

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CELCOM FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 AND THE AUDITORS' REPORT

Company No.

167469	A
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CELCOM (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors are pleased to submit their report to the member together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is principally involved in the provision of network capacity and services. The principal activities of the Group consist of the provision of mobile communication services and network transmission related services.

The principal activities of the subsidiaries are described in Note 13 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

FINANCIAL RESULTS

	<u>Group</u> RM'000	<u>Company</u> RM'000
Net profit for the year	<u>816,388</u>	<u>32,639</u>

DIVIDENDS

No dividends have been paid or declared by the Company since the end of the previous financial year. The Directors do not recommend the payment of any dividends for the current financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

DIRECTORS

The Directors who have held office during the period since the date of the last report are as follows:

Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor
Dato' Abdul Wahid bin Omar
Dato' Sri Mohammed Shazalli bin Ramly
Tan Poh Keat
Ismael Fariz bin Ali
Datuk Azzat bin Kamaludin
Yusof Annuar bin Yaacob

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CELCOM (MALAYSIA) BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS (CONTINUED)

Pursuant to Section 129(6) of the Companies Act 1965, Tan Poh Keat who has attained the age of seventy years retires from the Board at the forthcoming Annual General Meeting and, being eligible, offers himself for re-appointment.

In accordance with Article 73 of the Company's Articles of Association, Dato' Abdul Wahid bin Omar and Yusof Annuar bin Yaacob, retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than the Telekom Malaysia Berhad Employees' Share Option Scheme ("ESOS").

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than Directors' remuneration as disclosed in Note 7 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except that certain Directors received remuneration from the Company's holding company.

DIRECTORS' INTERESTS

According to the register of Directors shareholdings, the Directors who held office at the end of the financial year and have shares or options over shares in the holding company, Telekom Malaysia Berhad and a related company, VADS Berhad, are as follows:

Interest in Telekom Malaysia Berhad

	<u>Number of ordinary shares of RM1.00 each</u>			
	<u>At</u> <u>1.1.2006</u>	<u>Bought</u>	<u>Sold</u>	<u>At</u> <u>31.12.2006</u>
Tan Poh Keat	15,000	-	-	15,000

	<u>Number of options over</u> <u>ordinary shares of RM1.00 each in the holding company</u>			
	<u>At</u> <u>1.1.2006</u>	<u>Granted</u>	<u>Exercised</u>	<u>At</u> <u>31.12.2006</u>
Dato' Sri Mohammed Shazalli bin Ramly	-	#27,000	-	#27,000
Yusof Annuar bin Yaacob	*27,000	-	-	*27,000
	@280,000	-	-	@280,000

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CELCOM (MALAYSIA) BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

Interest in VADS Berhad

	Number of ordinary shares of RM1.00 each			
	At <u>1.1.2006</u>	<u>Bought</u>	<u>Sold</u>	At <u>31.12.2006</u>
Tan Poh Keat	15,000	-	-	15,000

Options price of RM8.69 per share

* Options price of RM9.22 per share

@ Options price of RM10.24 per share

By virtue of the Company being a wholly owned subsidiary of Telekom Malaysia Berhad, the interest of Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor and Dato' Abdul Wahid bin Omar in the shares in the holding company and related companies during the financial year as required by Section 169(6)(g) of the Companies Act, 1965 to be disclosed in the Directors' report is deemed to have been complied with as such interest are disclosed in the Directors' report of the holding company.

Other than as disclosed above, according to the register of Directors' shareholdings, the Directors in office at the end of the financial year did not hold any shares and options over shares in the Company or shares, options over shares and debentures of its related corporations during the year.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the income statements and balance sheets were made out, the Directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their value as shown in the accounting records of the Group and Company have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- (a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and Company misleading or inappropriate.

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CELCOM (MALAYSIA) BERHAD
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DIRECTORS' REPORT (CONTINUED)

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or Company to meet their obligations when they fall due.

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group or Company which has arisen since the end of the financial year which secures the liability of any other person;
- (b) any contingent liability of the Group or Company which has arisen since the end of the financial year.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

In the opinion of the Directors;

- (a) the results of the Group's and Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group or Company for the financial year in which this report is made.


ULTIMATE HOLDING COMPANY


The Directors regard Telekom Malaysia Berhad, a company incorporated in Malaysia and listed on Bursa Malaysia Securities Berhad, as the Company's holding and ultimate holding company.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 16 February 2007.


TAN SRI DATO' IR. MUHAMMAD RADZI
BIN HAJI MANSOR
DIRECTOR


DATO' SRI MOHAMMED SHAZALLI
BIN RAMLY
DIRECTOR

Kuala Lumpur

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CELCOM (MALAYSIA) BERHAD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Group 2006 RM'000	Group 2005 (Restated) RM'000	Company 2006 RM'000	Company 2005 (Restated) RM'000
Revenue	4	4,526,010	4,495,568	1,640,500	3,016,001
Operating expenses					
- Depreciation	12	(807,962)	(864,208)	(473,664)	(560,238)
- Reversal of impairment losses	12	3,533	0	3,533	0
- Allowance for impairment losses	12	(481)	(72,886)	0	(32,618)
- Provision for a claim	5	0	(915,104)	0	(915,104)
- Other operating expenses	6	(2,587,225)	(2,571,941)	(1,075,203)	(1,908,718)
Other income		16,121	13,588	9,866	9,157
Profit/ (loss) from operations		1,149,996	85,017	105,032	(391,520)
Finance income	9	55,771	60,445	60,767	69,250
Finance cost	9	(67,658)	(92,265)	(67,441)	(92,206)
Associated companies					
- Share of results of associated company (net of tax)		(8,580)	(4,556)	0	0
- Gain on disposal of an associated company	3(c)/ (f)	16,611	7,033	0	28,384
Profit/ (loss) before tax		1,146,140	55,674	98,358	(386,092)
Tax expense					
- Company and subsidiaries	10	(325,859)	(257,626)	(65,719)	(278,076)
Profit/ (loss) for the year		820,281	(201,952)	32,639	(664,168)
Attributable to:					
Equity holders of the Company		816,388	(202,538)	32,639	(664,168)
Minority interest		3,893	586	0	0
Profit/ (loss) for the year		820,281	(201,952)	32,639	(664,168)
Earnings/ (loss) per share attributable to ordinary equity holders of the Company					
- Basic (Sen)	11	36.1	(8.1)		

The summary of significant accounting policies and notes on pages 384 to 450 form part of these financial statements.

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CELCOM (MALAYSIA) BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS
AS AT 31 DECEMBER 2006

	Note	Group 2006	Group 2005 (Restated)	Company 2006	Company 2005 (Restated)
		RM'000	RM'000	RM'000	RM'000
NON-CURRENT ASSETS					
Property, plant and equipment	12	4,127,842	3,956,885	2,968,297	2,604,348
Investments in subsidiaries	13	0	0	1,752,501	1,739,901
Investments in associated companies	14	14,435	52,028	25,669	25,669
Amount due from a subsidiary company	18	0	0	4,140	5,140
Goodwill	16	118,556	117,141	0	0
Deferred tax assets	26	0	125,504	0	0
		4,260,833	4,251,558	4,750,607	4,375,058
CURRENT ASSETS					
Inventories	17	19,307	16,881	0	0
Trade and other receivables	18	326,086	287,305	217,271	189,705
Marketable securities	19	1,687	1,147	0	0
Cash and bank balances	20	1,201,124	2,295,356	1,196,949	2,288,331
Tax recoverable		664	26,497	0	14,000
		1,548,868	2,627,186	1,414,220	2,492,036
CURRENT LIABILITIES					
Short term borrowings	21	521,263	421,401	517,633	421,401
Trade and other payables	23	1,837,801	2,676,165	1,113,550	2,199,142
Taxation		94,914	18,401	84,129	0
		2,453,978	3,115,967	1,715,312	2,620,543
NET CURRENT LIABILITIES					
		(905,110)	(488,781)	(301,092)	(128,507)
		3,355,723	3,762,777	4,449,515	4,246,551
FINANCED BY:					
Share capital	24	1,767,907	2,357,209	1,767,907	2,357,209
Reserves	25	809,390	105,349	(1,100,633)	(1,029,340)
Capital and reserves attributable to equity holders of the Company		2,577,297	2,462,558	667,274	1,327,869
Minority interest		33,062	5,365	0	0
Total equity		2,610,359	2,467,923	667,274	1,327,869

The summary of significant accounting policies and notes on pages 384 to 450 form part of these financial statements.

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CELCOM (MALAYSIA) BERHAD
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BALANCE SHEETS
AS AT 31 DECEMBER 2006 (CONTINUED)

	<u>Note</u>	<u>2006</u> RM'000	<u>Group</u> <u>2005</u> (Restated) RM'000	<u>2006</u> RM'000	<u>Company</u> <u>2005</u> (Restated) RM'000
NON-CURRENT LIABILITIES					
Long term borrowings	21	225,256	717,633	200,000	717,633
Deferred tax liabilities	26	439,974	499,969	259,216	382,101
Amounts due to subsidiaries	27	0	0	3,242,891	1,741,696
Provision for liabilities	28	64,554	65,000	64,554	65,000
Deferred income		15,580	12,252	15,580	12,252
		<u>745,364</u>	<u>1,294,854</u>	<u>3,782,241</u>	<u>2,918,682</u>
		<u>3,355,723</u>	<u>3,762,777</u>	<u>4,449,515</u>	<u>4,246,551</u>

The summary of significant accounting policies and notes on pages 384 to 450 form part of these financial statements.

