dollars	3,995.1
Japanese Yen	825.1
Sri Lanka Rupee	119.2
Bangladesh Taka	26.1
Guinea Franc	18.6
Euro	7.1
Canadian Dollars	4.6
Pound Sterling	1.3
South African Rand	<u>0.2</u>
Total	<u><u>4,997.3</u></u>

10. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

The details and the financial effects of the hedging derivatives that the Group has entered into are described in note 14 to the audited financial statements of the Group for the year ended 31 December 2003. There were no new off balance sheet financial instruments since the last financial year except for the following:

(a) Cross-currency Interest Rate Swap (CCIRS)

On 2 April 2004, the Company restructured the existing USD150.0 million Unsecured Syndicated Term Loan CCIRS as disclosed in note 14(c) to the financial statements for the year ended 31 December 2003. Following the restructuring of the swap, the Company will receive USD150.0 million in return for the payment of JPY17,134.5 million on maturity of the underlying syndicated term loan on 29 June 2007. The restructured swap entitles the Company to receive a floating interest rate of 6-month USD Libor per annum and obliges it to pay interest at a floating rate of 6-month USD Libor-in-arrears minus 1.504%.

(b) Interest Rate Swap (IRS)

Underlying Liability

USD300.0 million 8% Guaranteed Notes due 2010.

In 2000, the Company issued USD300.0 million 8.0% Guaranteed Notes due 2010. The Notes are redeemable in full on 7 December 2010.

Hedging Instrument

On 1 April 2004, the Company entered into an interest rate swap (IRS) agreement with a notional principal of USD150.0 million that entitles it to receive interest at a fixed rate of 8.0% per annum and obliges it to pay interest at a floating rate of 6-month USD Libor-in-arrears plus 5.255%. The swap will mature on 7 December 2006.

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PART B: EXPLANATORY NOTES OF BURSA MALAYSIA LISTING REQUIREMENTS — (Continued)

10. OFF BALANCE SHEET FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest Rate Swap (IRS)

Underlying Liability

USD300.0 million 7.875% Debentures due 2025.

In 1998, the Company issued USD300.0 million 7.875% Debentures due 2025.

Hedging Instrument

On 2 April 2004, the Company entered into an interest rate swap (IRS) agreement with a notional principal of USD150.0 million that entitles it to receive interest at a fixed rate of 7.875% per annum and obliges it to pay interest at a floating rate of 6-month USD Libor-in-arrears plus 5.05%. The swap will mature on 1 August 2006.

(d) Interest Rate Swap (IRS)

Underlying Liability

RM1,000.0 million 5.25% Bonds due 2018.

In 2003, the Company issued RM1,000.0 million 5.25% Bonds due 2018.

Hedging Instrument

On 2 April 2004, the Company entered into an interest rate swap (IRS) agreement with a notional principal of RM200.0 million that entitles it to receive interest at a fixed rate of 5.25% per annum and obliges it to pay interest at a floating rate of 6-month RM Klibor-in-arrears plus 1.78%. The swap will mature on 13 June 2006.

Subsequently, on 22 April 2004, the Company entered into an interest rate swap (IRS) agreement with a notional principal of RM200.0 million that entitles it to receive interest at a fixed rate of 5.25% per annum and obliges it to pay interest at a floating rate of 6-month RM Klibor-in-arrears plus 1.62%. The swap will mature on 13 June 2006.

The accounting policies applied, which remain the same as in the latest audited financial statements, are as follows:

“The financial derivative hedging instruments are used in the Group’s risk management of foreign currency and interest rate exposures of its financial liabilities. Hedge accounting principles are applied for the accounting of the underlying exposures and their hedge instruments. These hedge instruments are not recognised in the financial statements on inception. The underlying foreign currency liabilities are translated at their respective hedged exchange rate, and differential interest receipts and payments arising from interest rate derivative instruments are accrued, so as to match the net differential with the related expenses on the hedge liabilities.

Exchange gains and losses relating to hedge instruments are recognised as a component of finance costs in the Income Statement in the same period as the exchange differences on the underlying hedged items. No amounts are recognised in respect of future periods.”

All hedging instruments are executed with creditworthy financial institutions with a view to limit the credit risk exposure of the Group.

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PART B: EXPLANATORY NOTES OF BURSA MALAYSIA LISTING REQUIREMENTS — (Continued)

11. MATERIAL LITIGATION

There is no change in the status of material litigations since the audited financial statements of the Group for the year ended 31 December 2003 except as disclosed below. Items disclosed in (i) to (q) below were in respect of material litigations of respective companies under Celcom Group.

- (a) Settlement Agreement between MEPS JV and TM was signed on 10 March 2004 and the Court actions were withdrawn on 11 March 2004 with no liberty to file afresh and no order as to costs.

MEPS JV has filed Notice of Discontinuance on 24 March 2004.

- (b) Buying Guide Sdn. Bhd. (BGSB)'s application for Further and Better Particulars against TM and Telekom Publications Sdn. Bhd. (TPSB) has been dismissed by the Assistant Registrar with costs on 13 July 2004.

On 27 July 2004, BGSB filed a Notice of Appeal against the decision. The appeal will be heard before the Judge in Chambers on 25 August 2004.

Meanwhile, TM and TPSB are in the process of preparing the necessary documentary evidence for the purpose of case management for the full hearing of the above suit against BGSB.

- (c) Inmiss Communications Sdn. Bhd. (Inmiss) filed a Notice for Arbitration against Mobikom Sdn. Bhd. (Mobikom) for outstanding payment on Inmiss's share of message tariff revenue including interest charges and other losses amounting to RM29.0 million.

The next course of action on this case is for final submission by Mobikom in respect of its application to reopen the arbitration and thereafter to submit on the claim proper before the Arbitrator. As to date, the Arbitrator has yet to fix a hearing date for the matter.

- (d) On 21 October 2002, TM served a sealed copy of Writ of Summons and Statement of Claim to Business Focus Sdn. Bhd. (Business Focus) to demand a liquidated sum of RM174.7 million together with interests and other cost due to Business Focus's failure to procure a third party to purchase TM's shares in Penang Shipbuilding and Construction Industries Sdn. Bhd. (PSCI) in accordance with the Buy Back Agreement of PSCI shares dated 20 February 1997.

- (i) On 26 April 2004, TM's application for Summary Judgment was heard and the High Court Kuala Lumpur allowed TM's application for Summary Judgement with costs.

- (ii) Business Focus's Notice of Application for Stay of Execution was mentioned on 15 July 2004. The date for the decision on the said application is fixed for 26 August 2004.

- (iii) Business Focus's Notice of Appeal to the Judge in Chambers which was fixed for hearing on 27 July 2004 has been adjourned to 16 September 2004 for the Judge to seek clarification on both parties' written submissions.

- (e) G-Com Limited (G-Com), a subsidiary of TM, filed an application in the High Court of Ghana on 13 June 2002, seeking a declaration that the Extraordinary General Meeting (EGM) held on 3 June 2002 is null and void. On 31 July 2002, the High Court of Ghana dismissed G-Com's application.

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PART B: EXPLANATORY NOTES OF BURSA MALAYSIA LISTING REQUIREMENTS — (Continued)

11. MATERIAL LITIGATION (CONTINUED)

On 25 September 2002, G-Com filed an appeal in the Court of Appeal of Ghana against the decision. The Court of Appeal has yet to fix a hearing date, which is expected to be approximately in the third quarter of 2004.

- (f) TM's interest in Ghana Telecommunications Company Limited (GT) is held through its wholly owned subsidiary, TM International Sdn. Bhd.

On 10 February 2003, TM sent a Notice of Arbitration to the Government of Ghana (GoG) for the commencement of arbitration proceedings under the UNCITRAL Arbitration Rules in accordance with the provisions of the Bilateral Investment Treaty.

The hearing which commenced from 5 July 2004 to 15 July 2004 at the Permanent Court of Arbitration (PCA), The Hague dealt with the issues on jurisdiction and merits of TM's claim. The Tribunal indicated that it would endeavour to deliver its decision on the issues by early September 2004. The Tribunal has also tentatively fixed the hearing on the issues of the quantum of TM's claims and the GoG's counterclaims for 8 November 2004 until 12 November 2004.

- (g) G-Com filed a Writ of Summons and a Statement of Claim at the High Court of Ghana against GT on 24 December 2003 in respect of the EGM and AGM resolutions to approve certain contracts and loans. At the hearing of the injunction application held on 20 April 2004, G-Com withdrew the suit as G-Com's appointed directors had given their consent under protest in accordance with regulations 70(3) of GT Regulations.
- (h) Kabel Pantai Timur Sdn. Bhd. (KPT) suspended the remedial work as per the Contracts resulting in termination of their service under the "Perlaksanaan Projek Rangkaian Tempatan secara JKH for Pahang, Terengganu and Kelantan". TM has requested for the Performance Bond in the form of a Bank Guarantee in view of KPT's failure to rectify the works in accordance with the required specifications. TM has also demanded KPT to return the materials supplied under the Contracts. KPT has challenged the action taken by TM by initiating arbitration proceedings in accordance with the Contracts for RM10.4 million (pleaded) (RM41.1 million — unquantified costs). TM has also filed a counter-claim for RM19.1 million.

In view that the parties involved have agreed to exchange relevant documents in respect of the disputes, the Arbitrator has vacated the hearing date previously set on 24 and 25 June 2004.

The next hearing session is now fixed for 1 September 2004 until 3 September 2004.

- (i) Celcom Timur (Sarawak) Sdn. Bhd. (CTS), a joint venture company between Celcom and Sarawak Electricity Supply Corporation (Sesco) has filed a claim against Celcom, in respect of the lease of fibre optics links for RM102.6 million with interest accruing thereon.

In February 2001, a Summary Judgement in favour of CTS for RM90.6 million with interest was passed by the Kuching High Court.

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PART B: EXPLANATORY NOTES OF BURSA MALAYSIA LISTING REQUIREMENTS — (Continued)

11. MATERIAL LITIGATION (CONTINUED)

On 8 January 2002, Kuching High Court granted Celcom's application for stay of all further proceedings in relation to the disputed non-judgment amount of RM12.0 million pending disposal of the appeal against the Summary Judgment Order and the Conditional Stay Order by the Court of Appeal. Celcom has also made an application to the Kuala Lumpur Court of Appeal (KLCA) to set aside the Summary Judgment. The hearing date for this appeal has yet to be set by the KLCA. In the meantime, CTS has given an undertaking to the KLCA that it will not execute the judgment until the appeal proceedings are completed.

The parties are now pursuing an amicable settlement.

- (j) On 3 August 2001, Sesco applied in the Kuching High Court, for a declaration that the Joint Venture Agreement (JVA) dated 5 May 1994 entered with Celcom in relation to CTS be terminated.

The parties are now pursuing an amicable settlement and Sesco's application to terminate the JVA has been fixed for mention on 23 September 2004.

- (k) Celcom commenced legal action against CTS, Sesco and Dr. Abang Azhari Hadari (Dr. Azhari) seeking various relieves inter-alia an injunction against CTS, Sesco and Dr. Azhari from terminating the JVA dated 5 May 1994.

Celcom's application for an injunction was dismissed by the High Court. Celcom filed an appeal and was subsequently withdrawn. The appeal has now been reinstated. On 25 March 2004 the case was called up for mention. Since the appeal was no longer effective, it was accordingly withdrawn.

The parties are now pursuing an amicable settlement and the matter has been fixed for mention on 23 September 2004.

- (l) Celcom filed a petition pursuant to Section 181 of the Companies Act 1965 in the Kuala Lumpur High Court against Sesco, CTS and 2 others (Respondents). Celcom was seeking for an interim injunction to restrain CTS from filing or proceeding with a winding-up petition for CTS's claim for RM90.6 million and to seek other relieves from the Court.

On 14 June 2001, the Kuala Lumpur High Court made an order restraining Sesco from filing or proceeding with winding-up petition.

The parties are now pursuing an amicable settlement and the Respondent's application to strike out Celcom's petition has been fixed for mention on 21 October 2004.

- (m) A subsidiary of Celcom, Technology Resources Industries Berhad (TRI) had entered into a JVA on 21 January 1995 with Integrated Services Limited (ISL) for the formation of Sheba Telecom (Pvt) Ltd (Sheba).

TRI commenced arbitration proceedings in Singapore to seek various declarations as a result of ISL's breaches of the JVA and to address certain issues alleged by ISL in a legal suit filed by ISL in Bangladesh. ISL has also made a counterclaim amounting to USD218.0 million in the arbitration.

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE ANNOUNCEMENT OF RESULTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2004 — (Continued)
(All amounts are in millions unless otherwise stated)

PART B: EXPLANATORY NOTES OF BURSA MALAYSIA LISTING REQUIREMENTS — (Continued)

11. MATERIAL LITIGATION (CONTINUED)

The arbitration hearing proceeded as scheduled from 19 January 2004 to 30 January 2004. Further hearing which was fixed from 13 May 2004 until 21 May 2004 was vacated as the parties were discussing a settlement proposal. On 15 June 2004, ISL and TRI executed the Settlement Agreement and Escrow Agreement.

- (n) TRI filed a Writ of Summons in the Kuala Lumpur High Court against the Tan Sri Dato' Tajudin Ramli, Bistamam Ramli and Dato' Lim Kheng Yew (Defendants), being former directors of TRI for the recovery of a total sum RM55.8 million which were paid to the Defendants as compensation for loss of office and incentive payment and also the return of two (2) luxury vehicles which were transferred to the first two Defendants.

TRI filed an application for Summary Judgment in respect of RM11.1 million which was fixed for decision/clarification on 12 March 2004.

In the interim, the 1st and 2nd Defendants filed an application to cross-examine Dato' Ramli Abbas which was subsequently dismissed by the Court on 1 October 2003. The said Defendants filed Notice of Appeal and the appeal was fixed for hearing on 27 January 2004. On the said day, the Court has directed that the file be transferred to the Civil Division from the Commercial Division where the suit was filed. The 1st and 2nd Defendants' appeal against the dismissal of the application to cross-examine Dato' Ramli Abbas was heard on 24 June 2004. Consequently, TRI's application for Summary Judgment has been fixed for mention on 30 September 2004.

Decision on the appeal to cross-examine Dato' Ramli Abbas is fixed on 20 September 2004.

- (o) On 10 March 2003, Celcom received a letter from DeTeAsia Holding GmbH (DeTeAsia) informing Celcom that it had initiated arbitration on 10 March 2003 with the Secretariat of the International Court of Arbitration of the International Chamber of Commerce in Paris (ICC) pursuant to Clause 8.6 of the Amended and Restated Agreement.

DeTeAsia is essentially claiming damages for breach of the Amended and Restated Agreement. DeTeAsia is seeking damages in an amount to be calculated by reference to the provisions of Schedule 1 of the Amended and Restated Agreement, together with interest at eight percent (8%) per annum from 16 October 2002 and costs.

The arbitration proceeding was held from 12 July 2004 to 16 July 2004 in Geneva. The parties have been directed to submit the final submission by 8 November 2004.

- (p) Rego Multi-Trades Sdn. Bhd. (109061-T) (Rego), a wholly owned subsidiary of Celcom was on 21 May 2004 served with a notice of demand pursuant to Section 218 Companies Act, 1965 by Lembaga Hasil Dalam Negeri (LHDN Notice).

By the said Notice, LHDN is seeking the sum of RM5.2 million which it claims under a court judgment dated 13 January 2004 (Sum) obtained by the Government of Malaysia vide Kuala Lumpur High Court Civil Suit No. S1-21-2003 (Judgment) and to be paid within 21 days of the receipt of the said Notice. Failing which it would be deemed that Rego is unable to pay its debts and winding-up proceedings would be commenced against Rego.

Rego through its tax consultant had disputed the liability for the alleged tax assessed which the LHDN claims as tax payable for the assessment years of 1986 until 2000 (Current Year Basis).

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE ANNOUNCEMENT OF RESULTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2004 — (Continued)
(All amounts are in millions unless otherwise stated)

PART B: EXPLANATORY NOTES OF BURSA MALAYSIA LISTING REQUIREMENTS — (Continued)

11. MATERIAL LITIGATION (CONTINUED)

Currently, the parties are resolving the dispute amicably. Neither party would take any further court proceedings during the mutual restraint, which will last until 31 August 2004 while LHDN considers the status of Rego's objections against the disputed assessment.

- (q) TRI has received a letter of demand from Malaysian Airlines System Berhad (MAS) for RM16.4 million in respect of two joint venture projects.

A series of meetings were eventually held between MAS and TRI, and on 31 May 2004 the parties have reached an agreement on all outstanding issues. On 29 July 2004, TRI and MAS executed Settlement Agreement. Parties have met their respective obligations under the Settlement Agreement.

Apart from the above, the Directors are not aware of any other proceedings pending against the Company and/or its subsidiaries or of any facts likely to give rise to any proceedings which might materially affect the position or business of the Company and/or its subsidiaries.

12. EARNINGS PER SHARE (EPS)

	Cumulative Quarter	
	Current year to date 30.6.2004	Preceding year corresponding period 30.6.2003
	RM	RM
(a) Basic earnings per share		
Net profit attributable to shareholders	1,459.3	557.5
Weighted average number of ordinary shares (million)	3,312.1	3,171.0
Basic earnings per share (sen)	44.1	17.6
(b) Diluted earnings per share		
Net profit attributable to shareholders	1,459.3	557.5
Weighted average number of ordinary shares (million)	3,312.1	3,171.0
Adjustment for ESOS (million)	27.4	17.3
Weighted average number of ordinary shares (million)	3,339.5	3,188.3
Diluted earnings per share (sen)	43.7	17.5

Fully diluted earnings per share of the Group is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period, adjusted to assume the conversion of dilutive potential ordinary shares.

13. DIVIDEND

For the financial year ending 31 December 2004, the Board on 24 August 2004 declared an interim tax exempt dividend of 10.0 sen per share (2003 : Nil). The dividend will be paid on 18 October 2004 to shareholders whose names appear in the Register of Members and Record of Depositors on 20 September 2004.

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE ANNOUNCEMENT OF RESULTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2004 — (Continued)
(All amounts are in millions unless otherwise stated)

PART B: EXPLANATORY NOTES OF BURSA MALAYSIA LISTING REQUIREMENTS — (Continued)

13. DIVIDEND (CONTINUED)

Moving forward, the Board is pleased to formalise a dividend payout policy of between 20% to 50% of profit attributable to shareholders subject to, inter-alia, the following factors:

- (a) Free cash flow position after taking into consideration capital expenditure funding requirement and debt service obligations,
- (b) Investment opportunities, and
- (c) Availability of tax exempt income or Section 108 tax credits.

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

REPORT OF THE AUDITORS TO THE MEMBERS OF
TELEKOM MALAYSIA BERHAD

We have audited the financial statements set out on pages F-26 to F-209. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with approved Auditing Standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Group and Company as at 31 December 2001 and of the results and cash flows of the Group and Company for the year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of the subsidiary companies of which we have not acted as auditors are indicated in note 41 to the financial statements. We have considered the financial statements of these subsidiary companies and the auditors' reports thereon.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any material qualification and did not include any comment made under subsection (3) of section 174 of the Act.

PRICEWATERHOUSECOOPERS
(AF: 1146)
Chartered Accountants

ABDUL RAHIM HAMID
[904/03/02 (J/PH)]
Partner

Kuala Lumpur
Date: 26 February 2002

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

REPORT OF THE AUDITORS TO THE MEMBERS OF
TELEKOM MALAYSIA BERHAD

We have audited the financial statements set out on pages F-26 to F-209. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with approved Auditing Standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Group and Company as at 31 December 2002 and of the results and cash flows of the Group and Company for the year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of the subsidiary companies of which we have not acted as auditors are indicated in note 41 to the financial statements. We have considered the financial statements of these subsidiary companies and the auditors' reports thereon.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any material qualification and did not include any comment made under subsection (3) of section 174 of the Act.

PRICEWATERHOUSECOOPERS
(AF: 1146)
Chartered Accountants

ABDUL RAHIM HAMID
[904/03/04 (J/PH)]
Partner

Kuala Lumpur
Date: 27 February 2003

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

REPORT OF THE AUDITORS TO THE MEMBERS OF
TELEKOM MALAYSIA BERHAD

We have audited the financial statements set out on pages F-26 to F-209. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with approved Auditing Standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Group and Company as at 31 December 2003 and of the results and cash flows of the Group and Company for the year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of the subsidiary companies of which we have not acted as auditors are indicated in note 41 to the financial statements. We have considered the financial statements of these subsidiary companies and the auditors' reports thereon.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any material qualification and did not include any comment made under subsection (3) of section 174 of the Act

PRICEWATERHOUSECOOPERS
(AF: 1146)
Chartered Accountants

ABDUL RAHIM HAMID
[904/03/04 (J/PH)]
Partner

Kuala Lumpur
Date: 26 February 2004

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

CONSOLIDATED INCOME STATEMENTS
(All amounts are in millions unless otherwise stated)

	Note	For the years ended 31 December,			
		2001	2002	2003	2003
		RM	RM	RM	USD
Operating revenue	3	9,673.2	9,834.1	11,796.4	3,104.3
Operating costs	4	<u>(7,839.3)</u>	<u>(8,115.1)</u>	<u>(10,018.2)</u>	<u>(2,636.4)</u>
Operating profit		1,833.9	1,719.0	1,778.2	467.9
Other operating income	5	<u>137.0</u>	<u>112.5</u>	<u>87.1</u>	<u>22.9</u>
Operating profit before finance cost . .		1,970.9	1,831.5	1,865.3	490.8
Net finance cost	6	(398.9)	(303.9)	(430.0)	(113.1)
Associates					
— share of profits less losses		43.8	42.5	375.2	98.7
— profit on disposal		<u>827.8</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit before taxation		2,443.6	1,570.1	1,810.5	476.4
Taxation					
— the company and subsidiaries . .	7	(569.3)	(454.4)	(253.7)	(66.8)
— share of taxation of associates . .	7	<u>(38.5)</u>	<u>(33.0)</u>	<u>(112.6)</u>	<u>(29.5)</u>
Profit after taxation		1,835.8	1,082.7	1,444.2	380.1
Minority interests		<u>(23.9)</u>	<u>(26.4)</u>	<u>(53.8)</u>	<u>(14.2)</u>
Profit for the year attributable to shareholders		<u>1,811.9</u>	<u>1,056.3</u>	<u>1,390.4</u>	<u>365.9</u>
Earnings per share (sen)					
— basic	8	58.6	33.5	43.6	11.5
— diluted	8	58.4	33.3	43.2	11.4
Proposed dividends per share (sen)					
— final	9	10.0	10.0	10.0	2.6
— special	9	5.0	—	10.0	2.6

The above consolidated income statements are to be read in conjunction with the Significant Accounting Policies on pages F-31 to F-41 and the Notes to the Financial Statements on pages F-42 to F-132.

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

CONSOLIDATED BALANCE SHEETS
(All amounts are in millions unless otherwise stated)

		As at 31 December,				
		2001	2002	2003	2003	
Note		RM	RM	RM	USD	
	Share capital	10	3,103.5	3,167.0	3,250.7	855.4
	Share premium		2,065.0	2,536.5	3,046.4	801.7
	Reserves	11	9,655.4	9,541.8	10,485.3	2,759.3
	Total capital and reserves		14,823.9	15,245.3	16,782.4	4,416.4
	Minority interests		175.8	225.7	245.1	64.5
	Convertible Bonds	12	1,358.2	1,361.6	—	—
	Borrowings	13	5,349.8	4,826.9	10,830.6	2,850.2
	Customers' deposits	15	690.2	704.5	626.9	165.0
	Deferred tax liabilities	16	26.9	56.7	2,031.5	534.6
	Retirement benefits	17	318.7	—	—	—
	Deferred and long term liabilities		7,743.8	6,949.7	13,489.0	3,549.8
			<u>22,743.5</u>	<u>22,420.7</u>	<u>30,516.5</u>	<u>8,030.7</u>
	Intangible assets	18	—	—	4,072.7	1,071.8
	Property, plant and equipment	19	18,926.7	19,566.5	21,605.9	5,685.8
	Associates	20	1,066.5	1,539.0	1,499.6	394.6
	Investments	21	105.5	139.6	384.7	101.2
	Long term receivables	22	657.8	685.4	668.9	176.0
	Deferred tax assets	16	—	—	160.4	42.2
	Inventories	23	153.4	172.5	203.6	53.6
	Trade and other receivables	24	3,735.6	3,592.0	3,835.0	1,009.2
	Short term investments	25	222.5	197.7	263.4	69.3
	Cash and bank balances	26	2,520.1	1,821.0	3,346.1	880.6
	Current assets		6,631.6	5,783.2	7,648.1	2,012.7
	Trade and other payables	27	3,268.5	3,596.7	4,522.0	1,190.0
	Borrowings	13	366.7	1,474.2	877.8	231.0
	Taxation		666.2	222.1	124.0	32.6
	Proposed dividend		343.2	—	—	—
	Current liabilities		4,644.6	5,293.0	5,523.8	1,453.6
	Net current assets		1,987.0	490.2	2,124.3	559.1
			<u>22,743.5</u>	<u>22,420.7</u>	<u>30,516.5</u>	<u>8,030.7</u>

The above consolidated balance sheets are to be read in conjunction with the Significant Accounting Policies on pages F-31 to F-41 and the Notes to the Financial Statements on pages F-42 to F-132.

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(All amounts are in millions unless otherwise stated)

Note	<u>Issued and Fully Paid of RM1 each Special Share*/ Ordinary Shares</u>	<u>Non-distributable</u>		<u>Distributable</u>	
	<u>Share Capital</u>	<u>Share Premium</u>	<u>Exchange Fluctuation Reserves</u>	<u>Retained Profits</u>	<u>Total</u>
	USD	USD	USD	USD	USD
At 1 January 2003					
— as previously reported .	833.4	667.5	(80.8)	2,591.8	4,011.9
— prior year adjustments .	—	—	—	(85.7)	(85.7)
— as restated	833.4	667.5	(80.8)	2,506.1	3,926.2
Exchange fluctuation not recognised in income statement	—	—	28.2	—	28.2
Profit for the year	—	—	—	365.9	365.9
Dividends paid for year ended					
— 31.12.2002	—	—	—	(60.1)	(60.1)
Issue of shares					
— exercise of share options	22.0	134.2	—	—	156.2
At 31 December 2003	<u>855.4</u>	<u>801.7</u>	<u>(52.6)</u>	<u>2,811.9</u>	<u>4,416.4</u>
	<u>Issued and Fully Paid of RM1 each Special Share*/ Ordinary Shares</u>	<u>Non-distributable</u>		<u>Distributable</u>	
	<u>Share Capital</u>	<u>Share Premium</u>	<u>Exchange Fluctuation Reserves</u>	<u>Retained Profits</u>	<u>Total</u>
	RM	RM	RM	RM	RM
At 1 January 2003					
— as previously reported .	3,167.0	2,536.5	(307.1)	9,848.9	15,245.3
— prior year adjustments .	—	—	—	(325.7)	(325.7)
— as restated	3,167.0	2,536.5	(307.1)	9,523.2	14,919.6
Exchange fluctuation not recognised in income statement	—	—	107.2	—	107.2
Profit for the year	—	—	—	1,390.4	1,390.4
Dividends paid for year ended					
— 31.12.2002	—	—	—	(228.4)	(228.4)
Issue of shares					
— exercise of share options	83.7	509.9	—	—	593.6
At 31 December 2003	<u>3,250.7</u>	<u>3,046.4</u>	<u>(199.9)</u>	<u>10,685.2</u>	<u>16,782.4</u>

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY — (Continued)
(All amounts are in millions unless otherwise stated)

	Note	Issued and Fully Paid of RM1 each		Non-distributable	Distributable	Total	
		Special Share*/ Ordinary Shares					
		Number of Shares	Nominal Value RM	Share Premium RM	Exchange Fluctuation Reserves RM	Retained Profits RM	RM
At 1 January 2002							
— as previously reported . . .		3,103.5	3,103.5	2,065.0	(383.2)	10,038.6	14,823.9
— prior year adjustment . . .	40	—	—	—	—	343.2	343.2
— as restated		3,103.5	3,103.5	2,065.0	(383.2)	10,381.8	15,167.1
Goodwill written off		—	—	—	—	(1,247.6)	(1,247.6)
Exchange fluctuation reserves .		—	—	—	76.1	—	76.1
Net loss not recognised in income statement		—	—	—	76.1	(1,247.6)	(1,171.5)
Profit for the year		—	—	—	—	1,056.3	1,056.3
Dividends paid for year ended — 31.12.2001	9	—	—	—	—	(341.6)	(341.6)
Issue of shares — exercise of share options		63.5	63.5	471.5	—	—	535.0
At 31 December 2002		<u>3,167.0</u>	<u>3,167.0</u>	<u>2,536.5</u>	<u>(307.1)</u>	<u>9,848.9</u>	<u>15,245.3</u>
At 1 January 2001		3,087.3	3,087.3	1,940.3	(174.2)	8,569.1	13,422.5
Exchange fluctuation reserves .		—	—	—	(209.0)	—	(209.0)
Net loss not recognised in income statement		—	—	—	(209.0)	—	(209.0)
Profit for the year		—	—	—	—	1,811.9	1,811.9
Dividends paid for year ended — 31.12.2000 (over provision)	9	—	—	—	—	0.8	0.8
— 31.12.2001	9	—	—	—	—	(343.2)	(343.2)
		—	—	—	—	(342.4)	(342.4)
Issue of shares — exercise of share options		16.2	16.2	124.7	—	—	140.9
At 31 December 2001		<u>3,103.5</u>	<u>3,103.5</u>	<u>2,065.0</u>	<u>(383.2)</u>	<u>10,038.6</u>	<u>14,823.9</u>

* Issued and fully paid shares include the Special Rights Redeemable Preference Share (Special Share) of RM1. Refer to note 10 to the financial statements for details of the terms and rights attached to Special Share.

The above consolidated statements of changes in equity are to be read in conjunction with the Significant Accounting Policies on pages F-31 to F-41 and the Notes to the Financial Statements on pages F-42 to F-132.

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

CONSOLIDATED CASH FLOW STATEMENTS
(All amounts are in millions unless otherwise stated)

	Note	For the years ended 31 December,			
		2001	2002	2003	2003
		RM	RM	RM	USD
Cash flows from operating activities .	28	3,283.2	3,223.4	4,662.8	1,227.0
Cash flows used in investing activities	29	(1,688.6)	(4,725.6)	(5,618.4)	(1,478.5)
Cash flows (used in)/from financing activities	30	<u>(1,285.8)</u>	<u>809.8</u>	<u>2,427.3</u>	<u>638.7</u>
Net increase/(decrease) in cash and cash equivalents.		308.8	(692.4)	1,471.7	387.2
Effect of exchange rate changes		(4.4)	(6.7)	(13.4)	(3.4)
Cash and cash equivalents at beginning of the year		<u>2,215.7</u>	<u>2,520.1</u>	<u>1,821.0</u>	<u>479.2</u>
Cash and cash equivalents at end of the year	26	<u><u>2,520.1</u></u>	<u><u>1,821.0</u></u>	<u><u>3,279.3</u></u>	<u><u>863.0</u></u>

The above consolidated cash flow statements are to be read in conjunction with the Significant Accounting Policies on pages F-31 to F-41 and the Notes to the Financial Statements on pages F-42 to F-132.

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements for the years ended 31 December 2001, 2002 and 2003, unless otherwise stated:

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group have been prepared under the historical cost convention except as disclosed in the Significant Accounting Policies below.

The preparation of financial statements in conformity with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Although these estimates are based on Directors' best knowledge of current events and actions, actual results could differ from those estimates.

The financial statements comply with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965. The new applicable approved accounting standards adopted in these financial statements are as follows:

In respect of the year ended 31 December 2002

(i) *Retrospective application*

The Group adopted the following MASB standards which are effective for accounting periods on or after 1 July 2001 and 1 January 2002:

- MASB 19 "Events After Balance Sheet Date"
- MASB 20 "Provisions, Contingent Liabilities and Contingent Assets"
- MASB 22 "Segment Reporting"

Comparatives have been adjusted or extended to take into account the requirements of MASB 19 and 22 as shown in the respective note 40 and 35 to the financial statements. The presentation of Operating Revenue was extended to ensure consistency with Segmental Income as shown in note 3 and note 35 to the financial statements respectively.

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

SIGNIFICANT ACCOUNTING POLICIES — (Continued)

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

In respect of the year ended 31 December 2002 (Continued)

(ii) *Prospective application*

MASB 21 “Business Combination”	The Group has taken advantage of the exemption provided to apply this standard prospectively. Accordingly, business combinations entered into prior to 1 January 2002 have not been restated.
MASB 23 “Impairment of Assets”	This standard does not allow retrospective application.
MASB 24 “Financial Instruments: Disclosure and Presentation”	The Group has taken advantage of the exemption provided to apply this standard prospectively. Accordingly, the following presentation and disclosures have been adopted in these financial statements: <ul style="list-style-type: none">— classification of compound instrument The equity and liability components of convertible bonds have not been reclassified as the bonds were issued prior to 1 January 2002.— comparative As this is the first year application of the standard, as permitted under the standard, no comparative information for the previous year is presented as such information was not readily available.

There are no changes in accounting policy that affect net profit for the year as a result of the adoption of the above standards in the financial statements for the year ended 31 December 2002.

In respect of the year ended 31 December 2003

The new applicable approved accounting standards adopted in the financial statements for the financial year ended 31 December 2003 are as follows:

- MASB 25 “Income Taxes”
- MASB 27 “Borrowing Costs”
- MASB 28 “Discontinuing Operations”
- MASB 29 “Employee Benefits”

In addition to the above, during the year ended 31 December 2003, the Group changed its existing accounting policy with respect to goodwill for fairer presentation in line with current accepted accounting practices, and adopted a new accounting policy with respect to other intangible assets, details of which are described in note 4 of Significant Accounting Policies.

The changes in policies and/or presentation in accordance with the requirements of MASB 25 and MASB 29 adopted during the year ended 31 December 2003 have been reflected in the financial statements.

Other than the above, there were no changes in accounting policies that affect net profit and shareholders’ equity.

TELEKOM MALAYSIA BERHAD
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SIGNIFICANT ACCOUNTING POLICIES — (Continued)

2. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to the end of the year. Subsidiaries are those corporations or other entities (including special purpose entities) in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiaries are consolidated using the acquisition method of accounting whereby the results of the subsidiaries acquired or disposed during the year are included in the Consolidated Income Statement from the date of their acquisition or up to the date of their disposal. The cost of acquisition is the amount of cash paid and the fair value of other purchase consideration at the date of acquisition given by the acquirer, together with directly attributable expenses of the acquisition. At the date of acquisition, the fair value of the subsidiary's net assets is determined and these values are reflected in the consolidated financial statements. The difference between the cost of acquisition over the Group's share of the fair value of identifiable net assets of the subsidiary acquired at the date of acquisition is reflected as goodwill.

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and liabilities of the acquiree. Separate disclosure is made of minority interest.

Inter-company transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with the Group's accounting policies.

The gain or loss on disposal of a subsidiary is the difference between the net disposal proceeds and the Group's share of its net assets together with any balance of goodwill on acquisition occurring on or after 1 January 2002 and exchange differences which were not previously recognised in the Consolidated Income Statement. Goodwill occurring prior to 1 January 2002 which has been charged in full to shareholders' equity is also deducted when determining the gain or loss on disposal of a subsidiary.

3. ASSOCIATES

Associates are corporations or other entities in which the Group exercises significant influence but which it does not control. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not control over those policies. Investments in associates are accounted for in the consolidated financial statements by the equity method of accounting.

Equity accounting involves recognising the Group's share of post acquisition results of the associates in the Consolidated Income Statement and its share of post acquisition movements within reserves in reserves of the Group. The cumulative post acquisition movements are adjusted against the cost of investment and include goodwill on acquisition. Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred or made payments on behalf of the associate.

Where necessary, in applying the equity method, appropriate adjustments are made to the associates' financial statements to ensure consistency with the Group's accounting policies.

4. INTANGIBLE ASSETS

(i) Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable net assets of subsidiaries and associates at the date of acquisition.

TELEKOM MALAYSIA BERHAD
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SIGNIFICANT ACCOUNTING POLICIES — (Continued)

4. INTANGIBLE ASSETS (CONTINUED)

(i) Goodwill (Continued)

In respect of the years ended 31 December 2001 and 2002

Goodwill is written off against reserves in the year of acquisition.

In respect of the year ended 31 December 2003

Goodwill on acquisition occurring on or after 1 January 2002 in respect of a subsidiary is included in the Consolidated Balance Sheet as intangible asset or, if arising in respect of an associate, is included in the cost of investment in associates.

Capitalised goodwill is tested for impairment at least annually, or if events or circumstances occur indicating that an impairment may exist. Impairment of goodwill is charged to Consolidated Income Statement as and when it arises. Impairment of goodwill should not be reversed unless its reversal is due to the effect of a special external event of an exceptional nature.

Goodwill on acquisition occurred prior to 1 January 2002 was written off against reserves in the year of acquisition. Such goodwill has not been retrospectively capitalised and subjected to impairment test as it was impracticable to reinstate.

(ii) Other intangible assets

In respect of the year ended 31 December 2003

On 2 April 2003, the Company incurred expenditure with respect to acquisition of 3G Spectrum licence. The total licence fee payable is capitalised and amortised over the defined period, from the effective date of commercialisation of services, subject to impairment, to the end of the assignment period on a straight line basis, not exceeding a period of 15 years. Intangible assets are not revalued.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

(i) Cost

Cost of telecommunication network comprises expenditure up to and including the last distribution point before customers' premises and includes contractors' charges, materials, direct labour and related overheads. The cost of other property, plant and equipment comprises their purchase cost and any incidental cost of acquisition.

(ii) Depreciation

Freehold land is not depreciated as it has an infinite life. Leasehold land is amortised in equal instalments over the periods of the respective leases. Long term leasehold land has an unexpired lease period of 50 years and above. Other property, plant and equipment are depreciated on a straight line basis to write off the cost of the assets to their residual values over their estimated useful lives.

TELEKOM MALAYSIA BERHAD
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SIGNIFICANT ACCOUNTING POLICIES — (Continued)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(ii) Depreciation (Continued)

The estimated useful lives in years assigned to other property, plant and equipment are as follows:

Telecommunication network	3–20
Movable plant and equipment	5–8
Computer support systems	3–5
Buildings	5–40

Depreciation on property, plant and equipment under construction commences when the property, plant and equipment are ready for their intended use.

In the case of other land mentioned in note 19(a) to the financial statements, pending finalisation with the relevant authorities as to their tenure, amortisation is provided at an estimated amount of RM0.3 million per annum.

(iii) Impairment

Where an indication of impairment exists, the carrying amount of property, plant and equipment are assessed and written down immediately to its recoverable amount. See Significant Accounting Policies on Impairment of Assets.

(iv) Gains or Losses on Disposal

Gains or losses on disposal are determined by comparing proceeds with carrying amount and are included in Income Statement.

(v) Repairs and Maintenance

Repairs and maintenance are charged to the Income Statement during the period in which they are incurred. The costs of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow the Group. These costs are depreciated over the remaining useful life of the related asset.

6. INVESTMENTS

Investments in subsidiaries and associates are stated at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

Investments in International Satellite Organisations, quoted shares within non-current assets and other unquoted shares are stated at cost and allowances for permanent diminution in value is made where, in the opinion of the Directors, there is a decline other than temporary in the value of such investments. Such allowances for permanent diminution in value is recognised as an expense in the period in which the diminution is identified.

Investments in quoted shares within current assets are carried at the lower of cost and market value, determined on an aggregate portfolio basis by category of investment. Cost is derived at on the weighted average basis. Market value is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date. Increase/decrease in the carrying amount of marketable securities are credited/charged to the Income Statement.

TELEKOM MALAYSIA BERHAD
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SIGNIFICANT ACCOUNTING POLICIES — (Continued)

7. IMPAIRMENT OF ASSETS

Property, plant and equipment and other non-current assets, including intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows. The impairment loss is charged to the Income Statement.

8. INVENTORIES

Inventories comprise mainly items held for capital projects and maintenance. Inventories are stated at lower of cost and net realisable value. Cost is determined on a weighted average basis. Net realisable value represents the estimated selling price less all estimated costs to completion. In arriving at net realisable value, due allowance is made for all obsolete and slow moving items.

9. TRADE RECEIVABLES

Trade receivables are carried at anticipated realisable value. Bad debts are written off and specific allowances are made for trade receivables considered to be doubtful of collection. In addition, a general allowance based on a percentage of trade receivables is made to cover possible losses which are not specifically identified.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits and bank overdrafts. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

11. BONDS, NOTES AND DEBENTURES

Bonds, notes and debentures, issued by the Company and special purposes entities are stated at the net proceeds received on issue. The finance costs which represent the difference between the net proceeds and the total amount of the payments of these borrowings are allocated to periods over the term of the borrowings at a constant rate on the carrying amount and are charged to the Income Statement.

For Convertible Bonds issued prior to 1 January 2002, the amount recognised in shareholders' fund in respect of shares issued upon conversion will be the amount at which the liability for the Bonds is stated as at the date of conversion. The excess of the conversion amount over the nominal value of share is treated as share premium. No gain or loss will be recognised on conversion. The Convertible Bonds have been fully redeemed during year ended 31 December 2003.

Interest, dividends, losses and gains relating to a financial instrument, or a component part, classified as a liability is reported within finance cost in the Income Statement.

12. DIVIDENDS TO SHAREHOLDERS OF THE COMPANY

Dividends on ordinary shares are recognised as liabilities when proposed or declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet date but as an appropriation from retained profits. Upon the dividend becoming payable, it will be accounted for as liability.

TELEKOM MALAYSIA BERHAD
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SIGNIFICANT ACCOUNTING POLICIES — (Continued)

13. OPERATING LEASES

Leases of assets where a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on the straight line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way or penalty is recognised as an expenses in the period in which termination takes place.

14. INCOME TAXES

In respect of the years ended 31 December 2001 and 2002

Provision is made for deferred taxation, using the liability method, on all material timing differences except where it is considered reasonably probable that the tax effect of such deferrals will continue in the foreseeable future.

In respect of the year ended 31 December 2003

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and include all taxes based upon the taxable profits, including withholding taxes payable by a foreign subsidiary or associate on distributions of retained earnings to companies in the Group, and real property gains taxes payable on disposal of properties.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unutilised tax losses can be utilised.

Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

15. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group or a present obligation that it is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare circumstances where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

16. REVENUE RECOGNITION

Operating revenue represents revenue earned from the sale of products and rendering of services net of returns, duties, sales discounts and sales taxes paid, after eliminating revenue within the Group. Operating revenue is recognised or accrued at the time of the provision of the products or services.

TELEKOM MALAYSIA BERHAD
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SIGNIFICANT ACCOUNTING POLICIES — (Continued)

16. REVENUE RECOGNITION (CONTINUED)

Dividend income from investment in subsidiaries, associates and other investments is recognised when a right to receive payment is established.

Finance income includes income from deposits with licenced banks, finance companies, other financial institutions and staff loans, is recognised on an accrual basis.

17. RETIREMENT BENEFIT

In respect of the year ended 31 December 2001

The Company had an approved retirement benefit trust fund in respect of the defined retirement benefits for eligible employees under the Telekom Malaysia Retirement Benefit Scheme (“Scheme”). The fund was valued every three years by a professionally qualified independent actuary who will also recommend the rates of contribution payable.

The cost of providing retirement benefits was charged to the Income Statement on a systematic basis, so as to be sufficient to meet the liability of the Scheme over the future working lives of the existing employees.

The Scheme was discontinued with effect from 31 December 2000. The total estimated retirement benefit liabilities over and above the value of assets held in the retirement benefit trust fund are provided for.

With effect from 1 January 2001, contributions towards retirement benefits are made through additional payment to the Employees Provident Fund and are charged to the Income Statement in the period in which they arise.

18. EMPLOYEE BENEFITS

In respect of the year ended 31 December 2003

(i) *Short Term Employee Benefits*

Wages, salaries, paid annual leave and sick leave, bonuses and non monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

(ii) *Contribution to Employees Provident Fund (EPF)*

The Group’s contributions to EPF are charged to the Income Statement in the period to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(iii) *Termination Benefits*

Termination benefits are payable whenever an employee’s employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

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SIGNIFICANT ACCOUNTING POLICIES — (Continued)

18. EMPLOYEE BENEFITS (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

(iv) *Equity Compensation Benefits*

Details of the Company's Employee Share Option Scheme for 2003 are set out in Note 10(e) (2002: Note 10(c); 2001: Note 10(c)) to the financial statements. The Company does not make a charge to the Income Statement in connection with options granted over the ordinary shares of the Company. When share options are exercised, proceeds received net of any transaction costs, are credited to share capital and share premium.

19. FINANCE COST

Cost incurred in connection with financing the construction and installation of property, plant and equipment is capitalised until the property, plant and equipment are ready for their intended use. All other finance cost is charged to the Income Statement.

20. FOREIGN CURRENCY

(i) Foreign Entities

Income Statement of foreign subsidiaries/associates are translated into Ringgit Malaysia at average exchange rates for the period and the balance sheets are translated at the closing rate of exchange prevailing at the balance sheet date. Exchange differences arising from the translation of the foreign subsidiaries/associates financial statement are reflected in the Exchange Fluctuation Reserve in the shareholders' equity. On disposal of the foreign subsidiaries/associates, such translation differences are recognised in the Consolidated Income Statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries/associates are translated at the exchange rate prevailing at the date of transaction.

(ii) Foreign Currency Transactions and Balances

Foreign currency transactions are accounted for at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities are translated at exchange rates prevailing at the balance sheet date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the Income Statement.

All other exchange gains or losses are dealt with through the Income Statement.

TELEKOM MALAYSIA BERHAD
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SIGNIFICANT ACCOUNTING POLICIES — (Continued)

20. FOREIGN CURRENCY (CONTINUED)

(iii) Closing Rates

The principal closing rates (units of Malaysian Ringgit per foreign currency) used in translating significant balances at year end are as follows:

<u>Foreign currency</u>	<u>31.12.2003</u>	<u>31.12.2002</u>	<u>31.12.2001</u>
US Dollar	RM3.80000	RM3.80000	RM3.80000
Japanese Yen	RM0.03539	RM0.03198	RM0.02885
Guinea Franc	RM0.00191	RM0.00193	RM0.00194
Bangladesh Taka	RM0.06501	RM0.06592	RM0.06702
Sri Lanka Rupee	RM0.03946	RM0.03940	RM0.04093
South African Rand	RM0.56929	RM0.44471	RM0.31746
Special Drawing Rights	RM5.64670	RM5.16620	—
Gold Franc Currency	RM1.84470	—	—
Deutsche Mark	—	—	RM1.73060
Canadian Dollar	—	—	RM2.38650
Pound Sterling	—	—	RM5.52558
Thai Baht	—	—	RM0.08595
Ghanaian Cedi	—	—	RM0.00054
Malawi Kwacha	—	—	RM0.05735

21. FINANCIAL INSTRUMENTS

In respect of the years ended 31 December 2002 and 2003

(i) *Description*

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

(ii) *Financial Instruments Recognised on the Balance Sheet*

The particular recognition and measurement method for financial instruments recognised on the balance sheet is disclosed in the individual Significant Accounting Policy statements associated with each item.

TELEKOM MALAYSIA BERHAD
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SIGNIFICANT ACCOUNTING POLICIES — (Continued)

21. FINANCIAL INSTRUMENTS (CONTINUED)

In respect of the years ended 31 December 2002 and 2003 (Continued)

(iii) Financial Instruments Not Recognised on the Balance Sheet

The financial derivative hedging instruments are used in the Group's risk management of foreign currency and interest rate exposures of its financial liabilities. Hedge accounting principles are applied for the accounting of the underlying exposures and their hedge instruments. These hedge instruments are not recognised in the financial statements on inception. The underlying foreign currency liabilities are translated at their respective hedged exchange rate, and differential interest receipts and payments arising from interest rate derivative instruments are accrued, so as to match the net differential with the related expenses on the hedged liabilities.

Exchange gains and losses relating to hedge instruments are recognised as a component of finance costs in the Income Statement in the same period as the exchange differences on the underlying hedged items. No amounts are recognised in respect of future periods.

(iv) Fair Value Estimation for Disclosure Purposes

The fair value of publicly traded financial instruments is based on quoted market prices at the balance sheet date.

In assessing the fair value of non-traded financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices are used if available or other techniques, such as estimated discounted value of future cash flows, are used to determine fair value. In particular, the fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The carrying value for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair value.

TELEKOM MALAYSIA BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts are in millions unless otherwise stated)

1. PRINCIPAL ACTIVITIES

The principal activities of the Company during the years ended 31 December 2001, 2002 and 2003 are the establishment, maintenance and provision of telecommunication and related services under the licence issued by the Minister of Energy, Communications and Multimedia. The principal activities of the subsidiaries are set out in note 41 to the financial statements. There was no significant change in the nature of these activities during the years ended 31 December 2001, 2002 and 2003.

2. SIGNIFICANT ACQUISITION

In respect of the year ended 31 December 2003

As at 1 January 2003, the Group held at 31.25% equity interest in Celcom (Malaysia) Berhad (Celcom). Following shareholders' approval during the Extraordinary General Meeting held on 31 March 2003, the Group acquired additional equity interest of 16.68% in Celcom on 17 April 2003. As a result, Celcom became a subsidiary of the Group with a total shareholding of 47.93%.

