Accountability

INTRODUCTION

"Company Directors have a fiduciary duty to shareholders to ensure that the principles of good corporate governance are properly enforced. In this case, I believe that transparency and openness remain the best deterrent against corruption and fraud. As company directors, you must always ensure transparency in governance. You must be prepared to scrutinize and to probe. You must be prepared to ask uncomfortable questions, and to receive uncomfortable answers. I would like to call upon all those charged with the responsibility of being company directors to dispense it well. It is a responsibility that you hold, not only towards your shareholders and your own conscience, but also towards the nation."

– Excerpts from a speech by the Honourable Prime Minister of Malaysia, Dato' Seri Abdullah Hj Ahmad Badawi, at the Corporate Leaders' Banquet on 7 February 2007, organised by the Malaysian Institute of Directors.

Transparency-hallmark of corporate governance

Corporate Governance is about the way in which Boards oversee the running of the company by its managers and about how Boards are in turn accountable to shareholders in particular and stakeholders in general. The presence of an effective Corporate Governance framework provides the confidence necessary for the proper functioning of a market economy. Poor governance undermines corporate integrity and can expose the company to risk through fraud and ultimately weakens a company's potential.

As one of the leading companies in the stable of Government-linked Companies (GLC) in Malaysia, TM has, apart from abiding to the principles and best practices as set out in the Malaysian Code on Corporate Governance (Malaysian Code), also subscribes to the principles introduced by the Putrajaya Committee on GLC High Performance (PCG) which comprise the Guidelines to Enhance Board Effectiveness. These Guidelines, as codified in the 'Green Book' launched on 26 April 2006, reinforce the recommendations contained in the Malaysian Code.

The PCG recommended changes and improvements to the governance of GLCs based on the following objectives:

- Refocus the role and mandate of GLC Boards.
- Strengthen GLC Board composition.
- Intensify GLC Board performance management.
- Upgrade Board structure and processes.

TM has also taken cognizance of and adhered to recent amendments to the Malaysian Code which came into effect on 1 October 2007, aimed at strengthening the roles of the Board of Directors and Audit Committees and the effective discharge of their respective roles and responsibilities.

The Board of TM recognises that corporate governance is not only about commitment to values and ethical conduct and provides a framework for best practices, but also that stakeholder expectations must be fully understood and managed, and not assumed. The Board also believes that a successful GLC is an organisation whose performance must be equal if not better than that of a non-GLC in terms of profit and efficiency coupled with responsible employment and corporate social responsibility. TM's commitment is evident in its internal processes, guidelines and systems, which are aligned with sound corporate governance practices aimed at increased efficiency, transparency and accountability.

ANOTHER AWARD WINNING YEAR FOR TM

TM's commitment to realise shareholder value is evidenced by the following awards conferred on the Company in 2007:

- **Corporate Governance**
  TM ranked Second place in the Corporate Governance Survey Report 2007, a joint study by the Minority Shareholders Watchdog Group (MSWG) of Malaysia and Nottingham University Business School, Malaysia Campus.

- **National Annual Corporate Report Awards (NACRA) 2007**
  - TM achieved recognition once again for its annual report, clinching the Gold Award for Overall Excellence during the National Annual Corporate Report Awards (NACRA) 2007 ceremony held in Kuala Lumpur.
  - TM also took home the Industry Excellence Award for Bursa Malaysia Main Board Companies under the Trading & Services sector for the 11th consecutive year, as well as won the Gold Award for Best Designed Annual Report.

- **National Award for Management Accounting (NAfMA) Excellence Award**
  TM received the coveted NAfMA Excellence Award, beating nine other finalists to take First place in management accounting best practices. The NAfMA awards recognise best practices in management accounting by companies in Malaysia that leads to value creation and excellent business performance. The awarding bodies for NAfMA are the Malaysian Institute of Accountants (MIA) and Chartered Institute of Management Accountants (CIMA).

Details of other awards, local and international, won by TM and its Group of Companies in 2007 is provided on pages 38 to 41 inclusive of this annual report.

COMPLIANCE STATEMENT

The Board will continue to strengthen governance practices to safeguard the best interests of shareholders and other stakeholders. The Company has fully complied with the principles and best practices of the Malaysian Code and its amendments, which took effect on 1 October 2007. This Statement, together with the Statement on Internal Control and the Statement on Risk Management, sets out the manner in which the Company has applied the principles and best practices of the Malaysian Code.

Best practices adopted by TM Group over and above the recommendations prescribed in the Malaysian Code are those recommended by PCG and other global standards, which the Board has deemed to be suitable for the Group.

BUILDING A STRONG BOARD

BOARD COMPOSITION AND BALANCE

In 2007, the Board consisted of 9 members, comprising a Non-Executive Chairman, an Executive Director designated as the Group Chief Executive Officer (Group CEO), 2 Non-Independent Non-Executive Directors and an Alternate and 5 Independent Non-Executive Directors, representing more than half of the Board. The Board believes that its current size, which is in line with the GLC guidelines, is appropriate for its purpose.

Dato' Lim Kheng Guan is the Senior Independent Non-Executive Director, to whom concerns pertaining to the Group may be conveyed by shareholders and the public. He also represents and acts as spokesperson for the Independent Directors as a group.

ROLES AND RESPONSIBILITIES OF THE BOARD

TM Group is led and controlled by an active and experienced Board consisting of members with a wide range of business, financial, technical and public service backgrounds. This brings depth and diversity in expertise and perspectives to the leadership of a highly regulated communications business. Directors' biographies appearing on pages 70 to 75 inclusive, of this annual report, represent an impressive range of experiences, which are vital to providing strategic direction and guidance in the management of a communications company.

The Board has assumed the following 6 core responsibilities in discharging its stewardship:

- Review and adopt a strategic plan
- Oversee and evaluate the conduct of the Company's business
- Identify and manage principal risks
- Succession planning
- Develop and implement an investor relations programme
- Review adequacy and integrity of the Company's internal controls

Financial and Subsidiary Policy manuals are in place to ensure that prior TM Board approvals are obtained for the following transactions and activities of the Group within various levels of authorities:

- Shareholding and Capital Structure:
  - Equity and long term debt issues
  - Corporate Guarantees
  - Change in nature of business
- Financial Investments and Mergers & Acquisitions:
  - Mergers & Acquisitions
  - Investments and equity participation/joint ventures
  - Divestment of investment or business
  - Loan or cash advances to subsidiaries
  - Investment in corporate bonds and securities
  - Business alliances
- Budget
  - Annual Capital Expenditure
  - Annual Operating Expenditure
- Procurement for:
  - Network assets
  - Network landed property
  - Non-network assets/services
  - Non-network landed property
- Others
  - Consultancy
  - Working capital financing

Apart from the above specific responsibilities, the Board also takes full, independent responsibility and accountability for the smooth functioning of core processes, involving board governance, business value and ethical oversight. To facilitate effective discharge of these responsibilities, dedicated Board Committees have been established with clear terms of references, comprising Directors who have committed time and effort as members. The Board committees are chaired by Non-Executive Directors who exercise their leadership with the benefit of in-depth knowledge of the relevant industry.

The Board meets regularly. In addition to 9 scheduled meetings during the year to decide on core issues, 3 interim or special meetings were held where immediate decisions were warranted. This includes consideration of proposals in relation to mergers and acquisitions and quarterly financial results.

The attendance of individual Directors at the 12 Board Meetings held in 2007 is recorded within the Directors' biographies published on pages 70 to 75 inclusive, in this annual report. Besides the 12 Board Meetings, urgent issues were considered via a total of 6 Directors' Circular Resolutions during the year.

ROLES OF THE CHAIRMAN, GROUP CEO AND NON-EXECUTIVE DIRECTORS

The roles of the Non-Executive Chairman, Tan Sri Dato' Ir Muhammad Radzi Hj Mansor and the Group CEO, Dato' Sri Abdul Wahid Omar, are kept separate in line with best practice, with clear division of responsibilities between them.

The Board's principal focus is the overall strategic direction, development and control of the Group. As such, the Board approves the Group's strategic plan and its annual budget and throughout the year, reviews the performance of the operating subsidiaries against their budgets and targets. The Group CEO is responsible for the implementation of broad policies approved by the Board and he is obliged to report and discuss at Board Meetings all material matters currently or potentially affecting the Group and its performance, including all strategic projects and regulatory developments.

The Chairman is responsible for the integrity and effectiveness of the relationship between the Non-Executive and Executive Directors. His interactions with global leaders of the industry and relationships with stakeholders and various institutions, such as his active participation as a member of the Board of Engineers, help to bring about the benefits of the engineering profession to the Group and society.

Non-Executive Directors provide considerable depth of knowledge collectively gained from experiences in a variety of public and private companies. The Independent Non-Executive Directors are independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement as defined under paragraph 1.01 of the Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Securities). They provide unbiased and independent views in ensuring that the strategies proposed by the management are fully deliberated and examined, in the interest of shareholders, employees, customers, and the many communities in which the Group conducts its business. The independence of the Non-Executive Directors is constantly reviewed and benchmarked against best practices and regulatory provisions.

BOARD APPOINTMENT PROCESS

The Company has in place formal and transparent procedures for the appointment of new Directors. These procedures ensure that all nominees to the Board are first considered by the Nomination and Remuneration Committee, taking into account the required mix of skills and experience and other qualities, before making a recommendation to the Board and shareholders.

BOARD EFFECTIVENESS EVALUATION

The formal Performance Evaluation Framework (the Framework) adopted in 2004 and reviewed in 2006, comprises a Board Effectiveness Assessment and a Board of Directors' Self/Peer Assessment. The Framework is designed to maintain cohesiveness of the Board and, at the same time, serves to improve the Board's effectiveness.

The broad performance indicators, on which Board Effectiveness is evaluated, include board composition, board administration, board accountability and responsibility and board conduct. Performance indicators for individual directors include their interactive contributions, understanding of their roles and quality of input.

To ensure integrity and independence of the appraisal process, PricewaterhouseCoopers Advisory Services Sdn Bhd was engaged as the independent Adviser to tabulate and report to the Chairman the results of the evaluation process. Every board member is provided with the results of the self-evaluation marked against peer evaluation to allow for comparison. TM's Board Effectiveness Evaluation has been instrumental in drawing the Board's attention to areas to be addressed. During the year, similar Board Effectiveness Evaluations were also implemented by major subsidiaries within the Group.

RE-ELECTION OF DIRECTORS

In accordance with the Listing Requirements of Bursa Securities and the Company's Articles of Association, all Directors are subject to re-election by rotation once at least every 3 years and a re-election of Directors shall take place at each Annual General Meeting. Executive Directors also rank for re-election by rotation. The re-election of Directors ensures that shareholders have a regular opportunity to reassess the composition of the Board. Particulars of Directors submitted to shareholders for re-election are enumerated in the Statement accompanying the Notice of Annual General Meeting (AGM).

DIRECTORS' REMUNERATION

The framework for the remuneration of Executive and Non-Executive Directors is reviewed regularly against market practices. The remuneration of Non-Executive Directors is based on a standard fixed fee. Additional allowances are also paid in accordance with the number of meetings attended during the year.

As an Executive Director, the Group CEO is paid a salary, allowances, bonuses and other customary benefits as appropriate to Senior Management members. TM carries out salary benchmarking of equivalent jobs in the market of similar-sized companies to arrive at appropriate base pay levels.

TM's Group CEO's remuneration is benchmarked against the remuneration of CEOs of other GLCs, taking into account job size as determined by Hay Management Consultant (M) Sdn Bhd. Subsequently, other salary benchmarks were also considered with adjustments provided for the industry TM is in and its regional exposure. For the senior management directly reporting to the Group CEO, the same salary benchmarks are also done but against both internally equivalent jobs and also external jobs in similar sized companies.

TM has also implemented guidelines set out in the 'Blue Book' applicable to GLCs, on "Intensifying Performance Management Practices and Performance-linked Compensation" introduced by PCG. According to these guidelines, a significant portion of TM's compensation package for executives has been made variable in nature, to be determined based on performance. This is determined by how well the individual has performed in the year based on the approved individual Key Performance Indicators (KPIs), which are aligned to the Group Scorecard. The actual size of the Company's performance bonus pool is dependent on how well the Group has performed on its Scorecard and will be determined and endorsed by the Board.

The Group CEO and his direct reports would be rewarded according to a combination of how well they have delivered their KPIs and their ratings on their 360 degrees feedback, which is then moderated within a peer group in order to arrive at a relative ranking according to a normal distribution curve.

Details of the fees and remuneration of each Director of the Company, categorised into appropriate components for the financial year ended 31 December 2007, are as follows:

NAME OF DIRECTORS	SALARY	FEE	ALLOWANCE	BONUS	BENEFITS IN-KIND	TOTAL AMOUNT
Non-Independent and Executive Director:						
Dato' Sri Abdul Wahid Omar	1,263,030.00 [1]	—	60,000.00 [2]	387,000.00 [3]	61,057.54 [4]	**1,771,087.54**
Non-Independent and Non-Executive Directors:						
Tan Sri Dato' Ir Muhammad Radzi Hj Mansor	—	212,619.71	78,646.47	—	32,476.99	**323,743.17**
Dato' Ahmad Hj Hashim *Resigned on 7 January 2008*	—	36,000.00	28,950.00	—	1,884.00	**66,834.00**
Datuk Zalekha Hassan *Appointed on 9 January 2008*	—	—	—	—	—	**—**
Dato' Azman Mokhtar	—	36,000.00 [5]	15,000.00 [5]	—	1,900.92	**52,900.92**
Alternate Directors (Non-Independent and Non-Executive Directors):						
Leonard Wilfred Yussin [Alternate Director to Dato' Ahmad Hj Hashim] *Resigned on 8 February 2007*	—	—	1,000.00	—	166.03	**1,166.03**
Dyg Sadiah Abg Bohan [Alternate Director to Dato' Ahmad Hj Hashim] *Appointed on 8 February 2007 and resigned on 7 January 2008*	—	—	1,000.00	—	1,948.37	**2,948.37**
Dyg Sadiah Abg Bohan [Alternate Director to Datuk Zalekha Hassan] *Appointed on 9 January 2008*	—	—	—	—	—	**—**
Independent and Non-Executive Directors:						
Dato' Ir Dr Abdul Rahim Daud	—	106,295.77	51,227.46	—	17,786.79	**175,310.02**
YB Datuk Nur Jazlan Tan Sri Mohamed	—	36,000.00	33,109.86	—	1,884.00	**70,993.86**
Ir Prabahar NK Singam	—	139,098.57	123,885.74	39,447.15	49,616.02	**352,047.48**
Dato' Lim Kheng Guan	—	118,478.86	76,507.19	39,447.15	49,872.02	**284,305.22**
Rosli Man	—	36,000.00	42,346.48	-	2,140.00	**80,486.48**
TOTAL AMOUNT	**1,263,030.00**	**720,492.91**	**511,673.20**	**465,894.30**	**220,732.68**	**3,181,823.09**

NOTES:

1 *Inclusive of Company's contribution to provident fund (RM273,030).*

2 *Car allowances (RM60,000) in lieu of provision of company car.*

3 *Bonus for financial year ended 2006, paid in 2007.*

4 *Apart from the above benefits-in-kind, Dato' Sri Abdul Wahid Omar is entitled to Performance Link ESOS which resulted in a total cost of RM483,137 to the Company pursuant to FRS 2.*

5 *Paid directly to Khazanah Nasional Berhad.*

BOARD COMMITTEES

In accordance with TM's Articles of Association, the Board delegates certain responsibilities to Board Committees, namely, the Audit Committee, Nomination and Remuneration Committee, Tender Committee, Employee Share Option Scheme Committee and Commercial Dispute Resolution Committee. All Committees have written terms of reference and operating procedures and the Board receives regular reports of their proceedings and deliberations. Where Committees have no authority to make decisions on matters reserved for the Board, recommendations would be highlighted in their respective reports for the Board of Directors' deliberation and endorsement. The Chairpersons of the various Committees report the outcome of the committee meetings to the Board and relevant decisions are incorporated into the minutes of the Board of Directors' meetings. The details and activities of Board Committees during the year are outlined below:

AUDIT COMMITTEE

A full Audit Committee report detailing the membership, its role and activities in 2007 is set out on pages 114 to 120 inclusive, of this annual report.

