PERSPECTIVE

CHAIRMAN'S Statement

FORGING **AHEAD**

WE ACHIEVED COMMENDABLE PROGRESS IN EXPANDING OUR PRESENCE IN KEY MARKETS WITHIN AND OUTSIDE THE REGION AND THE SIGNIFICANT MILESTONE OF REACHING 28.5 MILLION MOBILE CUSTOMERS ACROSS THE 13 COUNTRIES IN WHICH WE OPERATE, MORE THAN THE TOTAL POPULATION OF MALAYSIA. THIS IS A TESTIMONY OF OUR KEEN EFFORTS TO BUILD A MALAYSIAN BRAND THAT WE CAN TRULY BE PROUD OF AND HENCE COMPETE EFFECTIVELY IN THE GLOBAL MARKETPLACE.

OVERVIEW

IT WAS A GOOD YEAR FOR THE MALAYSIAN ECONOMY, SO WAS IT FOR TM GROUP, AS WE CONTINUED TO MAKE TANGIBLE PROGRESS TOWARDS REALISING OUR STATED ASPIRATION OF BECOMING A REGIONAL COMMUNICATIONS COMPANY OF CHOICE. WE IMPROVED OUR EFFORTS TOWARDS CONSOLIDATING OUR INTERNATIONAL EXPANSION AND ACCRUED SIGNIFICANT CONTRIBUTIONS FROM THAT SECTOR, WE MANAGED DOMESTIC CHALLENGES PRESENTED MAINLY BY THE INTENSE COMPETITION IN THE MOBILE SECTOR AND THE CONTINUING TREND TOWARDS DECLINE IN FIXED SERVICES WHICH WAS NOT UNEXPECTED. AS A MEASURE OF OUR PERFORMANCE, WE ACHIEVED THE HEADLINE KEY PERFORMANCE INDICATORS OR KPIS IN LINE WITH THE REQUIREMENTS UNDER THE GOVERNMENT-LINKED COMPANIES (GLC) TRANSFORMATION INITIATIVE.

Group profitability nearly doubled year upon year as all indicators showed, including Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA), Profit Before Tax (PBT) and Profit After Tax and Minority Interest (PATAMI). Group EBITDA exceeded 44% growth year on year to touch RM7,530 million while Group PBT exceeded 100% over the same period to RM3,133 million. Group PATAMI registered a similarly strong growth of 136.4% to RM2,069 million, attributed mainly to the higher group revenue, better cost and financial management and foreign exchange gain in 2006, and the absence of negative provisions and impairment losses as incurred in 2005. Mobile customer growth posted a strong 39.7%.

Reflecting on our international operations in 2006, I would say with confidence, that we achieved commendable progress in expanding our presence in key markets within and outside the region. This is evident in the record 25% contribution by our international operations to Group revenue and the significant milestone of reaching 28.5 million mobile customers across the 13 countries in which we operate, more than the total population of Malaysia. This is a testimony of our keen efforts to serve communities in Asia and other emerging economies, and in the process, build a Malaysian brand that we can truly be proud of and hence compete effectively in the global marketplace.

Domestically, while facing the challenges of fixed-to-mobile migration, we enjoyed robust growth from our mobile, data, Internet and multimedia services – thereby still retaining our pole position as the largest provider of integrated telecommunications solutions in Malaysia. It is always a challenge being a leader. One has to continually assess one's position and innovate to ensure we remain ahead. In the process, one has to bring about change. I am pleased to report that during the year, we continued to do just that. We looked at how our customers live, work, play and what they needed. We also appraised our competitors, international ICT trends and the global marketplace. We looked at ourselves, at our core competencies and our ability to respond to the changing environment in which we operate.

We consequently launched several transformation initiatives to bring about real and positive change – from the top, with a review of Board performance and effectiveness, to the grassroots, by way of employee-engagement and productivity-enhancement exercises. One of our most visible change programmes was the Performance Improvement Programme or PIP which has helped us achieve, if not exceed, some of the bottom-line deliverables we set ourselves at the start of the year. Equipped with PIP, we undertook a restructuring exercise to consolidate and strengthen our domestic operations under a new strategic business unit, Malaysia Business and set up another strategic business unit, TM Ventures, to manage our non-core businesses going forward. The teams under Malaysia Business are tasked to rejuvenate and revitalize the fixed-line business and work together with Celcom which spearheads our domestic mobile operation with a view to maximizing operational synergies across the length and breadth of the country and across various operations.

All these efforts helped us achieve a 17.6% growth in Group revenue to RM16.4 billion as compared to RM13.9 billion in 2005. Although traditional fixed services showed a decline in terms of contribution from 54.4% in 2005 to 45.6% in 2006, this was compensated by our overseas mobile services, registering more than twice its contribution, from 12.7% previously to 25.5%. It was indeed another historic moment where for the first time, revenue from our domestic and overseas mobile operations exceeded our traditional fixed line revenue, with 52.2% contribution to Group revenue. This is indeed a turning point and a reflection of TM's evolution – from a government department not more than 20 years ago, to one of the largest public-listed companies on Bursa Securities and now a regional communications company. Not just a provider of fixed-line services, TM is also seeing more than half of its revenue coming from mobile operations.

I am pleased with the commitment of the Board and the efforts of the management team under our Group Chief Executive Officer (Group CEO) Dato' Abdul Wahid Omar towards delivering shareholder value which remains one of the major thrusts of the GLC-transformation exercise and for which we have been recognized by the Government. We are indeed grateful to our beloved Prime Minister for publicly expressing his confidence in us and our ability to improve corporate earnings. Meanwhile, our healthy performance indicators have reinforced our leading position among the top three on Bursa Securities in terms of market capitalisation.

DELIVERING SHAREHOLDER VALUE

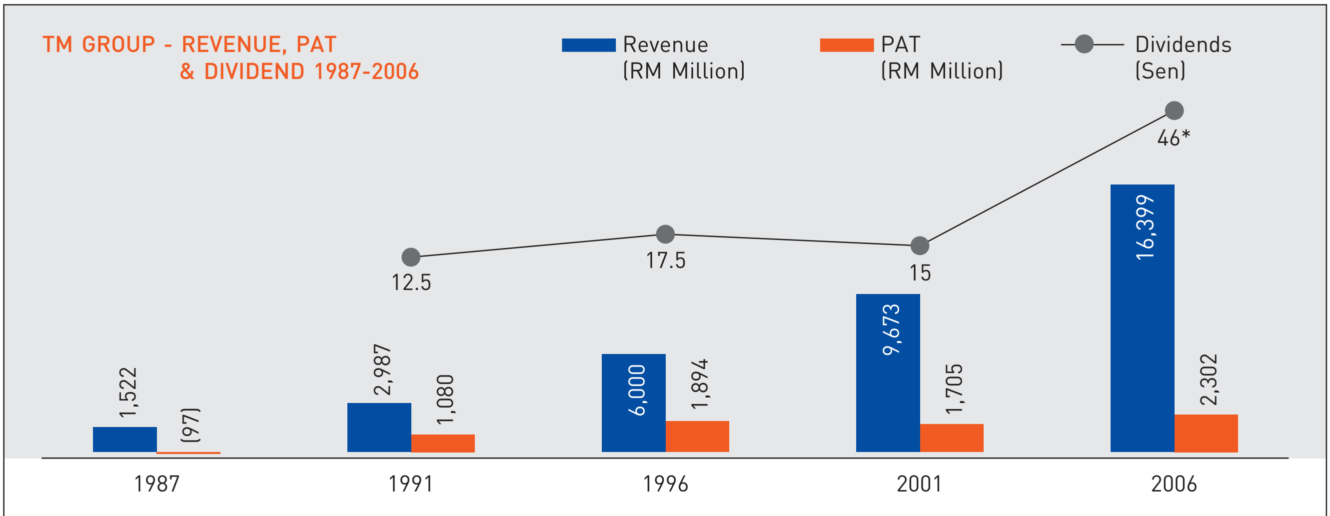
For the year under review, the Board has recommended a final gross dividend of 30 sen per share less 27% tax, amounting to a total payout of RM744.1 million against that of RM610.9 million in the previous year. The Company paid an interim tax-exempt dividend of 16 sen per share on 18 September 2006, thereby bringing the total dividend payout for the financial year 2006 to a record RM1.135 billion. This is very much in line with our declared dividend policy which seeks to optimize value for our shareholders through dividend growth, while managing the needs and expectations of our stakeholders.

PROGRESS & ACHIEVEMENTS

Given that it has been exactly 20 years since we became a Company, it is as good a time as any to cast our minds back to the year 1987 with a view to understanding how far we have come. That year was one of great significance for Malaysia's telecommunications industry as the management and provision of telecommunications services were transferred to a company called Syarikat Telekom Malaysia Berhad (STMB). It was the precursor to Malaysia's first privatisation effort, driven by the Government's desire to boost the nation's productivity, efficiency and quality in the move towards industrialisation.

Reviewing the first annual report of STMB, I am struck by how much has changed – and yet, how little. The company had stated then that its strategy for growth was premised on a realistic understanding of the telecommunications industry in Malaysia. This is very much the current philosophy and we continue to be pragmatic in our investment strategies both for domestic and regional expansion. 20 years ago, the challenges of upgrading customer service were top of the agenda, as they are now. If anything, this demonstrates the continuing need to be always fully responsive to the expectations and demands of the marketplace. In other ways, we have taken a gigantic leap forward. The maiden financial performance of the newco STMB showed a profit-after-tax (PAT) loss of RM97 million on the back of RM1.522 billion in revenue. Our first maiden profit as STMB

From the 20-year financial chart, it will be noted that we have made definite but steady progress over the years. The numbers are a stark reminder of what we used to be in terms of market size and this is not surprising, considering that our core business in the early years revolved around fixed-line with telefax and telex services, public telephones and basic mobile services (ATUR). The scope of our operations now only goes to show how complex the business of providing ICT services has become in the 21st century.



* Dividends of 46 sen for 2006 is made up of interim gross dividend of 16 sen and final gross dividend of 30 sen

was realised the following year, 1988, where we achieved a PAT of RM172 million. From the 20-year financial chart, it will be noted that we have made definite but steady progress over the years. The numbers are a stark reminder of what we used to be in terms of market size and this is not surprising, considering that our core business in the early years revolved around fixed-line with telefax and telex services, public telephones and basic mobile services (ATUR). The scope of our operations now only goes to show how complex the business of providing ICT services has become in the 21st century.

CORPORATE GOVERNANCE

Reviewing the year gone by, I would be remiss if I did not mention our progressive measures at institutionalizing good corporate governance across the organisation. In line with international best practice, and the Guidelines to Enhance Board Effectiveness stipulated by the Putrajaya Committee on GLC High Performance (PCG), TM Group submitted its board to an independent evaluation and embarked on a Board Performance Improvement Programme to enhance board effectiveness and strengthen board composition, as quality is a key aspiration for good governance.

We have taken seriously other principles from the Malaysian regulatory framework governing public listed companies and begun the task of formalizing relationships and proactive communication channels with key shareholders and investors. Good investor relations practice is encouraged in the Malaysian Code of Corporate Governance, premised on the principles of transparency, efficiency and accountability. In 2006, our Group CEO and Group Chief Financial Officer met regularly with institutions and other investors to keep them informed of the Group's strategies, performance updates, and key business activities happening at home and across the region. It is to our credit that as a result of benchmarking our shareholder communications as a public listed company, to international best practice, we won a number of awards for our Annual Report 2005 including the Overall Excellence Award for the National Annual Corporate Report Award (NACRA) 2006 – a first time for us.

As a major GLC, TM has also embraced further governance initiatives such as in the area of corporate social responsibility (CSR) where we are reviewing our commitment to our stakeholders and society at large to ensure we assess opportunities prudently and realistically. Policies that reflect good governance, ethical corporate values and corporate citizenry have been developed and are being internalised to ensure consistent responses from all business units and subsidiaries. We subscribe to a Code of Business Ethics, first launched in 2005, and last year steps were taken to help employees embrace its core principles through briefings and training sessions throughout the country.

CUSTOMER RELATIONSHIP

Ever mindful of the needs of customers, we reinforced our Customer Relationship Management (CRM) initiatives by strengthening our TM Points and enhancing the customer experience at these centres. The consolidation of our Malaysia Business was also a key achievement of 2006, trusting that by coordinating domestic fixed services under one administration we would be better able to derive synergies in service responsiveness and service quality. When different teams go out in local communities, they can work together to package what the customer needs in a cost-effective manner.

On the overseas investment front, more milestones were reached – the highest growth of regional mobile customer base in one year (nearly 40%), largest number of mobile customers at 28.5 million, continued revenue growth from mobile, and growing contribution to Group revenue. TM is also proud of the performance of key investments in Exelcomindo in Indonesia, Dialog in Sri Lanka (both completing first financial year as listed companies) and in Bangladesh – all of which reported dynamic growth. We also strengthened our regional presence with our new investments in India, Cambodia and Thailand.

2007 OUTLOOK

Ours is an industry which continues to innovate. The speed at which technologies emerge and the manner in which they touch our lives provides the adrenaline we need as a communications service provider to reach out to the global customer. To maintain our growth momentum, we have to accept the impact of innovation on our operations – be it at the product or service end, or at the backroom network end. We may sometimes find the onslaught of innovation daunting but we also welcome it as it brings us greater value, greater choices and greater opportunities for the enrichment of customer experiences. From analog we have moved to digital, now from digital we will move to Internet Protocol, and from voice we will move to data. There is no doubt that dynamism is a continuing feature of our operating environment.

The macro-economic outlook in the country remains promising and all indications are that it would be another successful year for the Malaysian economy. Across the regions where we operate, growth trends are also evident and the appetite for mobile products is increasing. Given this backdrop, TM is confident that we will meet our own growth targets in the current year. We will certainly leverage these opportunities to build on our regional successes and grow new in-country brands.

Going forward into 2007, under Malaysia Business, we will direct our efforts with greater vigour towards flawless execution of the strategies laid out under the PIP and meet the deliverables we have identified. These include driving broadband aggressively and providing ever-expanding choices over fixed and wireless. We also have to mitigate the decline in fixed voice through more innovative marketing and promotional strategies. Plans will revolve around entrenching our position in the enterprise market with data solutions and securing new pockets of growth in specific wholesale areas. As for Celcom, the vision for the year is to improve our revenue share of the mobile market through a keener focus on customer service, improved distribution channels and enterprise sales and also by making inroads into the growing mobile data segment. Hence the proposition to customers from 2005 continues, to add more value and data-based offerings through personalisation, ubiquitous access, speed, mobility, cost and security. All of these efforts will be well supported by continuing quality, cost and capital management.

On International Business front, we expect better execution of growth strategies. As always, we will be on the lookout for competition even as we seek new investment opportunities. I believe the plan for this year includes harnessing synergies within our portfolio of investments to generate better yield and productivity in a win-win environment.

We have always maintained that despite the challenges and the intense competition, the future outlook of telecommunications in Malaysia remains positive. We must always defend our market position by building on our core competencies and current core businesses, while at the same time evaluate and even divest non-core businesses that detract from achieving the goals at hand.

Barring any unforeseen circumstances the Board of Directors expects the Group's performance for the current financial year to remain favourable.

RESPONSIBLE CORPORATE CITIZEN

Guided by our commitment to our Corporate Social Responsibility (CSR) policy which states that "In everything that the TM Group does, we place importance on our obligations as a responsible corporate citizen", we maintained our efforts towards the community at large in the year 2006, investing more than RM75 million towards education, sports development and community and nation-building. These have always been our CSR pillars. In education, we continued to contribute towards building human capital for the nation as it seeks to expand its knowledge economy. Our 'star' effort in education has to be the role we play in the Multimedia University (MMU) which we set up 10 years ago and which has since produced nearly 13,000 graduates with ICT skills. Under sports development, we have been consistent in promoting football as our way of building talent at grassroots level. Our MyTeam programme was not only attractive to young football enthusiasts – garnering more than 200,000 participants – it also helped us identify 18,000 talents some of whom may go on to become serious football players. In the community sphere, many charities, institutions and causes benefited from our generous support, which included cash and in-kind donations. These efforts were also directed beyond Malaysian shores through our various companies. In particular, I should mention our humanitarian responses towards flood victims in southern Malaysia. I should also note that we are benchmarking our CSR initiatives against the Khazanah-led Silver Book Guidelines aimed at helping GLCs consolidate their CSR efforts to include CSR tracking and reporting. Additionally, TM is also approaching CSR in a much more holistic way and attempting to integrate some of its noble principles towards the internal community within the Group.