The Company's 100% interest in TM Cellular Sdn. Bhd. (TM Cellular) is now held via Celcom by way of share swap for a total consideration of RM1,684.0 million which was satisfied by the issuance of 635,471,698 new Celcom ordinary shares of RM1.00 each at RM2.65 per share to Telekom Enterprise Sdn. Bhd. (TESB), a wholly owned subsidiary of the Company.

The Group subsequently acquired the remaining 52.07% equity interest in Celcom, making it a wholly owned subsidiary.

The cash consideration paid by the Group for the remaining 52.07% in Celcom was undertaken by way of the following transactions:

- On 22 April 2003, TESB acquired an additional 55,000,000 Celcom ordinary shares of RM1.00 each from open market at RM2.715 per share for a total cash consideration amounting to RM149.5 million being 2.1% equity interest.
- On 23 May 2003, the Company (via TESB) undertook a Mandatory General Offer (MGO) for the remaining 1,280,136,722 Celcom ordinary shares of RM1.00 each at RM2.75 per share (Offer Shares) not held by TESB and persons acting in concert with TESB (PAC). On 19 June 2003, the Company and TESB announced that acceptances had been received for more than 90% of the Offer Shares and that TESB would invoke Section 34 of the Securities Commission Act, 1993 (SCA) to compulsorily acquire the remaining Celcom ordinary shares of RM1.00 each at RM2.75 per share not held by TESB and the PAC. As at the close of the MGO on 27 June 2003, TESB and PAC held 98.54% of the issued and paid-up share capital of Celcom. During the same period, the PAC disposed its 28,616,100 Celcom ordinary shares of RM1.00 each at RM2.75 per share of TESB. Total cash consideration for the above was RM3,494.5 million.
- On 1 August 2003, TESB dispatched the notice for the compulsory acquisition of the remaining 38,035,820 Celcom shares under Section 34 of the SCA. As a consequence of the Group's notice for compulsory acquisition, Celcom was delisted from Malaysia Securities Exchange Berhad official list on 15 August 2003. The compulsory acquisition was completed on 29 September 2003. Total cash consideration for the compulsory acquisition was RM104.7 million.

TELEKOM MALAYSIA BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

2. SIGNIFICANT ACQUISITION (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

The terms of the conditional Sale and Purchase Agreement in relation to the acquisition of TM Cellular by Celcom included Celcom's agreement and undertaking to pay to the Company, a sum equivalent to any damages or settlement awarded against Celcom in the form of the equivalent number of shares in Celcom, based on a pre-determined formula, limited to a maximum of 100.0 million shares in Celcom.

Details of net assets acquired, goodwill and cash flow arising from the acquisition were as follows:

	<u>At date of acquisition</u> RM
Property, plant and equipment (note 19 to the financial statements)	3,084.8
Investment in associates	103.5
Inventories	8.7
Trade and other receivables	286.3
Short term investments	2.1
Cash and bank balances (inclusive fixed deposit pledged of RM60.7 million)	890.4
Trade and other payables	(588.0)
Current tax liabilities	(34.2)
Deferred tax liabilities	(238.3)
Customer deposits	(107.1)
Borrowings	<u>(1,954.4)</u>
Fair value of total net assets as at 16 April 2003	1,453.8
Minority interests at 52.07%	(757.0)
Less: Amount accounted for as an associate as at 16 April 2003	<u>(475.4)</u>
Fair value of net assets acquired as at 17 April 2003	221.4
Fair value of additional net assets acquired from 17 April to 27 June 2003 (50.61%)	735.8
Fair value of additional net assets acquired on completion of Compulsory Acquisition (1.46%)	<u>21.2</u>
	978.4
Goodwill (note 18 to the financial statements)	<u>2,814.8</u>
Cost of acquisition (comprising purchase consideration and expenses directly attributable to the acquisition)	<u>3,793.2</u>
Purchase consideration discharged by cash	3,748.7
Expenses directly attributable to the acquisition, paid by cash	44.5
Less: Cash and cash equivalents of subsidiary acquired	<u>(829.7)</u>
Cash outflow of the Group on acquisition (note 29 to the financial statements)	<u>2,963.5</u>
Cash advance of the Company to a subsidiary company for the acquisition (note 29 to the financial statement)	<u><u>3,793.2</u></u>

TELEKOM MALAYSIA BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

2. SIGNIFICANT ACQUISITION (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

The fair value of the net assets are provisional and subject to the matters below which will be finalised upon completion of a review of the net assets fair values, which is currently in progress.

- The fair value of Celcom's telecommunication plant and equipment.
- Taxation liabilities of Celcom had not been agreed with the appropriate tax authorities for many years and work is being carried out to agree on tax assessments prior to the date of acquisition.

The effect of this acquisition on the financial results of the Group during the year is shown below. For ease of comparability, the Group's share of results of Celcom during the period it was an associate, is also disclosed.

	For the year ended 31 December 2003		
	<u>As an associate</u>	<u>As a subsidiary</u>	<u>Total</u>
	RM	RM	RM
Operating revenue	—	1,862.6	1,862.6
Operating costs	—	(1,614.1)	(1,614.1)
Operating profit	—	248.5	248.5
Other operating income	—	13.9	13.9
Operating profit before finance cost	—	262.4	262.4
Net finance cost	—	(67.3)	(67.3)
Share of results of associate	44.2	8.0	52.2
Profit before taxation	44.2	203.1	247.3
Taxation	—	(60.6)	(60.6)
Profit after taxation	44.2	142.5	186.7
Minority interests	—	(24.9)	(24.9)
Less: Group's share of net profit had the Group not acquired the additional 68.75% interest	(44.2)	(44.5)	(88.7)
Profit/(loss) attributable to shareholders . . .	—	73.1	73.1

The effect of this acquisition on the Group's financial position at the year end was as follows:

	As at 31 December 2003 RM
Non-current assets (including goodwill on acquisition of Celcom)	5,658.4
Current assets	1,809.6
Non-current liabilities	(1,852.4)
Current liabilities	(1,160.0)
Group's share of net assets	4,455.6
Less: Amount accounted for as an associate at 16 April 2003	(475.4)
Less: Group's share of profit had the Group not acquired the additional 68.75% interest	(44.5)
Increase in Group net assets	3,935.7

TELEKOM MALAYSIA BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

3. OPERATING REVENUE

	<u>For the year ended 31 December 2001</u> RM
Rentals	
Business.	513.3
Residential.	745.6
Mobile.	<u>349.1</u>
Sub total	<u>1,608.0</u>
Calls/Usage	
Business.	2,866.8
Residential.	2,027.7
Mobile.	<u>1,166.9</u>
Sub total	<u>6,061.4</u>
Others	
Business.	81.7
Residential.	84.3
Mobile.	<u>159.5</u>
Sub total	<u>325.5</u>
Total	
Business.	3,461.8
Residential.	2,857.6
Mobile.	<u>1,675.5</u>
Total fixed line.	<u>7,994.9</u>
Data services	809.6
Internet and multimedia	153.3
Other telecommunication related services	297.8
Non-telecommunication related services	<u>417.6</u>
Non-Telephone	<u>1,678.3</u>
TOTAL OPERATING REVENUE.	<u><u>9,673.2</u></u>

Non-telecommunication related services are mainly from subsidiaries with core business in consultancy, property management, education, printing and publication of telephone directories.

TELEKOM MALAYSIA BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

3. OPERATING REVENUE (CONTINUED)

	For the years ended 31 December,		
	2002	2003	2003
	RM	RM	USD
Rentals			
Business.	650.7	727.5	191.4
Residential.	<u>789.9</u>	<u>854.1</u>	<u>224.8</u>
Sub total	<u>1,440.6</u>	<u>1,581.6</u>	<u>416.2</u>
Calls/Usage			
Business.	2,884.4	2,652.7	698.1
Residential.	<u>1,900.7</u>	<u>1,888.7</u>	<u>497.0</u>
Sub total	<u>4,785.1</u>	<u>4,541.4</u>	<u>1,195.1</u>
Others			
Business.	123.5	70.7	18.6
Residential.	<u>79.6</u>	<u>73.5</u>	<u>19.4</u>
Sub total	<u>203.1</u>	<u>144.2</u>	<u>38.0</u>
Total			
Business.	3,658.6	3,450.9	908.1
Residential.	<u>2,770.2</u>	<u>2,816.3</u>	<u>741.2</u>
Total fixed line.	<u>6,428.8</u>	<u>6,267.2</u>	<u>1,649.3</u>
Data services	812.8	942.0	247.9
Internet and multimedia	394.5	396.5	104.3
Other telecommunication related services	<u>395.4</u>	<u>334.1</u>	<u>87.9</u>
Total fixed line, data, internet and multimedia and other telecommunication related services	<u>8,031.5</u>	<u>7,939.8</u>	<u>2,089.4</u>
Cellular	1,588.9	3,606.3	949.0
Non-telecommunication related services	<u>213.7</u>	<u>250.3</u>	<u>65.9</u>
TOTAL OPERATING REVENUE.	<u><u>9,834.1</u></u>	<u><u>11,796.4</u></u>	<u><u>3,104.3</u></u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

4. OPERATING COSTS

	For the years ended 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Allowance for bad and doubtful debts (net of bad debt recoveries)	869.5	564.4	445.8	117.3
Allowance/(reversal) for diminution in value of quoted investment	20.3	33.7	(49.7)	(13.1)
Allowance for diminution in value of investment in an International Satellite Organisation	12.6	—	—	—
Charges and agencies commissions	215.0	251.9	74.3	19.5
Depreciation of property, plant and equipment (PPE)	2,377.6	2,481.8	3,551.3	934.6
Domestic and international outpayment	1,032.2	1,209.0	1,464.8	385.5
Impairment of PPE	84.3	—	99.2	26.1
Maintenance	326.7	323.9	473.8	124.7
Marketing advertising and promotion	—	—	536.5	141.2
Net loss/(gain) on foreign exchange — realised	1.7	(5.6)	14.7	3.9
Net (gain)/loss on foreign exchange — unrealised	(79.3)	102.3	105.9	27.9
Rental — land and buildings	109.0	102.3	151.2	39.8
Rental — equipment	20.3	11.8	12.1	3.2
Rental — others	89.6	79.6	45.1	11.9
Retirement benefits	60.9*	(20.7)*	—	—
Staff costs	1,216.9	1,307.7	1,411.6	371.5
Staff costs capitalised in PPE	—	—	(60.3)	(15.9)
Supplies and inventories	324.7	342.7	351.9	92.6
Universal Service Provision (USP)	—	230.5	238.7	62.8
Universal Service Obligation (USO) — in respect of prior year	—	—	26.5	6.9
Utilities	167.9	164.0	200.5	52.8
Write off of PPE	9.5	50.9	5.8	1.5
Other operating costs	979.9	884.9	918.5	241.7
Total Operating Costs	7,839.3	8,115.1	10,018.2	2,636.4

* Sub-note (a) is in respect of the years ended 31 December 2001 and 2002 only

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

4. OPERATING COSTS (CONTINUED)

In respect of the year ended 31 December 2001

	<u>For the year ended 31 December 2001</u> RM
Other operating cost include:	
— Audit fee	
— current year	1.1
Directors of the Company	
— fees.	0.3
— remuneration and other enrolments	0.9

- (a) The retirement benefit charge for the current year represents the difference in the total estimated retirement benefit liabilities over the value of assets held in the retirement benefit trust fund.
- (b) In year 2000, the research and development activities were carried out by a division of the Company. Therefore, the research and development cost of RM5.9 million were reflected in the respective category of operating costs. In the current year, the research and development cost was in the form of a grant to a wholly owned subsidiary company.
- (c) Estimated money value of benefits of Directors amounted to RM57,600 for the Group. Estimated money value of benefits of a former Director amounted to RM Nil for the Group.
- (d) Options granted to Executive Directors of the Company pursuant to Employees' Share Option Scheme (ESOS 2) during the year are as follows:

	<u>Granted during the year ended</u>	<u>Unexercised options at year end</u>
	2001	2001
Dato' Dr Md Khir bin Abdul Rahman	200,000	—
Dato' Dr. Abdul Rahim bin Haji Daud.	130,000	130,000

The options were given to these Directors on the same terms and conditions as those offered to other employees of the Company (Note 10(c)).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

4. OPERATING COSTS (CONTINUED)

In respect of the year ended 31 December 2002

	<u>For the year ended 31 December 2002</u> RM
Other operating cost include:	
— Audit fee	
— current year	1.2
Directors of the Company	
— fees.	0.5
— remuneration and other enrolments	1.2

- (a) The Retirement Benefit Scheme was discontinued with effect from 31 December 2000. During the year, the retirement benefit liabilities have been remitted to Employees' Provident Fund. The current year credit represents the excess of the book provision over the actual retirement benefit liabilities and was reversed accordingly.
- (b) Estimate money value of benefits of Directors amounted to RM109,480 for the Group.
- (c) Options granted to Executive Directors of the Company pursuant to Employees' Share Option Scheme (ESOS 3) during the year are as follows:

	<u>Granted during the year ended</u>	<u>Unexercised options at year end</u>
	2002	2002
Dato' Dr Md Khir bin Abdul Rahman	178,000	178,000
Dato' Dr. Abdul Rahim bin Haji Daud.	171,000	171,000

The options were given to these Directors on the same terms and conditions as those offered to other employees of the Company and its subsidiaries (Note 10(c)).

TELEKOM MALAYSIA BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

4. OPERATING COSTS (CONTINUED)

In respect of the year ended 31 December 2003

	For the year ended 31 December 2003	
	RM	USD
Staff costs include:		
— Salaries, allowances, overtime and bonus	1,155.9	304.2
— Contribution to Employees Provident Fund (EPF)	167.3	44.0
— Other employee benefits	86.4	22.7
— Remuneration of Directors of the Company		
— fees	0.8	0.2
— salaries, allowances and bonus	1.0	0.3
— ex-gratia payment	0.1	—
— contribution to EPF	<u>0.1</u>	<u>—</u>
Other operating costs include:		
— Audit fees		
— PricewaterhouseCoopers Malaysia	1.5	0.4
— Others	<u>0.4</u>	<u>0.1</u>

- (a) Estimated money value of benefits of Directors amounted to RM401,364 for the Group.
- (b) Options granted to Executive Directors of the Company pursuant to Employees' Share Option Scheme (ESOS 3) during the year are as follows:

	Granted during the year ended	Unexercised options at year end
	2003	2003
Dato' Dr Md Khir bin Abdul Rahman	—	108,000
Dato' Dr. Abdul Rahim bin Haji Daud	—	103,000

The options were given to these Directors on the same terms and conditions as those offered to other employees of the Company and its subsidiaries (Note 10(e) to the financial statements).

The options were exercised by the Directors on 29 October 2003 and 17 November 2003 respectively. The fair values of shares of the Company at the exercise date was RM9.00 and RM8.40 per share respectively.

	Exercised options during the year ended 31 December,	
	2003 RM	2003 USD
Ordinary share capital at par	0.2	0.1
Share premium	<u>0.8</u>	<u>0.2</u>
Proceeds received on exercise of share options	<u><u>1.0</u></u>	<u><u>0.3</u></u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

5. OTHER OPERATING INCOME

	For the years ended 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Dividend income from quoted shares	2.6	4.0	5.7	1.5
Dividend income from unquoted shares	1.1	1.5	0.7	0.2
Income from investment in International Satellite Organisations	5.4	0.5	—	—
(Loss)/profit on disposal of short term investments	(2.3)	3.8	5.3	1.4
Profit on disposal of investment in an International Satellite Organisation	—	—	9.7	2.5
Profit on partial disposal of subsidiaries	8.7	2.8	—	—
Profit on disposal of property, plant and equipment	26.0	18.2	1.5	0.4
Rental income from buildings	6.0	6.5	2.9	0.8
Rental income from vehicles	1.2	0.1	—	—
Sale of scrap stores	5.0	4.1	3.2	0.8
Others	83.3	71.0	58.1	15.3
	<u>137.0</u>	<u>112.5</u>	<u>87.1</u>	<u>22.9</u>
Total other operating income	<u>137.0</u>	<u>112.5</u>	<u>87.1</u>	<u>22.9</u>

6. NET FINANCE COST

	For the years ended 31 December,						
	2001			2002			
	Foreign RM	Domestic RM	Total RM	Foreign RM	Domestic RM	Islamic Principles RM	Total RM
Finance cost in respect of:							
Borrowings	335.7	161.4	497.1	263.2	91.1	28.0	382.3
Convertible bonds	54.7	—	54.7	54.7	—	—	54.7
Total finance cost	390.4	161.4	551.8	317.9	91.1	28.0	437.0
Finance income	—	(99.3)	(99.3)	—	(49.5)	(22.2)	(71.7)
Net finance cost of the Company	390.4	62.1	452.5	317.9	41.6	5.8	365.3
Finance cost of subsidiaries	5.9	(50.4)	(44.5)	5.8	(53.5)	0.3	(47.4)
Finance income of subsidiaries	(0.8)	(8.3)	(9.1)	(3.9)	(4.7)	(5.4)	(14.0)
Total net finance cost of the Group	<u>395.5</u>	<u>3.4</u>	<u>398.9</u>	<u>319.8</u>	<u>(16.6)</u>	<u>0.7</u>	<u>303.9</u>

TELEKOM MALAYSIA BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

6. NET FINANCE COST (CONTINUED)

	For the year ended 31 December,							
	2003				2003			
	Foreign	Domestic	Islamic	Total	Foreign	Domestic	Islamic	Total
	RM	RM	Principles RM	RM	USD	USD	Principles USD	USD
Finance cost in respect of:								
Borrowings	253.0	148.5	33.8	435.3	66.6	39.1	8.9	114.6
Convertible bonds	32.4	—	—	32.4	8.5	—	—	8.5
Total finance cost	285.4	148.5	33.8	467.7	75.1	39.1	8.9	123.1
Finance income	—	(28.2)	(16.6)	(44.8)	—	(7.4)	(4.4)	(11.8)
Net finance cost of the Company	285.4	120.3	17.2	422.9	75.1	31.7	4.5	111.3
Finance cost of subsidiaries	10.1	(25.3)	64.6	49.4	2.7	(6.7)	17.0	13.0
Finance income of subsidiaries	(6.7)	(25.0)	(10.6)	(42.3)	(1.8)	(6.6)	(2.8)	(11.2)
Total net finance cost of the Group	<u>288.8</u>	<u>70.0</u>	<u>71.2</u>	<u>430.0</u>	<u>76.0</u>	<u>18.4</u>	<u>18.7</u>	<u>113.1</u>

7. TAXATION

	For the years ended 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
The taxation charge for the Group comprise:				
Malaysia				
Current year taxation	551.8	417.9	307.9	81.0
In respect of prior year	0.1	1.2	(93.7)	(24.6)
Deferred taxation — net.	2.5	21.4	59.8	15.7
	<u>554.4</u>	<u>440.5</u>	<u>274.0</u>	<u>72.1</u>
Overseas				
Current year taxation	5.9	0.9	1.6	0.4
In respect of prior year	(0.4)	4.1	(4.5)	(1.2)
Deferred taxation — net.	9.4	8.9	(17.4)	(4.5)
	<u>14.9</u>	<u>13.9</u>	<u>(20.3)</u>	<u>(5.3)</u>
Share of taxation of associates	569.3	454.4	253.7	66.8
	<u>38.5</u>	<u>33.0</u>	<u>112.6</u>	<u>29.5</u>
Total taxation	<u>607.8</u>	<u>487.4</u>	<u>366.3</u>	<u>96.3</u>

TELEKOM MALAYSIA BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

7. TAXATION (CONTINUED)

	<u>For the year ended 31 December,</u>	
	<u>2003</u>	<u>2003</u>
	<u>RM</u>	<u>USD</u>
Current taxation:		
Current year taxation	422.1	111.0
Over accrual in prior years (net)	(98.2)	(25.8)
Deferred taxation:		
Origination and reversal of temporary differences	202.8	53.3
Benefit from previously unrecognised deductible temporary differences and tax losses	(160.4)	(42.2)
	<u>366.3</u>	<u>96.3</u>

The explanation of the relationship between taxation expense and profit before taxation is as follows:

	<u>For the year ended 31 December,</u>	
	<u>2003</u>	<u>2003</u>
	<u>RM</u>	<u>USD</u>
Profit Before Taxation	<u>1,810.5</u>	<u>476.4</u>
Taxation calculated at the applicable Malaysian taxation rate of 28%	506.9	133.4
Tax effects of:		
— Different taxation rates in other countries	6.0	1.6
— Expenses not deductible for taxation purposes	273.2	71.9
— Income not subject to taxation	(132.7)	(34.9)
— Expenses allowed for double deduction	(11.1)	(2.9)
— Previously unrecognised tax deductible temporary differences and tax losses	(160.4)	(42.2)
— Reversal of previously recognised temporary differences due to tax exempt status being granted	(17.4)	(4.8)
Over accrual in prior years (net)	<u>(98.2)</u>	<u>(25.8)</u>
Total taxation	<u>366.3</u>	<u>96.3</u>

In respect of the year ended 31 December 2001

The effective rate of taxation for the Group is lower than the statutory rate principally due to profit on disposal of an associate which was not taxable.

In respect of the year ended 31 December 2002

The effective rate of taxation for the Group is slightly higher than the statutory rate due to losses of certain subsidiaries which for tax purposes were not available for set off against taxable profits of other companies within the Group and certain expenses which were not deductible for tax purposes.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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8. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share of the Group is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares of the Company in issue during the year.

	For the years ended 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Net profit attributable to shareholders	1,811.9	1,056.3	1,390.4	365.9
Weighted average number of ordinary shares in issue (million)	3,091.6	3,155.3	3,188.3	3,188.3
Basic earnings per share (sen)	58.6	33.5	43.6	11.5

Diluted earnings per share

In respect of the year ended 31 December 2001

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. For this purpose, the Convertible Eurobonds due 2004 and ESOS 2, Phase 1 are not included as they are non-dilutive potential ordinary shares for financial year ended 31 December 2001. They are deemed non-dilutive since the respective exercise price is higher than the fair value of the Company's share for the financial year ended 31 December 2001.

For ESOS 2, Phase 2, a calculation is done to determine the number of shares that could have been acquired at market price (determined as the average annual share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the unexercised shares to be added to the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to net profit attributable to shareholders for the share options calculation.

In respect of the year ended 31 December 2002

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. For this purpose, the Convertible Eurobonds due 2004 is not included as it is non-dilutive potential ordinary shares for the financial year ended 31 December 2002. It is deemed non-dilutive since the exercise price is higher than the fair value of the Company's share for the financial year ended 31 December 2002. ESOS 2, Phase 1 and Phase 2 are also not included as they have already expired on 15 April 2002.

For ESOS 3 (new ESOS offered during the year), a calculation is done to determine the number of shares that could have been acquired at market price (determined as the average annual share price of the Company shares) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the unexercised shares to be added to the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to net profit attributable to shareholders for the share options calculation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

8. EARNINGS PER SHARE (CONTINUED)

In respect of the year ended 31 December 2003

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. For this purpose, the Convertible Eurobonds due 2004 was deemed not dilutive for the year up to the date of redemption on 1 August 2003 since the exercise price was higher than the fair value of the Company's share.

For ESOS 3 offered since 2002, a calculation is done to determine the number of shares that could have been acquired at market price (determined as the average annual share price of the Company shares) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the unexercised shares to be added to the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to net profit attributable to shareholders for the share options calculation.

For details of the Employees' Share Option Scheme, please refer to note 10(e) to the financial statements.

	For the years ended 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Net profit attributable to shareholders	1,811.9	1,056.3	1,390.4	365.9
Weighted average number of ordinary shares in issue (million)	3,091.6	3,155.3	3,188.3	3,188.3
Adjustment for ESOS 3 (million)	—	19.5	31.0	31.0
Adjustment for ESOS 2, Phase 2 (million)	11.3	—	—	—
Weighted average number of ordinary shares for diluted earnings per share (million)	3,102.9	3,174.8	3,219.3	3,219.3
Diluted earnings per share (sen)	58.4	33.3	43.2	11.4

9. DIVIDENDS IN RESPECT OF ORDINARY SHARES

In respect of the year ended 31 December 2001

	2001
	RM
Proposed final gross dividend of 10.0 sen per share less tax of 28%	228.8
Proposed special gross dividend of 5.0 sen per share less tax of 28%.	114.4
Dividend over provided in respect of prior year	(0.8)
	<u>342.4</u>

In respect of the year ended 31 December 2002

	2002
	RM
Final gross dividend of 10.0 sen per share less tax of 28% for 2001/2000.	227.7
Special gross dividend of 5.0 sen per share less tax of 28% for 2001.	113.9
Total dividends	<u>341.6</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

9. DIVIDENDS IN RESPECT OF ORDINARY SHARES (CONTINUED)

In respect of the year ended 31 December 2002 (Continued)

At the forthcoming Annual General Meeting on 20 May 2003, a final gross dividend of 10.0 sen per share less tax of 28% amounting to RM228.0 million will be proposed for shareholders' approval. These financial statements do not reflect this final dividend which will only be accrued as a liability when approved by shareholders. This represents a change in accounting treatment from that of prior years as explained in note 40 to the financial statements.

In respect of the year ended 31 December 2003

Dividends proposed in respect of ordinary shares of the Company for the year are as follows:

	For the years ended 31 December			
	2003		2003	
	Gross dividend per share	Amount dividend, net of 28% tax	Gross dividend per share	Amount of dividend, net of 28% tax
	Sen	RM	Cent	USD
Final dividends:				
— proposed final gross dividend	10.0	234.1	2.6	61.6
— proposed special gross dividend	10.0	234.1	2.6	61.6
Total dividends proposed/paid.	20.0	468.2	5.2	123.2

At the forthcoming Annual General Meeting on 18 May 2004, a final gross dividend of 10.0 sen per share less tax of 28% amounting to RM234.1 million and a special gross dividend of 10.0 sen per share less tax of 28% amounting to RM234.1 million will be proposed for shareholders' approval. These financial statements do not reflect this final dividend which will only be accrued as a liability when approved by shareholders.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

10. SHARE CAPITAL

	As at 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Authorised:				
(a) Ordinary shares of RM1 each	5,000.0	5,000.0	5,000.0	1,315.8
Special share of RM1 #	—	—	—	—
Class A Redeemable Preference Shares of RM10*	—	—	—	—
Class B Redeemable Preference Shares of RM10*	—	—	—	—
(b) Issued and fully paid:				
Ordinary shares of RM1 each				
At 1 January	3,103.5	3,167.0	3,167.0	833.4
Exercise of share options	—	—	83.7	22.0
At 31 December	<u>3,103.5</u>	<u>3,167.0</u>	<u>3,250.7</u>	<u>855.4</u>
Special share of RM1#				
At 1 January and 31 December	—	—	—	—
Total issued and fully paid-up share capital . . .	<u>3,103.5</u>	<u>3,167.0</u>	<u>3,250.7</u>	<u>855.4</u>

Sub-note (a) is in respect of years ended 31 December 2001, 2002 and 2003

* Sub-note (b) is in respect of year ended 31 December 2003 only

In respect of the year ended 31 December 2001

(a) The Special Rights Redeemable Preference Share (Special Share) of RM1 would enable the Government through the Minister of Finance to ensure that certain major decisions affecting the operations of the Company are consistent with the Government's policy. The Special Shareholder, which may only be the Government or any representative or person acting on its behalf, is entitled to receive notices of meetings but does not carry any right to vote at such meetings of the Company. However, the Special Shareholder is entitled to attend and speak at such meetings.

Certain matters, in particular, the alteration of the Articles of Association of the Company relating to the rights of the Special Shareholder, the dissolution of the Company, any substantial acquisitions and disposal of assets, amalgamation, merger and takeover, require the prior consent of the Special Shareholder.

The Special Shareholder has the right to require the Company to redeem the Special Share at par at any time. In a distribution of capital in a winding up of the Company, the Special Shareholder is entitled to the repayment of the capital paid-up on the Special Share in priority to any repayment of capital to any other member. The Special Share does not confer any right to participate in the capital or profits of the Company.

(b) During the year, the issued and fully paid up share capital of the Company was increased by the issuance of 1,520,500 and 14,656,000 ordinary shares of RM1 each at the option price of RM10.50 and RM8.53 per share respectively for cash under ESOS 2. These shares rank "pari-passu" in all respects with the existing issued ordinary shares of the Company.

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10. SHARE CAPITAL (CONTINUED)

In respect of the year ended 31 December 2001 (Continued)

- (c) The Employees' Share Option Scheme 2 (ESOS 2) was approved by the shareholders at an Extraordinary General Meeting held on 28 March 1997. On 6 October 1997, options to subscribe for 2,782,000 and 217,704,000 ordinary shares of RM1 each at the exercise price of RM7.80 and RM10.50 per share respectively were granted to eligible Executives and Non-Executives (referred to as ESOS 2, phase 1). The unexercised options with exercise price of RM7.80 per share has lapsed in November 1999.

On 31 July 2001, options to subscribe for 89,536,000 ordinary shares of RM1 each under ESOS 2 were granted to eligible Executives and Non-Executives of the Company at an exercise price of RM8.53 per share (referred to as ESOS 2, phase 2).

The movement during the year in the number of options over the ordinary shares of RM1 each of the Company are as follows:

	For the year ended 31 December 2001	
	ESOS 2	
	Phase 2 Million	Phase 1 Million
The Company		
At 1 January	—	128.6
Offered	89.5	—
Exercised (sub-note b)	(14.7)	(1.5)
Lapsed	—	—
	74.8	127.1

At 31 December 2001, the options to subscribe for 127,080,000 and 74,827,000 ordinary shares of RM1 each at the option price of RM10.50 and RM8.53 per share respectively under ESOS 2 remained unexercised. These options remain in force until 15 April 2002. These options granted do not confer any right to participate in any share issue of any other company.

In respect of the year ended 31 December 2002

- (a) The Special Rights Redeemable Preference Share (Special Share) of RM1 would enable the Government through the Minister of Finance to ensure that certain major decisions affecting the operations of the Company are consistent with the Government's policy. The Special Shareholder, which may only be the Government or any representative or person acting on its behalf, is entitled to receive notices of meetings but does not carry any right to vote at such meetings of the Company. However, the Special Shareholder is entitled to attend and speak at such meetings.

Certain matters, in particular, the alteration of the Articles of Association of the Company relating to the rights of the Special Shareholder, the dissolution of the Company, any substantial acquisitions and disposal of assets, amalgamation, merger and takeover, require the prior consent of the Special Shareholder.

The Special Shareholder has the right to require the Company to redeem the Special Share at par at any time. In a distribution of capital in a winding up of the Company, the Special Shareholder is entitled to the repayment of the capital paid-up on the Special Share in priority to any repayment of capital to any other member. The Special Share does not confer any right to participate in the capital or profits of the Company.

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10. SHARE CAPITAL (CONTINUED)

In respect of the year ended 31 December 2002 (Continued)

- (b) During the year, the issued and fully paid up share capital of the Company was increased by the issuance of 57,500, 58,785,500 and 4,658,000 ordinary shares of RM1 each at the option price of RM10.50, RM8.53 and RM7.09 per share respectively for cash under ESOS 2 and ESOS 3 respectively. These shares rank “pari-passu” in all respects with the existing issued ordinary shares of the Company.
- (c) An Employees’ Share Option Scheme 2 (ESOS 2) was approved by the shareholders at an Extraordinary General Meeting held on 28 March 1997. In that year, options to subscribe for 217,704,000 ordinary shares of RM1 each at the exercise price of RM10.50 per share were granted to eligible Executives and Non-Executives of the Company (referred to as ESOS 2, phase 1).

On 31 July 2001, options to subscribe for 89,536,000 ordinary shares of RM1 each under ESOS 2 were granted to eligible Executives and Non-Executives of the Company at an exercise price of RM8.53 per share (referred to as ESOS 2, phase 2). ESOS 2, phase 1 and phase 2 lapsed on 15 April 2002.

A new Employees’ Share Option Scheme 3 (ESOS 3) was approved by the shareholders at an Extraordinary General Meeting held on 21 May 2002. On 1 August 2002, options to subscribe for 259,014,000 ordinary shares of RM1 each under ESOS 3 were granted to eligible Executives and Non-Executives of the Company and its subsidiaries at an exercise price of RM7.09 per share.

The movement during the year in the number of options over the ordinary shares of RM1 each of the Company are as follows:

	For the year ended 31 December 2002		
	ESOS 2		ESOS 3
	Phase 2 Million	Phase 1 Million	Million
The Company			
At 1 January	74.8	127.1	—
Offered	—	—	259.0
Exercised (sub-note b)	(58.8)	—	(4.7)
Lapsed	(16.0)	(127.1)	(0.1)
	—	—	254.2

At 31 December 2002, the options to subscribe for 254,208,000 ordinary shares of RM1 each at the option price of RM7.09 per share under ESOS 3 remained unexercised. These options remain in force until 31 July 2007. These options granted do not confer any right to participate in any share issue of any other company.

In respect of the year ended 31 December 2003

- (a) The Special Rights Redeemable Preference Share (Special Share) of RM1 would enable the Government through the Minister of Finance to ensure that certain major decisions affecting the operations of the Company are consistent with the Government’s policy. The Special Shareholder, which may only be the Government or any representative or person acting on its behalf, is entitled to receive notices of meetings but does not carry any right to vote at such meetings of the Company. However, the Special Shareholder is entitled to attend and speak at such meetings.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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10. SHARE CAPITAL (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

Certain matters, in particular, the alteration of the Articles of Association of the Company relating to the rights of the Special Shareholder, the dissolution of the Company, any substantial acquisitions and disposal of assets, amalgamation, merger and takeover, require the prior consent of the Special Shareholder.

The Special Shareholder has the right to require the Company to redeem the Special Share at par at any time. In a distribution of capital in a winding up of the Company, the Special Shareholder is entitled to the repayment of the capital paid-up on the Special Share in priority to any repayment of capital to any other member. The Special Share does not confer any right to participate in the capital or profits of the Company.

- (b) On 31 March 2003, the authorised share capital of the Company has been increased to include 1,000 Class A Redeemable Preference Shares of RM0.01 each and 1,000 Class B Redeemable Preference Shares of RM0.01 each.
- (c) During the year, the issued and fully paid-up share capital of the Company was increased by the issuance of 83,725,000 ordinary shares of RM1 each at the option price of RM7.09 per share for cash under ESOS 3. These shares rank “pari-passu” in all respects with the existing issued ordinary shares of the Company.
- (d) On 12 December 2003, the Company issued for cash 1,000 Class A Redeemable Preference Shares (RPS) (TM RPS A) and 1,000 Class a RPS (TM RPS A) to Rebung Utama Sdn. Bhd. (RUSB), a special purpose entity of the Company, at a premium of RM0.99 each over the par value of RM0.01 each.

TM RPS A and TM RPS B rank pari-passu amongst themselves but below the Special Share and ahead of the ordinary shares of the Company in a distribution of capital in the event of the winding up or liquidation of the Company. TM RPS A and TM RPS B have been classified as liabilities.

The details of TM RPS A and TM RPS B are set out in Note 12(a) to the unconsolidated financial statements.

- (e) Employees’ Share Option Scheme

The existing Employees’ Share Option Scheme 3 (ESOS 3) was approved by the shareholders at an Extraordinary General Meeting held on 21 May 2002. On 1 August 2002, options to subscribe for 259,042,000 ordinary shares of RM1 each under ESOS 3 were granted to eligible Executives and Non-Executives of the Company and its subsidiaries at an exercise price of RM7.09 per share.

The principal features of ESOS 3 are as follows:

- (i) The eligibility for participation in ESOS is at the discretion of the Option Committee appointed by the Board of Directors.
- (ii) The total number of shares to be offered shall not exceed 10% of the total issued and paid up shares of the Company.
- (iii) No option shall be granted for less than 1,000 shares nor more than 550,000 shares unless so adjusted pursuant to item (vi) below.

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10. SHARE CAPITAL (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

- (iv) The subscription price of each RM1 share shall be the average of the middle market quotation of the shares as shown in the daily official list issued by the Malaysia Securities Exchange Berhad for the five (5) trading days preceding the date of offer with a 10% discount.
- (v) Subject to item (vi) below, an employee may exercise his options subject to the following limits:

<u>Number of options granted</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Below 20,000	100	—	—	—	—
20,000–99,999	*40	30	**30	—	—
100,000 and above	20	20	20	20	20

* 40% or 20,000 options, whichever is higher
** 30% or the remaining number of options unexercised

- (vi) In the event of any alteration in capital structure of the Company during the option period which expires on 31 July 2007, such corresponding alterations shall be made in:
- (i) the number of new shares in relation to ESOS so far as unexercised;
- (ii) and/or the subscription price.

The movement during the year in the number of options over the ordinary shares of RM1 each of the Company are as follows:

	2003
	ESOS 3
	Million
The Company	
At 1 January	254.2
Exercised (sub-note c)	(83.7)
Lapsed #	—
	170.5

Less than 0.1 million

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10. SHARE CAPITAL (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

At 31 December 2003, options to subscribe for 170,456,000 (2002: 254,208,000) ordinary shares of RM1 each at the option price of RM7.09 per share under ESOS 3 remained unexercised. These options remain in force until 31 July 2007. These options granted do not confer any right to participate in any share issue of any other company.

Exercise date	Fair value of shares at share issue date RM/share	Exercise price RM/share	Number of shares issued 2003 Million
January to May 2002	9.15–9.80	8.53	—
June to August 2002	8.00–8.25	7.09	—
September to December 2002	7.40–7.50	7.09	—
January to May 2003	7.30–7.85	7.09	4.8
June to July 2003	7.95–8.05	7.09	19.9
August to September 2003	7.70–7.75	7.09	9.2
October to December 2003	8.25–8.60	7.09	49.8
			<u>83.7</u>
			For the year ended 31 December 2003
		RM	USD
Ordinary share capital			
— at par (RM million)		83.7	22.0
Share premium (RM million)		<u>509.9</u>	<u>134.2</u>
Proceeds received on exercise of share options (RM million)		<u>593.6</u>	<u>156.2</u>
Fair value at exercise date of shares issued (RM million) . . .		<u>688.2</u>	<u>181.1</u>

The fair value of shares issued on the exercise of options is the mean market price at which the Company's share were traded on the Malaysia Securities Exchange Berhad on the day prior to the exercise of the options.

11. RESERVES

	As at 31 December,			
	2001 RM	2002 RM	2003 RM	2003 USD
Retained profits	10,038.6	9,848.9	10,685.2	2,811.9
Exchange Fluctuation Reserves arising from translation of foreign subsidiaries/ associates	<u>(383.2)</u>	<u>(307.1)</u>	<u>(199.9)</u>	<u>(52.6)</u>
Total reserves	<u>9,655.4</u>	<u>9,541.8</u>	<u>10,485.3</u>	<u>2,759.3</u>

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12. CONVERTIBLE BONDS

- (a) Convertible Bonds represent USD359.9 million (2001: USD359.9 million; 2002: USD359.9 million) Convertible Eurobonds due 2004 which have been fully redeemed on 1 August 2003.
- (b) The principle features of the Eurobonds were as follows:
- (i) Unless previously redeemed or purchased and cancelled, the Bonds are convertible on or after 3 November 1994 up to and including 26 September 2004 into fully paid ordinary shares of RM1 each of the Company at an initial conversion price of RM15.60 per ordinary share and with a fixed rate of exchange on conversion of RM2.5553 equals USD1.
 - (ii) Unless previously redeemed, purchased and cancelled or converted, each Bond will be redeemed on 3 October 2004 at its principal amount together with accrued interest. The Bonds may also be redeemed, in whole or in part, by the Company at any time on or after 21 October 1999 at their principal amount, plus accrued interest.
 - (iii) The Bonds bear interest rate of 4% per annum payable semi-annually in arrears in equal instalments on 31 March and 30 September in each year during the tenure and on the date of maturity. Any Bonds converted will cease to carry interest as from the last interest payment date immediately preceding the date of conversion.
 - (iv) The Bonds constitute, subject to the negative pledge, unsecured obligations of the Company.

In respect of the years ended 31 December 2001 and 2002

- (c) None of the remaining Bonds have been redeemed, purchased or cancelled during the year.

13. BORROWINGS

	As at 31 December,							
	2001				2002			
	Weighted average rate of finance %	Long term RM	Short term RM	Total RM	Weighted average rate of finance %	Long term RM	Short term RM	Total RM
DOMESTIC								
Secured								
— Cagamas loans (sub-note a) . . .	6.65	100.4	2.7	103.1	6.65	91.7	3.3	95.0
Unsecured								
— Borrowings from financial institutions . . .	4.42	686.4	349.3	1,035.7	3.92	627.6	659.4	1,287.0
— Borrowings under Islamic Banking facilities	5.69	489.0	6.6	495.6	5.56	689.0	7.3	696.3
	4.83	1,175.4	355.9	1,531.3	4.49	1,316.6	666.7	1,983.3
Total domestic . .	4.95	1,275.8	358.6	1,634.4	4.59	1,408.3	670.0	2,078.3

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

13. BORROWINGS (CONTINUED)

	As at 31 December,							
	2001			2002				
	Weighted average rate of finance %	Long term RM	Short term RM	Total RM	Weighted average rate of finance %	Long term RM	Short term RM	Total RM
FOREIGN								
Secured								
— Borrowings from financial institutions (sub-note b) . .	6.54	67.7	—	67.7	5.99	85.1	12.0	97.1
— Other borrowings (sub-note b) . .	3.83	8.4	6.2	14.6	2.95	2.7	5.7	8.4
	6.06	76.1	6.2	82.3	5.75	87.8	17.7	105.5
Unsecured								
— Notes and debentures (sub-note c) . .	7.32	2,623.0	—	2,623.0	7.28	2,643.0	—	2,643.0
— Borrowings from financial institutions . . .	5.48	1,343.1	—	1,343.1	3.08	644.4	780.8	1,425.2
— Other borrowings . . .	5.26	31.8	1.9	33.7	4.18	43.4	5.7	49.1
	6.69	3,997.9	1.9	3,999.8	5.79	3,330.8	786.5	4,117.3
Total foreign . . .	6.67	4,074.0	8.1	4,082.1	5.79	3,418.6	804.2	4,222.8
Total borrowings . . .	6.18	5,349.8	366.7	5,716.5	5.39	4,826.9	1,474.2	6,301.1

The Group's long term borrowings are repayable as follows:

	As at 31 December,					
	2001			2002		
	Domestic RM	Foreign RM	Total RM	Domestic RM	Foreign RM	Total RM
After one year and up to five years	467.5	1,627.1	2,094.6	641.5	858.8	1,500.3
After five years and up to ten years	284.5	1,702.8	1,987.3	243.0	1,796.5	2,039.5
After ten years and up to fifteen years . .	—	1.5	1.5	—	20.2	20.2
After fifteen years (sub-note d) . .	523.8	742.6	1,266.4	523.8	743.1	1,266.9
	1,275.8	4,074.0	5,349.8	1,408.3	3,418.6	4,826.9

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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13. BORROWINGS (CONTINUED)

	As at 31 December,							
	2003				2003			
	Weighted average rate of finance %	Long term RM	Short term RM	Total RM	Weighted average rate of finance %	Long term USD	Short term USD	Total USD
DOMESTIC								
Secured								
— Cagamas loans (sub-note a)	6.61	84.7	1.6	86.3	6.61	22.3	0.4	22.7
— Borrowings from financial institutions (sub-note b)	5.55	325.0	227.5	552.5	5.55	85.5	59.9	145.4
— Borrowings under Islamic facilities (sub-note b)	7.62	1,254.4	35.0	1,289.4	7.62	330.1	9.2	339.3
	6.98	1,664.1	264.1	1,928.2	6.98	437.9	69.5	507.4
Unsecured								
— Redeemable bonds	5.88	3,000.0	—	3,000.0	5.88	789.5	—	789.5
— Borrowings from financial institutions	3.85	553.9	518.7	1,072.6	3.85	145.8	136.5	282.3
— Borrowings under Islamic banking facilities	5.16	689.0	12.8	701.8	5.16	181.3	3.4	184.7
— Bank overdrafts (sub-note e)	6.50	—	3.0	3.0	6.50	—	0.8	0.8
	5.32	4,242.9	534.5	4,777.4	5.32	1,116.6	140.7	1,257.3
Total domestic	5.80	5,907.0	798.6	6,705.6	5.80	1,554.5	210.2	1,764.7

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13. BORROWINGS (CONTINUED)

	As at 31 December,							
	2003				2003			
	Weighted average rate of finance %	Long term RM	Short term RM	Total RM	Weighted average rate of finance %	Long term USD	Short term USD	Total USD
FOREIGN								
Secured								
— Borrowings from financial institutions (sub-note c) . . .	5.04	106.4	36.6	143.0	5.04	28.0	9.6	37.6
— Other borrowings . . .	2.61	—	2.4	2.4	2.61	—	0.6	0.6
	<u>5.00</u>	<u>106.4</u>	<u>39.0</u>	<u>145.4</u>	<u>5.00</u>	<u>28.0</u>	<u>10.2</u>	<u>38.2</u>
Unsecured								
— Notes and debentures (sub-note d) . . .	6.87	2,665.0	—	2,665.0	6.87	701.3	—	701.3
— Borrowings from financial institutions . . .	2.05	2,096.7	32.2	2,128.9	2.05	551.8	8.5	560.3
— Other borrowings . . .	4.44	55.5	4.9	60.4	4.44	14.6	1.3	15.9
— Bank overdrafts (sub-note e)	10.00	—	3.1	3.1	10.00	—	0.8	0.8
	<u>4.73</u>	<u>4,817.2</u>	<u>40.2</u>	<u>4,857.4</u>	<u>4.73</u>	<u>1,267.7</u>	<u>10.6</u>	<u>1,278.3</u>
Total foreign . . .	<u>4.74</u>	<u>4,923.6</u>	<u>79.2</u>	<u>5,002.8</u>	<u>4.74</u>	<u>1,295.7</u>	<u>20.8</u>	<u>1,316.5</u>
Total borrowings	<u>5.35</u>	<u>10,830.6</u>	<u>877.8</u>	<u>11,708.4</u>	<u>5.35</u>	<u>2,850.2</u>	<u>231.0</u>	<u>3,081.2</u>

The Group's long term borrowings are repayable as follows:

	As at 31 December,					
	2003			2003		
	Domestic RM	Foreign RM	Total RM	Domestic USD	Foreign USD	Total USD
After one year and up to five years	2,383.2	2,919.9	5,303.1	627.2	768.4	1,395.6
After five years and up to ten years	2,000.0	1,240.2	3,240.2	526.3	326.4	852.7
After ten years and up to fifteen years	1,000.0	19.8	1,019.8	263.2	5.2	268.4
After fifteen years (sub-note f)	523.8	743.7	1,267.5	137.8	195.7	333.5
	<u>5,907.0</u>	<u>4,923.6</u>	<u>10,830.6</u>	<u>1,554.5</u>	<u>1,295.7</u>	<u>2,850.2</u>

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13. BORROWINGS (CONTINUED)

The currency exposure profile of borrowings as at 31 December 2002 and 2003 is as follows:

	As at 31 December,		
	2002	2003	2003
	RM	RM	USD
— Ringgit Malaysia	2,078.3	6,705.6	1,764.7
— US Dollar	3,345.8	4,021.6	1,058.3
— Japanese Yen	757.2	828.4	218.0
— Other currencies	119.8	152.8	40.2
	6,301.1	11,708.4	3,081.2

In respect of the year ended 31 December 2001

- (a) This represents borrowings from Cagamas Berhad secured by way of assignment of the titles of properties relating to staff housing loans.
- (b) Secured by way of fixed and floating charge on property, plant and equipment of certain subsidiaries (note 19 to the financial statements).
- (c) Consists of USD200.0 million 7.125% Notes due 2005, USD300.0 million 7.875% Debentures due 2025 and USD300.0 million 8.0% Guaranteed Notes due 2010. This Guaranteed Floating Rate Notes with interest in 2001 ranged from 7.04% to 9.02% was prepaid in 2001.
- (d) The Group has the option to prepay the total domestic loan outstanding of RM523.8 million in 2004.
- (e) Long Dated Swap

Underlying Liability

USD300.0 million 7.875% Debentures Due 2025

In 1998, the Company entered into a long dated swap, which will mature on 1 August 2025.

Hedging Instrument

The Company made a payment of USD5.0 million and is obliged to pay fixed amounts of JPY209.9 million semi-annually on each 1 February and 1 August, up to and including 1 August 2025.

Prior to 1 February 2004, the counter-party is not obliged to agree to any request by the Company to terminate the transaction. Commencing from 1 February 2004, the Company has the right to terminate the transaction at a rate mutually agreed with the counter-party. However, the Company intends to hold the contract to maturity.

On 1 August 2025, the Company will receive RM750.0 million from the counter-party. These proceeds will be swapped for USD300.0 million at a pre-determined exchange rate of RM2.5 to USD1.0, which will be used for the repayment of the USD300.0 million 7.875% redeemable unsecured Debentures. The effect of this transaction is to effectively build up a sinking fund with an assured value of USD300.0 million on 1 August 2025 for the repayment of the Debentures.

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13. BORROWINGS (CONTINUED)

In respect of the year ended 31 December 2001 (Continued)

(f) Cross-currency Interest Rate Swap (CCIRS)

Underlying Liability

USD200.0 million 7.125% Notes Due 2005

In 1995, the Company issued USD200.0 million 7.125% Notes due 2005. The Notes are redeemable in full on 1 August 2005.