Nomination and Remuneration Committee

Membership

Dato' Azman Mokhtar
(Non-Independent Non-Executive)

Ir Prabahar NK Singam
(Independent Non-Executive)

Dato' Lim Kheng Guan
(Senior Independent Non-Executive)

TM has a combined Nomination Committee and Remuneration Committee for the purpose of expediency, since the same members are entrusted with the functions of both the Committees. The members of the Nomination and Remuneration Committee are mindful of their dual roles, which are clearly reflected and demarcated in the Agendas of each meeting.

The main objectives and principal duties and responsibilities of the Nomination and Remuneration Committee (NRC) are as follows:

Nomination Function

Main Objectives

- To ensure that the Directors of the Board bring characteristics to the Board, which provide a required mix of responsibilities, skills and experience.
- To assist the Board to review on an annual basis the appropriate balance and size of Non-Executive participation and to establish procedures and processes towards an annual assessment of the effectiveness of the Board as a whole and contribution of each individual Director and Board Committee member.

Principal Duties and Responsibilities

- Recommend to the Board candidates for directorship on the Board of the Company and Group as well as membership of all other Board Committees.
- Examine the size of the Board with a view to determine the number of Directors on the Board in relation to its effectiveness and review its required mix of skills and experience and other qualities.
- Recommend suitable orientation, educational and training programmes to continuously train and equip existing and new Directors.

Remuneration Function

Main Objectives

- To set the policy framework and to make recommendations to the Board on all elements of the remuneration package including terms of employment, reward structure and fringe benefits for Executive Director(s) and pivotal management positions. The aim is to attract, retain and motivate individuals of the highest quality.

Principal Duties and Responsibilities

- Set, review, recommend and advise the policy framework on all elements of the remuneration such as reward structure, fringe benefits and other terms of employment of the Executive Director(s) having regard to the overall Group policy guidelines and framework.

- Advise the Board on the performance of the Executive Director(s) and an assessment of their entitlement to performance related pay and advise the Executive Director(s) on the remuneration terms and conditions of senior management.
- Establish and recommend a formal and transparent procedure for developing a policy on the remuneration of the Non-Executive Chairman, Non-Executive Directors and Board Committees, which recommendation shall be decided by the Board of Directors as a whole.

Authority

- The Nomination and Remuneration Committee has the authority to examine a particular issue and report back to the Board with recommendations. The determination of remuneration packages of Directors is a matter for the Board as a whole and individuals are required to abstain from discussion on their own remuneration.

Main Activities in 2007

During the year, the Nomination and Remuneration Committee fulfilled a number of key activities as listed below:

- Facilitated the administration and conduct of the Board effectiveness evaluation process and ensured the integrity and independence of the process.
- Monitored the rollout of the Board effectiveness evaluation process by major subsidiaries.
- Monitored closely the status of Directors' training and ensured a more appropriate distribution of training needs according to knowledge gaps highlighted by the Board effectiveness evaluation results.
- Endorsed appointments of key management positions pursuant to the TM Demerger exercise approved by the Board on 28 September 2007, involving the creation of 2 separate entities with distinct business strategies and aspirations.
- Reviewed Committees' memberships and composition to ensure alignment with recommendations of the 'Green Book' and the Malaysian Code.
- Considered and recommended to the Board a long-term incentive scheme for the Executive Director/Group CEO.

Meeting Attendance

The Nomination and Remuneration Committee met 5 times in 2007, duly attended by all Members. A total of 2 resolutions in writing were passed by the Committee during the year.

Tender Committee

Membership

Dato' Ahmad Hj Hashim
(Chairman – Non-Executive, resigned on 7 January 2008)

Datuk Zalekha Hassan
(Chairman – Non-Executive, appointed on 9 January 2008)

Dato' Sri Abdul Wahid Omar
(Group CEO – Executive)

Dato' Ir Dr Abdul Rahim Daud
(Independent Non-Executive)

Datuk Nur Jazlan Tan Sri Mohamed
(Independent Non-Executive)

Rosli Man
(Independent Non-Executive, resigned on 16 August 2007)

Ir Prabahar NK Singam
(Independent Non-Executive, resigned on 16 August 2007)

Dyg Sadiah Abg Bohan
(Ceased as Alternate to Dato' Ahmad Hj Hashim on 7 January 2008 and appointed as Alternate to Datuk Zalekha Hassan with effect from 9 January 2008)

Membership of the Board Tender Committee was reviewed in August 2007 by the Board and reduced from 6 to 4 members, in line with the recommendations of the 'Green Book' for GLCs and other best practices.

Objectives, Principal Duties and Responsibilities

- To ensure that the procurement process complies with the relevant procurement ethics, policies and requirements.
- To consider, evaluate and approve or recommend awards which are beneficial to the Company, taking into consideration various price factors, usage of product and services, quantity, duration of service and other relevant factors.

Meeting Attendance

The Board Tender Committee met 11 times during the year, duly attended by all members except for YB Datuk Nur Jazlan who attended 8 meetings and Rosli Man who attended 10 meetings, during the year. 1 Circular Resolution was duly issued and approved by all members during the year.

Employee Share Option Scheme (ESOS) Committee

Membership

Tan Sri Dato' Ir Muhammad Radzi Hj Mansor (Chairman – Non-Executive)

Dato' Sri Abdul Wahid Omar (Group CEO – Executive)

Dato' Ahmad Hj Hashim (Non-Executive)

Dato' Ir Dr Abdul Rahim Daud (Independent Non-Executive)

Dyg Sadiah Abg Bohan (Alternate to Dato' Ahmad Hj Hashim)

Principal duties and responsibilities

To construe and interpret the ESOS and options granted under it, to define the terms therein and to recommend to the Board to establish, amend and resolve rules and regulations relating to the scheme and its administration. Authority was given to any 2 Committee members to approve allotment of shares pursuant to exercise of ESOS by employees.

The ESOS Committee met twice in 2007 duly attended by all 4 Members. 55 Circular Resolutions, were passed by the ESOS Committee on share allotments in 2007.

The ESOS Committee was disbanded upon expiration of the scheme on 31 July 2007.

Ad-Hoc Board Committees

Apart from the above, ad-hoc or special purpose Board Committees, such as the Commercial Dispute Resolution Committee (CDRC), were established on a needs basis to deliberate and expedite decision-making processes in respect of specific aspects of the business. These short-term Committees were established with their terms of reference duly approved by the Board.

BOARD PERFORMANCE IMPROVEMENT PROGRAMME (BPIP)

This programme was implemented in March 2006 with a view to improve the Board's functions and structure and ensure alignment between Board's priorities and the Group CEO's mandate. Various initiatives were introduced as deliverables under the BPIP to enhance Board effectiveness.

BOARD TRAINING AND KNOWLEDGE ACQUISITION

Bursa Malaysia Securities Berhad (Bursa Securities) – Listing Requirements

All the Directors have successfully completed the Mandatory Accreditation Programme (MAP) prescribed by Bursa Securities during the year 2007. Induction briefings, which include information on the corporate profile and activities of the Group, as well as business plan targets and group performance are organised for newly appointed Directors.

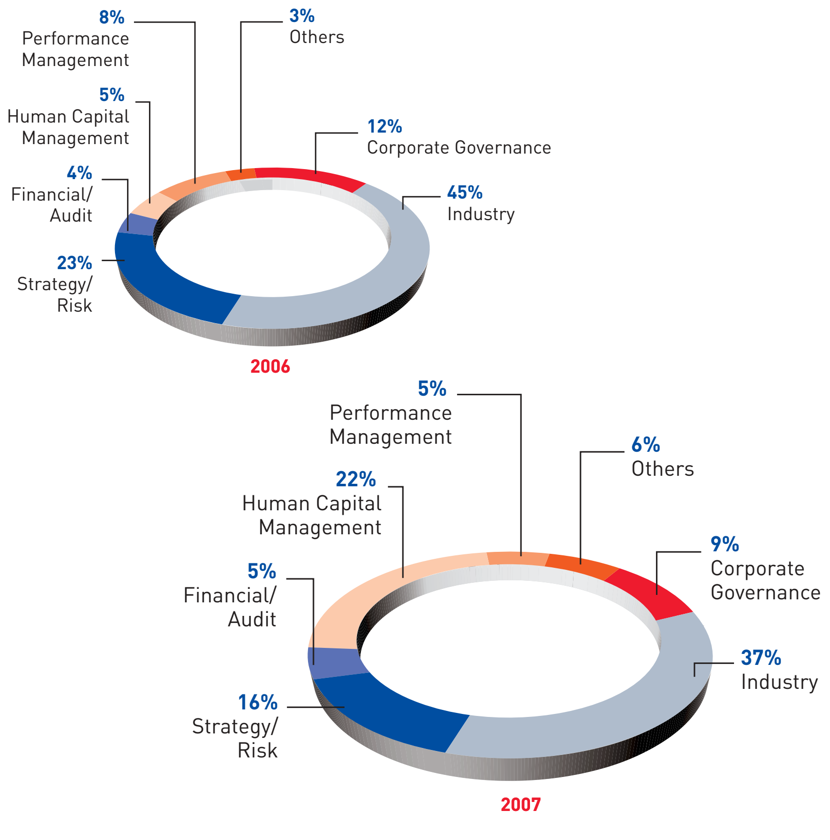
Following the repeal of Practice Note No. 15 on the Continuing Education Programme (CEP) prescribed by Bursa Securities, the Board of Directors of each listed issuer has a duty to evaluate and determine the training needs of its Directors on a continuous basis. The training must be one that aids the Director in the discharge of his duties as a Director.

Board Training Programme (BTP) and Enhancement

The Board of Directors had duly adopted a set of BTP Guidelines, effective from 1 January 2005, to address the training needs of Directors in the absence of the Bursa Securities' CEP requirements. The BTP Guidelines impose a minimum of 36 training hours to be accomplished by the Directors within a calendar year, compared to the minimum of 24 training hours under the CEP.

The BTP Guidelines allow for speaking roles at conferences to be included in the allocated training hours. During the year, all the Directors achieved over and above the minimum of 36 training hours by attending various seminars and international conventions to gain insight into the state of the economy as well as the latest regulatory and technological developments in relation to the Group's business. Directors have also participated as speakers at local and international conventions on topics relevant to their roles.

As a result of close monitoring of the BTP by the Nomination and Remuneration Committee, the Directors' training structure has improved in 2007 and aligned with the Directors' training needs with focus on training on Human Capital Management, Industry as well as Strategy and Risk Management. The progress in the Directors' training structure in 2007 compared to 2006 is depicted as follows:



Directors' Training Structure in 2006 and 2007

Whilst the charts reflect an ideal training structure for the Directors in 2007, continuous efforts are being made to ensure that an appropriate training structure is in place for the Board according to changing business needs.

Industry Workshops and Quarterly Industry Information packs

The Board is invited to Industry Workshops organised by management at quarterly intervals. Quarterly industry information packs on the following matters are compiled and issued to the Board and senior management members:

- Summary of Analysts' views on TM
- Key local trends and events including competitive intelligence and Key global trends and events
- Interesting industry reports from external research houses, including related periodicals on telecommunications
- Domestic and overseas regulatory updates

ENSURING EFFECTIVE BOARD OPERATIONS AND INTERACTIONS

The effectiveness of the Board is, to a large extent, determined by the quality of its procedures, processes and operations. Board processes have been strengthened and enhanced during the year as evidenced by the following initiatives:

Board Meetings Schedule and Predetermined Agendas

A Board and Board Committee meetings calendar and draft agendas have been established 12 months in advance and synchronized with management's planning cycle. The meeting agenda is communicated to management in advance and the Performance Improvement Management Office (PIMO) acts as facilitator to ensure board papers and presentations are in line with Board expectations.

The Meeting Agenda is structured to address priority strategic issues aligned with the Company's aspirations, and consistent with the mandate that the Board provides to the Group CEO. The said mandate specifies what the CEO needs to accomplish within clear parameters. A review conducted at the end of 2007 showed that the actual time spent by the Board on the Meeting

Agenda matched closely the time allocated to Agenda topics determined at the beginning of the year.

Availability of Information to the Board

An indicator of good Corporate Governance lies in the application of informed and independent judgement by experienced and qualified Directors. Hence, it is essential that relevant information required to make informed decisions by the Board are provided in a timely manner. The Board and its Committees are supplied with an agenda and relevant up-to-date information 5 days prior to each meeting to enable them to make informed decisions. Board papers are also disseminated via a securely encrypted electronic Board Document Management System, which acts as an efficient archival and retrieval system for all Board papers and minutes of meetings.

The Board welcomes the presence of managers who can provide additional insights into items being discussed. The information regularly supplied to the Board includes *inter alia*:

- Annual business plans and budget.
- Monthly and Quarterly financial and operating results.
- Reports from meetings of major operating companies.
- Reports from meetings of board committees.
- Material litigations.
- Regulatory matters with substantial impact on the business.
- Details of proposed corporate exercises, acquisitions or collaboration agreements.
- Transactions of material nature, not in the ordinary course of the business.
- Human resource policies and significant issues.
- General notices of interest.

All Directors have access to the advice and services of the company secretary. The Board is constantly advised and updated on statutory and regulatory requirements pertaining to their duties and responsibilities. Procedures are in place for Directors and Board committees to seek independent professional advice in the course of fulfilling their responsibilities, at the Company's expense.

Prompt communication of Board decisions

All Board decisions are clearly recorded in the minutes, including the rationale for each decision, along with clear actions to be taken and individuals responsible for implementation. Relevant Board decisions are communicated verbally to the management within 1 working day of the Board meeting and relevant extracts of the minutes are distributed within 3 to 5 working days depending on the urgency of agenda items.

Board and Management Interactions

The Board and management acknowledge the importance of positive interaction dynamics and open communication to build trust in order to deliver significant and positive performance and shareholder value.

The quality of information received by the Board affects the effectiveness of the Board to a considerable extent. The Board has, therefore, adopted a rating process for papers and presentations by management at each Board meeting with constructive feedback on the quality of information and analysis received. This process has enabled management to ensure that papers are of high quality and standard. The overall review of Board ratings on quality of Management papers and presentation has shown an increase in overall average ratings by the Board to 3.5 points out of the total of 5.0 points as at 31 December 2007, compared to an average rating of 3.0 points recorded during the mid-year review.

Similarly, management is given the opportunity to also rate the Board at semi-annual intervals, in terms of whether Board deliberations have been focused, constructive, supportive, and whether clear decisions have been arrived at based on relevant facts available. In the year under review, the Management's average rating of the Board increased to 3.98 points out of a total of 5.0 points, compared to an average rating of 3.85 points recorded during the mid-term review.

INDEPENDENT DIRECTORS' DISCUSSION

In pursuit of a greater degree of independence, the Board has agreed on a process whereby Non-Executive Directors could meet and actively exchange views on a regular basis in the absence of management. With this practice, the Board is able to fulfil one of its principal responsibilities to effectively and independently assess the direction of the Company and the performance of the management. This practice is in line with Chapter 4 of the Malaysian Code regarding the relationship of the Board and the Management.

In 2007, the Independent and Non-Executive Directors had one such meeting without the presence of the Executive Director/Group CEO and the Management, to exchange views and assess the strategic direction of the Company and performance of the Management.