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CELCOM (MALAYSIA) BERHAD
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Note	Share capital RM'000	Share premium RM'000	Foreign exchange reserve RM'000	Capital reserves RM'000	Capital contribution RM'000	Retained earnings/ accumulated losses RM'000	Total RM'000	Minority interest RM'000	Total equity RM'000
At 1 January 2005 (as previously stated)		2,619,121	1,048,528	2,184	86	0	6,489	3,676,408	4,779	3,681,187
Adjustment										
Restatement of goodwill amortisation	36	0	0	0	0	0	(13,004)	(13,004)	0	(13,004)
At 1 January 2005 as restated		2,619,121	1,048,528	2,184	86	0	(6,515)	3,663,404	4,779	3,668,183
Capital repayment	24	(261,912)	(738,088)	0	0	0	0	(1,000,000)	0	(1,000,000)
ESOS – Value of employee services	36	0	0	0	0	1,692	0	1,692	0	1,692
Net loss for the year	36	0	0	0	0	0	(202,538)	(202,538)	586	(201,952)
At 31 December 2005 (as restated)		2,357,209	310,440	2,184	86	1,692	(209,053)	2,462,558	5,365	2,467,923

The summary of significant accounting policies and notes on pages 384 to 450 form part of these financial statements.

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CELCOM (MALAYSIA) BERHAD
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**

	Note	Share capital RM'000	Share premium RM'000	Foreign exchange reserve RM'000	Capital reserves RM'000	Capital contribution RM'000	(Accumulated losses)/ Retained earnings RM'000	Total RM'000	Minority interest RM'000	Total equity RM'000
At 1 January 2006 (as previously stated) Adjustment		2,357,209	310,440	2,184	86	0	(187,855)	2,482,064	5,365	2,487,429
ESOS – Value of employee services Restatement of goodwill amortisation	36 36	0	0	0	0	1,692	(1,692)	0	0	0
At 1 January 2006 (as restated) Capital repayment ESOS	24	2,357,209 (589,302)	310,440 (110,698)	2,184 0	86 0	1,692 0	(209,053) 0	2,462,558 (700,000)	5,365 0	2,467,923 (700,000)
- Value of employee services Business combination Net profit for the year		0	0	0	0	6,766	0	6,766	0	6,766
	3(a)/(b)	0	0	0	0	0	(8,415)	(8,415)	23,804	15,389
		0	0	0	0	0	816,388	816,388	3,893	820,281
At 31 December 2006		1,767,907	199,742	2,184	86	8,458	598,920	2,577,297	33,062	2,610,359

The summary of significant accounting policies and notes on pages 384 to 450 form part of these financial statements.

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CELCOM (MALAYSIA) BERHAD
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COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Share capital RM'000	Share premium RM'000	Capital contribution RM'000	Accumulated losses RM'000	Total RM'000
At 1 January 2005		2,619,121	1,048,528	0	(677,304)	2,990,345
ESOS						
- value of employee services	36	0	0	1,692	0	1,692
Net loss for the year	36	0	0	0	(664,168)	(664,168)
Capital repayment	24	(261,912)	(738,088)	0	0	(1,000,000)
At 31 December 2005 (as restated)		<u>2,357,209</u>	<u>310,440</u>	<u>1,692</u>	<u>(1,341,472)</u>	<u>1,327,869</u>
At 1 January 2006 (as previously stated)		2,357,209	310,440	0	(1,339,780)	1,327,869
Adjustment						
ESOS						
- value of employee services	36	0	0	1,692	(1,692)	0
At 1 January 2006 (as restated)		2,357,209	310,440	1,692	(1,341,472)	1,327,869
Capital repayment	24	(589,302)	(110,698)	0	0	(700,000)
ESOS						
- value of employee services		0	0	6,766	0	6,766
Net profit for the year		0	0	0	32,639	32,639
At 31 December 2006		<u>1,767,907</u>	<u>199,742</u>	<u>8,458</u>	<u>(1,308,833)</u>	<u>667,274</u>

The summary of significant accounting policies and notes on pages 384 to 450 form part of these financial statements.

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CELCOM (MALAYSIA) BERHAD
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CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	<u>Note</u>	<u>2006</u>	<u>Group</u> <u>2005</u> (Restated)	<u>2006</u>	<u>Company</u> <u>2005</u> (Restated)
		RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before taxation		1,146,140	55,674	98,358	(386,092)
Adjustments for:					
Depreciation of property, plant and equipment	12	807,962	864,208	473,664	560,238
Allowance for doubtful debts		72,580	149,395	19,589	121,839
Amortisation of goodwill	6	0	115,934	0	0
(Appreciation)/diminution in quoted investment		(540)	428	0	0
Share of losses of associated companies		8,580	4,556	0	0
Gain on disposal of property, plant, and equipment		(1,322)	(3,946)	(457)	(11,897)
Gain on disposal of an associated company	3(c)/(f)	(16,611)	(7,033)	0	(28,384)
Net (reversal)/allowance of impairment losses	12	(3,052)	72,886	(3,533)	32,618
Provision for a Claim	5	0	915,104	0	915,104
ESOS Expenses		6,766	1,692	6,766	1,692
Asset written off		154	0	142	0
Finance cost		67,658	92,265	67,441	92,206
Finance income		(55,771)	(60,445)	(60,767)	(69,250)
		<u>2,032,544</u>	<u>2,200,718</u>	<u>601,203</u>	<u>1,228,074</u>
(Increase)/decrease in inventories		(2,426)	1,471	0	12,276
(Increase)/decrease in receivables		(85,122)	(57,616)	(41,326)	129,797
(Decrease)/increase in payables		(819,678)	324,750	(993,538)	68,670
Increase in balances with subsidiaries		0	0	1,501,196	946,045
Decrease in balances with associated companies		(1,165)	(15,489)	(1,165)	(15,489)
(Decrease)/increase in balances in amount due to holding company		(105,891)	17,034	(81,856)	104,705
		<u>1,018,262</u>	<u>2,470,868</u>	<u>984,514</u>	<u>2,474,078</u>
Cash generated from operations		1,018,262	2,470,868	984,514	2,474,078
Interest and profit on Islamic Private Debt Securities paid		(78,758)	(97,290)	(73,516)	(97,231)
Taxes paid		(157,225)	(120,135)	(90,476)	(121,000)
		<u>782,279</u>	<u>2,253,443</u>	<u>820,522</u>	<u>2,255,847</u>
Net cash generated from operating activities		<u>782,279</u>	<u>2,253,443</u>	<u>820,522</u>	<u>2,255,847</u>

The summary of significant accounting policies and notes on pages 384 to 450 form part of these financial statements.

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CELCOM (MALAYSIA) BERHAD
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CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

	Note	2006	Group 2005 (Restated)	2006	Company 2005 (Restated)
		RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Additional investment in a subsidiary/associated company	3(a)&(b)	(15,342)	0	(12,600)	0
Interest received		50,875	60,445	55,862	69,250
Purchase of property, plant and equipment		(857,123)	(732,684)	(834,224)	(701,131)
Proceeds from disposal of property, plant and equipment		27,851	41,142	459	8,299
Proceeds from disposal of an associated company	3(c)	22,121	0	0	0
Net cash used in investing activities		(771,618)	(631,097)	(790,503)	(623,582)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of hire purchase and finance lease		(7,651)	(7,651)	(7,651)	(7,651)
Drawdown of borrowing		10,000	0	0	0
Drawdown of hire purchase		6,508	0	0	0
Repayment of borrowings		(413,750)	(347,500)	(413,750)	(347,500)
Capital repayment	24	(700,000)	(1,000,000)	(700,000)	(1,000,000)
Net cash used in financing activities		(1,104,893)	(1,355,151)	(1,121,401)	(1,355,151)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,094,232)	267,195	(1,091,382)	277,114
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,295,356	2,028,161	2,288,331	2,011,217
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	20	1,201,124	2,295,356	1,196,949	2,288,331

The summary of significant accounting policies and notes on pages 384 to 450 form part of these financial statements.

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CELCOM (MALAYSIA) BERHAD
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2006**

Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements.

A BASIS OF PREPARATION

The financial statements of the Group and Company have been prepared in accordance with Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the provisions of the Companies Act, 1965.

The financial statements of the Group and Company have been prepared under the historical cost convention modified by the revaluation of certain properties, as disclosed in the summary of significant accounting policies.