Hedging Instrument

In 1999, the Company entered into a CCIRS, on a USD50.0 million tranche of the above Notes, for the period from 5 March 1999 to 1 August 2005. The effect of the transaction is to convert USD50.0 million of the fixed rate Notes to a fixed rate JPY liability of 1.25% per annum with a premium on redemption. The premium on the redemption of the JPY leg is dependent on the USD/JPY exchange rate on the date of maturity, nevertheless the final redemption amount is range bound between a minimum of JPY6,080.0 million plus coupon repayment of maximum JPY1,520.0 million.

The Company has recognised the maximum coupon repayment based on a constant rate of return over the life of the instrument with the assumption of the final redemption amount being the maximum amount payable. However, should the final redemption amount be less than that, there would be a write-back of any over-accrued amount.

(g) Cross-currency Interest Rate Swap (CCIRS)

Underlying Liability

USD350.0 million Unsecured Syndicated Term Loan

In 1998, the Company entered into a 5-year USD350.0 million unsecured syndicated term loan, paying interest at floating rates, to mature on 11 May 2003. During the year ended 31 December 2000, the facility was refinanced into two tranches comprising USD200.0 million due on 30 June 2003 and USD150.0 million due on 29 June 2007.

Hedging Instrument

In 1998, the Company entered into an interest rate swap (IRS) agreement with notional principal of USD400.0 million that entitles it to receive interest at floating rate and obliges it to pay interest at fixed rate of 6.75% per annum.

The Company unwound USD200.0 million notional principal of the swap at zero cost by embedding an interest rate 'cap' of 7.25% per annum on the floating rate leg of the remaining USD200.0 million notional amount of the IRS. With the cap, the floating rate interest receivable from the counter-party has effectively been limited to a maximum rate of 7.25% per annum. The effect of this transaction is to fix the interest rate payable on USD200.0 million of the above USD loan, to 6.75% per annum as long as interest rates are below 7.25% per annum. If market interest rates exceed that level, the interest rate payable reverts to a floating rate. The swap was scheduled to mature on 14 January 2005.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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13. BORROWINGS (CONTINUED)

In respect of the year ended 31 December 2001 (Continued)

On 26 July 2001, the Company restructured the existing USD200.0 million IRS into a USD150.0 million CCIRS. The restructured swap has the following new terms whereby, the Company will receive USD150.0 million in return for the payment of JPY17,324.0 million on maturity of the USD150.0 million tranche of the syndicated term loan on 29 June 2007. The restructured swap entitles the Company to receive floating interest at 6-month USD Libor, and obliges it to pay interest at 6-month USD Libor less 1.504% per annum. The net effect of the CCIRS is to convert the Company's USD150.0 million debt obligation into JPY at the principal exchange rate of JPY115.4933 at the maturity date of 29 June 2007.

The objective of this transaction is to effectively convert the USD liability into a JPY principal liability, and to reduce the interest payable on the USD150.0 million tranche of the syndicated term loan. The interest payable on the CCIRS is now a USD floating interest with a reduced margin, calculated on a notional principal of USD150.0 million.

In respect of the year ended 31 December 2002

- (a) This represents borrowings from Cagamas Berhad secured by way of assignment of the titles of properties relating to staff housing loans.
- (b) Secured by way of fixed and floating charge on property, plant and equipment of certain subsidiaries (note 19 to the financial statements).
- (c) Consists of USD200.0 million 7.125% Notes due 2005, USD300.0 million 7.875% Debentures due 2025 and USD300.0 million 8.0% Guaranteed Notes due 2010.
- (d) The Group has the option to prepay the total domestic loan outstanding of RM523.8 million in 2004.
- (e) Long Dated Swap

Underlying Liability

USD300.0 million 7.875% Debentures Due 2025

In 1998, the Company entered into a long dated swap, which will mature on 1 August 2025.

Hedging Instrument

The Company made a payment of USD5.0 million and is obliged to pay fixed amounts of JPY209.9 million semi-annually on each 1 February and 1 August, up to and including 1 August 2025.

Prior to 1 February 2004, the counter-party is not obliged to agree to any request by the Company to terminate the transaction. Commencing from 1 February 2004, the Company has the right to terminate the transaction at a rate mutually agreed with the counter-party. However, the Company intends to hold the contract to maturity.

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13. BORROWINGS (CONTINUED)

In respect of the year ended 31 December 2002 (Continued)

(e) Long Dated Swap (Continued)

On 1 August 2025, the Company will receive RM750.0 million from the counter-party. These proceeds will be swapped for USD300.0 million at a pre-determined exchange rate of RM2.5 to USD1.0, which will be used for the repayment of the USD300.0 million 7.875% redeemable unsecured Debentures. The effect of this transaction is to effectively build up a sinking fund with an assured value of USD300.0 million on 1 August 2025 for the repayment of the Debentures.

(f) Cross-currency Interest Rate Swap (CCIRS)

Underlying Liability

USD200.0 million 7.125% Notes Due 2005

In 1995, the Company issued USD200.0 million 7.125% Notes due 2005. The Notes are redeemable in full on 1 August 2005.

Hedging Instrument

In 1999, the Company entered into a CCIRS, on a USD50.0 million tranche of the above Notes, for the period from 5 March 1999 to 1 August 2005. The effect of the transaction is to convert USD50.0 million of the fixed rate Notes to a fixed rate JPY liability of 1.25% per annum with a premium on redemption. The premium on the redemption of the JPY leg is dependent on the USD/JPY exchange rate on the date of maturity, nevertheless the final redemption amount is range bound between a minimum of JPY6,080.0 million plus coupon repayment of maximum JPY1,520.0 million.

The Company has recognised the maximum coupon repayment based on a constant rate of return over the life of the instrument with the assumption of the final redemption amount being the maximum amount payable. However, should the final redemption amount be less than that, there would be a write-back of any over-accrued amount.

(g) Cross-currency Interest Rate Swap (CCIRS)

Underlying Liability

USD350.0 million Unsecured Syndicated Term Loan

In 1998, the Company entered into a 5-year USD350.0 million unsecured syndicated term loan, paying interest at floating rates, to mature on 11 May 2003. During the year ended 31 December 2000, the facility was refinanced into two tranches comprising USD200.0 million due on 30 June 2003 and USD150.0 million due on 29 June 2007.

Hedging Instrument

In 1998, the Company entered into an interest rate swap (IRS) agreement with notional principal of USD400.0 million that entitles it to receive interest at floating rate and obliges it to pay interest at fixed rate of 6.75% per annum.

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13. BORROWINGS (CONTINUED)

In respect of the year ended 31 December 2002 (Continued)

- (g) Cross-currency Interest Rate Swap (CCIRS) (Continued)

Hedging Instrument (Continued)

The Company unwound USD200.0 million notional principal of the swap at zero cost by embedding an interest rate 'cap' of 7.25% per annum on the floating rate leg of the remaining USD200.0 million notional amount of the IRS. With the cap, the floating rate interest receivable from the counter-party has effectively been limited to a maximum rate of 7.25% per annum. The effect of this transaction is to fix the interest rate payable on USD200.0 million of the above USD loan, to 6.75% per annum as long as interest rates are below 7.25% per annum. If market interest rates exceed that level, the interest rate payable reverts to a floating rate. The swap was scheduled to mature on 14 January 2005.

On 26 July 2001, the Company restructured the existing USD200.0 million IRS into a USD150.0 million CCIRS. The restructured swap has the following new terms whereby, the Company will receive USD150.0 million in return for the payment of JPY17,324.0 million on maturity of the USD150.0 million tranche of the syndicated term loan on 29 June 2007. The restructured swap entitles the Company to receive floating interest at 6-month USD Libor, and obliges it to pay interest at 6-month USD Libor less 1.504% per annum. The net effect of the CCIRS is to convert the Company's USD150.0 million debt obligation into JPY at the principal exchange rate of JPY115.4933 at the maturity date of 29 June 2007.

The objective of this transaction is to effectively convert the USD liability into a JPY principal liability, and to reduce the interest payable on the USD150.0 million tranche of the syndicated term loan. The interest payable on the CCIRS is now a USD floating interest with a reduced margin, calculated on a notional principal of USD150.0 million.

In respect of the year ended 31 December 2003

- (a) Borrowings from Cagamas Berhad secured by way of assignment of the titles of properties relating to staff housing loans.
- (b) Syndicated term loan facilities and Islamic Private Debt securities issued by Celcom (Malaysia) Berhad (Celcom), a wholly owned subsidiary acquired during the year. The borrowings are secured by deed of assignment over Celcom's key bank collection accounts and designated bank accounts which requires Celcom to deposit a proportion of its excess cashflows into those designated bank accounts for purposes of interest and principal repayments only. The prior security through fixed and floating charge over the assets of Celcom including but not limited to share of its wholly owned subsidiaries of Celcom have been released on 4 February 2004.
- (c) Secured by way of fixed and floating charge on property, plant and equipment of certain subsidiaries (note 19 to the financial statements).
- (d) Consists of USD200.0 million 7.125% Notes due 2005, USD300.0 million 7.875% Debentures due 2025 and USD300.0 million 8.0% Guaranteed Notes due 2010.
- (e) The bank overdrafts were unsecured and interests were payable at rates which varied according to the lenders' prevailing base lending rates. Interest rates during the year ranged from 6.5% to 6.9% (2002: 6.5% to 8.9%) per annum for a local subsidiary and from 10.0% to 18.5% (2002: 13.5% to 18.0%) per annum for an overseas subsidiary.

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13. BORROWINGS (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

The cash and cash equivalents balance sheet component was redesignated as cash and bank balances during the year. Consequently, bank overdraft is now classified as borrowing.

- (f) The Group has the option to prepay the total domestic loan outstanding of RM523.8 million in 2004.

14. HEDGING TRANSACTIONS

In respect of the year ended 31 December 2003

(a) Long Dated Swap

Underlying Liability

USD300.0 million 7.875% Debentures Due 2025.

In 1998, the Company entered into a long dated swap, which will mature on 1 August 2025.

Hedging Instrument

The Company made a payment of USD5.0 million and is obliged to pay fixed amounts of JPY209.9 million semi-annually on each 1 February and 1 August, up to and including 1 August 2025.

Prior to 1 February 2004, the counter-party is not obliged to agree to any request by the Company to terminate the transaction. Commencing from 1 February 2004, the Company has the right to terminate the transaction at a rate mutually agreed with the counter-party. However, the Company intends to hold the contract to maturity.

On 1 August 2025, the Company will receive RM750.0 million from the counter-party. These proceeds will be swapped for USD300.0 million at a pre-determined exchange rate of RM2.5 to USD1.0, which will be used for the repayment of the USD300.0 million 7.875% redeemable unsecured Debentures. The effect of this transaction is to effectively build up a sinking fund with an assured value of USD300.0 million on 1 August 2025 for the repayment of the Debentures.

(b) Cross-currency Interest Rate Swap (CCIRS)

Underlying Liability

USD200.0 million 7.125% Notes Due 2005.

In 1995, the Company issued USD200.0 million 7.125% Notes due 2005. The Notes are redeemable in full on 1 August 2005.

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14. HEDGING TRANSACTIONS (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

(b) *Cross-currency Interest Rate Swap (CCIRS) (Continued)*

Hedging Instrument

In 1999, the Company entered into a CCIRS, on a USD50.0 million tranche of the above Notes, for the period from 5 March 1999 to 1 August 2005. The effect of the transaction is to convert USD50.0 million of the fixed rate Notes to a fixed rate JPY liability of 1.25% per annum with a premium on redemption. The premium on the redemption of the JPY leg is dependent on the USD/JPY exchange rate on the date of maturity, nevertheless the final redemption amount is range bound between a minimum of JPY6,080.0 million plus coupon repayment of maximum JPY1,520.0 million.

The Company has recognised the maximum coupon repayment based on a constant rate of return over the life of the instrument with the assumption of the final redemption amount being the maximum amount payable. However, should the final redemption amount be less than that, there would be a write-back of any over-accrued amount.

(c) *Cross-currency Interest Rate Swap (CCIRS)*

Underlying Liability

USD150.0 million Unsecured Syndicated Term Loan.

In 1998, the Company entered into a 5-year USD350.0 million unsecured syndicated term loan, paying interest at floating rates, to mature on 11 May 2003. During the year ended 31 December 2000, the facility was refinanced into two tranches comprising USD200.0 million due on 30 June 2003 and USD150.0 million due on 29 June 2007. The first tranche of USD200.0 million has been fully paid during the year.

Hedging Instrument

In 1998, the Company entered into an interest rate swap (IRS) agreement with notional principal of USD400.0 million that entitles it to receive interest at floating rate and obliges it to pay interest at fixed rate of 6.75% per annum.

The Company unwound USD200.0 million notional principal of the swap at zero cost by embedding an interest rate 'cap' of 7.25% per annum on the floating rate leg of the remaining USD200.0 million notional amount of the IRS. With the cap, the floating rate interest receivable from the counter-party has effectively been limited to a maximum rate of 7.25% per annum. The effect of this transaction is to fix the interest rate payable on USD200.0 million of the above USD loan, to 6.75% per annum as long as interest rates are below 7.25% per annum. If market interest rates exceed that level, the interest rate payable reverts to a floating rate. The swap was scheduled to mature on 14 January 2005.

On 26 July 2001, the Company restructured the existing USD200.0 million IRS into a USD150.0 million CCIRS. The restructured swap has the following new terms whereby, the Company will receive USD150.0 million in return for the payment of JPY17,324.0 million on maturity of the USD150.0 million tranche of the syndicated term loan on 29 June 2007. The restructured swap entitles the Company to receive floating interest at 6-month USD Libor, and obliges it to pay interest at 6-month USD Libor less 1.504% per annum. The net effect of the CCIRS is to convert the Company's USD150.0 million debt obligation into JPY at the principal exchange rate of JPY115.4933 at the maturity date of 29 June 2007.

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14. HEDGING TRANSACTIONS (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

(c) *Cross-currency Interest Rate Swap (CCIRS) (Continued)*

Hedging Instrument (Continued)

The objective of this transaction is to effectively convert the USD liability into a JPY principal liability, and to reduce the interest payable on the USD150.0 million tranche of the syndicated term loan. The interest payable on the CCIRS is now a USD floating interest with a reduced margin, calculated on a notional principal of USD150.0 million.

(d) *Interest Rate Swap (IRS)*

Underlying Liability

USD300.0 million 8% Guaranteed Notes Due 2010.

In 2000, the Company issued USD300.0 million 8.0% Guaranteed Notes due 2010. The Notes are redeemable in full on 7 December 2010.

Hedging Instrument

On 29 October 2003, the Company entered into an interest rate swap (IRS) agreement with notional principal of USD150.0 million that entitles it to receive interest at fixed rate of 8.0% per annum and obliges it to pay interest at floating rate of 6-month USD Libor plus 5.10%. The swap will mature on 7 December 2005.

15. CUSTOMERS' DEPOSITS

	As at 31 December,			
	2001 RM	2002 RM	2003 RM	2003 USD
Telephones	648.1	662.1	592.2	155.8
Cellular services	—	—	156.7	41.2
Data services	33.3	32.6	32.4	8.6
Others	8.8	9.8	2.3	0.6
	690.2	704.5	783.6	206.2
Amount included under other payables	—	—	(156.7)	(41.2)
Total Customers' Deposits	<u>690.2</u>	<u>704.5</u>	<u>626.9</u>	<u>165.0</u>

Telephone customers' deposits are subjected to rebate at 5% per annum in accordance with Telephone Regulations, 1996.

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16. DEFERRED TAX

In respect of the year ended 31 December 2001

	<u>As at 31 December 2001</u> RM
At 1 January	15.3
Transfer from Income Statement	11.9
Currency translation differences	<u>(0.3)</u>
At 31 December	<u><u>26.9</u></u>

The tax effect of timing differences which are expected to continue in the foreseeable future and not provided for at 31 December were:

	<u>Arising in the current year</u> RM	<u>As at year end</u> RM
The Company		
Between depreciation and capital allowances	128.6	1,502.1
Other timing differences	<u>(67.9)</u>	<u>(140.8)</u>
	60.7	1,361.3
Subsidiary companies		
Between depreciation and capital allowances	(138.1)	(245.7)
Unabsorbed tax losses	(4.9)	(339.6)
Other timing differences	<u>(66.0)</u>	<u>(190.2)</u>
Net tax effect not provided for	<u><u>(148.3)</u></u>	<u><u>585.8</u></u>

In respect of the year ended 31 December 2002

	<u>As at 31 December 2002</u> RM
At 1 January	26.9
Transfer from Income Statement	30.3
Currency translation differences	<u>(0.5)</u>
At 31 December	<u><u>56.7</u></u>

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16. DEFERRED TAX (CONTINUED)

In respect of the year ended 31 December 2002 (Continued)

The tax effect of timing differences which are expected to continue in the foreseeable future and not provided for at 31 December were:

	<u>Arising in the current year</u>	<u>As at year end</u>
	RM	RM
The Company		
Between depreciation and capital allowances	146.2	1,648.3
Other timing differences.	<u>26.1</u>	<u>(114.7)</u>
	172.3	1,533.6
Subsidiaries		
Between depreciation and capital allowances	(149.2)	(394.9)
Unabsorbed tax losses	(10.6)	(350.2)
Other timing differences.	<u>51.6</u>	<u>(138.6)</u>
Net tax effect not provided for	<u>64.1</u>	<u>649.9</u>

In respect of the year ended 31 December 2003

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	<u>As at 31 December 2003</u>	
	RM	USD
Deferred tax assets	160.4	42.2
Deferred tax liabilities:		
Subject to income tax	<u>2,031.5</u>	<u>534.6</u>
Total deferred tax	<u>1,871.1</u>	<u>492.4</u>

(a) *Deferred tax assets*

	<u>As at 31 December 2003</u>	
	RM	USD
At 1 January.	—	—
Current year credited to Income Statement arising from:		
— property, plant and equipment	65.1	17.1
— tax losses.	46.5	12.2
— others	<u>48.8</u>	<u>12.9</u>
Total credited to Income Statement	<u>160.4</u>	<u>42.2</u>
At 31 December	<u>160.4</u>	<u>42.2</u>

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16. DEFERRED TAX (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

(b) *Deferred tax liabilities*

	<u>As at 31 December 2003</u>	
	RM	USD
At 1 January, as restated (note 40 to the financial statements)	1,590.3	418.5
Current year charged to Income Statement arising from:		
— property, plant and equipment	179.5	47.2
— intangible assets	14.0	3.7
— others	<u>9.3</u>	<u>2.5</u>
Total charged to Income Statement	<u>202.8</u>	<u>53.4</u>
Current year charged directly to equity arising from:		
— acquisition of a subsidiary	<u>238.3</u>	<u>62.7</u>
Total charged directly to equity.	<u>238.3</u>	<u>62.7</u>
Currency translation differences	<u>0.1</u>	<u>—</u>
At 31 December	<u><u>2,031.5</u></u>	<u><u>534.6</u></u>

The deferred tax assets which relate to previously unrecognised temporary differences and tax losses of RM160.4 million of a subsidiary are recognised in the current year as it is probable that there will be future taxable profits available against which such temporary differences and tax losses can be utilised.

The amount of deductible temporary differences and unutilised tax losses of subsidiaries for which no deferred tax asset is recognised in the balance sheet are as follows:

	<u>As at 31 December 2003</u>	
	RM	USD
Deductible temporary differences	312.8	82.3
Tax losses	<u>324.3</u>	<u>85.3</u>
	<u><u>637.1</u></u>	<u><u>167.6</u></u>

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16. DEFERRED TAX (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

Breakdown of cumulative balances at each type of temporary difference:

(a) *Deferred tax assets*

	As at 31 December 2003	
	RM	USD
Property, plant and equipment	751.8	197.8
Tax losses	46.5	12.2
Others	171.2	45.1
	969.5	255.1
Offsetting	(809.1)	(212.9)
Total deferred tax assets after offsetting	160.4	42.2

(b) *Deferred tax liabilities*

	As at 31 December 2003	
	RM	USD
Property, plant and equipment	2,809.6	739.4
Others intangible assets	14.0	3.7
Others	17.0	4.4
	2,840.6	747.5
Offsetting	(809.1)	(212.9)
Total deferred tax liabilities after offsetting	2,031.5	534.6

17. RETIREMENT BENEFITS

	As at 31 December,	
	2001	2002
	RM	RM
At 1 January	276.7	318.7
Charged/(Reversal) to Income Statement	60.9	(20.7)
Remittance to EPF	(18.9)	(298.0)
At 31 December	318.7	—

In respect of the year ended 31 December 2001

The Retirement Benefit Scheme was discontinued with effect from 31 December 2000. The total estimated retirement benefit liabilities over and above the value of assets held in the retirement benefit trust fund have been provided for.

In respect of the year ended 31 December 2002

The Retirement Benefit Scheme was discontinued with effect from 31 December 2000. During the year, the retirement benefit liabilities have been remitted to Employees' Provident Fund (EPF). The current year credit represents the excess of the book provision over the actual retirement benefit liabilities and was reversed accordingly.

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18. INTANGIBLE ASSETS

In respect of the year ended 31 December 2003

	<u>Goodwill</u>	<u>Other</u> <u>Intangible</u>	<u>Total</u>
	RM	RM	RM
Net book value			
At 1.1.2003	—	—	—
Transferred from associates (note 20 to the financial statements)	1,207.9	—	1,207.9
Acquisition of a subsidiary (note 2 to the financial statements)	2,814.8	—	2,814.8
Acquisition of 3G Spectrum licence.	<u>—</u>	<u>50.0</u>	<u>50.0</u>
At 31.12.2003.	<u>4,022.7</u>	<u>50.0</u>	<u>4,072.7</u>
At 31.12.2003			
Cost	4,062.4	50.0	4,112.4
Accumulated impairment	<u>(39.7)</u>	<u>—</u>	<u>(39.7)</u>
Net book value	<u>4,022.7</u>	<u>50.0</u>	<u>4,072.7</u>
	<u>Goodwill</u>	<u>Other</u> <u>Intangible</u>	<u>Total</u>
	USD	USD	USD
Net book value			
At 1.1.2003			
Transferred from associates (note 20 to the financial statements)	317.9	—	317.9
Acquisition of a subsidiary.	740.7	—	740.7
Acquisition of 3G Spectrum licence.	<u>—</u>	<u>13.2</u>	<u>13.2</u>
At 31.12.2003.	<u>1,058.6</u>	<u>13.2</u>	<u>1,071.8</u>
At 31.12.2003			
Cost	1,069.0	13.2	1,082.2
Accumulated impairment	<u>(10.4)</u>	<u>—</u>	<u>(10.4)</u>
Net book value	<u>1,058.6</u>	<u>13.2</u>	<u>1,071.8</u>

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19. PROPERTY, PLANT AND EQUIPMENT

	As at 31 December 2001						
	Tele- communication Network	Moveable Plant and Equipment	Computer Support Systems	Land (sub note a)	Buildings	Capital Work-In- Progress, at Cost (sub note b)	Total Property, Plant and Equipment
	RM	RM	RM	RM	RM	RM	RM
Cost							
At 1.1.2001	27,752.6	1,017.6	1,795.7	403.9	2,588.0	3,926.1	37,483.9
Additions	1,753.2	115.1	409.9	10.1	105.8	322.9*	2,717.0
Disposals	(118.1)	(5.7)	(4.1)	—	(0.3)	—	(128.2)
Write off	(122.2)	(3.5)	(1.0)	—	—	—	(126.7)
Currency translation differences	(17.8)	(3.0)	(0.5)	(1.9)	(2.1)	—	(25.3)
At 31.12.2001	29,247.7	1,120.5	2,200.0	412.1	2,691.4	4,249.0	39,920.7
Accumulated depreciation							
At 1.1.2001	15,442.0	788.5	1,329.3	5.1	909.0	—	18,473.9
Depreciation	1,901.8	105.9	292.7	0.6	76.6	—	2,377.6
Disposals	(111.5)	(4.5)	(4.0)	—	(0.2)	—	(120.2)
Write off	(114.3)	(2.1)	(0.8)	—	—	—	(117.2)
Currency translation differences	(5.8)	(2.1)	(0.2)	—	(0.3)	—	(8.4)
At 31.12.2001	17,112.2	885.7	1,617.0	5.7	985.1	—	20,605.7
Impairment							
At 1.1.2001	304.0	—	—	—	—	—	304.0
Impairment losses	84.3	—	—	—	—	—	84.3
At 31.12.2001	388.3	—	—	—	—	—	388.3
Net book value							
At 1.1.2001	12,006.6	229.1	466.4	398.8	1,679.0	3,926.1	18,706.0
Additions	1,753.2	115.1	409.9	10.1	105.8	322.9*	2,717.0
Disposals	(6.6)	(1.2)	(0.1)	—	(0.1)	—	(8.0)
Write off	(7.9)	(1.4)	(0.2)	—	—	—	(9.5)
Depreciation	(1,901.8)	(105.9)	(292.7)	(0.6)	(76.6)	—	(2,377.6)
Impairment losses	(84.3)	—	—	—	—	—	(84.3)
Currency translation differences	(12.0)	(0.9)	(0.3)	(1.9)	(1.8)	—	(16.9)
At 31.12.2001	11,747.2	234.8	583.0	406.4	1,706.3	4,249.0	18,926.7

* Net of transfer to property, plant and equipment

Net book value of property, plant and equipment of certain subsidiary companies, pledged as security for borrowings (note 13(b) to the financial statements):

	As at 31 December 2001
	RM
Telecommunication network	214.6
Movable plant and equipment	5.3
Computer support systems	1.4
Land	0.9
Buildings	2.2
	224.4

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	As at 31 December 2002						
	Tele- communication Network	Movable and Equipment	Computer Support Systems	Land (sub-note a)	Buildings	Capital Work-In- Progress, at Cost (sub-note b)	Total Property, Plant and Equipment
	RM	RM	RM	RM	RM	RM	RM
Cost							
At 1.1.2002	29,247.7	1,120.5	2,200.0	412.1	2,691.4	4,249.0	39,920.7
Property, plant and equipment of new subsidiary acquired	20.8	4.0	1.4	—	—	—	26.2
Additions	2,393.8	129.4	549.5	49.4	1,379.1	(1,316.1)*	3,185.1
Disposals	(202.7)	(21.1)	(0.7)	(0.7)	(1.2)	—	(226.4)
Write off	(1,132.5)	(3.1)	(0.7)	—	—	—	(1,136.3)
Currency translation differences	(23.0)	(0.5)	(0.4)	0.6	—	—	(23.3)
At 31.12.2002	<u>30,304.1</u>	<u>1,229.2</u>	<u>2,749.1</u>	<u>461.4</u>	<u>4,069.3</u>	<u>2,932.9</u>	<u>41,746.0</u>
Accumulated depreciation							
At 1.1.2002	17,112.2	885.7	1,617.0	5.7	985.1	—	20,605.7
Property, plant and equipment of new subsidiary acquired	9.4	3.6	1.2	—	—	—	14.2
Depreciation	1,926.4	81.0	360.7	0.2	113.5	—	2,481.8
Disposals	(202.0)	(16.3)	(0.7)	—	(0.7)	—	(219.7)
Write off	(1,081.8)	(2.9)	(0.7)	—	—	—	(1,085.4)
Currency translation differences	(5.1)	(0.1)	(0.1)	—	(0.1)	—	(5.4)
At 31.12.2002	<u>17,759.1</u>	<u>951.0</u>	<u>1,977.4</u>	<u>5.9</u>	<u>1,097.8</u>	<u>—</u>	<u>21,791.2</u>
Impairment							
At 1.1.2002 and at 31.12.2002	<u>388.3</u>	—	—	—	—	—	<u>388.3</u>
Net book value							
At 1.1.2002	11,747.2	234.8	583.0	406.4	1,706.3	4,249.0	18,926.7
Property, plant and equipment of new subsidiary acquired	11.4	0.4	0.2	—	—	—	12.0
Additions	2,393.8	129.4	549.5	49.4	1,379.1	(1,316.1)*	3,185.1
Depreciation	(1,926.4)	(81.0)	(360.7)	(0.2)	(113.5)	—	(2,481.8)
Disposals	(0.7)	(4.8)	—	(0.7)	(0.5)	—	(6.7)
Write off	(50.7)	(0.2)	—	—	—	—	(50.9)
Currency translation differences	(17.9)	(0.4)	(0.3)	0.6	0.1	—	(17.9)
At 31.12.2002	<u>12,156.7</u>	<u>278.2</u>	<u>771.7</u>	<u>455.5</u>	<u>2,971.5</u>	<u>2,932.9</u>	<u>19,566.5</u>

* Net of transfer to property, plant and equipment

Net book value of property, plant and equipment of certain subsidiary companies, pledged as security for borrowings (note 13(b) to the financial statements):

	As at 31 December 2002 RM
Telecommunication network	272.8
Movable plant and equipment	5.0
Computer support systems	1.4
Land	0.9
Buildings	<u>1.9</u>
	<u>282.0</u>

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19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2003							
	Tele- communication Network	Movable Plant and Equipment	Computer Support Systems	Land (sub-note a)	Buildings	Capital Work-In- Progress, at Cost (sub-note b)	Total Property, Plant and Equipment
	RM	RM	RM	RM	RM	RM	RM
Net book value							
At 1.1.2003	12,156.7	278.2	771.7	455.5	2,971.5	2,932.9	19,566.5
Acquisition of a subsidiary . .	2,583.0	70.1	143.1	31.9	75.2	181.5	3,084.8
Additions	2,794.0	195.2	836.6	78.8	252.9	(1,478.8)*	2,678.7
Transfer to inventories (note 23 to the financial statements)	(47.2)	—	—	—	—	—	(47.2)
Disposals	(5.4)	(2.5)	(0.1)	(2.0)	(0.6)	—	(10.6)
Write off	(5.6)	(0.2)	—	—	—	—	(5.8)
Currency translation differences	(10.5)	(0.2)	(0.2)	0.6	0.3	—	(10.0)
Depreciation	(2,565.5)	(129.6)	(733.4)	(1.1)	(121.7)	—	(3,551.3)
Impairment	(90.2)	(4.0)	(5.0)	—	—	—	(99.2)
	<u>14,809.3</u>	<u>407.0</u>	<u>1,012.7</u>	<u>563.7</u>	<u>3,177.6</u>	<u>1,635.6</u>	<u>21,605.9</u>
At 31.12.2003							
Cost	35,075.4	1,465.3	3,726.9	570.7	4,389.8	1,635.6	46,863.7
Accumulated depreciation . .	(19,787.6)	(1,054.3)	(2,709.2)	(7.0)	(1,212.2)	—	(24,770.3)
Accumulated impairment . . .	(478.5)	(4.0)	(5.0)	—	—	—	(487.5)
	<u>14,809.3</u>	<u>407.0</u>	<u>1,012.7</u>	<u>563.7</u>	<u>3,177.6</u>	<u>1,635.6</u>	<u>21,605.9</u>

* Net of transfer to property, plant and equipment.

Net book value of property, plant and equipment of certain subsidiaries, pledged as security for borrowings (note 13(c) to the financial statements):

	As at 31 December 2003
	RM
Telecommunication network	383.2
Movable plant and equipment	5.5
Computer support systems	1.8
Land	1.1
Buildings	1.8
	<u>393.4</u>

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19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2003							
	Tele- communication Network	Movable Plant and Equipment	Computer Support Systems	Land (sub-note a)	Buildings	Capital Work-In- Progress, at Cost (sub-note b)	Total Property, Plant and Equipment
	USD	USD	USD	USD	USD	USD	USD
Net book value							
At 1.1.2003	3,199.1	73.2	203.0	119.9	782.0	771.8	5,149.0
Acquisition of subsidiary . . .	679.7	18.4	37.7	8.4	19.8	47.8	811.8
Additions	735.2	51.4	220.2	20.7	66.6	(389.2)*	704.9
Transfer to inventories (note 23 to the financial statements)	(12.4)	—	—	—	—	—	(12.4)
Disposals	(1.4)	(0.7)	—	(0.5)	(0.2)	—	(2.8)
Write off	(1.5)	(0.1)	—	—	—	—	(1.6)
Currency translation differences	(2.7)	(0.1)	(0.1)	0.2	0.1	—	(2.6)
Depreciation	(675.1)	(34.1)	(193.0)	(0.3)	(32.0)	—	(934.5)
Impairment	(23.7)	(1.0)	(1.3)	—	—	—	(26.0)
At 31.12.2003	3,897.2	107.0	266.5	148.4	836.3	430.4	5,685.8
At 31.12.2003							
Cost	9,230.4	385.5	980.8	150.2	1,155.3	430.4	12,332.6
Accumulated depreciation . . .	(5,207.3)	(277.5)	(713.0)	(1.8)	(319.0)	—	(6,518.6)
Accumulated impairment . . .	(125.9)	(1.0)	(1.3)	—	—	—	(128.2)
Net book value	3,897.2	107.0	266.5	148.4	836.3	430.4	5,685.8

* Net of transfer to property, plant and equipment

Net book value of property, plant and equipment of certain subsidiaries, pledged as security for borrowings (note 13(c) to the financial statements):

	2003
	USD
Telecommunication network	100.8
Movable plant and equipment	1.4
Computer support systems	0.5
Land	0.3
Buildings	0.5
	103.5

(a) Details of land (at cost) are as follows:

As at 31 December,				
	2001	2002	2003	2003
	RM	RM	RM	USD
Freehold land	207.0	254.5	256.4	67.5
Long term leasehold	94.7	130.3	213.2	56.1
Short term leasehold	2.0	3.3	7.1	1.9
Other land	108.4	73.3	94.0	24.7
	412.1	461.4	570.7	150.2

The title deeds pertaining to other land have not yet been registered in the name of the Company and a subsidiary. Pending finalisation with the relevant authorities, these land have not been classified according to their tenure.

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19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

- (b) Included in the capital work-in-progress is finance cost capitalised for the year ended 31 December 2003 amounting to RM5.7 million (2001: RM4.0 million; 2002: RM5.2 million) respectively for the Group.

20. ASSOCIATES

In respect of the year ended 31 December 2001

	As at 31 December 2001
	RM
Investment, at cost (quoted):	
Overseas	198.9
Investments, at cost (unquoted):	
Malaysia	11.1
Overseas	1,389.3
	1,599.3
Goodwill written-off	(761.1)
	838.2
Group's share of post acquisition profits less losses	202.5
Share of net assets of associates	1,040.7
Amount owing by associates (sub-note a)	25.8
Total interest in associates	1,066.5
Market value of quoted investment	15.2

- (a) The amount owing by associates are unsecured and interest free with no fixed repayment terms. However, the Company has indicated that it will not demand substantial repayment within the next twelve months.
- (b) On 18 August 2000, Telekom Malaysia Group (TM) paid a sum of USD50.0 million (RM190.0 million) to the Government of Ghana (GoG) as deposit for the proposed acquisition of additional 15% equity interest in Ghana Telecommunications Company Limited (GT) in accordance with the terms and conditions of the Head of Agreement (HoA) entered into between TM and GoG dated 10 August 2000. The deadline to conclude the transaction lapsed on 19 February 2002 and consequently the deposit payment of USD50.0 million as disclosed in note 24 to the financial statements, becomes due and payable to TM under the terms and conditions of the HoA. TM has commenced negotiation with GoG on the terms and conditions in respect of the said refund.

Consequent to the above, the Technical and Consultancy Services Agreement ("TCSA") between GT and TM for the provision of technical and operational expertise from TM to GT which expired on 19 February 2002, is not renewed. The amount due from GT for services rendered under this agreement as at 31 December 2001 was approximately USD6.0 million.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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20. ASSOCIATES (CONTINUED)

In respect of the year ended 31 December 2002

	As at 31 December 2002
	RM
Investment, at cost (quoted):	
Malaysia	1,654.9
Overseas	198.9
Investments, at cost (unquoted):	
Malaysia	2.9
Overseas	1,292.5
	3,149.2
Goodwill written-off	(1,820.0)
	1,329.2
Group's share of post acquisition profits less losses	209.4
Share of net assets of associates	1,538.6
Amount owing by associates (sub-note a)	0.4
Total interest in associates	1,539.0
Market value of quoted investment	
Malaysia	1,512.5
Overseas	16.0

- (a) The amount owing by associates are unsecured and interest free with no fixed repayment terms. However, the Company has indicated that it will not demand substantial repayment within the next twelve months.
- (b) Telekom Malaysia's (TM's) effective interest in Ghana Telecommunications Company Limited (GT) is 25.5%, held through TM International Sdn. Bhd. and G-Com Limited (G-Com). On 3 June 2002, the Extraordinary General Meeting (EGM) of GT passed a resolution to reconstitute the Board of GT consisting of four nominees from G-Com (85% owned by TM) and three nominees from the Government of Ghana (GoG) to three nominees from G-Com and six nominees from GoG. This resolution was passed despite the objection from G-Com whose consent is required under the Company Regulations of GT.

Subsequently, G-Com filed for an application in the Hight Court of Ghana on 13 June 2002, to seek a declaration that the EGM held on 3 June 2002 was null and void.

On 11 July 2002, the GoG unilaterally terminated the contract of employment of the Managing Director (MD) and appointed an Interim Management Committee to oversee and manage the day to day affair of GT pending the appointment of a substantive MD by the shareholders of GT.

On 31 July 2002, the High Court of Ghana dismissed G-Com's application for a declaration to nullify the EGM held on 3 June 2002. On 25 September 2002, G-Com filed for an appeal in the Supreme Court of Ghana against the decision of the High Court dated 31 July 2002. The Supreme court has yet to fix the hearing date of the said appeal.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

20. ASSOCIATES (CONTINUED)

In respect of the year ended 31 December 2002 (Continued)

Following the above events, TM lost significant influence over the financial and operating policy decisions of GT. Accordingly, TM has since ceased to equity account for its share of results in GT.

With the above, the carrying value of investment in GT has been reclassified from associated company to long term investment in note 21 to the financial statements. In addition, TM is also pursuing the recovery of the deposit for further investment in GT (refer to note 34(a) to the financial statements for further details).

In respect of the year ended 31 December 2003

	As at 31 December,					
	2003			2003		
	Malaysia RM	Overseas RM	Total RM	Malaysia USD	Overseas USD	Total USD
QUOTED						
Share of net assets other than goodwill of associates						
— on acquisition	—	869.2	869.2	—	228.7	228.7
— post acquisition	—	520.8	520.8	—	137.1	137.1
	—	1,390.0	1,390.0	—	365.8	365.8
UNQUOTED						
Share of net assets other than goodwill of associates						
— on acquisition	2.9	—	2.9	0.7	—	0.7
— associates of a subsidiary acquired during the year	74.3	29.2	103.5	19.5	7.7	27.2
— post acquisition	(0.5)	3.7	3.2	(0.1)	1.0	0.9
	76.7	32.9	109.6	20.1	8.7	28.8
TOTAL	76.7	1,422.9	1,499.6	20.1	374.5	394.6
Market value of quoted investments	—	2,808.9	2,808.9	—	739.2	739.2

- (a) In line with the change in accounting policy with respect to goodwill on acquisition, goodwill on acquisition of associates arise on or after 1 January 2002 is reflected as part of the investment in the associates. Goodwill arise from acquisition completed prior to 1 January 2002 was written off against reserves in the year of acquisition. Such goodwill was not restated as it is impractical to do so.

The Group's equity interest in the associates, their respective principal activities and countries of incorporation are listed in note 42 to the financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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21. INVESTMENTS

	As at 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Investments in International Satellite Organisations, at cost	133.5	133.5	107.3	28.2
Investments in quoted shares, at cost	—	—	264.8	69.7
Investments in unquoted shares, at cost	62.3	96.4	109.9	28.9
Investments in unquoted shares, at written down value	—	—	—*	—*
	195.8	229.9	482.0	126.8
Allowance for permanent diminution in value	(90.3)	(90.3)	(97.3)	(25.6)
Total investments after allowance	<u>105.5</u>	<u>139.6</u>	<u>384.7</u>	<u>101.2</u>
Market value of quoted investments.	<u>—</u>	<u>—</u>	<u>267.4</u>	<u>70.4</u>

* Sub-note (a) is in respect of year ended 31 December 2003 only

(a) The following corporations in which Celcom Group, a subsidiary acquired in the year ended 31 December 2003, owned more than one half of the voting power, which, due to loss of control or significant influence have been accounted as investments.

- Aseania Plastics Sdn. Bhd.
- TRI Cellular Communications Cambodia Company
- TRI Telecommunication Zanzibar Limited
- Tripoly Communication Technology Corporation Ltd.

Investments in the above corporations have been written down to recoverable amount or RM1 each.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

22. LONG TERM RECEIVABLES

	As at 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Staff loans under Islamic principles	—	431.7	475.5	125.1
Staff loans	<u>747.9</u>	<u>331.8</u>	<u>262.0</u>	<u>68.9</u>
Total staff loans	747.9	763.5*	737.5*	194.0*
Other long term receivables	<u>10.5</u>	<u>21.2*</u>	<u>31.7*</u>	<u>8.4*</u>
	758.4	784.7	769.2	202.4
Staff loans receivable within twelve months included under other receivables	<u>(100.6)</u>	<u>(99.3)</u>	<u>(100.3)</u>	<u>(26.4)</u>
Total long term receivables	<u>657.8</u>	<u>685.4</u>	<u>668.9</u>	<u>176.0</u>

* Sub-notes (b) and (c) are in respect of years ended 31 December 2002 and 2003 only.

(a) Staff loans for the year ended 31 December 2003 amounting to RM82.7 million (2002: RM92.8 million; 2001: RM100.0 million) have been assigned to secure the Company's borrowings from Cagamas Berhad.

In respect of the years ended 31 December 2002 and 2003

(b) Staff loans comprise housing, vehicle, computer and club membership loans offered to employees with financing cost of 4.0% per annum on reducing balance basis except for club membership loans which are free of financing cost. There is no single significant exposure as the amount is mainly receivable from individuals. Staff loans inclusive of financing cost are repayable in equal monthly instalments as follows:

- (i) Housing loans — 25 years or upon employees attaining 55 years of age, whichever is earlier
- (ii) Vehicle loans — maximum of 8 years for new car and 6 years for second hand car
- (iii) Computer loans — 3 years

(c) Other long term receivables of the Company are in respect of education loans provided to undergraduates and are convertible to scholarships if certain performance criteria are met. The loans are interest free and if not converted to scholarship will be repayable over a period of not more than 8 years.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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23. INVENTORIES

	As at 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
At cost:				
Cables and wires	27.8	38.7	30.2	8.0
Network materials	29.2	30.6	32.4	8.5
Telecommunication equipment	20.1	24.3	18.5	4.9
Spares and others	<u>55.3</u>	<u>37.4</u>	<u>40.0</u>	<u>10.5</u>
	<u>132.4</u>	<u>131.0</u>	<u>121.1</u>	<u>31.9</u>
At net realisable value:				
Telecommunication equipment transferred from property, plant and equipment (note 19 to the financial statements)	—	—	47.2	12.4
Spares and others	<u>21.0</u>	<u>41.5</u>	<u>35.3</u>	<u>9.3</u>
	<u>21.0</u>	<u>41.5</u>	<u>82.5</u>	<u>21.7</u>
Total inventories	<u><u>153.4</u></u>	<u><u>172.5</u></u>	<u><u>203.6</u></u>	<u><u>53.6</u></u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

24. TRADE AND OTHER RECEIVABLES

	As at 31 December,			
	2001 RM	2002 RM	2003 RM	2003 USD
Receivables from telephone customers	2,971.5	2,358.0	2,552.1	671.6
Receivables from non-telephone customers	<u>1,516.3</u>	<u>1,678.9</u>	<u>1,754.6</u>	<u>461.7</u>
	4,487.8	4,036.9	4,306.7	1,133.3
Advance rental billings	<u>(451.4)</u>	<u>(494.4)</u>	<u>(412.2)</u>	<u>(108.5)</u>
	4,036.4	3,542.5	3,894.5	1,024.8
Allowance for doubtful debts	<u>(1,485.2)</u>	<u>(1,151.2)</u>	<u>(1,443.5)</u>	<u>(379.8)</u>
Total trade receivables after allowance	<u>2,551.2</u>	<u>2,391.3</u>	<u>2,451.0</u>	<u>645.0</u>
Prepayments	556.3	574.4	590.3	155.3
Deposit for additional investment (refer to note 34(a) to the financial statements)	190.0	190.0	190.0	50.0
Staff loans	—	—	100.3	26.4
Other receivables from associates (sub-note a)	—	—	31.2	8.2
Other receivables	438.1	436.3	496.1	130.6
Allowance for doubtful debts	<u>—</u>	<u>—</u>	<u>(23.9)</u>	<u>(6.3)</u>
Total other receivables after allowance	<u>1,184.4</u>	<u>1,200.7</u>	<u>1,384.0</u>	<u>364.2</u>
Total trade and other receivables after allowance	<u><u>3,735.6</u></u>	<u><u>3,592.0</u></u>	<u><u>3,835.0</u></u>	<u><u>1,009.2</u></u>

In respect of the years ended 31 December 2002 and 2003

The currency exposure profile of trade and other receivables after allowance as at 31 December 2002 and 2003 is as follows:

	As at 31 December,		
	2002 RM	2003 RM	2003 USD
— Ringgit Malaysia	2,616.8	2,870.2	755.3
— US Dollar	660.4	560.0	147.4
— Special Drawing Rights	83.9	121.5	32.0
— Gold Franc Currency	—	75.5	19.9
— Guinea Franc	110.4	94.4	24.8
— Other Currencies	<u>120.5</u>	<u>113.4</u>	<u>29.8</u>
	<u><u>3,592.0</u></u>	<u><u>3,835.0</u></u>	<u><u>1,009.2</u></u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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24. TRADE AND OTHER RECEIVABLES (CONTINUED)

The following table represents credit risk exposure of trade receivables, net of allowances for doubtful debts and without taking into account any collateral taken:

	As at 31 December,		
	2002	2003	2003
	RM	RM	USD
Business.	1,638.9	1,562.4	411.2
Residential.	752.4	888.6	233.8
	2,391.3	2,451.0	645.0

The Group is not exposed to major concentrations of credit risk due to the diversified customer base. In addition, credit risk is mitigated to a certain extent by cash deposits and bankers' guarantee obtained from customers. The Group considers the allowance for doubtful debts at balance sheet date to be adequate to cover the potential financial loss.

Credit terms of trade receivables range from payment in advance to 90 days in year 2003 and 2002.

- (a) Other receivables from associates as at 31 December 2003 are unsecured and interest free with no fixed repayment terms.

25. SHORT-TERM INVESTMENTS

	As at 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Shares quoted on the Malaysia Securities Exchange Berhad.	222.5	197.7	263.4	69.3
Total short term investments.	222.5	197.7	263.4	69.3
Market value of quoted shares	222.5	197.7	263.4	69.3

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26. CASH AND BANK BALANCES

	As at 31 December,			
	2001 RM	2002 RM	2003 RM	2003 USD
Deposits with:				
Licenced banks	932.1	345.3	1,161.6	305.7
Licenced finance companies	306.8	3.0	2.4	0.6
Other financial institutions	1,166.6	740.0	1,047.6	275.7
Deposits under Islamic principles	—	424.4	600.5	158.1
Total deposits	2,405.5	1,512.7	2,812.1	740.1
Cash and bank balances	121.6	241.9	412.0	108.4
Cash and bank balances under Islamic principles	—	80.2	122.0	32.1
Total cash and bank balances	2,527.1	1,834.8	3,346.1	880.6
Less:				
Bank overdraft (* note 13(e) to the financial statements)	(7.0)	(13.8)	(6.1)	(1.6)
Deposits pledged	—	—	(60.7)	(16.0)
Total cash and cash equivalents at end of the year	<u>2,520.1</u>	<u>1,821.0</u>	<u>3,279.3</u>	<u>863.0</u>

* In respect of the year ended 31 December 2003

The currency exposure profile of cash and bank balances are as follows:

	As at 31 December,		
	2002 RM	2003 RM	2003 USD
— Ringgit Malaysia	974.2	2,451.7	645.2
— US Dollar	770.8	807.0	212.4
— Other currencies	76.0	87.4	23.0
	<u>1,821.0</u>	<u>3,346.1</u>	<u>880.6</u>

In respect of the year ended 31 December 2001

The bank overdrafts were unsecured and interests were payable at rates which varied according to the lenders' prevailing base lending rates. Interest rates during the period ranged from 6.0% to 7.0% per annum except for overseas subsidiary companies where the interest rates ranged from 19.0% to 46.0% per annum.

In respect of the year ended 31 December 2002

The deposits are placed mainly with a number of creditworthy financial institutions. There is no major concentration of deposits in any single financial institution. Deposits have maturity ranged from overnight to 182 days for the Group. Bank balances are deposits held at call with banks.

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26. CASH AND BANK BALANCES (CONTINUED)

In respect of the year ended 31 December 2002 (Continued)

The weighted average interest rate of deposits (excluding deposits under Islamic principles) as at 31 December 2002 is 2.32% for the Group.

The bank overdrafts were unsecured and interests were payable at rates which varied according to the lenders' prevailing base lending rates. Interest rates during the period ranged from 6.5% to 8.9% per annum except for overseas subsidiaries where the interest rates ranged from 13.5% to 44.0% per annum. The weighted average interest rate of bank overdrafts as at 31 December 2002 is 14.8% for the Group.

In respect of the year ended 31 December 2003

Included in deposits of the Group is RM60.7 million which are pledged as security for banking facilities granted to associates of Celcom, a wholly owned subsidiary acquired during the year. Deposits of the Group also included RM191.2 million being funds earmarked for principal and interest repayments under terms of borrowings of Celcom as mentioned in note 13(b) to the financial statements.