BOARD CONDUCT

CODE OF BUSINESS ETHICS

TM's Code of Business Ethics, launched in 2004, supports the Company's vision and core values by instilling, internalising and upholding the value of "uncompromising integrity" in the behaviour and conduct of the Board of Directors, Management, Employees and all stakeholders of the Company. The Group CEO, Management and all employees are required to declare their assets and interests according to the Code of Business Ethics. Updated declarations are required to be submitted each year. TM's Code of Business Ethics covers the following areas:

- Responsibilities of the Directors, the management and employees.
- Group dealings with shareholders, customers, employees, suppliers, business partners and stakeholder communities at large.
- Group dealings with respective Governments.
- Group dealings with competitors.
- Group dealings in respect of Company assets.
- Trading on Insider information.
- Conflict of interest.

CONFLICT OF INTEREST

The Directors have a continuing responsibility to determine whether they have a potential or actual conflict of interest in relation to any matter, which comes before the Board. The Company and the Group have adopted a practice whereby each Director is required to make written declarations whether they have any interest in transactions, tabled at regular Board meetings of the Group. A paper is also tabled at each Board meeting to remind Directors of their statutory duties and responsibilities as Directors and to provide updates on any changes or amendments thereon, such as the recent Companies (Amendment) Act 2007 requiring Directors to also disclose the interests of their spouse, child including adopted and step child, in the Company.

RELATED PARTY TRANSACTIONS

Directors recognise that they must declare their respective interest in transactions with the Company and Group and abstain from deliberation and voting on the relevant resolution in respect of such transactions at the Board or any general meetings convened to consider the matter.

TRADING ON INSIDER INFORMATION

TM's Directors and employees are not allowed to trade in securities or any other kind of property based on price sensitive information and knowledge which have not been publicly announced. TM's Code of Business Ethics expressly states that insider trading is an offence under the Securities Industry Act 1983 (Act 280).

Notices on close period for trading in the Company's shares are sent to Directors and Key Management on a quarterly basis specifying the close period where Directors and Key Management personnel are prohibited from dealings in the Company's shares. Directors are also prompted not to deal in the Company's shares at the point when price sensitive information is shared with them, occasionally in the form of Board Meeting papers.

DIRECTORS' INDEMNITY

The Company has in place a liabilities insurance policy for Directors and Officers in respect of liabilities arising from holding office as Directors and Management of the Company. The insurance does not provide coverage in the event a Director or Management member is proven to have acted negligently, fraudulently or dishonestly. The Directors contribute annually towards the payment of the premium for this policy.

WHISTLE BLOWER POLICY

The Securities Industries Act, 1983, was amended to make it mandatory for auditors and key officers of companies to report corporate misdeeds to the authorities. This practice, known as whistle blowing, gained prominence following the passing of the Sarbanes Oxley Act, 2002 in the United States and previously, the Public Interest Disclosure Act, 1999 in United Kingdom.

Since the introduction of TM's Code of Business Ethics, the employees have become much more aware of what is acceptable and unacceptable business conduct and became better acquainted with the channels through which reports of violation of the Code of Business Ethics can be made. Adequate protection is provided for whistle blowers against reprisals.

RELATIONSHIP AND COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

SHAREHOLDERS/INVESTORS

The Company communicates regularly and proactively with investors and shareholders. Care is taken to ensure reporting to shareholders is balanced and sufficiently comprehensive and objective to allow performance to be measured. The Board also maintains lines of communications with major shareholders to take heed of their concerns over matters related to corporate governance and Group performance.

ANNUAL REPORT AND ANNUAL GENERAL MEETINGS

In addition to quarterly financial reports, the Company communicates with shareholders and investors through its annual report, which is comprehensively laid out and containing sufficient depth and breadth of information about not only financial results but also activities and operations of the Group. In an effort to save costs and encourage shareholders to enhance their ICT experience, TM has started to despatch annual reports to shareholders in electronic format (CD-ROM) together with a summarised version of the financial statements in a readable booklet incorporating the notice of AGM and related proxy form. Shareholders are also given the option to request for hard copies of the annual report in either the English or Bahasa Malaysia versions.

The AGM provides an open forum at which shareholders and investors are informed of current developments and where ample time is allowed for questions to be asked of Board members and Committees' Chairpersons. The Company supports the Malaysian Code's principles to encourage shareholder participation. The Company's Articles of Association allow a member entitled to attend and vote to appoint a proxy to attend and vote instead of the member and also provide that a proxy need not be a member of the Company. A press conference is held immediately after the AGM where the Chairman, Executive Director and Group Chief Financial Officer are present to clarify and explain issues raised by the media.

RISK MANAGEMENT

TM has an integrated approach in managing risks inherent in various aspects of its business. A detailed Risk Management Report is provided on pages 103 to 105 inclusive.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board aims to provide and present a balanced and meaningful assessment of the Group's financial performance and prospects at the end of each financial year, primarily through annual financial statements, quarterly and half-yearly announcement of results to shareholders as well as the Chairman's Statement and review of operations in the annual report. The Board is assisted by the Audit Committee to oversee the Group's financial reporting processes and the quality of its financial reporting. The Audit Committee reviews the Group's annual financial statements and the quarterly condensed financial statements focusing particularly on changes in accounting policies, management judgement in applying the accounting policies as well as assumptions and estimates applied in accounting certain material transactions.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are required by the Companies Act 1965 to ensure that financial statements prepared for each financial year give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the results and cash flow of the Group for the financial year.

The Statement of Responsibility by Directors is as enumerated on page 252 of this annual report.

INTERNAL CONTROLS

The Board recognises and affirms its overall responsibility for the Group's system of internal control, which includes the establishment of an appropriate control environment and control framework as well as reviewing its effectiveness, adequacy and integrity. The Board's evaluation of the adequacy of the system of internal controls in the Group is based on the criteria developed under COSO (Committee of the Sponsoring Organisations of the Treadway Commission) Internal Control Integrated Framework, which is a generally-accepted framework for internal control assessments.

RELATIONSHIP WITH AUDITORS

An appropriate relationship is maintained with the Company's Auditors through the Audit Committee. The Audit Committee has been explicitly accorded the power to communicate directly with both external Auditors and internal Auditors.

The role of the Audit Committee in relation to the Auditors is set out in the Terms of Reference on pages 118 to 120 inclusive, in this annual report.

AUDIT COMMITTEE

The Audit Committee also conducts reviews of the Internal Audit Function in terms of its authority, competencies and scope as defined in the Internal Audit Charter, thus ensuring the function to address the emerging risks of today as well as future risks. Furthermore, it ensures the independence of the internal auditors and unrestricted access to information, property and people in the Group. Highlights of activities conducted by the Committee are detailed in the Audit Committee Report on pages 115 to 116 inclusive, in this annual report.

INVESTOR RELATIONS

With a firm belief that value creation for shareholders stems from good corporate governance, TM is committed to communicating its strategy and activities regularly and clearly to its shareholders and, to that end, maintains an active dialogue with investors through a planned programme of investor relations activities and engagement.

TM, through its Investor Relations Unit, proactively disseminates relevant and timely information to the investment community to keep investors abreast of the Group's strategies, performance updates and key business activities happening at home and across the region.

Communication with the capital market is governed by the Investor Relations Policy and Guidelines to ensure adherence to best practice communication guidelines and fair and timely disclosure of information to all shareholders.

The announcement of the demerger of TM Group towards the end of 2007 heightened interest from the regional and global investment community. Careful steps were taken to ensure clear communication and equitable dissemination of information to shareholders and analysts. An Analysts' Briefing was held at TM's Head Office and via webcast for the virtual community while the Senior Management team was involved in a roadshow both domestically and regionally to address matters raised by key institutional shareholders.

Key Investor Relations initiatives undertaken in 2007 and aimed at improving corporate governance included:

Quarterly Financial Results Announcement and Briefing

TM conducted briefing sessions to analysts and fund managers' via teleconferencing subsequent to the release of TM's quarterly earnings disclosure to Bursa Securities. These sessions were chaired by the Group CEO and attended by Senior Management representing TM's key operations. These were aimed at providing an avenue for a clear understanding of the financial and operational performance of the Group.

Presentation Slides on Financial Results

The quality of disclosure of information has seen improvements reflecting TM's multi-faceted businesses and incorporating feedback from the investors who are the primary users of such information. Presentation slides of the announced results are prepared in an investor-friendly manner to aid understanding of the Group's financial results and performance. These are made available promptly on the Company's website following the release of information first to Bursa Securities. A copy of the presentation slides is also distributed by e-mail to analysts and investors who are on the Investor Relations distribution list.

Annual Analysts' Day

Continuing on the success of the inaugural Analyst Day in 2006, TM organised an Analyst Day for the year 2007 at its Head Office, Menara TM. About 60 analysts and fund managers from both local and foreign institutions attended the event. They had the opportunity to listen to key presentations and interact with TM's Senior Management members from both domestic and international operations in breakout sessions. Hosted by the Group CEO, and attended by key Senior Management personnel, including several CEOs of TM's international operations, such as Excelcomindo, Dialog, TMIB and MobileOne, the event has continued to receive positive feedback from participants, and demonstrated TM's commitment in improving its disclosure and transparency. TM believes that such efforts will encourage a fair valuation of the Company.

One-on-one Meetings, Conference Calls and Investor Conferences

The Group CEO, Group Chief Financial Officer and Investor Relations team are actively involved in Investor Relations activities through regular meetings and conference calls with institutional investors. TM has participated in various investor conferences held in Malaysia and abroad. Throughout 2007, close to 400 meetings and conference calls with investors and analysts were held.

Website

The TM website, www.tm.com.my is continuously updated, and provides an excellent medium of communication and source of information to shareholders, and the general public. The updated information on the website includes, among others, the Group's annual reports, financial results, investor presentations, capital structure information, press releases, and information on TM's international operations.

Feedback

Engagement with the capital market is not a one-way communication. TM recognises that feedback from the investment community is critical to meeting the information needs of shareholders and improving its relationship with them. As such, TM seeks feedback through ongoing surveys and engagement with investors and analysts. The positive feedback received over the year on the Group's improved Investor Relations efforts would not have been possible without these strategies. TM continuously listens to the investing community to enhance our Investor Relations.

A Graph on dividend payment and share price performance of TM is available on pages 47 and 49 of this annual report.

Signed on behalf of the Board of Directors pursuant to a resolution duly passed on 26 February 2008.

Tan Sri Dato' Ir Muhammad Radzi Hj Mansor
Chairman

Achieving Business Objectives By Improving Enterprise Risk Management (ERM) Execution

No organisation operates in a risk-free environment. A proactive approach in identifying current and potential risks and to put in place reasonable and adequate mitigation plans remain priorities for management, to ensure business targets and stakeholder expectations are met.

Enterprise Risk Management (ERM) has been effectively institutionalised throughout the TM Group. It began with the ability to embed risk assessment processes into business decision-making to enable TM Group to achieve its short and medium-term business objectives. ERM benefits are not merely restricted to the strategic level but have also to be extended to the operational level so that employees as a whole will be responsible for managing their strategic and operational business risks freely.

In 2007, ERM was embedded into business planning and strategy management processes. The successful implementation at strategic level provided the impetus for the ERM team to move forward to institutionalise the ERM framework at the operational level as part of the on-going exercise to improve ERM implementation within the Group.

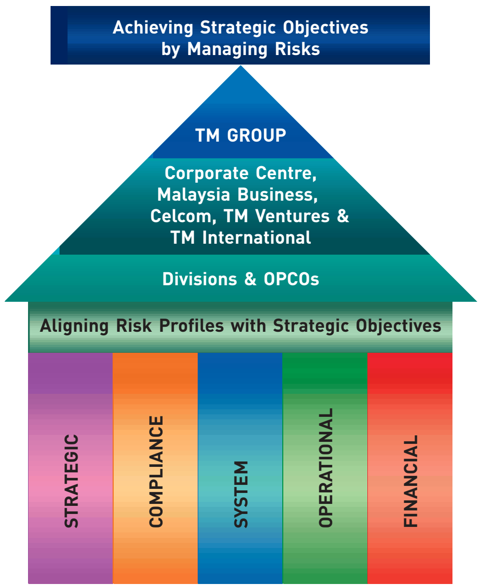
RISK ASSESSMENT IN BUSINESS PLANNING

The identification of risk from the onset is necessary for business to be proactive about both opportunity and threat. In defining strategy, direction-setting, and allocation of resources, risk assessment comes in handy to identify the actual or potential internal and external roadblocks that may prevent the achievement of business objectives. Having assessed both business opportunities and uncertainties up-front, the organisation can then be in a better position to chart the control elements and resources required to facilitate the journey towards success.

In 2007, TM had its first experience of embedding risk assessment in the business planning process whereby all the operating companies diligently complied with the ERM framework. As a result, the TM Group Corporate Risk Map has become a part of the Corporate Strategy Map using the Balanced Scorecard methodology.

RISK ASSESSMENT IN STRATEGY MANAGEMENT

While the strategy management team uses the Balanced Scorecard as performance measurement tools, as well as Key Performance Indicators (KPIs) and the initiatives to achieve its objectives, ERM looks into utilising some of the KPIs as risk indicators to gauge the level of risk performance that may prevent the organisation from achieving its business objectives.



Achieving Business Objectives By Improving Enterprise Risk Management (ERM) Execution

In line with the cascading principle of the Balanced Scorecard methodology, risk drivers will also be cascaded down from the strategic risk map to the operational division risk map with proper alignment to overall strategic objectives. Thus, risk and strategy are mutually interdependent through the balance between value creation by strategy execution and the avoidance of value destruction by risk management.

RISK REPORTING

The year 2007 saw ERM evolved significantly in TM whereby an ERM report was regularly escalated and discussed at the Board of Directors (BOD), Board Audit Committee (BAC) and senior management meeting. The report highlighted changes in the risk rating, mitigation plan status and its timeline for completion, control effectiveness and the health of the Key Risk Indicators. Any other significant issues affecting the achievement of objectives that required the attention of the BOD was channelled through the ERM report in line with the TM Group's Risk Management and Internal Control Policy statement to provide reasonable assurance of achieving business objectives, while safeguarding and enhancing shareholder investment and Company assets.

KEY RISK INDICATORS

Besides providing reports on the risk rating, mitigation plan status and control effectiveness, Key Risk Indicators or KRI have become a part of the report to provide early warning signals, express escalation criteria for risk management, as well as highlight current risk levels, trends and changes. The monthly KRI status has been monitored by the ERM Resource team to track risk changes. Since its introduction into the Group, KRI has brought value to the overall ERM implementation in TM. It has also supported the performance management report by giving a useful ongoing view of the underlying behaviour of the risk profile that can influence the achievement of strategic objectives.

RISK AWARENESS

Creating and maintaining a strong risk management culture within the organisation is necessary for a lasting and meaningful ERM programme. In creating such a culture and improving ERM implementation, communication is key. It is critical to collaborate with stakeholders and TM employees to ensure that consistent, meaningful ERM-related information sharing takes place throughout the organisation. These activities of the ERM function include engagement and communication with internal stakeholders, internal relationship management and facilitation, and awareness and training programmes about ERM. In conjunction with this, communication and training programmes to raise awareness of risk were planned and conducted with the Multimedia College. Moving forward, these training modules have since been improved to reflect the actual and current risk situation affecting TM business and operations as a whole.

The year also marked the first collaboration of ERM awareness programmes with Strategy Development and Management teams. A total of 11 awareness sessions were conducted nationwide involving Malaysia Business, TM Ventures, Celcom and Corporate Centre. These were followed by an additional seven awareness events conducted for other business entities at corporate and state levels.

To share ERM experiences with other GLCs, a seminar for the ERM Resource Team was successfully conducted on 21 May 2007 involving representatives from Petronas, Tenaga Nasional and KPMG. Following on its success, similar seminars will be continued as part of the ERM knowledge-sharing initiative by the TM Group on an annual basis.