ACKNOWLEDGEMENTS

I wish to express my sincerest appreciation to my fellow Board members, Management and Staff of TM Group for their collective commitment in achieving a sterling performance in 2006. In particular, I wish to thank Mr Leonard Wilfred Yussin, who ceased to be the alternate director to Dato' Ahmad Haji Hashim on 8 February 2007, for his contributions during his tenure as alternate director. Meanwhile, the Board welcomes Puan Dyg Sadiah Abg Bohan who joined us on 8 February 2007 as alternate director to Dato' Ahmad Haji Hashim. Once again, we renew our commitment to cooperate closely as a team, to help steer the Group towards another profitable and productive year.

I wish also to thank our Group CEO, Dato' Abdul Wahid Omar, for his untiring efforts in service to the Group since he was appointed to the role in July 2004, and to congratulate him for a job well done in 2006. Dato' Abdul Wahid was recognized for his leadership when he was honoured with an award for Malaysia's CEO Of The Year 2006. The Board also congratulates him for having his term extended for another three years and looks forward to his stewardship for 2007 and beyond.

Finally, on behalf of the Board, I would like to express my gratitude to the Government of Malaysia, regulators, and all our stakeholders, namely shareholders, customers, business partners, employees, the media and others – for their continued belief in, and support of, the TM brand. As the nation celebrates its 50 years of independence, we at TM pledge that we will continue to open up possibilities and play our role in providing the best of communications to serve the nation as we move forward in a highly competitive and globalised environment.

Tan Sri Dato' Ir Muhammad Radzi Haji Mansor
Chairman

While we make a world of difference in peoples' lives,

it is important to remember the world makes a difference as well.

The environment we work and live in is fragile. While it provides us with a place to grow and achieve, we need to make sure we nurture it appropriately and give back as much as we take. This is why TM takes an active role in protecting and conserving the world we all live in.

Group Chief EXECUTIVE OFFICER'S Statement

TELEKOM MALAYSIA BERHAD (TM) CONTINUES TO THRIVE IN A RAPIDLY CHANGING TELECOMMUNICATIONS ENVIRONMENT. THE YEAR 2006 WAS A SIGNIFICANT ONE FOR THE GROUP – FOR THE FIRST TIME EVER, REVENUE FROM OUR DOMESTIC AND OVERSEAS MOBILE OPERATIONS EXCEEDED OUR TRADITIONAL FIXED LINE REVENUE, AND CONTRIBUTIONS FROM OUR INTERNATIONAL OPERATIONS EXPANDED TO A MEANINGFUL 25% OF TOTAL REVENUE. THIS IS INDEED A POSITIVE TREND AND A MAJOR MILESTONE IN OUR TRANSFORMATION FROM AN INCUMBENT FIXED-LINE COMPANY TO A REGIONAL COMMUNICATIONS PLAYER, WITH PARTICULAR EMPHASIS ON THE MOBILE BUSINESS.

A key highlight of 2006 was our sustained international expansion. We successfully completed our 49% acquisition of Spice Communications Private Limited (Spice) of India in May, giving us the opportunity to participate in the lucrative Indian telecommunications industry. Spice, which currently operates in the states of Punjab and Karnataka, has a combined customer base of 2.5 million customers. Together with our partner in India, our short to medium term focus will be to improve our position in these two states and roll out network infrastructure. The focus for the longer term would be to pursue a pan-Indian presence with footprint expansion in 20 new circles and ensure Spice is the leading profitable operator in these circles.

Reaffirming our position in the Cambodian market, we acquired the remaining 49% equity interest in Cambodia Samart Communication Co Ltd (Casacom) from Thailand's Samart Corporation Plc (Samart), thereby making Casacom a wholly-owned TM subsidiary. We also acquired a 24.42% stake in Samart subsidiary, Samart I-Mobile Plc. With these acquisitions, we are well-positioned to build our brand presence in both these markets as a gateway into the larger IndoChina region.

At the close of the year, the TM Group had the privilege of serving 28.5 million mobile customers across eight Asian countries. Building on this record, our efforts going forward will be directed towards meeting the needs and expectations of our expanding customer base, and creating value in each of the markets that we operate.

GROUP PERFORMANCE

The Group delivered a strong and creditable financial performance against a backdrop of intense competition and changing dynamics. Despite environmental pressures, I am pleased to report that the Group successfully delivered two of the most important headline Key Performance Indicators (KPIs) of Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) margin and Return on Capital Employed (ROCE), and exceeded the analysts' forecast consensus for topline revenue.

For the financial year 2006, the Group recorded a Profit After Tax and Minority Interest (PATAMI) of RM2,068.8 million. The healthy performance was mainly attributed to higher group revenue, better cost and financial management and foreign exchange gains. Group revenue grew by 17.6% to RM16,399.2 million.

The Group also registered healthier EBITDA of RM7,529.6 million and met its 45.9% EBITDA margin target. The headline EBITDA margin was achieved as a result of better cost and financial management, generating cost savings of more than RM200 million from lower direct costs, manpower and marketing expenses. However, there were exceptional cost items such as that arising from the voluntary

CREDITABLE FINANCIAL PERFORMANCE

"The Group successfully delivered two of the most important headline Key Performance Indicators (KPIs) of Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) margin and Return on Capital Employed (ROCE), and exceeded the analysts' forecast consensus for topline revenue.

Headline KPIs	FY2005	FY2006	FY2006 KPI
Revenue	RM13.9 billion	RM16.4 billion	RM17.0 billion
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) Margin	43.7%*	45.9%	45.9%
Return on Capital Employed (ROCE)**	9.3%	11.7%	10.6%

** Excludes provision for DeTeAsia claim*
*** ROCE defined as EBIT/Average capital employed*

separation scheme, ESOS and cable theft replacement all of which partially mitigated the impact of cost savings and gains on foreign exchange.

The on-target EBITDA margin coupled with better financial management contributed to a higher ROCE of 11.7% exceeding the 10.6% KPI target. In addition to the better EBITDA, lower depreciation costs also helped generate better than expected earnings.

As a result of a healthy performance, we have been in a position to improve our returns to our shareholders. The Board has proposed a final gross dividend of 30 sen per share less tax of 27%, amounting to a total payout of RM744.1 million based on issued and paid up capital as at 31 December 2006. Combined with the interim dividend of 16 sen per share less tax of 28% paid on 18 September 2006, the total dividend payout in respect of financial year 2006 would amount to RM1,135.1 million, the highest ever in TM's history. This represents a payout ratio of 54.9% which is at the upper end of the Company's dividend policy of 40% to 60% of profit attributable to shareholders and clearly demonstrates our commitment to improve returns to the shareholders year upon year.

> "The total dividend payout in respect of financial year 2006 would amount to RM1,135.1 million, the highest ever in TM's history. This represents a payout ratio of 54.9% which is at the upper end of the Company's dividend policy of 40% to 60%.

I would like to take this opportunity to commend the entire workforce of the Group whose efforts have enabled us to deliver a good year despite the challenges and setbacks we faced at the start. In the first half of the year, while our overseas operations performed credibly, domestically, we noted a declining trend of 3.7% in our fixed-line revenue which was greater than our peers and, at the same time, faced intense competition in the mobile segment.

As part of our response, we launched a five-year Performance Improvement Plan (PIP) in August 2006 to strengthen our domestic business. One of the main thrusts was to mitigate the declining trend in fixed-line voice revenue through a series of proactive measures, as well as strengthen our position in the highly competitive mobile marketplace. Following a study, we took steps to restructure the Group to closely align ourselves to our key businesses. This involved the creation of a Strategic Business Unit (SBU) called Malaysia Business to consolidate all our domestic fixed-line and Internet and multimedia services under one CEO, Zamzamzairani Mohd. Isa, to promote greater efficiency and productivity. We also created TM Ventures, another SBU, led by its CEO, Khairussaleh Ramli, to separately manage a large number of non-core businesses with the objective of eventually exiting unprofitable businesses while reintegrating core business into Retail and Wholesale as appropriate. The new structure which came into effect last August sharpened our focus and aligned businesses with a common agenda to maximise synergies.

Over the course of 100 days, we worked hard to improve our performance in areas such as cost-management, sales enhancement and customer service across the Group. Employee alignment was especially critical during those months and a one-month communications exercise to share the vision with all 29,000 employees throughout the organisation was mounted successfully. Through face-to-face communication, we spent hundreds of hours in 527 employee dialogue sessions across the country and across all our operations last year, to ensure staff had the opportunity to understand the challenges we were facing, to embrace the action that was necessary to bring about change and to provide feedback. Many excellent suggestions were received in these frank and open discussions that were taken on board and to good effect.

As we moved into the second half of 2006, we could already see improvement from the initiatives implemented with signs of stabilisation on both domestic fixed and mobile segments. In fixed line, we managed to contain the decline in revenue to 1% which was comparable to other incumbents, while in the mobile business, after addressing the issue of activating our customers, we saw our average daily prepaid recharge increase from RM6.7 million a day in the first half of 2006 to RM7.5 million a day in the second half of the year.

Our overseas subsidiaries have done well in managing the challenges and also delivered strong performance in their respective markets. As reflected in 2006 results, overseas contribution almost doubled to 25.3% of Group revenue and 30.0% of Group profits.

While our overseas operations delivered robust growth, the Group also faced challenges that needed to be managed which included the uncertain legal and regulatory climate, political risk, and from a commercial perspective, low ARPUs, coupled with low customer loyalty. We have learnt that we need to be more sensitive to our operating environment and that sustainable relationships can only be forged by sincere engagement with the local communities. Our overseas subsidiaries have done well in managing the challenges and also delivered strong performance in their respective markets. As reflected in 2006 results, overseas contribution almost doubled to 25.3% of Group revenue and 30.0% of Group profits.

We have always maintained that improving our customer service remains an important on-going challenge. To this end, the Group continued to register improvement as evident from the many accolades that we received in this area in 2006, some of which included the Frost and Sullivan Malaysia Telecoms Awards for Data Communications Service Provider of the Year, Broadband Service Provider of the Year and the coveted Overall Service Provider of the Year. Up north in Peninsular Malaysia, our TMpoint in Alor Star received the best counter service award, the "Anugerah Perkhidmatan Kaunter Terbaik" from the Ministry of Energy, Water and Communications.

We understand that in order to earn and sustain investors' confidence we have to keep improving ourselves in terms of the effectiveness of board governance, managing stakeholders' interests, and commitment to the challenges of sustainability, transparency and compliance with disclosure matters. I would like to assure all our shareholders that corporate governance is very high on the agenda of the TM Group. TM not only abides by the principles and best practices as enshrined in the Malaysian Code on Corporate Governance but also those introduced by the Putrajaya Committee on GLC High Performance in the Guidelines to Enhance Board Effectiveness. TM's efforts in this area were recognised when we clinched for the first time the Overall Excellence Award for the most outstanding Annual Report of the Year 2005 at the National Annual Corporate Awards 2006, in recognition of excellence in annual corporate reporting. We also emerged the second runner up in the Corporate Governance Survey 2005 Award from the Kuala Lumpur-based Minority Shareholders Watchdog Group (MSWG). TM was also named the second runner up in the Malaysian Business Corporate Governance Award. These achievements bear witness to our commitment towards upholding the highest standards of corporate governance, not only in Malaysia but also at an international level.

GLOBAL AND REGIONAL ENVIRONMENT

The global economy was fairly buoyant in 2006 at 5.1% growth with expansion momentum emerging as expected in developing Asia, which grew at 8.7% and in Europe, which maintained a slower growth of 2.8%. Inflationary pressures mounted, but their impact was less felt in Asia. The U.S. dollar weakened against the euro as well as the yen, while long-term interest rates firmed up. The OECD predicted the worldwide ICT sector's growth at a vigorous 6% in 2006 as compared to 5.6% a year between 2000 and 2005.

In the ICT space, the year was perhaps best summed up by a phrase I borrow from the ITU Telecom World event in December 2006 – Living the Digital World. Convergence is fast becoming reality. The buzzwords are still broadband and the digital home, IP-enabled services like triple play, and worldwide migration to Next Generation Networks (NGN). Now, it is no longer enough to describe us telcos as service providers; a new phrase has emerged – Experience Providers, which defines our business and a new way of living, working, playing, communicating and sharing experiences. As convergence merges telecommunications, IT and entertainment, so does it merge our worlds, fixed and mobile, traditional and new. Telcos are at the frontline of delivery of these experiences to both businesses and consumers alike.

Meanwhile, as the search for the next killer application continues, we are seeing the rollout of different combinations of mixed service and product bundling with flat-rate voice packages and "all-you-can-eat" pricing structures. The market is being bombarded with an array of choices where the key competitive advantage will clearly go to the most cost-effective integrated full service or experience provider.

The mobile sector has seen much radical transformation made possible by a slew of wireless technologies coming to the fore – Wimax, HSDPA/HSUPA, Beyond 3G, BWA and so on. With communications becoming increasingly personalised and mobile, and the benefits it can bring to consumers across the world becoming more evident, the most exciting battles and developments have clearly been in this space. A big signal to the market was the expectation that all new notebooks will be Wimax-enabled by the end of 2008.

Another trend in 2006 was user-generated content, so much so that TIME magazine named its 2006 Person of the Year as "You" – in tribute to such community-based

services such as YouTube, MySpace and internet blogs. This in turn has spawned the growth of personalised mobile on-the-go broadband-enabled devices to feed the global demand to both "reach-out" and "be connected". In the face of these developments, global attention has not wavered from the discussion as to how new technologies can best be harnessed to extend the benefits of ICT to those who still remain "unconnected".

> Malaysia has always been eager to try the world's latest available technology and services, yet paradoxically is rather slow to fully adopt and maximise usage. This presents a challenge for domestic players to roll out advanced services in a market that is very price elastic.

This has prompted many governments and regulators to further liberalise ICT industries to foster greater collaboration towards a truly global information society. Hence greater pressure has been put on industry players such as ourselves to address the goals for strategic ICT development, empower rural communities, bridge the digital divide and close the knowledge gap between rich and poor. Indeed, the ITU at its 17th ITU Plenipotentiary Conference focused on ICT for socio-economic development and emphasised the need to address Internet-related public policy issues such as interoperability and convergence. The need to accelerate broadband penetration and usage puts new impetus on us to find alternative ways to deliver higher-speed Internet via both DSL and emerging wireless technologies. The wireless revolution will also call attention to the matter of spectrum as a scarce resource and of its allocation. All of this carries great implications on how we operate in the world today.

DOMESTIC ENVIRONMENT

In Malaysia retail telecommunication revenues recorded reasonable growth; our analysis shows a market size of RM23.9 billion which grew 11.7% over 2005. But in a saturating market both in terms of revenue and customer growth, the fight is still on for market share premised on service upgrades and price competitiveness, especially in the mobile sector which accounts for over 65.2% of overall revenue. This is further exacerbated by slowing mobile customer growth as well as the impact of prepaid registration. It is estimated that the industry saw a clean-up of approximately 2.8 million customers at the end of 2006, reducing the total number of mobile customers on the register of the regulator, the Malaysian Communications and Multimedia Commission (MCMC), to around 19 million versus MCMC-reported numbers of 21.8 million in the previous quarter.

Malaysia has always been eager to try the world's latest available technology and services, yet paradoxically is rather slow to fully adopt and maximise usage. This presents a challenge for domestic players to roll out advanced services in a market that is very price elastic. The only exception has been the rapid adoption and ubiquity of the mobile phone, but even then this is limited to voice and basic data services. At 5% of total mobile customers, 3G adoption is still quite nascent. Broadband faces another set of unique challenges, not only in terms of take-up but also usage. The challenge remains to educate and create awareness of new services and deliver compelling value propositions and service quality to consumers beyond just price.