The deposits are placed mainly with a number of creditworthy financial institutions. There is no major concentration of deposits in any single financial institution. Deposits have maturity ranged from overnight to 365 days. Bank balances are deposits held at call with banks.

The weighted average interest rate of deposits (excluding deposits under Islamic principles) as at 31 December 2003 is 2.38% for the Group.

27. TRADE AND OTHER PAYABLES

	As at 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Trade payables	2,249.0	2,369.4	2,795.1	735.6
Accruals for USP	—	230.5	280.5	73.8
Deferred revenue	—	—	205.7	54.1
Customers deposits	—	—	156.7	41.2
Finance cost payable	128.8	124.9	132.5	34.9
Duties and other taxes payable	198.2	113.8	129.0	33.9
Deposits and trust monies	130.0	97.0	61.7	16.2
Other payables to associates	—	—	13.5*	3.6
Other payables	562.5	661.1	747.3	196.7
Total trade and other payables	<u>3,268.5</u>	<u>3,596.7</u>	<u>4,522.0</u>	<u>1,190.0</u>

* sub-note (a) is in respect of the year ended 31 December 2003 only.

The currency exposure profile of trade and other payables are as follows:

	As at 31 December,		
	2002	2003	2003
	RM	RM	USD
— Ringgit Malaysia	3,333.1	3,768.1	991.6
— US Dollar	130.7	300.2	79.0
— Special Drawing Rights	—	120.1	31.6
— Gold Franc Currency	—	72.7	19.1
— Bangladesh Taka	—	85.6	22.6
— Other currencies	132.9	175.3	46.1
	<u>3,596.7</u>	<u>4,522.0</u>	<u>1,190.0</u>

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27. TRADE AND OTHER PAYABLES (CONTINUED)

Credit terms of trade and other payables vary from 30 to 90 days in years 2003 and 2002 depending on the terms of the contracts.

- (a) Other payables to associates as at 31 December 2003 are unsecured, interest free and have no fixed terms of repayments.

28. CASH FLOWS FROM OPERATING ACTIVITIES

	For the years ended 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Receipts from customers	8,988.5	9,402.2	11,289.7	2,971.0
Payments to suppliers and employees.	(4,230.3)	(4,861.3)	(5,707.1)	(1,501.9)
Payment of finance cost	(689.8)	(449.3)	(575.6)	(151.5)
Payment of income taxes	(785.2)	(868.2)	(344.2)	(90.6)
Total cash flows from operating activities	<u>3,283.2</u>	<u>3,223.4</u>	<u>4,662.8</u>	<u>1,227.0</u>

29. CASH FLOWS USED IN INVESTING ACTIVITIES

	For the years ended 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Disposal of property, plant and equipment	34.0	24.9	12.1	3.2
Purchase of property, plant and equipment	(2,709.9)	(3,164.2)	(2,566.2)	(675.3)
Acquisition of intangible asset (3G Spectrum)	—	—	(10.0)	(2.6)
Disposal of long term investments . .	—	—	18.4	4.8
Purchase of long term investments . .	—	—	(254.4)	(66.9)
Disposal of short term investments . .	32.6	24.5	57.3	15.1
Purchase of short term investments . .	(85.0)	(30.8)	(66.7)	(17.6)
Acquisition of a subsidiary (note 2 to the financial statements)	—	(3.4)*	(2,963.5)	(779.9)
Acquisition of an associate	—	(1,653.7)	—	—
Additional investment in an associate	(0.6)	(0.7)	—	—
Disposal of an associate	927.6	—	—	—
Repayment from associates	0.4	—	—	—
Advances to associates	(1.0)	—	—	—
Repayments of loans by employees . .	100.6	99.7	123.8	32.6
Loans to employees	(119.6)	(115.2)	(97.3)	(25.6)
Interest received	128.6	87.7	87.5	23.0
Dividend received	3.7	5.6	40.6	10.7
Total cash flows used in investing activities	<u>(1,688.6)</u>	<u>(4,725.6)</u>	<u>(5,618.4)</u>	<u>(1,478.5)</u>

* Summary of the effect of the acquisition of a subsidiary during the year ended 31 December 2002

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29. CASH FLOWS USED IN INVESTING ACTIVITIES (CONTINUED)

	For the year ended 31 December 2002
	RM
Goodwill	39.7
Property, plant and equipment.	12.0
Current assets	18.8
Current liabilities	(59.5)
Purchase consideration satisfied by cash.	11.0
Cash and cash equivalent acquired.	(7.6)
Cash flow on acquisition, net of cash acquired	3.4

30. CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES

	For the years ended 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Issue of share capital	140.9	535.0	593.6	156.2
Issue of share capital to minority interests	4.8	27.3	—	—
Proceeds from borrowings	829.3	1,631.2	8,836.9	2,325.5
Repayments of borrowings	(2,033.5)	(1,037.7)	(6,766.5)	(1,780.7)
Dividends paid to shareholders	(222.4)	(341.6)	(228.4)	(60.1)
Dividends paid to minority interests.	(4.9)	(4.4)	(8.3)	(2.2)
Total cash flows from financing activities.	(1,285.8)	809.8	2,427.3	638.7

31. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances.

In respect of the year ended 31 December 2001

In 1996, Daewoo-Peremba Construction J/V (D-PC J/V) was awarded the contract for the construction of Menara Telekom at an estimated contract value of RM572.4 million. Dato' Dr. Mohd Munir bin Abdul Majid, a Director of the Company is also a Director of Peremba Construction Sdn. Bhd. since 13 August 1999. Peremba Construction Sdn. Bhd. is a partner of the D-PC J/V. Progress billings from D-PC J/V during the year amounted to RM28.9 million remained outstanding as at 31 December 2001. This transaction has been entered in the normal course of business and at negotiated terms.

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31. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

In respect of the year ended 31 December 2002

- (a) In 1996, Daewoo-Peremba Construction J/V (D-PC J/V) was awarded the contract for the construction of Menara Telekom at an estimated contract value of RM572.4 million. Dato' Dr. Mohd Munir bin Abdul Majid, a Director of the Company is also a Director of Peremba Construction Sdn. Bhd. since 13 August 1999. Peremba Construction Sdn. Bhd. is a partner of the D-PC J/V. Progress billings from D-PC J/V during the year amounted to RM3.3 million with no balance outstanding as at 31 December 2002. This transaction has been entered in the normal course of business and at negotiated terms.
- (b) On 1 August 2002, a letter of award was issued by a subsidiary company to Edward & Sons Sdn. Bhd. (ESSB) on the tender for road rehabilitation and slope stabilisation works at TM Bukit Dabei Microwave Station, Marudi Sarawak at a contract value of approximately RM1.6 million. Y.B. Joseph Salang Gandum, who is a director of the Company and a shareholder of ESSB is deemed interested in the transaction. Progress billings from ESSB during the year amounted to RM0.2 million which remained outstanding as at 31 December 2002.

In respect of the year ended 31 December 2003

On 1 August 2002, a letter of award was issued by a subsidiary company to Edward & Sons Sdn. Bhd. (ESSB) on the tender for road rehabilitation and slope stabilisation works at TM Bukit Dabei Microwave Station, Marudi Sarawak at a contract value of approximately RM1.6 million. Y.B. Dato' Joseph Salang Gandum, who is a director of the company and a shareholder of ESSB is deemed interested in the transaction. Progress billings from ESSB during the year amounted to RM0.9 million of which RM0.2 million remained outstanding as at 31 December 2003.

32. COMMITMENTS

	For the years ended 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Property, plant and equipment				
Commitments in respect of expenditure approved and contracted for	3,896.6	3,065.3	2,544.0	669.5
Commitments in respect of expenditure approved but not contracted for	12.2	24.4	126.2	33.2

In respect of the year ended 31 December 2001

At 31 December 2001, there existed a potential claim for recovery of loss and expenses totalling to RM527.5 million that may increase the commitments for the construction of Menara Telekom. The Directors, based on professional opinion received, are of the view that the Company has a good case to dispute and/or contest a substantial portion of the claim.

In respect of the year ended 31 December 2002

At 31 December 2001, there existed a potential claim for recovery of loss and expenses totalling to RM527.5 million for the construction of Menara Telekom. Following a series of negotiations during the year, the contractor has accepted RM91.0 million as full and final settlement.

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33. CONTINGENT LIABILITIES (UNSECURED)

In respect of the year ended 31 December 2001

- (a) At 31 December 2001, the Group had contingent liabilities in respect of:
- (i) Guarantees issued to banks amounting to USD32.0 million (RM121.6 million) for banking facilities extended to overseas subsidiary companies.
 - (ii) A performance bond guarantee of RM15.0 million issued in favour of a principal of a contract obtained in the ordinary course of the business.
- (b) A claim against a wholly owned subsidiary company, Telekom Multi-Media Sdn. Bhd. was initiated on 9 January 2001. The claim, which the plaintiff is seeking, is for damages of RM105.7 million for loss of profits and Canadian Dollars 0.9 million for expenses incurred. The Directors, based on the legal opinion received, are of the view that the Company has a reasonably good case to dispute and/or contest the claim by the plaintiff. There has been no material development since then.
- (c) An overseas associated company, Ghana Telecommunications Company Limited of which the Group has an effective shareholding of 25.5% had been penalised for non-achievement of several performance targets as set out under its Telecommunication Licence on 27 December 2001. The associated company had subsequently appealed against the penalty and is now seeking to negotiate for an amicable settlement. Financially, the total exposure to the Group is estimated to be in the range of RM30.0 million to RM60.0 million.

Apart from the above, the Directors are not aware of any other proceedings pending against the Group or of any facts likely to give rise to any proceedings which might materially affect the position or business of the Group.

There were no other contingent liabilities or material litigations or guarantees other than those arising in the ordinary course of the business of the Group and on these no material losses are anticipated.

In respect of the year ended 31 December 2002

- (a) At 31 December 2002, the Group had contingent liabilities in respect of:
- (i) Guarantees issued to banks amounting to USD26.0 million (RM98.8 million) for banking facilities extended to overseas subsidiaries.
 - (ii) A corporate guarantee was granted to a financial institution in respect of the USD21.0 million (RM79.8 million) financing facility obtained by a wholly owned subsidiary, MTN Networks (Private) Limited. The guarantee was executed on 6 May 2002 and will expire in March 2010. The guarantee replaces an earlier guarantee of USD6.0 million dated 20 September 2001 given in favour of the above said financial institution.
 - (iii) Guarantee of a series of Promissory Notes totalling approximately USD6.679 million (RM25.4 million) issued by Sotelgui S.A., a subsidiary, in favour of an equipment supplier issued on 18 April 2002. The Promissory Notes are payable during the period between November 2003 to December 2005.

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33. CONTINGENT LIABILITIES (UNSECURED) (CONTINUED)

In respect of the year ended 31 December 2002 (Continued)

- (b) There is a claim arising from an agreement dated 10 February 1998 made between Telekom Malaysia (TM) and Tan Sri Mustapha Kamal Haji Abu Bakar, Eastborne Corporation Berhad, Projass Engineering Berhad and Shorefield Holdings Sdn. Bhd. (to be collectively referred to as “MEPS JV”). MEPS JV agreed to design, construct and complete the proposed Multimedia University Campus at Cyberjaya, Selangor Darul Ehsan.

The disputes between the parties, amongst others include the completion of outstanding works, remedying of defects, retention of the cash performance guarantee, the deduction of liquidated damages for delay and the certification and payment of the retention money. This dispute has been referred to Jabatan Kerja Raya (JKR) of which, on 27 June 2002, JKR has awarded a compensation of RM63.8 million in favour of MEPS JV. TM is currently in the process of appealing to JKR over the said decision.

TM filed an appeal for review of the decision by JKR in the High Court. The Court had originally fixed 27 November 2002 as the hearing date for the said application which was subsequently postponed to May 2003.

Apart from the above, the Directors are not aware of any other proceedings pending against the Group or of any facts likely to give rise to any proceedings which might materially affect the position or business of the Group.

There were no other contingent liabilities or material litigations or guarantees other than those arising in the ordinary course of the business of the Group and on these no material losses are anticipated.

In respect of the year ended 31 December 2003

- (a) At 31 December 2003, the Group had contingent liabilities in respect of:
- (i) Guarantees issued to banks amounting to USD26.0 million (RM98.8 million) for banking facilities extended to overseas subsidiary companies.
 - (ii) A corporate guarantee was granted to a financial institution in respect of the USD21.0 million (RM79.8 million) financing facility obtained by a wholly owned subsidiary company, MTN Networks (Pvt.) Limited. The guarantee was executed on 6 May 2002 and will expire in March 2010.
 - (iii) Guarantee of a series of Promissory Notes totalling approximately USD6.7 million (RM25.4 million) issued by Sotelgui S.A., a subsidiary, in favour of an equipment supplier issued on 18 April 2002. The Promissory Notes are payable during the period between November 2003 to December 2005.
 - (iv) A corporate guarantee was granted to a financial institution in respect of the USD25.0 million (RM95.0 million) financing facility obtained by a wholly owned subsidiary, MTN Networks (Pvt.) Limited. The guarantee was executed in November 2003 and will expire in November 2005.

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33. CONTINGENT LIABILITIES (UNSECURED) (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

- (b) There is a claim arising from an agreement dated 10 February 1998 made between Telekom Malaysia (TM) and Tan Sri Mustapha Kamal Haji Abu Bakar, Eastborne Corporation Berhad, Projass Engineering Berhad and Shorefield Holdings Sdn. Bhd. (collectively referred to herein as “MEPS JV”). MEPS JV agreed to design, construct and complete the proposed Multimedia University Campus at Cyberjaya, Selangor Darul Ehsan.

The disputes between the parties, amongst others include the completion of outstanding works, remedying of defects, retention of the cash performance guarantee, the deduction of liquidated damages for delay and the certification and payment of the retention money. This dispute has been referred to Jabatan Kerja Raya (JKR) of which, on 27 June 2002, JKR has awarded a compensation of RM63.8 million in favour of MEPS JV.

Pursuant to the compensation awarded by JKR (the Award), TM filed an appeal for review of the Award in the High Court by way of an Originating Motion (OM). Simultaneously, MEPS JV filed an application to enforce the said Award by way of an Originating Summons (OS).

On 10 November 2003, the High Court fixed 11 March 2004 as the new mention date for the OM and the OS.

- (c) On 11 August 2003, TM and Telekom Publications Sdn. Bhd. (TPSB) instituted legal proceedings against Buying Guide Sdn. Bhd. (BGSB) relating to the infringement of TM’s and TPSB’s copyright and passing off.

BGSB have filed their Defence and Counterclaim on 15 October 2003 and it was agreed that TM and TPSB will file a Reply and Defence after BGSB and their shareholders confirm that they will not be amending their Defence and Counterclaim.

- (d) Inmiss Communications Sdn. Bhd. (Inmiss) has filed a Notice for Arbitration against Mobikom Sdn. Bhd. (Mobikom) for outstanding payment on Inmiss’s share of message tariff revenue including interest charges and other losses in the amount of RM29.0 million.

The arbitration hearing is held at the Kuala Lumpur Regional Center for Arbitration. The next hearing date has been scheduled on 3 March 2004 for final submission by Mobikom.

- (e) On 10 March 2000, Celcom Timur (Sarawak) Sdn. Bhd. (CTS) served a writ of summons on Celcom (Malaysia) Berhad (Celcom), in respect of the lease of fibre optic links for RM102.6 million with interest accruing thereon. Celcom disputed the amount claimed on the basis that CTS used an incorrect method of calculation to determine the amount owing. Celcom entered defence against the suit, and applied to strike out the suit for want of authority. A Summary Judgement was passed by the Kuching High Court on 23 February 2001 in favour of CTS for RM90.6 million. Celcom is appealing against this Summary Judgement and the date for the appeal has yet to be set by the Court of Appeal.

The trial of the disputed balance of the claim amounting to RM12.0 million will only be heard after the hearing of the above Summary Judgement appeal. The outcome of the legal action and hence any amount payable to CTS cannot be ascertained at this juncture pending hearing on a date to be fixed by the Court.

No provision has been made for the disputed claim as the directors of Celcom are of the opinion that the likelihood of crystallisation of the additional claim is remote.

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33. CONTINGENT LIABILITIES (UNSECURED) (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

- (f) Celcom filed a petition against Sarawak Electricity Supply Corporation (Sesco) (and other persons connected with Sesco) under Section 181 of the Companies Act, 1965 and on 25 May 2001, also sought an interim injunction to restrain CTS from proceeding with a winding up petition against Celcom. On 14 June 2001, Celcom successfully obtained an interim injunction restraining CTS from filing or proceeding with the winding up petition pending disposal of the inter parties injunction application. On 1 August 2001, CTS gave a notice to Celcom of its intention to sell Celcom's shares in CTS in the event Celcom failed to make payment of the Summary Judgement referred to in (e) above. Sesco's application to strike out Celcom's petition has been fixed for hearing on 22 March 2004. The directors of Celcom, based on legal opinion received are of the view that Celcom has a reasonable chance of succeeding in this matter.
- (g) On 3 August 2001, Sesco, joint venture partner of Celcom in CTS, filed at the Kuching High Court by way of Writ of Summons to seek a declaration that the Joint Venture Agreement (JVA) dated 5 May 1994 should be terminated as Celcom had purportedly breached certain conditions stipulated under the JVA. Celcom's application for stay of proceedings and for the dispute to be referred to arbitration was dismissed by the High Court whereupon Celcom filed an appeal to the Court of Appeal together with an application in the High Court for an interim stay pending appeal. On 25 July 2002, the Court of Appeal heard and dismissed the arbitration stay appeal. Accordingly, on 13 August 2002, the Judge dismissed the appeal for interim stay.

On 13 September 2001, Sesco filed an application for "disposal of case on point of law" under Order 14A of the Rules of the High Court 1980 (Order 14A) and to enter judgement on its claim. The Order 14A application has been fixed for mention on 3 March 2004.

The directors of Celcom, based on legal opinion received, are of the view that since the interim stay has been refused on the grounds that there are no disputes to be referred to arbitration, Sesco has a good chance in its application for a judgement under Order 14A. If Sesco succeeds in the Order 14A hearing, the Court would order Celcom to transfer its CTS shares to Sesco at a price to be determined by an independent auditor. Celcom may suffer a loss in the event this price values the interest in CTS at below Celcom's carrying value of its investment in CTS of RM48.4 million.

The parties are currently in discussions with each other towards a global out-of-court settlement of this dispute together with the matters discussed in (e) and (f) above. The directors of Celcom are optimistic that such a settlement can be reached and that the value to be realised under the settlement will at least be equal to Celcom group's carrying value of its investment in CTS.

- (h) By a letter dated 16 August 2002, Malaysian Airline System Berhad (MAS) had demanded a total sum of RM16.4 million from Technology Resources Industries Berhad (TRI) with regard to a project account. Celcom group is in discussion with MAS to reach an amicable settlement on this issue which is not expected to have a material impact on the financial statements.
- (i) By a JVA dated 13 September 1993, TRI and VIP Engineering and Marketing Limited (VIPEM) agreed to establish TRI Telecommunications Tanzania Limited (Tritel) as a joint venture company, to provide telecommunications services in Tanzania. The shareholding structure was 60% TRI and 40% VIPEM.

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33. CONTINGENT LIABILITIES (UNSECURED) (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

On 10 December 2001, vide Civil Case No. 427 of 2001 (the Suit) VIPEM filed a suit against TRI claiming a sum of USD18.6 million as its share of loss of profits for mismanagement of Tritel. VIPEM asked for an order to be made on an ex-parte basis. Tritel and TRI's lawyers asserted that the Court has no jurisdiction to entertain the Chamber Application because of the arbitration clause in the JVA and applied for a stay of proceedings. The Court declined to grant the ex-parte order and TRI filed petition to stay the proceedings. The petition has yet to be heard. Pending determination of the Suit, VIPEM applied to the Tanzania High Court for the appointment of receiver/manager to take conduct over the running of Tritel.

Tanzania Communications Commission (TCC) revoked Tritel's licence as of 31 January 2003. On 14 January 2003, Citibank of Tanzania (Citibank) appointed receivers and managers by virtue of a debenture issued by Tritel as a loan security to Citibank.

Subsequently, on 12 June 2003, the High Court of Tanzania had endorsed a petition by three creditors of Tritel, namely TCC, Tanzania Telecommunications Company Limited and Tanzania Revenue Authority to wind up Tritel. VIPEM had filed an affidavit in support of the said petition. As a result thereof, the High Court has admitted VIPEM as a joint creditor of Tritel.

Consequently, the Court also held the joint receivers and managers, who were appointed by Citibank, were ordered to handover statements and accounts of Tritel's affairs to the newly appointed liquidator. In the light of the appointment of the liquidator, the Court had on 17 July 2003 adjourned sine die the Suit.

As the result of the Court ruling, Citibank had independently filed an application to challenge the ruling. Legal proceeding concerning Citibank's application is ongoing.

In the light of the winding up order made against Tritel, on 22 July 2003 TRI filed its claim of RM123.4 million to the liquidator of Tritel.

The directors of Celcom, based on legal opinion received, are of the view that on the allegations of mismanagement, unless more evidence can be produced, the allegations are rhetorical and unsubstantiated. In view of the winding up proceedings, there is also a possibility that VIPEM will not pursue its claim. Hence, no provision has been made in the financial statements for the claim made by VIPEM.

- (j) TRI and Integrated Services Limited (ISL) entered into a JVA dated 21 January 1995 on the establishment of Sheba Telecom (Pvt.) Ltd. (Sheba) as the joint venture company in Bangladesh. ISL and TRI initially held 51% and 49% of Sheba's equity respectively. On 10 June 1997, the parties agreed to amend the equity holding of TRI and ISL in Sheba to 51% and 49% respectively. On 18 March 1999, Sheba's board of directors resolved to increase the issued and paid-up capital of Sheba by way of capitalisation of advances made by TRI to Sheba, thereby increasing TRI's share of the equity to 86.4%.

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33. CONTINGENT LIABILITIES (UNSECURED) (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

In or about April 2000, ISL commenced a suit in the Supreme Court of Bangladesh against Sheba, TRI, the directors of Sheba and the Registrar of Joint Stock Companies for, inter alia, alleged misconduct and mismanagement on the part of the directors (the Suit). One of the allegations made by ISL in this claim was that the resolution passed to increase TRI's share of equity to 86.4% was invalid. On 19 November 2001, TRI successfully obtained an order staying the proceedings of the Suit and for the matter to be referred to arbitration proceedings. TRI then commenced the arbitration in Singapore to seek declarations refuting certain allegations made by ISL in the Suit.

ISL also made a counterclaim in the arbitration, alleging, inter alia, breaches of the terms of the JVA and other alleged irregularities in the management and operations of Sheba and is seeking, inter alia, an order that TRI pays to ISL:

- (i) a sum of USD179.3 million being alleged net loss of potential earnings of Sheba;
- (ii) a sum of USD36.2 million being the alleged net loss of opportunity to enter into and implement another agreement with the Bangladesh Telegraph and Telephone Board; and
- (iii) a sum of USD2.6 million which TRI allegedly agreed to pay to ISL as marketing consulting fee.

The arbitration hearing proceeded as scheduled from 19 January 2004 to 30 January 2004. Continued hearing has been fixed from 12 May 2004 until 28 May 2004.

The directors of Celcom, based on legal opinion received, are of the view that the arbitration is likely to be decided in TRI's favour. As such, no allowance has been made for the amounts claimed by ISL. The carrying value of Celcom group's investment in and advances to Sheba were also not adjusted to reflect the potential exposure in the event of an unfavourable outcome to the arbitration.

- (k) On 10 March 2003, Celcom received a letter from DeTeAsia Holding GmbH (DTAH) informing Celcom that it had initiated an arbitration by way of a Request for Arbitration dated 7 March 2003 (Request) which was filed on 10 March 2003 with the Secretariat of the International Court of Arbitration of the International Chamber of Commerce in Paris (ICC) pursuant to Clause 8.6 of the Amended and Restated Supplemental Agreement dated 4 April 2002 between TRI, DTAH, Celcom and TR International Limited (TRIL) (the Amended and Restated Agreement).

DTAH is essentially claiming damages for breach of the Amended and Restated Agreement. DTAH's contention is that by entering into the Sale and Purchase Agreement with Telekom Malaysia Berhad for the acquisition of the whole of the issued and paid-up capital of TM Cellular Sdn. Bhd. (TM Cellular) and the subsequent acquisition of TM Cellular without the consent of DTAH, Celcom has acted in breach of the Amended and Restated Agreement. DTAH is seeking damages in an amount to be calculated by reference to the provisions of Schedule 1 of the Amended and Restated Agreement, together with interest at eight percent (8%) per annum from 16 October 2002 and costs. Celcom's contention is essentially that the consent of DTAH was not required for the acquisition of TM Cellular and that such provisions in the Amended and Restated Agreement on which DTAH relies on are either not enforceable or that DTAH is precluded from asserting the validity of the same.

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33. CONTINGENT LIABILITIES (UNSECURED) (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

Subsequent to the filing of the Request, DTAH has also raised further allegations of breaches against Celcom in the Summary of Case filed by DTAH with the ICC on 1 August 2003. A three-member arbitral tribunal has been constituted and the hearing date has been fixed from 12 July 2004 to 23 July 2004 for the hearing of the arbitration.

The directors of Celcom, based on legal opinion received, are of the view that the prospects of successfully defending the arbitration are reasonable. In the event that the arbitral tribunal finds in favour of DTAH, the damages payable by Celcom to DTAH will have to be assessed. It would not be possible, at this stage, to determine with any certainty the quantum of such damages.

Apart from the above, the Directors are not aware of any other proceedings pending against the Group or of any facts likely to give rise to any proceedings which might materially affect the position or business of the Group.

There were no other contingent liabilities or material litigations or guarantees other than those arising in the ordinary course of the business of the Group and on these no material losses are anticipated.

34. SIGNIFICANT EVENTS

In respect of the year ended 31 December 2002

- (a) On 18 September 2002, Telekom Malaysia (TM) issued a Notification of Claim to the Government of Ghana (GoG) pursuant to the Bilateral International Treaty between the Government of Malaysia and GoG on 11 November 1996 (BIT) in respect of the following disputes:
- (i) GoG's treatment of TM's investment in Ghana Telecommunications Company Limited (GT) held through TM International Sdn. Bhd. and G-Com Limited (refer to note 20(b) to the consolidated financial statements).
 - (ii) GoG's failure to refund a USD50.0 million (RM190.0 million) deposit for the proposed acquisition of additional 15% equity interest in GT (as disclosed in note 24 to the financial statements) pursuant to the Head of Agreement entered into between TM and GoG dated 10 August 2000.

Since the parties could not reach an amicable settlement, TM through its counsel in London, sent a Notice of Arbitration to the GoG on 10 February 2003 for the commencement of arbitration proceedings under the UNCITRAL Arbitration Rules in accordance with the provisions of the BIT. Upon the receipt of the said Notice of Arbitration by the GoG, the parties will determine the constitution of an Arbitral Tribunal to decide the modalities of the arbitration proceeding. It is expected that the arbitration proceeding would conclude within a period of 18 to 24 months from the date of filing of the said Notice.

- (b) On 28 October 2002, Telekom Malaysia (TM) had executed a sale and purchase agreement with Celcom (Malaysia) Berhad (Celcom) for the injection of 100% of its equity interest in TM Cellular Sdn. Bhd. to Celcom for a total consideration of RM1,684.0 million to be satisfied by the issuance of 635,471,698 new Celcom ordinary shares of RM1.00 each at RM2.65 per Celcom share (Proposed Disposal).

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34. SIGNIFICANT EVENTS (CONTINUED)

In respect of the year ended 31 December 2002 (Continued)

Upon completion of the Proposed Disposal, TM's direct and indirect interests in Celcom would increase from 31.25% to 47.93%. Accordingly, TM and the persons acting in concert (PAC) with TM would be obligated to undertake a Mandatory General Offer (MGO) for the remaining voting shares in Celcom not held by TM and the PAC with TM under Part II of the Malaysian Code on Take-overs and Mergers, 1998 at RM2.75 per Celcom share, being the highest price paid for Celcom shares by TM and the PAC with TM during the six (6) months prior to the date of announcement of the Proposed Disposal.

TM and the PAC with TM have committed to fulfil their obligation to undertake the MGO.

The applications to the relevant authorities on the Proposed Disposal have been made by TM but was still outstanding as at 27 February 2003.

In respect of the year ended 31 December 2003

- (a) On 18 September 2002, Telekom Malaysia (TM) issued a Notification of Claim to the Government of Ghana (GoG) pursuant to the Bilateral International Treaty between the Government of Malaysia and GoG on 11 November 1996 (BIT) in respect of the following disputes:
- (i) GoG's treatment of TM's investment in Ghana Telecommunications Company Limited (GT) held through TM International Sdn. Bhd. and G-Com Limited which resulted in TM losing significant influence over the financial and operation policies decisions of GT. Accordingly the investment in GT has been recorded as long term investment during year 2002.
 - (ii) GoG's failure to refund a USD50.0 million (RM190.0 million) deposit for the proposed acquisition of additional 15% equity interest in GT (as disclosed in note 24 to the financial statements) pursuant to the Head of Agreement entered into between TM and GoG dated 10 August 2000.

Since the parties could not reach an amicable settlement, TM through its counsel in London, sent a Notice of Arbitration to the GoG on 10 February 2003 for the commencement of arbitration proceedings under the UNCITRAL Arbitration Rules in accordance with the provisions of the BIT. Subsequently, the arbitral tribunal was constituted in accordance to the provisions of BIT. Based on the preparatory meeting in relation to the arbitration between TM and GoG held on 17 July 2003 at The Hague, it was agreed that the arbitration hearing will start on 5 July 2004 for a period of two (2) weeks.

- (b) G-Com Limited (G-Com), a subsidiary of TM, filed an application in the High Court of Ghana on 13 June 2002, seeking a declaration that the Extraordinary General Meeting (EGM) held on 3 June 2002 was null and void. On 31 July 2002, the High Court of Ghana dismissed G-Com's application for a declaration to nullify the EGM held on 3 June 2002.

On 25 September 2002, G-Com filed an appeal in the Court of Appeal of Ghana against the decision of the High Court dated 31 July 2002. The Court of Appeal has yet to fix the hearing date of the said appeal. Meanwhile, the High Court Judge has provided his written Judgement and TM has been advised that the earliest hearing date of the said appeal will approximately be fixed in the first quarter of 2004.

- (c) G-Com filed a Writ of Summons and a Statement of Claim at the High Court of Ghana against GT on 24 December 2003 in respect of the EGM and AGM resolutions to approve certain contracts and loans. The hearing date is expected to be in February 2004.

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35. SEGMENTAL REPORTING

In respect of the year ended 31 December 2001

	Operating Income	Profit Before Taxation	Assets Employed
	RM	RM	RM
Year ended 31 December 2001			
<i>By Activity</i>			
Telecommunication	9,256.2	2,358.8	26,713.1
Non-telecommunication	417.0	84.8	675.0
	<u>9,673.2</u>	<u>2,443.6</u>	<u>27,388.1</u>
<i>By Geographical Location</i>			
Malaysia	9,179.5	1,528.7	25,296.4
Overseas*	493.7	914.9	2,091.7
	<u>9,673.2</u>	<u>2,443.6</u>	<u>27,388.1</u>

* The Group has operations in Sri Lanka, Bangladesh, Thailand, Cambodia, Ghana, Republic of Guinea, Malawi, South Africa and United States of America

In respect of the years ended 31 December 2002 and 2003

By business

The Group is organised on a worldwide basis in three main business segments:

- (a) *Fixed line* — represents fixed line, data, internet and multimedia and other telecommunication related services.
- (b) *Cellular* — represents mobile telecommunication services
- (c) *Non-telecommunication related services* — represents services provided by subsidiaries with core business in consultancy, property management, education and other activities none of which are of a sufficient size to be reported separately.

Segment results represent segment operating revenue less segment expenses. Unallocated income includes interest income, dividend income and gain or loss on disposal of investments. Unallocated costs represent corporate expenses and net foreign exchange differences arising from revaluation of corporate borrowings. The accounting policies used to derive reportable segment results are consistent with those as described in the Significant Accounting Policies.

Segment assets disclosed for each segment represent assets directly managed by each segment, primarily include intangibles, receivables, property, plant and equipment, inventories and cash and bank balances. Unallocated corporate assets mainly include staff loans, other long term receivables, investments, deferred tax assets and property, plant and equipment of the Company's training centre.

Segment liabilities comprise operating liabilities and exclude corporate borrowings, interest payable on corporate borrowings, current tax and deferred tax liabilities.

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35. SEGMENTAL REPORTING (CONTINUED)

In respect of the years ended 31 December 2002 and 2003 (Continued)

Segment capital expenditure comprises additions to intangibles, property, plant and equipment, including additions resulting from acquisition of subsidiaries as shown in notes 18 and 19 to the financial statements.

Significant non-cash expenses comprise mainly allowances and unrealised foreign exchange losses (excluding net foreign exchange differences arising from revaluation of corporate borrowings) as shown in note 4 to the financial statements.

In respect of the year ended 31 December 2002

	<u>Fixed line, data, internet and multimedia</u>	<u>Cellular</u>	<u>Others</u>	<u>Total</u>
	RM	RM	RM	RM
Year ended 31 December 2002				
Operating revenue				
Total operating revenue	8,373.9	1,674.6	341.5	10,390.0
Inter-segment *.	<u>(342.4)</u>	<u>(85.7)</u>	<u>(127.8)</u>	<u>(555.9)</u>
External operating revenue	<u>8,031.5</u>	<u>1,588.9</u>	<u>213.7</u>	<u>9,834.1</u>
Results				
Segment result	1,891.6	100.5	33.4	2,025.5
Unallocated income				85.4
Corporate expenses				(213.1)
Foreign exchange losses				<u>(66.3)</u>
Operating profit before finance cost . .				1,831.5
Finance cost				(389.6)
Finance income				85.7
Share of profits less losses of associates	38.5	4.0	—	<u>42.5</u>
Profit before taxation				1,570.1
Taxation				<u>(487.4)</u>
Profit after taxation				1,082.7
Minority interests				<u>(26.4)</u>
Profit for the year attributable to shareholders				<u>1,056.3</u>

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35. SEGMENTAL REPORTING (CONTINUED)

In respect of the year ended 31 December 2002 (Continued)

	<u>Fixed line, data, internet and multimedia</u>	<u>Cellular</u>	<u>Others</u>	<u>Total</u>
	RM	RM	RM	RM
At 31 December 2002				
<i>Net assets</i>				
Segment assets	19,808.5	3,922.4	1,321.8	25,052.7
Associates	986.1	552.9	—	1,539.0
Unallocated corporate assets				<u>1,122.0</u>
Total assets				<u><u>27,713.7</u></u>
Segment liabilities	3,200.4	1,587.3	157.7	4,945.4
Unallocated liabilities				<u>7,297.3</u>
Total liabilities				<u><u>12,242.7</u></u>

Year ended 31 December 2002

<i>Other information</i>				
Capital expenditure	2,162.5	1,004.6	18.0	3,185.1
Depreciation	2,145.4	280.7	55.7	2,481.8
Write off of property, plant and equipment	50.9	—	—	50.9
Significant non-cash expenses	347.6	253.0	0.2	600.8

* Inter-segment operating revenue has been eliminated in arriving at respective segment operating revenue. The inter-segment operating revenue was entered into in the normal course of business and at prices available to third parties or at negotiated terms.

By Geographical Location

Although the Group operates in many countries as shown in note 41 to the financial statements, the segmentisation of Group operation by geographical location is only segmentised to Malaysia and overseas as no individual overseas country contributed more than 10% of consolidated operating revenue or assets.

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35. SEGMENTAL REPORTING (CONTINUED)

In respect of the year ended 31 December 2002 (Continued)

In presenting information for geographical segments of the Group, sales are based on the country in which the customer is located. There is no sale between the segments. Total assets and capital expenditure are determined based on where the assets are located.

	Operating revenue	Total assets	Capital expenditure
	2002	2002	2002
	RM	RM	RM
Malaysia	9,292.8	23,590.4	2,897.2
Overseas	541.3	1,462.3	287.9
	9,834.1	25,052.7	3,185.1
Associates		1,539.0	
Unallocated corporate assets		1,122.0	
Total assets		27,713.7	

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35. SEGMENTAL REPORTING (CONTINUED)

In respect of the year ended 31 December 2003

	<u>Fixed line, data, internet and multimedia</u>	<u>Cellular</u>	<u>Others</u>	<u>Total</u>
	RM	RM	RM	RM
Year ended 31 December 2003				
<i>Operating revenue</i>				
Total operating revenue	8,344.8	3,875.4	473.0	12,693.2
Inter-segment*	<u>(405.0)</u>	<u>(269.1)</u>	<u>(222.7)</u>	<u>(896.8)</u>
External operating revenue	<u>7,939.8</u>	<u>3,606.3</u>	<u>250.3</u>	<u>11,796.4</u>
<i>Results</i>				
Segment result	1,588.6	453.2	86.6	2,128.4
Unallocated income				85.6
Corporate expenses				(266.6)
Foreign exchange losses				<u>(82.1)</u>
Operating profit before finance cost				1,865.3
Finance cost				(517.1)
Finance income				87.1
Share of profits less losses of associates	236.2	139.0	—	<u>375.2</u>
Profit before taxation				1,810.5
Taxation				<u>(366.3)</u>
Profit after taxation				1,444.2
Minority interests				<u>(53.8)</u>
Profit for the year attributable to shareholders				<u>1,390.4</u>
At 31 December 2003				
<i>Net assets</i>				
Segment assets	19,473.1	12,050.6	1,272.2	32,795.9
Associates	1,211.8	287.8	—	1,499.6
Unallocated corporate assets				<u>1,744.8</u>
Total assets				<u>36,040.3</u>
Segment liabilities	3,457.3	4,200.4	114.1	7,771.8
Unallocated liabilities				<u>11,241.0</u>
Total liabilities				<u>19,012.8</u>

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35. SEGMENTAL REPORTING (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

	<u>Fixed line, data, internet and multimedia</u>	<u>Cellular</u>	<u>Others</u>	<u>Total</u>
	RM	RM	RM	RM
Year ended 31 December 2003				
<i>Other information</i>				
Capital expenditure				
— additions during the year . .	1,969.5	684.7	27.3	2,681.5
— acquisition of a subsidiary .	—	5,899.6	—	5,899.6
Depreciation	2,587.4	932.6	31.3	3,551.3
Write off of property, plant and equipment	5.7	0.1	—	5.8
Impairment of property, plant and equipment	4.3	94.9	—	99.2
Significant non-cash expenses . .	251.0	269.0	2.3	522.3

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35. SEGMENTAL REPORTING (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

	Fixed line, data, internet and multimedia	Cellular	Others	Total
	USD	USD	USD	USD
Year ended 31 December 2003				
<i>Operating revenue</i>				
Total operating revenue	2,196.0	1,019.8	124.5	3,340.3
Inter-segment*	<u>(106.6)</u>	<u>(70.8)</u>	<u>(58.6)</u>	<u>(236.0)</u>
External operating revenue	<u>2,089.4</u>	<u>949.0</u>	<u>65.9</u>	<u>3,104.3</u>
<i>Results</i>				
Segment result	418.1	119.3	22.8	560.2
Unallocated income				22.5
Corporate expenses				(70.2)
Foreign exchange losses				<u>(21.6)</u>
Operating profit before finance cost				490.9
Finance cost				(136.1)
Finance income				22.9
Share of profits less losses of associates	62.2	36.6	—	<u>98.8</u>
Profit before taxation				476.5
Taxation				<u>(96.4)</u>
Profit after taxation				380.1
Minority interests				<u>(14.2)</u>
Profit for the year attributable to shareholders				<u>365.9</u>
At 31 December 2003				
<i>Net assets</i>				
Segment assets	5,124.5	3,171.2	334.8	8,630.5
Associates	318.9	75.7	—	394.6
Unallocated corporate assets				<u>459.2</u>
Total assets				<u>9,484.3</u>
Segment liabilities	909.8	1,105.4	30.0	2,045.2
Unallocated liabilities				<u>2,958.2</u>
Total liabilities				<u>5,003.4</u>

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35. SEGMENTAL REPORTING (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

	Fixed line, data, internet and multimedia	Cellular	Others	Total
	USD	USD	USD	USD
Year ended 31 December 2003				
<i>Other information</i>				
Capital expenditure				
— additions during the year . .	518.3	180.2	7.2	705.7
— acquisition of a subsidiary .	—	1,552.5	—	1,552.5
Depreciation	680.9	245.4	8.2	934.5
Write off of property, plant and equipment	1.5	—	—	1.5
Impairment of property, plant and equipment	1.1	25.0	—	26.1
Significant non-cash expenses . .	66.0	70.8	0.6	137.4

* Inter-segment operating revenue has been eliminated in arriving at respective segment operating revenue. The inter-segment operating revenue was entered into in the normal course of business and at prices available to third parties or at negotiated terms.

By Geographical Location

Although the Group operates in many countries as shown in note 41 to the financial statements, the segmentisation of Group operation by geographical location is only segmentised to Malaysia and overseas as no individual overseas country contributed more than 10% of consolidated operating revenue or assets.

In presenting information for geographical segments of the Group, sales are based on the country in which the customer is located. There is no sale between the segments. Total assets and capital expenditure are determined based on where the assets are located.

	Operating revenue		Total assets		Capital expenditure	
	2003	2003	2003	2003	2003	2003
	RM	USD	RM	USD	RM	USD
Malaysia	10,996.9	2,893.9	31,035.7	8,167.3	8,173.2	2,150.8
Overseas	799.5	210.4	1,760.2	463.2	407.9	107.3
	<u>11,796.4</u>	<u>3,104.3</u>	32,795.9	8,630.5	<u>8,581.1</u>	<u>2,258.1</u>
Associates			1,499.6	394.6		
Unallocated corporate assets			<u>1,744.8</u>	<u>459.2</u>		
Total assets			<u><u>36,040.3</u></u>	<u><u>9,484.3</u></u>		

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

In respect of the years ended 31 December 2002 and 2003

The main risks arising from the Group's financial assets and liabilities are foreign exchange, interest rate, credit and liquidity risks. The Group's overall risk management seeks to minimise potential adverse effects of these risks on the financial performance of the Group.

The Group has established risk management policies, guidelines and control procedures to manage its exposure to financial risks. Hedging transactions are determined in the light of commercial commitments. Derivative financial instruments are used only to hedge underlying commercial exposures and are not held or sold for speculative purposes.

Foreign exchange risk

The foreign exchange risk of the Group arises from borrowings denominated in foreign currencies. The Group has long dated, cross-currency interest rate and interest rate swaps that are primarily used to hedge selected long term foreign currency borrowings to reduce the foreign currency exposures on these borrowings. The main currency exposures are primarily US Dollar and Japanese Yen.

The Group also has subsidiaries and associates operating in foreign countries, which generate revenue and incur costs denominated in foreign currencies. The main currency exposures are primarily Guinea Franc, Bangladesh Taka, Sri Lanka Rupee and South African Rand.

Interest rate risk

The Group has cash and bank balances and deposits placed with creditworthy licenced banks and financial institutions. The Group manages its interest rate risks by placing such balances on varying maturities and interest rate terms.

The Group's debt includes bank overdrafts, bank borrowings, bonds, notes and debentures. The Group's interest rate risk objective is to manage the interest expense consistent with maintaining an acceptable level of exposure to interest rate fluctuations. In order to achieve this objective, the Group targets a mix of fixed and floating debt based on assessment of its existing exposure and desired interest rate profile. To obtain this mix, the Group uses combined cross-currency interest rate swaps to convert certain long term foreign currency borrowings from variable to fixed rate or vice versa.

Credit risk

Financial assets that potentially subject the Group to concentrations of credit risk consist primarily trade receivables, cash and bank balances, marketable securities and financial instruments used in hedging activities.

Due to the nature of the Group's business, customers are mainly segregated into business and residential. The Group has no other major significant concentration of credit risk other than business and residential trade receivables due to its diverse customer base. Credit risk is managed through the application of credit assessment and approvals, credit limits and monitoring procedures. Where appropriate, the Group obtained deposits or bank guarantees from the customers.

The Group places its cash and cash equivalents and marketable securities with a number of creditworthy financial institutions. The Group's policy limits the concentration of financial exposure to any single financial institution.

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

In respect of the years ended 31 December 2002 and 2003 (Continued)

All hedging instruments are executed with creditworthy financial institutions with a view to limit the credit risk exposure of the Group. The Group, however, is exposed to credit-related losses in the event of non-performance by counterparties to financial derivative instruments, but does not expect any counterparties to fail to meet their obligations.

Liquidity risk

In the management of liquidity and cash flow risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Due to the dynamic nature of the underlying business, the Group aims at maintaining flexibility in funding by keeping both committed and uncommitted credit lines available.

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37. INTEREST RATE RISK

In respect of the years ended 31 December 2002 and 2003

The table below summarises the Group's exposure to interest rate risk. Included in the tables are the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of repricing or contractual maturity dates. The off-balance-sheet gap represents the net notional amounts of all interest rate sensitive derivative instruments. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of assets and their corresponding liability funding.

In respect of the year ended 31 December 2002

As at 31 December 2002									
W.A.I.R.	Floating interest rate	Fixed interest rate maturing or repriced in			Total interest sensitive	Non- interest sensitive	Balances under Islamic principles	Total	
		1 year or less	1 to 5 years	More than 5 years					RM
Financial assets									
Amount owing by									
associates	—	—	—	—	—	0.4	—	0.4	
Long term investments . .	—	—	—	—	—	139.6	—	139.6	
Long term receivables . .	4.00%	—	262.7	29.0	291.7	21.4	372.3	685.4	
Trade and other receivables	3.47%	12.0	39.9	—	51.9	3,480.7	59.4	3,592.0	
Short term investments . .	—	—	—	—	—	197.7	—	197.7	
Cash and bank balances . .	2.17%	(13.8)	1,132.8	—	1,119.0	197.4	504.6	1,821.0	
Total		<u>(1.8)</u>	<u>1,172.7</u>	<u>262.7</u>	<u>29.0</u>	<u>1,462.6</u>	<u>4,037.2</u>	<u>936.3</u>	<u>6,436.1</u>
Financial liabilities									
Convertible Bonds	4.00%	—	—	1,361.6	—	1,361.6	—	1,361.6	
Total borrowings	5.14%	1,506.2	669.1	964.4	2,459.3	5,599.0	5.8	6,301.1	
Customers' deposits	—	—	—	—	—	704.5	—	704.5	
Trade and other payables	—	—	—	—	—	3,596.7	—	3,596.7	
Total		<u>1,506.2</u>	<u>669.1</u>	<u>2,326.0</u>	<u>2,459.3</u>	<u>6,960.6</u>	<u>4,307.0</u>	<u>696.3</u>	<u>11,963.9</u>
On-balance-sheet interest sensitivity gap		(1,508.0)	503.6	(2,063.3)	(2,430.3)				
Off-balance-sheet interest sensitivity gap		—	—	—	—				
Total interest sensitivity gap		<u>(1,508.0)</u>	<u>503.6</u>	<u>(2,063.3)</u>	<u>(2,430.3)</u>				

* W.A.I.R. — Weighted Average Interest Rate as at 31 December

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37. INTEREST RATE RISK (CONTINUED)

In respect of the year ended 31 December 2003

As at 31 December 2003									
	W.A.R.F.	Floating interest rate RM	Fixed interest rate maturing or repriced in			Total interest sensitive RM	Non- interest sensitive RM	Balances under Islamic principles RM	Total RM
			1 year or less RM	1 to 5 years RM	More than 5 years RM				
Financial assets									
Investments	2.00%	6.9	—	1.7	—	8.6	376.1	—	384.7
Staff loans and other long term receivables	4.00%	—	3.4	24.9	233.2	261.5	32.2	475.5	769.2
Trade and other receivables (excluding short term staff loans)	1.45%	23.7	—	—	—	23.7	3,711.0	—	3,734.7
Short term investments . .	—	—	—	—	—	—	263.4	—	263.4
Cash and bank balances .	2.38%	—	<u>2,273.5</u>	—	—	<u>2,273.5</u>	<u>350.1</u>	<u>722.5</u>	<u>3,346.1</u>
Total		<u>30.6</u>	<u>2,276.9</u>	<u>26.6</u>	<u>233.2</u>	<u>2,567.3</u>	<u>4,732.8</u>	<u>1,198.0</u>	<u>8,498.1</u>
Financial liabilities									
Total borrowings	5.03%	3,379.7	537.6	919.3	4,874.5	9,711.1	6.1	1,991.2	11,708.4
Customers' deposits	—	—	—	—	—	—	626.9	—	626.9
Trade and other payables	—	—	—	—	—	—	4,522.0	—	4,522.0
Total		<u>3,379.7</u>	<u>537.6</u>	<u>919.3</u>	<u>4,874.5</u>	<u>9,711.1</u>	<u>5,155.0</u>	<u>1,991.2</u>	<u>16,857.3</u>
On-balance-sheet interest sensitivity gap		(3,349.1)	1,739.3	(892.7)	(4,641.3)				
Off-balance-sheet interest sensitivity gap		—	—	—	—				
Total interest sensitivity gap		<u>(3,349.1)</u>	<u>1,739.3</u>	<u>(892.7)</u>	<u>(4,641.3)</u>				

* W.A.R.F. — Weighted Average Rate of Finance as at 31 December

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37. INTEREST RATE RISK (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

As at 31 December 2003									
	W.A.R.F.	Floating interest rate	Fixed interest rate maturing or repriced in			Total interest sensitive	Non-interest sensitive	Balances under Islamic principles	Total
			1 year or less	1 to 5 years	More than 5 years				
		USD	USD	USD	USD	USD	USD	USD	
Financial assets									
Investments	2.00%	1.8	—	0.4	—	2.2	99.0	—	101.2
Staff loans and other long term receivables	4.00%	—	0.9	6.6	61.4	68.9	8.4	125.1	202.4
Trade and other receivables (excluding short term staff loans)	1.45%	6.2	—	—	—	6.2	976.6	—	982.8
Short term investments . .	—	—	—	—	—	—	69.3	—	69.3
Cash and bank balances . .	2.38%	—	598.3	—	—	598.3	92.2	190.1	880.6
Total		8.0	599.2	7.0	61.4	675.6	1,245.5	315.2	2,236.3
Financial liabilities									
Total borrowings	5.03%	889.4	141.5	241.9	1,282.8	2,555.6	1.6	524.0	3,081.2
Customers' deposits	—	—	—	—	—	—	165.0	—	165.0
Trade and other payables	—	—	—	—	—	—	1,190.0	—	1,190.0
Total		889.4	141.5	241.9	1,282.8	2,555.6	1,356.6	524.0	4,436.2
On-balance-sheet interest sensitivity gap		(881.3)	457.7	(234.9)	(1,221.4)				
Off-balance-sheet interest sensitivity gap		—	—	—	—				
Total interest sensitivity gap		(881.3)	457.7	(234.9)	(1,221.4)				

* W.A.R.F. — Weighted Average Rate of Finance as at 31 December

In respect of the years ended 31 December 2002 and 2003

The table below summarises the weighted average rate of finance as at 31 December by major currencies for each class of financial asset and liability:

	As at 31 December,					
	2002			2003		
	USD	JPY	RM	USD	JPY	RM
Financial assets						
Long term investment	—	—	4.00%	0.89%	—	—
Staff loans	—	—	—	—	—	4.00%
Trade and other receivables	1.73%	—	4.00%	1.45%	—	—
Cash and bank balances	1.44%	—	2.92%	1.26%	—	2.66%
Financial liabilities						
Convertible bonds	4.00%	—	—	—	—	—
Total borrowings	6.24%	2.09%	2.73%	5.45%	1.87%	5.80%

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38. CREDIT RISK

For on-balance-sheet financial instruments, the main credit risk exposure has been disclosed elsewhere in the financial statements.