BUSINESS RISK

As a business entity operating in a highly-regulated market, TM Group continues to be exposed to a multitude of business risks either originating from internal sources or the external environment. What follows are a number of significant business risks that TM Group manages under the ERM programme.

QUALITY OF SERVICE

TM is often judged by its ability to deliver a reliable service network to its customers. The key to customer success and a stimulant for new sales efforts is effective churn management. In delivering service commitment to its customers, TM recognises that there are factors which are beyond its control that may adversely affect its service quality and thereby impact the revenue and profitability of the Group.

These include natural disasters, network failure, equipment or cable damage and other operational problems. A continuous risk management effort or risk mitigation measures are needed to address these but there cannot be an absolute assurance that these events will not occur.

GOVERNMENT POLICY & REGULATORY ISSUES

Being in a highly-regulated industry, government decisions and actions on communication and multimedia policy or regulatory issues may have negative impact on the business of TM. For instance, the withdrawal of the 2.5 GHz and 3.5 GHz spectrum as announced by the Ministry of Energy, Water and Communications of Malaysia on 19 November 2007 may either be an opportunity or a threat to TM. Considering that TM has limited control over these external developments, continuous monitoring of industry changes and government policies remains one of the priorities of management to minimise surprises to the business.

Risks related to anti competition, trespassing, customer service management and apparatus assignment remain priority regulatory risks to be managed under the Operational Risk Assurance Program (ORAP).

TECHNOLOGY CHANGES

Rapidly changing technology continues to dominate the communications industry, creating both threats and opportunities. While TM needs to seize business opportunities via IT innovations and its ability to offer multi-business solutions to meet the new customer demands, strategic and well-managed plans are needed by Management, working with project resources, business users and technology partners. In particular, proper and realistic planning in the rollout of High Speed Broadband (HSBB) and Next Generation Network (NGN) implementation will ensure TM remains competitive and focused.

COMPETITION

The telecommunications industry faces intense competition from new entrants targeting lucrative customer segments. Furthermore, there is increasing demand for freedom of choice as a result of mobile lifestyles, high peer influence and changing customer behaviour. Such competition both in Malaysia and abroad needs to be continually monitored so that risks can be kept at acceptable levels in order to ensure business continuity and viability.

STAFF COMPETENCY & PERFORMANCE MANAGEMENT

Given growing competition and the robust technological changes, there is always an urgent need to upgrade staff competencies. Besides technical competencies, soft skills need to be enhanced in order to produce personnel with scalability, and strong and stable characters that will ensure continuing keen focus despite volatility in the marketplace and changing organisational structures. This includes enhancing and retaining core skills and driving fundamental culture change to break silo mentalities and legacy mindsets. Performance management needs to be broadened to all staff, to enable a more effective deployment of Balanced Scorecard principles throughout the organisation.

TERRORISM & POLITICAL RISK

Terrorist activity and political instability in some parts of the region may affect the performance of TM's regional investments. Even though such risks are beyond TM's direct control, the Management has put in place certain mitigation plans in order to safeguard their investments in high-risk countries including:

- Continuous surveillance of the political position in invested countries.
- Spreading the risk by going for regional expansion.
- Improved investment strategy by identifying countries that provide better investment protection, and bilateral agreement.
- Other financial protection.

At the ground level, special terrorism insurance, disaster recovery plans, crisis communication and business continuity plans remain key risk mitigation plans. Continuous monitoring and appropriate action will not eliminate the risks but can minimise their impact on the Group.

CONCLUSION

In summary, year 2007 provided a test-bed opportunity to embed and institutionalise ERM practices throughout the Group. Considering the size, culture, geographical spread and multitude of service offerings, ERM was a challenge to execute and institutionalise. Nevertheless, it has now been integrated into the strategic business planning process and cascaded down to the operational level. With the strong support of the Board of Directors and senior Management, ERM will continue its journey to help build a stronger and more resilient culture throughout the Group.

Code of Business Ethics

TM expects that its directors, managers, employees and representatives observe the highest standards of integrity in the conduct of its business. TM's reputation as a responsible corporate citizen depends on its complete understanding of best practices and compliance with policies as enunciated in its Code of Business Ethics ("CBE").

TM prides itself on observing high ethical standards. In 2007, it continued to infuse good values and ethics into the Group's basic business conduct by promoting an organisational culture that encourages ethical behaviour with a commitment to full regulatory and legal compliance. TM expects that business conduct must be carried out transparently and fairly. All vendors and suppliers must be given equal and fair access to information.

New employees are introduced to the Code to raise awareness of ethical business issues, and existing employees are continuously given lectures to ensure that they are able to apply sound judgment in deciding on the most ethical means of dealing with any given situation involving customers, suppliers, competitors, regulators, other stakeholders and the public in general. Employees of TM are also expected to treat each other with respect and fairness at all times in line with TM's Core Values (KRISTAL) which emphasise Respect and Care. To achieve the objectives, TM monitors and investigates complaints received. Disciplinary action is taken against employees, and vendors or suppliers who are found to be in breach of the Code are either reprimanded or blacklisted. In 2007, disciplinary action was taken against a number of employees who were found to be acting in concert with a vendor.

One of the key instruments for maintaining integrity in a corporation is the requirement for employees to declare their assets. Since 2004, all employees within the TM Group are required to declare all properties and assets which have been acquired or disposed by him, his spouse or his children in the year under review. The Code requires the employee to provide a reasonable explanation if he is found to live beyond his legitimate means.

In 2006, a manual on Procurement Ethics was introduced to complement the CBE in outlining the principles, the applications and the Do's and Don'ts related to the procurement process. It clarifies and institutionalises:

- What is considered to be acceptable business behaviour and by implication, behaviour that is not tolerated by the organisation;
- Available channels to communicate and report unethical behaviour; and
- The implications of non-compliance with the Procurement Ethics.

The Procurement Ethics is applicable to all employees and suppliers. Any breach of the Procurement Ethics may result in disciplinary action being taken, in addition to contractual and legal remedies.

The guidelines on Procurement Ethics can be downloaded from TM's corporate website. Briefings to employees of TM including overseas subsidiaries are conducted on an ongoing basis to update them on matters related to procurement and ethical sourcing.

The CBE was amended in March 2007 to include expressly the confidentiality obligation and also Intellectual Property (IP) provisions to ensure that an employee or ex-employee will not infringe the IP rights or leak any confidential information of TM and/or its Group to unauthorised parties. Prior to this the CBE only touched briefly on the obligations of employees to protect corporate information and intellectual property.

TM will always press for commitment from its workforce to promote an ethical business environment founded on integrity in line with international best practices to ensure business continuity and sustainability of the Group.

Ethical Business Practices

Additional Compliance Information

The following information is provided in compliance with the Bursa Securities Listing Requirements:

1. SHARE BUY-BACK

The Company did not make any proposal for share buy-back during the financial year.

2. AMERICAN DEPOSITORY RECEIPT (ADR) OR GLOBAL DEPOSITORY RECEIPT (GDR) PROGRAMME

The Company did not sponsor any ADR or GDR programme during the financial year.

3. IMPOSITION OF SANCTIONS/PENALTIES

There were no public sanctions and/or penalties imposed on the Company and its subsidiaries, directors or management by the relevant regulatory bodies during the financial year.

4. NON-AUDIT FEES

The amount of non-audit fees incurred for services rendered to the Group by the external auditors and their affiliated companies for the financial year ended 31 December 2007 are as follows:

		RM
(a)	PricewaterhouseCoopers, Malaysia	913,825
(b)	PricewaterhouseCoopers Taxation Services Sdn Bhd	2,071,900
(c)	Member firms of PricewaterhouseCoopers International Limited	453,037
	Total	**3,438,762**

Services rendered by PricewaterhouseCoopers are not prohibited by regulatory or other professional requirements, and are based on globally practised guidelines on auditor independence. PricewaterhouseCoopers is engaged for these services when their expertise and experience of TM are important. It is also the Group's policy to use the auditors in cases where their knowledge of the Group means it is neither efficient nor cost effective to employ another firm of accountants.

5. OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

The Company has not issued any options, warrants or convertible securities during the financial year ended 31 December 2007. Details of the Company's Employees' Share Option Scheme 3 (ESOS 3) are as disclosed in note 12(a) to the financial statements. ESOS 3 has expired on 31 July 2007.

The Company has been granted an exemption by the Companies Commission of Malaysia via a letter dated 18 February 2008 from having to disclose in this report the names of the persons to whom options have been granted during the period and details of their holdings pursuant to Section 169(11) of the Companies Act, 1965, except for information on employees who were granted options representing 100,000 ordinary shares and above.

The Company has not granted any options during the financial year ended 31 December 2007. However, disclosure of employees who were granted options under the Performance Linked Option Scheme (PLES) in 2005 having more than 100,000 of the PLES options vested during the financial year 2007 is disclosed on pages 254 and 255 of the annual report.

6. UTILISATION OF PROCEEDS FROM CORPORATE PROPOSALS

TM – Proceeds from Sale of a Subsidiary

On 5 April 2007, TM completed its divestment of a 60.0% interest in Telekom Networks Malawi Limited to MTL Mobile Ltd for a total cash consideration of USD16 million. Proceeds from the divestment were used to finance TM's working capital.

TM's RM1.0 billion Islamic Sale and Leaseback Transaction

On 15 January 2008, TM completed its RM1.0 billion Islamic Sale and Leaseback Transaction that involved the issuance of RM1.0 billion of Islamic Asset Backed Sukuk Ijarah by Menara ABS Berhad (MAB). The transaction was completed with the sale and purchase of Menara TM, Menara Celcom, TM Cyberjaya Complex and Wisma TM (Taman Desa) to MAB for a total purchase consideration of RM1.0 billion. TM has also entered into a 15-year lease agreement under the Ijarah principle. MAB issued 3 classes of Sukuk, namely RM345 million Class 'A', RM155 million Class 'B' and RM500 million Class C. Rating Agency Malaysia Bhd has rated Class A and B, with Class C being un-rated. TM has utilised the proceeds from the transaction to partially pay a special gross dividend of RM0.65 per share (less Malaysian Income Tax of 26%).

Spice Communications Ltd (Spice) – Proceeds from Initial Public Offering (IPO)

TM's jointly controlled entity in India, Spice Communications Ltd commenced trading on the Bombay Stock Exchange (BSE) on 19 July 2007 with a debut price of INR55.75 per share. The issuance had successfully raised INR6,322 million (approximately USD156 million). As at 30 September 2007, approximately 50% of the IPO proceeds has been utilised as part payment of its long-term debt. The remaining funds were used to finance its network rollout involving acquisition of network equipment and payment of licence fee.

Spice Communications Ltd – Proceeds from Sale and Leaseback of Towers

On 25 December 2007, the Board of Directors of Spice approved the sale and leaseback of the company's 875 telecom towers to a tower operating company in India for a total consideration of INR6.0 billion (approximately USD150 million). The proceeds from the sale was used to partially support the company's financial obligations arising from the issuance of Letters of Intent for the Award of Licence to provide Unified Access Services in 4 additional new Circles in India.

Dialog Telekom PLC – Rights Issue & Rated Cumulative Redeemable Preference Share

On 27 June 2007, TM's subsidiary in Sri Lanka, Dialog Telekom PLC, completed a Rights Issue and Rated Cumulative Redeemable Preference Share (RCRPS) issuance exercise to raise SLR20.54 billion (approximately USD188.52 million). The rights issue of 740.3 million shares at SLR21 per share raised SLR15.54 billion (approximately USD142.63 million), from its existing ordinary shareholders while RCRPS placed with institutional investors raised the additional SLR5.0 billion (approximately USD45.89 million). The proceeds will partially finance Dialog's capital expenditure planned for the next 3 years.

7. VARIATION IN RESULTS

There were no profit estimations, forecasts or projections made or released by the Company during the financial year.

However, the Company had on 19 March 2007 announced its Headline Key Performance Indicators (KPIs) for the financial year ended 31 December 2007 to enhance greater transparency to the public, as part of the broader performance management framework that TM has in place, and as prescribed under the Government Linked Company (GLC) Transformation Programme.

These Headline KPIs are targets or aspirations set by the Company and shall not be construed either as forecasts, projections or estimates of the company or representation of any future performance.

8. PROFIT GUARANTEE

During the financial year, the Company did not give any profit guarantee.

9. MATERIAL CONTRACTS INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

There were no material contracts entered into by the Company and/or its subsidiaries involving Directors and major shareholders' interests either subsisting as at 31 December 2007 or entered into since the end of the previous financial year ended 31 December 2006, except for the following contracts/agreements in respect of the joint venture between TM, TM International Berhad (TM International) and our major shareholder, Khazanah Nasional Berhad (Khazanah) in relation to MobileOne Ltd (M1):-

(a) Restated Joint Venture and Shareholders' Agreement dated 23 September 2005 entered into between Khazanah, TM International and TM, which amended and replaced the previous Joint Venture and Shareholders' Agreement dated 17 August 2005 to regulate the affairs of SunShare Investment Ltd (SunShare) as a special purpose vehicle for the acquisition of shares in M1; and

(b) Subscription Agreement dated 23 September 2005 between SunShare, Khazanah and TM for the subscription of redeemable convertible preference shares of USD0.01 each in SunShare at the issue price of USD1.00 each by Khazanah and TM for a consideration of USD35,965,998 and USD37,433,992 respectively.

10. REVALUATION POLICY ON LANDED PROPERTIES

The Company has not adopted any revaluation policy or carry out any revaluation exercise on its landed properties during the financial year.

11. RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE (RRPT)

At the last EGM held on 8 May 2007, the Company obtained a general mandate from its shareholders on the RRPT entered into by the Company and/or its subsidiaries (RRPT Mandate). The RRPT mandate is valid until the conclusion of the forthcoming 23rd AGM of the Company to be held on 17 April 2008.