From a national perspective, the Ninth Malaysia Plan, the 3rd Industrial Masterplan and MyICMs 886 continued to set the scene for ICT developments in Malaysia. A Strategic Review of the industry is also currently being undertaken to address among others, the landscape for competitions and convergence regulations. Regulatory policies are having an increasing strategic and financial impact on domestic operators. Issues being addressed include Access Deficit, LLU, Facilities-based Competition, Interconnect, and Spectrum Allocation. The rationale for increasing scrutiny of the ICT industry is well grounded, as it is a key enabler and a critical success factor for sustainable long-term economic growth of Malaysia and for the realisation of Malaysia as a strategic K-economy player. TM, along with the rest of industry, is fully committed to the goals and targets of the government to secure Malaysia's place in the imploding global K-economy.

PERFORMANCE REVIEW

I am pleased to report that the Group recorded a Profit After Tax and Minority Interest (PATAMI) of RM2,068.8 million for the financial year ended 31 December 2006. The healthy performance was mainly attributed to higher group revenue, better cost and financial management and foreign exchange gains. The Group recorded PATAMI of RM811.3 million in 2005 where the provision for a claim in respect of the award to DeTeAsia Holding GmbH of RM879.5 million that was made in the fourth quarter of 2005 caused a huge dent to the Group's profit.

Revenue in 2006 grew by 17.6% to RM16,399.2 million compared to RM13,942.4 million recorded in 2005. This was mainly driven by mobile, data services and Internet and multimedia segments of the Group's business.

Revenue composition for the financial year 2006 is as follows:

	FY 2005 (RM mil)	Per cent Contribution	FY 2006 (RM mil)	Per cent Contribution
Fixed Services: Fixed Line, Data, Internet & Multimedia	7,589.7	54.4	7,482.5	45.6
Mobile Domestic	4,281.8	30.7	4,424.0	27.0
Mobile Overseas	1,770.7	12.7	4,140.5	25.2
Others	300.2	2.2	352.2	2.2
TOTAL REVENUE	**13,942.4**	**100.0**	**16,399.2**	**100.0**

The Group also registered healthier Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of RM7,529.6 million, an improvement from RM5,213.3 million registered in 2005. EBITDA after adjusting for the provision for DeTeAsia claim in 2005 amounted to RM6,092.8 million.

DOMESTIC

FIXED SERVICES (FIXED LINE, DATA, INTERNET AND MULTIMEDIA)

In 2006, fixed services contributed RM7,482.5 million to Group revenue, 1.4% lower than the RM7,589.7 million contributed in 2005. This decline was however mitigated by the initiatives under PIP where TM rolled out a number of attractive packages to retain and attract customers. We continued to enhance our fixed services to make them more attractive to customers, some of which included iTalk with Mobile (VOIP call card) and the most recent one, Let's Talk campaign, bundling fixed line and broadband services.

The Group's fixed line customers remained stable at 4.4 million as at December 2006.

Broadband has been identified as the driver to re-vitalize fixed services and the Group is focused on increasing broadband penetration. TM Net continued to aggressively promote its products and services, some of which include organising TM Net Broadband Fiesta, a nationwide road show to introduce its latest offerings to the market, Streamyx shock festive promotion and member-get-member programs.

These efforts bore fruit in 2006 which saw a net addition of 369,000 customers, bringing the Group's total broadband customer base to 864,000 at the end of 2006, a growth of 74.5% from 495,000 at the end of 2005.

Moving forward, with Malaysia Business which consolidated all domestic fixed services under a single leadership, the Group is better able to package its offerings to suit the needs of its customers. TM is focused on enhancing its broadband offering beyond access and introducing new contents. Malaysia's first IPTV trials through the NGN platform began in September 2006 at selected areas, promising to give customers an enhanced experience in having the power to choose the kind of programme they want to watch and when they want to watch it.

DOMESTIC MOBILE

The Group's domestic mobile business, spearheaded by Celcom, contributed RM4,424.0 million to Group revenue as compared to the RM4,281.8 million contributed in the previous year.

Celcom raised its profile through innovative branding strategies last year as well as new product and service offerings. Leveraging on its partnership with Vodafone, Celcom launched Vodafone Mobile Connect 3G Broadband (HSDPA) data card and 'Blackberry by Vodafone'. It also launched PowerTools for the enterprise market, formed an alliance with online search engine Google, and joined hands with Maybank to introduce Malaysia's first mobile financial services, the Maybank2u Mobile Service.

Mobile customers stood at 6.1 million at the end of 2006. Celcom experienced a net decline of 1.3 million customers over the course of the year as a result of prepaid registration exercise. However, their deregistration had minimal impact on revenue. The reduction in inactive customers resulted in an increase in prepaid ARPU from RM49 in Q3 2006 to RM56 in Q4 2006.

INTERNATIONAL

The year 2006 saw our key overseas investments in Indonesia, Sri Lanka and Bangladesh deliver significantly better performance. Overall, TM Group recorded improved contributions from all its international operations, 25.3% to our topline revenue and 30.6% to our bottomline profit versus 12.7% and 22.3% respectively in the previous year. Our regional mobile customer base grew by 39.7% over the year to 28.5 million from 20.4 million. Meanwhile, our new investments in India, Cambodia and Thailand ensured we were strongly positioned in the region.

Being at the forefront of technology gives the Group the ability to delight its customers with innovative products and services. After pioneering commercial 3G services in Malaysia in 2005, the Group continued to pioneer 3G presence in Sri Lanka via Dialog and Indonesia via XL, giving customers the opportunity to enjoy greater products and services offerings with greater personalisation and richer contents.

In Indonesia, our investments in network upgrades and network expansion produced results. We recorded increases in revenue and EBITDA due to a 36% year-on-year growth in mobile customers, surpassing the 9 million mark to 9.5 million. Revenue grew 50.3% from Rp 4,301 billion in 2005 to Rp 6,466 billion in 2006 while EBITDA margins recorded a parallel growth of 47%. In the year under review, we also reported healthier profit-after-tax due to the delivery of more efficient operational performance by XL and also the strengthening of the Indonesian Rupiah against the US dollar. A number of exciting marketing and promotional campaigns were also launched to improve our competitiveness and boost our image and brand awareness.

At Dialog Telekom in Sri Lanka, we recorded steady revenue growth as well – a 42% increase over the previous year to SLR 25,679.5 million. This was largely due to higher call revenue accruing from a customer base of 3 million, growth in coverage and increased international traffic and associated revenues. I am pleased to note that Dialog not only maintained its market leadership but also achieved a hefty growth of 46% in its customer base. Dialog earned further recognition when its inaugural Annual Report won the overall award for the service sector and a number of other secondary awards.

TMIB Bangladesh reported a 41.6% growth in revenue to BDT 13,139.6 million from BDT 9,276.3 million in the previous year. Its EBITDA and PAT were both positive, as was its customer base, reaching 5.8 million in the year under review, or an expansion of 89%. Significant investments were made in the network which saw a growth of nearly 80% in the number of base stations or BTS added over the year.

OTHER KEY INITIATIVES

Having launched the PIP in about the middle of the year, the Group went on to implement specific initiatives to boost our performance in fixed line, mobile and Internet and multimedia. We believe that the success of these initiatives was a result of the dedication and commitment of our staff. Apart from using the Balanced Scorecard to align staff goals to the Group, we also introduced several incentive schemes to motivate staff to contribute towards achieving our stated PIP targets.

We will apply leading industry best practices throughout TM including our international subsidiaries. This common platform will help us to integrate and streamline our business processes for greater organisation flexibility and resilience to ensure prudent financial management and control.

In the longer term, nurturing and developing skills within the organisation is critical to ensure we have a pool of talents to continue supporting the growth of the TM brand and meet its future requirements. To this end, TM had in 2006 enhanced its Leadership Talent Management and Development Framework to clearly outline the steps to be taken to build new leaders in the Company. As at the end of last year, we had identified some 400 talents under the program. More candidates are currently being assessed so that we can provide them with the opportunity to display their talents and grow their careers within the Group.

As part of the effort to improve operational excellence, TM launched a Group Enterprise Resource Management System (GEMS) project to standardise and integrate back-office functions. GEMS offers a single integrated platform using SAP applications that comprise various modules such as Financial, Human Capital Management, Enterprise Asset Management, Supply Chain Management and Strategic Enterprise Management.

By adhering to SAP we will be able to apply leading industry best practices throughout TM including our international subsidiaries. This common platform will help us to integrate and streamline our business processes for greater organisation flexibility and resilience to ensure prudent financial management and control. Deployment of SAP solutions at selected Group companies took place in January 2007.

In our quest to become a customer-centric organisation, we recognize how important it is that we know our customers well in terms of their needs, preferences and lifestyles. With this in mind, we launched the "RM1 Million Reward Program" in May last year where we rewarded our customers with fabulous prizes, including a Grand Prize of RM1 million. The programme ended in November with more than 500,000 completed entries received, providing us with a rich database that will be useful in our continuing efforts to deliver fresh, innovative and affordable products and services to all our customers.

INTERNAL CSR

TM's CSR activities are centered around the three platforms of education, sports development and community & nation-building. However, the practice of CSR should take into account internal policies and procedures as well. At TM, we have instituted several measures in this direction centred on aspects of, enterprise risk management, corporate governance, code of conduct on business practices, performance management, employee satisfaction and health and safety.

Our approach to enterprise risk management is to closely link it to our key strategic and financial objectives through our Balanced Scorecard as well as embed the practice of it into all our business operations. This has helped us to carefully mitigate risk factors and costs that may result from the running of our business operations.

We have in place several measures at Board and Operational level to ensure that the Group adheres to international benchmarks of good corporate governance. These measures comprise a Board structure that includes independent non-executive directors as well as Nomination and Remuneration Committees, a management committee that oversees operational matters, and clear demarcation of Board member roles and financial authority limits at management and operating company levels. In addition to instituting a routine declaration of assets procedure, a code of conduct on ethical business practices has also been shared with all staff.

To gauge employee sentiment on all aspects of the Company's operations, TM carries out a yearly employee satisfaction survey. Our Balanced Scorecard and KPIs are cascaded throughout the organisation and monitored through the performance evaluation system for all employees (MAPS). On the health and safety front, Occupational Health & Safety (OSH) committees have been established at corporate and regional levels to oversee and escalate all relevant issues pertaining to employee health and safety.

PROSPECTS

The International Monetary Fund (IMF) projects the global economy to grow 4.9% in 2007; Asia 8.2% (2007), and Malaysia at 5.8% (2007). According to the World Bank, growth in developing countries reached a near record 7% in 2006. However, in 2007 and 2008, growth will probably slow down, but is still likely to exceed 6%, more than twice the rate in high-income countries. Meanwhile, Malaysia's 2007 GDP growth is expected at 6.0% (BNM). Thus, the global and regional economic outlook is stable, with an eye on inflation, oil prices and geopolitical sensitivities.

The Malaysian retail telecommunications market is expected to grow only moderately by 4.6% to RM25.1 billion partly as a result of saturating market conditions as well as the impact of prepaid mobile registration which came into effect at the end of 2006. Mobile continues to dominate retail revenue, expected to be 65.9% share in 2007 growing to 67.3% in 2010 (RM18.6 billion). Increase in VoIP voice revenue is insufficient to compensate for decline in fixed voice; however, overall revenues from fixed and Internet services remain sizeable at around RM8.5 billion, and will be defended to grow further.

Execution of the PIP will be a focal point for TM in 2007 to ensure we continue to boost execution capacity and productivity and seize opportunities. To improve its domestic fixed business, TM will seek to drive broadband deployment aggressively, strengthen its position in the enterprise market with voice and data solutions whilst stimulating sales of fixed services to the retail market.

Improvement of revenues and market share will be Celcom's primary aim this year in an intense environment with potential new 3G players coming into the foray. Celcom will focus on customer centricity in its service offerings, expand enterprise channels and tap further into the growing mobile data segment.

Moving forward, we also intend to continually assess the performance of our non-core businesses as well as drive efficient capital and cost management. In Malaysia, TM looks forward to further liberalisation of the regulatory environment with the awarding of additional Broadband Wireless Access (BWA) spectrum and the impending Mobile Number Portability (MNP). Elsewhere, TM will further establish its position in regional markets where it has its presence. At the same time, we will adopt an opportunistic approach with regard to investment and pace our international expansion. For instance, we will continue to identify opportunities to enlarge our regional footprint with a particular focus on Indo China.

Our strategy of nurturing and building strong Asian communication brands across the breadth of the continent is beginning to show good results. We believe we are well-positioned to provide quality products and services to cater to the increasing demand for mobility in Asia. There are also valuable learning from our experiences in each country that can be applied across our holdings. For instance, in Sri Lanka we have learnt from the challenges of transformation into a convergence player at home by buying into a Pay TV company and a broadband company, thereby accelerating Dialog's aspirations of becoming a truly integrated communications company.

The countries where we have made our presence felt, particularly Indonesia and India, are mostly emerging economies with high population and low penetration rates. The economic prospects for these countries are bright indeed. While commercial considerations are important, TM's long-term commitment is to continue to invest in these growth markets whether by way of capital, technology transfer, telecommunications infrastructure development, staff or local community development.

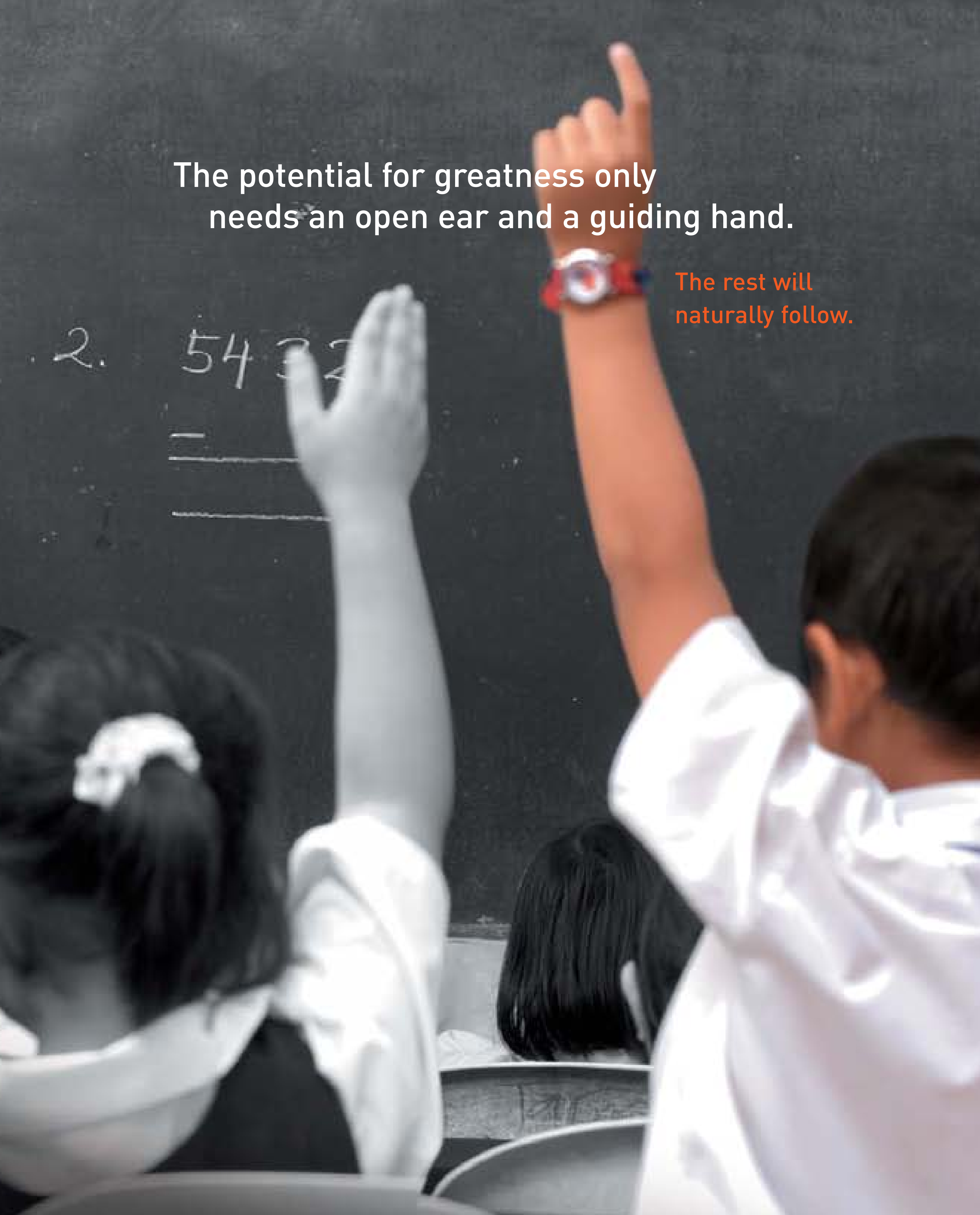
ACKNOWLEDGEMENTS

I wish to thank our shareholders, TM's Board of Directors, my colleagues on the management team, and the 29,000 members of the TM Group family, as well as all our other stakeholders including the Government, regulators, partners and suppliers, for helping us achieve our goals in the year gone by. The Board and Management of the TM Group are grateful for all the guidance, direction and support we have enjoyed to enable us to deliver on our promises. While growth and success were clearly evident in 2006, we all aspire to sustain the trend into this year and beyond. The journey of transformation continues.