Off-balance-sheet financial instruments

The Group is exposed to credit risk where the fair value of the contract is favourable, where the counterparty is required to pay the Group in the event of contract termination. The following table summarises the favourable fair values of the contracts, indicating the credit risk exposure as at 31 December 2002 and 2003.

	As at 31 December,					
	2002		2003			
	Contract or notional principal amount RM	Favourable fair value RM	Contract or notional principal amount RM	Favourable fair value RM	Contract or notional principal amount USD	Favourable fair value USD
Long dated swap . . .	750.0	47.5	750.0	66.4	197.4	17.4
Cross-currency interest rate swap .	190.0	1.8	—	—	—	—
Interest rate swap . . .	—	—	570.0	1.4	150.0	0.4
	940.0	49.3	1,320.0	67.8	347.4	17.8

39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

In respect of the years ended 31 December 2002 and 2003

The fair value of a financial instrument is assumed to be the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in forced or liquidation sale.

Quoted market prices, when available, are used as the measure of fair values. However, for a significant portion of the Group financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using the net present value or other valuation techniques. The above techniques involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values.

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39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

In respect of the years ended 31 December 2002 and 2003 (Continued)

(a) *On-balance-sheet*

The carrying amounts of the financial assets and liabilities of the Group at the balance sheet date approximated their fair values except as set out below:

	As at 31 December,					
	2002		2003		2003	
	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value
	RM	RM	RM	RM	USD	USD
Financial assets						
Investments	139.6	184.9	384.7	458.4	101.2	120.6
Staff loans	331.8	289.8	262.0	233.8	68.9	61.5
Financial liabilities						
Convertible bonds	1,361.6	1,378.0	—	—	—	—
Total borrowings (excluding redeemable bonds)	5,604.8	6,294.0	6,717.2	7,597.0	1,767.7	1,999.2
Redeemable bonds/ payable to a subsidiary	—	—	3,000.0	3,000.0	789.5	789.5

The above carrying amount and net fair value of total borrowings exclude swaps, which are disclosed in sub-note (b).

Financial assets

The fair value of long term investments are estimated by reference to market indicative yields or the Group's share of net tangible assets. Where allowances of permanent diminution in value or impairment, where applicable, is made in respect of any investment, the carrying amount net of allowance made is deemed to be a close approximation of its fair value.

The fair value of staff loans have been estimated by discounting the estimated future cash flows using the prevailing market rates for similar credit risks and remaining period to maturity. The fair value of staff loans is significantly lower than carrying amount at the balance sheet date as the Company and its subsidiaries charged interest rates on staff loans at below current market rates. The Directors consider the carrying amount fully recoverable as they do not intend to realise the financial asset via exchange with another counterparty but to hold it to contract maturity. Collaterals are taken for these loans and the Directors are of the opinion that the potential losses in the event of default will be covered by the collateral values on individual loan basis.

For convertible education loans, amount owing by subsidiaries and associates and customers' deposits, it is not practicable to determine the fair values of these balances as they are mainly interest free and do not have fixed repayment terms. However, the carrying amounts recorded are not anticipated to be significantly in excess of their fair values at the balance sheet date.

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40. PRIOR YEAR ADJUSTMENTS

In respect of the year ended 31 December 2002

During the first quarter 2002, the Group changed its accounting policy with respect to the recognition of liabilities for dividend proposed in compliance with the new MASB 19 “Events after the Balance Sheet Date”.

In previous years, dividends were accrued as a liability when proposed by Directors. The Group has now changed this accounting policy to recognise dividends in shareholders’ equity as an appropriation of retained profits in the period in which the obligation to pay is established in accordance with MASB 19. Therefore, final dividends are now accrued as a liability after approval by shareholders at the Annual General Meeting.

This change in accounting policy has been accounted for retrospectively. The effects of the change in accounting policy are as follows:

	As previously reported	Effect of change in policy	As restated
	RM	RM	RM
Retained profits — at 1 January 2001	8,569.1	223.2	8,792.3
— at 31 December 2001	10,038.6	343.2	10,381.8
Proposed dividends — at 1 January 2001	223.2	(223.2)	—
— at 31 December 2001	343.2	(343.2)	—

In respect of the year ended 31 December 2003

(a) *Deferred tax*

During the year, the Group changed its accounting policy with respect to the recognition of provision for deferred tax in compliance with MASB 25 “Income Taxes”.

In previous years, provision was made for deferred tax, using the liability method, on all material temporary differences except where it was considered reasonably probable that the tax effect of such deferrals will continue in the foreseeable future. The Group has now changed this accounting policy to that of full provision in respect of all temporary differences in accordance with MASB 25. All temporary differences are now taken as provision in the financial statements in the period as and when they arise.

Deferred tax assets if any, are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unutilised tax losses can be utilised.

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40. PRIOR YEAR ADJUSTMENTS (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

(b) Intangible assets

During the year, the Group changed its accounting policy with respect to goodwill.

Goodwill on acquisition occurring on or after 1 January 2002 in respect of a subsidiary is included in the Consolidated Balance Sheet as intangible asset or, if arising in respect of an associate is included in the cost of investment in associates. Capitalised goodwill is tested for impairment at least annually, or if events or circumstances occur indicating that an impairment may exist. Impairment of goodwill is charged to Consolidated Income Statement as and when it arises. Goodwill on acquisition occurred prior to 1 January 2002 was written off against reserves in the year of acquisition. Such goodwill has not been retrospectively capitalised and subjected to impairment test as it was impractical to reinstate. The change in accounting policy has been accounted for retrospectively. Accordingly, the Consolidated Balance Sheet for the preceding financial year ended 31 December 2002 has been restated.

The above changes in accounting policies have been accounted for retrospectively. The effects of the changes in accounting policies are as follows:

	As previously reported	Effect of change in policy		As restated
	RM	(a) RM	(b) RM	
Income statement				
Operating costs	(8,115.1)	—	(39.7)	(8,154.8)
Taxation — the company and subsidiaries	(454.4)	(172.3)	—	(626.7)
Profit for the year attributable to shareholders	1,056.3	(172.3)	(39.7)	844.3
Balance sheet				
Reserves, Retained profit				
— at 1 January 2002	10,381.8	(1,361.3)	—	9,020.5
— at 31 December 2002	9,848.9	(1,533.6)	1,207.9	9,523.2
Deferred tax				
— at 1 January 2002	26.9	1,361.3	—	1,388.2
— at 31 December 2002	56.7	1,533.6	—	1,590.3
Associates				
— at 31 December 2002	1,538.6	—	1,207.9	2,746.5

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41. LIST OF SUBSIDIARIES

The subsidiaries are as follows:

Name of Company	% of shareholdings			Paid-up capital			Principal Activities
	As at 31 December			As at 31 December			
	2001	2002	2003	2001	2002	2003	
Citifon Sdn. Bhd.	100	100	100	RM65.0	RM65.0	RM65.0	Provision of national payphone network and related services
Fiberail Sdn. Bhd.	60	60	60	RM14.2	RM14.2	RM14.2	Installation and maintenance of optic fibre telecommunication system along the railway corridor in Peninsular Malaysia
GITN Sdn. Berhad.	—	100	100	RM—	RM20.0	RM20.0	Provision of managed network services and enhanced value added telecommunication and information technology services
Intelsec Sdn. Bhd.	100*	100*	100*	RM3.0	RM3.0	RM3.0	Installation and maintenance of computerised security systems and security related imaging technology
Mediatel (Malaysia) Sdn. Bhd.	100	100	100	RM4.0	RM4.0	RM4.0	Investment holding
Meganet Communications Sdn. Bhd.	70	70	70	RM11.0	RM11.0	RM11.0	Provision of interactive multimedia communication services and solution
Menara Kuala Lumpur Sdn. Bhd.	100	100	100	RM91.0	RM91.0	RM91.0	Management and operation of the telecommunication and tourism tower of Menara Kuala Lumpur
Mobikom Sdn. Bhd.	100	100	100	RM260.0	RM260.0	RM260.0	Provision/ transmission of voice and data through the cellular system
Parkside Properties Sdn. Bhd.	100*	100*	100*	RM0.1	RM0.1	RM0.1	Dormant
Rebung Utama Sdn. Bhd.	—	—	100	—	RM—	RM#	Special purpose entity
Societe Des Telecommunications De Guinee.	60**	60##	60**	GFR 75,000.0	GFR 75,000.0	GFR 75,000.0	Provision of telecommunication and related services in the Republic of Guinea

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41. LIST OF SUBSIDIARIES (CONTINUED)

Name of Company	% of shareholdings			Paid-up capital			Principal Activities
	As at 31 December			As at 31 December			
	2001	2002	2003	2001	2002	2003	
Tekad Mercu Berhad	—	—	100	—	RM—	RM#	Special purpose entity
Telekom Applied Business Sdn. Bhd.	70	70	70	RM1.6	RM1.6	RM1.6	Provision of software development and sale of software products
Telekom Consultancy Sdn. Bhd. . .	51*	51*	51*	RM#	RM#	RM#	Dormant
Telekom Enterprise Sdn. Bhd. . . .	100	100	100	RM0.6	RM0.6	RM0.6	Investment holding and provision of services relating to telecommunication, computer, data and information within and outside Malaysia
Telekom Infotech Sdn. Bhd.	100*	100*	100*	RM0.5	RM0.5	RM0.5	Dormant
Telekom Malaysia — Africa Sdn. Bhd.	100	100	100	RM0.1	RM0.1	RM0.1	Investment holding
Telekom Management Services Sdn. Bhd.	100	100	100	RM#	RM#	RM#	Provision of consultancy and engineering services in telecommunication
Telekom Multi-Media. Sdn. Bhd. . .	100	100	100	RM1.6	RM1.6	RM1.6	Investment holding and provision of interactive multimedia communication services and solutions
Telekom Networks Malawi Limited**	60	60	60	MKW 65.0	MKW 350.0	MKW 350.0	Provision of telecommunication and related services in Malawi
Telekom Payphone Sdn. Bhd.	100	100	100	RM9.0	RM9.0	RM9.0	Investment holding and provision of public telephone services
Telekom Publications Sdn. Bhd. . .	100	100	100	RM6.0	RM6.0	RM6.0	Provision of printing and publications services
Telekom Research & Development Sdn. Bhd.	100	100	100	RM20.0	RM20.0	RM20.0	Provision of research and development activities in the areas of telecommunication and multimedia, hi-tech applications and products and services in related business

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41. LIST OF SUBSIDIARIES (CONTINUED)

Name of Company	% of shareholdings			Paid-up capital			Principal Activities
	As at 31 December			As at 31 December			
	2001	2002	2003	2001	2002	2003	
Telekom Sales and Services Sdn. Bhd.	100	100	100	RM7.5	RM14.5	RM14.5	Trading in customer premises equipment and maintaining telecommunication equipment
Telekom Technology Sdn. Bhd.	70	70	70	RM0.1	RM13.0	RM13.0	Development, operation and marketing e-commerce services
Telesafe Sdn. Bhd.	100*	100*	100*	RM4.0	RM4.0	RM4.0	Dormant
Telekom Malaysia (S) Pte. Ltd.**	—	100	100	SGD—	SGD#	SGD#	Provision of international telecommunication facilities
Telekom Malaysia (UK) Limited***.	100*	100**	100**	STR#	STR#	STR#	Provision of international telecommunication facilities
Telekom Malaysia (Hong Kong) Limited** (formerly known as TM (Hong Kong) Limited).	100*	100	100	HKD#	HKD#	HKD#	Provision of international telecommunication facilities
TM (USA) Inc.**	100*	100	100	USD#	USD#	USD#	Provision of international telecommunication facilities
TM Cellular Sdn. Bhd.	100	100	—	RM 1,000.0	RM 1,565.0	RM—	Provision of mobile telecommunication and related services
TM Cellular (Holdings) Sdn. Bhd.	—	—	100	RM—	RM—	RM0.1	Market and provide voice, data, video, wireless multimedia & interactive content and application
TM Global Incorporated##	100	100	100	USD#	USD#	USD#	Investment holding
TM Facilities Sdn. Bhd.	—	100	100	RM—	RM2.3	RM2.3	Provision of facilities management services
TM International (Bangladesh) Limited##	70	70	70	TK340.0	TK340.0	TK340.0	Provision of mobile telecommunication services in Bangladesh
TM International (Cayman) Ltd.	100*	100*	100*	USD#	USD#	USD#	Investment holding
TM International Leasing Incorporated##	100	100	100	USD#	USD#	USD#	Investment holding

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41. LIST OF SUBSIDIARIES (CONTINUED)

Name of Company	% of shareholdings			Paid-up capital			Principal Activities
	As at 31 December			As at 31 December			
	2001	2002	2003	2001	2002	2003	
TM International Sdn. Bhd.	100	100	100	RM16.2	RM16.2	RM16.2	Investment holding and provision of telecommunication and consultancy services on an international scale
TM Net Sdn. Bhd.	—	100	100	RM—	RM180.0	RM180.0	Provision of internet related services
Universiti Telekom Sdn. Bhd.	100	100	100	RM1.0	RM1.0	RM1.0	Managing and administering a private university known as Multimedia University
VADS Berhad.	100	69.52	69.52	RM15.0	RM40.0	RM40.0	Provision of international and national managed network services for businesses and organisations
Subsidiaries held through Telekom Enterprise Sdn. Bhd.							
Celcom (Malaysia) Berhad	—	—	100	RM—	RM—	RM2,619.1	Provision of mobile, fixed and multimedia services
Mobitel Sdn. Bhd.	55*	55*	55*	RM8.0	RM8.0	RM8.0	Dormant
Subsidiaries held through Telekom Multi-Media Sdn. Bhd.							
TM Orion Sdn. Bhd.	100*	100*	100*	RM#	RM#	RM#	Dormant
Telekom Smart School Sdn. Bhd. .	51	51	51	RM15.0	RM15.0	RM15.0	Implementation of government smart school project, provision of multimedia education systems and software, portal services and other related services
Subsidiary held through Telekom Publications Sdn. Bhd.							
Cybermall Sdn. Bhd.	100	100	100	RM2.7	RM2.7	RM2.7	Provision of telecommunication, multimedia and information technology services

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41. LIST OF SUBSIDIARIES (CONTINUED)

Name of Company	% of shareholdings			Paid-up capital			Principal Activities
	As at 31 December			As at 31 December			
	2001	2002	2003	2001	2002	2003	
Subsidiaries held through TM International Sdn. Bhd.							
MTN Networks (Pvt.) Limited###	100	100	100	SLR1,638.9	SLR370.0	SLR370.0	Provision of mobile telecommunication services in Sri Lanka
TM International (L) Limited##	100	100	100	USD#	USD#	USD#	Investment holding
TM International Lanka (Pvt.) Limited##	100	100	100	SLR200.0	SLR200.0	SLR200.0	Investment holding
TMI Mauritius Limited##	100	100	100	USD#	USD#	USD#	Investment holding
G-Com Limited**	85	85	85	CED22.9	CED22.9	CED22.9	Investment holding
Cambodia Samart Communication Co. Ltd.**	51	51	51	USD8.5	USD8.5	USD8.5	Provision of mobile telecommunication services in Cambodia
Subsidiary held through TM International (L) Limited##							
TESS International Ltd	—	100*	100*	USD—	USD#	USD#	Investment holding
Subsidiary held through Universiti Telekom Sdn. Bhd.							
Unitele Multimedia Sdn. Bhd.	100	100	100	RM#	RM#	RM1.0	Adopting research ideas from Multimedia University for further development and prototyping, directing consultancy project to faculties and centres at Multimedia University and collaborating with other business partners in joint exercise
Subsidiaries held through VADS Berhad							
VADS e-Services. Sdn. Bhd.	100	100	100	RM1.0	RM1.0	RM1.0	Provision of managed e-services and managed application services
VADS Solutions Sdn. Bhd.	100	100	100	RM1.5	RM1.5	RM1.5	Provision of system integration services
Subsidiaries held through Celcom (Malaysia) Berhad							
Celcom Academy Sdn. Bhd.	—	—	100	RM—	RM—	RM#	Provision of training related services

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(All amounts are in millions unless otherwise stated)

41. LIST OF SUBSIDIARIES (CONTINUED)

Name of Company	% of shareholdings			Paid-up capital			Principal Activities
	As at 31 December			As at 31 December			
	2001	2002	2003	2001	2002	2003	
Subsidiaries held through Celcom (Malaysia) Berhad (Continued)							
Celcom Multimedia (Malaysia) Sdn. Bhd.	—	—	100*	RM—	RM—	RM#	Dormant
Celcom Technology (M) Sdn. Bhd.	—	—	100	RM—	RM—	RM2.0	Provision of telecommunication value added services through cellular or other forms of telecommunication network
Celcom Timur (Sabah) Sdn. Bhd.	—	—	60	RM—	RM—	RM0.5	Provision of fibre optic transmission network
Celcom Transmission (M) Sdn. Bhd.	—	—	100	RM—	RM—	RM25.0	Provision of transmission network related services
Celcom Trunk Radio (M) Sdn. Bhd.	—	—	100*	RM—	RM—	RM#	Ceased operations
CT Paging Sdn. Bhd.	—	—	100*	RM—	RM—	RM0.5	Inactive
Technology Resources Industries Berhad.	—	—	100	RM—	RM—	RM#	Investment holding and provision of management services
TM Cellular Sdn. Bhd.	—	—	100	RM—	RM—	RM1,565.0	Provision of mobile telecommunication and related services
Subsidiary held through Celcom Transmission (M) Sdn. Bhd.							
Alpha Canggih Sdn. Bhd.	—	—	100	RM—	RM—	RM#	Property investment
Subsidiaries held through Celcom Trunk Radio (M) Sdn. Bhd.							
CT Communication Sdn. Bhd.	—	—	100* ⁺	RM—	RM—	RM#	Dormant
Firent Management Services Sdn. Bhd.	—	—	100* ⁺	RM—	RM—	RM#	Dormant
Subsidiary held through CT Paging Sdn. Bhd.							
Masterpage Sdn. Bhd.	—	—	100* [^]	RM—	RM—	RM#	Dormant
Subsidiaries held through Technology Resources Industries Berhad							
Alphine Resources Sdn. Bhd.	—	—	100*	RM—	RM—	RM2.5	Inactive
Freemantle Holdings (M) Sdn. Bhd.	—	—	100	RM—	RM—	RM13.5	Investment holding
Malaysian Motorhomes Sdn. Bhd.	—	—	62.4*	RM—	RM—	RM0.7	Ceased operations

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

41. LIST OF SUBSIDIARIES (CONTINUED)

Name of Company	% of shareholdings			Paid-up capital			Principal Activities
	As at 31 December			As at 31 December			
	2001	2002	2003	2001	2002	2003	
Subsidiaries held through							
Technology Resources							
Industries Berhad (Continued)							
Rego Multi-Trades Sdn. Bhd.	—	—	100	RM—	RM—	RM2.0	Dealing in marketable securities
Technology Resources Management Services Sdn. Bhd.	—	—	100*	RM—	RM—	RM#	Inactive
Technology Resources Manufacturing Sdn. Bhd.	—	—	100*	RM—	RM—	RM15.9	Inactive
Technology Resources (Nominees) Sdn. Bhd.	—	—	100*	RM—	RM—	RM#	Dormant
TR Components Sdn. Bhd.	—	—	100	RM—	RM—	RM#	Investment holding
TR International Limited**.	—	—	100	HKD—	HKD—	HKD#	Investment holding

All subsidiaries are incorporated in Malaysia except for the following.

Name of company	Place of incorporation
Cambodia Smart Communication Co. Ltd.**	Cambodia
G-Com Limited**	Ghana
MTN Networks (Pvt.) Limited##	Sri Lanka
Societe Des Telecommunications De Guinee**	Republic of Guinea
Telekom Networks Malawi Limited**	Malawi
TESS International Ltd. *	Mauritius
TM Global Incorporated##	Federal Territory, Labuan
TM International (Bangladesh) Limited##.	Bangladesh
TM International (Cayman) Ltd. *	British West Indies, USA
TM International (L) Limited##	Federal Territory, Labuan
TM International Lanka (Pvt.) Limited##	Sri Lanka
TM International Leasing Incorporated##	Federal Territory, Labuan
TMI Mauritius Limited##.	Mauritius
Telekom Malaysia (S) Pte. Ltd.**	Singapore
Telekom Malaysia (UK) Limited**	United Kingdom
Telekom Malaysia (Hong Kong) Limited**	Hong Kong
TM (USA) Inc.**	USA
TR International Limited**	Hong Kong

* Inactive as at 31 December

Amounts less than 0.1 million in their respective currency

Audited by a member firm of PricewaterhouseCoopers

** Not audited by member firms of PricewaterhouseCoopers

^ In the process of being deregistered under Section 308 of the Companies Act, 1965

+ Undergoing members' voluntary winding up under Section 254 of the Companies Act, 1965

CED	Ghanaian Cedi
GFR	Guinea Franc
HKD	Hong Kong Dollar
MKW	Malawi Kwacha
SGD	Singapore Dollar
SLR	Sri Lanka Rupee
STR	Pound Sterling
TK	Bangladesh Taka
USD	US Dollar

TELEKOM MALAYSIA BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

42. LIST OF ASSOCIATES

The associates are as follows:

Name of company	% of shareholdings			Principal activities
	2001	2002	2003	
GITN Sdn. Bhd.	45	—	—	Integrated telecommunication network infrastructure
Celcom (Malaysia) Berhad	—	31.25*	—	Provision of mobile, fixed and multimedia services
5by5 Network Inc. (formerly known as Itopia Inc.)	16.5	16.5	— [#]	Research and development of telecommunication products
mySPEED.com. Sdn. Bhd.	15	16.2	16.22	Creating, implementing and operating e-business activities including electronic commerce delivery services, multimedia related activities and other computerised or electronic services
Sistem Iridium Malaysia Sdn. Bhd.	40**	40**	40**	Dormant
Associates held through Telekom Multi-Media Sdn. Bhd.				
Mahirnet Sdn. Bhd.	49	49	49	Development, management and marketing of educational products offered by local and overseas educational institutions electronically
Mutiara.Com Sdn. Bhd.	30	30	30	Provision of promotion of internet-based communication services
Associates held through TM International Sdn. Bhd. (formerly known as Telekom Malaysia International Sdn. Bhd.)				
Cambodia National Communication Inc.	42**	42**	—	Provision of trunk land mobile radio services

TELEKOM MALAYSIA BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

42. LIST OF ASSOCIATES (CONTINUED)

Name of company	% of shareholdings			Principal activities
	2001	2002	2003	
Associates held through TM International Sdn. Bhd. (formerly known as Telekom Malaysia International Sdn. Bhd.)				
Samart Corporation Public Company Limited.	19.73	19.73	19.59	Design, implementation and installation of telecommunication systems and the sale and distribution of telecommunication equipment
Associate held through Telekom Malaysia-Africa Sdn. Bhd.				
Thintana Communications Llc.	40	40	40	Investment holding
Associate held through G-Com Limited				
Ghana Telecommunications Company Limited.	30	—	—	Provision of telecommunication and related services
Associate held through Thintana Communications Llc.				
Telkom SA Limited.	30	30	30	Provision of telecommunication and related services
Associate held through Celcom (Malaysia) Berhad				
Celcom Timur (Sarawak) Sdn. Bhd.. . . .	—	—	60 ^{##}	Telecommunication services
Associates held through Technology Resources Industries Berhad				
Mobile Telecommunications Company of Esfahan (J.V. - P.J.S.).	—	—	49	Planning, designing, installing, operating and maintaining a GSM cellular telecommunication network to customers in the province of Esfahan, Iran
Sheba Telecom (Pvt.) Ltd. (sub-note a) . .	—	—	86.4 ^{##}	Provision of telecommunication services
TRI Telecommunication Tanzania Limited	—	—	60 ^{##***}	Provision of telecommunication services
Associate held through Celcom Transmission (M) Sdn Bhd				
Fibrecomm Network (M) Sdn. Bhd.. . . .	—	—	41	Provision of fibre optic transmission network services

TELEKOM MALAYSIA BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

42. LIST OF ASSOCIATES (CONTINUED)

All associates are incorporated in Malaysia except the following:

<u>Name of company</u>	<u>Place of incorporation</u>
Cambodia National Communication Inc.	Cambodia
5by5 Networks Inc.	USA
Samart Corporation Public Company Limited	Thailand
Thintana Communications Llc.	USA
Telkom SA Limited.	South Africa
Sheba Telecom (Pvt.) Ltd.	Bangladesh
TRI Telecommunication Tanzania Limited	Tanzania
Mobile Telecommunications Company of Esfahan (J.V. - P.J.S.)	Iran

All associates have co-terminous financial year end with the Company except for mySPEED.COM Sdn. Bhd. and Telkom SA Limited with financial year ends on 31 January and 31 March respectively.

- * 29.16% held through Telekom Enterprise Sdn. Bhd.
- ** Inactive as at 31 December
- *** Liquidator appointed
- # Treated as long term investment in 2003 due to loss of significant influence
- ## Treated as associates due to loss of control while maintaining significant influence

(a) On 18 March 1999, the board of directors of Sheba Telecom (Pvt.) Ltd. (Sheba) approved the increase of the company's paid-up share capital from Taka40,204,000 to Taka327,996,000 via capitalisation of advances made by Technology Resources Industries Berhad (TRI). Based on this increase in share capital, TRI's equity interest in Sheba stands at 86.4%. However, capitalisation of the intercompany advances was disputed by the minority shareholders of Sheba and Sheba has yet to lodge a notification of the increase in shareholding with the Registrar of Joint Stock Companies. The outcome of the dispute with Sheba's minority shareholders is pending the result of the arbitration proceedings described in note 33(j) to the financial statements.

43. CURRENCY

All amounts are expressed in Ringgit Malaysia (RM) unless otherwise stated.

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

UNCONSOLIDATED INCOME STATEMENTS
(All amounts are in millions unless otherwise stated)

	Note	For the years ended 31 December,			
		2001	2002	2003	2003
		RM	RM	RM	USD
Operating revenue	2	7,907.8	7,977.1	7,943.7	2,090.4
Operating costs	3	<u>(6,365.7)</u>	<u>(7,829.7)</u>	<u>(6,916.8)</u>	<u>(1,820.2)</u>
Operating profit		1,542.1	147.4	1,026.9	270.2
Other operating income	4	<u>305.9</u>	<u>291.4</u>	<u>289.0</u>	<u>76.1</u>
Operating profit before finance cost. .		1,848.0	438.8	1,315.9	346.3
Net finance cost	5	<u>(452.5)</u>	<u>(365.3)</u>	<u>(422.9)</u>	<u>(111.3)</u>
Profit before taxation		1,395.5	73.5	893.0	235.0
Taxation					
— the company	6	<u>(536.9)</u>	<u>(399.7)</u>	<u>(364.0)</u>	<u>(95.8)</u>
Profit/(loss) for the year attributable to shareholders		<u>858.6</u>	<u>(326.2)</u>	<u>529.0</u>	<u>139.2</u>

The above unconsolidated income statements are to be read in conjunction with the Significant Accounting Policies on pages F-138 to F-146 and the Notes to the Financial Statements on pages F-147 to F-209.

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

UNCONSOLIDATED BALANCE SHEETS
(All amounts are in millions unless otherwise stated)

		As at 31 December,				
		2001	2002	2003	2003	
Note		RM	RM	RM	USD	
	Share capital	8	3,103.5	3,167.0	3,250.7	855.4
	Share premium		2,065.0	2,536.5	3,046.4	801.7
	Reserves	9	11,452.1	11,127.5	9,894.5	2,603.8
	Total capital and reserves		16,620.6	16,831.0	16,191.6	4,260.9
	Convertible Bonds	10	1,358.2	1,361.6	—	—
	Borrowings	11	5,493.0	4,997.0	6,432.1	1,692.7
	Customers' deposits	14	614.3	614.4	614.9	161.8
	Payable to a subsidiary company	12	—	—	2,983.5	785.1
	Deferred tax liabilities	15	—	—	1,694.6	446.0
	Retirement benefits	16	317.4	—	—	—
	Deferred and long term liabilities		7,782.9	6,973.0	11,725.1	3,085.6
			24,403.5	23,804.0	27,916.7	7,346.5
	Intangible assets	17	—	—	50.0	13.2
	Property, plant and equipment	18	16,010.8	15,251.0	14,569.4	3,834.1
	Subsidiaries	19	4,891.6	6,993.5	10,926.2	2,875.3
	Associates	20	22.0	96.4	1.5	0.4
	Investments	21	98.3	98.3	338.1	88.9
	Long term receivables	22	657.0	684.6	668.8	176.0
	Deferred tax assets	15	—	—	—	—
	Inventories	23	95.5	105.7	103.3	27.2
	Trade and other receivables	24	3,535.2	2,942.2	3,104.5	817.0
	Short term investments	25	222.5	197.7	260.3	68.5
	Cash and bank balances	26	2,110.5	1,138.2	852.0	224.2
	Current assets		5,963.7	4,383.8	4,320.1	1,136.9
	Trade and other payables	27	2,249.9	2,576.5	2,863.1	753.4
	Borrowings	11	4.6	920.4	2.9	0.8
	Taxation		642.2	206.7	91.4	24.1
	Proposed dividend		343.2	—	—	—
	Current liabilities		3,239.9	3,703.6	2,957.4	778.3
	Net current assets		2,723.8	680.2	1,362.7	358.6
			24,403.5	23,804.0	27,916.7	7,346.5

The above unconsolidated balance sheets are to be read in conjunction with the Significant Accounting Policies on pages F-138 to F-146 and the Notes to the Financial Statements on pages F-147 to F-209.

TELEKOM MALAYSIA BERHAD
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UNCONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(All amounts are in millions unless otherwise stated)

		<u>Issued and Fully Paid of RM1 each Special Share*/ Ordinary Shares</u>	<u>Non- distributable</u>	<u>Distributable</u>	
	Note	<u>Share Capital</u>	<u>Share Premium</u>	<u>Retained Profits</u>	<u>Total</u>
		USD	USD	USD	USD
At 1 January 2003					
— as previously reported		833.4	667.5	2,928.3	4,429.2
— prior year adjustments		—	—	(403.6)	(403.6)
		833.4	667.5	2,524.7	4,025.6
— as restated		833.4	667.5	2,524.7	4,025.6
Profit for the year		—	—	139.2	139.2
Dividends paid for year ended					
— 31.12.2002	7	—	—	(60.1)	(60.1)
Issue of shares					
— exercise of share options . . .		22.0	134.2	—	156.2
At 31 December 2003		<u>855.4</u>	<u>801.7</u>	<u>2,603.8</u>	<u>4,260.9</u>
		<u>Issued and Fully Paid of RM1 each Special Share*/ Ordinary Shares</u>	<u>Non- distributable</u>	<u>Distributable</u>	
	Note	<u>Share Capital</u>	<u>Share Premium</u>	<u>Retained Profits</u>	<u>Total</u>
		RM	RM	RM	RM
At 1 January 2003					
— as previously reported		3,167.0	2,536.5	11,127.5	16,831.0
— prior year adjustments		—	—	(1,533.6)	(1,533.6)
		3,167.0	2,536.5	9,593.9	15,297.4
— as restated		3,167.0	2,536.5	9,593.9	15,297.4
Profit for the year		—	—	529.0	529.0
Dividends paid for year ended					
— 31.12.2002	7	—	—	(228.4)	(228.4)
Issue of shares					
— exercise of share options . . .		83.7	509.9	—	593.6
At 31 December 2003		<u>3,250.7</u>	<u>3,046.4</u>	<u>9,894.5</u>	<u>16,191.6</u>

TELEKOM MALAYSIA BERHAD
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UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY — (Continued)
(All amounts are in millions unless otherwise stated)

	Note	Issued and Fully Paid of RM1 each		Non-	Distributable	Total
		Special Shares*/	Ordinary Shares	distributable	Distributable	
				Share	Retained	
Number of shares	Nominal value	Premium	Profits			
		RM	RM	RM	RM	RM
At 1 January 2002						
— as previously reported		3,103.5	3,103.5	2,065.0	11,452.1	16,620.6
— prior year adjustments	41	—	—	—	343.2	343.2
— as restated		3,103.5	3,103.5	2,065.0	11,795.3	16,963.8
Loss for the year		—	—	—	(326.2)	(326.2)
Dividends paid for year ended						
— 31.12.2001	7	—	—	—	(341.6)	(341.6)
Issue of shares						
— exercise of share options		63.5	63.5	471.5	—	535.0
At 31 December 2002		<u>3,167.0</u>	<u>3,167.0</u>	<u>2,536.5</u>	<u>11,127.5</u>	<u>16,831.0</u>
At 1 January 2001		3,087.3	3,087.3	1,940.3	10,935.9	15,963.5
Profit for the year		—	—	—	858.6	858.6
Dividends for year ended						
— 31.12.2000 (over provision)	7	—	—	—	0.8	0.8
— 31.12.2001	7	—	—	—	(343.2)	(343.2)
		—	—	—	(342.4)	(342.4)
Issue of shares						
— exercise of share options		16.2	16.2	124.7	—	140.9
At 31 December 2001		<u>3,103.5</u>	<u>3,103.5</u>	<u>2,065.0</u>	<u>11,452.1</u>	<u>16,620.6</u>

* Issued and fully paid shares include the Special Rights Redeemable Preference Share (Special Share) of RM1. Refer to note 8 to the financial statements for details of the terms and rights attached to Special Share.

The above unconsolidated statements of changes in equity are to be read in conjunction with the Significant Accounting Policies on pages F-138 to F-146 and the Notes to the Financial Statements on pages F-147 to F-209.

TELEKOM MALAYSIA BERHAD
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UNCONSOLIDATED CASH FLOW STATEMENTS
(All amounts are in millions unless otherwise stated)

	Note	For the years ended 31 December,			
		2001	2002	2003	2003
		RM	RM	RM	USD
Cash flows from operating activities .	28	2,749.2	2,584.6	2,937.8	773.1
Cash flows used in investing activities	29	(1,168.0)	(4,095.2)	(5,639.4)	(1,484.0)
Cash flows (used in)/from financing activities	30	<u>(1,400.3)</u>	<u>538.3</u>	<u>2,415.4</u>	<u>635.6</u>
Net increase/(decrease) in cash and cash equivalents.		180.9	(972.3)	(286.2)	(75.3)
Cash and cash equivalents at beginning of the year		<u>1,929.6</u>	<u>2,110.5</u>	<u>1,138.2</u>	<u>299.5</u>
Cash and cash equivalents at end of the year	26	<u><u>2,110.5</u></u>	<u><u>1,138.2</u></u>	<u><u>852.0</u></u>	<u><u>224.2</u></u>

The above unconsolidated cash flow statements are to be read in conjunction with the Significant Accounting Policies on pages F-138 to F-146 and the Notes to the Financial Statements on pages F-147 to F-209.

TELEKOM MALAYSIA BHD
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SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements for the years ended 31 December 2001, 2002 and 2003, unless otherwise stated.

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in the Significant Accounting Policies below.

The preparation of financial statements in conformity with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Although these estimates are based on Directors' best knowledge of current events and actions, actual results could differ from those estimates.

The financial statements comply with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965. The new applicable approved accounting standards adopted in these financial statements are as follows:

In respect of the year ended 31 December 2002

(i) *Retrospective application*

The Company adopted the following MASB standards which are effective for accounting periods on or after 1 July 2001 and 1 January 2002:

- MASB 19 "Events After Balance Sheet Date"
- MASB 20 "Provisions, Contingent Liabilities and Contingent Assets"
- MASB 22 "Segment Reporting"

Comparatives have been adjusted or extended to take into account the requirements of MASB 19 and MASB 22 as shown in the respective note 41 to the financial statements and note 35 to the consolidated financial statements. The presentation of Operating Revenue was extended to ensure consistency with Segmental Income as shown in note 3 and note 35 to the consolidated financial statements respectively.

TELEKOM MALAYSIA BHD
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SIGNIFICANT ACCOUNTING POLICIES — (Continued)

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

In respect of the year ended 31 December 2002 (Continued)

(ii) *Prospective application*

MASB 23 “Impairment of Assets”	This standard does not allow retrospective application.
MASB 24 “Financial Instruments: Disclosure and Presentation”	The Company has taken advantage of the exemption provided to apply this standard prospectively. Accordingly, the following presentation and disclosures have been adopted in these financial statements: <ul style="list-style-type: none">— classification of compound instrument The equity and liability components of convertible bonds have not been reclassified as the bonds were issued prior to 1 January 2002.— comparative As this is the first year application of the standard, as permitted under the standard, no comparative information for the previous year is presented as such information was not readily available.

There are no changes in accounting policy that affect net profit for the year as a result of the adoption of the above standards in these financial statements as the Company was already following the recognition and measurement principles in the standard.

In respect of the year ended 31 December 2003

- MASB 25 “Income Taxes”
- MASB 27 “Borrowing Costs”
- MASB 28 “Discontinuing Operations”
- MASB 29 “Employee Benefits”

In addition to the above, during the year ended 31 December 2003, the Company adopted a new accounting policy with respect to other intangible assets, details of which are described in note 3 of Significant Accounting Policies.

The changes in policies and/or presentation in accordance with the requirements of MASB 25 and MASB 29 adopted during the year ended 31 December 2003 have been reflected in the financial statements.

Other than the above, there were no changes in accounting policies that affect net profit and shareholders’ equity as the Company was already following the recognition and measurement principles in those standards.

2. ASSOCIATES

Associates are corporations or other entities in which the Company exercises significant influence but which it does not control. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not control over those policies. Investments in associates are accounted for in the consolidated financial statements by the equity method of accounting.

TELEKOM MALAYSIA BHD
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SIGNIFICANT ACCOUNTING POLICIES — (Continued)

3. INTANGIBLE ASSETS

In respect of the year ended 31 December 2003

Other intangible assets

On 2 April 2003, the Company incurred expenditure with respect to acquisition of 3G Spectrum licence. The total licence fee payable is capitalised and amortised over the defined period, from the effective date of commercialisation of services, subject to impairment, to the end of the assignment period on a straight line basis, not exceeding a period of 15 years. Intangible assets are not revalued.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

(i) Cost

Cost of telecommunication network comprises expenditure up to and including the last distribution point before customers' premises and includes contractors' charges, materials, direct labour and related overheads. The cost of other property, plant and equipment comprises their purchase cost and any incidental cost of acquisition.

(ii) Depreciation

Freehold land is not depreciated as it has an infinite life. Leasehold land is amortised in equal instalments over the periods of the respective leases. Long term leasehold land has an unexpired lease period of 50 years and above. Other property, plant and equipment are depreciated on a straight line basis to write off the cost of the assets to their residual values over their estimated useful lives.

The estimated useful lives in years assigned to other property, plant and equipment are as follows:

Telecommunication network	3–20
Movable plant and equipment	5–8
Computer support systems	3–5
Buildings	5–40

Depreciation on property, plant and equipment under construction commences when the property, plant and equipment are ready for their intended use.

In the case of other land mentioned in note 18(a) to the financial statements, pending finalisation with the relevant authorities as to their tenure, amortisation is provided at an estimated amount of RM0.3 million per annum.

(iii) Impairment

Where an indication of impairment exists, the carrying amount of property, plant and equipment are assessed and written down immediately to its recoverable amount. See Significant Accounting Policies on Impairment of Assets.

(iv) Gains or Losses on Disposal

Gains or losses on disposal are determined by comparing proceeds with carrying amount and are included in Income Statement.

TELEKOM MALAYSIA BHD
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SIGNIFICANT ACCOUNTING POLICIES — (Continued)

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(v) Repairs and Maintenance

Repairs and maintenance are charged to the Income Statement during the period in which they are incurred. The costs of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow the Company. These costs are depreciated over the remaining useful life of the related asset.

5. INVESTMENTS

Investments in subsidiaries and associates are stated at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

Investments in International Satellite Organisations, quoted shares within non-current assets and other unquoted shares are stated at cost and allowances for permanent diminution in value is made where, in the opinion of the Directors, there is a decline other than temporary in the value of such investments. Such allowances for permanent diminution in value is recognised as an expense in the period in which the diminution is identified.

Investments in quoted shares within current assets are carried at the lower of cost and market value, determined on an aggregate portfolio basis by category of investment. Cost is derived at on the weighted average basis. Market value is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date. Increase/decrease in the carrying amount of marketable securities are credited/charged to the Income Statement.

6. IMPAIRMENT OF ASSETS

Property, plant and equipment and other non-current assets, including intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows. The impairment loss is charged to the Income Statement.

7. INVENTORIES

Inventories comprise mainly items held for capital projects and maintenance. Inventories are stated at lower of cost and net realisable value. Cost is determined on a weighted average basis. Net realisable value represents the estimated selling price less all estimated costs to completion. In arriving at net realisable value, due allowance is made for all obsolete and slow moving items.

8. TRADE RECEIVABLES

Trade receivables are carried at anticipated realisable value. Bad debts are written off and specific allowances are made for trade receivables considered to be doubtful of collection. In addition, a general allowance based on a percentage of trade receivables is made to cover possible losses which are not specifically identified.

TELEKOM MALAYSIA BHD
(Incorporated in Malaysia)

SIGNIFICANT ACCOUNTING POLICIES — (Continued)

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits and bank overdrafts. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

10. BONDS, NOTES AND DEBENTURES

Bonds, notes and debentures, issued by the Company and special purposes entities are stated at the net proceeds received on issue. The finance costs which represent the difference between the net proceeds and the total amount of the payments of these borrowings are allocated to periods over the term of the borrowings at a constant rate on the carrying amount and are charged to the Income Statement.

For Convertible Bonds issued prior to 1 January 2002, the amount recognised in shareholders' fund in respect of shares issued upon conversion will be the amount at which the liability for the Bonds is stated as at the date of conversion. The excess of the conversion amount over the nominal value of share is treated as share premium. No gain or loss will be recognised on conversion. The Convertible Bonds have been fully redeemed during financial year ended 31 December 2003.

Interest, dividends, losses and gains relating to a financial instrument, or a component part, classified as a liability is reported within finance cost in the Income Statement.

11. DIVIDENDS TO SHAREHOLDERS OF THE COMPANY

Dividends on ordinary shares are recognised as liabilities when proposed or declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet date but as an appropriation from retained profits. Upon the dividend becoming payable, it will be accounted for as liability.

12. OPERATING LEASES

Leases of assets where a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on the straight line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expenses in the period in which termination takes place.

13. INCOME TAXES

In respect of the years ended 31 December 2001 and 2002

Provision is made for deferred taxation, using the liability method, on all material timing differences except where it is considered reasonably probable that the tax effect of such deferrals will continue in the foreseeable future.

In respect of the year ended 31 December 2003

Current tax expense is determined according to the tax laws of jurisdiction in which the Company operates and include all taxes based upon the taxable profits on distributions of retained earnings of the Company, and real property gains taxes payable on disposal of properties.

TELEKOM MALAYSIA BHD
(Incorporated in Malaysia)

SIGNIFICANT ACCOUNTING POLICIES — (Continued)

13. INCOME TAXES (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unutilised tax losses can be utilised.

Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

14. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company or a present obligation that it is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare circumstances where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

15. REVENUE RECOGNITION

Operating revenue represents revenue earned from the sale of products and rendering of services net of returns, duties, sales discounts and sales taxes paid. Operating revenue is recognised or accrued at the time of the provision of the products or services.

Dividend income from investment in subsidiaries, associates and other investments is recognised when a right to receive payment is established.

Finance income includes income from deposits with licenced banks, finance companies, other financial institutions and staff loans, is recognised on an accrual basis.

16. RETIREMENT BENEFIT

In respect of the year ended 31 December 2001

The Company had an approved retirement benefit trust fund in respect of the defined retirement benefits for eligible employees under the Telekom Malaysia Retirement Benefit Scheme ("Scheme"). The fund was valued every three years by a professionally qualified independent actuary who will also recommend the rates of contribution payable.

The cost of providing retirement benefits was charged to the Income Statement on a systematic basis, so as to be sufficient to meet the liability of the Scheme over the future working lives of the existing employees.

TELEKOM MALAYSIA BHD
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SIGNIFICANT ACCOUNTING POLICIES — (Continued)

16. RETIREMENT BENEFIT (CONTINUED)

In respect of the year ended 31 December 2001 (Continued)

The Scheme was discontinued with effect from 31 December 2000. The total estimated retirement benefit liabilities over and above the value of assets held in the retirement benefit trust fund are provided for.

With effect from 1 January 2001, contributions towards retirement benefits are made through additional payment to the Employees Provident Fund and are charged to the Income Statement in the period in which they arise.

17. EMPLOYEE BENEFITS

In respect of the year ended 31 December 2003

(i) *Short Term Employee Benefits*

Wages, salaries, paid annual leave and sick leave, bonuses and non monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company.

(ii) *Contribution to Employees Provident Fund (EPF)*

The Company's contributions to EPF are charged to the Income Statement in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(iii) *Termination Benefits*

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(iv) *Equity Compensation Benefits*

Details of the Company's Employee Share Option Scheme for 2003 are set out in Note 8(e) (2002: 8(c); 2001: 8(c)) to the financial statements. The Company does not make a charge to the Income Statement in connection with options granted over the ordinary shares of the Company. When share options are exercised, proceeds received net of any transaction costs, are credited to share capital and share premium.

18. FINANCE COST

Cost incurred in connection with financing the construction and installation of property, plant and equipment is capitalised until the property, plant and equipment are ready for their intended use. All other finance cost is charged to the Income Statement.

TELEKOM MALAYSIA BHD
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SIGNIFICANT ACCOUNTING POLICIES — (Continued)

19. FOREIGN CURRENCY

(i) Foreign Currency Transactions and Balances

Foreign currency transactions are accounted for at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities are translated at exchange rates prevailing at the balance sheet date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the Income Statement.

All other exchange gains or losses are dealt with through the Income Statement.

(ii) Closing Rates

The principal closing rates (units of Malaysian Ringgit per foreign currency) used in translating significant balances at year end are as follows:

<u>Foreign currency</u>	<u>31.12.2003</u>	<u>31.12.2002</u>	<u>31.12.2001</u>
US Dollar	RM3.80000	RM3.80000	RM3.80000
Japanese Yen	RM0.03539	RM0.03198	RM0.02885
Guinea Franc	RM0.00191	RM0.00193	RM0.00194
Bangladesh Taka	RM0.06501	RM0.06592	RM0.06702
Sri Lanka Rupee	RM0.03946	RM0.03940	RM0.04093
South African Rand	RM0.56929	RM0.44471	RM0.31746
Special Drawing Rights	RM5.64670	RM5.16620	—
Gold Franc Currency	RM1.84470	—	—
Deutsche Mark	—	—	RM1.73060
Canadian Dollar	—	—	RM2.38650
Pound Sterling	—	—	RM5.52558
Thai Baht	—	—	RM0.08595
Ghanaian Cedi	—	—	RM0.00054
Malawi Kwacha	—	—	RM0.05735

20. FINANCIAL INSTRUMENTS

In respect of the year ended 31 December 2002 and 2003

(i) Description

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

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SIGNIFICANT ACCOUNTING POLICIES — (Continued)

20. FINANCIAL INSTRUMENTS (CONTINUED)

In respect of the year ended 31 December 2002 and 2003 (Continued)

(ii) *Financial Instruments Recognised on the Balance Sheet*

The particular recognition and measurement method for financial instruments recognised on the balance sheet is disclosed in the individual significant accounting policy statements associated with each item.