Pursuant to paragraph 10.09 (1)(b) of the Bursa Securities Listing Requirements, the details of the RRPT entered into during the financial year ended 31 December 2007 pursuant to the said shareholders' mandate are as follows:

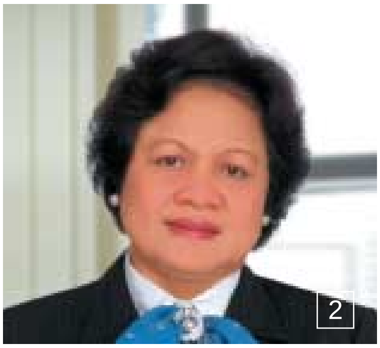
Transacting companies within TM Group	Transacting Related Parties	Interested Related Parties	Nature of relationship	Nature of Transaction	Value of Transactions RM'000
TM and its wholly-owned subsidiaries, namely TM International Berhad (TM International), Telekom Malaysia (Hong Kong) Limited (TMHK), Telekom Malaysia (S) Pte Ltd (TM(S)) and Celcom (Malaysia) Berhad (Celcom)	PT Excelcomindo Pratama Tbk (XL)	MoF Inc., Khazanah, Datuk Zalekha Hassan, Puan Dyg Sadiah Abg Bohan and Dato' Azman Mokhtar	In addition to their interest in XL through their shareholdings in TM, MoF Inc. and Khazanah have an interest of 16.81% in XL. Datuk Zalekha Hassan is a representative of MoF Inc. on TM Board. Puan Dyg Sadiah Abg Bohan is the alternate Director to Datuk Zalekha Hassan. Dato' Azman Mokhtar is the Managing Director of Khazanah and also a representative of Khazanah on TM Board.	– Provision of Voice Over Internet Protocol (VoIP) related services by TM, TM International, TM(S) and Celcom to XL and vice-versa. Provision of VoIP related services by XL to TMHK – International roaming and interconnection charges by Celcom and TM(S) to XL and vice-versa – Interconnection and leased line charges by TM to Excelcomindo and vice versa. Interconnection and leased line charges by XL to TM International and TMHK – Other telecommunication services cost and reimbursement expenses charged by TM, TM(S) and Celcom to XL and vice-versa – Lease of bandwidth to support Network Access Point product for corporate solutions by TM to XL	53,429
XL	MobileOne Limited (M1)	MoF Inc., Khazanah, Datuk Zalekha Hassan, Puan Dyg Sadiah Abg Bohan and Dato' Azman Mokhtar	In addition to their interest in XL through their shareholdings in TM, MoF Inc. and Khazanah have an interest of 16.81% in XL. In addition to their interest in M1 through their shareholdings in TM, MoF Inc. and Khazanah have an interest of 29.73% in M1 through their 20% interest in SunShare Investments Ltd.	International roaming and interconnection charges by XL to M1 and vice-versa	7,811

Transacting companies within TM Group	Transacting Related Parties	Interested Related Parties	Nature of relationship	Nature of Transaction	Value of Transactions RM'000
XL (Continued)			Datuk Zalekha Hassan is a representative of MoF Inc. on TM Board. Puan Dyg Sadiah Abg Bohan is the alternate Director to Datuk Zalekha Hassan. Dato' Azman Mokhtar is the Managing Director of Khazanah and also a representative of Khazanah on TM Board.		
XL	PT Bank Lippo Tbk (Lippo Bank)	MoF Inc., Khazanah, Datuk Zalekha Hassan, Puan Dyg Sadiah Abg Bohan and Dato' Azman Mokhtar	In addition to their interest in XL through their shareholdings in TM, MoF Inc. and Khazanah have an interest of 16.81% in XL. MoF Inc. and Khazanah have an interest of 87.8% in Lippo Bank. Datuk Zalekha Hassan is a representative of MoF Inc. on TM Board. Puan Dyg Sadiah Abg Bohan is the alternate Director to Datuk Zalekha Hassan. Dato' Azman Mokhtar is the Managing Director of Khazanah and also a representative of Khazanah on TM Board.	Supply of Multi Protocol Level Switch and Global System for mobile communication services from XL to Lippo Bank	5,306
Multinet Pakistan (Pte) Limited (Multinet)	Fiberail Sdn Bhd (Fiberail)	MoF Inc., Khazanah, Datuk Zalekha Hassan, Puan Dyg Sadiah Abg Bohan and Dato' Azman Mokhtar	In addition to their interest in Fiberail through their shareholdings in TM, MoF Inc. and Khazanah have an interest of 36% in Fiberail through MoF Inc.'s wholly-owned subsidiary, Keretapi Tanah Melayu Berhad.	Supply of fibre optic cables by Fiberail to Multinet	10,142

Transacting companies within TM Group	Transacting Related Parties	Interested Related Parties	Nature of relationship	Nature of Transaction	Value of Transactions RM'000
Multinet Pakistan (Pte) Limited (Multinet) (Continued)			Datuk Zalekha Hassan is a representative of MoF Inc. on TM Board. Puan Dyg Sadiah Abg Bohan is the alternate Director to Datuk Zalekha Hassan. Dato' Azman Mokhtar is the Managing Director of Khazanah and also a representative of Khazanah on TM Board.		
TM and/or its subsidiaries	Khazanah and/or companies in which Khazanah holds an interest of at least 5% (other than through TM) (Khazanah Companies)	MoF Inc., Khazanah, Datuk Zalekha Hassan, Puan Dyg Sadiah Abg Bohan and Dato' Azman Mokhtar	MoF Inc. and Khazanah have an interest of at least 5% in Khazanah Companies. Datuk Zalekha Hassan is a representative of MoF Inc. on TM Board. Puan Dyg Sadiah Abg Bohan is the alternate Director to Datuk Zalekha Hassan. Dato' Azman Mokhtar is the Managing Director of Khazanah and also a representative of Khazanah on TM Board.	Sales and purchases of interconnection services on international and domestic traffic to/from Time DotCom Berhad and its subsidiaries	28,350

The Company proposes to obtain a new RRPT Mandate at the forthcoming 23rd AGM of the Company. This new RRPT Mandate, if approved by shareholders, would be valid until the conclusion of the next AGM of the Company.

Audit Committee Report



MEMBERSHIP

The Audit Committee comprises 3 Independent Non-Executive Directors and 1 Non-Independent Non-Executive Director. The composition of the Audit Committee in 2007 was as follows:

YB Datuk Nur Jazlan Tan Sri Mohamed
(Chairman, resigned 29 May 2007)
Independent Non-Executive Director

Dato' Lim Kheng Guan 1
(Chairman, appointed 16 August 2007)
Senior Independent Non-Executive Director

Dato' Ir Dr Abdul Rahim Daud
(resigned 16 August 2007)
Independent Non-Executive Director

Dato' Ahmad Hj Hashim
(resigned 7 January 2008)
Non-Independent Non-Executive Director

Datuk Zalekha Hassan 2
(appointed 31 January 2008)
Non-Independent Non-Executive Director

Rosli Man 3
Independent Non-Executive Director

Ir Prabahar NK Singam 4
(appointed 16 August 2007)
Independent Non-Executive Director

Hashim Mohammed 5
Group Chief Auditor/Secretary to the Audit Committee

Members of the Audit Committee shall not have a relationship, which in the opinion of the Board, would interfere with the exercise of independent judgement in carrying out the functions of the Audit Committee. Members of the Audit Committee shall possess wisdom, sound judgement, objectivity, independent attitude, management experience and knowledge of the industry.

YB Datuk Nur Jazlan Tan Sri Mohamed, the Chairman of the Audit Committee up till May 2007 and Dato' Lim Kheng Guan, Chairman from August 2007, are both Independent Non-Executive Directors and members of the Malaysian Institute of Accountants (MIA).

MEETINGS & ATTENDANCE

The Audit Committee had a total of seven (7) meetings in the financial year 2007. The attendance record was as follows:

Member	Attendance	Percentage
YB Datuk Nur Jazlan Tan Sri Mohamed	3/3	100%
Dato' Lim Kheng Guan	7/7	100%
Dato' Ir Dr Abdul Rahim Daud	4/4	100%
Dato' Ahmad Hj Hashim	5/7	71%
Rosli Man	7/7	100%
Ir Prabahar NK Singam	3/3	100%

The Group Chief Executive Officer, Group Chief Financial Officer, other Senior Management members and External Auditors attended these meetings upon invitation to brief the Audit Committee on specific issues. A key feature prior to each Audit Committee Meeting is a private session between the Chairman and the Group Chief Auditor and the External Auditors (separately) without the Management's presence. The Audit Committee also had several meetings with the External Auditors without the Management's presence.

Minutes of meetings of the Audit Committee were circulated to all members of the Board and significant issues were discussed at Board Meetings.

SUMMARY OF ACTIVITIES IN 2007

The Audit Committee carried out its duties as set out in the terms of reference published elsewhere in this annual report. The Audit Committee also reviewed and deliberated on reports and updates as provided by the following Committees.

(a) The Best Practice Committee (formerly known as Task Force for Best Practices) which was established by the Audit Committee in 2001 mainly to provide support as follows:

- New updates and developments of best business practices and exposure drafts, principally on Corporate Governance, statutory and regulatory requirements, compliance with accounting standards and other business guidelines.
- Establishment of Group Business Assurance Committee (GBAC) following the consolidation of Risk Management Unit, Fraud Management Unit and Revenue Assurance Unit under Group Finance.
- Establishment of Enterprise Risk Management (ERM) Standard Operating Procedures in order to improve the standardisation of ERM implementation processes throughout the Group.
- Reviews and reports on the adequacy, effectiveness and reliability of the system of internal controls based on control self-assessments performed annually by key senior management of the Operating Companies/ Subsidiaries through the Annual Internal Control Assurance Letter reporting, and Internal Control Incidents submitted to the Group Chief Executive Officer and the Group Chief Auditor.
- Reviews and reports on the status of financial controls based on self-assessments conducted quarterly by the CEO/CFO of the Operating Companies/Subsidiaries through the Financial Controls Compliance and Assurance Letter submitted to the Group CFO.
- Reviews and reports on new policy updates, revisions or enhancements of the Business Process Manual and Subsidiaries Policy as recommended by the Management to ascertain that the improvements made are aligned to business best practices and effective internal control processes.

(b) The Management Audit Issues Action Committee which was established by the Audit Committee in 2002 to update on progress of:

- Management actions to resolve significant internal controls and accounting issues as highlighted by the Internal and External auditors.
- Any other recommendations made by the Audit Committee for Management action.

(c) The Internal Control Incident Committee, established in 2003, which deliberates alleged major control incidents or failures based on reports submitted from Management or special investigation/audit conducted and proposes the next course of action. The reports are summarised by the Group Chief Auditor and updated to the Audit Committee at least on a quarterly basis describing the following:

- The nature and root causes of control failures which have financial impact and/or affect the image and reputation of the Group.
- Lateral learnings to prevent recurrence of similar incidents within the Group.
- Status of actions taken by Management to remedy control weaknesses and appropriate disciplinary action taken.

(d) Reports from Management on the following:

- The extent of non-audit work performed by the External Auditors to ensure that the provision of non-audit services does not impair their independence or objectivity.
- The implementation preparation and progress of the major projects that have been developed and implemented in 2007 such as Group Enterprise Resource Management System (GEMS).
- Group Business Assurance Report, which comprised Risk Management activities, Revenue Assurance and Fraud Management.
- Treasury Investment status report on a quarterly basis which focused on TM's equity and fixed income portfolios.

(e) COSO (The Committee of Sponsoring Organisations of the Treadway Commission) which has been adopted as the generally-accepted integrated framework for internal controls and which is widely recognised as the definitive standard against which the Group measures the effectiveness of its systems of internal control.

GROUP INTERNAL AUDIT

Group Internal Audit ("GIA") strives to provide greater value as a key contributor to the Group's governance framework. Many new areas of governance now require a different type of auditing skills and this has led to a fundamental shift in the nature of audit services provided by GIA. Effective internal audit functions help the Group to accomplish the business objectives by establishing a structured, disciplined approach to review and evaluate the effectiveness of governance, risk management and internal control processes. The purpose, authority and responsibility of GIA as well as the nature of assurance and consultancy activities provided to the Group is clearly articulated in the Internal Audit Charter that has been approved by the Audit Committee.

GIA reports directly to the Audit Committee. The Group Chief Auditor periodically reports the activities and key strategic and controls issues noted by GIA to the Audit Committee. The Audit Committee reviews and approves the GIA's annual budget and Human Resource requirements to ensure that this important function is adequately resourced with competent and proficient internal auditors.

INTERNAL AUDIT PRACTICES & FRAMEWORK

To ensure standardisation and consistency in providing assurance on the adequacy, integrity and effectiveness of the Group's overall system of internal controls, risk management and governance, GIA has realigned its current audit practices towards COSO Internal Controls – Integrated Framework. Using this framework, all internal control assessments performed by GIA must be based on the five (5) internal control elements as follows:

- Control Environment
- Risk Assessment
- Control Activities
- Information & Communication
- Monitoring

To further improve the existing internal audit processes, and achieve greater efficiency and productivity, GIA has acquired an electronic document management system. Key audit processes that have been enhanced through the documents management system are risk assessment, scheduling activities, electronic working paper and on-line audit review.

SCOPE & COVERAGE

GIA maintains a flexible audit approach and a dynamic audit plan that addresses the emerging risks of today as well as potential future risks. This has enhanced its ability to effect and facilitate change, and foster continuous improvements within the Group. The end-to-end process audit has positioned GIA at the forefront of positive change by recommending and facilitating the alignment of people, processes and technology.

The scope of the audit engagement is aligned with the primary risks of the organisation mainly arising from previous audit issues, TM Group Risk Strategy and strategic initiatives under the Performance Improvement Programme (PIP) from entity, subsidiary, business or process levels. Identified key audit areas in 2007 in line with COSO broad objectives are as follows:

1. **Effectiveness and efficiency of operations**
    - Information Technology & Systems Reviews
    - SAP Post Implementation Reviews
    - Key Business Process (i.e. end-to-end process)
    - Reviews on Shared Services Organisation (SSO)
    - Contract Management
    - Reviews on IT Governance
2. **Reliability of Financial Reporting**
    - Financial Reporting Reviews
    - Quarterly Interim Financial Reviews
    - Billing System Reviews
3. **Compliance with applicable laws and regulations**
    - Recurrent Related Party Transactions Reviews

GIA has also been requested to collaborate with Management to review and evaluate the risk exposure for TM's major projects and ensure that the controls are adequate to mitigate those identified risks.

COMMITMENT TO COMPETENCE

Given the ever-increasing range of new technologies, process risks and changes to the business environment, it is critical that internal auditors are well trained and equipped with the requisite skills and knowledge. In 2007, the Group invested heavily in developing and executing training programmes to meet its business requirements and to enable internal auditors to perform their duties better. Among the seminars and workshops attended by GIA in 2007 were:

Corporate Governance
- Update on Corporate Law and Capital Markets
- Revised Malaysian Code on Corporate Governance
- Corporate Boards and Challenges

Management & Leadership
- Building and Nurturing High Performance Teams
- National Management Conference 2007
- Effective Middle Management

Process Knowledge
- Telecoms Fraud and Fraud Risk Prevention
- Strategic Procurement & Supply Chain Management
- Strategic Marketing Planning
- Financial Reporting Environment in Malaysia, Updates
- SAP Authorisation Concept
- World Continuity Congress on Business Continuity and Disaster Growth
- IT Audit for IT Managers
- Risk Based Auditing

INTERNAL AUDIT QUALITY

In line with The Institute of Internal Auditor (IIA) Standards, GIA carries out periodic and on-going assessments on the entire spectrum of audit work performed by the internal auditors via an external quality assessment by a qualified independent reviewer once every five years. The assessment includes the evaluation of areas such as compliance with IIA standards and GIA Manuals, contribution to the governance, risk assessment and control processes as well as performance management. Group Internal Audit generally conforms to the International Standards for the Professional Practice of Internal Auditing.

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

1. COMPOSITION

The Audit Committee (AC) Members shall be appointed by the Board of Directors ("Board") from amongst their members. No alternate director shall be appointed as a member of the Audit Committee.

The AC must be composed of no fewer than three members and the majority shall be Independent Non-Executive Directors. All members of the AC, including the Chairman, will hold office only so long as they serve as Directors of Telekom Malaysia Berhad (TM).

The composition of the AC shall meet the independence and experience requirements of the Bursa Securities Listing Requirements and other rules and regulations of the Securities Commission. The Board of Directors must review the term of office and performance of the AC and each of its members at least once every three years to determine whether the AC has carried out its duties in accordance with Terms of Reference.

2. MEETINGS

The AC shall meet at least four times a year and such additional meetings as the Chairman shall decide. In order to form a quorum, a majority of the members must be present and the majority of those present must be Independent Non-Executive Directors. The Notice and agenda for the meeting shall be sent in advance to all members of the AC. The Chairman of the AC shall provide to the Board a report of the AC Meetings.