Dato' Abdul Wahid Omar
Group CEO

BUSINESS REVIEW

Education opens minds and unlocks the unlimited potential children possess. Unfortunately, to some, it is a luxury they cannot afford. This is why our CSR efforts are centralised around ensuring that as many deprived, but deserving students get the chance to get a proper education. Because by helping them realise their fullest potential, we are achieving ours too.



The potential for greatness only needs an open ear and a guiding hand.

The rest will naturally follow.

Malaysia
BUSINESS

ZAMZAMZAIRANI MOHD ISA
CHIEF EXECUTIVE OFFICER
Malaysia Business

OVERVIEW

AUGUST 2006 MARKED A SIGNIFICANT CHANGE IN TM WITH THE ESTABLISHMENT OF MALAYSIA BUSINESS, A STRATEGIC BUSINESS UNIT (SBU) THAT CONSOLIDATED ALL ITS DOMESTIC FIXED SERVICES UNDER A SINGLE LEADERSHIP TEAM. WITH A FOCUS ON ALIGNING BUSINESSES WITH A COMMON AGENDA AS WELL AS TO CAPITALISE ON SYNERGIES, MALAYSIA BUSINESS INCORPORATES TWO SEPARATE SBU'S, NAMELY TM RETAIL AND TM WHOLESALE, AND ONE OPERATING COMPANY (OPCO), TM NET. THIS INITIATIVE WAS TAKEN TO ADDRESS THE CHALLENGES THAT THE DOMESTIC OPERATIONS HAD ENCOUNTERED IN THE WAKE OF INTENSE COMPETITION IN THE RAPIDLY CHANGING TELECOMMUNICATIONS INDUSTRY. BY CREATING A SINGLE SOLID TEAM UNDER THE LEADERSHIP OF ONE CEO, TM'S STRATEGIC PRIORITIES ARE ALIGNED WHILE MAXIMISING SYNERGISTIC BENEFITS.

FINANCIAL PERFORMANCE

In the financial year ended 31 December 2006, operations under Malaysia Business recorded revenue of RM7.5 billion, a reduction of 1% from 2005. This led to EBITDA of RM3.3 billion for the year, a 5% decrease compared to 2005.

Voice remains the key revenue generator for Malaysia Business, contributing 68% to the SBU's income. However, this represented a drop of 8% in revenue contributions registered in 2005 due to increasing consumer preference for mobile and internet based communications. In line with Malaysia Business' strategic direction, revenue from the internet and multimedia segment posted a strong year-on-year growth of 44% and contributed 12% to the total operating revenue as compared to 8% in 2005. Total broadband customers comprising Streamyx, Hotspot and TM Net Direct customers, have increased to 864,358 in 2006, representing a 74% increase from the previous year. Data contributed 12% to revenue while other telecommunication and non-telecommunication services contributed the remaining 8% to Malaysia Business' revenue.

Operating costs in Malaysia Business including depreciation for the financial year ended 31 December 2006 decreased by 1% from 2005 to RM6.2 billion in 2006. The decrease in operating costs was mainly attributable to an 8% decrease in direct costs compared to 2005. However, supplies and materials costs increased by 23% from 2005 due to replacement costs required for cable theft.

TM RETAIL (TMR)

TM Retail's (TMR) initiatives for the year were driven by its commitment to deliver complete and compelling telecommunication services to domestic clients. As such, numerous programmes were deployed throughout 2006 to support its voice and data business, in addition to strengthening the quality of its customer service. TMR is now better equipped to penetrate into the Voice and Data business in its three major customer segments – consumer market, business market and enterprise market – with the convergence of TM Net Sdn Bhd's internet access division into TMR.

TMR has three subsidiaries under its structure as follows:

- **GITN Sdn Berhad (GSB)** – Established in 1996, GSB provides an integrated, dedicated, reliable and secure network infrastructure for various government agencies nationwide, playing an important role in facilitating the Government's realisation of e-Government (EGNet) and nationwide internet connected schools (SchoolNet).
- **Telekom Sales & Service Sdn Bhd (TSSSB)** – TSSSB is the result of a merger between Telekom Equipment Sdn Bhd and the Outlet Business Management in 1999 and serves as a one-stop centre for communication products and services for TM customers.
- **Telekom Applied Business Sdn Bhd (TAB)** – TAB focuses on two areas i.e. telecommunication companies' Operating Support System (OSS) and Value-added Services (VAS) to enrich TM's product and service offerings.

TM NET SDN BHD (TM NET)

With a focus on delivering nationwide internet access, content, e-commerce and application services, TM Net now serves more than 3.0 million customers nationwide. As the nation's leading Internet Service Provider (ISP), TM Net's services cater to the demanding needs of both individuals and businesses and strive not only to fulfil end-user requirements, but also to provide quality services and extend its reach to all segments of Malaysian society.

Pro-actively addressing intensive competition in the broadband services arena, TM Net is diversifying from its core competency of providing broadband services to focusing on the development of internet content. Supported by an increasing customer base, the BlueHyppo lifestyle portal is now one of the most comprehensive infotainment web portals around with mainly locally developed content and services covering music, religion, education and news.

OPERATIONS

CONSUMER SEGMENT

TM's emphasis is on rolling out innovative, easy-to-use services that simplify and enrich the lives of consumers. For the year under review, TM continued to offer new ranges of products and services, setting a number of industry benchmarks for creativity.

VOICE SERVICES

Homeline

TMR embarked on several initiatives to foster customer loyalty, as well as to rejuvenate the fixed line telephony segment. A new service was introduced known as the Mobile Homeline, which allows home users to roam at any point within the assigned area code, send SMSs, connect to the internet or send faxes.

Card Services

Following the success of iTalk, TM launched iTalk with Mobile in 2006, a user-friendly prepaid calling card that enables customers to make National (STD) and International (IDD) calls from mobile and fixed line phones plus internet access features at very attractive prices.

INTERNET ACCESS

Streamyx

TM saw significant growth in customer numbers for its core internet access services business in 2006, adding over 320,000 new Streamyx customers during the year, bringing the total number of broadband customers to over 860,000.

Apart from extending the range and availability of its broadband services, TM also began offering a premium 2Mbps Streamyx broadband service package to customers in selected areas, with plans in store to expand the offering to more areas in the new future. The narrowband service offerings were also expanded with EZnet, a convenient, hassle-free "dial and surf" access service which offers a flexible and affordable way for all 4.4 million of TM's fixed line customers to access the internet. EZnet rapidly gained over 100,000 customers after its launch in June 2006.

Hotspot

The wireless broadband access service also saw substantial growth with 113,000 new customers and extended TM's reach to over 1,100 locations nationwide, demonstrating the growing popularity of wireless computing through laptops and other mobile devices.

Promotions & Bundling programmes

In September 2006, TM, in partnership with Hewlett-Packard, Intel, Microsoft and AEON Credit, launched the "EZ 2 Own Broadband PC" Programme which was the first ever initiative in Malaysia that bundled broadband internet access with a personal computer or laptop. Future plans are in place which include the extension of financial credit facilities to other local banks, as well as a salary deduction programme for government employees.

In addition, to address the issue of affordability of broadband for lower income group, TM created an all-time low entry package for Streamyx. The RM20 per month Streamyx package has registered more than 18,000 customers as of December 2006.

The Streamyx Shock Festive Promotion, held in conjunction with the different religious festivities, was another key offering in 2006. For only RM77 per month, users received 1Mbps Streamyx connection, a free modem and a few value-added services. With consumers saving more than RM500, the initiative resulted in more than 46,000 new subscriptions from its launch in September to 31 December 2006.

CONTENT SERVICES

Following in the footsteps of countries such as China, Japan and South Korea which have vibrant online content leading to high broadband subscriptions, TM is committed to delivering superior quality local online content, through its lifestyle portal www.bluehyppo.com.

Accessibility to exciting media and information content through the 14 BlueHyppo content channels and services, covering news, entertainment, games, forums, religion and other areas of interest. In addition, BlueHyppo offers a platform for online interaction through user communities, forums and chat rooms, has resulted in BlueHyppo has chalked up over 1 million individual members in 2006. With the offering of new and diverse content that suits the needs of Malaysians today, the community is expected to grow rapidly.

TM broke new ground with the One in a Million microsite, the official online platform for 8TV's TM-sponsored reality talent show, which attracted over 2.2 million page views. TM also took the opportunity to develop timely and exciting microsites, such as the "football 2006" microsite developed

'EZ 2 Own Broadband PC' programme – making broadband accessible

in conjunction with the FIFA Soccer World Cup 2006, as well as other microsites coinciding with religious and cultural festivities.

The trend of going online for news and information took another leap forward with the e-browse feature, adding more newspapers and magazines to its online publications portfolio, thus increasing the number of publications available to 25.

CONSUMER SALES

In 2006, there was greater focus on strengthening the consumer segment by the TM Sales team through various sales events and key initiatives conducted throughout the year. As part of efforts to improve TM's point of presence and to serve customers better, TM Syoknya Fiesta and localised Mini Fiestas were launched, which also served as platforms to communicate and introduce to customers the full range of TM's products. In addition, TM collaborated with computer hardware providers such as Aztech and FTEC, to kick off its nationwide broadband fiesta at eight city centres, attracting over 70,000 visitors altogether and adding 1,400 new Streamyx customers and 4,000 new BlueHyppo members to its existing customer base.

Other initiatives that were introduced to reinforce TM's position as the nation's main provider of broadband service included the setting up of a "UUM tmnet hotspot corner" at Universiti Utara Malaysia where students can enjoy free wireless access.

To reaffirm its leading position as a key enabler of public service infrastructure, TM has conducted many localised projects in collaboration with state governments such as with the Melaka state government to provide its e-Biz solution as an easy-to-use and secure online transaction platform for the state's online mall, Eniaga. Other collaborations for public infrastructure include @enstek together with Tabung Haji Properties for an integrated township set within 5,115 acres of land in Negeri Sembilan. TM has also signed a collaboration agreement with i-Berhad to provide Metro-E network services for the development of i-City, a state-of-the-art ICT-based urban commercial township

To extend TM's reach into this segment, the Rakan Niaga programme was created. To date, there are about 2,000 registered sales agents under the initiative. TM also continued to work in close partnership with its Clickers Authorised Service Outlets (CASO), launching 11 new outlets and bringing its total number of 18 CASOs nationwide.

BUSINESS SEGMENT

In today's increasingly competitive environment, TM is uniquely positioned to support its business and Small Medium Enterprise (SME) customers with a suite of flexible, secured and quality solutions ranging from Voice, Data, Application and Value-Added Services.

PRODUCT PORTFOLIO

In an effort to meet the different needs of businesses, TM has various basic services and integrated solutions, within its product portfolio suited for every size and type of business.

TM's range of services include customised call plans, such as the Merdeka Call Plans which offer attractive flat call rates that allow businesses to further optimise benefits of getting in touch with their customers and business associates. Bundled offerings such as "Biz Pac" are also offered to businesses requiring voice and broadband services.

For companies which seek affordable solutions for communicating between their headquarters (HQ) and branches, TM offers a range of enterprise Virtual Private Network (VPN) to address the basic networking needs of small businesses through its 'SMI Link', which is deployed over ADSL broadband lines, as well as to more advanced networking requirements through TM IPVPN Premier service over dedicated leased lines.

TM, through "Netmyne", also offers Malaysian businesses a secure and reliable data hosting solution. Currently, over 3,000 customers are provided with web and server hosting services through TM's nine data centres which are the only facilities in Malaysia that are certified with the SIRIM BS7799 Information Security Management System standards.

BUSINESS SALES

Recognising the need to penetrate into the growing and important SME market, TM has forged a partnership with the Small and Medium Industries Development Corporation (SMIDEC). This collaboration has been crucial in providing TM with better insights into business customers' requirements.

To further assist the SMEs in their quest for business growth, TM launched a programme specifically for the SME community called SME Save N Grow aimed to creating loyalty and customer intimacy. SME Save N Grow members enjoy exclusive access to the SME Save N Grow Portal, which not only provides tools for business excellence but also other business information that can help them grow their businesses.

A key element of its innovative marketing effort to fulfil the telecommunication needs of the SME community, Industrial Business Solution Seminars (IBSS) are conducted annually. In 2006, IBBS were held conducted at 15 locations nationwide, generating a total of RM92.64 million in revenue. In addition, TM has also continued to strengthen its distribution network through the effective management of sales agents for business, dealers and outlets (TSSSB) for data and voice products/services.

ENTERPRISE & GOVERNMENT SEGMENT

TM positioned itself as the leading service provider in the enterprise segment by growing with the needs of its customers for continued operational efficiency and business profitability.

CUSTOMISED SOLUTIONS AND LONG-TERM RELATIONSHIPS

In today's global networked economy, success rests on accessibility. This is why it is crucial for the enterprise segment to invest in IP-based solutions and intelligent networking such as IPVPN which allows users to access any application from anywhere in the world.

TM continues to be the leading service provider for government agencies, local and foreign-based corporates including other GLCs, providing them with voice and managed data services while continuing to build long-term relationships.

Citing the e-Government project as an example, TM, through its subsidiary, GITN Sdn Bhd, provides managed network connectivity and managed security services such as integrated network connectivity for intranet, extranet and internet access that enable Government agencies to communicate with each other and access to EG*Net using single connectivity.

ENTERPRISE SALES

In May 2006, TM implemented a major customer-service related initiative. A unified sales force named "TM Group Enterprise Sales" was set-up to serve the Enterprise segment with a view to enhance efficiency and speed of service delivery to TM's customers, while adding to their convenience. The USF concept is expected to benefit the Group in 3 ways: leveraging group synergies, growing additional value through solutions selling, and reducing or even eliminating internal competition.

TM WHOLESALE

TM Wholesale (TMW) achieved a significant milestone in 2006, performing above expectations both financially and in terms of products and services development. With a focus on communications infrastructure solutions that are designed to fulfil customers' business needs, TMW capitalises on the vast coverage of its sophisticated network and regional representative offices.

The year also saw TM expand its global network presence and coverage in several more countries, with a focus on high growth regions such as China, India and the Middle East. With six decades of pioneering experience in the Malaysian telecommunications sector, TMW continues to deliver performance driven solutions to its customers around the globe.

OPERATIONS

DOMESTIC WHOLESALE

TM's commitment towards continuous advancement is evident in the size of its investments in its infrastructure which is reflected by its unmatched network coverage. For the year under review, TMW's fibre optic cables network has recorded a 9.4% growth from 2005, totalling 789,916 km in 2006. Cable pairs also registered a 1.4% growth, totalling 32,558,673 km in 2006. The number of exchange lines remains at 8,684,000.

TM will also begin a phased deployment of the TM One Network in 2007, which is aimed at transforming its core network to be fully IP oriented in support of its evolution towards new products and applications for customers. These strategic investments have sharpened TM's competitive edge and enabled the Company to come out strong in the face of continuous business challenges with confidence.