The preparation of financial statements in conformity with Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and provisions of the Companies Act 1965 requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also required the Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates and judgement are based on Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

(a) Standards, amendments to published standards and interpretations that are effective

The new accounting standards, amendments to published standards and IC Interpretations to the existing standards effective for the Group's financial period beginning 1 January 2006 are as follows:

FRS 1	First-time Adoption of Financial Reporting Standard
FRS 2	Share-based Payments
FRS 3	Business Combinations
FRS 5	Non-Current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property
	Amendment to FRS 119 ₂₀₀₄ Employee Benefits – Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures – in relation to the “asset ceiling” test

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CELCOM (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

- (a) Standards, amendments to published standards and interpretations that are effective (continued)

IC 107	Introduction to Euro
IC 110	Government Assistance – No specific relation to Operating Activities
IC 112	Consolidation – Special Purpose Entities
IC 113	Jointly Controlled Entities – Non-Monetary Contributions by Venturers
IC 115	Operating Leases – Incentives
IC 121	Income Taxes – Recovery of Revalued Non-Depreciable Assets
IC 125	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
IC 127	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IC 129	Disclosure – Service Concession Arrangements
IC 131	Revenue – Barter Transactions Involving Advertising Services
IC 132	Intangible Assets – Website costs

All changes in accounting policies have been made in accordance with the transition provisions in the respective standards, amendments to published standards and interpretations. All standards, amendments and interpretations (which are applicable) adopted by the Group require retrospective application other than:

FRS 2 – retrospective application for all equity instruments granted after 31 December 2004 and not vested at 1 April 2006;

FRS 3 – prospectively for business combinations for which the agreement date is or on after 1 January 2006;

FRS 5 – prospectively to non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and to operations that meet the criteria to be classified as discontinued on/after 1 April 2006;

FRS 116 – the exchange of property, plant and equipment is accounted at fair value prospectively;

FRS 121 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

A summary of the impact of the new accounting standard, amendments to published standards and interpretations to existing standards on the financial statements of the Group are set out in Note 35.

- (b) Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted.

The new standards, amendments to published standards and interpretations that are mandatory for the Group's financial periods beginning on or after 1 January 2007 or later periods, but which the Group has not early adopted, are as follows:

- FRS 117 Leases (effective for accounting periods beginning on or after 1 October 2006). This standard requires the classification of leasehold land as prepaid lease payments. The Group will apply this standard from financial periods beginning on 1 January 2007.
- FRS 124 Related Party Disclosures (effective for accounting periods beginning on or after 1 October 2006). This standard will affect the identification of related parties and some other related party disclosures. The Group will apply this standard from financial periods beginning 1 January 2007.

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A BASIS OF PREPARATION (CONTINUED)

- (b) Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted (continued)
- FRS 139 Financial Instruments: Recognition and Measurement (effective date yet to be determined by Malaysian Accounting Standards Board). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Group will apply this standard when effective.
- (c) Standards that are not yet effective and not relevant for the Group's operations
- FRS 6 Exploration for and Evaluation of Mineral Resources (effective for accounting periods beginning on or after 1 January 2007). FRS 6 is not relevant to the Group's operations as the Group does not carry out exploration for and evaluation of mineral resources.
 - Amendment to FRS 119₂₀₀₄ Employee Benefits – *Actuarial Gains and Losses, Group Plans and Disclosures* (effective for accounting periods beginning on or after 1 January 2007). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. This amendment is not relevant to the Group.

B GROUP ACCOUNTING

(i) Subsidiaries

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to the end of the year. Subsidiaries are those corporations, partnerships or other entities in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated using the purchase method of accounting except for certain business combinations as disclosed in Note 13 which were accounted for using the merger method as follows:-

- Subsidiaries that were consolidated prior to 1 April 2002 in accordance with Malaysian Accounting Standard 2 "Accounting for Acquisitions and Mergers", the generally accepted accounting principles prevailing at that time
- Business combinations consolidated on/after 1 April 2002 but with agreement dates before 1 January 2006 that meet the conditions of a merger as set out in FRS122₂₀₀₄ "Business Combinations"

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

B GROUP ACCOUNTING (CONTINUED)

(i) Subsidiaries (continued)

- Internal group reorganisations, as defined in FRS122₂₀₀₄, consolidated on/after 1 April 2002 but with agreement dates before 1 January 2006 where:
 - the ultimate shareholders remain the same, and the rights of each shareholder, relative to the others are unchanged; and
 - the minorities' share of net assets of the Group is not altered by the transfer
- business combinations involving entities or businesses under common control with agreement dates on/after 1 January 2006

The Group has taken advantage of the exemption provided by FRS122₂₀₀₄ and FRS 3 to apply these Standards prospectively. Accordingly, business combinations entered prior to the respective effective dates have not been restated to comply with these Standards.

Under the purchase method of accounting, subsidiaries are fully consolidated from the date of which control is transferred to the Group and are de-consolidated from the date that control ceased. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is reflected as goodwill. See the accounting policy Note (C) on goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Minority interest represents that portion of the profit and loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since that date. Separate disclosure is made for minority interest.

Where more than one exchange transaction is involved, any adjustment to the fair values of the subsidiary's identifiable assets, liabilities and contingent liabilities relating to previously held interests of the Group is accounted for as a revaluation.

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B GROUP ACCOUNTING (CONTINUED)

(i) Subsidiaries (continued)

Under the merger method of accounting, the results of subsidiaries are presented as if the merger had been effected throughout the current and previous years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the cost of the merger is cancelled with the values of the shares received. Any resulting credit difference is classified as equity and regarded as a non-distributable reserve. Any resulting debit difference is adjusted against any suitable reserve. Any share premium, capital redemption reserve and any other reserves which are attributable to share capital of the merged enterprises, to the extent that they have not be capitalised by a debit difference, are reclassified and presented as movement in other capital reserves.

Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the subsidiary in the consolidated income statement.

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(ii) Associates

Associates are those corporations, partnerships or other entities in which the Group exercises significant influence, but which it does not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not the power to exercise control over those policies.

Investments in associates are accounted for in the consolidated financial statements by using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, net any accumulated impairment loss.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

B GROUP ACCOUNTING (CONTINUED)

(ii) Associates (continued)

The Group's share of post-acquisition profits or losses is recognized in the income statement and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying value of investment. When the Group's share of losses in the associate equals or exceeds its interest in the associate, including any other unsecured obligations, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate; unrealised losses are also eliminated unless the transaction provides evidence on impairment of the asset transferred. Where necessary, in applying the equity method, adjustments are made to the financial statements of associates to ensure consistency of accounting policies with those of the Group.

C GOODWILL

Goodwill represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable net assets including contingent liabilities of subsidiaries and associates at the date of acquisition. Goodwill on acquisition occurring on or after 1 January 2002 in respect of a subsidiary is included in the consolidated balance sheet as intangible asset or, if arising in respect of an associate, is included in investments in associates.

In 2002, the Directors have assessed the existing goodwill in conjunction with the restructuring of the Celcom Group, and have made the decision to change the accounting policy to write off the goodwill in subsidiaries previously accounted for in the balance sheet against reserves.

Goodwill on acquisitions of subsidiaries arising on or after 1 January 2003 are included in the balance sheet and is amortised using the straight line method over its estimated useful life.

As at 1 January 2006, in accordance with the provision of FRS 3;

- the Group ceased amortization of goodwill from 1 January 2006;
- accumulated amortization as at 31 December 2005 has been eliminated with a corresponding decrease in the cost of goodwill;
- from the period of 1 January 2006 onwards, goodwill is capitalised and stated at cost less accumulated impairment. Capitalised goodwill is tested for impairment at least annually, or if events or circumstances occur indicating that an impairment may exist. Impairment of goodwill is charged to consolidated income statement as and when it arises. Impairment losses on goodwill are not reversed. Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

C GOODWILL (CONTINUED)

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each cash-generating unit represents the lowest level within the Group at which goodwill is monitored for internal management purposes and which are expected to benefit from the synergies of the combination.

Goodwill on acquisitions of associates is included in investments in associates. Such goodwill is tested for impairment as part of the overall balance.

D PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses.

(i) Cost

Cost of telecommunication network includes cost of equipments, site surveys, contractors' charges, materials and related overheads. The cost of other property, plant and equipment comprises their purchase cost and any incidental cost of acquisition. These costs include the costs of dismantling, removal and restoration, the obligation incurred as a consequence of installing the asset.

Subsequent cost are included in the carrying amount of the asset or recognised as appropriate only when it is probable that the future economic benefit associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Other repairs and maintenance are charged to the income statement during the period in which they are incurred.

The land and building of a subsidiary held at valuation has not been revalued since it was first revalued in 1988. The Directors have not adopted a policy of regular revaluation of such assets. As permitted under the transitional provision of FRS 116 "Property, Plant and Equipment", these assets continue to be stated at their 1988 valuation less accumulated depreciation.

(ii) Depreciation

Freehold land is not depreciated as it has an infinite life. Other property, plant and equipment are depreciated on straight-line basis to write off the cost of the assets to their residual values over estimated useful lives. The assets' residual values and useful lives are reviewed and adjusted as appropriate at each balance sheet date.

Freehold land is not depreciated as it has an infinite life. Leasehold land is depreciated on a straight line basis over the period of the respective leases which range from 21 years to 99 years. Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost or valuation of each asset to its residual value over the estimated useful lives. Depreciation on assets under construction or capital work-in-progress commence when the assets are ready for their intended use. The assets' residual values and useful lives are reviewed and adjusted as appropriate at each balance sheet date.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

D PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (CONTINUED)

(ii) Depreciation (continued)

The estimated useful lives in years assigned to other property, plant and equipment are as follows:

Buildings	2%
Furniture, fittings, office equipment, motor vehicle and renovation	10% - 33 1/3%
Telecommunication network and equipment	5% - 20%

Residual values and useful lives of asset are reviewed, and adjusted if appropriate, at each balance sheet date. The Group revised the useful lives of certain telecommunication network and equipment from 20 years and 15 years to 10 years. The revision was accounted for as a change in accounting estimates and had increased the current year depreciation charge for the Group and Company by RM59,341,090 and RM42,575,160 respectively.