3. AUTHORITY

In carrying out its duties and responsibilities, the AC shall have the following rights, in accordance with the procedures to be determined by the Board of Directors and at the cost to the Company:

a. Have explicit authority to investigate any matter within its terms of reference;

b. Have the resources which are required to perform its duties;

c. Have full, free and unrestricted access to any information, records, properties and personnel of TM and of any other companies within the TM Group;

d. Have access to the minutes, reports and information of all subsidiary AC;

e. Have direct communication channels with the External Auditors and person(s) carrying out the internal audit function or activity (if any);

f. Be able to obtain independent professional or other advice and to invite outsiders with relevant experience to attend the AC's meetings (if required) and to brief the AC thereof;

g. The attendance at any particular AC meeting by other Directors and employees of TM at the AC's invitation and discretion and must be specific to the relevant meeting;

h. Be able to convene meetings with External Auditors, excluding the attendance of the executive members of the AC, whenever deemed necessary;

i. Have immediate access to reports on findings and recommendations from Group Internal Audit in respect of any fraud or irregularities discovered and referred to Group Internal Audit by the Management;

j. Be able to seek clarification from the subsidiary Board or CEO;

k. Have step-in rights in the situation where there is possible fraud, illegal acts or code of conduct violation is suspected involving senior management or members of the Board;

l. Be able to direct the centralisation of the Group Internal Audit (GIA) and that GIA provides representation at the subsidiary AC;

m. Have authority and ability for placement of internal audit resources TM Group wide;

n. Require the Head of Internal Audit at subsidiary and the Group Chief Auditor to escalate and inform the AC immediately on urgent matters.

4. DUTIES AND RESPONSIBILITIES

The following are the main duties and responsibilities of the AC collectively, (and shall review and report the same to the Board of Directors):

4.1 Risk Management and Internal Control

- Review the adequacy and the integrity of the Group's internal control systems and management information systems, including systems for compliance with applicable laws, rules, directives and guidelines.
- Propose an adequate system of risk management for Management to safeguard the Group's assets.
- Review the risk profile of the Group and major initiatives having significant impact on the business.

4.2 Financial Reporting Review

- Review the quarterly interim results, half-yearly results and annual financial statements review of the Company and the Group, focusing particularly on:
  - a) Any changes in accounting policies and practices;
  - b) Significant or material adjustments with financial impact arising from the audit;
  - c) Significant unusual events or exceptional activities;
  - d) Financial decision-making with the presumptions of significant judgments;
  - e) The going concern assumptions; and
  - f) Compliance with approved accounting standards, stock exchange and other regulatory requirements.
- Review with the External Auditors the financial statements for the purpose of approval before the audited financial statements are presented to the Board for adoption including:
  - a) Whether the auditors' report contained any qualifications which must be properly discussed and acted upon for purposes of resolving the contentious point of disputes in the current audits and to remove the cause of the auditors' concern in the conduct of future audits;
  - b) Significant changes and adjustments in the presentation of financial statements;
  - c) Compliance with laws and local and international accounting standards;
  - d) Material fluctuations in balances in the financial statements;
  - e) Significant variations in audit scope and approach; and
  - f) Significant commitments or contingent liabilities.
- Discuss problems and reservations arising from the interim and final audits and any matter the auditor may wish to discuss in the absence of Management where necessary;
- Propose best practices on disclosure in financial results and annual reports of the Company in line with the principles set out in the Malaysian Code of Corporate Governance, other applicable laws, rules, directives and guidelines.
- Review the follow-up actions by Management on the weaknesses of internal accounting procedures and controls as highlighted by the External and Internal Auditors as per management letters.
- Where there is an audit assignment initiated by the GIA central office that have bearing upon all subsidiaries or that the subsidiaries' results would affect the audit opinion of the Group, the respective subsidiaries' internal audit office must adhere to the request and include in its audit plan.

4.3 External Audit

- Consider the appointment of a suitable accounting firm to act as External Auditors and amongst the factors to be considered for the appointment are the adequacy of the experience and resources of the firm and the persons assigned to the audit, to consider any question of resignation (including any letter of resignation) or removal and whether there is a reason (supported by grounds) to believe that the External Auditors are not suitable for re-appointment and to recommend the audit fee payable thereof.
- Discuss with the External Auditors before the audit commences, the audit plan, nature, approach and scope of the audit and ensure coordination where more than one audit firm is involved.

- Monitor the extent of non-audit work to be performed by the external auditors to ensure that the provision of non-audit services does not impair their independence or objectivity.

4.4 Group Internal Audit (GIA)

- To approve the Internal Audit Charter, which defines the independent purpose, authority, scope and responsibility of the internal audit function in the Company and Group.
- Review the Internal Audit Plan and results of the internal audit process and where necessary to ensure:
  a) That appropriate action is taken on the recommendations of the internal audit function;
  b) That Group Internal Audit has adequate and competent resources and that it has the necessary authority to carry out its work; and
  c) That the goals and objectives of Group Internal Audit are commensurate with corporate goals.
- Review and appraise the performance and remuneration of the Group Chief Auditor and senior staff members of Group Internal Audit, approve the appointment or termination of the Group Chief Auditor and senior staff members of Group Internal Audit and inform itself of resignations of the Group Chief Auditor and senior staff members of the Group Internal Audit and provide the resigning staff member an opportunity to submit his reasons for resigning.
- Be informed, referred to and agree on the initiation, commencement and mechanism of any disciplinary proceedings/investigations, including the nature and reasons for the said disciplinary proceedings/investigations, as well as the subsequent findings and proposed disciplinary actions against the Group Chief Auditor and senior staff members of Group Internal Audit. As employees of TM, the Group Chief Auditor and senior staff members of Group Internal Audit are subject to TM's human resource policies and guidelines, including disciplinary proceedings/investigations and actions.
- The internal audit function should be independent of the activities that they audit and should be performed with impartiality, proficiency and due professional care. The Board or the AC should determine the remit of the internal audit function.

4.5 Related Party Transactions

- Consider and review any significant transactions, which are not within the normal course of business and any related party transactions and conflict of interest situations that may arise within the Company and the Group including any transaction, procedure or course of conduct that raises questions of Management integrity.

4.6 Employee Share Option Scheme (ESOS)

- Verify the allocation of share options to the Group's eligible employees in accordance with the Bursa Securities Listing Requirements at the end of each financial year.

4.7 Other Matters

- Establish a process for dealing with complaints received by the Company and the Group regarding accounting issues, internal control matters or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- To report to Bursa Securities, if the AC views that a matter resulting in a breach of the Bursa Securities Listing Requirements reported by the AC to the Board has not been satisfactorily resolved by the Board.
- Such matters as the AC considers appropriate or as defined by the Board.

Dato' Lim Kheng Guan
Chairman

RESPONSIBILITY AND ACCOUNTABILITY

The Board of Directors ("Board") is responsible and accountable for maintaining a sound system of internal control which covers governance, risk management, financial, organisational, operational and compliance controls to safeguard shareholders' investments, customers' interests and the Group's assets. The Board recognises and affirms its overall responsibility for the Group's system of internal control which includes the establishment of an appropriate control environment and framework as well as reviewing its effectiveness, adequacy and integrity. However, the Board recognises that this system is designed to manage, rather than eliminate the risk of non-achievement of the Group's objectives. It therefore, provides reasonable and not absolute assurance, against the occurrence of any material misstatement or loss.

The Board is assisted by the Management in the implementation of the approved policies and procedures on risk and control. Management identifies and assesses the risk faced and then designs, implements and monitors appropriate internal controls to mitigate and manage these risks.

This Statement on Internal Control ("the Statement") has been prepared in compliance with the Listing Requirements of Bursa Malaysia Securities Berhad and in accordance with the guidance in the "Statement on Internal Control – Guidance for Directors of Public Listed Companies".

RISK MANAGEMENT GOVERNANCE

The Group has in place an on-going process for identifying, evaluating, monitoring and managing the significant risks affecting the achievement of the Group's objectives throughout the period. This process is regularly reviewed by the Board taking cognisance of changes in the regulatory and business environment to ensure the adequacy and integrity of the system of internal controls.

TM Group is committed to implementing Enterprise Risk Management (ERM) as a key strategic risk management tool to proactively identify and manage risks throughout the Group. It is inevitable that risks will always exist in an organisation and these risks are managed or controlled. Managing risk is a shared responsibility and therefore, the management of risk is integrated into the managerial framework of an organisation. It is an interactive process consisting of steps which, when undertaken in sequence, enable continual improvement in decision-making.

Principal risks that have been identified by the Board are:

- *Strategic Risk: Human Resource risk, Market risk and Technology risk*
- *Operational Risk: Process risk (e.g. Network risk, Procurement risk, IT risk)*
- *Reporting Risk: Information System risk and Financial Reporting risk*
- *Compliance Risk: Regulatory risk and Legal risk*

INTERNAL CONTROL FRAMEWORK

The Board's evaluation of the adequacy of the internal controls in the Group is based on the criteria developed under COSO (Committee of the Sponsoring Organisations of the Treadway Commission) Internal Control Integrated Framework. It is a generally-accepted framework for internal control and is widely recognised as the standards against which the Group measures the effectiveness of its systems of internal control. The internal control system is intertwined with the Group's operating activities and exists for fundamental business reasons.

Under the COSO model, internal control framework is segregated into five inter-related components as follows.

A. CONTROL ENVIRONMENT

Control environment is the organisational structure and culture created by management and employees to sustain organisational support for effective internal control. The Management's commitment to establishing and maintaining effective internal control are cascaded down and permeated throughout the Group control environment, aiding in the successful implementation of internal controls. Key activities involved are:

Organisation Structure
- TM Group has a formal organisation structure in place with clearly defined lines of responsibility and accountability aligned to business and operations requirements.

Assignment of Authority and Responsibility
- Clear definition of limits of authority and responsibilities through the Group's Business Process Manual and Subsidiaries Policy that have been approved by the Board and subject to regular reviews and enhancements.

Core Values
- Internalisation of TM Group's Core Values of "Total Commitment to Customers", "Uncompromising Integrity" and "Respect and Care" sets the guiding principles of the Group's culture.

Code of Business Ethics
- All employees are required to sign and adhere to the Group's Code of Business Ethics, which outlines the minimum standard of behaviour and ethical conduct expected of employees in business matters.

Competency – Based Development Framework
- TM Group has established a framework to analyse current human capital development needs and challenges undertaken to ensure key assets, being its people and their dedication and abilities, are competitive in the present and remain so in the future.

Board and Audit Committee
- The various Board Committees, namely the Audit Committee, the Nomination and Remuneration Committee, the Tender Committee, Employee Share Option Scheme (ESOS) Committee and other ad-hoc Committees that are all governed by clearly defined terms of references.
- The Audit Committee, comprising all non-executive directors and a majority of independent directors, bring with them wide ranging in-depth experience, knowledge and expertise. They continue to meet and have full and unimpeded access to both the internal and external auditors during the financial year.

Human Resource Policies and Procedures
- Efforts have been made by the Group to realign its existing Human Resource policies and procedures with the initiatives developed by the Government under the GLC Transformation Programme.

B. RISK ASSESSMENT

Risk assessment is the identification and analysis of relevant risks to achieve the Group's objectives, forming a basis for determining how risk is managed in terms of likelihood and impact. Key activities involved within this area are:

Enterprise Risk Management (ERM)
- Risk management is firmly embedded in the Group's system of internal control as it is regarded by the Board to be an integral part of the operations. Managing risk is a shared responsibility and therefore the management of risks is integrated within the Group's governance, business processes and operations. It is an interactive process consisting of steps which, undertaken in sequence, enable continual improvement in decision-making. Employees' appreciation and commitment to ERM is continually emphasised and enforced.

- Group Internal Audit complements the role of Risk Management Unit by performing post-implementation reviews of ERM workshops, to independently review risk profiles, risk management strategies and adequacy and effectiveness of the controls identified and implemented in response to the risks identified.

Control Self-Assessments (CSA)
- Control Self-Assessments (CSA) is a process that allows the employees in the Group to identify the risks within their business environment and evaluate adequacy and effectiveness of the controls in place. The CSA's result is used as one of the key information in identifying high-risk areas within the Group.

C. CONTROL ACTIVITIES

Control activities are the policies and procedures that help ensure management's directives are carried out. Relevant activities within TM Group are as follows:

Business Performance Management (BPM) Policy and Guidelines

- BPM provides a comprehensive reference to TM Balanced Scorecard (BSC) implementation, stating the guiding principles and policies for TM Group on BSC development and deployment processes;
- It supports TM's Corporate Governance, providing an internal control framework to manage strategy implementation for better business performance results.

IT Governance Policy

- TM Group has in place an IT Governance policy which is established based on the current Information Technology (IT) issues identified internally and raised by the internal and external auditors. It consists of 6 core policies, namely IT Security Policy, IT Network Policy, IT Application Control Policy, IT Desktops, PDA, Email, Internet and Intranet Policy, Purchasing, Licensing and Usage of Corporate Software and Business Continuity Facility Policy.

Subsidiaries Policy

- Subsidiaries Policy (SP) is positioned to ensure that the Group's interests are protected and prioritised at all times while providing adequate flexibility for subsidiaries to deliver their respective business objectives.

Performance Improvement Programme (PIP)

- TM's PIP journey is synchronised with the overall GLC Transformation Programme as envisioned in the GLC Transformation Manual issued by the Putrajaya Committee on GLC High Performance (PCG). It is included as part of TM's Group Strategy Map in ensuring positive improvements to overall Group performance.

Insurance and Physical Safeguard

- Adequate insurance and physical safeguards on major assets are in place to ensure that assets of the Group are sufficiently covered against any mishap that will result in material losses to the Group.

D. INFORMATION AND COMMUNICATION

Information and Communication ensures that pertinent information is identified, captured and communicated in a form and time frame that enables people to carry out their responsibilities. Relevant key activities within the Group are:

Communications Policy

- TM Group is committed to open and effective communication as an essential component of its culture in order to motivate the workforce in delivering high quality services and exceptional value to customers and other stakeholders as well as anticipating their feedback.
- Its purpose is to ensure that communication across the TM Group is well coordinated, effectively managed and meets the diverse needs of the organisation.

Group Enterprise Resource Management Systems (GEMS)

- GEMS Project is a major initiative towards improving the business performance of TM Group via integrated information and processes across TM Group. Through the implementation of GEMS, a significant portion of business processes will be aligned to a SAP solution and TM will emerge as a tightly-integrated, vibrant and dynamic enterprise.

Internal Control Incident (ICI) Reporting

- Internal Control Incident (ICI) Reporting is meant to capture and disseminate lessons learnt from internal control incidents with the objective of preventing similar incidents from occurring in other operating companies within the Group.

Best Practice Committee

- The Best Practice Committee is a management committee that reports to the Audit Committee. It provides updates and developments of best practices and exposure drafts on corporate governance, statutory and regulatory requirements set by all statutory bodies/relevant authorities, compliance to accounting standards and other business guidelines and issues. All requisite reminders and updates are raised through its secretariat, the Compliance Unit.

E. MONITORING

Monitoring the effectiveness of internal control is embedded in the normal course of the business. Periodical assessments are being integrated as part of management's continuous monitoring of internal control. There are systematic processes available in addressing deficiencies such as:

Management Committees
- Group Executive Committee (EXCO) meetings are held on a regular basis to identify, discuss and resolve strategic, operational, financial and key management issues.
- Management Audit Issues Action Committee, comprising members of Senior Management and CEO/COOs of major Operating Companies regularly monitors major internal and external audit issues to ensure they are promptly addressed and resolved.
- The TM Group Performance Improvement Management Office (PIMO) was established with a full mandate to drive and coordinate the Performance Improvement Programme (PIP) as part of the strategy to achieve the Group's ultimate aspirations.

Periodical Self-Assessments
- Annual disclosures are made by the Group's Operating Companies' CEO/CFO/COO and senior management on the overall effectiveness, reliability and adequacy of their respective companies' systems of internal controls and financial controls respectively.
- Quarterly disclosure on Financial Controls Compliance and Assurance as part of the initiative to inculcate self-awareness on the "financial and internal controls" requirements within the Group.

Headline Key Performance Indicators (KPIs)
- These Headline KPIs are a subset of broader performance indicators approved by the Board. The Board agreed in year 2007 on 3 KPIs taken from TM Group Corporate Scorecard to be reported as "Headline KPIs", e.g. Revenue, EBITDA Margin and Return on Equity.