TM continues to deliver performance driven services

To ensure better customer satisfaction levels, TM has designed specific services for its domestic clients, namely VoIP traffic minutes, interconnect services, bandwidth services, broadband, data services and infrastructure services.

- *VoIP traffic minutes:* TMW provides quality voice services at competitive rates through its low cost global access as a total VoIP provider. By continuing to forge successful partnerships with Global Carriers and Application Service Providers, the highest level of service interoperability is ensured.

Converging of technology – voice, data, mobile and broadband

- *Interconnect:* In addressing the challenges of a tumultuous telecommunications market with more service providers gaining entry into the market, TMW has positioned itself well to counter the threats through its interconnect services where licensed carriers can now interconnect fixed and mobile voice services, ISDN, ISP, and fixed SMS.

- *Bandwidth services:* As the bandwidth provider for the domestic arena, TMW continues to offer Narrowband, Broadband and Optical Bandwidth services via the reliable Managed Leased Circuit Network (MLCN), Digital Data Network (DDN), Synchronous Digital Hierarchy (SDH) and Dense Wave Division Multiplexing (DWDM).

- *Broadband:* Targeting Internet Service Providers (ISP), Network Service Providers (NSP) and Application Service Providers (ASP), including Jaring and Hei-Tech Padu, the broadband service delivers DSL connectivity from end user Remote Terminal Units up to the TM IP network platform. At the end of 2006, TMW had delivered up to 1.38 million broadband ports nationwide.

- *Data services:* As one of TMW's technological breakthrough solutions, data services address the connectivity of geographically diverse sites. The domestic data services offered include Frame Relay, ATM and an MPLS based IP network to fully integrate customers' networking needs.

- *Infrastructure services:* Infrastructure services allow for a customer's nationwide network expansion in a timely and cost effective manner and are recognised as an effective option to build new infrastructure. Infrastructure sharing, network co-location and tenancy services provide the entire support infrastructure for customer equipment that ranges from tower space for fixed antenna and microwave dish, power supply, climate control and building management.

Initiatives in support of MyICMS886
To spur the growth of the local information and communications technology (ICT) industry and to bring local ICT players on par with international players, the Government has embarked on a four-year plan through the launch of the MyICMS886 roadmap. TMW is committed to supporting MyICMS886 through the following initiatives:

- *Migration to Next Generation Network (NGN):* TM is pursuing the migration of its legacy network onto an all IP-based NGN for the purpose of delivering high-speed broadband access to customers. In 2006, TM has completed deployment of the Metro-E platform in selected areas with FTTB to 87 condominiums around the Klang Valley. IPTV plans in terms of network, site facilities and equipment supply, will also be well supported by TMW.

- *Universal Service Provisioning (USP):* TM has conducted joint site surveys with MCMC, JKR and local authorities to implement Broadband Internet Community Centres for mainly in libraries, for rural communities in 51 TM awarded USP districts.

- *Multiservice Convergence Network:* Planning and proof of concept (POC) for TM ONE is ongoing.

- *Satellite Network:* TMW is involved in the commissioning of TM's 4th Generation VSAT system in Cyberjaya.

- *Next Generation Internet Protocol (IPv6):* IP edge transition, IPv6 Compliance for the ISP/Hypernet network, collaboration with TM R&D to utilise the IPv6 test-bed. Training and awareness programme for relevant TMW personnel.

- *Information & Network Security:* TMW is involved with addressing network security and compliance requirements in the NGN design, incorporation of security elements in the existing products and services such as IP prepaid and the development and implementation of the Information Security Framework within TM.

GLOBAL WHOLESALE

Expanding the global network to fuel customers' demand
To provide customers with uninterrupted service, TM has made significant investments in state-of-the-art submarine cable systems infrastructure including the APCN, APCN 2, SEA-ME-WE 3, SEA-ME-WE 4, SAT3-WASC-SAFE, CUCN, JUCN and DMCS, bringing users to a whole new horizon in the global communications era. TM currently has 43,140 international gateway exchanges and 564,196 International Private Leased (IPL) circuits already in place.

TM plans to continue enhancing its global connectivity through further investments in new submarine cables to deliver ultra-fast connectivity. This will serve to boost TM's client base regionally and globally, while positioning Malaysia as a communications hub, and TM as the preferred partner.

TMW Continues To Deliver Competitive Global Services

Following its promise to deliver the best services for its customers, TMW has designed special services and solutions that enable customers to gain a competitive edge in their specific markets. These services include International Interconnect, International Bandwidth Services and Global IPVPN.

- *Interconnect:* Through its International Interconnect (bilateral) and international-to-international (hubbing) services, TMW is well positioned to deal with the intense competition in the marketplace caused by increasing numbers of participants seeking to get a piece of the pie of the international voice market. As the largest provider of fixed line services, TMW makes an ideal partner for interconnections with any Malaysian Carrier. Riding on PSTN networks and extensive bilateral agreements with terminating parties, TM offers competitive origination and termination rates with the convenience of a one-stop centre.

- *International Bandwidth Services:* Connecting to any destination in the world from Malaysia is made easy with International Bandwidth Services that provide international connectivity, backhaul, transit, interconnection at cable landing stations and IRU.

- *Global IPVPN:* As a cost-effective managed networking solution that provides a simplified, secured and scalable communication network, the Global IPVPN enables businesses to run efficiently and optimally. Readily accessible on both local and international platforms, the service's benefits include fully meshed communications, an end-to-end Fully Managed Network, flexible pricing, end-to-end QoS, security and around the clock technical support.

Enhancing regional presence through TMRO

Initially established to intensify regional presence, Regional Offices of TM (TMRO), located in Asia Pacific, Europe and the United States, now generate their own revenue from clients in their respective markets. Based on outstanding performances, TMW looks forward to further collaborations with overseas providers, as well as prompting for TMROs in other strategic locations.

PROSPECTS

Malaysia Business is confident of its continuous growth via the strategic plans that have been implemented over the year under review despite escalating competition in the domestic marketplace. The expected areas of growth are in the areas of broadband and wholesale business although focus will be on arresting the decline in the fixed business. Quality improvement activities are also high on the agenda specifically in the areas of service fulfilment and assurance, to enhance overall customer experience resulting in improved business performance.

In the context of helping to boost the country's competitiveness for participation in the global knowledge economy, TM will continue to work closely with the industry and the Government via its support of the country's ICT roadmap, MyICMS886. The initiative will serve to enrich the quality of life for Malaysians through technology and in turn, enable Malaysia to become a digital hub and a new hotbed for technological innovation and activities.

Alongside this, TM recognises that rich online content, enhanced network functionality and innovative communications are significant in enriching the customer experience. As such, TM aims to continue delivering endless innovations coupled with consistent network quality to its customers and be the catalyst of a digital lifestyle for all Malaysians.

In the execution of all the above agendas, the Performance Improvement Program (PIP) introduced in August 2006, will continue to serve as blueprint for TM's domestic business up to 2010. With a focus on six main pillars namely, broadband revolution and deployment, pricing & sales stimulation, securing new growth in domestic and global wholesale business, quality improvements, cost efficiency, as well as improving execution capacity through the development of people and talents within Malaysia Business, the PIP initiative has made a significant positive impact to Malaysia Business. With fundamentals already in place, the team is better poised to move forward and achieve its future goals.

CELCOM (Malaysia) Berhad

DATO' SRI MOHAMMED SHAZALLI RAMLY
CHIEF EXECUTIVE OFFICER
Celcom (Malaysia) Berhad

OVERVIEW

CELCOM HAS EMERGED FINANCIALLY AND OPERATIONALLY STRONGER IN 2006 THROUGH A NUMBER OF STRATEGIC CHANGES AND OPERATIONAL REFORMS PUT IN PLACE DURING THE YEAR. THE SUCCESS OF ITS BRANDING CAMPAIGNS AND ITS STRATEGIC ALLIANCES WITH GLOBAL LEADERS HAS RESULTED IN NOTABLE CONTRIBUTIONS FOR TM GROUP. FOLLOWING ON THE HEELS OF THESE VARIOUS REFORMS, THE COMPANY REGISTERED IMPRESSIVE RESULTS BEGINNING IN THE THIRD QUARTER OF THE YEAR. CELCOM'S BRANDING CAMPAIGNS IN 2006 HAVE ALSO BORNE STRONG RESULTS, WITH ITS BRAND EQUITY AND RECOGNITION REACHING ITS STRONGEST LEVELS SINCE THE MERGER OF CELCOM AND TM TOUCH.

Celcom maintained its technology leadership in the industry with the launch of the country's first High Speed Downlink Packet Access (HSDPA) service, Celcom 3GX. Through further capital investments in 2006, Celcom's 3G network continued to maintain its competitive advantage in terms of both coverage and quality. The Company entered into a strategic alliance with Vodafone, the world's leading mobile telecommunications company, culminating in the launch of a range of exclusive best-in-class services for business users and international travellers.

FINANCIAL PERFORMANCE

While Group revenue rose marginally by 0.7% from RM4,495.6 million in 2005 to RM4,526.0 million in 2006, pre-tax profit saw a quantum leap by 1,957.6% to RM1,146.1 million, compared to RM55.7 million in 2005. This was attributable to the absence of the provision for a claim amounting to RM915.1 million made by DeTeAsia Holdings GmbH in 2005. Without this provision, Celcom's pre-tax profit still maintained a healthy growth of 17.5% for the year under review.

With the completion of the capital repayment exercise to its parent company in December 2006 amounting to RM700.0 million, Celcom's earnings per share and return on capital employed for the year have increased from 29.0 sen in the previous year to 36.1 sen, and from 25.9% to 38.8%, respectively.

With the support of its aggressive marketing campaigns, Celcom registered a 10.8% revenue growth in the prepaid segment for the year despite a drop of 15.8% in the number of prepaid customers to 4.8 million compared to 5.7 million a year ago, following the mandatory prepaid registration exercise that ended on 15 December 2006.

OPERATIONS

To remain at the forefront of technology, Celcom launched the country's first HSDPA service and made further investments to ensure that its 3G network remained competitively superior in terms of both coverage and quality.

Celcom also launched its new 'Power' proposition, which mirrors the customer's need to be in control and to be empowered. It also reflects the need for customers to seize opportunities and make choices that are available to them at all times. Celcom gives Malaysians that 'Power' by providing the most powerful mobile solutions and widest reaching network.

As the Malaysian mobile market moves to more mature levels, as evidenced in the falling rate of customer growth in 2006, a more segmented marketing approach has been undertaken to attract and retain customers while avoiding outright price competition. Aside from its marketing campaigns, alternative channels were identified and reviewed, by focusing on those accounts which presented the greatest potential to grow the fastest. The subsequent interactions with these selected outlets further enhanced its relationships with them, resulting in significant increases in sales over the year.

XPAX

In 2006, Xpax, Celcom's prepaid brand and a key revenue generator for the Group, was enhanced with several exciting features. These include mobile content and downloads from international artistes such as JJ Lin and Peterpan, as well as from blockbuster films such as 'Don' and 'Casino Royale'. In addition, 8pax, one of its most popular services, offered customers lower rates on their calls to eight of their most important friends, relatives and associates for only 15 sen per min nationwide and 1 sen per SMS.

With a view to boosting its prepaid registration, Celcom launched an aggressive campaign called Tower X, which saw a three-storey, X-shaped transparent tower being erected in front of Menara Celcom. The tower was filled with thousands of Black Ice GPRS phones to be given out as prizes to customers who registered with Celcom.

In targeting the Malay market, Celcom introduced its Xpax Legenda Tan Sri P Ramlee, its collection consisting of an Xpax starter pack, one music CD with 20 of the legend's most well-known tracks, as well as one VCD with a selection of four of his films. Meanwhile, to target the foreign market segment which largely dominates the IDD traffic, Celcom embarked on a marketing campaign to promote calls to the US, UK, Singapore, Australia, China and Hong Kong which could be made at savings of more than 90.00% anytime and anywhere in the country. This Budget IDD promotion resulted in very encouraging traffic growth.

Get the power of X-Pax

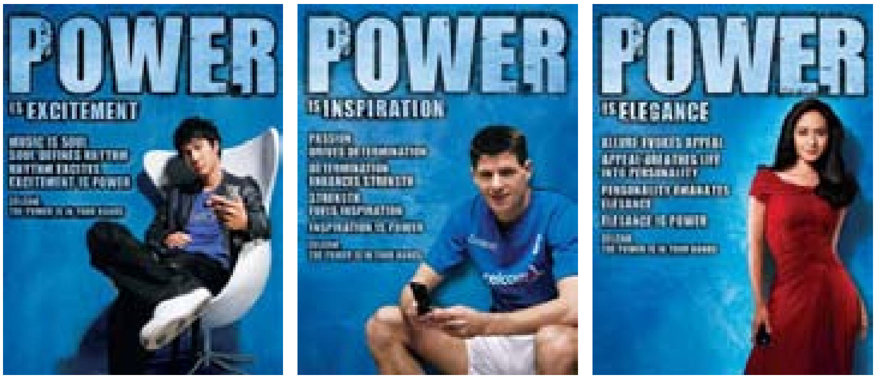
MOBILE BROADBAND

Celcom achieved another milestone in September 2006 when it became the first operator to launch the 3GX, Celcom's HSDPA network which offers Malaysians true mobile broadband with data speeds of up to 1.8Mbps. The current Celcom 3G network already covers more than 50% of the country and is accessible even at the highest point in the country, the peak of Mount Kinabalu.

3GX promises corporate users secure mobile accessibility to corporate networks coupled with high-speed retrieval and downloading of confidential corporate information. Moreover, customers stand to enjoy superb quality video streaming, tele-working, gaming and easy access graphic intensive websites, appealing to the various senses for a more wholesome communications experience.

Several innovative mobile applications were also introduced in the year under review, including the world's first-ever SMS in Colour and *SecretSMS*.

Blackberry from Vodafone, launched in September 2006, was the first product to come out of Celcom's partnership with Vodafone, along with the first 3G Blackberry device. Vodafone Mobile Connect Broadband, an HSDPA datacard with a customised software dashboard for notebook users, was concurrently launched. At the same time, preferential roaming rates across Vodafone's subsidiaries and partner networks were made available, providing unrivalled value and convenience for Celcom's business travellers in over 40 networks worldwide.



Celcom's Power Tools

ENTERPRISE SERVICES

PowerTools was introduced during the year by Celcom's Enterprise division as a suite of service packages for enterprise customers. This includes free calls for closed user groups, flat-rate unlimited data packages and other tailored business services. As a result, impressive sales growth was experienced during the year by the Company's Business Solutions and Machine-to-Machine (M2M) divisions.

STRATEGIC ALLIANCES

2006 was a significant year for Celcom as it forged strategic partnerships with global and regional leaders such as Vodafone, Microsoft, HP, Google, Citibank and Air Asia. These alliances have resulted in products that deliver superior value to Celcom's customers.

As a result of the collaboration between Celcom and Vodafone, Celcom will be offering the best business product portfolio, leveraging on Vodafone's vast and in-depth experience and portfolio of services. Among the products and services introduced were a wide range of Vodafone's international voice and data roaming services, such as GPRS Roaming and 3G Roaming.

As the first official telecommunications partner in the Asia-Pacific region for Google, the world's most popular search engine, Celcom's customers can now access Google's search engine platform with on-net and off-net WAP and WEB capabilities. The launch of the attractive Air Asia-Celcom Prepaid Starter Pack also brought together two of Malaysia's most recognisable brands that have made global inroads through affordable mobile telephony and air travel.

PROSPECTS

More intense competition is anticipated in 2007 following the launch of two new 3G licences during the first half of 2006 coupled with a saturating marketplace. Mobile number portability (MNP), scheduled to be implemented next year, may also lead to higher customer turnover as consumers will be given the option to change networks without the inconvenience of changing their phone numbers.

Notwithstanding these challenges, Celcom is confident that it will progress from its current market position and build upon the strong upward momentum generated in the second half of 2006. In 2007 the Group is looking to:

- Prioritise value retention and growth.
- Improve operational efficiencies with primary emphasis on customer satisfaction and fulfilment.
- Further enhance its Vodafone product portfolio, particularly for consumer segments.
- Expand its market-leading Enterprise products and services portfolio with greater customisation.
- Leverage on its superior 3G/HSDPA coverage and quality of service to provide segment-specific mobile broadband and content services.
- Increase penetration and usage of mobile data though innovative content, device, distribution and pricing strategies.
- Strengthen existing partnerships and develop new complementary alliances.
- Exploit further revenue and cost-saving synergies with other TM Group companies and affiliates.