(iii) *Financial Instruments Not Recognised on the Balance Sheet*

The financial derivative hedging instruments are used in the Company's risk management of foreign currency and interest rate exposures of its financial liabilities. Hedge accounting principles are applied for the accounting of the underlying exposures and their hedge instruments. These hedge instruments are not recognised in the financial statements on inception. The underlying foreign currency liabilities are translated at their respective hedged exchange rate, and differential interest receipts and payments arising from interest rate derivative instruments are accrued, so as to match the net differential with the related expenses on the hedged liabilities.

Exchange gains and losses relating to hedge instruments are recognised as a component of finance costs in the Income Statement in the same period as the exchange differences on the underlying hedged items. No amounts are recognised in respect of future periods.

(iv) *Fair Value Estimation for Disclosure Purposes*

The fair value of publicly traded financial instruments is based on quoted market prices at the balance sheet date.

In assessing the fair value of non-traded financial instruments, the Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices are used if available or other techniques, such as estimated discounted value of future cash flows, are used to determine fair value. In particular, the fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

The carrying value for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair value.

TELEKOM MALAYSIA BERHAD
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
(All amounts are in millions unless otherwise stated)

1. PRINCIPAL ACTIVITIES

The principal activities of the Company during the years ended 31 December 2001, 2002 and 2003 are the establishment, maintenance and provision of telecommunication and related services under the licence issued by the Minister of Energy, Communications and Multimedia. The principal activities of the subsidiaries are set out in note 41 to the consolidated financial statements. There was no significant change in the nature of these activities during the years ended 31 December 2001, 2002 and 2003.

2. OPERATING REVENUE

	For the year ended 31 December, 2001 <u>RM</u>
Rentals	
Business.	517.1
Residential.	744.0
Mobile.	<u>4.0</u>
Sub total	<u>1,265.1</u>
Calls/Usage	
Business.	2,767.2
Residential.	1,984.6
Mobile.	<u>336.1</u>
Sub total	<u>5,087.9</u>
Others	
Business.	93.2
Residential.	84.0
Mobile.	<u>7.8</u>
Sub total	<u>185.0</u>
Total	
Business.	3,377.5
Residential.	2,812.6
Mobile.	<u>347.9</u>
Total fixed line.	<u>6,538.0</u>
Data services	1,008.0
Internet and multimedia	144.9
Other telecommunication related services	<u>216.9</u>
Total fixed line, data, internet and multimedia and other telecommunication related services.	<u>7,907.8</u>
Cellular.	<u>—</u>
Non-telecommunication related services	<u>—</u>
TOTAL OPERATING REVENUE.	<u>7,907.8</u>

TELEKOM MALAYSIA BERHAD
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

2. OPERATING REVENUE (CONTINUED)

	For the years ended 31 December,		
	2002	2003	2003
	RM	RM	USD
Rentals			
Business.	652.3	726.0	191.0
Residential.	788.6	849.9	223.7
Sub total	<u>1,440.9</u>	<u>1,575.9</u>	<u>414.7</u>
Calls/Usage			
Business.	2,904.1	2,825.9	743.7
Residential.	1,879.3	1,873.7	493.0
Sub total	<u>4,783.4</u>	<u>4,699.6</u>	<u>1,236.7</u>
Others			
Business.	131.6	68.1	17.9
Residential.	78.9	73.1	19.2
Sub total	<u>210.5</u>	<u>141.2</u>	<u>37.1</u>
Total			
Business.	3,688.0	3,620.0	952.6
Residential.	2,746.8	2,796.7	735.9
Total fixed line.	<u>6,434.8</u>	<u>6,416.7</u>	<u>1,688.5</u>
Data services	1,120.0	1,225.6	322.5
Internet and multimedia	126.7	68.7	18.1
Other telecommunication related services	264.5	193.7	51.0
Total fixed line, data, internet and multimedia and other telecommunication related services.	<u>7,946.0</u>	<u>7,904.7</u>	<u>2,080.1</u>
Cellular.	<u>31.1</u>	<u>39.0</u>	<u>10.3</u>
TOTAL OPERATING REVENUE.	<u><u>7,977.1</u></u>	<u><u>7,943.7</u></u>	<u><u>2,090.4</u></u>

TELEKOM MALAYSIA BERHAD
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

3. OPERATING COSTS

	For the years ended 31 December,			
	2001 RM	2002 RM	2003 RM	2003 USD
Allowance for bad and doubtful debts (net of bad debt recoveries)	423.1	322.2	189.2	49.8
Allowance for diminution in value of long term investments	—	—	10.3	2.7
Allowance/(reversal) for diminution in value of quoted investments	20.3	33.7	(47.9)	(12.6)
Allowance for/waiver of amount owing by subsidiaries	—	—	105.0	27.6
Allowance for diminution in value of investment in an International Satellite Organisation	12.6	—	—	—
Charges and agencies commissions . . .	84.4	88.9	114.6	30.1
Depreciation of property, plant and equipment (PPE)	2,087.2	2,088.3	2,490.9	655.5
Domestic and international outpayment Manpower	1,014.9	1,176.4	1,419.5	373.5
Maintenance	972.1	1,044.4	—	—
Maintenance	242.3	292.1	286.5	75.4
Marketing, advertising and promotion .	—	—	124.9	32.9
Net loss/(gain) on foreign exchange — realised	(0.4)	(5.6)	14.4	3.8
Net (gain)/loss on foreign exchange — unrealised	(103.5)	89.8	78.5	20.6
Rental — land and buildings	102.2	100.9	95.1	25.0
Rental — equipment	26.1	23.6	27.5	7.2
Rental — others	80.1	45.8	1.6	0.4
Retirement benefits	60.2*	(21.7)*	—	—
Research and development	24.3	21.8	50.0	13.1
Staff costs	—	—	943.4	248.3
Staff costs capitalised in PPE	—	—	(60.2)	(15.8)
Supplies and inventories	241.3	237.5	215.0	56.6
Universal Service Provision (USP) . . .	—	209.2	187.2	49.3
Universal Service Obligation (USO) — in respect of prior year	—	—	26.5	7.0
Utilities	137.8	137.4	151.1	39.8
Waiver of/allowance for loans and advances to subsidiaries	406.1	1,074.4	—	—
Write down of investment in a subsidiary	—	316.0	9.1	2.4
Write off of PPE	4.7	50.9	4.8	1.3
Other operating costs	529.9	503.7	479.8	126.3
Total Operating Costs	6,365.7	7,829.7	6,916.8	1,820.2

* Sub-note (a) in respect of years ended 31 December 2001 and 2002 only

TELEKOM MALAYSIA BERHAD
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

3. OPERATING COSTS (CONTINUED)

In respect of the year ended 31 December 2001

	<u>For the year ended 31 December 2001</u> RM
Other operating costs include:	
— Audit fees	
— current year	0.4
Directors of the Company	
— fees.	0.2
— remuneration and other emoluments	0.8

- (a) The retirement benefit charge for the current year represents the difference in the total estimated retirement benefit liabilities over the value of assets held in the retirement benefit trust fund.
- (b) In year 2000, the research and development activities were carried out by a division of the Company. Therefore, the research and development cost of RM5.9 million were reflected in the respective category of operating costs. In the current year, the research and development cost was in the form of a grant to a wholly owned subsidiary company.
- (c) Estimated money value of benefits of Directors amounted to RM57,600 for the Company. Estimated money value of benefits of a former Director amounted to RM Nil for the Company.
- (d) Options granted to Executive Directors of the Company pursuant to Employees' Share Option Scheme (ESOS 2) during the year are as follows:

	<u>Granted during the year ended</u> 31.12.2001	<u>Unexercised options at year end</u> 31.12.2001
Dato' Dr Md Khir bin Abdul Rahman	200,000	—
Dato' Dr. Abdul Rahim bin Haji Daud.	130,000	130,000

The options were given to these Directors on the same terms and conditions as these offered to other employees of the Company (Note 8(c)).

In respect of the year ended 31 December 2002

	<u>For the year ended 31 December 2002</u> RM
Other operating cost include:	
Audit fee	
— current year	0.4
Directors of the Company	
— fees.	0.3
— remuneration and other emoluments	1.0

TELEKOM MALAYSIA BERHAD
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

3. OPERATING COSTS (CONTINUED)

In respect of the year ended 31 December 2002 (Continued)

- (a) The Retirement Benefit Scheme was discontinued with effect from 31 December 2000. During the year, the retirement benefit liabilities have been remitted to Employees' Provident Fund. The current year credit represents the excess of the book provision over the actual retirement benefit liabilities and was reversed accordingly.
- (b) Estimate money value of benefits of Directors amounted to RM44,500 for the Company.
- (c) Options granted to Executive Directors of the Company pursuant to Employees' Share Option Scheme (ESOS 3) during the year are as follows:

	Granted during the year ended	Unexercised options at year end
	31.12.2002	31.12.2002
Dato' Dr. Md Khir bin Abdul Rahman	178,000	178,000
Dato' Dr. Abdul Rahim bin Haji Daud	171,000	171,000

The options were given to these Directors on the same terms and conditions as these offered to other employees of the Company (Note 8(c)).

In respect of the year ended 31 December 2003

	For the year ended 31 December,	
	2003	2003
	RM	USD
Staff costs include:		
— Salaries, allowances, overtime and bonus	766.4	201.7
— Contribution to Employees Provident Fund (EPF)	120.6	31.7
— Other employee benefits	55.0	14.5
— Remuneration of Directors of the Company		
— fees	0.3	0.1
— salaries, allowances and bonus	0.9	0.2
— ex-gratia payment	0.1	0.0
— contribution to EPF	0.1	0.0
Other operating costs include:		
— Audit fees		
— PricewaterhouseCoopers Malaysia	0.5	0.1
— Others	—	—

- (a) Estimated money value of benefits of Directors amounted to RM128,289 for the Company.

TELEKOM MALAYSIA BERHAD
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

3. OPERATING COSTS (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

- (b) Options granted to Executive Directors of the Company pursuant to Employees' Share Option Scheme (ESOS 3) during the year are as follows:

	Granted during the year ended	Unexercised options at year end
	2003	2003
Dato' Dr Md Khir bin Abdul Rahman	—	108,000
Dato' Dr. Abdul Rahim bin Haji Daud.	—	103,000

The options were given to these Directors on the same terms and conditions as those offered to other employees of the Company (note 8 (e) to the financial statements).

The options were exercised by the Directors on 29 October 2003 and 17 November 2003 respectively. The fair values of shares of the Company at the exercise date was RM9.00 and RM8.40 per share respectively.

	Exercised options during the year ended 31 December,	
	2003	2003
	RM	USD
Ordinary share capital at par.	0.2	0.1
Share premium	0.8	0.2
Proceeds received on exercise of share options	1.0	0.3

TELEKOM MALAYSIA BERHAD
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

4. OTHER OPERATING INCOME

	For the years ended 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Dividend income from subsidiaries . . .	34.7	26.4	107.2	28.2
Dividend income from quoted shares . .	2.3	3.8	5.5	1.5
Dividend income from unquoted shares	1.1	1.5	0.7	0.2
Income from investment in International Satellite Organisations	5.4	0.5	—	—
Income from subsidiaries				
— interest	153.4	87.0	54.3	14.3
— others	—	—	3.4	0.9
(Loss)/profit on disposal of short term investments	(2.3)	3.8	5.3	1.4
Profit on disposal of investment in an International Satellite Organisation . .	—	—	9.7	2.6
Loss on partial disposal of subsidiaries	(1.5)	—	—	—
Profit on disposal of property, plant and equipment	27.5	80.8	1.3	0.3
Rental income from buildings	14.4	25.8	44.2	11.6
Rental income from vehicles	3.2	3.1	3.0	0.8
Sale of scrap stores	4.9	4.0	3.1	0.8
Others	62.8	54.7	51.3	13.5
Total other operating income	<u>305.9</u>	<u>291.4</u>	<u>289.0</u>	<u>76.1</u>

5. NET FINANCE COST

	For the years ended 31 December,						
	2001			2002			
	Foreign RM	Domestic RM	Total RM	Foreign RM	Domestic RM	Islamic Principles RM	Total RM
Finance cost in respect of:							
Borrowings	335.7	161.4	497.1	263.2	91.1	28.0	382.3
Convertible Bonds	54.7	—	54.7	54.7	—	—	54.7
Total finance cost	390.4	161.4	551.8	317.9	91.1	28.0	437.0
Finance income	—	(99.3)	(99.3)	—	(49.5)	(22.2)	(71.7)
Net finance cost of the Company	<u>390.4</u>	<u>62.1</u>	<u>452.5</u>	<u>317.9</u>	<u>41.6</u>	<u>5.8</u>	<u>365.3</u>

TELEKOM MALAYSIA BERHAD
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

5. NET FINANCE COST (CONTINUED)

	For the year ended 31 December,							
	2003				2003			
	Foreign	Domestic	Islamic	Total	Foreign	Domestic	Islamic	Total
	RM	RM	Principles RM	RM	USD	USD	Principles USD	USD
Finance cost in respect of:								
Borrowings	253.0	148.5	33.8	435.3	66.6	39.1	8.9	114.6
Convertible Bonds	32.4	—	—	32.4	8.5	—	—	8.5
Total finance cost	285.4	148.5	33.8	467.7	75.1	39.1	8.9	123.1
Finance income	—	(28.2)	(16.6)	(44.8)	—	(7.4)	(4.4)	(11.8)
Net finance cost of the Company	<u>285.4</u>	<u>120.3</u>	<u>17.2</u>	<u>422.9</u>	<u>75.1</u>	<u>31.7</u>	<u>4.5</u>	<u>111.3</u>

6. TAXATION

	For the years ended 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
The taxation charge for the Company comprise:				
Malaysia				
Current year taxation	536.9	399.7	292.9	77.1
In respect of prior year	—	—	(89.9)	(23.7)
Deferred taxation — net	—	—	161.0	42.4
Total taxation	<u>536.9</u>	<u>399.7</u>	<u>364.0</u>	<u>95.8</u>
			For the year ended 31 December,	
			2003	2003
			RM	USD
Current taxation:				
Current year taxation			292.9	77.1
Over accrual in prior years (net)			(89.9)	(23.7)
Deferred taxation:				
Origination and reversal of temporary differences			161.0	42.4
			<u>364.0</u>	<u>95.8</u>

TELEKOM MALAYSIA BERHAD
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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6. TAXATION (CONTINUED)

The explanation of the relationship between taxation expense and profit before taxation is as follows:

	For the year ended 31 December,	
	2003	2003
	RM	USD
Profit Before Taxation	893.0	235.0
Taxation calculated at the applicable Malaysian tax rate of 28%	250.0	65.8
Tax effects of:		
— Expenses not deductible for taxation purposes	239.1	62.9
— Income not subject to taxation	(24.1)	(6.3)
— Expenses allowed for double deduction	(11.1)	(2.9)
Over accrual in prior years (net)	(89.9)	(23.7)
Total taxation	364.0	95.8

In respect of the year ended 31 December 2001

The effective rate of taxation for the Company is higher than the statutory rate principally due to non-tax deductible expenses.

In respect of the year ended 31 December 2002

The effective rate of taxation for the Company is higher than the statutory rate principally due to non-tax deductible expenses which comprise mainly waiver of loan and write down of investment in a subsidiary company.

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7. DIVIDENDS IN RESPECT OF ORDINARY SHARES

In respect of the year ended 31 December 2001

	2001
	RM
Proposed final gross dividend of 10.0 sen per share less tax of 28%	228.8
Proposed special gross dividend of 5.0 sen per share less tax of 28%.	114.4
Dividend over provided in respect of prior year	(0.8)
	342.4

In respect of the year ended 31 December 2002

	2002
	RM
Final gross dividend of 10.0 sen per share less tax of 28% for 2001/2000.	227.7
Special gross dividend of 5.0 sen per share less tax of 28% for 2001.	113.9
Total dividends	341.6

At the forthcoming Annual General Meeting on 20 May 2003, a final gross dividend of 10.0 sen per share less tax of 28% amounting to RM228.0 million will be proposed for shareholders' approval. These financial statements do not reflect this final dividend which will only be accrued as a liability when approved by shareholders. This represents a change in accounting treatment from that of prior years as explained in note 41 to the financial statements.

In respect of the year ended 31 December 2003

Dividends proposed in respect of ordinary shares of the Company for the year are as follows:

	For the years ended 31 December			
	2003		2003	
	Gross dividend per share	Amount dividend, net of 28% tax	Gross dividend per share	Amount of dividend, net of 28% tax
	Sen	RM	Cent	USD
Final dividends:				
— proposed final gross dividend	10.0	234.1	2.6	61.6
— proposed special gross dividend	10.0	234.1	2.6	61.6
Total dividends proposed/paid.	20.0	468.2	5.2	123.2

At the forthcoming Annual General Meeting on 18 May 2004, a final gross dividend of 10.0 sen per share less tax of 28% amounting to RM234.1 million and a special gross dividend of 10.0 sen per share less tax of 28% amounting to RM234.1 million will be proposed for shareholders' approval. These financial statements do not reflect this final dividend which will only be accrued as a liability when approved by shareholders.

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8. SHARE CAPITAL

	As at 31 December,			
	2001 RM	2002 RM	2003 RM	2003 USD
Authorised:				
Ordinary shares of RM1 each	5,000.0	5,000.0	5,000.0	1,315.8
Special share of RM1 [#]	—	—	—	—
Class A Redeemable Preference Shares of RM10*	—	—	—	—
Class B Redeemable Preference Shares of RM10*	—	—	—	—
Issued and fully paid:				
Ordinary shares of RM1 each				
At 1 January	3,103.5	3,167.0	3,167.0	833.4
Exercise of share options	—	—	83.7	22.0
At 31 December	<u>3,103.5</u>	<u>3,167.0</u>	<u>3,250.7</u>	<u>855.4</u>
Special share of RM1 [#]				
At 1 January and 31 December . . .	—	—	—	—
Total issued and fully paid-up share capital	<u>3,103.5</u>	<u>3,167.0</u>	<u>3,250.7</u>	<u>855.4</u>

Sub-note (a) is in respect of years ended 31 December 2001, 2002 and 2003

* Sub-note (b) is in respect of year ended 31 December 2003 only

In respect of the year ended 31 December 2001

(a) The Special Rights Redeemable Preference Share (Special Share) of RM1 would enable the Government through the Minister of Finance to ensure that certain major decisions affecting the operations of the Company are consistent with the Government's policy. The Special Shareholder, which may only be the Government or any representative or person acting on its behalf, is entitled to receive notices of meetings but does not carry any right to vote at such meetings of the Company. However, the Special Shareholder is entitled to attend and speak at such meetings.

Certain matters, in particular, the alteration of the Articles of Association of the Company relating to the rights of the Special Shareholder, the dissolution of the Company, any substantial acquisitions and disposal of assets, amalgamation, merger and takeover, require the prior consent of the Special Shareholder.

The Special Shareholder has the right to require the Company to redeem the Special Share at par at any time. In a distribution of capital in a winding up of the Company, the Special Shareholder is entitled to the repayment of the capital paid-up on the Special Share in priority to any repayment of capital to any other member. The Special Share does not confer any right to participate in the capital or profits of the Company.

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8. SHARE CAPITAL (CONTINUED)

- (b) During the year, the issued and fully paid up share capital of the Company was increased by the issuance of 1,520,500 and 14,656,000 ordinary shares of RM1 each at the option price of RM10.50 and RM8.53 per share respectively for cash under ESOS 2. These shares rank “pari-passu” in all respects with the existing issued ordinary shares of the Company.
- (c) The Employees’ Share Option Scheme 2 (ESOS 2) was approved by the shareholders at an Extraordinary General Meeting held on 28 March 1997. On 6 October 1997, options to subscribe for 2,782,000 and 217,704,000 ordinary shares of RM1 each at the exercise price of RM7.80 and RM10.50 per share respectively were granted to eligible Executives and Non-Executives (referred to as ESOS 2, phase 1). The unexercised options with exercise price of RM7.80 per share has lapsed in November 1999.

On 31 July 2001, options to subscribe for 89,536,000 ordinary shares of RM1 each under ESOS 2 were granted to eligible Executives and Non-Executives of the Company at an exercise price of RM8.53 per share (referred to as ESOS 2, phase 2).

The movement during the year in the number of options over the ordinary shares of RM1 each of the Company are as follows:

	For the year ended 31 December 2001	
	ESOS 2	
	Phase 2	Phase 1
	Million	Million
The Company		
At 1 January	—	128.6
Offered	89.5	—
Exercised	(14.7)	(1.5)
	74.8	127.1

At 31 December 2001, the options to subscribe for 127,080,000 and 74,827,000 ordinary shares of RM1 each at the option price of RM10.50 and RM8.53 per share respectively under ESOS 2 remained unexercised. These options remain in force until 15 April 2002. These options granted do not confer any right to participate in any share issue of any other company.

In respect of the year ended 31 December 2002

- (a) The Special Rights Redeemable Preference Share (Special Share) of RM1 would enable the Government through the Minister of Finance to ensure that certain major decisions affecting the operations of the Company are consistent with the Government’s policy. The Special Shareholder, which may only be the Government or any representative or person acting on its behalf, is entitled to receive notices of meetings but does not carry any right to vote at such meetings of the Company. However, the Special Shareholder is entitled to attend and speak at such meetings.

Certain matters, in particular, the alteration of the Articles of Association of the Company relating to the rights of the Special Shareholder, the dissolution of the Company, any substantial acquisitions and disposal of assets, amalgamation, merger and takeover, require the prior consent of the Special Shareholder.

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8. SHARE CAPITAL (CONTINUED)

The Special Shareholder has the right to require the Company to redeem the Special Share at par at any time. In a distribution of capital in a winding up of the Company, the Special Shareholder is entitled to the repayment of the capital paid-up on the Special Share in priority to any repayment of capital to any other member. The Special Share does not confer any right to participate in the capital or profits of the Company.

- (b) During the year, the issued and fully paid up share capital of the Company was increased by the issuance of 57,500, 58,785,500 and 4,658,000 ordinary shares of RM1 each at the option price of RM10.50, RM8.53 and RM7.09 per share respectively for cash under ESOS 2 and ESOS 3 respectively. These shares rank “pari-passu” in all respects with the existing issued ordinary shares of the Company.
- (c) An Employees’ Share Option Scheme 2 (ESOS 2) was approved by the shareholders at an Extraordinary General Meeting held on 28 March 1997. In that year, options to subscribe for 217,704,000 ordinary shares of RM1 each at the exercise price of RM10.50 per share were granted to eligible Executives and Non-Executives of the Company (referred to as ESOS 2, phase 1).

On 31 July 2001, options to subscribe for 89,536,000 ordinary shares of RM1 each under ESOS 2 were granted to eligible Executives and Non-Executives of the Company at an exercise price of RM8.53 per share (referred to as ESOS 2, phase 2). ESOS 2, phase 1 and phase 2 lapsed on 15 April 2002.

A new Employees’ Share Option Scheme 3 (ESOS 3) was approved by the shareholders at an Extraordinary General Meeting held on 21 May 2002. On 1 August 2002, options to subscribe for 259,014,000 ordinary shares of RM1 each under ESOS 3 were granted to eligible Executives and Non-Executives of the Company and its subsidiaries at an exercise price of RM7.09 per share.

The movement during the year in the number of options over the ordinary shares of RM1 each of the Company are as follows:

	For the year ended 31 December 2002		
	ESOS 2		ESOS 3
	Phase 2	Phase 1	
	Million	Million	Million
The Company			
At 1 January	74.8	127.1	—
Offered	—	—	259.0
Exercised (sub-note b)	(58.8)	—	(4.7)
Lapsed	(16.0)	(127.1)	(0.1)
	—	—	254.2

At 31 December 2002, the options to subscribe for 254,208,000 ordinary shares of RM1 each at the option price of RM7.09 per share under ESOS 3 remained unexercised. These options remain in force until 31 July 2007. These options granted do not confer any right to participate in any share issue of any other company.

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8. SHARE CAPITAL (CONTINUED)

In respect of the year ended 31 December 2003

- (a) The Special Rights Redeemable Preference Share (Special Share) of RM1 would enable the Government through the Minister of Finance to ensure that certain major decisions affecting the operations of the Company are consistent with the Government's policy. The Special Shareholder, which may only be the Government or any representative or person acting on its behalf, is entitled to receive notices of meetings but does not carry any right to vote at such meetings of the Company. However, the Special Shareholder is entitled to attend and speak at such meetings.

Certain matters, in particular, the alteration of the Articles of Association of the Company relating to the rights of the Special Shareholder, the dissolution of the Company, any substantial acquisitions and disposal of assets, amalgamation, merger and takeover, require the prior consent of the Special Shareholder.

The Special Shareholder has the right to require the Company to redeem the Special Share at par at any time. In a distribution of capital in a winding up of the Company, the Special Shareholder is entitled to the repayment of the capital paid-up on the Special Share in priority to any repayment of capital to any other member. The Special Share does not confer any right to participate in the capital or profits of the Company.

- (b) On 31 March 2003, the authorised share capital of the Company has been increased to include 1,000 Class A Redeemable Preference Shares of RM0.01 each and 1,000 Class B Redeemable Preference Shares of RM0.01 each.
- (c) During the year, the issued and fully paid-up share capital of the Company was increased by the issuance of 83,725,000 ordinary shares of RM1 each at the option price of RM7.09 per share for cash under ESOS 3. These shares rank pari-passu in all respects with the existing issued ordinary shares of the Company.
- (d) On 12 December 2003, the Company issued for cash 1,000 Class A Redeemable Preference Shares (RPS) (TM RPS A) and 1,000 Class B RPS (TM RPS B) to Rebung Utama Sdn. Bhd. (RUSB), a special purpose entity of the Company, at a premium of RM0.99 each over the par value of RM0.01 each.

TM RPS A and TM RPS B rank pari-passu amongst themselves but below the Special Share and ahead of the ordinary shares of the Company in a distribution of capital in the event of the winding up or liquidation of the Company. TM RPS A and TM RPS B have been classified as liabilities.

The details of TM RPS A and TM RPS B are set out in Note 12(a) to the financial statements.

- (e) *Employees' Share Option Scheme*

The existing Employees' Share Option Scheme 3 (ESOS 3) was approved by the shareholders at an Extraordinary General Meeting held on 21 May 2002. On 1 August 2002, options to subscribe for 259,042,000 ordinary shares of RM1 each under ESOS 3 were granted to eligible Executives and Non-Executives of the Company and its subsidiaries at an exercise price of RM7.09 per share.

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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8. SHARE CAPITAL (CONTINUED)

The principal features of ESOS 3 are as follows:

- (i) The eligibility for participation in ESOS is at the discretion of the Option Committee appointed by the Board of Directors.
- (ii) The total number of shares to be offered shall not exceed 10% of the total issued and paid up shares of the Company.
- (iii) No option shall be granted for less than 1,000 shares nor more than 550,000 shares unless so adjusted pursuant to item (vi) below.
- (iv) The subscription price of each RM1 share shall be the average of the middle market quotation of the shares as shown in the daily official list issued by the Malaysia Securities Exchange Berhad for the five (5) trading days preceding the date of offer with a 10% discount.
- (v) Subject to item (vi) below, an employee may exercise his options subject to the following limits:

<u>Number of options granted</u>	<u>Percentage of options exercisable (%)</u>				
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Below 20,000	100	—	—	—	—
20,000–99,999	*40	30	**30	—	—
100,000 and above	20	20	20	20	20

* 40% or 20,000 options, whichever is higher

** 30% or the remaining number of options unexercised

- (vi) In the event of any alteration in capital structure of the Company during the option period which expires on 31 July 2007, such corresponding alterations shall be made in:
 - (i) the number of new shares in relation to ESOS so far as unexercised;
 - (ii) and/or the subscription price.

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8. SHARE CAPITAL (CONTINUED)

The movement during the year in the number of options over the ordinary shares of RM1 each of the Company are as follows:

	<u>For the year ended 31 December 2003</u> <u>ESOS 3</u> Million
The Company	
At 1 January	254.2
Offered	—
Exercised (sub-note c)	(83.7)
Lapsed [#]	<u>—</u>
	<u><u>170.5</u></u>

Less than 0.1 million

At 31 December 2003, options to subscribe for 170,456,000 (2002: 254,208,000) ordinary shares of RM1 each at the option price of RM7.09 per share under ESOS 3 remained unexercised. These options remain in force until 31 July 2007. These options granted do not confer any right to participate in any share issue of any other company.

Details relating to options exercised during the year are as follows:

Exercise date	Fair value of shares at share issue date	Exercise price	Number of shares issued 2003
	RM/share	RM/share	Million
January to May 2002	9.15–9.80	8.53	—
June to August 2002	8.00–8.25	7.09	—
September to December 2002	7.40–7.50	7.09	—
January to May 2003	7.30–7.85	7.09	4.8
June to July 2003	7.95–8.05	7.09	19.9
August to September 2003	7.70–7.75	7.09	9.2
October to December 2003	8.25–8.60	7.09	<u>49.8</u>
			<u><u>83.7</u></u>

	For the year ended 31 December	
	2003	2003
	RM	USD
Ordinary share capital — at par	83.7	22.0
Share premium	<u>509.9</u>	<u>134.2</u>
Proceeds received on exercise of share options	<u>593.6</u>	<u>156.2</u>
Fair value at exercise date of shares issued	<u><u>688.2</u></u>	<u><u>181.1</u></u>

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8. SHARE CAPITAL (CONTINUED)

The fair value of shares issued on the exercise of options is the mean price at which the Company's share were traded on the Malaysia Securities Exchange Berhad on the day prior to the exercise of the options.

9. RESERVES

	As at 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Retained Profits	11,452.1	11,127.5	9,894.5	2,603.8

Subject to agreement with the Inland Revenue Board, the Company has sufficient tax credit under section 108 of the Income Tax Act, 1967 and tax exempt income under Section 8 of the Income Tax (Amendment) Act, 1999 at 31 December 2001, 2002 and 2003 to frank the payment of net dividends of approximately RM8,422.1 million, RM9,266.3 million and RM9,764.8 million respectively out of total distributable reserves of RM11,452.1 million, RM9,593.9 million and RM9,894.5 million respectively without incurring additional taxation.

10. CONVERTIBLE BONDS

- (a) Convertible Bonds represent USD359.9 million Convertible Eurobonds due 2004 which have been fully redeemed on 1 August 2003.
- (b) The principle features of the Eurobonds were as follows:
 - (i) Unless previously redeemed or purchased and cancelled, the Bonds are convertible on or after 3 November 1994 up to and including 26 September 2004 into fully paid ordinary shares of RM1 each of the Company at an initial conversion price of RM15.60 per ordinary share and with a fixed rate of exchange on conversion of RM2.5553 equals USD1.
 - (ii) Unless previously redeemed, purchased and cancelled or converted, each Bond will be redeemed on 3 October 2004 at its principal amount together with accrued interest. The Bonds may also be redeemed, in whole or in part, by the Company at any time on or after 21 October 1999 at their principal amount, plus accrued interest.
 - (iii) The Bonds bear interest rate of 4% per annum payable semi-annually in arrears in equal instalments on 31 March and 30 September in each year during the tenure and on the date of maturity. Any Bonds converted will cease to carry interest as from the last interest payment date immediately preceding the date of conversion.
 - (iv) The Bonds constitute, subject to the negative pledge, unsecured obligations of the Company.
- (c) **In respect of the years ended 31 December 2001 and 2002**

None of the remaining Bonds have been redeemed, purchased or cancelled during the financial year.

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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11. BORROWINGS

	As at 31 December,							
	2001			2002				
	Weighted Average Rate of Finance	Long Term	Short Term	Total	Weighted Average Rate of Finance	Long Term	Short Term	Total
		RM	RM	RM		RM	RM	RM
DOMESTIC								
Secured								
— Cagamas Loans (sub-note a)	6.65%	100.4	2.7	103.1	6.65%	91.7	3.3	95.0
Unsecured	—	—	—	—	—	—	—	—
— Borrowings from financial institutions	8.00%	1,000.0	—	1,000.0	7.29%	1,000.0	155.0	1,155.0
— Borrowings under Islamic Banking facilities	5.72%	489.0	—	489.0	5.59%	689.0	—	689.0
	7.25%	1,489.0	—	1,489.0	6.65%	1,689.0	155.0	1,844.0
Total Domestic	7.21%	1,589.4	2.7	1,592.1	6.65%	1,780.7	158.3	1,939.0

	As at 31 December,							
	2001			2002				
	Weighted Average Rate of Finance	Long Term	Short Term	Total	Weighted Average Rate of Finance	Long Term	Short Term	Total
		RM	RM	RM		RM	RM	RM
FOREIGN								
Unsecured								
— Notes and debentures (sub-note b)	7.32%	2,623.0	—	2,623.0	7.28%	2,643.0	—	2,643.0
— Borrowings from financial institutions	5.70%	1,261.2	—	1,261.2	2.62%	554.1	760.0	1,314.1
— Other borrowings . . .	2.65%	19.4	1.9	21.3	2.65%	19.2	2.1	21.3
Total foreign	6.77%	3,903.6	1.9	3,905.5	5.71%	3,216.3	762.1	3,978.4
Total borrowings	6.90%	5,493.0	4.6	5,497.6	6.02%	4,997.0	920.4	5,917.4

	2001			2002		
	Domestic	Foreign	Total	Domestic	Foreign	Total
	RM	RM	RM	RM	RM	RM
The Company's long term borrowings are repayable as follows:						
After one year and up to five years	304.9	1,510.3	1,815.2	537.7	770.6	1,308.3
After five years and up to ten years	284.5	1,649.2	1,933.7	243.0	1,701.3	1,944.3
After ten years and up to fifteen years	—	1.5	1.5	—	1.3	1.3
After fifteen years (sub-note c)	1,000.0	742.6	1,742.6	1,000.0	743.1	1,743.1
	1,589.4	3,903.6	5,493.0	1,780.7	3,216.3	4,997.0

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11. BORROWINGS (CONTINUED)

	As at 31 December,							
	2003			2003				
	Weighted Average Rate of Finance	Long Term	Short Term	Total	Weighted Average Rate of Finance	Long Term	Short Term	Total
	RM	RM	RM		USD	USD	USD	
DOMESTIC								
Secured								
— Cagamas Loans								
(sub-note a)	6.61%	84.7	1.6	86.3	6.61%	22.3	0.4	22.7
Unsecured								
— Borrowings from								
financial institutions	8.00%	1,000.0	—	1,000.0	8.00%	263.2	—	263.2
— Borrowings under								
Islamic Banking								
facilities	5.19%	689.0	—	689.0	5.19%	181.3	—	181.3
	6.86%	1,689.0	—	1,689.0	6.86%	444.5	—	444.5
Total Domestic	6.84%	1,773.7	1.6	1,775.3	6.84%	466.8	0.4	467.2
FOREIGN								
Unsecured								
Notes and Debentures								
(Sub-note b)	6.87%	2,665.0	—	2,665.0	6.87%	701.3	—	701.3
— Borrowings from								
financial institutions	1.71%	1,980.8	—	1,980.8	1.71%	521.3	—	521.3
— Other Borrowings . . .	1.40%	12.6	1.3	13.9	1.40%	3.3	0.4	3.7
Total foreign	4.66%	4,658.4	1.3	4,659.7	4.66%	1,225.9	0.4	1,226.3
Total borrowings	5.26%	6,432.1	2.9	6,435.0	5.26%	1,692.7	0.8	1,693.5

	As at 31 December,					
	2003			2003		
	Domestic	Foreign	Total	Domestic	Foreign	Total
	RM	RM	RM	USD	USD	USD
The Company's long term borrowings are repayable as follows:						
After one year and up to five years	773.7	2,769.6	3,543.3	203.6	728.9	932.5
After five years and up to ten years	—	1,143.9	1,143.9	—	301.0	301.0
After ten years and up to fifteen years	—	1.2	1.2	—	0.3	0.3
After fifteen years (sub-note c)	1,000.0	743.7	1,743.7	263.2	195.7	458.9
	1,773.7	4,658.4	6,432.1	466.8	1,225.9	1,692.7

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

11. BORROWINGS (CONTINUED)

The currency exposure profile of borrowings as at 31 December 2002 and 2003 is as follows:

	As at 31 December,		
	2002	2003	2003
	RM	RM	USD
— Ringgit Malaysia	1,939.0	1,775.3	467.2
— US Dollar	3,208.5	3,817.5	1,004.6
— Japanese Yen	757.2	828.4	218.0
— Other currencies	12.7	13.8	3.7
	5,917.4	6,435.0	1,693.5

In respect of the year ended 31 December 2001

- (a) This represents borrowings from Cagamas Berhad secured by way of assignment of the titles of properties relating to staff housing loans.
- (b) Consists of USD200.0 million 7.125% Notes due 2005, USD300.0 million 7.875% Debentures due 2025 and USD300.0 million 8.0% Guaranteed Notes due 2010. The 2000 comparative figures also included USD100.0 million Guaranteed Floating Rate Notes due 2006. This Guaranteed Floating Rate Notes with interest during the year ranging from 7.04% to 9.02% was prepared in 2001.
- (c) The Company has the option to prepay the total domestic loan outstanding of RM1,000.0 million in 2004.
- (d) Long Dated Swap

Underlying Liability

USD300.0 million 7.875% Debentures Due 2025

In 1998, the Company entered into a long dated swap, which will mature on 1 August 2025.

Hedging Instrument

The Company made a payment of USD5.0 million and is obliged to pay fixed amounts of JPY209.9 million semi-annually on each 1 February and 1 August, up to and including 1 August 2025.

Prior to 1 February 2004, the counter-party is not obliged to agree to any request by the Company to terminate the transaction. Commencing from 1 February 2004, the Company has the right to terminate the transaction at a rate mutually agreed with the counter-party. However, the Company intends to hold the contract to maturity.

On 1 August 2025, the Company will receive RM750.0 million from the counter-party. These proceeds will be swapped for USD300.0 million at a pre-determined exchange rate of RM2.5 to USD1.0, which will be used for the repayment of the USD300.0 million 7.875% redeemable unsecured Debentures. The effect of this transaction is to effectively build up a sinking fund with an assured value of USD300.0 million on 1 August 2025 for the repayment of the Debentures.

TELEKOM MALAYSIA BERHAD
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

11. BORROWINGS (CONTINUED)

(e) Cross-currency Interest Rate Swap (CCIRS)

Underlying Liability

USD200.0 million 7.125% Notes Due 2005

In 1995, the Company issued USD200.0 million 7.125% Notes due 2005. The Notes are redeemable in full on 1 August 2005.

Hedging Instrument

In 1999, the Company entered into a CCIRS, on a USD50.0 million tranche of the above Notes, for the period from 5 March 1999 to 1 August 2005. The effect of the transaction is to convert USD50.0 million of the fixed rate Notes to a fixed rate JPY liability of 1.25% per annum with a premium on redemption. The premium on the redemption of the JPY leg is dependent on the USD/JPY exchange rate on the date of maturity, nevertheless the final redemption amount is range bound between a minimum of JPY6,080.0 million plus coupon repayment of maximum JPY1,520.0 million.

The Company has recognised the maximum coupon repayment based on a constant rate of return over the life of the instrument with the assumption of the final redemption amount being the maximum amount payable. However, should the final redemption amount be less than that, there would be a write-back of any over-accrued amount.

(f) Cross-currency Interest Rate Swap (CCIRS)

Underlying Liability

USD350.0 million Unsecured Syndicated Term Loan

In 1998, the Company entered into a 5-year USD350.0 million unsecured syndicated term loan, paying interest at floating rates, to mature on 11 May 2003. During the year ended 31 December 2000, the facility was refinanced into two tranches comprising USD200.0 million due on 30 June 2003 and USD150.0 million due on 29 June 2007.

Hedging Instrument

In 1998, the Company entered into an interest rate swap (IRS) agreement with notional principal of USD400.0 million that entitles it to receive interest at floating rate and obliges it to pay interest at fixed rate of 6.75% per annum.

The Company unwound USD200.0 million notional principal of the swap at zero cost by embedding an interest rate “cap” of 7.25% per annum on the floating rate leg of the remaining USD200.0 million notional amount of the IRS. With the cap, the floating rate interest receivable from the counter-party has effectively been limited to a maximum rate of 7.25% per annum. The effect of this transaction is to fix the interest rate payable on USD200.0 million of the above USD loan, to 6.75% per annum as long as interest rates are below 7.25% per annum. If market interest rates exceed that level, the interest rate payable reverts to a floating rate. The swap was scheduled to mature on 14 January 2005.

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

11. BORROWINGS (CONTINUED)

On 26 July 2001, the Company restructured the existing USD200.0 million IRS into a USD150.0 million CCIRS. The restructured swap has the following new terms whereby, the Company will receive USD150.0 million in return for the payment of JPY17,324.0 million on maturity of the USD150.0 million tranche of the syndicated term loan on 29 June 2007. The restructured swap entitles the Company to receive floating interest at 6-month USD Libor, and obliges it to pay interest at 6-month USD Libor less 1.504% per annum. The net effect of the CCIRS is to convert the Company's USD150.0 million debt obligation into JPY at the principal exchange rate of JPY115.4933 at the maturity date of 29 June 2007.

The objective of this transaction is to effectively convert the USD liability into a JPY principal liability, and to reduce the interest payable on the USD150.0 million tranche of the syndicated term loan. The interest payable on the CCIRS is now a USD floating interest with a reduced margin, calculated on a notional principal of USD150.0 million.

In respect of the year ended 31 December 2002

- (a) This represents borrowings from Cagamas Berhad secured by way of assignment of the titles of properties relating to staff housing loans.
- (b) Consists of USD200.0 million 7.125% Notes due to 2005, USD300.0 million 7.875% debentures due 2025 and USD300.0 million 8.0% Guaranteed Notes due 2010.
- (c) The Company has the option to prepay the total domestic loan outstanding of RM1,000.0 million in 2004.
- (d) Long Dated Swap

Underlying Liability

USD300.0 million 7.875% Debentures Due 2025

In 1998, the Company entered into a long dated swap, which will mature on 1 August 2025.

Hedging Instrument

The Company made a payment of USD5.0 million and is obliged to pay fixed amounts of JPY209.9 million semi-annually on each 1 February and 1 August, up to and including 1 August 2025.

Prior to 1 February 2004, the counter-party is not obliged to agree to any request by the Company to terminate the transaction. Commencing from 1 February 2004, the Company has the right to terminate the transaction at a rate mutually agreed with the counter-party. However, the Company intends to hold the contract to maturity.

On 1 August 2025, the Company will receive RM750.0 million from the counter-party. These proceeds will be swapped for USD300.0 million at a pre-determined exchange rate of RM2.5 to USD1.0, which will be used for the repayment of the USD300.0 million 7.875% redeemable unsecured Debentures. The effect of this transaction is to effectively build up a sinking fund with an assured value of USD300.0 million on 1 August 2025 for the repayment of the Debentures.

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

11. BORROWINGS (CONTINUED)

(e) Cross-currency Interest Rate Swap (CCIRS)

Underlying Liability

USD200.0 million 7.125% Notes Due 2005

In 1995, the Company issued USD200.0 million 7.125% Notes due 2005. The Notes are redeemable in full on 1 August 2005.

Hedging Instrument

In 1999, the Company entered into a CCIRS, on a USD50.0 million tranche of the above Notes, for the period from 5 March 1999 to 1 August 2005. The effect of the transaction is to convert USD50.0 million of the fixed rate Notes to a fixed rate JPY liability of 1.25% per annum with a premium on redemption. The premium on the redemption of the JPY leg is dependent on the USD/JPY exchange rate on the date of maturity, nevertheless the final redemption amount is range bound between a minimum of JPY6,080.0 million plus coupon repayment of maximum JPY1,520.0 million.

The Company has recognised the maximum coupon repayment based on a constant rate of return over the life of the instrument with the assumption of the final redemption amount being the maximum amount payable. However, should the final redemption amount be less than that, there would be a write-back of any over-accrued amount.

(f) Cross-currency Interest Rate Swap (CCIRS)

Underlying Liability

USD350.0 million Unsecured Syndicated Term Loan

In 1998, the Company entered into a 5-year USD350.0 million unsecured syndicated term loan, paying interest at floating rates, to mature on 11 May 2003. During the year ended 31 December 2000, the facility was refinanced into two tranches comprising USD200.0 million due on 30 June 2003 and USD150.0 million due on 29 June 2007.

Hedging Instrument

In 1998, the Company entered into an interest rate swap (IRS) agreement with notional principal of USD400.0 million that entitles it to receive interest at floating rate and obliges it to pay interest at fixed rate of 6.75% per annum.

The Company unwound USD200.0 million notional principal of the swap at zero cost by embedding an interest rate “cap” of 7.25% per annum on the floating rate leg of the remaining USD200.0 million notional amount of the IRS. With the cap, the floating rate interest receivable from the counter-party has effectively been limited to a maximum rate of 7.25% per annum. The effect of this transaction is to fix the interest rate payable on USD200.0 million of the above USD loan, to 6.75% per annum as long as interest rates are below 7.25% per annum. If market interest rates exceed that level, the interest rate payable reverts to a floating rate. The swap was scheduled to mature on 14 January 2005.

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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11. BORROWINGS (CONTINUED)

On 26 July 2001, the Company restructured the existing USD200.0 million IRS into a USD150.0 million CCIRS. The restructured swap has the following new terms whereby, the Company will receive USD150.0 million in return for the payment of JPY17,324.0 million on maturity of the USD150.0 million tranche of the syndicated term loan on 29 June 2007. The restructured swap entitles the Company to receive floating interest at 6-month USD Libor, and obliges it to pay interest at 6-month USD Libor less 1.504% per annum. The net effect of the CCIRS is to convert the Company's USD150.0 million debt obligation into JPY at the principal exchange rate of JPY115.4933 at the maturity date of 29 June 2007.

The objective of this transaction is to effectively convert the USD liability into a JPY principal liability, and to reduce the interest payable on the USD150.0 million tranche of the syndicated term loan. The interest payable on the CCIRS is now a USD floating interest with a reduced margin, calculated on a notional principal of USD150.0 million.

In respect of the year ended 31 December 2003

- (a) This represents borrowings from Cagamas Berhad secured by way of assignment of the titles of properties relating to staff housing loans.
- (b) Consists of USD200.0 million 7.125% Notes due to 2005, USD300.0 million 7.875% debentures due 2025 and USD300.0 million 8.0% Guaranteed Notes due 2010.
- (c) The Company has the option to prepay the total domestic loan outstanding of RM1,000.0 million in 2004.

12. REDEEMABLE BONDS (UNSECURED)/PAYABLE TO A SUBSIDIARY

In respect of the year ended 31 December 2003

On 12 December 2003, the Company issued for cash 1,000 Class A Redeemable Preference Shares (RPS) (TM RPS A) and 1,000 Class B RPS (TM RPS B) to Rebung Utama Sdn. Bhd. (RUSB), a special purpose entity of the Company, at a premium of RM0.99 each over the par value of RM0.01 each.

Subsequently, on 30 December 2003, the Company issued RM1,983.5 million nominal value 10-year redeemable unsecured bonds due 2013 (Tranche 1) and RM1,000.0 million nominal value 15-year redeemable unsecured bonds due 2018 (Tranche 2) (collectively referred to as TM bonds) to RUSB.

As part of an overall cost efficient funding structure, the funds for the subscription of the Company's RPS and bonds were raised by RUSB vide the issuance of RM2,987.0 million RPS (RUSB RPS) to Tekad Mercu Berhad (Tekad Mercu), another special purpose entity of the Company.

Tekad Mercu had, in turn, issued RM2,000.0 million nominal value 10-year redeemable unsecured bonds due 2013 (Tranche 1) and RM1,000.0 million nominal value 15-year redeemable unsecured bonds due 2018 (Tranche 2) (collectively referred to as Tekad Mercu bonds) to investors on 30 December 2003 to finance the subscription of the RUSB RPS.

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12. REDEEMABLE BONDS (UNSECURED)/PAYABLE TO A SUBSIDIARY (CONTINUED)

Listed below are the effects of the transaction to the Company:

	As at 31 December,	
	2003	2003
	RM	USD
The Company		
Payable to a subsidiary company, RUSB		
— TM RPS A of RM1,000 (sub-note a)	—	—
— TM RPS B of RM1,000 (sub-note a)	—	—
— 10-year redeemable unsecured bonds due 2013 (Tranche 1) (sub-note b)	1,983.5	522.0
— 15-year redeemable unsecured bonds due 2018 (Tranche 2) (sub-note b)	<u>1,000.0</u>	<u>263.1</u>
	<u>2,983.5</u>	<u>785.1</u>

(a) TM RPS A and TM RPS B

TM RPS A and TM RPS B issued by the Company to RUSB have been classified as liabilities and accordingly, dividends on these preference shares are recognised in the Income Statement as interest expense.

The salient terms of the RPS are as follows:

- (i) The preference shares, 1,000 RPS A and 1,000 RPS B are both issued at RM0.01 par value and a premium of RM0.99 each.
- (ii) TM RPS A and TM RPS B rank pari-passu amongst themselves but below the Special Share and ahead of the ordinary shares of the Company in a distribution of capital in the event of the winding up or liquidation of the Company.
- (iii) The non-cumulative dividends, when declared by the Board of Directors of the Company, are payable in arrears at the end of every six (6) month period commencing from the date of issue of the RPS of 12 December 2003, the amount which will be at the discretion of the Directors.
- (iv) The RPS is not convertible and shall not confer on the holder thereof any right to participate on a return in excess of capital of liquidation, winding up or otherwise of the Company, other than on redemption, up to the redemption price of RM1.00 for each RPS A and RPS B.
- (v) Both RPS A and RPS B do not have fixed maturity dates and may be redeemed in cash at the option of the Company at any time, at a redemption price of RM1 per share.