Group Internal Audit
- Group Internal Audit carries out continuous assessments of the quality of risk management and existing internal controls. It also assists to promote effective risk management in the lines of business operations.
- Group Internal Audit continues to independently and objectively monitor compliance with policies and procedures and effectiveness of the internal control systems. Significant findings and recommendations for improvements are highlighted to Senior Management and the Audit Committee, with periodic follow up reviews of action plans. Group Internal Audit's practices and conduct are governed by the Internal Audit Charter.

Special Affairs Unit
- Special Affairs Unit is responsible to review and monitor the ethical conduct and practices of all employees including Senior Management. Investigation of Internal Control Incident (ICI) cases is also undertaken by the Unit (where applicable) and tabled to the ICI Committee and to the Board via the Audit Committee. Appropriate actions are then taken based on the strengths and merits of the findings.

REVIEW OF THE STATEMENT BY THE BOARD OF DIRECTORS

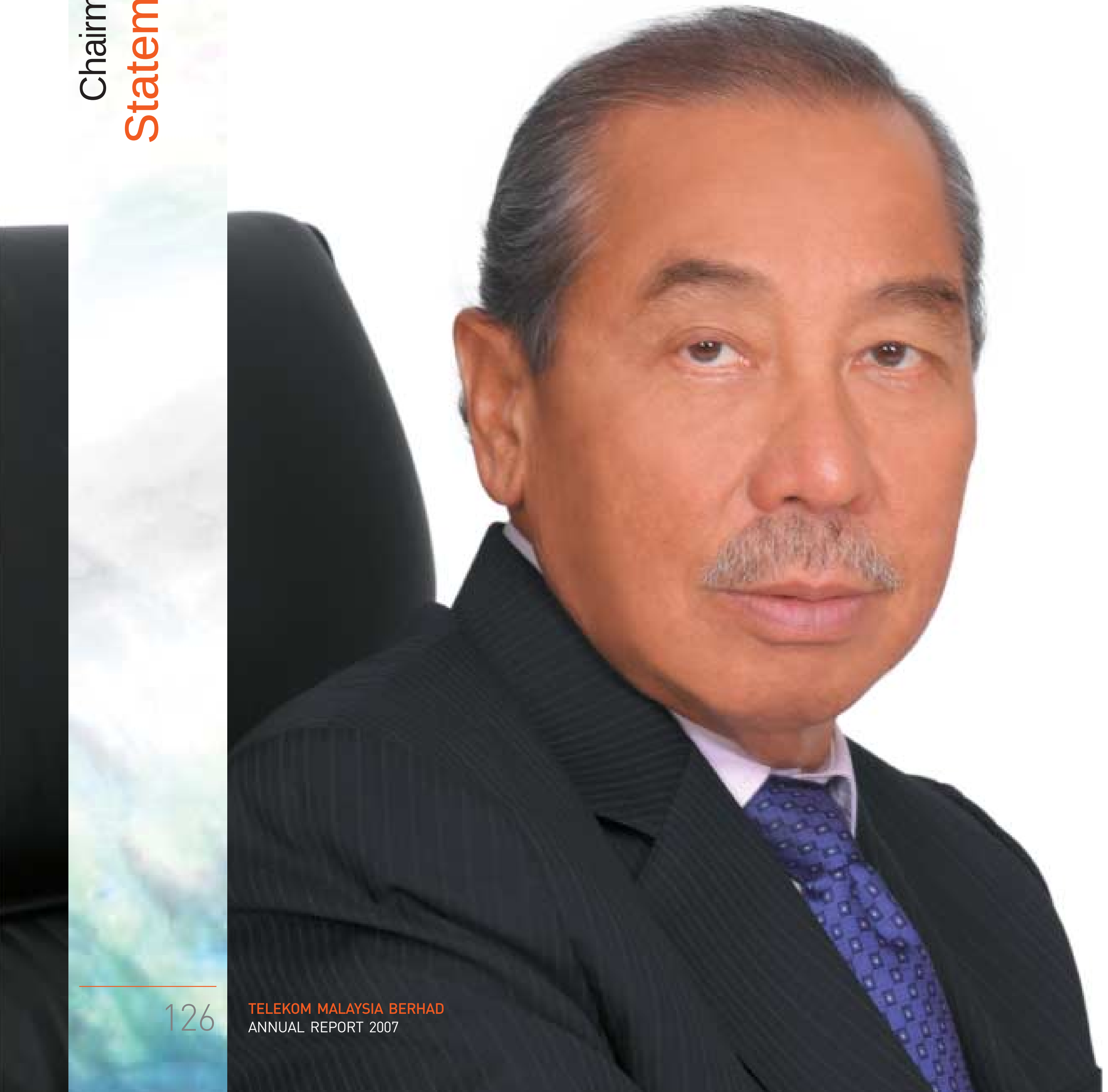
The Board considers the system of internal control described in this Statement to be adequate and the risks are considered to be at an acceptable level within the context of the Group's business environment. The Board and Management continue to take measures to strengthen the control environment and monitor the health of the internal controls framework.

For the financial year under review, the Board is satisfied that the system of internal control was satisfactory and has not resulted in any material losses, contingencies or uncertainties.

TM's internal control system does not apply to its associated companies and joint controlled entities, which fall within the control of their majority shareholders. Nonetheless, the interests of TM is served through representation on the Board of Directors and Senior Management posting(s) of the associated companies and joint controlled entities through the review of management accounts received. These provide the Board with performance related information to enable informed and timely decision making on the Group's investments in such companies.

Perspective

Chairman's Statement



OVERVIEW

Dear Shareholders,

You will be pleased to know that TM's performance in 2007 was favourable in more ways than one. Building on the momentum gained from the Performance Improvement Program (PIP) that we launched in mid 2006, we saw the full year impact of PIP initiatives which have enabled us to deliver outstanding financial results despite an increasingly competitive environment. We also delivered on our Key Performance Indicators in furtherance of the process of transformation which continued to be an over-arching theme, improved our productivity, grew our mobile and broadband customer base and stabilised traditional fixed-line revenues. Outside Malaysia, we continued our growth momentum while corporate developments in India culminating in the listing of Spice Communications Ltd (Spice), provided a further boost to our regional presence.

TAN SRI DATO' Ir MUHAMMAD RADZI HJ MANSOR
NON-INDEPENDENT NON-EXECUTIVE CHAIRMAN

It was the year when TM completed 20 years as a privatised entity coinciding with Malaysia's 50th year of nationhood. Over this period, we grew from a company with a revenue of RM1.5 billion and Loss After Tax of RM97.0 million to a revenue of RM17.8 billion and Profit After Tax of RM2.6 billion. Commemorating these separate milestones, we published "Transforming a Legacy", a commemorative book which captures in words and pictures the growth and evolution of Malaysia's telecommunications industry for posterity. As TM was at the centre of that growth, we believed it was necessary to trace our development from our humble beginnings to the present day. The book was launched by the Prime Minister of Malaysia, Dato' Seri Abdullah Haji Ahmad Badawi, during TM Group's Hari Raya open house held on 3 November 2007.

It was also a year in which we embarked on a bold and strategic move to demerge our businesses into two – one, a company dedicated to the fixed-sector business with all the opportunities that high-speed broadband and next-generation networks offer, and two, a company whose focus would be mobile services in several major markets in South and South-East Asia, including Malaysia. Both would be positioned to strongly compete in their respective businesses and enhance shareholder value. The Board believes that demerger will help accelerate performance improvement through greater performance transparency, organisational focus and improved execution capacity. At the time of publication of this annual report, the process of demerger was well underway, having obtained shareholders approval to proceed with it. I am happy to report that we are on target to complete it within the second quarter of 2008 and a new organisation structure and management team had been put into place to lead the two entities forward.

FINANCIAL & OPERATING HIGHLIGHTS

Group revenue increased by 8.8% to RM17.8 billion in the year under review, against the record RM16.4 billion posted in 2006. This was largely driven by growth in mobile, leased services, and Internet and multimedia sectors. The Group's Profit After Tax and Minority Interest (PATAMI) registered a commendable 23.1% growth to RM2.6 billion from RM2.1 billion previously. Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) was also an improvement at RM7.6 billion, compared to RM7.5 billion recorded in 2006. The year 2007 saw us adding 401,000 new broadband customers bringing the total broadband customer base to 1.3 million, while fixed-line customers continued to remain stable at 4.4 million.

On the international front, I am pleased to report that TM International Berhad (TMI) sustained growth despite challenging macro-economic conditions in nearly all our markets, particularly Sri Lanka, Indonesia and Bangladesh. The Group's overseas contributions posted positive revenue growth of 19.7% contributing 26.2% to revenue composition which was an improvement over the 24.2% recorded in 2006.

It was heartening to note from our results that the Group's mobile business continued to strengthen in spite of a fairly challenging macro-economic and political environment. The total contribution from mobile to Group revenue was 53.2%, which was an indication of sustainable growth. Our mobile customer base grew to a record 39.8 million customers from 28.5 million a year ago, which was a robust 39.6% increase.

DELIVERING SHAREHOLDER VALUE

In line with the dividend payout policy of 40.0% to 60.0% of PATAMI, the Board of Directors has proposed to declare a final gross dividend of 22 sen per share less tax of 26.0%, amounting to RM560.0 million net. Combined with the interim dividend of 26 sen per share less tax of 27.0% paid on 4 September 2007, the total dividend payout in respect of financial year 2007 would amount to RM1,212.9 million representing a payout ratio of 47.6%. This is in addition to the RM1,654.5 million special dividend which was paid to shareholders on 31 January 2008.

PROGRESS AND ACHIEVEMENTS

To illustrate the depth of progress that TM has achieved, allow me to share the transformation journey that we have taken since the Government-linked Companies (GLCs) transformation initiative was launched in 2004. Over the last four years, we have continued to implement our strategy to transform TM into a more competitive and performance driven company.

When we launched our new identity in 2005, we said that it was not a mere cosmetic change. Over the last three years, we have worked hard to ensure that we did exactly that. I must say that the change in the 'form' is easily noticeable, taking on a more vibrant and global identity. Along with that, we have also transformed ourselves into an emerging leader in Asian communication, and grown from a RM11.8 billion into a RM17.8 billion revenue company with 39.8 million regional mobile customers. Strategies alone cannot bring about this transformation without the change in mindset of our employees and how we run the Company – the part which is not easily seen but crucial to deliver the kind of transformation that we have seen.

One of the key areas is development and management of human resources. How do we mould and shape the behaviour and mindset of a dynamic and progressive workforce? To this end, TM has embraced an enhanced Performance Driven Culture by introducing better performance rewards to incentivise and motivate high performers. TM has also embarked on a Talent Management Programme. To date, more than 400 executives have been identified to be in the Talent Pool where they are provided leadership training and deployment to more challenging positions. This is supported by a Succession Planning framework which was implemented to identify potential successors to key positions across the Group. Capacity building is also given due emphasis. A Competency Based Development Model and Learning Programmes (SmartOrange) was introduced to give staff adequate 'soft skills' training to ensure they acquire the critical behavioural competencies at every stage of their career.

To measure the effectiveness of all these efforts, we carried out two assessments, 360° Feedback and Employee Satisfaction Index (ESI) surveys. 360° Feedback gives a Competency Index (CI) reading which measures individual and organisation competency level based on a set of behavioural attributes aligned to Competency Based Development Framework. The CI has improved to 7.54 in 2007 from 6.89 in 2004. While ESI measures employees satisfaction in relation to their workplace environment. ESI has also improved to 75.4% in 2007 from 72.1% in 2004.

We have also improved the way we manage our finances. We undertook a financial integration exercise across the Company with the implementation of a Group-wide Enterprise Management System (GEMS) in mid 2007 that resulted in timely reporting, analysis and operational efficiency. In addition, the implementation of the Shared Service Organisation (SSO) units beginning 2006 helped to further improve efficiency. To ensure that TM remains a strategy-focused organisation, we also adopted Group-wide, the Balanced Scorecard in 2005, followed by incorporation of a risk assessment component in our Balanced Scorecard monthly Business Performance Report.

Maintaining a high standard of corporate governance has always been an important element of the way we conduct ourselves. Over the last four years, the internal controls framework in TM Group has been strengthened with effective governance and independent oversight provided by the Board Audit Committee and a strong Group Internal Audit function at the Group level. This is supported by the respective Audit Committees and Internal Audit functions at the major subsidiaries. We have put in place a structured and disciplined approach to review and evaluate effectiveness of governance, risk management and internal processes with enterprise risk management processes embedded in key processes. In addition, more controls are automated through the implementation of the enterprise resource planning system (SAP), enabling speed in information sharing and decision making.

For the procurement function specifically, we have created a more focused, proactive and proficient environment which is rooted in best practice management and exemplary corporate governance in term of accountability, transparency and performance. TM led the way with a unique strategic supplier partnership model for its network transformation into the Next Generation Network (NGN). Given the size of the project and the technological and operational complexities involved, TM decided to adopt an Establish, Operate and Transfer (EOT) procurement approach rather than outright purchases. Overall, TM has adopted a holistic approach in its procurement transformation. As part of the strategic initiatives, TM has driven its cost saving efforts through standardisation of specifications and volume aggregation across the Group. This has delivered significant bottom line benefit through cost avoidance and reduction showing that procurement levers can be used in parallel to create value and efficiency across the Group.

TM now is a matured organisation. From my years at TM, I am pleased to note that all the transformation that we have put in place as mentioned above have brought about a change-in-progress in TM's culture over the last four years. While there is no hard and fast rule in quantifying the change that have taken place, I can say that TM has been on the positive track in embracing 'private sector work culture', one which emphasises sense of urgency, punctuality, Group interest, teamwork and open communication. This is in line with the GLC Transformation effort in making GLCs such as TM more competitive and performance-driven. I believe this is also made possible by open and transparent internal communications which over the last four years has helped to promote a communicative culture in TM. We use various tools to ensure that staff are well informed of the Group's key developments and aspirations. Most of all, this transformation is largely due to the presence of a strong and capable leader who through his actions, shaped and inspired the whole organisation to drive better performance.

We continued to register improvements from all the initiatives that have been implemented as evident from the many accolades that we received. In 2007, we achieved triple honours and recognition when we won the Frost & Sullivan Malaysia Telecoms Awards as Service Provider of the Year for the second consecutive year, in addition to being named 2007 Data Communications Service Provider of the Year and 2007 Broadband Service Provider of the Year. These awards were followed closely by the 2007 Frost & Sullivan Asia Pacific ICT Awards in Singapore, where TM became the first Malaysian company to be named Service Provider of the Year in recognition of its leadership in the Asia-Pacific region.

We clinched the Gold Award for the Overall Excellence category of the National Annual Corporate Report Awards (NACRA) and the overall winner of the 2007 National Award for Management Accounting (NAfMA).

We also recently won Merit awards for The Malaysian Business CSR Awards 2007 under the category of the Overall Winner and Best Innovation in CSR. Participating companies were evaluated based on their compliance with the environmental, and workplace regulations, contributions to the community at large, compliance and contributions to the marketplace, and compliance with ethical standards.

GOVERNANCE AND CORPORATE RESPONSIBILITY

Corporate Responsibility is evident across all aspects of our operations and has been an integral part of our business since inception. We are committed to operating in an ethical, sustainable and socially responsible way. We have always subscribed to the notion of supporting host governments and host communities wherever we operate by being good corporate citizens and discharging good corporate governance. We have a number of clear policies in respect of Corporate Governance, Enterprise Risk Management, Environmental Management and also Procurement Practices in place that govern our behaviour towards our shareholders, our stakeholders, our partners and last but not least, our employees. Besides this, our Corporate Social Responsibility Policy prescribes that TM companies will also undertake a variety of programmes that are aligned with their businesses and also benefits the wider interests of the societies which we serve.