Tomorrow belongs to our children. So it is vital for us to ensure they adapt as fast and as comfortably as possible to the latest technology. As part of our CSR initiatives, we not only provide scholarships for students to further their studies in ICT, but also donate equipment and conduct seminars and training camps throughout the country.

Our generation's future is not our own,
but an active preparation for the next.

International OPERATIONS

YUSOF ANNUAR YAACOB
CHIEF EXECUTIVE OFFICER
TM International Sdn Bhd

OVERVIEW

TM INTERNATIONAL SDN BHD (TM INTERNATIONAL), A WHOLLY OWNED SUBSIDIARY OF TM, MANAGES THE GROUP'S INTERNATIONAL INVESTMENTS IN NINE ASIAN COUNTRIES. THE YEAR 2006 PROVED TO BE ANOTHER PIVOTAL YEAR FOR THE COMPANY WITH THE SUCCESSFUL COMPLETION OF THREE ACQUISITIONS AND ONE TRANSFER, ALONG WITH A CONCERTED EFFORT TO ELEVATE THE TM BRAND TO A REGIONAL LEVEL. THE YEAR ALSO SAW THE ADDITION OF TWO NEW CEOS INTO THE COMPANY, NAMELY HASNUL SUHAIMI WHO IS PRESIDENT DIRECTOR OF PT EXCELCOMINDO PRATAMA TBK (XL) AND MUHAMMED YUSOFF MOHD ZAMRI, THE CEO OF TELEKOM MALAYSIA INTERNATIONAL (CAMBODIA) COMPANY LIMITED (TMIC). THE ORGANISATION HAS CONTINUED TO FORTIFY ITS PRESENCE IN THE REGIONAL OPERATING ENVIRONMENT.

The intense acquisition activities of 2004 and 2005, which saw new acquisitions in Indonesia, Singapore and Pakistan, were followed by a year focused on the execution of strategies identified for these companies and existing markets. Strategic alliances were also forged during the year, such as with the Asian Mobility Initiative (AMI) and with Vodafone which has already entered into an active execution phase.

An Expert Support Group (ESG) was established to facilitate the execution within TM International, as well as a new unit referred to as the Project Management Office (PMO). While the ESG is tasked with enhancing resource capabilities across all operations, the PMO is mandated to:

- assist initiative leaders in overall performance targets;
- facilitate resolution of issues and escalate to relevant stakeholders as and when required;

- coordinate, monitor and report on programme progress to key stakeholders;
- ensure that inter-dependencies across functions and/or subsidiaries are exercised effectively to support improvement objectives;
- drive all implementation activities to ensure achievement of plans; and
- identify risks and facilitate development of mitigation plans.

The initiatives above also enabled TM International to play a proactive role in facilitating synergistic potential between its subsidiaries and affiliates by leveraging on shared assets, purchasing decisions and improved risk management.

The year 2006 also saw some of our subsidiaries making news in their individual markets. For instance, TM International's investment in Sri Lanka, Dialog Telekom Limited, undertook its own acquisitions in the broadcast and media industries. Together with its counterpart in Indonesia, PT Excelcomindo Pratama Tbk, Dialog has also made news with its Corporate Social Responsibility (CSR) programmes.

TM INTERNATIONAL'S OPERATIONAL HIGHLIGHTS

In 2006, there was an upsurge in TM International's regional mobile customer base, recording an impressive growth of 64.7% in regional mobile customer numbers, rising from 13.6 million customers a year ago to 22.4 million as at end of 2006.

For the financial year ended 31 December 2006, TM's overseas investments recorded operating revenue of RM4,165.4 million compared to RM1,804.8 million in the previous year, marking a growth of 137.8%.

Profit after tax and minority interest (PATAMI) contributed by overseas investments had increased to RM677.5 million in 2006 from RM178.1 million in 2005, primarily due to overall improved contribution from subsidiaries and associates especially Dialog, XL, TMIB and M1.

NEW ACQUISITIONS COMPLETED

With the completion of three new investments in 2006, TM International continues to fortify its presence in the regional terrain. The year saw its acquisition of a full stake in Cambodia Samart Communication Company Limited (Casacom) which has since been renamed as Telekom Malaysia International (Cambodia) Company Limited (TMIC), as well as stakes in Samart I-Mobile Public Company Limited (SIM) and Spice Communications Limited (Spice). The Company also completed the transfer of Mobile Telecommunications Company of Esfahan (MTCE) from Technology Resources Industries Berhad, a wholly owned subsidiary of Celcom (Malaysia) Berhad (Celcom) to TM International. These transactions have also intensified the Company's investments in cellular services and widened its customer base to 22.4 million regionally.

TELEKOM MALAYSIA INTERNATIONAL (CAMBODIA) COMPANY LIMITED (TMIC)

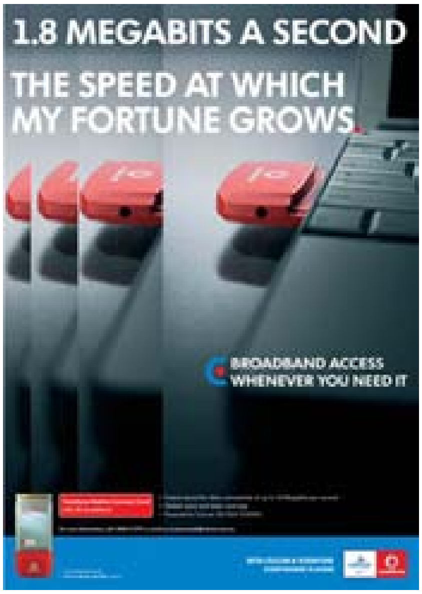
On 27 March 2006, TM International completed its acquisition of TMIC, reaffirming its plan to strengthen its participation in the Cambodian telecommunications industry. The acquisition was initially announced on 17 February 2006, when TM International reached an agreement with Samart Corporation Public Company Limited (Samart) of Thailand to acquire the latter's 49.0% stake in the then-named Casacom, for a consideration of USD29.0 million (RM107.9 million).

On 3 October 2006, the Company was renamed Telekom Malaysia International (Cambodia) Company Limited (TMIC) following approvals from the Cambodian Ministry of Post & Telecommunications, Council for Development of Cambodia, and the Ministry of Commerce.

SAMART I-MOBILE PUBLIC COMPANY LIMITED (SIM)

In a similar move, TM International also acquired a 24.4% stake in Samart subsidiary Samart I-Mobile (SIM) for a consideration of USD32.8 million (RM124.8 million). The exercise was completed on 27 March 2006.

The collaboration with SIM involves the marketing, promotion, development and integration of specific content and applications, including the selling of mobile phones bundled with such content and applications. With a target market that includes TM International's affiliates and other third parties outside Thailand, SIM provides instant wireless information services and mobile content, in addition to distributing mobile telephones and accessories.



Smart partnership with Vodafone

SIM functions as an integrator between three main lines of business namely the mobile handset business, content and applications and interactive multimedia (including infotainment services) and is majority owned by Samart.

SPICE COMMUNICATIONS LIMITED (SPICE) (*formerly known as Spice Communications Private Limited*)

On 10 May 2006, the acquisition of a 49.0% stake in Spice Communications of India was completed, marking another critical piece in TM International's regional footprint. The acquisition involved the purchase of the stake held by Deutsche Bank AG and Ashmore Investment Management Limited consortium for a consideration of USD178.9 million (RM659.4 million). The remaining 51.0% remains with the existing shareholders, Mcorp Global Ltd and its associates.

The investment in India is in line with TM's goal of becoming a significant mobile player in Asian markets in addition to participating in the growth opportunities of the Indian cellular market. On 28 December 2006, Spice Communications Private Limited changed its company status from a Private Limited Company to a Public Company and is now known as Spice Communications Limited.

MOBILE TELECOMMUNICATIONS COMPANY OF ESFAHAN (MTCE)

On 9 August 2006, Celcom completed the transfer of the 49.0% equity interest it held in Mobile Telecommunications Company of Esfahan (MTCE) to TM International, involving a consideration of USD6.0 million (RM22.1 million). The remaining 49.0% is held by Telecommunications Company of Esfahan and 2.0% by Iran Telecom Industries.

The principal activities of MTCE include the operation and provision of mobile services in the Esfahan province of Iran in the 900 MHz GSM band.

VODAFONE ALLIANCE

On 25 January 2006, a strategic partnership was established between TM and Vodafone through the former's participation in the Vodafone Partner Network, thereby creating a global reach of an estimated 179 million customers worldwide. To facilitate the partnership, TM signed a Partner Network Agreement with Vodafone, while its subsidiaries – Celcom, XL and Dialog – signed separate Cooperation and Branding Agreements with Vodafone. The

As at 31 December 2006

COMPANY	COUNTRY	BUSINESS	SHAREHOLDING	CUSTOMERS
PT Excelcomindo Pratama Tbk. (XL)	Indonesia	Cellular	59.63%	9,527,970
TM International (Bangladesh) Limited (TMIB)	Bangladesh	Cellular, ISP	70.00%	5,762,093
Dialog Telekom Limited (Dialog)	Sri Lanka	Cellular, ISP	89.62%	3,105,649
Spice Communications Limited (Spice)	India	Cellular	49.00%	2,450,000
MobileOne Ltd * (M1)	Singapore	Cellular	29.78%	1,337,000
Telekom Malaysia International (Cambodia) Company Limited (TMIC)	Cambodia	Cellular	100%	228,969
Multinet Pakistan (Private) Limited (Multinet)	Pakistan	Broadband	78.00%	- na -
Mobile Telecommunications Company of Esfahan (MTCE)	Iran	Cellular	49.00%	20,459
Samart I-Mobile Public Company Limited (SIM)	Thailand	Mobile	24.42%	- na -
Samart Corporation Public Company Limited (Samart)	Thailand	Holding Company	18.98%	- na -
TOTAL				**22,432,140**

* *TM International and Khazanah Nasional Berhad jointly have a shareholding in M1 through a consortium known as SunShare Investments Ltd.*

signing of the various agreements constitute Phase 1 of the partnership, whilst under Phase 2, the partnership will be extended to TM's Bangladeshi and Cambodian subsidiaries.

STRENTHENING THE TM BRAND IN THE REGION

With a focus to enhance the profile of TM's regional investments, a regional brand building and positioning exercise was undertaken for a period of 6 months commencing July 2006. The programme was executed from an advertising & promotions (A&P) and strategic communications perspective throughout the region, where the reach and scope of TM's regional investments were explained, in addition to highlighting in-country operations.

The exercise also entailed active media engagement with both regional and local media through full media briefings, face-to-face interviews, speaker opportunities and dissemination of regional news releases. This was implemented simultaneously with a high visibility A&P component which included extensive advertising on CNN and BBC World, print ads in the Asian Wall Street Journal (AWSJ), The Economist, Fortune and Forbes as well as billboards at key strategic locations in the respective countries abroad.

AFRICAN DIVESTMENT UPDATE

TM's decision to divest its remaining African investments in Guinea and Malawi was announced in line with its international strategy to focus on regions closer to home.

TM's investment in Guinea, via Societe des Telecommunications des Guinee (Sotelgui s.a.) (the Telecommunications Company of Guinea), was formed out of a strategic partnership between TM and the Government of the Republic of Guinea (GoG) on 23 December 1995, with TM and GoG holding 60.0% and 40.0% equity respectively. In a joint decision taken with GoG, TM had in December 2005, ceased all operational and managerial control of Sotelgui s.a. as the initial step to exit from Guinea. However, TM retains Board representation in Sotelgui s.a., until all other exit-related activities are finalised. To-date, TM, together with GoG, are looking for the best possible bidder for its 60.0% stake in Sotelgui s.a.

Telekom Networks Malawi Limited (TNM) was set up in 1996 as a Joint Venture Company between TM and Malawi Telecommunications Ltd (MTL), with TM holding 60.0% equity and the remaining 40.0% being held by MTL. MTL exercised its pre-emptive rights and entered into a consent order with TM to obtain TM's entire shareholding in TNM. The completion of the acquisition of all of TM's shareholding in TNM is subject to certain conditions having been fulfilled, among which include the approval from the Malawi Communications Regulatory Authority and the Reserve Bank of Malawi.

Indonesia

PT EXCELCOMINDO PRATAMA TBK (XL)

OVERVIEW

The Indonesia telecommunications industry, especially cellular, saw significant growth in 2006. As at 31 December 2006, the number of cellular customers in Indonesia has increased by a healthy 31% over the previous year to reach a total of approximately 68 million customers. Against this backdrop, XL secured excellent growth in 2006 and won various industry accolades, including the Indonesian Cellular Award 2006 (from the Indonesian Association of Cellular Telecommunication) and the Best Managed Company in Asia (from Finance Asia Magazine).

FINANCIAL PERFORMANCE

XL delivered an improved result in the financial year ending 31 December 2006 as it recorded revenue of IDR5,777.7 billion (RM2.3 billion) and EBITDA of IDR2,553.8 billion (RM1.0 billion). Comparatively, this represents an annualised growth of 52.5% and 47.2% respectively, against revenue and EBITDA of IDR3,790.0 billion (RM1.5 billion) and IDR1,735.0 billion (RM0.7 billion) respectively achieved in the previous year. The enhanced performance was achieved on the back of sharp customer growth resulting from various promotional activities, despite decrease in ARPU which is in line with current industry trends.

However, due to higher operating costs with respect to sales commissions as well as advertising and promotional (A&P) related expenses, EBITDA margin fell slightly from 47.8% in 2005 to 44.2% in 2006. Supported by the improved operational performance and the strengthening of the Rupiah against the US dollar, PAT has increased by IDR876.0 billion (RM0.4 billion) from a loss of IDR224.1 billion (RM0.1 billion) in 2005.

XL Headquarters, Jakarta

OPERATIONS

With a market share of 14% of the total cellular market encompassing approximately 9.5 million customers, XL is currently the third largest cellular operator in Indonesia. Current cellular penetration level remains at 25% from a total population of 240 million. Their winning "Life Unlimited Campaign" in promoting their latest XL applications through pre-paid cards *jimat*, *jempol* and *bebas*, post-paid card Xplor and Business Solutions won them the well deserved awards of "The Best Innovation in Marketing" and "The Best in Marketing Campaign".

In the fourth quarter of 2006, XL introduced the widest and fastest 3G service in Indonesia, the XL 3G. By 21 September 2006, the service was available in 10 cities, going beyond the business districts of each city. XL's is also the first 3G service over 3.5G technology utilising High Speed Downlink Packet Access (HSDPA), which offers data access speed up to 2.6 Mbps (compared to 384 Kbps of the regular 3G service).

In 2006, XL continued to invest aggressively in network development, with capital expenditure (Capex) amounting to USD491.2 million (RM1,801.2 million). At the end of 2006, XL's base transceiver stations (BTS) increased by 67.9% year-on-year to 7,260 from 4,324 BTS in the previous year. With this massive expansion of its network, XL has managed to boost its services to customers via enhanced network coverage and quality.

Bangladesh

TM INTERNATIONAL (BANGLADESH) LIMITED (TMIB)

OVERVIEW

While mobile services have been available in Bangladesh since 1991, the country's telecommunications industry has accelerated only in recent years, following deregulation policies. As at end of 2006, the country had attained a mobile customer base of approximately 21.3 million, with present annual growth in cellular subscription at approximately 100%, three times the global average.

Incorporated on 15 December 1997 as a Joint Venture Company between AK Khan & Co Ltd. and TM International, TMIB is currently the number two operator in Bangladesh, operating a GSM cellular service on the 900 and 1800 MHz frequency bands under the brand name AKTEL.

FINANCIAL PERFORMANCE

Mainly attributed to declining ARPU brought about by intense price competition, TMIB recorded gross revenue of BDT13,139.6 million (RM704.3 million) in the financial year 2006, representing a fall in the annual revenue growth to 41.6% from 44.7% in the previous year. EBITDA was registered at BDT5,998.1 million (RM321 million) and EBITDA margin fell from 47.5% to 45.7%.