(iii) Impairment

At each balance sheet date, the Group assesses whether there is an indication of impairment of a category of asset exist. If such indications exist, the carrying amount of the category of assets is revisited, and if found to be in excess of recoverable amount, it is written down immediately to its recoverable amount. See Significant Accounting Policies Note (F) on Impairment of Assets.

(iv) Gains or Losses on Disposal

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

(v) Asset exchange transaction

Property, plant and equipment may be acquired in exchange for a non-monetary asset or a combination of monetary and non-monetary assets and is measured at fair values unless;

- (a) the exchange transaction lacks commercial substance; or
- (b) the fair value of neither the assets received nor the assets given up can be measured reliably.

The acquired item is measured in this way even if the Group cannot immediately derecognised the assets given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

E INVESTMENT

(i) Subsidiaries and associated companies

The investments in subsidiaries and associated companies are shown at cost. Where an indication of impairment exists, the carrying value of the investment is assessed and written down immediately to its recoverable amount. See Note (F) on impairment of assets.

On disposal of an investment, the difference between net disposal proceeds and the carrying amount is charged or credited to the income statement.

(ii) Other non-current investments

Other non-current investments are shown at cost and an allowance for any permanent diminution in value is made where, in the opinion of the Directors, there is a decline other than temporary in the value of the investments. Such allowance is made when there is a decline other than temporary in the value of the investments, and recognised as an expense in the year in which the decline is identified.

(iii) Marketable securities (current investments)

Marketable securities are carried at the lower of cost and market value, determined on an aggregate portfolio basis by category of investment. Cost is derived at on the weighted average basis. Market value is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date. Increase/decrease in the carrying amount of marketable securities is credited/charged to the income statement.

On disposal of an investment, the difference between net disposal proceeds and the carrying amount is charged/credited to the income statement.

F IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or events or circumstances occur indicating that an impairment may exist. Property, plant and equipment and other non-current assets, including intangible assets with definite useful life, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units). Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognized in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

G LEASES

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership. All other leases are classified as operating leases

(i) Finance leases

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases.

Finance leases is recognised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a periodic constant rate of interest on the balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance charge is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability of each period.

Property, plant and equipment acquired under finance leases is depreciated over useful life of the asset.

(ii) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on the straight line basis over the lease period.

H INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost includes the actual cost of materials and incidentals in bringing the inventories to their present location and condition, and is determined on the first in first out basis. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution. In arriving at net realisable value, due allowance is made for obsolete, slow moving or defective stocks.

I TRADE AND OTHER RECEIVABLES

Trade receivable are carried at invoice amount less an allowance for doubtful debts. The allowance is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. An allowance for doubtful debts is based on a review of all outstanding amounts as at the balance sheet date. Other receivables are carried at anticipated realisable values. Bad debts are written off when identified.

J CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand and at banks, deposits held at call with banks and short-term highly liquid investments.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

K SHARE CAPITAL

Ordinary shares with discretionary dividends are classified as equity. Costs of issuing equity securities in connection with a business combination are included in the cost of acquisition. Costs attributable to issuance of equity securities for other purposes are shown in equity as a deduction, net of tax, from the proceeds.

Dividends are recognised as a liability in the period in which they are declared.

L INTEREST-BEARING BORROWINGS

Borrowings are initially recognised based on the proceeds received, net of transaction costs incurred. In the subsequent period, borrowings are stated at cost less repayment made during the year.

Borrowing costs are charged to the income statement as an expense in the period in which they have accrued. In subsequent periods, borrowings are stated at cost less repayment made during the year.

Borrowings are classified as current liabilities unless the Group has unconditional right to defer settlement of the liability for least 12 months after the balance sheet date.

M INCOME TAXES

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and include all taxes based upon the taxable profits and real property gains taxes payable on disposal of properties.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at that time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or unused tax losses can utilised.

Deferred tax is recognised on temporary differences arising on investments in subsidiaries and associates except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax. Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or deferred tax liability is settled.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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N EMPLOYEE BENEFITS

(i) Short term employee benefits

Wages, salaries paid, annual leave and sick leave, bonuses and non monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

(ii) Defined contributions plan

Group companies incorporated in Malaysia contribute to the Employees' Provident Fund, the mutual defined contribution plan. Once the contributions have been paid, the Group has no further payment obligations. The Group's contribution to the Employees' Provident Fund are charged to the income statement in the financial year to which they relate.

(iii) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(iv) Share-based compensation

The Group's eligible employees are entitled for Telekom Malaysia Berhad ("TM") Employees' Share Option Scheme ("ESOS"). The Group has applied the provision of FRS 2 to all equity instruments granted after 31 December 2004 but not fully vested as at 1 January 2006, the effective date the Group adopted this FRS.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the Groups income statement.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable.

As ESOS covers both the selected employees of TM and its subsidiaries, the respective subsidiaries will bear all costs and expenses in any way, arising out of, or connected with, the grant or vesting of the options to their employees. Options to which the grantees are not qualified to exercise shall lapse, be null and void.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**

N EMPLOYEE BENEFITS (CONTINUED)

(iv) Share-based compensation (Continued)

The Group and Company recognizes the expense in the income statement, and a corresponding adjustment to capital contribution. Revision of original estimates, if any will be recognized in the income statement, and the corresponding adjustment to capital contribution over the remaining vesting period.

O DEFERRED REVENUE

Deferred revenue comprises

- (i) The unutilised balance of airtime and access fee in respect of prepaid cards sold to customers. Such revenue amounts are recognised as revenue upon utilisation of airtime and activation of access rights by the customer.
- (ii) The value of advance billings made to customers in respect of the rental of fibre optic network. Such amounts are recognised as revenue systematically over the period covered by the advance billings.

P PROVISION FOR LIABILITIES

Provision for liabilities are mainly, provisions for dismantling, removal or restoration are recognised when the Group and Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. Provisions are not recognised for future operating losses.

Q GOVERNMENT GRANTS

As a Universal Service Provider ("USP"), the Group is entitled to claim certain qualified expenses from the relevant authorities in relation to USP projects. The claim qualifies as a government grant and are recognised at fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of assets are included in non-current liabilities as deferred income and are credited to the income statement on the straight line basis over the expected life of the related assets.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

R REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably as follows:

- (i) Revenues from mobile telephony interconnection and other network based services are recognised based on actual traffic volume net of rebates/discounts;
- (ii) Revenue from sales of prepaid starter packs and prepaid phone cards are deferred and recognised as revenue based on the actual use of the cards net of service tax and discounts. Any amounts not recognised are deferred up to a maximum of 100 days from the expiry of airtime and network access, after which such amounts will be recognised as revenue.
- (iii) Revenue from the provision of network services to related companies are recognised on an accrual basis based on a cost plus formulae.
- (iv) Interest income includes interest from deposits with licensed banks, finance companies and other financial institutions and are recognised on an accrual basis
- (v) All other revenues are recognised net of rebates/discounts upon the rendering of services or sale of products, when the transfers of risks and rewards have been completed.

S FOREIGN CURRENCIES

- (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

- (ii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognised as a separate component of equity.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

S FOREIGN CURRENCIES (CONTINUED)

(ii) Group companies (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(iii) Transactions and balances

Foreign currency transactions are accounted for at the exchange rates prevailing at the transaction dates. Foreign currency monetary asset and liabilities are translated at exchange rates prevailing at the balance sheet date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

T FINANCIAL INSTRUMENTS

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. The particular recognition method adopted for financial instrument recognised in the balance sheet is disclosed in the individual accounting policies associated with each item.

The Group, where the need arises, uses derivative financial instruments to hedge its exposure to foreign exchange arising from financing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

In assessing the value of financial instruments for disclosure purposes, the Group refers to traded market values or applies the discounted cash flow method to discount future cash flows to determine their fair value. The fair values of financial liabilities are estimated by discounting future cash flows at current market interest rate available to the Group.

The fair values for financial assets and liabilities with a maturity period of less than one year are assumed to approximate their net carrying amounts.

All financial instruments are denominated in Ringgit Malaysia except as disclosed in the individual notes to the financial statements.

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CELCOM (MALAYSIA) BERHAD
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

1 GENERAL INFORMATION

The Company is principally involved in the provision of network capacity and services. The principal activities of the Group consist of the provision of mobile communication services and network transmission related services.

The principal activities of the subsidiaries are as stated in Note 13 to the financial statements.

The address of the registered office of the Company is 15th Floor, Menara Celcom, No 82, Jalan Raja Muda Abdul Aziz, 50300 Kuala Lumpur.

The ultimate holding company of the Group is Telekom Malaysia Berhad, a company incorporated in Malaysia and listed on the Main Board of the Bursa Malaysia Securities Berhad.

The Company is a public limited company, incorporated and domiciled in Malaysia.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2.1 Critical accounting estimates and assumptions

The Group and Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:-

(a) Estimated impairment of goodwill

The Group tests goodwill for impairment annually, in accordance with the accounting policy stated in Significant Accounting Policies in Note (C). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as set out in Note 16.