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12. REDEEMABLE BONDS (UNSECURED)/PAYABLE TO A SUBSIDIARY (CONTINUED)

(b) TM Bonds

The principal features of the bonds issued by the Company to RUSB are as follows:

- (i) Unless previously redeemed, purchased and cancelled, the bonds are redeemable by the Company on 30 December 2013 and 28 December 2018 respectively at nominal amount together with accrued and unpaid interest. The bonds may also be redeemed by the Company at any time after the issue date by private arrangement with RUSB.
- (ii) Payment of coupon on the bonds may either be:
 - (a) — interest of 6.25% per annum payable semi-annually in arrears on the Tranche 1 bonds, and
 - interest of 5.25% per annum payable semi-annually in arrears on the Tranche 2 bonds, with the option to reset these rates after the fifth year; or
 - (b) — net dividends on both TM RPS A and TM RPS B, which shall be equal to the interest on Tranche 1 and Tranche 2 of the bonds less any amounts in the Designated Accounts, being accounts designated to capture all collections of dividends and tax refunds by the authorities, and
 - a nominal interest of 0.005% per annum payable semi-annually.
- (iii) The bonds will constitute direct, unconditional and unsecured obligations of the Company and will at all times rank pari-passu, without discrimination, preference or priority amongst themselves and at least pari-passu with all other present and future unsecured and unsubordinated obligations of the Company, subject to those preferred by law or the transaction documents.
- (iv) The bonds are not convertible, not transferable and not tradeable.

(c) Tekad Mercu Bonds

The principle features of the bonds issued by Tekad Mercu are as follows:

- (i) Unless previously redeemed, purchased and cancelled, the bonds are redeemable by Tekad Mercu on 30 December 2013 and 28 December 2018 respectively at nominal amount together with accrued and unpaid interest.
- (ii) In respect of Tranche 2 only,
 - (a) Tekad Mercu has the right to redeem all of the outstanding Tekad Mercu bonds (Tranche 2) on the 10th and the 20th coupon payment date (“Optional Redemption Date”) with advance notice to the bondholders at nominal amount together with accrued and unpaid interest (up to but excluding the relevant Optional Redemption Date) in respect thereof.

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12. REDEEMABLE BONDS (UNSECURED)/PAYABLE TO A SUBSIDIARY (CONTINUED)

- (b) If on the day failing 20 business days prior to any Optional Redemption Date, the rating of the Tekad Mercu bonds (Tranche 2) shall be below AAA or its equivalent as confirmed by the Calculation Agent, then Tekad Mercu shall be obliged to redeem all outstanding Tekad Mercu bonds (Tranche 2) on the relevant Optional Redemption Date. Redemption of the Tekad Mercu bonds (Tranche 2) shall be at their nominal value together with all accrued interest (up to but excluding the relevant Optional Redemption Date) in respect thereof.
- (iii) The bonds may also be purchased, in whole or in part, by the Company, at any time at any price in the open market or by private treaty.
- (iv) Payment of coupon on the bonds

Interest rate of 6.20% per annum payable semi-annually in arrears on the Tranche 1 bonds and interest rate of 5.25% per annum payable semi-annually in arrears on the Tranche 2 bonds with the option of reset these rates after the fifth year.
- (v) The bonds will constitute direct, unconditional and unsecured obligations of Tekad Mercu and will at all times rank pari-passu without discrimination, preference or priority amongst themselves and at least pari-passu with all other present and future unsecured and unsubordinated obligations of Tekad Mercu, subject to those preferred by law or the transaction documents.
- (vi) The bonds are not convertible but transferable, subject to certain selling restrictions.
- (vii) The Company has granted a Put Option in favour of the security trustee of the bonds for the benefit of the holders of the bonds. The Put Option will allow the holders of the bonds to have direct recourse on the Company for the following circumstances:
 - (a) on a pre-agreed time frame, there is insufficient amounts in the relevant Designated Account to meet coupon payments and/or principal redemption of the bonds on the relevant due date for payment;
 - (b) an event of default has been declared under the bonds; and
 - (c) an event of default has been declared under the Put Option.

None of the TM RPS, TM bonds and Tekad Mercu bonds have been redeemed, purchased or cancelled during the financial year.

13. HEDGING TRANSACTIONS

In respect of the year ended 31 December 2003

- (a) Long Dated Swap

Underlying Liability

USD300.0 million 7.875% Debentures Due 2025

In 1998, the Company entered into a long dated swap, which will mature on 1 August 2025.

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13. HEDGING TRANSACTIONS (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

(a) Long Dated Swap (Continued)

Hedging Instrument

The Company made a payment of USD5.0 million and is obliged to pay fixed amounts of JPY209.9 million semi-annually on each 1 February and 1 August, up to and including 1 August 2025.

Prior to 1 February 2004, the counter-party is not obliged to agree to any request by the Company to terminate the transaction. Commencing from 1 February 2004, the Company has the right to terminate the transaction at a rate mutually agreed with the counter-party. However, the Company intends to hold the contract to maturity.

On 1 August 2025, the Company will receive RM750.0 million from the counter-party. These proceeds will be swapped for USD300.0 million at a pre-determined exchange rate of RM2.5 to USD1.0, which will be used for the repayment of the USD300.0 million 7.875% redeemable unsecured Debentures. The effect of this transaction is to effectively build up a sinking fund with an assured value of USD300.0 million on 1 August 2025 for the repayment of the Debentures.

(b) Cross-currency Interest Rate Swap (CCIRS)

Underlying Liability

USD200.0 million 7.125% Notes Due 2005

In 1995, the Company issued USD200.0 million 7.125% Notes due 2005. The Notes are redeemable in full on 1 August 2005.

Hedging Instrument

In 1999, the Company entered into a CCIRS, on a USD50.0 million tranche of the above Notes, for the period from 5 March 1999 to 1 August 2005. The effect of the transaction is to convert USD50.0 million of the fixed rate Notes to a fixed rate JPY liability of 1.25% per annum with a premium on redemption. The premium on the redemption of the JPY leg is dependent on the USD/JPY exchange rate on the date of maturity, nevertheless the final redemption amount is range bound between a minimum of JPY6,080.0 million plus coupon repayment of maximum JPY1,520.0 million.

The Company has recognised the maximum coupon repayment based on a constant rate of return over the life of the instrument with the assumption of the final redemption amount being the maximum amount payable. However, should the final redemption amount be less than that, there would be a write-back of any over-accrued amount.

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13. HEDGING TRANSACTIONS (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

(c) Cross-currency Interest Rate Swap (CCIRS)

Underlying Liability

USD150.0 million Unsecured Syndicated Term Loan

In 1998, the Company entered into a 5-year USD350.0 million unsecured syndicated term loan, paying interest at floating rates, to mature on 11 May 2003. During the year ended 31 December 2000, the facility was refinanced into two tranches comprising USD200.0 million due on 30 June 2003 and USD150.0 million due on 29 June 2007. The first tranche of USD 200.0 million has been fully paid during the year.

Hedging Instrument

In 1998, the Company entered into an interest rate swap (IRS) agreement with notional principal of USD400.0 million that entitles it to receive interest at floating rate and obliges it to pay interest at fixed rate of 6.75% per annum.

The Company unwound USD200.0 million notional principal of the swap at zero cost by embedding an interest rate 'cap' of 7.25% per annum on the floating rate leg of the remaining USD200.0 million notional amount of the IRS. With the cap, the floating rate interest receivable from the counter-party has effectively been limited to a maximum rate of 7.25% per annum. The effect of this transaction is to fix the interest rate payable on USD200.0 million of the above USD loan, to 6.75% per annum as long as interest rates are below 7.25% per annum. If market interest rates exceed that level, the interest rate payable reverts to a floating rate. The swap was scheduled to mature on 14 January 2005.

On 26 July 2001, the Company restructured the existing USD200.0 million IRS into a USD150.0 million CCIRS. The restructured swap has the following new terms whereby, the Company will receive USD150.0 million in return for the payment of JPY17,324.0 million on maturity of the USD150.0 million tranche of the syndicated term loan on 29 June 2007. The restructured swap entitles the Company to receive floating interest at 6-month USD Libor, and obliges it to pay interest at 6-month USD Libor less 1.504% per annum. The net effect of the CCIRS is to convert the Company's USD150.0 million debt obligation into JPY at the principal exchange rate of JPY115.4933 at the maturity date of 29 June 2007.

The objective of this transaction is to effectively convert the USD liability into a JPY principal liability, and to reduce the interest payable on the USD150.0 million tranche of the syndicated term loan. The interest payable on the CCIRS is now a USD floating interest with a reduced margin, calculated on a notional principal of USD150.0 million.

(d) Interest Rate Swap (IRS)

Underlying Liability

USD300.0 million 8% Guaranteed Notes Due 2010

In 2000, the Company issued USD300.0 million 8.0% Guaranteed Notes due 2010. The Notes are redeemable in full on 7 December 2010.

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13. HEDGING TRANSACTIONS (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

(d) Interest Rate Swap (IRS) (Continued)

Hedging Instrument

On 29 October 2003, the Company entered into an interest rate swap (IRS) agreement with notional principal of USD150.0 million that entitles it to receive interest at fixed rate of 8.0% per annum and obliges it to pay interest at floating rate of 6-month USD Libor plus 5.10%. The swap will mature on 7 December 2005.

14. CUSTOMERS' DEPOSITS

	As at 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Telephones	578.5	579.5	580.2	152.7
Data services	33.3	32.6	32.4	8.5
Others	2.5	2.3	2.3	0.6
Total Customers' Deposits	614.3	614.4	614.9	161.8

Telephone customers' deposits are subjected to rebate at 5% per annum in accordance with Telephone Regulations, 1996.

15. DEFERRED TAX

In respect of the year ended 31 December 2001

The tax effect of timing differences which are expected to continue in the foreseeable future and not provided for at 31 December were:

	As at 31 December 2001	
	Arising in the current year	As at year end
	RM	RM
Between depreciation and capital allowances	128.6	1,502.1
Other timing differences	(67.9)	(140.8)
	60.7	1,361.3

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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15. DEFERRED TAX (CONTINUED)

In respect of the year ended 31 December 2002

The tax effect of timing differences which are expected to continue in the foreseeable future and not provided for at 31 December were:

	As at 31 December 2002	
	Arising in the current year	As at year end
	RM	RM
Between depreciation and capital allowances	146.2	1,648.3
Other timing differences.	26.1	(114.7)
	172.3	1,533.6

In respect of the year ended 31 December 2003

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	As at 31 December,	
	2003	2003
	RM	USD
Deferred tax liabilities:		
Subject to income tax	1,694.6	446.0

Deferred tax liabilities

	As at 31 December,	
	2003	2003
	RM	USD
At 1 January, as restated (note 41 to the financial statements)	1,533.6	403.6
Current year charged to Income Statement arising from:		
— property, plant and equipment	154.8	40.7
— intangible assets	14.0	3.7
— others	(7.8)	(2.0)
Total charged to Income Statement	161.0	42.4
At 31 December	1,694.6	446.0

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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15. DEFERRED TAX (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

Breakdown of cumulative balances at each type of temporary difference:

	As at 31 December,	
	2003	2003
	RM	USD
(a) Deferred tax assets — other	122.5	32.2
Offsetting	(122.5)	(32.2)
Total deferred tax assets after offsetting	—	—
(b) Deferred tax liabilities		
Property, plant and equipment	1,803.1	474.5
Others intangible assets	14.0	3.7
Offsetting	1,817.1	478.2
	(122.5)	(32.2)
Total deferred tax liabilities after offsetting	1,694.6	446.0

16. RETIREMENT BENEFITS

	As at 31 December,	
	2001	2002
	RM	RM
At 1 January	275.7	317.4
Charged/(Reversal) to Income Statement	60.2	(21.7)
Remittance to EPF	(18.5)	(295.7)
At 31 December	317.4	—

In respect of the year ended 31 December 2001

The Retirement Benefit Scheme was discontinued with effect from 31 December 2000. The total estimated retirement benefit liabilities over and above the value of assets held in the retirement benefit trust fund have been provided for.

In respect of the year ended 31 December 2002

The Retirement Benefit Scheme was discontinued with effect from 31 December 2000. During the year, the retirement benefit liabilities have been remitted to Employees' Provident Fund (EPF). The current year credit represents the excess of the book provision over the actual retirement benefit liabilities and was reversed accordingly.

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17. INTANGIBLE ASSETS

In respect of the year ended 31 December 2003

	As at 31 December,	
	2003	2003
	RM	USD
Other Intangible Assets		
<i>Net book value</i>		
At 1 January 2003	—	—
Acquisition of 3G Spectrum licence	50.0	13.2
At 31 December 2003	50.0	13.2
<i>At 31 December 2003</i>		
Cost	50.0	13.2
Net book value	50.0	13.2

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18. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2001							
	Tele- communication Network	Movable Plant and Equipment	Computer Support Systems	Land (sub note a)	Buildings	Capital Work-In- Progress, at Cost	Total Property, Plant and Equipment
	RM	RM	RM	RM	RM	RM	RM
Cost							
At 1.1.2001	25,224.8	809.9	1,549.2	381.7	2,195.0	3,504.2	33,664.8
Additions	1,236.8	87.2	325.6	1.4	105.7	138.5*	1,895.2
Disposals	(118.1)	(23.9)	(18.3)	—	(10.0)	—	(170.3)
Write off	(117.0)	(3.5)	(0.8)	—	—	—	(121.3)
At 31.12.2001	26,226.5	869.7	1,855.7	383.1	2,290.7	3,642.7	35,268.4
Accumulated depreciation							
At 1.1.2001	14,691.6	683.0	1,220.2	4.7	829.0	—	17,428.5
Depreciation	1,718.5	70.7	223.0	0.4	74.6	—	2,087.2
Disposals	(112.9)	(11.1)	(14.6)	—	(2.9)	—	(141.5)
Write off	(113.9)	(2.1)	(0.6)	—	—	—	(116.6)
At 31.12.2001	16,183.3	740.5	1,428.0	5.1	900.7	—	19,257.6
Net book value							
At 1.1.2001	10,533.2	126.9	329.0	377.0	1,366.0	3,504.2	16,236.3
Additions	1,236.8	87.2	325.6	1.4	105.7	138.5*	1,895.2
Depreciation	(1,718.5)	(70.7)	(223.0)	(0.4)	(74.6)	—	(2,087.2)
Disposals	(5.2)	(12.8)	(3.7)	—	(7.1)	—	(28.8)#
Write off	(3.1)	(1.4)	(0.2)	—	—	—	(4.7)
At 31.12.2001	10,043.2	129.2	427.7	378.0	1,390.0	3,642.7	16,010.8

* Net of transfer to property, plant and equipment

Included RM23.5million transferred to subsidiaries

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18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2002							
	Tele- communication Network	Movable Plant and Equipment	Computer Support Systems	Land (sub-note a)	Buildings	Capital Work-In- Progress, at Cost	Total Property, Plant and Equipment
	RM	RM	RM	RM	RM	RM	RM
Cost							
At 1.1.2002	26,226.5	869.7	1,855.7	383.1	2,290.7	3,642.7	35,268.4
Additions	1,451.1	99.7	421.4	1.2	876.5	(691.6)*	2,158.3
Disposals	(225.0)	(24.8)	(156.7)	(86.4)	(35.6)	(557.0)	(1,085.5)
Write off	(1,126.0)	(3.1)	(0.7)	—	—	—	(1,129.8)
At 31.12.2002	<u>26,326.6</u>	<u>941.5</u>	<u>2,119.7</u>	<u>297.9</u>	<u>3,131.6</u>	<u>2,394.1</u>	<u>35,211.4</u>
Accumulated depreciation							
At 1.1.2002	16,183.3	740.5	1,428.0	5.1	900.7	—	19,257.6
Depreciation	1,691.8	49.6	268.5	0.5	77.9	—	2,088.3
Disposals	(192.3)	(18.1)	(79.8)	—	(16.4)	—	(306.6)
Write off	(1,075.3)	(2.9)	(0.7)	—	—	—	(1,078.9)
At 31.12.2002	<u>16,607.5</u>	<u>769.1</u>	<u>1,616.0</u>	<u>5.6</u>	<u>962.2</u>	<u>—</u>	<u>19,960.4</u>
Net book value							
At 1.1.2002	10,043.2	129.2	427.7	378.0	1,390.0	3,642.7	16,010.8
Additions	1,451.1	99.7	421.4	1.2	876.5	(691.6)*	2,158.3
Depreciation	(1,691.8)	(49.6)	(268.5)	(0.5)	(77.9)	—	(2,088.3)
Disposals	(32.7)	(6.7)	(76.9)	(86.4)	(19.2)	(557.0)	(778.9)#
Write-off	(50.7)	(0.2)	—	—	—	—	(50.9)
At 31.12.2002	<u>9,719.1</u>	<u>172.4</u>	<u>503.7</u>	<u>292.3</u>	<u>2,169.4</u>	<u>2,394.1</u>	<u>15,251.0</u>

* Net of transfer to property, plant and equipment

Included in disposals was RM774.3 million being property, plant and equipment transferred to wholly owned subsidiaries

As at 31 December 2003							
	Tele- communication Network	Movable Plant and Equipment	Computer Support Systems	Land (sub note a)	Buildings	Capital Work-In- Progress, at Cost	Total Property, Plant and Equipment
	RM	RM	RM	RM	RM	RM	RM
Net book value							
At 1.1.2003	9,719.1	172.4	503.7	292.3	2,169.4	2,394.1	15,251.0
Additions	1,739.6	132.8	691.0	72.8	236.2	(1,052.4)*	1,820.0
Disposals	(5.7)	—	(0.2)	—	—	—	(5.9)#
Write off	(4.6)	(0.2)	—	—	—	—	(4.8)
Depreciation	(1,755.9)	(70.0)	(561.3)	(0.5)	(103.2)	—	(2,490.9)
At 31.12.2003	<u>9,692.5</u>	<u>235.0</u>	<u>633.2</u>	<u>364.6</u>	<u>2,302.4</u>	<u>1,341.7</u>	<u>14,569.4</u>
At 31 December 2003							
Cost	27,789.7	1,047.4	2,807.0	370.7	3,361.7	1,341.7	36,718.2
Accumulated depreciation	(18,097.2)	(812.4)	(2,173.8)	(6.1)	(1,059.3)	—	(22,148.8)
Net Book Value	<u>9,692.5</u>	<u>235.0</u>	<u>633.2</u>	<u>364.6</u>	<u>2,302.4</u>	<u>1,341.7</u>	<u>14,569.4</u>

* Net of transfer to property, plant and equipment

Included in disposals was RM0.6 million being property, plant and equipment transferred to wholly owned subsidiaries

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18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December, 2003							
	Tele- communication Network	Movable Plant and Equipment	Computer Support Systems	Land (sub note a)	Buildings	Capital Work-in- Progress, at Cost	Total Property, Plant and Equipment
	USD	USD	USD	USD	USD	USD	USD
Net book value							
At 1.1.2003	2,557.7	45.4	132.6	76.9	570.9	630.0	4,013.5
Additions	457.8	34.9	181.8	19.2	62.2	(276.9)	479.0
Disposals	(1.5)	—	(0.1)	—	—	—	(1.6)
Write off	(1.2)	(0.1)	—	—	—	—	(1.3)
Depreciation	(462.1)	(18.4)	(147.7)	(0.1)	(27.2)	—	(655.5)
	<u>2,550.7</u>	<u>61.8</u>	<u>166.6</u>	<u>96.0</u>	<u>605.9</u>	<u>353.1</u>	<u>3,834.1</u>
At 31 December 2003							
Cost	7,313.1	275.6	738.7	97.6	884.7	353.1	9,662.8
Accumulated depreciation	(4,762.4)	(213.8)	(572.1)	(1.6)	(278.8)	—	(5,828.7)
Net book value	<u>2,550.7</u>	<u>61.8</u>	<u>166.6</u>	<u>96.0</u>	<u>605.9</u>	<u>353.1</u>	<u>3,834.1</u>

(a) Details of land (at cost) are as follows:

	As at 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Freehold land	178.9	92.5	92.5	24.3
Long term leasehold	93.8	130.3	178.8	47.1
Short term leasehold	2.0	2.0	5.8	1.5
Other land	108.4	73.1	93.6	24.7
	<u>383.1</u>	<u>297.9</u>	<u>370.7</u>	<u>97.6</u>

The title deeds pertaining to other land have not yet been registered in the name of the Company and a subsidiary. Pending finalisation with the relevant authorities, these land have not been classified according to their tenure.

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19. SUBSIDIARIES

In respect of the year ended 31 December 2001

	As at 31 December 2001,		
	Malaysia	Overseas	Total
	RM	RM	RM
Investments, at cost:			
— unquoted	1,704.8	243.0	1,947.8
Amount owing by subsidiaries			3,349.9
			5,297.7
Allowance for loans and advances			(406.1)
Total interest in subsidiaries			4,891.6

In respect of the years ended 31 December 2002 and 2003

	As at 31 December,					
	2002			2003		
	Malaysia	Overseas	Total	Malaysia	Overseas	Total
	RM	RM	RM	RM	RM	RM
Investments, at cost:						
— quoted	19.5	—	19.5	19.5	—	19.5
— unquoted	470.5	179.2	649.7	462.4	179.2	641.6
Investments, at written down value:						
— unquoted	1,684.4	—	1,684.4	—	—	—
	2,174.4	179.2	2,353.6	481.9	179.2	661.1
Amount owing by subsidiaries	4,703.8	342.2	5,046.0	10,396.5	379.7	10,776.2
	6,878.2	521.4	7,399.6	10,878.4	558.9	11,437.3
Allowance for loans and advances	(406.1)	—	(406.1)	(511.1)	—	(511.1)
Total interest in subsidiaries	6,472.1	521.4	6,993.5	10,367.3	558.9	10,926.2
Market value of quoted investment	72.9	—	72.9	66.7	—	66.7

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19. SUBSIDIARIES (CONTINUED)

	As at 31 December 2003		
	Malaysia	Overseas	Total
	USD	USD	USD
Investments, at cost:			
— quoted	5.1	—	5.1
— unquoted	121.7	47.2	168.9
Investments, at written down value:			
— unquoted	—	—	—
	126.8	47.2	174.0
Amount owing by subsidiaries	2,735.9	99.9	2,835.8
	2,862.7	147.1	3,009.8
Allowance for loans and advances	(134.5)	0	(134.5)
Total interest in subsidiaries	2,728.2	147.1	2,875.3
Market value of quoted investment	17.6	0	17.6

In respect of the year ended 31 December 2001

- (a) Investments in certain subsidiaries have been written down to RM1 each.
- (b) The amount owing by subsidiaries represents advances for working capital purposes. These advances are unsecured and bear interest ranging from 0% to 8% with no fixed repayment terms. However, the Company has indicated that it will not demand substantial repayment within the next twelve months.

In respect of the year ended 31 December 2002

- (a) Investments in certain subsidiaries have been written down to recoverable amount or RM1 each.
- (b) The amount owing by subsidiaries represents shareholder loans and advances for working capital purposes. These loans and advances are unsecured and bear interest ranging from 0% to 4.88% with no fixed repayment terms. However, the Company has indicated that it will not demand substantial repayment within the next twelve months.

In respect of the year ended 31 December 2003

- (a) Investments in certain subsidiaries have been written down to recoverable amount or RM1 each. During the year, TM Cellular Sdn. Bhd., a wholly owned subsidiary was disposed to Celcom for a consideration equivalent to written down value as explained in note 2 to the consolidated financial statements.
- (b) The amount owing by subsidiaries represents shareholder loans and advances for working capital purposes. These loans and advances are unsecured and bear interest ranging from 0% to 4.72% with no fixed repayment terms. However, the Company has indicated that it will not demand substantial repayment within the next twelve months. Shareholder loans and advances provided to overseas subsidiaries are in US dollar.

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20. ASSOCIATES

In respect of the years ended 31 December 2001 and 2002

	As at 31 December,	
	2001 RM	2002 RM
Investments, at cost (quoted):		
Malaysia	—	84.2
Investments, at cost (unquoted):		
Malaysia	9.7	1.5
Overseas	10.3	10.3
	20.0	96.0
Amount owing by associates (sub-note a)	2.0	0.4
Total interest in associates	22.0	96.4
Market value of quoted investments:		
Malaysia	—	101.1

(a) Amount owing by associates

The amount owing by associates are unsecured and interest free with no fixed repayment terms. However, the Company has indicated that it will not demand substantial repayment within the next twelve months.

In respect of the year ended 31 December 2003

	As at 31 December,					
	2003			2003		
	Malaysia RM	Overseas RM	Total RM	Malaysia USD	Overseas USD	Total USD
Investment, at cost:						
— unquoted	1.5	—	1.5	0.4	—	0.4
Total	1.5	—	1.5	0.4	—	0.4

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21. INVESTMENTS

	As at 31 December,			
	2001 RM	2002 RM	2003 RM	2003 USD
Investments in International Satellite Organisations, at cost	132.6	132.6	106.3	28.0
Investments in quoted shares, at cost . .	—	—	264.8	69.6
Investments in unquoted shares, at cost	<u>56.0</u>	<u>56.0</u>	<u>64.3</u>	<u>16.9</u>
	188.6	188.6	435.4	114.5
Allowance for permanent diminution in value	<u>(90.3)</u>	<u>(90.3)</u>	<u>(97.3)</u>	<u>(25.6)</u>
Total investments after allowance	<u>98.3</u>	<u>98.3</u>	<u>338.1</u>	<u>88.9</u>
Market value of quoted investments. . .	<u>—</u>	<u>—</u>	<u>267.4</u>	<u>70.4</u>

22. LONG TERM RECEIVABLES

	As at 31 December,			
	2001 RM	2002 RM	2003 RM	2003 USD
Staff loans under Islamic principles . . .	—	431.7	475.5	125.1
Staff loans	<u>747.8</u>	<u>331.7</u>	<u>261.5</u>	<u>68.8</u>
Total staff loans	747.8	763.4*	737.0*	193.9*
Other long term receivables	<u>9.8</u>	<u>20.5*</u>	<u>31.7*</u>	<u>8.4*</u>
	757.6	783.9	768.7	202.3
Staff loans receivable within twelve months included under other receivables	<u>(100.6)</u>	<u>(99.3)</u>	<u>(99.9)</u>	<u>(26.3)</u>
Total long term receivables	<u>657.0</u>	<u>684.6</u>	<u>668.8</u>	<u>176.0</u>

* Sub-note (b) and (c) are in respect of the years ended 31 December 2002 and 2003

(a) Staff loans for the year ended 31 December 2003 amounting to RM82.7 million (2002: RM92.8 million; 2001: RM100.0 million) have been assigned to secure the Company's borrowings from Cagamas Berhad.

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22. LONG TERM RECEIVABLES (CONTINUED)

In respect of the years ended 31 December 2002 and 2003

- (b) Staff loans comprise housing, vehicle, computer and club membership loans offered to employees with financing cost of 4.0% per annum on reducing balance basis except for club membership loans which are free of financing cost. There is no single significant exposure as the amount is mainly receivable from individuals. Staff loans inclusive of financing cost are repayable in equal monthly instalments as follows:
- (i) Housing loans — 25 years or upon employees attaining 55 years of age, whichever is earlier
 - (ii) Vehicle loans — maximum of 8 years for new car and 6 years for second hand car
 - (iii) Computer loans — 3 years
- (c) Other long term receivables of the Company are in respect of education loans provided to undergraduates and are convertible to scholarships if certain performance criteria are met. The loans are interest free and if not converted to scholarship will be repayable over a period of not more than 8 years.

23. INVENTORIES

	As at 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
At cost:				
Cables and wires	27.8	38.7	30.2	8.0
Network materials	29.2	29.2	32.4	8.5
Telecommunication equipment	17.2	21.1	17.1	4.5
Spares and others	21.3	16.7	23.6	6.2
Total inventories	95.5	105.7	103.3	27.2

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24. TRADE AND OTHER RECEIVABLES

	As at 31 December,			
	2001 RM	2002 RM	2003 RM	2003 USD
Receivables from telephone customers .	1,674.9	1,459.0	1,351.7	355.7
Receivables from non-telephone customers	1,342.9	1,224.8	1,284.0	337.9
Receivables from subsidiaries	<u>639.1</u>	<u>326.4</u>	<u>392.6</u>	<u>103.3</u>
	3,656.9	3,010.2	3,028.3	796.9
Advance rental billings	<u>(507.1)</u>	<u>(522.8)</u>	<u>(448.9)</u>	<u>(118.1)</u>
	3,149.8	2,487.4	2,579.4	678.8
Allowance for doubtful debts	<u>(722.3)</u>	<u>(628.9)</u>	<u>(648.7)</u>	<u>(170.7)</u>
Total trade receivables after allowance.	<u>2,427.5</u>	<u>1,858.5</u>	<u>1,930.7</u>	<u>508.1</u>
Prepayments	534.7	528.0	540.1	142.1
Deposit for additional investment (refer to note 35(a) to the financial statements)	190.0	190.0	190.0	50.0
Staff loans	—	—	99.9	26.3
Other receivables from subsidiaries (sub-note a)	45.8	17.3	52.3	13.8
Other receivables from associates (sub-note a)	—	—	3.4	0.9
Other receivables	337.2	348.4	296.7	78.1
Allowance for doubtful debts	<u>—</u>	<u>—</u>	<u>(8.6)</u>	<u>(2.3)</u>
Total other receivables after allowance.	<u>1,107.7</u>	<u>1,083.7</u>	<u>1,173.8</u>	<u>308.9</u>
Total trade and other receivables after allowance	<u><u>3,535.2</u></u>	<u><u>2,942.2</u></u>	<u><u>3,104.5</u></u>	<u><u>817.0</u></u>

In respect of the years ended 31 December 2002 and 2003

The currency exposure profile of trade and other receivables after allowance for 31 December 2002 and 2003 is as follows:

	As at 31 December,		
	2002 RM	2003 RM	2003 USD
— Ringgit Malaysia	2,262.4	2,506.4	659.6
— US Dollar	566.0	426.6	112.3
— Special Drawing Rights	83.9	96.0	25.3
— Gold Franc Currency	—	75.5	19.8
— Other Currencies	<u>29.9</u>	<u>—</u>	<u>—</u>
	<u>2,942.2</u>	<u>3,104.5</u>	<u>817.0</u>

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24. TRADE AND OTHER RECEIVABLES (CONTINUED)

The following table represents credit risk exposure of trade receivables, net of allowances for doubtful debts and without taking into account any collateral taken:

	As at 31 December,		
	2002	2003	2003
	RM	RM	USD
Business.	1,076.8	1,075.4	283.0
Residential.	455.3	462.7	121.8
Subsidiaries	326.4	392.6	103.3
	1,858.5	1,930.7	508.1

The Company is not exposed to major concentrations of credit risk due to diversified customer base. In addition, credit risk is mitigated to a certain extent by cash deposits and bankers' guarantee obtained from customers. The Company considers the allowance for doubtful debts at balance sheet date to be adequate to cover the potential financial loss.

Credit terms of trade receivables range from payment in advance to 90 days in the years 2003 and 2002.

- (a) Other receivables from subsidiaries and associates as at 31 December 2003 are unsecured and interest free with no fixed repayment terms.

25. SHORT-TERM INVESTMENTS

	As at 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Shares quoted on the Malaysia Securities Exchange Berhad.	222.5	197.7	260.3	68.5
Total short term investments.	222.5	197.7	260.3	68.5
Market value of quoted shares	222.5	197.7	260.3	68.5

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26. CASH AND BANK BALANCES

	As at 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Deposits with:				
Licenced banks	646.3	85.0	—	—
Licenced finance companies	294.6	3.0	—	—
Other financial institutions	1,092.4	740.0	679.2	178.7
Deposits under Islamic principles	—	208.2	139.0	36.6
Total deposits	2,033.3	1,036.2	818.2	215.3
Cash and bank balances	77.2	102.0	33.8	8.9
Total cash and cash equivalents at end of the year	<u>2,110.5</u>	<u>1,138.2</u>	<u>852.0</u>	<u>224.2</u>

The currency exposure profile of cash and bank balances is as follows:

	As at 31 December,		
	2002	2003	2003
	RM	RM	USD
— Ringgit Malaysia	466.8	249.8	65.7
— US Dollar	671.4	602.2	158.5
	<u>1,138.2</u>	<u>852.0</u>	<u>224.2</u>

In respect of the year ended 31 December 2001

The bank overdrafts were unsecured and interests were payable at rates which varied according to the lenders' prevailing base lending rates. Interest rates during the period ranged from 6.0% to 7.0% per annum.

In respect of the year ended 31 December 2002

The deposits are placed with a number of creditworthy financial institutions. There is no major concentration of deposits in any single financial institution. Deposits have maturity ranged from overnight to 94 days for the Company. Bank balances are deposits held at call with banks.

The weighted average interest rate of deposits (excluding deposits under Islamic principles) as at 31 December 2002 is 1.94%.

The bank overdrafts were unsecured and interests were payable at rates which varied according to the lenders' prevailing base lending rates. Interest rates during the period ranged from 6.5% to 8.9% per annum.

In respect of the year ended 31 December 2003

The deposits are placed mainly with a number of creditworthy financial institutions. There is no major concentration of deposits in any single financial institution. Deposits have maturity ranged from overnight to 90 days (2002: from overnight to 94 days). Bank balances are deposits held at call with banks.

The weighted average interest rate of deposits (excluding deposits under Islamic principles) as at 31 December 2003 is 1.62% (2002: 1.94%) for the Company.

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27. TRADE AND OTHER PAYABLES

	As at 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Trade payables	1,479.2	1,597.3	1,906.4	501.7
Accruals for USP	—	209.2	213.2	56.1
Finance cost payable	127.9	119.7	103.4	27.2
Duties and other taxes payable	132.5	58.9	70.4	18.5
Deposits and trust monies	120.1	87.3	33.0	8.7
Other payables to subsidiaries (sub-note a)	—	—	49.9	13.1
Other payables	<u>390.2</u>	<u>504.1</u>	<u>486.8</u>	<u>128.1</u>
Total trade and other payables	<u>2,249.9</u>	<u>2,576.5</u>	<u>2,863.1</u>	<u>753.4</u>

The currency exposure profile of trade and other payables are as follows:

	As at 31 December,		
	2002	2003	2003
	RM	RM	USD
— Ringgit Malaysia	2,484.4	2,390.6	629.1
— US Dollar	71.1	233.7	61.5
— Special Drawing Rights	—	120.1	31.6
— Gold Franc Currency	—	72.7	19.1
— Other currencies	<u>21.0</u>	<u>46.0</u>	<u>12.1</u>
	<u>2,576.5</u>	<u>2,863.1</u>	<u>753.4</u>

Credit terms of trade and other payables vary from 30 to 90 days in year 2003 and 2002 depending on the terms of the contracts.

- (a) Other payables to subsidiaries as at 31 December 2003 are unsecured and interest free with no fixed repayment terms.

28. CASH FLOWS FROM OPERATING ACTIVITIES

	For the years ended 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
Receipts from customers	7,568.0	7,634.7	7,424.9	1,953.9
Payments to suppliers and employees	(3,384.8)	(3,769.6)	(3,686.5)	(970.1)
Payment of finance cost	(664.2)	(445.3)	(484.0)	(127.4)
Payment of income taxes	<u>(769.8)</u>	<u>(835.2)</u>	<u>(316.6)</u>	<u>(83.3)</u>
Total cash flows from operating activities	<u>2,749.2</u>	<u>2,584.6</u>	<u>2,937.8</u>	<u>773.1</u>

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29. CASH FLOWS USED IN INVESTING ACTIVITIES

	For the years ended 31 December,			
	2001 RM	2002 RM	2003 RM	2003 USD
Disposal of property, plant and equipment.	32.8	22.7	7.2	1.9
Purchase of property, plant and equipment.	(1,895.4)	(2,114.9)	(1,764.9)	(464.4)
Acquisition of intangible asset (3G Spectrum).	—	—	(10.0)	(2.6)
Disposal of long term investments.	32.6	24.5	18.4	4.8
Purchase of long term investments.	(83.3)	(30.8)	(250.0)	(65.8)
Disposal of short term investments	—	—	57.3	15.1
Purchase of short term investments	—	—	(66.7)	(17.6)
Acquisition of a subsidiary.	—	(11.0)	—	—
Advances to a subsidiary for acquisition of another subsidiary	—	—	(3,793.2)	(998.2)
Additional investments in subsidiaries	(4.5)	(46.1)	(0.1)	—
Acquisition of an associate.	—	(83.0)	—	—
Additional investment in an associate	(0.6)	(0.7)	—	—
Repayments from subsidiaries.	926.1	—	73.4	19.3
Advances to other subsidiaries	(294.8)	(1,947.7)	(96.0)	(25.3)
Repayment from associates.	0.4	—	—	—
Advances to associates.	(0.1)	—	—	—
Repayments of loans by employees	100.6	98.8	123.8	32.6
Loans to employees.	(119.6)	(114.4)	(96.8)	(25.4)
Interest received	99.7	75.7	44.9	11.8
Dividend received	38.1	31.7	113.3	29.8
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total cash flows used in investing activities.	<u>(1,168.0)</u>	<u>(4,095.2)</u>	<u>(5,639.4)</u>	<u>(1,484.0)</u>

30. CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES

	For the years ended 31 December,			
	2001 RM	2002 RM	2003 RM	2003 USD
Issue of share capital.	140.9	535.0	593.6	156.2
Proceeds from borrowings	489.0	1,090.0	8,384.1	2,206.3
Repayments of borrowings	(1,807.8)	(745.1)	(6,333.9)	(1,666.8)
Dividends paid to shareholders	(222.4)	(341.6)	(228.4)	(60.1)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total cash flows (used in)/from financing activities.	<u>(1,400.3)</u>	<u>538.3</u>	<u>2,415.4</u>	<u>635.6</u>

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31. SIGNIFICANT NON-CASH TRANSACTIONS

	For the years ended 31 December,			
	2001 RM	2002 RM	2003 RM	2003 USD
In respect of the years ended 31 December 2001 and 2002				
(a) Capitalisation of advances, loans and trade debts into paid-up capital of subsidiaries.	318.3	633.0	—	—
(b) Transfer of property, plant and equipment and capital work-in-progress to wholly owned subsidiaries at considerations satisfied by the issuance of shares	15.9	837.0	—	—
(c) Transfer of investment in an overseas subsidiary to a local investment holding subsidiary . . .	—	72.4	—	—
In respect of the year ended 31 December 2003				
(d) Transfer of investment in Celcom to a local investment holding subsidiary.	—	—	1,768.2	465.3
(e) Contra settlements with subsidiaries between trade receivables and payables	—	—	177.6	46.7
(f) Conversion of trade receivables from a subsidiary into shareholder advances	—	—	120.0	31.6
(g) Contra settlements with a subsidiary between trade receivables and other payables . .	—	—	86.2	22.7

32. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances.

In respect of the year ended 31 December 2001

In 1996, Daewoo-Peremba Construction J/V (D-PC J/V) was awarded the contract for the construction of Menara Telekom at an estimated contract value of RM572.4 million. Dato' Dr. Mohd Munir bin Abdul Majid, a Director of the Company is also a Director of Peremba Construction Sdn. Bhd. since 13 August 1999. Peremba Construction Sdn. Bhd. is a partner of the D-PC J/V. Progress billings from D-PC J/V during the year amounted to RM28.9 million remained outstanding as at 31 December 2001. This transaction has been entered in the normal course of business and at negotiated terms.

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32. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

In respect of the year ended 31 December 2002

- (a) In 1996, Daewoo-Peremba Construction J/V (D-PC J/V) was awarded the contract for the construction of Menara Telekom at an estimated contract value of RM572.4 million. Dato' Dr. Mohd Munir bin Abdul Majid, a Director of the Company is also a Director of Peremba Construction Sdn. Bhd. since 13 August 1999. Peremba Construction Sdn. Bhd. is a partner of the D-PC J/V. Progress billings from D-PC J/V during the year amounted to RM3.3 million (2001:RM28.9 million) with no balance outstanding as at 31 December 2002. This transaction has been entered in the normal course of business and at negotiated terms.
- (b) On 1 August 2002, a letter of award was issued by a subsidiary company to Edward & Sons Sdn. Bhd. (ESSB) on the tender for road rehabilitation and slope stabilisation works at TM Bukit Dabei Microwave Station, Marudi Sarawak at a contract value of approximately RM1.6 million. Y.B. Joseph Salang Gandum, who is a director of the Company and a shareholder of ESSB is deemed interested in the transaction. Progress billings from ESSB during the year amounted to RM0.2 million which remained outstanding as at 31 December 2002.

In respect of the year ended 31 December 2003

On 1 August 2002, a letter of award was issued by a subsidiary company to Edward & Sons Sdn. Bhd. (ESSB) on the tender for road rehabilitation and slope stabilisation works at TM Bukit Dabei Microwave Station, Marudi Sarawak at a contract value of approximately RM1.6 million. Y.B. Dato' Joseph Salang Gandum, who is a director of the Company and a shareholder of ESSB is deemed interested in the transaction. Progress billings from ESSB during the year amounted to RM0.9 million of which RM0.2 million remained outstanding as at 31 December 2003.

33. COMMITMENTS

	As at 31 December,			
	2001	2002	2003	2003
	RM	RM	RM	USD
(a) Property, plant and equipment				
Commitments in respect of expenditure approved and contracted for	3,326.8	2,826.5	2,259.3	594.6

In respect of the year ended 31 December 2001

At 31 December 2001, there exists a potential claim for recovery of loss and expenses totalling to RM527.5 for the construction of Menara Telekom. The Directors, based on professional opinion received, are of the view that the Company has a good case to dispute and/or contest a substantial portion of the claim.

In respect of the year ended 31 December 2002

At 31 December 2001, there existed a potential claim for recovery of loss and expenses totalling to RM527.5 for the construction of Menara Telekom. Following a series of negotiations during the year, the contractor has accepted RM91.0 million as full and final settlement.

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33. COMMITMENTS (CONTINUED)

In respect of the years ended 31 December 2001, 2002 and 2003

	As at 31 December,			
	Future minimum lease payment			
	2001	2002	2003	2003
	RM	RM	RM	USD
(b) Non-cancellable operating lease commitments				
Not later than one year	53.2	53.2	52.4	13.8
Later than one year and not later than five years	226.4	226.3	262.2	69.0
Later than five years	<u>146.6</u>	<u>121.8</u>	<u>52.4</u>	<u>13.8</u>
	<u>426.2</u>	<u>401.3</u>	<u>367.0</u>	<u>96.6</u>

The above lease payments relate to the non-cancellable operating lease of a telecommunication tower from a wholly owned subsidiary.

34. CONTINGENT LIABILITIES (UNSECURED)

In respect of the year ended 31 December 2001

- (a) At 31 December 2001, the Company had contingent liabilities in respect of:
- (i) Guarantees issued to banks amounting to USD32.0 million (RM121.6 million) for banking facilities extended to overseas subsidiary companies.
 - (ii) A performance bond guarantee of RM15.0 million issued in favour of a principal of a contract obtained in the ordinary course of the business.

Apart from the above, the Directors are not aware of any other proceedings pending against the Company or of any facts likely to give rise to any proceedings which might materially affect the position or business of the Company.

There were no other contingent liabilities or material litigations or guarantees other than those arising in the ordinary course of the business of the Company and on these no material losses are anticipated.

In respect of the year ended 31 December 2002

- (a) At 31 December 2002, the Company had contingent liabilities in respect of:
- (i) Guarantees issued to banks amounting to USD26.0 million (RM98.8 million) for banking facilities extended to overseas subsidiaries.
 - (ii) A corporate guarantee was granted to a financial institution in respect of the USD21.0 million (RM79.8 million) financing facility obtained by a wholly owned subsidiary, MTN Networks (Private) Limited. The guarantee was executed on 6 May 2002 and will expire in March 2010. The guarantee replaces an earlier guarantee of USD6.0 million dated 20 September 2001 given in favour of the above said financial institution.

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34 CONTINGENT LIABILITIES (UNSECURED) (CONTINUED)

- (iii) Guarantee of a series of Promissory Notes totalling approximately USD6.679 million (RM25.4 million) issued by Sotelgui S.A., a subsidiary, in favour of an equipment supplier issued on 18 April 2002. The Promissory Notes are payable during the period between November 2003 to December 2005.

- (b) There is a claim arising from an agreement dated 10 February 1998 made between Telekom Malaysia (TM) and Tan Sri Mustapha Kamal Haji Abu Bakar, Eastborne Corporation Berhad, Projass Engineering Berhad and Shorefield Holdings Sdn. Bhd. (to be collectively referred to as “MEPS JV”). MEPS JV agreed to design, construct and complete the proposed Multimedia University Campus at Cyberjaya, Selangor Darul Ehsan.

The disputes between the parties, amongst others include the completion of outstanding works, remedying of defects, retention of the cash performance guarantee, the deduction of liquidated damages for delay and the certification and payment of the retention money. This dispute has been referred to Jabatan Kerja Raya (JKR) of which, on 27 June 2002, JKR has awarded a compensation of RM63.8 million in favour of MEPS JV. TM is currently in the process of appealing to JKR over the said decision.

TM filed an appeal for review of the decision by JKR in the High Court. The Court had originally fixed 27 November 2002 as the hearing date for the said application which was subsequently postponed to May 2003.

Apart from the above, the Directors are not aware of any other proceedings pending against the Company or of any facts likely to give rise to any proceedings which might materially affect the position or business of the Company.

There were no other contingent liabilities or material litigations or guarantees other than those arising in the ordinary course of the business of the Company and on these no material losses are anticipated.

In respect of the year ended 31 December 2003

- (a) At 31 December 2003, the Company had contingent liabilities in respect of:
 - (i) Guarantees issued to banks amounting to USD26.0 million (RM98.8 million) for banking facilities extended to overseas subsidiaries.

 - (ii) A corporate guarantee was granted to a financial institution in respect of the USD21.0 million (RM79.8 million) financing facility obtained by a wholly owned subsidiary, MTN Networks (Pvt.) Limited. The guarantee was executed on 6 May 2002 and will expire in March 2010.

 - (iii) Guarantee of a series of Promissory Notes totalling approximately USD6.7 million (RM25.4 million) issued by Sotelgui S.A., a subsidiary, in favour of an equipment supplier on 18 April 2002. The Promissory Notes are payable during the period between November 2003 to December 2005.

 - (iv) A corporate guarantee was granted to a financial institution in respect of the USD25.0 million (RM95.0 million) financing facility obtained by a wholly owned subsidiary, MTN Networks (Pvt.) Limited. The guarantee was executed in November 2003 and will expire in November 2005.

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34 CONTINGENT LIABILITIES (UNSECURED) (CONTINUED)

- (b) There is a claim arising from an agreement dated 10 February 1998 made between Telekom Malaysia (TM) and Tan Sri Mustapha Kamal Haji Abu Bakar, Eastborne Corporation Berhad, Projass Engineering Berhad and Shorefield Holdings Sdn. Bhd. (to be collectively referred to as MEPS JV). MEPS JV agreed to design, construct and complete the proposed Multimedia University Campus at Cyberjaya, Selangor Darul Ehsan.

The disputes between the parties, amongst others include the completion of outstanding works, remedying of defects, retention of the cash performance guarantee, the deduction of liquidated damages for delay and the certification and payment of the retention money. This dispute has been referred to Jabatan Kerja Raya (JKR) of which, on 27 June 2002, JKR has awarded a compensation of RM63.8 million in favour of MEPS JV.

Pursuant to the compensation awarded by JKR (the Award), TM filed an appeal for review of the Award in the High Court by way of an Originating Motion (OM). Simultaneously, MEPS JV filed an application to enforce the said Award by way of an Originating Summons (OS).

On 10 November 2003, the High Court fixed 11 March 2004 as the new mention date for the OM and the OS.

- (c) On 11 August 2003, TM and Telekom Publications Sdn. Bhd. (TPSB) instituted legal proceedings against Buying Guide Sdn. Bhd. (BGSB) relating to the infringement of TM's and TPSB's copyright and passing off.

BGSB have filed their Defence and Counterclaim on 15 October 2003 and it was agreed that TM and TPSB will file a Reply and Defence after BGSB and their shareholders confirm that they will not be amending their Defence and Counterclaim.

Apart from the above, the Directors are not aware of any other proceedings pending against the Company or of any facts likely to give rise to any proceedings which might materially affect the position or business of the Company.

There were no other contingent liabilities or material litigations or guarantees other than those arising in the ordinary course of the business of the Company and on these no material losses are anticipated.

35. SIGNIFICANT EVENTS

In respect of the year ended 31 December 2002

- (a) On 18 September 2002, Telekom Malaysia (TM) issued a Notification of Claim to the Government of Ghana (GoG) pursuant to the Bilateral International Treaty between the Government of Malaysia and GoG on 11 November 1996 (BIT) in respect of the following disputes:
- (i) GoG's treatment of TM's Investment in Ghana Telecommunications Company Limited (GT) held through TM International Sdn. Bhd. and G-Com Limited.
 - (ii) GoG's failure to refund a USD50.0 million (RM190.0 million) deposit for the proposed acquisition of additional 15% equity interest in GT (as disclosed in note 24 to the financial statements) pursuant to the Head of Agreement entered into between TM and GoG dated 10 August 2000.