With the increase in custom duty on SIM cards, supplementary duty on scratch cards, withdrawal of tax holiday as well as the costs associated with managing a high customer growth in a low ARPU environment, the PAT margin also decreased from 42.5% in 2005 to 33.0% in 2006.

Forging ahead – TMIB, Bangladesh

OPERATIONS

In 2006, TMIB acquired an additional 91,120 post-paid and 2.6 million prepaid customers, resulting in a total customer base of 5.8 million and representing an 88.8% growth over the previous year.

In addition to basic voice service, TMIB also offers enhanced services. Towards late 2006, the Company launched its revolutionary package, 'Aktel Phurti', a product built from pure consumer insight to address fierce competition among operators as well as to supplement the services of Aktel "Power" and "Joy". This was one of the most attractive pre-paid packages offered by any operator in recent times and brought in more than 800,000 customers within the month of December.

In keeping with its tagline "Clearly Ahead", TMIB put into action the deployment of a high performance network and fast development rollout to support a fast growing customer base. With an additional 1,222 BTSs on-air in 2006, the network coverage has increased to 73% in population terms and 59% in geographical terms.

As part of its commitment to offer better services and achieve better resource utilisation, a few technical firsts were seen for TMIB during the year under review, such as becoming the first operator to link the southernmost and northernmost parts of the country (Teknaf to Tetulia). In addition, TMIB was also the first mobile operator in the country to exploit NGN IP Backbone technology thereby enabling TMIB to implement IP traffic and signalling that saves overall transmission resources by up to 60%. TMIB is also the only operator that has successfully implemented Frequency Load Planning (FLP) which enables TMIB to offer more capacity in its radio network despite the narrow GSM 900 spectrum it currently operates on.

Sri Lanka

DIALOG TELEKOM LIMITED (DIALOG)

OVERVIEW

Dialog achieved another significant milestone in 2006 when it surpassed the 3 million customer base. Since its entry into Sri Lanka's mobile telecommunications market industry in 1995, Dialog now commands approximately 60% market share in the mobile sector and over 40% share of the overall telecommunications market.

With a strategy that focuses on transforming mobile telephony from its exclusive positioning in 1995 to a broad-based commodity which is affordable and available to all, Dialog has been recognised as the "Most Customer Centric Organisation" within TM Group, as well as being acknowledged as the OpCo of the Year for 2006.

FINANCIAL PERFORMANCE

In the financial year 2006, Dialog recorded revenue of SLR25,679.5 million (RM907.0 million). Over the past five years, revenue growth has been consistent, exhibiting a CAGR of 53.8%. This trend is driven by growth in the customer base, product and service offerings, increased international traffic and associated revenues and network coverage.

Dialog recorded a gross profit of SLR16,857.7 million (RM595.4 million) in 2006, compared to SLR11,820.6 million (RM417.5 million) in 2005. EBITDA was SLR 13,744.9 million (RM485.5 million) in 2006 as opposed to SLR9,415.9 million (RM332.5 million) in 2005. PAT in 2006 was SLR10,118.9 million (RM357.4 million) compared to SLR7,011.9 million (RM247.6 million) in 2005.

OPERATIONS

In 2006, the customer base grew by 46.2% year on year accounting for a market share of close to 60%. While the post paid active customer base increased by 9.7% compared to 2005, the pre-paid active customer base surged by 55.8% to 2.6 million in 2006 from 1.7 million the previous year.

With a consistent strategy of providing affordable services to low-income segments of the market, Dialog has succeeded in generating new markets from the dormant low ARPU prepaid segment. By offering competitive packages coupled with strong marketing efforts, the blended ARPU has remained above SLR600 despite aggressive tariff reductions, with over 95% of the new additions being generated from the lower ARPU prepaid segment.

Maintaining its leadership position in Sri Lanka – Dialog

On 16 August 2006, Dialog was awarded the 3G spectrum assignment by the Sri Lankan Telecommunications Regulatory Commission (TRC). The Company paid a sum of USD5 million (RM18.3 million) for the 3G spectrum, and was assigned 10MHz of FDD Duplex spectrum and 5 MHz of TDD spectrum in the UMTS band.

Dialog also achieved another first during the year with the launch of the BlackBerry platform in Sri Lanka. In addition, the year also saw the Company commencing its Business Process Outsourcing (BPO) services for Sri Lankan and global enterprises. In January 2006, Dialog became the only telecommunications company in Sri Lanka to implement the world-renowned SAP Enterprise Resource Planning (ERP) System while also partnering with Vodafone, the world's largest mobile telecommunications company.

Currently operating over 900 base stations across the country on a Dual Band GSM 900 and 1800 spectrum configuration, Dialog GSM continued to expand its network across Sri Lanka during the year under review. To date, it has covered 60% of the land mass and 80% of inhabited land.

In October 2006, in a strategic move to achieve quadruple play (Mobile, Fixed, Broadband, and Television Media) for Sri Lankan consumers, Dialog entered into an agreement with the shareholders of Asset Media (Pvt) Ltd. The transaction resulted in Dialog acquiring a 90.0% stake in the media company licensed to operate Television Broadcasting and Pay Television services in Sri Lanka. The Share Purchase and Joint Venture agreements were entered into on 29 September 2006 with a transaction value of SLR325.1 million (RM11.6 million). Thereafter, Dialog, through Asset Media, acquired Communiq Broadband Network (Private) Limited and CBN Sat (Private) Limited on 2 December 2006. Following thereto, Dialog has made transformational investments in Digital Broadcast infrastructure targeting digital terrestrial broadcast, Direct to Home (DTH) and Mobile Television service provisioning.

India

SPICE COMMUNICATIONS LIMITED (SPICE)

OVERVIEW

In 2006, there were significant regulatory developments in India such as the reduction in regulatory charges, increase in foreign ownership limit to 74%, reduction in license fees, announcement of 3G strategy and additional spectrum release. It is against this background that TM acquired a 49.0% stake in Spice Communications in March 2006.

FINANCIAL PERFORMANCE

Driven by market expansion, 2006 was a year of strong revenues and EBITDA growth for Spice. For the financial year 2006, Spice recorded revenue of INR5,337.8 million (RM430.2 million) and EBITDA of INR1,078.6 million (RM86.9 million). Due to increased prepaid customers coupled with falling tariffs, EBITDA margin fell from 23.8% to 20.2% at end of 2006.

Breaking new ground in India – Spice Telecom

As shown by the capital expenditure expansion, the Company demonstrated a commitment to business growth. Capital expenditure at the end of 2006 totalled some INR2,690.7 million (RM215.1 million).

OPERATIONS

Rated as one of the best mobile telephony service providers in the country, Spice was among the first private GSM operators in India and the first to introduce mobile telephony in two of the most developed states in the country namely Punjab and Karnataka. With a customer base of 2.5 million at the end of 2006, it has the widest international roaming coverage and tie-ups with over 433 international operators across 207 countries.

Domination of prepaid customers together with falling tariffs has resulted in a decline in ARPU from INR263 (RM21.2) per month to INR229 (RM18.5) in September.

In June 2006, Spice launched the Spice mobile phone in Gujarat, taking the mobile brand into the high potential western Indian market. Later in September, the Company announced an aggressive expansion plan, premised on a Pan-Indian footprint strategy. Spice applied for Unified Access Service (UAS) licenses for all of the 20 circles in India on 1 September 2006. In line with its Pan-Indian strategy, Spice also applied for National License Distance (NLD) and International Long Distance (ILD) licenses.

Sporting a young, fun and innovative image, with regular corporate sponsorships of events, including knowledge based events in association with ASSOCHAM (Association of Chambers of Commerce), Spice has created high visibility and brand recognition through its Brand Ambassador, former Miss World and Bollywood star, Priyanka Chopra.

Singapore

MOBILEONE LTD (M1)

OVERVIEW

M1 is a leading mobile communications provider in Singapore with over one million customers, providing a full range of mobile voice and data communications services over its 2G/3G network. M1's mobile services encompass a wide range of voice, non-voice and value-added services provided on its nationwide dual-band GSM900/1800 and W-CDMA network.

M1 is listed on the Singapore Stock Exchange and its current major shareholders are SunShare Investments Ltd, Keppel Telecoms Pte Ltd and SPH Multimedia Private Limited. As at 31 December 2006, SunShare Investments, a joint controlled entity between TM International and Khazanah Nasional, holds a 29.8% equity interest in M1.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2006, M1's profit after tax for the year increased by 2.2% year-on-year to SGD164.6 million (RM380.7 million) despite challenging market conditions, while free cash flow rose by a significant 48.5% to SGD242.7 million (RM561.4 million). Earnings per share (EPS) improved 1.2% to SGD16.6 cents (RM0.4) while EBITDA margin on service revenue went up 1.4 percentage points to 48.6%. For 2006, operating revenue was fairly stable at SGD773.0 million (RM1,787.9 million).

OPERATIONAL HIGHLIGHTS

M1 attained a customer base of 1,337,000 at the end of the year, comprising 809,000 postpaid customers and 528,000 prepaid customers. With Singapore's mobile penetration exceeding 100.0%, M1 continued to focus on driving usage from existing customers especially in the non-voice segment. Non-voice services contributed almost 20.5% of average revenue per user against 19.4% the previous year.

The significant increase in ARPU for the third quarter of 2006 and Financial Year 2006 was due mainly to the introduction of the SGD68 (RM157.3) 3G data plan in the second quarter.

The year 2006 saw various promotions of M1's products and services. In April, a mobile channel with local 3G content from MediaCorp Studios was launched offering M1 customers access to popular MediaCorp Studios programmes from their 3G mobile phones. Whilst the local content included those that were specially produced for the MediaCorp Mobile Channel, others were adapted from the station's TV programmes.

In July 2006, M1 launched Singapore's first 3G-enabled BlackBerry handset. In addition to voice and e-mail access, the BlackBerry 8707v enables customers to use the handset as a tethered modem to access the Internet from their laptops.

Leaving its mark in Singapore's competitive market, M1 launched Singapore's first 'group sharing' tariff plan for businesses. In August 2006, M1 launched its "TalkShare Plan", an innovative new mobile tariff plan which caters to the needs of the enterprise market. The free incoming call plan allows users the flexibility of sharing free bundled local airtime and SMS, and this translates to greater savings for companies.

For 2007, M1 expects to see continued growth in data revenue following the launch of the M1 Broadband service in December 2006. M1 will also continue to leverage on its partnership with Vodafone to extend the range of wireless business products and services for the enterprise segment.

Cambodia

TELEKOM MALAYSIA INTERNATIONAL (CAMBODIA) COMPANY LIMITED (TMIC)

OVERVIEW

TM's interest in TMIC was formalised on 27 May 1998. Providing services on the GSM 900 frequency band in Cambodia, TMIC operates under a 35-year cellular concession commencing 1996 from the Ministry of Posts and Telecommunications.

On 17 February 2006, TM International reached an agreement with Samart Corporation Public Company Limited to obtain its 49.0% stake in Casacom, thereby elevating the company to a wholly owned subsidiary of TM International. The acquisition was completed on 27 March 2006 and in November that year, the Cambodian subsidiary was renamed TMIC.

FINANCIAL PERFORMANCE

Total revenue for the financial year 2006 was RM113.3 million, a 36.1% growth compared to the previous year. It achieved the highest ever EBITDA at RM51.5 million, representing an EBITDA growth of 61.0% from RM19.5 million and an EBITDA margin of 45.5%.

PAT also increased by a mammoth 286.9% against the previous year to RM25.5 million, indicating a 40.6% increase over its revised budget. The company achieved a Return on Total Assets (ROTA) above the local industry rate of 12.6% for 2006, an increase of 201.0% from 2005. TMIC currently operates under a comfortable cash balance and has achieved gearing at its lowest level of negative 12.0%.

OPERATIONS

As the third largest cellular operator in Cambodia, TMIC's customer base at the end of 2006 stood at 228,969 customers, with 99.0% being prepaid customers. This represents an increase of 45.6% from 157,300 customers in the previous year. TMIC's blended ARPU is currently the highest among TM International subsidiaries at USD8.9 (RM32.6) per month. Recently, the Company obtained a licence to set up its own Voice over Internet Protocol (VoIP) service, which is currently under testing and scheduled to be launched by April 2007 under the prefix "006".

New vistas in Cambodia – TMIC

Similar to 2005, the focus in 2006 was on network expansion. To provide the Company with broader coverage and high quality network in Cambodia, TMIC has undertaken a USD15.0 million (RM55.0 million) expansion programme. This is aimed at increasing switch capacity from 180,000 to 400,000 customers. A total of 100 new base stations were installed as part of the plans to upgrade, intensify coverage and improve network quality in the country. By the end of 2006, TMIC's network coverage was extended to all cities and provinces in Cambodia, as well as the main national roads of the country.

Pakistan

MULTINET PAKISTAN (PRIVATE) LIMITED (MULTINET)

OVERVIEW

Multinet's suite of licences enables the Company to provide broadband, managed and Value Added Services (VAS), domestic access, international access, satellite services and local access (Karachi only). The Company's flagship fibre optic backbone, Project Ittehad, is enabled principally through its Long Distance/ International (LDI) licence. With Pakistan's telecommunications sector growing, as evident in the increase in the sector's contribution to the country's GDP, Multinet is ensured of a promising future.

FINANCIAL PERFORMANCE

In 2006, Multinet chalked up revenues of PKR155.7 million (RM9.4 million), from a range of services including Digital Subscriber Lines (DSL), MetroNET and Dialup, amongst others. DSL was the most significant contributor to revenue followed by MetroNET.

Bright prospects in Pakistan – Multinet

OPERATIONS

The increase in broadband popularity in Pakistan has led to total Digital Subscriber Line (DSL) customers in Pakistan reaching 26,611 in June 2006 from 17,450 in December 2005. Further broadband growth is expected, driven by Pakistan Telecommunication Company Limited's (PTCL) recent reduction in its international bandwidth tariffs. As at December 2006, Multinet's total number of active customers stood at 3,551, with the majority of them being DSL and Internet Dial-Up users.

In 2006, Multinet secured a major customer for its fibre optic backbone through a 20-year capacity contract with Telenor Pakistan. The capacity contract will enable Telenor to utilise fibre optic cable pairs and associated co-location facilities on Multinet's Project Ittehad, in addition to a service contract which entails maintenance and associated services from Multinet for the duration of the contract. The aggregate amount of both the capacity and service contracts is estimated to be USD40.0 million (RM146.6 million). Project Ittehad, which is currently being rolled out linking 107 cities in Pakistan with 4,100 km of fibre optics, is scheduled for completion by the third quarter of 2007.

Mobile Telecommunication Company Of Esfahan

Iran

MOBILE TELECOMMUNICATIONS COMPANY OF ESFAHAN (MTCE)

OVERVIEW

On 9 August 2006, TM International completed the transfer of a 49.0% equity interest in MTCE from Technology Resources Industries Berhad, a wholly owned subsidiary of Celcom for a consideration of USD6 million (RM22.1 million), following approvals obtained from the Iran Foreign Investment Board. MTCE commenced its operations on 24 June 2002 as the first provider of mobile pre-paid SIM cards in Iran. The Company has a licence to operate a GSM 900 MHz mobile communication service with a capacity of 35,000 customers in the Esfahan province of the Islamic Republic of Iran for a 15-year period commencing 19 May 2001.

FINANCIAL PERFORMANCE

Total revenue for the financial year 2006 was IRR43.8 billion (RM17.5 million), a 0.9% growth compared to the previous year. EBITDA was recorded at IRR27.7 billion (RM11.1 million) and PAT at IRR21.3 billion (RM8.5 million). These figures represent a slight decline of 16.2% and 7.9% respectively from the previous year, mainly attributable to higher operating costs.

OPERATIONS

In October 2006, a network expansion exercise that included the installation of 29 new base stations and extended geographic coverage into four additional towns was completed, enabling the Company to expand its operating capacity from 20,000 customers to 35,000 customers. At the end of 2006, the Company controls a total of 61 base stations covering nine cities and towns within the Esfahan province. As at 31 December 2006, the Company registered a total of 20,459 customers.