(b) Income Taxes

The Group is subject to income tax under the Malaysian Income Tax Act 1967 (ACT 53) (the "Act"). In arriving to the Group provisioning of income tax, judgement is involved in determining the computation amongst others in the quantifying of allowable deductible expenses under the Act namely capital allowances, previous years business losses and uncollectible revenue or bad debts. Ultimate tax determination is uncertain subject to the Inland Revenue Board's final assessment. The Group recognises liabilities for expected tax issues based on estimates and judgement of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.1 Critical accounting estimates and assumptions (Continued)

(c) Plant and Machinery

The residual value and the useful life of the telecommunication network and equipment are reviewed at each financial year end. The review is based on factors such as business plans and strategies, expected level of usage and future technology changes. Significant changes in technology may result in the change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset.

(d) Share based payments

Equity-settled share based payments are measured at fair value at the date of the grant. The Group revises the estimated number of performance shares that participants are expected to receive based on non-market vesting conditions at each balance sheet date. The assumption of the valuation model used to determine fair value is set out in Note 8.

3 SIGNIFICANT ACQUISITIONS AND DISPOSALS

- (a) On 28 April 2006, the Company through its wholly owned subsidiary, Celcom Transmission (M) Sdn Bhd ("Celcom Transmission") acquired an additional 7,500,000 ordinary shares of RM1.00 each in Fibrecomm Network Sdn Bhd ("Fibrecomm") equivalent to 10% equity interest in Fibrecomm for a cash consideration of RM7,441,000. As a result, Fibrecomm, an associate, became a subsidiary of Celcom Transmission, and the Group's shareholding in Fibrecomm increased from 41% to 51%.

Details of net assets acquired and goodwill at the date of acquisition are as follows:

	<u>At date of acquisition</u> RM'000
Purchase consideration discharged by cash	7,441
Fair value of share of net assets acquired	(6,026)
	<hr/>
Goodwill (Note 16)	1,415
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

3 SIGNIFICANT ACQUISITIONS AND DISPOSALS (CONTINUED)

The initial accounting for this business combination has been completed.

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount <u>RM'000</u>	<u>Fair Value</u> RM'000
Property, plant and equipment	145,426	145,426
Current assets		
Trade debtors	22,897	23,089
Deferred taxation	0	900
Other debtors	2,284	2,284
Cash and bank balances	4,699	4,699
Current liabilities		
Trade creditors	(61,983)	(62,170)
Other creditors	(29,292)	(29,292)
Deferred revenue	(5,133)	(5,133)
Non current liabilities		
Short term borrowings	(14,714)	(12,667)
Long term liabilities	(6,856)	(6,865)
Net assets	<u>57,328</u>	<u>60,271</u>
Less : Minority interest	(29,533)	
Less : Amount accounted for as an associate as at 29 April 2006	(24,712)	<u>(54,245)</u>
Net asset acquired as at 29 April 2006		<u>6,026</u>
Purchase consideration settled in cash		7,441
Less: Cash and cash equivalents of subsidiary acquired		<u>(4,699)</u>
Cash outflow of the Group on acquisition		<u>2,742</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

3 SIGNIFICANT ACQUISITIONS AND DISPOSALS (CONTINUED)

- (b) On 24 November 2006, the Company acquired an additional 1,400,000 ordinary shares of RM1.00 each in Celcom Timur (Sabah) Sdn Bhd ("CTSB") equivalent to 20% equity interest in CTSB from Hugold Success Sdn Bhd ("HSSB") ("Sale Shares") for a cash consideration of RM12,600,000. As a result the Group's shareholding in CTSB increased from 60% to 80%.

In consideration of HSSB selling and the Company purchasing the Sale Shares, the Company had agreed to grant to HSSB a put option right in respect of HSSB's remaining 700,000 ordinary shares of RM1.00 each representing 10% of the equity interest in CTSB ("Put Option Shares") subject to the terms and conditions of the Put Option Agreement between HSSB and the Company dated 24 November 2006 ("Put Option Agreement").

The put option granted under the Put Option Agreement is exercisable by HSSB after one year from the date of the Put Option Agreement and shall be valid for a period of three months therefrom ("Validity Period"). The put option shall be deemed lapse in the event HSSB fails to exercise the put option within the Validity Period specified in the Put Option Agreement.

Details of the net assets acquired and the difference between the purchase consideration and share of net assets of CTSB at acquisition date are as follows:

	RM'000
Purchase consideration settled in cash	12,600
Less: Carrying value of share of net assets acquired	(4,185)
	<hr/>
Difference between purchase consideration and share of the carrying value of net asset acquired, charged to reserves	8,415
	<hr/> <hr/>

The acquisition did not have a significant impact to the Group and Company.

- (c) On 3 August 2006, the Company through its wholly owned subsidiary, Technology Resources Industries Berhad ("TRI"), had disposed off its entire equity interest in its associated company, Mobile Telecommunications Company of Esfahan ("MTCE") (J.V. - P.J.S.) to TM International (L) Limited, for a cash consideration of USD6 million (RM22,120,800).

The disposal had resulted in a gain on disposal to the Group and TRI of RM16,610,612 and RM22,120,800 respectively for the year ended 31 December 2006.

- (d) The Ministry of Commerce of Cambodia vide its Letter of Confirmation dated 2 October 2006 approved the deletion of TRI Cellular Communications Cambodia Company ("TRICELCAM"), a joint venture company between TRI and the Ministry of Posts and Telecommunications of Cambodia ("MPTC") from the trade list upon the date of signing of the above letter. Consequently, TRICELCAM ceased to be a subsidiary of the company from 2 October 2006. The dissolution of TRICELCAM did not have a significant impact to the Group and Company.

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3 SIGNIFICANT ACQUISITIONS AND DISPOSALS (CONTINUED)

(e) Malaysian Motorhomes Sdn Bhd was dissolved pursuant to Section 239 (a), (c) and (d) of the Companies Act, 1965 effective 3 November 2006. The dissolution did not have a significant impact to the Group and Company.

(f) In the previous financial year, the Company disposed off its entire shareholding in Celcom Timur Sarawak Sdn Bhd ("Celcom Timur Sarawak") to Sarawak Electricity Supply Corporation ("SESCO") and Sacofa Sdn Bhd ("Sacofa"). The total consideration for the disposal of 15,000,000 ordinary shares of RM1.00 each amounted to RM43,384,000 comprising:-

(i) The disposal to SESCO of 8,212,270 ordinary shares of RM1.00 each equivalent to 32.85% interest for a total consideration of RM23,752,000, satisfied by the novation to SESCO of an outstanding debt of the same amount owed by the Company to Celcom Timur Sarawak.

(ii) The disposal to Sacofa of the remaining 6,787,730 ordinary shares for a total consideration of RM19,632,000, satisfied by the allotment and issuance of 9,815,940 ordinary shares of RM1.00 each credited as fully paid up capital and calculated at RM2.00 per ordinary share in Sacofa to the Company.

The disposal had resulted in a gain on disposal to the Group and Company of RM7,033,000 and RM28,384,000 respectively for the year ended 31 December 2005.

(g) The Company had acquired an initial 16.05% interest in Sacofa following the transaction in 3(f) (ii) above. Subsequently on 28 September 2005, the Company's interest in Sacofa was increased to 20% upon completion of the Tower Sale Agreement dated 9 March 2005 between the Company and Sacofa for the disposal of 12 communication towers owned by the Company to Sacofa for a consideration of RM6,036,774. The disposal had resulted in a gain on disposal to the Group and Company of RM3,889,000 for the financial year ended 31 December 2005.

4 REVENUE

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	RM'000	RM'000	RM'000
Telecommunication:				
Mobile	4,444,743	4,413,994	0	2,687,883
Network Charges	0	0	1,615,290	267,527
Others	81,267	81,574	25,210	60,591
	<u>4,526,010</u>	<u>4,495,568</u>	<u>1,640,500</u>	<u>3,016,001</u>

Network charges are derived from the provision of network capacity and services rendered to Celcom Mobile Sdn Bhd ("Celcom Mobile").

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NOTES TO THE FINANCIAL STATEMENTS
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5 PROVISION FOR A CLAIM

The previous year provision for claim comprise the potential satisfaction of the DeTeAsia Holdings GmbH which comprise arbitration costs, legal, interest, other related costs and tax thereon.

6 OTHER OPERATING EXPENSES

	Group		Company	
	<u>2006</u>	<u>2005</u> (Restated)	<u>2006</u>	<u>2005</u> (Restated)
	RM'000	RM'000	RM'000	RM'000
Interconnect outpayments	681,903	622,755	105,053	529,022
Staff cost (Notes 6(a), (b) and (c))	231,005	254,423	148,733	182,631
Asset written-off	154	0	142	0
Directors' remuneration (Note 7)	1,009	1,296	1,009	1,296
Allowance for doubtful debts (net of recoveries)	72,580	149,395	19,589	121,839
Amortisation of goodwill	0	115,934	0	0
Marketing, advertising and promotion costs	475,316	471,521	52,043	292,137
Rental of premises	165,001	145,389	157,016	141,022
Rental of motor vehicles and equipment	8,481	3,030	8,481	3,029
Universal Service Provision/Obligation contribution	217,188	178,321	138,671	131,455
Cost of SIM and recharge cards	57,919	62,215	0	27,972
Auditors' remuneration				
- statutory audit fees	538	624	275	301
(Appreciation)/diminution in quoted investment	(540)	428	0	0
Gain on disposal of property, plant and equipment (Note 6 (d))	(1,322)	(3,946)	(457)	(11,897)
Realised loss on foreign exchange	1,529	0	1,062	0
Other operating expenses	676,464	570,556	443,586	489,911
	<u>2,587,225</u>	<u>2,571,941</u>	<u>1,075,203</u>	<u>1,908,718</u>

(a) Included in staff cost are contribution to the Employee Provident Fund, the national defined contribution plan ("EPF") amounting to RM20,618,000 (2005: RM19,765,000) and RM12,844,000 (2005: RM14,903,000) in respect of the Group and the Company respectively.