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35. SIGNIFICANT EVENTS (CONTINUED)

Since the parties could not reach an amicable settlement, TM through its counsel in London, sent a Notice of Arbitration to the GoG on 10 February 2003 for the commencement of arbitration proceedings under the UNCITRAL Arbitration Rules in accordance with the provisions of the BIT. Upon the receipt of the said Notice of Arbitration by the GoG, the parties will determine the constitution of an Arbitral Tribunal to decide the modalities of the arbitration proceeding. It is expected that the arbitration proceeding would conclude within a period of 18 to 24 months from the date of filing of the said Notice.

- (b) On 28 October 2002, Telekom Malaysia (TM) had executed a sale and purchase agreement with Celcom (Malaysia) Berhad (Celcom) for the injection of 100% of its equity interest in TM Cellular Sdn. Bhd. to Celcom for a total consideration of RM1,684.0 million to be satisfied by the issuance of 635,471,698 new Celcom ordinary shares of RM1.00 each at RM2.65 per Celcom share (Proposed Disposal).

Upon completion of the Proposed Disposal, TM's direct and indirect interests in Celcom would increase from 31.25% to 47.93%. Accordingly, TM and the persons acting in concert (PAC) with TM would be obligated to undertake a Mandatory General Offer (MGO) for the remaining voting shares in Celcom not held by TM and the PAC with TM under Part II of the Malaysian Code on Take-overs and Mergers, 1998 at RM2.75 per Celcom share, being the highest price paid for Celcom shares by TM and the PAC with TM during the six (6) months prior to the date of announcement of the Proposed Disposal.

TM and the PAC with TM have committed to fulfil their obligation to undertake the MGO.

The applications to the relevant authorities on the Proposed Disposal have been made by TM but are still outstanding as at 27 February 2003.

In respect of the year ended 31 December 2003

- (a) On 18 September 2002, Telekom Malaysia (TM) issued a Notification of Claim to the Government of Ghana (GoG) pursuant to the Bilateral International Treaty between the Government of Malaysia and GoG on 11 November 1996 (BIT) in respect of the following disputes:
- (i) GoG's past treatment of TM's Investment in Ghana Telecommunications Company Limited (GT) held through TM International Sdn. Bhd. and G-Com Limited which resulted in TM losing significant influence over the financial and operation policies decision of GT. Accordingly the investment in GT has been recorded as long term investment during year 2002.
 - (ii) GoG's failure to refund a USD50.0 million (RM190.0 million) deposit for the proposed acquisition of additional 15% equity interest in GT (as disclosed in note 24 to the financial statements) pursuant to the Head of Agreement entered into between TM and GoG dated 10 August 2000.

Since the parties could not reach an amicable settlement, TM through its counsel in London, sent a Notice of Arbitration to the GoG on 10 February 2003 for the commencement of arbitration proceedings under the UNCITRAL Arbitration Rules in accordance with the provisions of the BIT. Subsequently, the arbitral tribunal was constituted in accordance to the provisions of the BIT. Based on preparatory meeting in relation to the arbitration between TM and GoG held on 17 July 2003 at The Hague, it was agreed that the arbitration hearing will start on 5 July 2004 for a period of two (2) weeks.

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35. SIGNIFICANT EVENTS (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

- (b) G-Com Limited (G-Com), a subsidiary of TM, filed an application in the High Court of Ghana on 13 June 2002, seeking a declaration that the Extraordinary General Meeting (EGM) held on 3 June 2002 was null and void. On 31 July 2002, the High Court of Ghana dismissed G-Com's application for a declaration to nullify the EGM held on 3 June 2002.

On 25 September 2002, G-Com filed an appeal in the Court of Appeal of Ghana against the decision of the High Court dated 31 July 2002. The Court of Appeal has yet to fix the hearing date of the said appeal. Meanwhile, the High Court Judge has provided his written Judgement and TM has been advised that the earliest hearing date of the said appeal will approximately be fixed in the first quarter of 2004.

- (c) G-Com filed a Writ of Summons and a Statement of Claim at the High Court of Ghana against GT on 24 December 2003 in respect of the EGM and AGM resolutions to approve certain contracts and loans. The hearing date is expected to be in February 2004.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

In respect of the years ended 31 December 2002 and 2003

The main risks arising from the Company's financial assets and liabilities are foreign exchange, interest rate, credit and liquidity risks. The Company's overall risk management seeks to minimise potential adverse effects of these risks on the financial performance of the Company.

The Company has established risk management policies, guidelines and control procedures to manage its exposure to financial risks. Hedging transactions are determined in the light of commercial commitments. Derivative financial instruments are used only to hedge underlying commercial exposures and are not held or sold for speculative purposes.

Foreign exchange risk

The foreign exchange risk of the Company arises from borrowings denominated in foreign currencies. The Company has long dated, cross-currency interest rate and interest rate swaps that are primarily used to hedge selected long term foreign currency borrowings to reduce the foreign currency exposures on these borrowings. The main currency exposures are primarily US Dollar and Japanese Yen.

Interest rate risk

The Company has cash and bank balances and deposits placed with creditworthy licenced banks and financial institutions. The Company manages its interest rate risks by placing such balances on varying maturities and interest rate terms.

The Company's debt includes bank overdrafts, bank borrowings, bonds, notes and debentures. The Company's interest rate risk objective is to manage the interest expense consistent with maintaining an acceptable level of exposure to interest rate fluctuations. In order to achieve this objective, the Company targets a mix of fixed and floating debt based on assessment of its existing exposure and desired interest rate profile. To obtain this mix, the Company uses combined cross-currency interest rate swaps to convert certain long term foreign currency borrowings from variable to fixed rate or vice versa.

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

Financial assets that potentially subject the Company to concentrations of credit risk consist primarily trade receivables, cash and bank balances, marketable securities and financial instruments used in hedging activities.

Due to the nature of the Company's business, customers are mainly segregated into business and residential. The Company has no other major significant concentration of credit risk other than business and residential trade receivables due to its diverse customer base. Credit risk is managed through the application of credit assessment and approvals, credit limits and monitoring procedures. Where appropriate, the Company obtained deposits or bank guarantees from the customers.

The Company places its cash and cash equivalents and marketable securities with a number of creditworthy financial institutions. The Company's policy limits the concentration of financial exposure to any single financial institution.

All hedging instruments are executed with creditworthy financial institutions with a view to limit the credit risk exposure of the Company. The Company, however, is exposed to credit-related losses in the event of non-performance by counterparties to financial derivative instruments, but does not expect any counterparties to fail to meet their obligations.

Liquidity risk

In the management of liquidity and cash flow risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows. Due to the dynamic nature of the underlying business, the Company aims at maintaining flexibility in funding by keeping both committed and uncommitted credit lines available.

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37. INTEREST RATE RISK

In respect of the years ended 31 December 2002 and 2003

The table below summarises the Company's exposure to interest rate risk. Included in the tables are the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of repricing or contractual maturity dates. The off-balance-sheet gap represents the net notional amounts of all interest rate sensitive derivative instruments. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of assets and their corresponding liability funding.

In respect of the year ended 31 December 2002

As at 31 December 2002									
W.A.I.R.*	Floating interest rate	Fixed interest rate maturing or repriced in			Total interest sensitive	Non- interest sensitive	Balances under Islamic principles		Total
		1 year or less	1 to 5 years	More than 5 years			RM	RM	
Financial assets									
Amount owing by subsidiaries net of allowances	1.88%	1,494.1	—	7.7	—	1,501.8	3,138.1	—	4,639.9
Amount owing by associates	—	—	—	—	—	—	0.4	—	0.4
Long term investments	—	—	—	—	—	—	98.3	—	98.3
Long term receivables	4.00%	—	—	262.7	29.0	291.7	20.6	372.3	684.6
Trade and other receivables	4.00%	—	39.9	—	—	39.9	2,842.9	59.4	2,942.2
Short term investments	—	—	—	—	—	—	197.7	—	197.7
Cash and bank balances	1.94%	—	828.0	—	—	828.0	102.0	208.2	1,138.2
Total		<u>1,494.1</u>	<u>867.9</u>	<u>270.4</u>	<u>29.0</u>	<u>2,661.4</u>	<u>6,400.0</u>	<u>639.9</u>	<u>9,701.3</u>
Financial liabilities									
Convertible bonds	4.00%	—	—	1,361.6	—	1,361.6	—	—	1,361.6
Total borrowings	5.94%	1,314.0	160.0	860.6	2,888.0	5,222.6	5.8	689.0	5,917.4
Customers' deposits	—	—	—	—	—	—	614.4	—	614.4
Trade and other payables	—	—	—	—	—	—	2,576.5	—	2,576.5
Total		<u>1,314.0</u>	<u>160.0</u>	<u>2,222.2</u>	<u>2,888.0</u>	<u>6,584.2</u>	<u>3,196.7</u>	<u>689.0</u>	<u>10,469.9</u>
On-balance-sheet interest sensitivity gap		180.1	707.9	(1,951.8)	(2,859.0)				
Off-balance-sheet interest sensitivity gap		—	—	—	—				
Total interest sensitivity gap		<u>180.1</u>	<u>707.9</u>	<u>(1,951.8)</u>	<u>(2,859.0)</u>				

* W.A.I.R. — Weighted Average Interest Rate as at 31 December

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(All amounts are in millions unless otherwise stated)

37. INTEREST RATE RISK (CONTINUED)

In respect of the year ended 31 December 2003

As at 31 December 2003									
W.A.R.F*	Floating interest rate	Fixed interest rate maturing or repriced in			Total interest sensitive	Non- interest sensitive	Balances under Islamic principles	Total	
		1 year or less	1 to 5 years	More than 5 years					RM
Financial assets									
Amount owing by subsidiaries net of allowances	1.83%	1,489.4	—	7.7	—	1,497.1	8,768.0	—	10,265.1
Investments	—	—	—	—	—	—	338.1	—	338.1
Staff loans and other long term receivables	4.00%	—	3.4	24.9	233.2	261.5	31.7	475.5	768.7
Trade and other receivables (excluding short term staff loans)	—	—	—	—	—	—	3,004.6	—	3,004.6
Short term investments	—	—	—	—	—	—	260.3	—	260.3
Cash and bank balances	1.62%	—	679.3	—	—	679.3	33.7	139.0	852.0
Total		<u>1,489.4</u>	<u>682.7</u>	<u>32.6</u>	<u>233.2</u>	<u>2,437.9</u>	<u>12,436.4</u>	<u>614.5</u>	<u>15,488.8</u>
Financial liabilities									
Total borrowings	4.91%	2,550.8	2.4	871.8	2,314.9	5,739.9	6.1	689.0	6,435.0
Payables to subsidiaries	5.91%	—	—	—	2,983.5	2,983.5	—	—	2,983.5
Customers' deposits	—	—	—	—	—	—	614.9	—	614.9
Trade and other payables	—	—	—	—	—	—	2,863.1	—	2,863.1
Total		<u>2,550.8</u>	<u>2.4</u>	<u>871.8</u>	<u>5,298.4</u>	<u>8,723.4</u>	<u>3,484.1</u>	<u>689.0</u>	<u>12,896.5</u>
On-balance-sheet interest sensitivity gap		(1,061.4)	680.3	(839.2)	(5,065.2)				
Off-balance-sheet interest sensitivity gap		—	—	—	—				
Total interest sensitivity gap		<u>(1,061.4)</u>	<u>680.3</u>	<u>(839.2)</u>	<u>(5,065.2)</u>				

* W.A.R.F. — Weighted Average Rate of Finance as at 31 December

TELEKOM MALAYSIA BERHAD
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

37. INTEREST RATE RISK (CONTINUED)

In respect of the year ended 31 December 2003 (Continued)

As at 31 December 2003									
W.A.R.F.*	Floating interest rate USD	Fixed interest rate maturing or repriced in			Total interest sensitive USD	Non- interest sensitive USD	Balances under Islamic principles USD	Total USD	
		1 year or less USD	1 to 5 years USD	More than 5 years USD					
Financial assets									
Amount owing by									
subsidiaries net of allowances	1.83%	391.9	—	2.0	—	393.9	2,307.3	—	2,701.2
Investments	—	—	—	—	—	—	88.9	—	88.9
Staff loans and other long term receivables	4.00%	—	0.9	6.6	61.4	68.9	8.3	125.1	202.3
Trade and other receivables (excluding short term staff loans)	—	—	—	—	—	—	790.7	—	790.7
Short term investments	—	—	—	—	—	—	68.5	—	68.5
Cash and bank balances	1.62%	—	178.8	—	—	178.8	8.8	36.6	224.2
Total		<u>391.9</u>	<u>179.7</u>	<u>8.6</u>	<u>61.4</u>	<u>641.6</u>	<u>3,272.5</u>	<u>161.7</u>	<u>4,075.8</u>
Financial liabilities									
Total borrowings	4.91%	671.3	0.6	229.4	609.2	1,510.5	1.6	181.3	1,693.4
Payable to subsidiaries	5.91%	—	—	—	785.1	785.1	—	—	785.1
Customers' deposits	—	—	—	—	—	—	161.8	—	161.8
Trade and other payables	—	—	—	—	—	—	753.4	—	753.4
Total		<u>671.3</u>	<u>0.6</u>	<u>229.4</u>	<u>1,394.3</u>	<u>2,295.6</u>	<u>916.8</u>	<u>181.3</u>	<u>3,393.7</u>
On-balance-sheet interest sensitivity gap		(279.4)	179.1	(220.8)	(1,332.9)				
Total interest sensitivity gap		<u>(279.4)</u>	<u>179.1</u>	<u>(220.8)</u>	<u>(1,332.9)</u>				

* W.A.R.F. — Weighted Average Rate of Finance as at 31 December

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

38. INTEREST RATE RISK (CONTINUED)

In respect of the years ended 31 December 2002 and 2003

The table below summarises the weighted average rate of finance as at 31 December by major currencies for each class of financial asset and liability:

	As at 31 December,					
	2002			2003		
	USD	JPY	RM	USD	JPY	RM
Financial Assets						
Amount owing by subsidiaries net of allowances	4.16%	—	1.54%	3.99%	—	1.50%
Long term receivables	—	—	4.00%	—	—	—
Staff loans	—	—	—	—	—	4.00%
Trade and other receivables	—	—	4.00%	—	—	—
Cash and bank balances	1.46%	—	2.92%	1.23%	—	2.62%
Financial liabilities						
Convertible bonds . .	4.00%	—	—	—	—	—
Total borrowings . .	6.37%	2.09%	4.67%	5.57%	1.87%	7.89%

39. CREDIT RISK

For on-balance-sheet financial instruments, the main credit risk exposure has been disclosed elsewhere in the financial statements.

Off-balance-sheet financial instruments

The Company is exposed to credit risk where the fair value of the contract is favourable, where the counterparty is required to pay the Company in the event of contract termination. The following table summarises the favourable fair values of the contracts, indicating the credit risk exposure as at 31 December 2002 and 2003.

	As at 31 December,					
	2002		2003		2003	
	Contract or notional principal amount	Favourable fair value	Contract or notional principal amount	Favourable fair value	Contract or notional principal amount	Favourable fair value
	RM	RM	RM	RM	USD	USD
Long dated swap . . .	750.0	47.5	750.0	66.4	197.4	17.4
Cross-currency interest rate swap . .	190.0	1.8	—	—	—	—
Interest rate swap . .	—	—	570.0	1.4	150.0	0.4
	<u>940.0</u>	<u>49.3</u>	<u>1,320.0</u>	<u>67.8</u>	<u>347.4</u>	<u>17.8</u>

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

In respect of the years ended 31 December 2002 and 2003

The fair value of a financial instrument is assumed to be the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in forced or liquidation sale.

Quoted market prices, when available, are used as the measure of fair values. However, for a significant portion of the Company financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using the net present value or other valuation techniques. The above techniques involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values.

(a) On-balance-sheet

The carrying amounts of the financial assets and liabilities of the Company at the balance sheet date approximated their fair values except as set out below:

	As at 31 December,					
	2002		2003		2003	
	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value
	RM	RM	RM	RM	USD	USD
Financial assets						
Investments	98.3	143.6	338.1	411.8	89.0	108.4
Staff loans	331.7	289.7	261.5	233.3	68.8	61.4
Financial liabilities						
Convertible bonds . .	1,361.6	1,378.0	—	—	—	—
Total borrowings (excluding redeemable bonds)	5,228.4	5,627.0	5,746.0	6,264.0	1,512.1	1,648.4
Redeemable bonds/ payable to a subsidiary	—	—	2,983.5	2,959.9	785.1	778.9

The above carrying amount and net fair value of total borrowings exclude swaps, which are disclosed in sub-note (b).

Financial assets

The fair value of long term investments are estimated by reference to market indicative yields or the Company's share of net tangible assets. Where allowances of permanent diminution in value or impairment, where applicable, is made in respect of any investment, the carrying amount net of allowance made is deemed to be a close approximation of its fair value.

TELEKOM MALAYSIA BERHAD
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(a) *On-balance-sheet (Continued)*

Financial assets (Continued)

The fair value of staff loans have been estimated by discounting the estimated future cash flows using the prevailing market rates for similar credit risks and remaining period to maturity. The fair value of staff loans is significantly lower than carrying amount at the balance sheet date as the Company and its subsidiaries charged interest rates on staff loans at below current market rates. The Directors consider the carrying amount fully recoverable as they do not intend to realise the financial asset via exchange with another counterparty but to hold it to contract maturity. Collaterals are taken for these loans and the Directors are of the opinion that the potential losses in the event of default will be covered by the collateral values on individual loan basis.

For convertible education loans, amount owing by subsidiaries and associates and customers' deposits, it is not practicable to determine the fair values of these balances as they are mainly interest free and do not have fixed repayment terms. However, the carrying amounts recorded are not anticipated to be significantly in excess of their fair values at the balance sheet date.

Financial liabilities

The fair value of convertible bonds and quoted bonds has been estimated using the respective quoted offer price. For unquoted borrowings with fixed interest rate, the fair values have been estimated by discounting the estimate future cash flows using the prevailing market rates for similar credit risks and remaining period to maturity. For unquoted borrowings with floating interest rate, the carrying values are generally reasonable estimates of their fair values.

The financial liabilities will be realised at their carrying values and not at their fair values as the Directors have no intention to settle these liabilities other than in accordance with their contractual obligations.

For all other short term on-balance-sheet financial instruments maturing within one year or are repayable on demand, the carrying values are assumed to approximate their fair values.

TELEKOM MALAYSIA BERHAD
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Off-balance-sheet

The financial derivative instruments are used to hedge foreign exchange and interest rate risks associated with certain long term foreign currency borrowings. The contract notional principal amounts of the derivative and the corresponding fair value adjustments are analysed as below:

	As at 31 December 2002			As at 31 December 2003		
	Contract or notional principal amount	Net fair value		Contract or notional principal amount	Net fair value	
		Favourable	Unfavourable		Favourable	Unfavourable
	RM	RM	RM	RM	RM	RM
Off-Balance-Sheet Financial Derivative Instruments						
Long dated swap	750.0	47.5	—	750.0	66.4	—
Cross-currency interest rate swaps	760.0	1.8	(9.8)	760.0	—	(95.8)
Interest rate swap	—	—	—	570.0	1.4	—

	As at 31 December 2003		
	Contract or notional principal amount	Net fair value	
		Favourable	Unfavourable
	USD	USD	USD
Off-Balance-Sheet Financial Derivative Instruments			
Long dated swap	197.4	17.5	—
Cross-currency interest rate swaps	200.0	—	(25.2)
Interest rate swap	150.0	0.4	—

Fair values of financial derivative instruments are the present values of their future cash flows and are arrived at based on valuations carried out by the Company's bankers. Favourable fair value indicates amount receivable by the Company if the contracts are terminated as at 31 December 2002 and 2003 or vice versa.

41. PRIOR YEAR ADJUSTMENTS

In respect of the year ended 31 December 2002

During the first quarter 2002, the Company changed its accounting policy with respect to the recognition of liabilities for dividend proposed in compliance with the new MASB 19 "Events after the Balance Sheet Date".

In previous years, dividends were accrued as a liability when proposed by Directors. The Company has now changed this accounting policy to recognise dividends in shareholders' equity as an appropriation of retained profits in the period in which the obligation to pay is established in accordance with MASB 19. Therefore, final dividends are now accrued as a liability after approval by shareholders at the Annual General Meeting.

TELEKOM MALAYSIA BERHAD
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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

41. PRIOR YEAR ADJUSTMENTS (CONTINUED)

This change in accounting policy has been accounted for retrospectively. The effects of the change in accounting policy are as follows:

		<u>As previously reported</u>	<u>Effect of change in policy</u>	<u>As restated</u>
		RM	RM	RM
Retained profits . . .	— at 1 January 2001	10,935.9	223.2	11,159.1
	— at 31 December 2001	11,452.1	343.2	11,795.3
Proposed dividends .	— at 1 January 2001	223.2	(223.2)	—
	— at 31 December 2001	343.2	(343.2)	—

In respect of the year ended 31 December 2003

During the year, the Company changed its accounting policy with respect to the recognition of provision for deferred tax in compliance with MASB 25 “Income Taxes”.

In previous years, provision was made for deferred tax, using the liability method, on all material temporary differences except where it was considered reasonably probable that the tax effect of such deferrals will continue in the foreseeable future. The Company has now changed this accounting policy to that of full provision in respect of all temporary differences in accordance with MASB 25. All temporary differences are now taken as provision in the financial statements in the period as and when they arise.

Deferred tax assets if any, are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unutilised tax losses can be utilised.

The above changes in accounting policies have been accounted for retrospectively. The effects of the changes in accounting policies are as follows:

	<u>As previously reported</u>	<u>Effect of change in policy</u>	<u>As restated</u>
	RM	RM	RM
<i>Income statement</i>			
Taxation	(399.7)	(172.3)	(572.0)
Loss for the year	(326.2)	(172.3)	(498.5)
<i>Balance sheet</i>			
Reserves, retained profit			
— at 1 January 2002	11,795.3	(1,361.3)	10,434.0
— at 31 December 2002	11,127.5	(1,533.6)	9,593.9
Deferred tax			
— at 1 January 2002	—	1,361.3	1,361.3
— at 31 December 2002	—	1,533.6	1,533.6

TELEKOM MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts are in millions unless otherwise stated)

42. CURRENCY

All amounts are expressed in Ringgit Malaysia (RM) unless otherwise stated.

43. SUBSIDIARIES AND ASSOCIATES

Please refer to note 41 and 42 of pages F-123 to F-132 in the consolidated financial statements.

TM GLOBAL INCORPORATED
(Incorporated in Federal Territory of Labuan,
Malaysia under the Offshore Companies Act, 1990)

UNAUDITED CONDENSED INCOME STATEMENTS

		For the six months ended 30 June,	
		2004	2003
Note		USD	USD
	Other operating income	12,001,049	11,867,574
	Other operating expenses	(378)	(378)
	Profit from operations	12,000,671	11,867,196
	Finance cost	(12,000,000)	(11,866,035)
	Profit for the period	671	1,161

*The above unaudited condensed income statements are to be read in conjunction with
the Audited Annual Financial Statements for the year ended 31 December 2003.*

TM GLOBAL INCORPORATED
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Malaysia under the Offshore Companies Act, 1990)

CONDENSED BALANCE SHEETS

		As at 30 June 2004	As at 31 December 2003
	Note	USD (Unaudited)	USD (Audited)
CAPITAL AND RESERVE			
Share capital	4	1,000	1,000
Retained earnings		26,477	25,806
SHAREHOLDERS' FUNDS		27,477	26,806
LONG TERM LIABILITY			
Guaranteed fixed rate notes	5	300,000,000	300,000,000
		300,027,477	300,026,806
Represented by:			
NON CURRENT ASSET			
Loan to holding company	6	300,000,000	300,000,000
CURRENT ASSETS			
Amount owing by holding company	6	1,364,594	1,364,594
Cash and bank balances		464,148	463,099
		1,828,742	1,827,693
CURRENT LIABILITY			
Payables		1,801,265	1,800,887
NET CURRENT ASSETS		27,477	26,806
		300,027,477	300,026,806

The above unaudited condensed balance sheets are to be read in conjunction with the Audited Annual Financial Statements for the year ended 31 December 2003.

TM GLOBAL INCORPORATED
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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

	<u>Ordinary shares</u> <u>USD1 each</u>	<u>Distributable</u> <u>Retained</u> <u>earnings</u>	<u>Total</u>
	<u>Share capital</u>	<u>Retained</u> <u>earnings</u>	<u>Total</u>
	USD	USD	USD
At 1 January 2003	1,000	23,456	24,456
Profit for the period	<u>—</u>	<u>1,161</u>	<u>1,161</u>
At 30 June 2003	<u>1,000</u>	<u>24,617</u>	<u>25,617</u>
At 1 January 2004	1,000	25,806	26,806
Profit for the period	<u>—</u>	<u>671</u>	<u>671</u>
At 30 June 2004	<u>1,000</u>	<u>26,477</u>	<u>27,477</u>

The above unaudited condensed statement of changes in equity are to be read in conjunction with the Audited Annual Financial Statements for the year ended 31 December 2003.

TM GLOBAL INCORPORATED
(Incorporated in Federal Territory of Labuan,
Malaysia under the Offshore Companies Act, 1990)

UNAUDITED CONDENSED CASH FLOW STATEMENTS

	For the six months ended 30 June,	
	2004	2003
	USD	USD
Cash receipts from debtors	1,049	1,539
Cash flows from operating activities	1,049	1,539
Net increase in cash and cash equivalents.	1,049	1,539
Cash and cash equivalents at beginning of the period.	463,099	460,560
Cash and cash equivalents at end of the period	464,148	462,099

*The above unaudited condensed cash flows statements are to be read in conjunction with
the Audited Annual Financial Statements for the year ended 31 December 2003.*

TM GLOBAL INCORPORATED
(Incorporated in Federal Territory of Labuan,
Malaysia under the Offshore Companies Act, 1990)

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The interim financial statements are prepared in accordance with MASB 26, "Interim Financial Reporting" and should be read in conjunction with the audited financial statements of the Company for the year ended 31 December 2003. The accounting policies and methods of computation adopted for the interim financial report are consistent with those adopted for the audited financial statements for the year ended 31 December 2003.

2. PROFIT FROM OPERATIONS

	For the six months ended 30 June,	
	2004	2003
	USD	USD
	(Unaudited)	(Unaudited)
The following items have been charged/(credited) in arriving at profit from operations:		
Auditors' remuneration	378	378
Interest income from holding company.	(12,000,000)	(11,866,035)
Other interest income.	<u>(1,049)</u>	<u>(1,539)</u>

3. FINANCE COST

Interest expense on the guaranteed notes	<u>12,000,000</u>	<u>11,866,035</u>
--	-------------------	-------------------

4. SHARE CAPITAL

	As at 30 June 2004	As at 31 December 2003
	USD	USD
	(Unaudited)	(Audited)
Ordinary shares of USD1 each		
Authorised:		
At beginning/end of the period	<u>100,000</u>	<u>100,000</u>
Issued and fully paid up:		
At beginning/end of the period	<u>1,000</u>	<u>1,000</u>

5. GUARANTEED FIXED RATE NOTES

On 7 December 2000, the Company issued USD300,000,000 nominal value of 99.068 per cent. Guaranteed Unsecured Notes due 2010 unconditionally and irrecoverably guaranteed by Telekom Malaysia Berhad. The guaranteed notes are quoted on the Luxembourg Stock Exchange and are constituted under a Trust Deed dated 7 December 2000. The guaranteed notes bear interest at 8% per annum, payable semi-annually on 7 June and 7 December in each financial year. Unless previously redeemed, repurchased or cancelled, the guaranteed notes will be redeemed in full by the Company on 7 December 2010 at its nominal value.

TM GLOBAL INCORPORATED
(Incorporated in Federal Territory of Labuan,
Malaysia under the Offshore Companies Act, 1990)

NOTES TO THE INTERIM FINANCIAL STATEMENTS — (Continued)

5. GUARANTEED FIXED RATE NOTES (CONTINUED)

The fair value of the guaranteed notes based on its Luxembourg Stock Exchange quoted price as at 30 June 2004 of 114.729 per cent. (31 December 2003: 117.87 per cent.) was USD344,187,000 (31 December 2003: USD353,610,000).

6. AMOUNT OWING BY HOLDING COMPANY

The holding company of the Company is Telekom Malaysia Berhad, a company incorporated in Malaysia.

	As at 30 June 2004	As at 31 December 2003
	USD (Unaudited)	USD (Audited)
Loan to holding company	300,000,000	300,000,000
Amount owing by holding company (current account)		
— accrued interest receivables	1,800,000	1,800,000
— advances provided by holding company	(435,406)	(435,406)
	1,364,594	1,364,594
	301,364,594	301,364,594

Loan to holding company is unsecured and repayable in December 2010. The loan amount bears interest at the rate of 8% (31 December 2003: 8%) per annum and payable semi-annually. The loan to holding company has been made on similar terms to that of the guaranteed fixed rate notes mentioned in Note 5. On this basis, the fair value of the loan to holding company as at 30 June 2004 is determined to approximate USD344,187,000 (31 December 2003 : USD353,610,000).

The amount owing by the holding company (current account) is unsecured, interest free and has no fixed terms of repayment.

TM GLOBAL INCORPORATED
(Incorporated in Malaysia)

REPORT OF THE AUDITORS TO THE MEMBER OF
TM GLOBAL INCORPORATED

We have audited the financial statements set out on pages F-219 to F-228. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2001 and of its results and cash flows for the financial year ended on that date in accordance with applicable approved accounting standards in Malaysia.

PricewaterhouseCoopers
(AAL-0017)
Chartered Accountants

Shirley Goh
(1778/08/02 (J))
Partner

Kuala Lumpur
26 February 2002

TM GLOBAL INCORPORATED
(Incorporated in Malaysia)

REPORT OF THE AUDITORS TO THE MEMBER OF
TM GLOBAL INCORPORATED

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In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2002 and of its results and cash flows for the financial year ended on that date in accordance with applicable approved accounting standards in Malaysia.

PricewaterhouseCoopers
(AAL-0017)
Chartered Accountants

Shirley Goh
(1778/08/04 (J))
Partner

Kuala Lumpur
27 February 2003

TM GLOBAL INCORPORATED
(Incorporated in Malaysia)

REPORT OF THE AUDITORS TO THE MEMBER OF
TM GLOBAL INCORPORATED

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PricewaterhouseCoopers
(AAL-0017)
Chartered Accountants

Shirley Goh
(1778/08/04 (J))
Partner

26 February 2004

TM GLOBAL INCORPORATED
(Incorporated in Federal Territory of Labuan,
Malaysia under the Offshore Companies Act, 1990)

INCOME STATEMENTS

	Note	<u>For the years ended 31 December,</u>		
		<u>2001</u>	<u>2002</u>	<u>2003</u>
		USD	USD	USD
Other operating income		29,667,997	24,069,690	24,002,539
Other operating expenses		<u>(958)</u>	<u>(757)</u>	<u>(189)</u>
Profit from operations	4	29,667,039	24,068,933	24,002,350
Finance cost	5	<u>(29,648,857)</u>	<u>(24,064,361)</u>	<u>(24,000,000)</u>
Profit for the financial year		<u>18,182</u>	<u>4,572</u>	<u>2,350</u>

*The above income statements are to be read in conjunction with
the notes to the financial statements on pages F-223 to F-228.*

TM GLOBAL INCORPORATED
(Incorporated in Federal Territory of Labuan,
Malaysia under the Offshore Companies Act, 1990)

BALANCE SHEETS

		<u>As at 31 December,</u>		
		<u>2001</u>	<u>2002</u>	<u>2003</u>
Note		USD	USD	USD
CAPITAL AND RESERVE				
	Share capital.	1,000	1,000	1,000
	Retained earnings	<u>18,884</u>	<u>23,456</u>	<u>25,806</u>
	SHAREHOLDERS' FUNDS	19,884	24,456	26,806
LONG TERM LIABILITY				
	Guaranteed fixed rate notes	<u>300,000,000</u>	<u>300,000,000</u>	<u>300,000,000</u>
		<u><u>300,019,884</u></u>	<u><u>300,024,456</u></u>	<u><u>300,026,806</u></u>
Represented by:				
NON CURRENT ASSET				
	Loan to holding company.	300,000,000	300,000,000	300,000,000
CURRENT ASSETS				
	Amount owing by holding company.	1,289,082	1,365,480	1,364,594
	Cash and bank balances	<u>465,653</u>	<u>460,560</u>	<u>463,099</u>
		<u>1,754,735</u>	<u>1,826,040</u>	<u>1,827,693</u>
CURRENT LIABILITIES				
	Payables	<u>1,734,851</u>	<u>1,801,584</u>	<u>1,800,887</u>
	NET CURRENT ASSETS	<u><u>1,734,851</u></u>	<u><u>1,801,584</u></u>	<u><u>1,800,887</u></u>
		<u>19,884</u>	<u>24,456</u>	<u>26,806</u>
		<u><u>300,019,884</u></u>	<u><u>300,024,456</u></u>	<u><u>300,026,806</u></u>

*The above balance sheets are to be read in conjunction with
the notes to the financial statements on pages F-223 to F-228.*

TM GLOBAL INCORPORATED
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STATEMENT OF CHANGES IN EQUITY

	<u>Ordinary shares</u> <u>USD1 each</u>	<u>Distributable</u> <u>Retained</u> <u>earnings</u>	<u>Total</u>
	<u>Share capital</u>	<u>Retained</u> <u>earnings</u>	<u>Total</u>
	USD	USD	USD
At 1 January 2001	1,000	702	1,702
Profit for the financial year	<u>—</u>	<u>18,182</u>	<u>18,182</u>
At 31 December 2001	<u>1,000</u>	<u>18,884</u>	<u>19,884</u>
At 1 January 2002	1,000	18,884	19,884
Profit for the financial year	<u>—</u>	<u>4,572</u>	<u>4,572</u>
At 31 December 2002	<u>1,000</u>	<u>23,456</u>	<u>24,456</u>
At 1 January 2003	1,000	23,456	24,456
Profit for the financial year	<u>—</u>	<u>2,350</u>	<u>2,350</u>
At 31 December 2003	<u>1,000</u>	<u>25,806</u>	<u>26,806</u>

*The above statement of changes in equity are to be read in conjunction with
the notes to the financial statements on pages F-223 to F-228.*

TM GLOBAL INCORPORATED
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CASH FLOW STATEMENTS

	Note	For the years ended 31 December,		
		2001	2002	2003
		USD	USD	USD
Cash flow (used in)/from operating activities				
Cash receipts from debtors		1,961,256	5,329	2,539
Cash payments to suppliers.		<u>(2,498,621)</u>	<u>(10,422)</u>	<u>(886)</u>
Net cash (used in)/from operations		(537,365)	(5,093)	1,653
Cash flows from financing activities				
Repayment of borrowings.		(100,000,000)	—	—
Repayment from holding company.		100,000,000	—	—
Advances from holding company.		<u>—</u>	<u>—</u>	<u>886</u>
Net cash generated from financing activities		<u>—</u>	<u>—</u>	<u>886</u>
Net (decrease)/increase in cash and cash equivalents at beginning of financial year		(537,365)	(5,093)	2,539
Cash and cash equivalents at beginning of the financial year		<u>1,003,018</u>	<u>465,653</u>	<u>460,560</u>
Cash and cash equivalents at end of the financial year	9	<u><u>465,653</u></u>	<u><u>460,560</u></u>	<u><u>463,099</u></u>

The above cash flows statement are to be read in conjunction with the notes to the financial statements on pages F-223 to F-228.

TM GLOBAL INCORPORATED
(Incorporated in Federal Territory of Labuan,
Malaysia under the Offshore Companies Act, 1990)

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACTIVITY

The principal activity of the Company is that of investment holding. There has been no significant change in the nature of this activity during the financial years ended 31 December 2001, 2002 and 2003.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared under the historical costs convention except as disclosed in the Significant Accounting Policies below.

The financial statements comply with the applicable approved accounting standards in Malaysia.

The preparation of the financial statements in conformity with the applicable approved accounting standards in Malaysia requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Although these estimates are based on Director's best knowledge of current events and actions, actual results could differ from those estimates.

In respect of year ended 31 December 2002

The Company has taken advantage of the exemption provided by MASB 24 to apply it prospectively. Accordingly, comparative information has not been provided.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements for the years ended 31 December 2001, 2002 and 2003 unless otherwise stated:

Foreign currencies transactions

Foreign currency transactions are accounted for at exchange rates prevailing at the transactions dates. Foreign currency monetary assets and liabilities are translated at exchange rates prevailing at the balance sheet date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency assets and liabilities are included in the income statement.

The principal closing rates used in translation of foreign currency amounts are as follows:

<u>Foreign currency</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
1 Malaysian Ringgit	USD0.263	USD0.263	USD0.263

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprises cash in hand, deposits held at call with banks, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

TM GLOBAL INCORPORATED
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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowings

Borrowings are initially recognised based on the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Income recognition

Interest income includes interest from deposits with licenced banks and is recognised on the effective yield basis.

In respect of the years ended 31 December 2002 and 2003

Financial instruments

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual policy statements associated with each item.

The carrying amounts for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

4. PROFIT FROM OPERATIONS

	For the years ended 31 December,		
	2001	2002	2003
	USD	USD	USD
The following items have been charged/(credited) in arriving at profit from operations:			
Auditors' remuneration			
— current year	756	658	658
— overprovision in respect of prior year	—	—	(568)
Interest income from holding company.	(29,648,857)	(24,064,361)	(24,000,000)
Other interest income.	(19,140)	(5,329)	(2,539)

5. FINANCE COST

	For the years ended 31 December,		
	2001	2002	2003
	USD	USD	USD
Interest expense on the guaranteed notes	29,648,857	24,064,361	24,000,000

TM GLOBAL INCORPORATED
(Incorporated in Federal Territory of Labuan,
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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

6. SHARE CAPITAL

	As at 31 December,					
	2001		2002		2003	
	Number of shares	Nominal value USD	Number of shares	Nominal value USD	Number of shares	Nominal value USD
Ordinary shares of USD1 each						
Authorised:						
At beginning/end of the financial year . .	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Issued and fully paid up:						
At beginning/end of the financial year . .	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

7. GUARANTEED FIXED RATE NOTES

On 7 December 2000, the Company issued USD300,000,000 nominal value of 99.068 per cent. Guaranteed Unsecured Notes due 2010 unconditionally and irrecoverably guaranteed by Telekom Malaysia Berhad. The guaranteed notes are quoted on the Luxembourg Stock Exchange and are constituted under a Trust Deed dated 7 December 2000. The guaranteed notes bear interest at 8% per annum, payable semi-annually on 7 June and 7 December in each financial year. Unless previously redeemed, repurchased or cancelled, the guaranteed notes will be redeemed in full by the Company on 7 December 2010 at its nominal value.

The fair value of the guaranteed notes based on its Luxembourg Stock Exchange quoted price as at 31 December 2003 of 117.87 per cent. (2002: 117.87 per cent.) was USD353,610,000 (2002: USD353,610,000).

8. AMOUNT OWING BY HOLDING COMPANY

The immediate and the ultimate holding company is Telekom Malaysia Berhad, a company incorporated in Malaysia.

	As at 31 December,		
	2001	2002	2003
	USD	USD	USD
Loan to holding company	300,000,000	300,000,000	300,000,000
Amount owing by holding company (current account)			
— accrued interest receivables	1,289,082	1,365,480	1,800,000
— advances provided by holding company	—	—	(435,406)
	<u>301,289,082</u>	<u>301,365,480</u>	<u>301,364,594</u>

TM GLOBAL INCORPORATED
(Incorporated in Federal Territory of Labuan,
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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

8. AMOUNT OWING BY HOLDING COMPANY (CONTINUED)

In respect of the year ended 31 December 2001

- (a) Loan to holding company is unsecured, out of which USD100,000,000 is repayable in full in September 2006 and the remaining is repayable in full in December 2010. Out of the total amount, USD100,000,000 bears interest at the rate of 2.25% plus US LIBOR and the remaining bear interest at the rate of 8.0%, Both interest are payable semi-annually. During the year, the USD100,000,000 loan was fully prepaid.
- (b) The amount owing by the ultimate holding company (current account) to unsecured, interest free and has no fixed terms of prepayment.

In respect of the years ended 31 December 2002 and 2003

Loan to holding company is unsecured and repayable in December 2010. The loan amount bears interest at the rate of 8% (2002: 8%, 2001: 8%) per annum and payable semi-annually.

The loan to holding company has been made on similar terms to that of the guaranteed fixed rate notes mentioned in Note 7. On this basis, the fair value of the loan to holding company as at 31 December 2003 is determined to approximate USD353,610,000 (2002: USD353,610,000).

The amount owing by the ultimate holding company (current account) is unsecured, interest free and has no fixed terms of repayment.

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following:

	As at 31 December,		
	2001	2002	2003
	USD	USD	USD
Deposits with a licenced bank	464,818	459,725	462,264
Cash at bank	835	835	835
	465,653	460,560	463,099

In respect of the years ended 31 December 2002 and 2003

The weighted average interest rates of deposits and bank balance that was effective as at 31 December 2002 and 2003 was 2.89% per annum.

Deposits of the Company as at 31 December 2002 and 2003 have an average maturity of 7 days. The bank balance is deposits held at call.

TM GLOBAL INCORPORATED
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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

10. PAYABLES

	As at 31 December,		
	2001	2002	2003
	USD	USD	USD
Accrued interest payable	1,733,333	1,800,000	1,800,000
Accrued expenses	1,518	1,584	887
	1,734,851	1,801,584	1,800,887

11. SIGNIFICANT NON-CASH TRANSACTION

Interest expense on guaranteed fixed rate notes for the financial year ended 31 December 2003 of USD24,000,000 (2002: USD23,987,963; 2001: USD29,648,857) have been paid by the holding company through the settlement of interest income payable to the Company.

12. SIGNIFICANT RELATED PARTY TRANSACTIONS

Significant related party transactions have not been disclosed in the financial statements as the Company has relied on the exemption provided under paragraph 5 (c) of the MASB 8 “Related Party Disclosure” which states that a wholly owned subsidiary of a company incorporated in Malaysia that provides consolidated financial statements is exempted from such disclosures.

13. FINANCIAL INSTRUMENT

In respect of the years ended 31 December 2002 and 2003

Financial instruments carried in the balance sheet include deposits, cash and bank balances, receivables, payables, borrowings and inter company balances.

Financial risk management objectives and policies

The Company is exposed to various financial risks arising from its business activities, mainly interest rate risk, credit risk and liquidity and cash flow risks. The Company’s overall financial risk management objective is to create value for its shareholder. Financial risk management is primarily carried out through the maintenance of a sound internal control system and adherence to Telekom Malaysia Berhad’s financial management policies.

(a) Interest rate risk

The Company’s income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Company’s borrowings and deposits, and is managed through the use of fixed interest rates.

(b) Credit risk

The Company seeks to invest cash assets safely and profitably. Its deposits are placed with creditworthy financial institutions.

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(Incorporated in Federal Territory of Labuan,
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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

13. FINANCIAL INSTRUMENT (CONTINUED)

The Company is exposed to a significant concentration of credit risk with respect to its loan to Telekom Malaysia Berhad. However, this concentration of credit risk is being substantially mitigated as Telekom Malaysia Berhad is the holding company of the Company and listed in the Kuala Lumpur Stock Exchange. All credit and recovery risks associated to financial instruments are provided for in the financial statements.

(c) Liquidity and cash flow risk

Prudent liquidity risk management implies maintaining sufficient liquid funds and the availability of funding through an adequate amount of committed credit facilities and when necessary, advances from Telekom Malaysia Berhad.

Fair values

The fair value of the publicly traded financial liability is based on its quoted market price at the balance sheet date.

The carrying amounts, less any estimated credit adjustments, for other financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

ANNEX A — GLOSSARY OF TERMS

access	Point at which entry is gained into a circuit or a network interconnection; may be switched or dedicated.
Advanced Mobile Phone System (“ AMPS ”)	An analogue system which uses different carriers to create a communications channel known as “ FDMA ”.
analogue	The traditional method of modulating radio signals so that they can carry information. Analogue signals are measured by their frequency, or, the number of times per second that an electromagnetic wave swings back and forth in a complete cycle. The higher the speed/frequency, the more cycles of waves are completed in a period of time. This speed is measured in hertz.
bandwidth	A measure of data sent through a connection. A relative range of analogue frequencies or digital signals that can be passed through a transmission medium, such as glass fibres, without distortion. The greater the bandwidth, the greater the information carrying capacity. Bandwidth is expressed in hertz for analogue devices and in bits per second for digital devices.
base station	A multi-circuit transceiver located at the centre of a cell (see below) whose primary purpose is to handle all incoming and outgoing calls within the cell.
Basic Rate Interface (“ BRI ”)	A type of ISDN interface, which provides access for two channels.
bits	The smallest amount of information that can be transmitted. A combination of bits can indicate an alphabetical character or a numeric digit or can perform a signalling, switching or other function.
broadband	Transmission facility having a bandwidth greater than 20 Mbps; capable of high-speed data transmission.
bytes	A group of eight bits handled on a single logical unit.
capacity	The highest possible reliable transmission speed that can be carried on a channel, a circuit, or a piece of equipment.
cell	The radio frequency coverage area in the mobile system resulting from operation of a single multiple channel set of base station frequencies.
channels	A unique radio frequency that is used for communication between subscriber units and cell site base stations.
content	Data in the form of text, image, sound or video, which appears on Web pages.
Corporate Information Superhighway (“ COINS ”)	A globally-connected, nation-wide, broadband communications network which supports multimedia applications, networked computing and communications.
digital	A method of storing, processing and transmitting information through the use of distinct electronic or optical pulses that represent binary digits (0 and 1).
Digital Subscriber Line (“ DSL ”)	A family of technologies that provides high bandwidth transmission over standard twisted copper wires (regular telephone lines).

Direct Exchange Lines (“ DELS ”)	Direct telephone exchange lines that provide transmission of voice telephony and data over standard twisted copper wires (regular telephone lines).
domain name	A unique name which identifies the location of a Website on the Internet.
electronic commerce or e-commerce	Commercial transactions based on the electronic transmission of data over a communications network.
equal access	The concept of equal access is that fixed network operators have equal access to fixed line networks in connection with their provision of domestic long-distance and international services.
fibre-optic	A means of providing a high-speed transmission, using light to send images through a flexible bundle of glass fibres.
frame relay	Form of packet switching that employs statistical multiplexing over a shared network, intended for use between intelligent end-points and implemented over high-quality transmission facilities that connect programmable switches.
Frequency Division Multiple Access (“ FDMA ”)	Systems that transmit one voice over circuit per channel.
third generation (“ 3G ”)	Third generation digital wireless communications technology.
Global System for Mobile (“ GSM ”)	The most mature digital wireless standard, usually referred to as the “European” digital standard.
Internet	The Internet is the interconnection of servers worldwide that provides communications and application services to an international base of business, consumers, education, research, government and other organisations.
Internet Protocol (“ IP ”)	A standard that keeps track of network addresses for different nodes, routes outgoing messages, and recognises incoming messages.
Integrated Services Digital Network (“ ISDN ”)	Switched network providing end-to-end digital connectivity for the simultaneous transmission of voice, data video, imaging and fax over several multiplexed communications channels.
Internet Service Provider (“ ISP ”)	A company that provides Internet access to customers.
Mbps	One million bytes per second.
Megahertz (“ MHz ”)	One million cycles per second.
Microwave	A means of transmitting signals. It is used to send long-distance signals through the air between microwave towers.
network	A group of two or more computer systems linked together.
Network Management System (“ NMS ”)	A system that acts as a nerve centre to monitor and control the entire network.

packet switching	The method used to transmit data on data networks. Unlike the public switched telephone network, packet switched networks do not reserve a circuit between end points. Instead they break up messages or files into small packets. Each message packet may take a different route from origin to destination, travelling along network circuits that are shared with packets from other messages.
portal	A Website or service that offer a broad array of resources and services, such as e-mails, forums and search engines.
Primary Rate Interface (“PRI”)	A type of ISDN interface, which provides access for up to 30 channels.
protocol	The conventions used in a network for establishing communications comparability between terminals, and for maintaining the line discipline while they are connected to the network.
Public Switched Telephone Network (“PSTN”)	An international telephone end-to-end network system based on copper wires carrying analogue voice data.
real-time	Systems that respond to input immediately.
roaming	When mobile customers leave their mobile carrier’s home areas.
servers	The hardware that, together with other hardware and computer programmes, provides services to other hardware and computer programmes.
SMS	A message system whereby short messages may be sent from one phone to another.
switch	A sophisticated computer that accepts instructions from a caller in the form of a telephone number.
Time Division Multiple Access (“TDMA”)	A multiplexing standard that exists to transmit digital wireless signals, by dividing each mobile channel into three slots, in order to increase the amount of data that can be carried. Transmission signals are broken up into tiny packets of information which are sent in timed bursts in the 30 megahertz range and are re-assembled at the receiving end.
trunk	A group of circuits that carry call traffic in and out of the switch.
Very Small Aperture Terminal (“VSAT”)	A small earth station for satellite transmission of data handling up to 55 Kbits/second of digital transmission.
Voice Over Internet Protocol (“VoIP”)	The real-time transmission of voice signals using IP over the public Internet or a private data network.
Web	A worldwide network of servers that uses a special communications protocol called the hypertext transport protocol (HTTP) to link different servers throughout the Internet and permits communication of graphics, video and sound.
Web hosting	The commercial housing and maintenance of Web pages and Websites for another party.
Wireless local loop	Communications lines/services between the telephone subscriber and the phone company switching centre.

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