In meeting market demand, its network was developed to provide more applications for pre-paid SIM cards, post paid and value added-services such as international roaming, VoIP and domestic roaming, in addition to developing and improving its radio network. The objectives of MTCE's network development is to increase its geographical coverage within Esfahan, increase network capacity to support 35,000 customers, improve network quality and enable network upgrade. The areas to be covered by MTCE under this development are Shahreza, Kashan, Ravand, Aran and Bidgol.

Thailand

SAMART I-MOBILE PUBLIC COMPANY LIMITED (SIM)

OVERVIEW

In the first quarter of 2006, TM International obtained a 24.4% direct stake in SIM by purchasing existing shares from its parent company, Samart Corporation Public Company Limited (Samart). This is in addition to an indirect stake held through TM International's stake in Samart.

In 2006, SIM continued to enjoy robust revenue growth, fuelled primarily by higher demand for cellular handsets, driven by both local and overseas markets. One of the key benefits of the alliance with TM is the opportunity to expand handset sales in countries where TM has a presence as an operator.

FINANCIAL PERFORMANCE

In 2006, the total revenue of the Company and subsidiaries were recorded at THB24,600.2 million (RM2,370.7 million), an increase of THB11,624.5 million (RM1,120.2 million) or 89.6% over 2005. Net profit was registered at THB488.1 million (RM47.0 million), an increase of THB112.2 million (RM10.8 million) from 2005 or 29.9%.

OPERATIONS

SIM's business operations totalling 77 branches located in Bangkok and other provinces are divided into three core segments:

Mobile Business – Distribution of mobile phones, mobile phones bundled with content called the I-mobile Package, accessories and SIM cards.

Multimedia Business – Provision of voice services under the brand name of BUG1900, BUG1113 and BUG1110, non-voice or multimedia services under the brand name of BUG2Mobile, and provision of infotainment services.

International Business – Distribution of mobile phones and mobile phones bundled with content providing interactive multimedia services abroad.

The sale of mobile phones is SIM's single largest revenue contributor. SIM offers instant wireless information services and mobile content, along with the distribution of mobile telephones and accessories. SIM relies on wholesale channels such as hypermarkets (Tesco Lotus and BIG-C) to push sales, while at the same time initiating co-promotion with operators in respective countries.

Approximately 85.0% of total handsets sold in 2006 in the Thai market was I-mobile, resulting in I-mobile successfully retaining its number two position in the Thai handset market. The market share for I-mobile handsets increased from 15.0% in 2005 to 23.0% in 2006.

Demand for voice content remained flat throughout 2006 with higher content pricing and higher revenue share with operators cited as key hurdles in stimulating demand for content. However, events such as the World Cup boosted demand for voice and non-voice content in the second quarter of 2006.

Thailand

SAMART CORPORATION PUBLIC COMPANY LIMITED (SAMART)

OVERVIEW

Samart is principally engaged in the design, implementation and installation of telecommunications systems, and the sale and distribution of telecommunications equipment. As at the end of 2006, TM International holds an 19.0% stake in the Company. TM International had in February 2006, further repositioned its business partnership with Samart by acquiring a direct 24.4% stake in Samart I-Mobile Public Company Limited (SIM), a majority owned Samart subsidiary.

At present, Samart operates through its 20 affiliates, with three of them listed on the Stock Exchange of Thailand – Samart Corporation Plc., Samart Telcoms Plc. and SIM.

FINANCIAL PERFORMANCE

For the year ended 31 December 2006, Samart recorded total revenue of THB31,001.6 million (RM2,987.6 million) and net profit of THB1,990.3 million (RM191.8 million), representing an increase of 64.4% and 241.0% respectively, compared to the previous year. The increase in revenue was largely attributed to sales of mobile phones both locally and internationally, infotainment and multimedia business, turnkey projects from the government sector and private enterprises, call centre business as well as the cellular phone service, air traffic control business in Cambodia.

OPERATIONS

Underpinning Samart's service delivery is its perseverance to provide and develop fully integrated, cutting-edge technology-based businesses. By embedding new ideas and initiatives into all aspects of its products and services, the Company is able to offer a better value proposition to its customers.

The Samart Group is divided into three major business units namely:
- ICT Solutions
- Mobile Multimedia
- Technology-related businesses

Under ICT solutions and services in 2006, Samart completed the installation of School Net project covering 10,600 schools. In October, the Company secured a five-year contract to implement high speed Internet access in 8,000 villages. Other highlights include deployment of soft switch for TOT Public Company Limited.

In the year under review, Samart acquired several contracts from various Government agencies and Ministries for systems integration. 2006 also saw the successful completion and handover of Airport Information Management System & Common User Terminal Equipment projects related to Suvarnabhumi International Airport which opened on 28 September 2006.

In 2006, the Company also acquired a 100.0% stake in Portal Net Company Limited, a Company with rights to own and operate Enterprise Resources Planning system for Provincial Electricity Authority of Thailand for a period of 5 years. This acquisition is expected to be completed in 2007.

Mobile Multimedia continued to enjoy robust revenue growth of 100% over the previous year, propelled mainly by higher local and overseas demand for cellular, including the countries where TM has a foothold.

On the overseas front, the Company continued to solidify its position in the Malaysian market while making inroads into new markets such as Indonesia, Bangladesh and Vietnam. Increasing trading activities in other markets also drove handset sales in 2006.

Samart's technology-related business also contributed to a successful 2006, with Samart increasing its stake in Cambodia Air Traffic Services (CATS) from 90.0% to 100.0%. Total flights handled by CATS grew 9.0% in 2006 compared to the previous year.

In the third quarter of 2006, Samart Engineering Company Limited, a 100.0% owned subsidiary, won a project to handle waste management at Suvarnabhumi International Airport.

Africa

TELEKOM NETWORKS MALAWI LIMITED (TNM)

OVERVIEW

TNM was set up in 1996 as a Joint Venture Company between TM and Malawi Telecommunications Ltd (MTL), with TM holding 60.0% equity and the remaining 40.0% by MTL.

With an initial paid-up capital of MKW65.0 million (RM1.7 million) when it began operations on 15 December 1995, the Company currently boasts a paid up capital of MKW350.0 million (RM9.0 million).

FINANCIAL PERFORMANCE

TNM's revenue grew from MKW2,835.1 million (RM91.6 million) in 2005 to MKW4,275.2 million (RM115.2 million) in 2006, registering an increase of 25.0%. Similarly, EBITDA recorded growth of 68.6% by registering EBITDA figures of MKW2,085.9 million (RM56.2 million) in 2006 compared to MKW1,237.5 million (RM33.3 million) in 2005. Net profit increased to MKW752.2 million (RM20.3 million) from MKW337.0 million (RM10.9 million) in 2005.

OPERATIONS

As at end of 2006, TNM's customer base stood at 244,000 customers, an increase of 71.8% from 2005. Operational costs of TNM were met by self-generated revenue with all products made locally.

The services offered by TMN include roaming in about 100 countries, me-to-you service, teleconferencing and a recently introduced "please call me" service that enables customers to communicate without using airtime, a handy service for emergency situations.

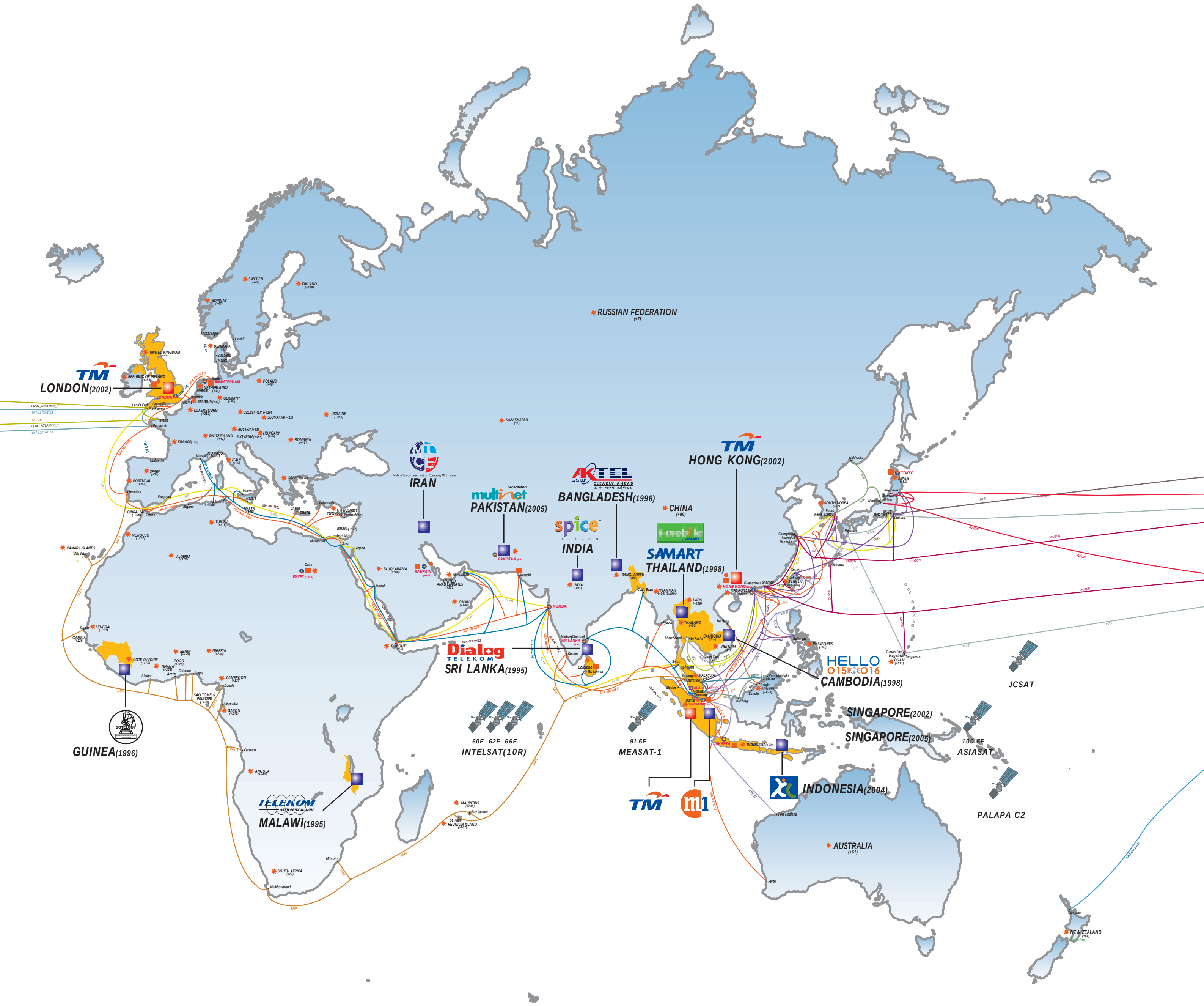
PROSPECTS FOR TM INTERNATIONAL

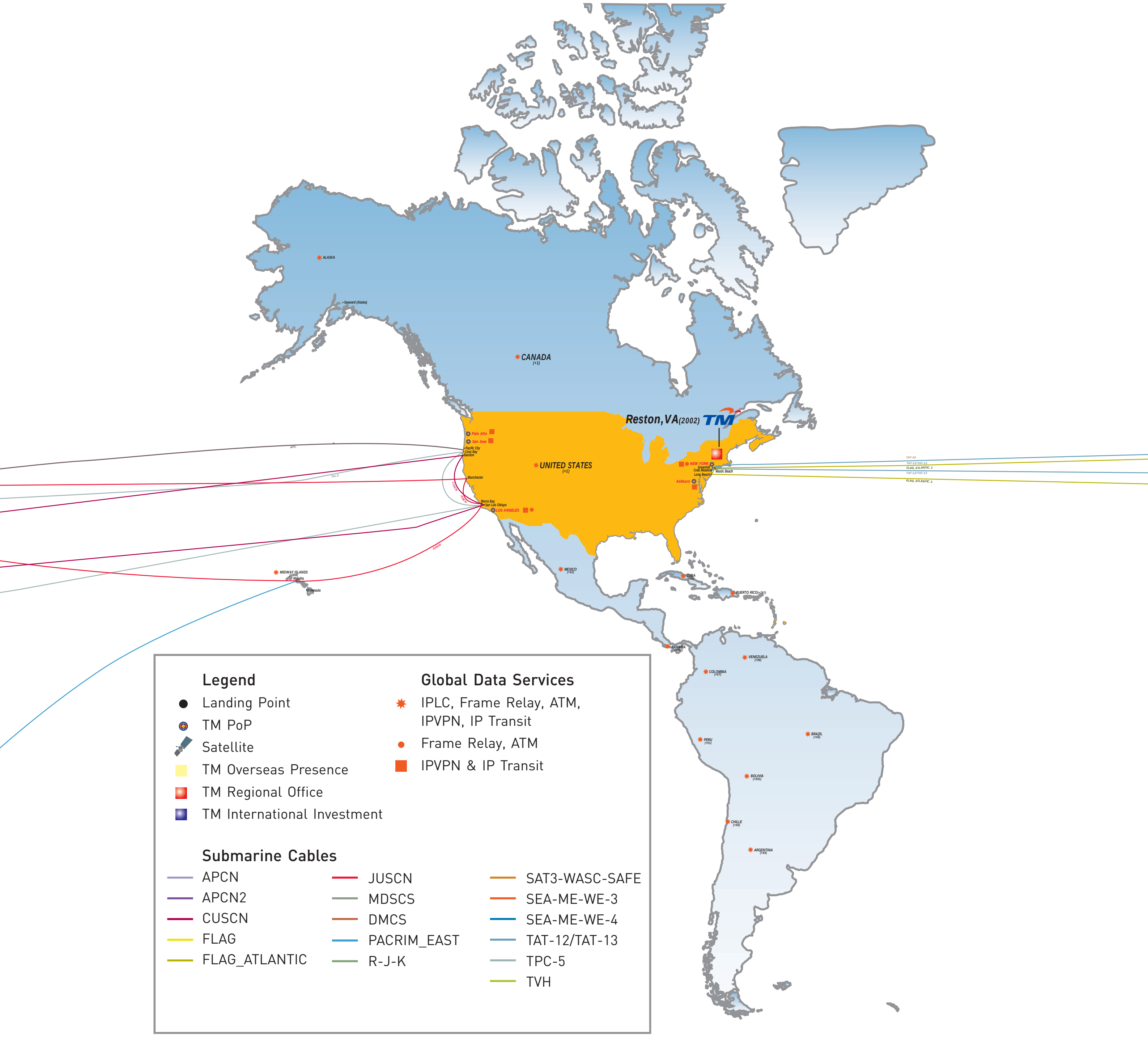
TM International's investment strategy remains focused on high growth and emerging markets that are nearer to home. Although areas such as VoIP, ISP, long distance telephony, broadband and other related businesses are increasingly being considered, investments in mobile remain a preference.

Going forward, TM International aims to consolidate its leading position in its existing regional markets. In addition, the Company intends to study in detail all new commercial opportunities in Asia, focusing on the dynamic Indochina market with a view to developing its existing regional footprint.

The year 2007 will also see TM International boosting its efforts in managing and enhancing its investments in boom markets, such as India and Indonesia, which represent two of the fastest growing mobile markets in the world today. Particular attention will also be paid to the dynamic economies of Indochina, as the telecommunications sectors in these markets have great growth potential.

GLOBAL CABLE SERVICES & INTERNATIONAL INVESTMENTS AND PRESENCE




CANADA
Reston, VA(2002)
UNITED STATES
Legend
Landing Point
TM PoP
Satellite
TM Overseas Presence
TM Regional Office
TM International Investment
Global Data Services
IPLC, Frame Relay, ATM, IPVPN, IP Transit
Frame Relay, ATM
IPVPN & IP Transit
Submarine Cables
APCN
APCN2
CUSCN
FLAG
FLAG_ATLANTIC
JUSCN
MDSCS
DMCS
PACRIM_EAST
R-J-K
SAT3-WASC-SAFE
SEA-ME-WE-3
SEA-ME-WE-4
TAT-12/TAT-13
TPC-5
TVH