(b) The previous year staff cost included cost of a Voluntary Separation Scheme implemented by the holding company amounting to RM32,544,000 and RM19,661,000 in respect of the Group and the Company respectively.

(c) Included in staff cost are provision for ESOS charge allocated by Telekom Malaysia Berhad to the Company and Group amounting to RM6,766,000. (2005: RM1,692,000).

(d) Included in the gain on disposal of property, plant and equipment in the Group and Company in the previous year is the gain on disposal of communication towers to Sacofa as disclosed in Note 3(g) amounting RM3,889,000.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

7 DIRECTORS' REMUNERATION

The aggregate amount of emoluments receivable by Directors of the Company during the year was as follows:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Executive:				
Salaries	628	208	628	208
EPF	45	24	45	24
ESOS charge	29	0	29	0
Estimated money value of benefits	6	2	6	2
	<u>708</u>	<u>234</u>	<u>708</u>	<u>234</u>
Non-executive:				
Fees	240	240	240	240
Allowances	67	76	67	76
Estimated money value of benefits	13	6	13	6
	<u>320</u>	<u>322</u>	<u>320</u>	<u>322</u>
Former Directors of the Company				
Executive:				
Salaries	0	748	0	748
Estimated money value of benefits	0	103	0	103
	<u>0</u>	<u>851</u>	<u>0</u>	<u>851</u>
Analysis excluding estimated money value of benefits				
Total executive directors' remuneration excluding estimated money value of benefits	702	980	702	980
Total non-executive directors' remuneration excluding estimated money value of benefits	307	316	307	316
	<u>1,009</u>	<u>1,296</u>	<u>1,009</u>	<u>1,296</u>

The executive and non-executive interest in shares and options are disclosed in the directors benefits section of the Director's Report.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

8 SHARE BASED COMPENSATION

Background of Share-Based Compensation Scheme

ESOS 3

The holding company ('TM') existing share option scheme 3 (ESOS 3), in which certain employees of the Company is entitled to, was approved by TM shareholders at an Extraordinary General Meeting held on 21 May 2002. Options to subscribe for ordinary shares of RM1 each under ESOS 3 was granted in various phases, as follows:

<u>Scheme</u>	<u>Grant date</u>	<u>Granted to</u>	<u>Number of options granted to the Group ('000)</u>	<u>Exercise price</u>
ESOS 3 (phase 1)	1 August 2002	Executives and Non-executives	259,014	7.09
ESOS 3 (phase 2)	6 September 2005	Executives and Non-Executives	19,439	9.22
ESOS 3 (phase 3)	18 December 2006	Executives and Non-Executives	5,461	8.69

Performance Linked Employee Option Scheme ("PLES")

On 6 September 2005, TM also implemented a PLES for Senior Management of TM and its subsidiaries. The scheme is an extension of the existing ESOS 3 and expires on 31 July 2007.

The maximum number of PLES options granted and the vesting period is as follows:

<u>Performance Condition</u>	<u>Maximum options allocated/Vesting period</u>			<u>Total</u>
	<u>1/5/2005</u>	<u>1/5/2006</u>	<u>1/5/2007</u>	
Current year performance (2004, 2005 and 2006)	5,991,200	5,991,200	5,991,200	17,973,600
Aggregated performance for 2004-2006	-	-	11,982,400	11,982,400
Total	5,991,200	5,991,200	17,973,600	29,956,000

Options granted under PLES are conditional grants and are based on the performance of the Group and individuals for the respective years preceding the vesting period. Options under PLES have an exercise price of RM10.24.

In respect of PLES, the number of options that a grantee may exercise will be notified to the grantee through a Letter of Notification after the end of the respective financial years.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

8 SHARE BASED COMPENSATION (CONTINUED)

General features of ESOS 3 and PLES

- (i) The eligibility for participation in ESOS is at the discretion of the Option Committee appointed by the TM Board of Directors.
- (ii) The total number of shares to be offered shall not exceed 10% of the total issued and paid-up shares of TM.
- (iii) No option shall be granted for less than 100 shares nor more than 1,200,000 shares unless so adjusted pursuant to item (v) below.
- (iv) The subscription price of each RM1 share shall be the average of the middle market quotation of the shares as shown in the daily official list issued by the Bursa Malaysia Securities Berhad for the five (5) trading days preceding the date of offer with a 10% discount, except for PLES options, which were granted without discount.
- (v) In the event of any alteration in capital structure of TM during the option period which expires on 31 July 2007, such corresponding alterations shall be made in:
 - (i) the number of new shares in relation to ESOS so far as unexercised;
 - (ii) and/or the subscription price.

Specific features of ESOS 3 (excluding PLES)

- (vi) Subject to item (v), an employee may exercise their options subject to the following limits:
 - (a) In respect of any options granted and remain unexercised prior to 17 May 2005, being the effective date of the 2005 amendments to the ESOS by-law:

Number of options granted	Percentage of options exercisable (%)				
	Year 1	Year 2	Year 3	Year 4	Year 5
Below 20,000	100	-	-	-	-
20,000 – 99,999	*40	30	**30	-	-
100,000 and above	20	20	20	20	20

* 40% or 20,000 options, whichever is higher

** 30% or the remaining number of options unexercised

- (b) In respect of options granted after 17 May 2005, the number of options which a grantee may exercise in a relevant year shall be evenly distributed over the number of unexpired years of the scheme, as calculated on the date of acceptance of the option, save as determined otherwise by the Options Committee.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**

8 SHARE-BASED COMPENSATION (CONTINUED)

The movement during the year in the number of options over the ordinary shares of RM1 each of TM, in which the employees of the Company is entitled to, is as follows:

Option Scheme	Exercise Price	At 1 January 2006	Granted	Adjusted	Exercised	Lapsed	At 31 December 2006	Fair value at grant date
ESOS 3 (Phase 1)	7.09	714,000	0	0	212,000	0	502,000	~*
ESOS 3 (Phase 2)	9.22	9,329,900	0	0	15,500	0	9,314,400	1.61
PLES 1	10.24	69,400	0	0	0	34,700	34,700	1.14
ESOS 3 (Phase 3)	8.69	726,000	0	0	0	40,000	686,000	1.07
Total		10,839,300	0	0	227,500	74,700	10,537,100	

The Group has applied the provision of FRS 2 to all equity instruments granted after 31 December 2004 but not fully vested as at 1 January 2006, the effective date the Group adopted this FRS.

* FRS 2 not applicable for these transactions

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8 SHARE-BASED COMPENSATION SCHEME (CONTINUED)

Details relating to options exercised during the year are as follows:

Exercise date	Fair value of shares at share issue date RM/share	Exercise price/Number of options exercised ('000)			
		RM7.09	RM8.02	RM9.32	RM9.22
<u>2006</u>					
January to May 2006	9.50 - 9.95	2,292.0	-	42.0	41.5
June to October 2006	8.90 - 9.10	1,687.0	1.0	-	-
November to December 2006	9.30 - 9.70	2,016.0	-	4.0	56.0
		<u>5,995.0</u>	<u>1.0</u>	<u>46.0</u>	<u>97.5</u>
<u>2005</u>					
January 2005	11.35	2,209.0	7.0	-	-
February to March 2005	10.35 - 10.65	1,329.0	-	-	-
April to May 2005	9.60 - 10.05	563.0	-	2.0	-
June to August 2005	10.25 - 10.80	2,706.0	2.0	164.0	-
September to October 2005	10.10 - 10.25	1,238.0	-	22.0	-
November to December 2005	9.40 - 9.55	829.0	-	1.0	5.0
		<u>8,874.0</u>	<u>9.0</u>	<u>189.0</u>	<u>5.0</u>

The fair value of options granted in which FRS 2 applies, were determined using the Black Scholes Valuation model. The significant inputs in the model are as follows:

	<u>PLES</u>	<u>ESOS 3</u> (phase 3)	<u>ESOS 3</u> (phase 2)
Exercise price	RM10.24	RM8.69	RM9.22
Option life (no. of days to expiry)	649	225	649
Weighted average share price at grant date	RM10.10	RM 9.65	RM10.10
Expected dividend yield	3%	3%	3%
Risk free interest rates (Yield of Malaysian Government securities)	3.18%	3.21%	3.18%
Expected volatility	23.27%	15.74%	23.27%
TM share historical volatility period			
From	24.10.2003	18.12.2004	24.10.2003
To	14.10.2005	18.12.2006	14.10.2005

The volatility measured at the standard deviation of continuously compounded share return is based on statistical analysis of daily share prices over the last two years from the grant date.

Total expense recognised arising from share-based payments amounted to RM6,766,000 and is disclosed in Note 6 to the financial statements.

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9 FINANCE INCOME AND COST

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	RM'000	RM'000	RM'000
Finance Income				
Interest income from:				
- Deposits	55,771	60,445	55,664	60,024
- Subsidiaries	0	0	5,103	9,226
	<u>55,771</u>	<u>60,445</u>	<u>60,767</u>	<u>69,250</u>
Finance cost				
Profit payable on Islamic Private Debt Securities	56,625	77,422	56,625	77,422
Interest expense in respect of:				
- Borrowings	9,587	14,695	9,466	14,573
- Others	1,446	148	1,350	211
	<u>67,658</u>	<u>92,265</u>	<u>67,441</u>	<u>92,206</u>

10 TAXATION

The taxation charge/(credit) for the Group and Company comprise:

Malaysia

Current taxation

- Current year taxation	77,616	146,064	0	146,000
- Under accrual of tax in respect of prior years	182,734	39,057	188,604	40,000

Deferred taxation (Note 26)

- Origination and reversal of temporary differences	245,786	196,621	53,500	92,076
- Benefit from previously unrecognised deductible temporary differences	(167,364)	(124,116)	(166,784)	0
- Change in tax rate	(12,913)	0	(9,601)	0
	<u>325,859</u>	<u>257,626</u>	<u>65,719</u>	<u>278,076</u>

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10 TAXATION (CONTINUED)

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	%	%	%	%
Numerical reconciliation between the average effective tax rate and the Malaysian tax rate				
Malaysian tax rate	28	28	28	(28)
Tax effects of:				
- Expenses not deductible for taxation purposes	1	574	26	92
- Income not subject to tax	(1)	(45)	0	(2)
- Benefit from previously unrecognised deductible temporary differences	(14)	0	(169)	0
- Change in tax rate	(2)	0	(10)	0
- Under accrual of tax in prior years	16	61	192	10
- Previously unrecognised tax benefits (prior year mainly due to acquisition of a subsidiary)	0	(194)	0	0
- Temporary differences not recognised	0	5	0	0
- Utilisation of previously unrecognised tax losses to reduce deferred tax	0	(26)	0	0
Average effective tax rate	<u>28</u>	<u>403</u>	<u>67</u>	<u>72</u>

11 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing the net profit for the financial year attributable to shareholders by the weighted average number of ordinary shares in issue during the financial year.

	<u>2006</u>	<u>Group</u> <u>2005</u> (Restated)
Net profit/(loss) for the financial year attributable to shareholders (RM'000)	816,388	(202,538)
Weighted average number of ordinary shares in issue ('000)	2,258,992	2,488,165
Basic earnings/ (loss) per share (sen)	<u>36.1</u>	<u>(8.1)</u>

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NOTES TO THE FINANCIAL STATEMENTS
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12 PROPERTY, PLANT AND EQUIPMENT

Group	Freehold	Leasehold	Buildings	Furniture, fittings, office equipment, motor vehicles and renovations	Telecom- munication network and equipment	Capital work-in- progress	Total
	land	land		RM'000	RM'000	RM'000	
Cost/Valuation	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2006	17,889	22,252	108,653	1,186,416	8,087,900	488,959	9,912,069
Acquisition of a new subsidiary	0	0	0	8,003	207,118	13,498	228,619
Additions	0	0	0	61,773	63,664	732,656	858,093
Assetisation	0	0	480	21,271	547,381	(569,888)	(756)
Disposals	(668)	0	0	(5,567)	(262,608)	0	(268,843)
Written off	0	0	0	(1,884)	0	0	(1,884)
Reclassification	(93)	26,284	(26,191)	0	0	0	0
At 31 December 2006	17,128	48,536	82,942	1,270,012	8,643,455	665,225	10,727,298
<u>Accumulated Depreciation</u>							
At 1 January 2006	0	3,156	16,215	919,415	4,452,351	0	5,391,137
Acquisition of a new subsidiary	0	0	0	5,675	68,028	0	73,703
Depreciation charge for the year	0	431	1,147	96,598	709,786	0	807,962
Disposals	0	0	0	(5,564)	(236,323)	0	(241,887)
Written off	0	0	0	(1,730)	0	0	(1,730)
Reclassification	0	3,369	(3,369)	22	(22)	0	0
At 31 December 2006	0	6,956	13,993	1,014,416	4,993,820	0	6,029,185
<u>Accumulated impairment losses</u>							
At 1 January 2006	7,985	7,577	33,884	19,316	438,525	56,760	564,047
Acquisition of a new subsidiary	0	0	0	1,064	8,640	0	9,704
Additions	0	0	0	0	481	(3,533)	(3,052)
Disposal	(428)	0	0	0	0	0	(428)
Reclassification	(493)	8,708	(8,215)	0	0	0	0
At 31 December 2006	7,064	16,285	25,669	20,380	447,646	53,227	570,271

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12 **PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

<u>Group</u>	<u>Freehold land</u> RM'000	<u>Leasehold land</u> RM'000	<u>Buildings</u> RM'000	<u>Furniture, fittings, office equipment, motor vehicles and renovations</u> RM'000	<u>Telecommunication network and equipment</u> RM'000	<u>Capital work-in progress</u> RM'000	<u>Total</u> RM'000
<u>Net book value</u>							
<u>At 31 December 2006</u>							
Cost							
Valuation	15,341	48,536	82,529	1,270,012	8,643,455	665,225	10,725,098
Accumulated depreciation and impairment losses	1,787	0	413	0	0	0	2,200
	(7,064)	(23,241)	(39,662)	(1,034,796)	(5,441,466)	(53,227)	(6,599,456)
<u>Net book value</u>	<u>10,064</u>	<u>25,295</u>	<u>43,280</u>	<u>235,216</u>	<u>3,201,989</u>	<u>611,998</u>	<u>4,127,842</u>
<u>At 31 December 2005</u>							
Cost							
Valuation	16,102	22,252	108,240	1,186,416	8,087,900	488,959	9,909,869
Accumulated depreciation and impairment losses	1,787	0	413	0	0	0	2,200
	(7,985)	(10,733)	(50,099)	(938,731)	(4,890,876)	(56,760)	(5,955,184)
<u>Net book value</u>	<u>9,904</u>	<u>11,519</u>	<u>58,554</u>	<u>247,685</u>	<u>3,197,024</u>	<u>432,199</u>	<u>3,956,885</u>

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12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

<u>Company</u>	<u>Freehold land</u> RM'000	<u>Leasehold land</u> RM'000	<u>Buildings</u> RM'000	<u>renovations</u> RM'000	<u>Furniture, fittings, office equipment, motor vehicles and Telecom- munication network and equipment</u> RM'000	<u>Capital work-in- progress</u> RM'000	<u>Total</u> RM'000
<u>Cost</u>							
At 1 January 2006	367	3,786	13,721	834,125	5,409,822	418,763	6,680,584
Additions	0	0	0	60,770	61,017	712,437	834,224
Assetisation	0	0	480	21,271	531,663	(553,414)	0
Disposals	0	0	0	(3,527)	(67,121)	0	(70,648)
Written off	0	0	0	(1,766)	0	0	(1,766)
Reclassification	0	239	(239)	0	0	0	0
At 31 December 2006	367	4,025	13,962	910,873	5,935,381	577,786	7,442,394
<u>Accumulated depreciation</u>							
At 1 January 2006	0	672	1,111	628,462	3,118,457	0	3,748,702
Depreciation charged for the year	0	48	90	74,270	399,256	0	473,664
Disposals	0	0	0	(3,525)	(67,121)	0	(70,646)
Written off	0	0	0	(1,624)	0	0	(1,624)
Reclassification	0	(116)	116	22	(22)	0	0
At 31 December 2006	0	604	1,317	697,605	3,450,570	0	4,150,096
<u>Accumulated impairment losses</u>							
At 1 January 2006	0	155	8,894	10,376	251,349	56,760	327,534
Reversal of impairment loss	0	0	0	0	0	(3,533)	(3,533)
Reclassification	0	71	(71)	0	0	0	0
At 31 December 2006	0	226	8,823	10,376	251,349	53,227	324,001

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Furniture, fittings, office equipment, motor vehicles and renovations RM'000	Telecom- munication network and equipment RM'000	Capital work-in- progress RM'000	Total RM'000
<u>Net book value</u>							
<u>At 31 December 2006</u>							
Cost	367	4,025	13,962	910,873	5,935,381	577,786	7,442,394
Accumulated depreciation and impairment losses	0	(830)	(10,140)	(707,981)	(3,701,919)	(53,227)	(4,474,097)
Net book value	<u>367</u>	<u>3,195</u>	<u>3,822</u>	<u>202,892</u>	<u>2,233,462</u>	<u>524,559</u>	<u>2,968,297</u>
<u>At 31 December 2005</u>							
Cost	367	3,786	13,721	834,125	5,409,822	418,763	6,680,584
Accumulated depreciation and impairment losses	0	(827)	(10,005)	(638,838)	(3,369,806)	(56,760)	(4,076,236)
Net book value	<u>367</u>	<u>2,959</u>	<u>3,716</u>	<u>195,287</u>	<u>2,040,016</u>	<u>362,003</u>	<u>2,604,348</u>

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12 **PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

- (a) Details of independent professional valuations of freehold land and buildings carried at valuation by the Group are as follows:

<u>Year of valuation</u>	<u>Description of property</u>	<u>Valuation amount</u> RM'000	<u>Basis of valuation</u>
1988	Freehold land and building at Jalan Ampang, Kuala Lumpur	2,200	Open market basis

Had the revalued freehold land and building of the Group been carried at historical cost less accumulated depreciation, the net book value of the freehold land and building that would have been included in the financial statements of the Group as at 31 December 2006 would be RM2,767,282 and RM415,742 (2005: RM2,767,282 and RM428,734) respectively.

- (b) Included in leasehold land of the Group and of the Company are leasehold land with unexpired terms of 50 or more years with carrying values of RM21,297,000 (2005: RM22,231,826) and RM2,078,444 (2005: RM2,718,837) respectively.
- (c) The net book values of plant and equipment held under hire purchase and finance lease arrangements are as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2006</u> RM'000	<u>2005</u> RM'000	<u>2006</u> RM'000	<u>2005</u> RM'000
Telecommunication network and equipment	16,265	10,377	9,179	10,377
Furniture, fittings, office equipment, motor vehicles and renovation	4,161	6,891	3,228	4,623
	<u>20,426</u>	<u>17,268</u>	<u>12,407</u>	<u>15,000</u>

- (d) Included in property, plant and equipment of the Group and of the Company are fully depreciated assets which are still in use costing RM3,745,644,823 (2005: RM3,359,920,435) and RM2,749,680,754 (2005: RM2,515,591,616) respectively.
- (e) During the financial year, a reversal of impairment losses amounted of RM3,533,000 in relation to capital work in progress was made on previously long standing projects which are now completed.

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12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

- (f) Included in the property, plant and equipment of the Group are equipment with net book value of RM7,086,161 (2005: RM Nil) which is subjected to a lien under the finance lease agreement.
- (g) During the financial year, the Group and Company had reviewed the estimated useful life of certain telecommunication network and equipment. The revision was accounted for as a change in accounting estimates and had increased the current year depreciation charge for the Group and Company by RM59,341,090 and RM42,575,160 respectively.

13 INVESTMENTS IN SUBSIDIARIES

	<u>Company</u>	
	<u>2006</u>	<u>2005</u>
	RM'000	RM'000
In Malaysia:		
Unquoted shares, at cost	1,754,584	1,741,984
Accumulated impairment losses	(2,083)	(2,083)
	<u>1,752,501</u>	<u>1,739,901</u>

Details of the subsidiaries are as follows:

<u>Name of subsidiaries</u>	<u>Effective interest</u>		<u>Paid-up capital</u> RM	<u>Principal activities</u>
	<u>2006</u> %	<u>2005</u> %		
Celcom Mobile Sdn Bhd	100	100	1,565,000,000	Provision of mobile communication services, network services, application services and content
Celcom Transmission (M) Sdn Bhd	100	100	25,000,000	Provision of network transmission related services
Alpha Canggih Sdn Bhd	100	100	2	Property investment
Celcom Technology (M) Sdn Bhd	100	100	2,000,000	Provision of telecommunication value added services through cellular or other forms of telecommunications network
Celcom Academy Sdn Bhd+~	100	100	3	Inactive

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13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

<u>Name of subsidiaries</u>	<u>Effective interest</u>		<u>Paid-up capital</u> RM	<u>Principal activities</u>
	<u>2006</u> %	<u>2005</u> %		
CT Paging Sdn Bhd+	100	100	500,000	Inactive
Celcom Trunk Radio (M) Sdn Bhd	100	100	10,000	Ceased operations
Celcom Timur (Sabah) Sdn Bhd (Note 3(b))	80	60	7,000,000	Provision of fibre optic transmission network
Celcom Multimedia (Malaysia) Sdn Bhd+	100	100	2	Dormant
Fibrecomm Network (M) Sdn Bhd (Note 3(a))	51	41	75,000,000	Provision of fibre optic transmission network services
Technology Resources Industries Berhad #	100	100	1,000	Investment holding
Alpine Resources Sdn Bhd #+	100	100	2,500,000	Inactive
Rego Multi-Trades Sdn Bhd #	100	100	2,000,000	Dealing in marketable securities
Malaysian Motorhomes Sdn Bhd @ (Note 3(e))	-	62.4	718,000	Ceased operations
Technology Resources Management Services Sdn Bhd#+	100	100	2	Inactive
Freemantle Holdings (M) Sdn Bhd #+<	100	100	13,504,080	Investment holding
TR Components Sdn Bhd #	100	100	2	Investment holding
Aseania Plastics Sdn Bhd >+**	99	99	300,000	Inactive
Technology Resources (Nominees) Sdn Bhd #+	100	100	2	Dormant
TR International Limited #>	100	100	HK\$2	Investment holding

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13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

All subsidiaries are incorporated in Malaysia except for TR International Limited which was incorporated in Hong Kong.

- # Consolidated by merger method of accounting.
- > Not audited by Messrs PricewaterhouseCoopers.
- + Inactive as at 31 December 2006.
- < Undergoing members' voluntary winding up pursuant to Section 254(1) of the Companies Act, 1965 since 2 August 2006.
- ** Undergoing members' voluntary winding up pursuant to Section 254(1) of the Companies Act, 1965 since 14 July 2005.
- @ Dissolved pursuant to Section 239(a), (c) and (d) of the Companies Act, 1965 effective 3 November 2006.
- ~ Undergoing members' voluntary winding up pursuant to Section 254(1) of the Companies Act 1965 since 25 April 2006.

14 INVESTMENTS IN ASSOCIATED COMPANIES

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	RM'000	RM'000	RM'000
In Malaysia:				
Unquoted shares, at cost	25,669	51,448	25,669	25,669
Outside Malaysia:				
Unquoted shares, at cost	0	621	0	0
	<u>25,669</u>	<u>52,069</u>	<u>25,669</u>	<u>25,669</u>
Share of post-acquisition reserves	(11,234)	(41)	0	0
	<u>14,435</u>	<u>52,028</u>	<u>25,669</u>	<u>25,669</u>
Represented by:				
Group's share of net assets of associated companies	<u>14,435</u>	<u>52,028</u>		

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14 INVESTMENTS IN ASSOCIATED COMPANIES (CONTINUED)

The Group's share of revenue, profit, assets and liabilities of associates are as follows:-

	<u>Group</u>	
	<u>2006</u>	<u>2005</u>
	RM'000	RM'000
Revenue	8,284	27,502
Loss after tax	(8,580)	(4,556)
	<u>67,046</u>	<u>129,728</u>
Non-current assets (including goodwill)		
Current assets	35,107	72,475
Current liabilities	(7,680)	(47,277)
Non-current liabilities	(80,038)	(102,898)
	<u>14,435</u>	<u>52,028</u>
Net assets		

The details of associated companies are:

<u>Name of associated companies</u>	<u>Effective interest</u>		<u>Paid-up capital</u> RM	<u>Principal activities</u>
	<u>2006</u> %	<u>2005</u> %		
Mobile Telecommunications Company of Esfahan ('MTCE') # (J.V. - P.J.S.)	-	49	Rial 1,000,000,000 (RM480,000)	Planning, designing, installing, operating and maintaining a GSM cellular telecommunication network to customers in the province of Esfahan, Iran
Sacofa Sdn Bhd	20	20	64,171,634	Trade or business of a telecommunications infrastructure and services company

Incorporated in The Islamic Republic of Iran. On 7 December 2005, the Company had signed a Share Sale Agreement ('SSA') with TM International (L) Limited, to transfer all its equity holding in MTCE for a consideration of USD6 million. The completion of transfer in accordance with the SSA was on 3 August 2006 and consequently MTCE ceased to be an associated company.

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15 OTHER INVESTMENTS

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Unquoted shares, at cost:				
In Malaysia	1,063	1,063	833	833
Outside Malaysia	19,405	19,405	0	0
	20,468	20,468	833	833
Allowance for permanent diminution in value	(20,468)	(20,468)	(833)	(833)
	0	0	0	0

The following corporations in which Celcom Group owns more than one half of the voting power, which, due to permanent loss of control or significant influence have been accounted as investments:

- Tripoly Communication Technology Corporation Ltd
- TRI Telecommunication Zanzibar Limited*
- TRI Telecommunication Tanzania Limited

In view of the above, the financial statements of the respective companies have not been consolidated nor equity accounted for. The Directors are of the view that the amounts would be insignificant to the Group results.

* On 13 March 2006, the Company had obtained an order from the High Court of Zanzibar to wind up the company pursuant to Section 218 (c) and (f) of the Zanzibar Company Decree Cap.153.

16 GOODWILL

	Note	Group	
		2006	2005
		RM'000	(Restated) RM'000
At 1 January		117,141	181,059
Additions		1,415	0
Recognition of additional deferred tax assets arising from tax benefits existing at acquisition date previously not recognised		0	(124,000)
Current year amortisation charge		0	(10,200)
Write back of amortisation for additional deferred tax recognised		0	24,768
At 31 December (as previously stated)		118,556	71,627
Adjustment (net of accumulated amortisation of RM19,506 (2005:RM6,502))	36	0	45,514
At 31 December (as restated)		118,556	117,141