From a social perspective, TM continued to intervene in efforts to support community initiatives and charitable organisations. We put in place a CSR and Donations/Sponsorships Policy and Best Practices which set out the guidelines and criteria for the award of donations and approval of sponsorships, to ensure alignment of the corporate response across the Group. The Group also subscribed to the Silver Book Guidelines prescribed for GLCs which are designed to evaluate value creation and the impact of donations and sponsorships.

As part of our commitment toward sustainable efforts in the community and society, we continued to direct our efforts towards Education, Sports Development and Community & Nation-Building. The Group invested more than RM73.0 million towards discharging our responsibility to the community and society in the year under review.

2008 OUTLOOK

Telecommunication industry continues to move at a rapid pace. As a player in an industry where its competitive landscape is constantly changing, we understand that we need to be agile and an adaptive communications service provider to ensure our continued growth and survival.

Upon completion of the demerger, TM will move from being a fixed-line communications service provider into the next generation service provider. That means providing integrated services of access, voice and data to help our customers enrich their lifestyle and also grow their business.

Looking ahead, the preference is towards digital lifestyle where broadband access and contents are becoming more prevalent amongst our customers in their everyday lives. Broadband and broadband-enabled services are also a major part of most businesses. In this regard, we look forward to working in partnership with the Government of Malaysia to develop and roll-out a high-speed broadband ("HSBB") infrastructure and services. With speeds up to 1000 times for businesses and 100 times for homes HSBB will allow a whole new way of 'living online' – and allow Malaysians to really make the most out of what internet can offer.

Across the region, the economies within the Asia Pacific continue to show robust growth and the region contains some of the highest growing economies i.e. India and China. This development is helping to increase demand for communication services, both in the consumer and business segments. According to the Frost & Sullivan's Mobile Communication Outlook 2007, the region posted a CAGR of 24.0% from 2002 to 2006, reaching a customer base of almost 1 billion.

Post demerger, the TMI Group will be well positioned to reap the growth potential of the markets it currently operates. It has a strong presence in the fast growing South/Southeast Asia with a unique portfolio of assets across 10 markets in Asia, 8 of which are mobile operations. These markets are characterised by high economic growth and/or low mobile penetration rates. Based on our experience operating in these markets, we know how important it is to make the services affordable to the masses and capitalise on the synergies with our operations in other markets.

Moving forward, the TMI Group intends to continue to focus on growing its market share in its existing markets and expanding its footprint into the South and South East Asian mobile telecommunications markets through organic expansion as well as selective acquisition opportunities.

Clearly, TM is right in the heart of the sector where the new economic and social model for the 21st century is being developed. We will certainly leverage on these opportunities to create exciting growth and value for our stakeholders. Looking ahead, the Board is confident the demerger will further enhance shareholders value through accelerated operational improvements, as the demerged entities will have greater execution capacity, more focus and flexibility which will make it easier for each company to seize opportunities and respond to the challenges in their respective businesses.

ACKNOWLEDGEMENTS

On 26 February 2008, TM announced that its Group Chief Executive Officer (Group CEO), Dato' Sri Abdul Wahid Omar, had tendered his resignation to take up a top appointment with a financial institution. He is retiring by rotation as a Director of the company but would remain as the Group CEO of TM until completion of the demerger, expected by the end of the second quarter of 2008. The Board also announced the appointment of Dato' Azman Mokhtar as the Chairman and Dato' Jamaludin Ibrahim as the Group CEO Designate of TMI with effect from 3 March 2008. Post demerger, the enlarged TMI which is TM's investment arm overseeing TM's international investment and operations including domestic mobile operations under Celcom (Malaysia) Berhad, will be a listed pure-play regional mobile operator with 39.8 million customers across Asia.

I am delighted to hand over the chairmanship of TMI to Dato' Azman who is no stranger to the Group, having been a Director of TM since June 2004. As the current Managing Director of Khazanah Nasional Berhad, Dato' Azman will be able to provide multi-dimensional perspectives to the Board and management of TMI. I have no doubt TMI will benefit from his vast experience and insights. As for the role of Group CEO for TMI, I believe Dato' Jamaludin is an ideal candidate to take the Company forward in its next phase of development. He brings to TMI extensive experience in the telco (specifically mobile) and IT industries, not only in Malaysia but internationally. His track record will prove essential as we groom TMI to be the leading mobile operator in South and South-East Asia.

Post demerger, TM (FixedCo) will be helmed by Dato' Zamzamzairani Mohd Isa as Group CEO. Given his 23 years of experience in telecommunications, having begun his career in 1984 with the then Telecommunications Department, Dato' Zamzamzairani distinguished himself as CEO of Malaysia Business, overseeing TM Retail, TM Wholesale, TM Net Sdn Bhd and several other related subsidiaries. Prior to this position, he served as Senior Vice President, Group Strategy and Technology for a number of years.

I would like to take this opportunity to thank Dato' Sri Abdul Wahid for his valued contributions to the TM Group. Dato' Sri Abdul Wahid has been instrumental in implementing several key initiatives crucial to TM's transformation and continuing growth since he came on board in July 2004. At that time, TM was a RM11.8 billion Company, with 61.0% of its revenue from the fixed-line business. We have now grown into a RM17.8 billion revenue Company with 53.2% of its revenue contribution from mobile operations. This does not happen by a stroke of luck but by determination and hard work by everyone here in TM Group, and I must stress, under the leadership of a very capable man.

It was during his tenure that the PIP was launched to rejuvenate the flagging domestic fixed-line business. TM also made the strategic decision to focus its international expansion and strengthen its presence in emerging markets closer to home. He leaves a group that is financially sound and with a strong presence in a fast-growing region. On that note, it is only fitting that I take this opportunity to thank Dato' Sri Abdul Wahid for his immense and positive contributions to the continuing transformation of TM and record the Board of Directors' and Management's gratitude and appreciation to him upon his retirement as a Director at our forthcoming Annual General Meeting.

The Board also like to record its appreciation to Dato' Ahmad Haji Hashim who retired on 7 January 2008, for his services rendered to TM during his tenure as director of the Company. We also warmly welcome Datuk Zalekha Hassan who was appointed in Dato' Ahmad's place effective 9 January 2008.

Finally, on behalf of the Board, I wish to express my sincerest appreciation to all our stakeholders – shareholders, customers, business partners, regulators, the Government, employees, the media and others – who have all done their part in helping us build and grow the TM brand, and in particular, for their contributions of the past year. Going forward, as TM enters a new and exciting chapter, we will need their continuing support.

Tan Sri Dato' Ir Muhammad Radzi Hj Mansor
Chairman

OVERVIEW

The year 2007 will go down in corporate history as one where TM took a number of major strategic decisions in its continuing journey to transform the Group and position it as a leading regional communications company of choice. As such, we have chosen what we believe to be an apt theme for our annual report, which is *Opening Up Possibilities: Creating Value, Unleashing Potential.*

DATO' SRI ABDUL WAHID OMAR
GROUP CHIEF EXECUTIVE OFFICER
NON-INDEPENDENT EXECUTIVE DIRECTOR

In last year's Annual Report, I highlighted how the Performance Improvement Program (PIP) we launched in mid 2006 has shown early positive results. Those PIP initiatives were intensified further in 2007 and have indeed brought about further improvements with our fixed-line revenue recording 2.0% growth in 2007 compared to negative 0.9% in 2006 whilst Celcom (Malaysia) Berhad's (Celcom) revenue grew by 13.1% compared to 0.7% in 2006.

As a follow through to the PIP and following a strategic review of our businesses and core competencies, the Board in September 2007 announced the proposed demerger to separate the Group's fixed and mobile businesses into two separate entities. This will result in the emergence of TM International Berhad (TMI) or RegionCo as the Regional Mobile Operator and TM or FixedCo as the Domestic Broadband Champion. The demerger is expected to accelerate operational improvements and growth through clearer strategic and organisational focus and further unlock shareholder value. I am pleased that the shareholders have approved the proposed demerger at the recently held Extraordinary General Meeting (EGM) on 6 March 2008. With shareholders approval in place and subject to obtaining other relevant approvals, we expect the proposed demerger to be completed and TMI separately listed on Bursa Securities in the second quarter of 2008.

The year 2007 was also notable for the fact that we have been identified by the Government to participate in the Public-Private Partnership (PPP) arrangement to roll out High Speed Broadband (HSBB) infrastructure and services for the nation. The cost of the HSBB investment is approximately RM15.2 billion with TM investing RM10.4 billion over the next 10 years and the Government co-investing RM4.8 billion or one third of the total cost. The HSBB coverage is expected to be available across 2.2 million premises over the next 3 years. The execution of this long-awaited infrastructural development is expected to be entrusted to TM's FixedCo, giving us the responsibility to ensure that Malaysia continues to stay at the forefront of ICT through broadband deployment and joins the rest of the best-in-league nations with deep broadband penetration to further propel economic growth.

Group Chief Executive Officer's Statement

To sum up the year in review, I would say we continued with our theme of transformation, begun more than 20 years ago when we metamorphosed from an incumbent fixed-line company to a regional communications player, in line with the Government-linked Companies (GLCs) Transformation program. But the metamorphosis has not ended by any means. TM is now poised to continue its journey as two separate and independent companies, each with its own strengths and strategies, and in the process, seize opportunities to unlock its full potential. Both TM and TMI will offer fresh value propositions to its stakeholders.

GROUP PERFORMANCE

The Group delivered another set of commendable financial performance despite the challenging macro and political environment overseas, and intense competition, both domestically and on the international front. I am also pleased to report that the Group successfully met its Headline Revenue and Return on Equity (ROE) Key Performance Indicators (KPIs).

Overall Group revenue in 2007 grew by 8.8% to RM17.8 billion against the RM16.4 billion recorded in 2006, driven largely by positive results from mobile, leased services, and Internet and multimedia segments. The Group's Profit After Tax and Minority Interest (PATAMI) increased by 23.1% to RM2.6 billion as compared to RM2.1 billion recorded in 2006. This was mainly attributed to stronger contributions by Celcom, higher other operating income, gain on the Initial Public Offering (IPO) of Spice Communications Ltd (Spice) of RM71.3 million, higher share of results in Spice and lower taxation charges. Gains on placement of 4.6% of shares in Dialog Telekom Ltd (Dialog) totalling RM234.8 million as part of efforts to boost liquidity of Dialog's shares on the Colombo Stock Exchange contributed to higher operating income. The higher share of results in Spice was mainly due to proportionate gain on disposal of towers of RM128.8 million.

The Group also registered better Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of RM7.6 billion, an improvement over the RM7.5 billion registered the year before.

The Group's overseas operations continued to deliver positive revenue growth of 19.7%, despite a challenging operating environment – thereby contributing 26.2% to Group revenue.

2007 Headline KPI Achievements:

Headline KPIs	FY2006 Actual	FY2007 Actual	FY2007 KPI
1. Revenue	RM16.4 billion	RM17.8 billion	RM17.7* billion
2. EBITDA Margin	45.9%	42.8%	44.5%
3. Return on Equity (ROE)**	10.6%	12.8%	9.8%

* *Restated to reflect actual foreign exchange rates in the translation of foreign subsidiaries' revenue into RM*
** *ROE is computed as PATAMI/Average Capital & Reserves Attributable to Equity Holders of the Company*

For 2007, the Group successfully met its Headline Revenue and ROE KPIs. Actual 2007 EBITDA margin of 42.8%, however, fell below the target of 44.5%, as a result of one-off charges such as provision for impairment of investment in a quoted security (RM80.0 million), withholding taxes on USD bond interests at PT Excelcomindo Pratama TBK (XL), regulatory compensation at TM International (Bangladesh) Limited (TMIB), and other operating expenses. The Group's actual ROE of 12.8% for the year 2007 was nevertheless higher than 2006's ROE of 10.6%, and exceeded its 2007 KPI of 9.8%.

DOMESTIC REVIEW

I am happy to report that the PIP launched in the middle of 2006 continued to bring in positive results. The Group's fixed services under Malaysia Business performed satisfactorily, achieving a full-year growth of 2.0% in the year under review, compared to a decline of 0.9% the year before to register RM7.6 billion in revenue for the financial year ended 2007. This was driven by greater broadband push through aggressive marketing initiatives resulting in a robust growth of 22.7% in Internet and multimedia revenue. Data revenue also saw an encouraging growth of 25.4% led by demand for higher bandwidth by the corporate and business customers.

A success factor was the introduction of the successful *Let's Talk* campaign aimed at rejuvenating the usage of fixed-line services. Offered in several packages to suit different customer lifestyle and usage needs, this product offered some of the lowest domestic and international call rates with high voice quality.

We also continued to retain our leadership in VoIP through several festive promotions. Other product offerings included *iTalk Buddy* later in the year to cater to the youth segment with exciting interactive online features.

As at end 2007, fixed-line customers continued to remain stable at 4.4 million while 401,000 new broadband customers were brought on board, resulting in a total broadband customer base of 1.3 million. All of these indicators showed we had consolidated our leadership in the broadband market. This provides solid foundation for TM as it positions itself to be Malaysia's leading next generation communications provider focusing on aggressive implementation of HSBB products and services.

On domestic mobile operations, Celcom for the first time delivered a healthy double-digit growth of 13.1%, with a revenue of RM5.2 billion. Celcom also moved to reach out to more customers by launching Malaysia's first Mobile Virtual Network Operator (MVNO) in 2007 to provide a prepaid package to foreign workers in Malaysia i.e. those from India, Nepal, Sri Lanka, Pakistan, Bangladesh, Vietnam, Myanmar, Cambodia and Laos. This collaboration with MVNOs was a serious effort to step up sales in targeted segments where Celcom has lacked presence while utilising some excess capacity on its network.

It was encouraging to note that Celcom added 1.1 million new customers in 2007, bringing its total customer base to 7.2 million – another record, representing a growth of 18.0% from the 6.1 million posted a year before. Prepaid customers increased by 22.9% or over 1 million net additions to 5.9 million from 4.8 million in 2006, while postpaid customers totalled 1.3 million at the end of 2007.

Post demerger, Celcom has a big role to play. Celcom will provide a stable source of cash flow for TMI that will enable it to actively seek and capitalise on investment overseas in the region. Moreover, TMI's emerging mobile operations across the region will benefit from Celcom's expertise and allow it to serve as a strong base to groom talent and future leaders for TMI.

For TM Ventures, steps were taken towards the re-integration of network system integration businesses of Meganet Communications Sdn Bhd into VADS Berhad. The year also saw TM Ventures completing the divestment of TM Payphone to Pernec Corporation on 31 December 2007.

INTERNATIONAL REVIEW

On the international front, the year 2007 closed with a number of positive indicators to reflect our favourable expansion in the countries where TM has a presence. Through TMI we forged ahead in 2007 to build on the activities of the previous years and focus particularly on revenue-generating growth strategies in Cambodia, Indonesia, Singapore, India, Pakistan and Thailand. Nevertheless, our regional operations were impacted by the pressures of growing competition and the entry of several new players into our markets, political issues and regulatory challenges in some countries, as well as forex losses as a consequence of a stronger *Ringgit Malaysia* against most currencies. Despite these challenges, I am pleased to report that TM's overseas operations continued to grow, contributing RM5.0 billion or 26.2% to Group revenue as compared to 24.2% the previous year.

The year 2007 saw our key overseas investments in Sri Lanka and Indonesia delivering encouraging performance. For the financial year 2007, Dialog and its subsidiaries (Dialog Group) posted a revenue of SLR32.5 billion, a growth of 26.6% as compared to SLR25.7 billion posted in 2006 despite its challenging operating environment. Dialog registered a year-on-year customer growth of 37.2% and further consolidates its leading position as the number one mobile operator in Sri Lanka with a total customer base of 4.3 million as at end of 2007.

In Indonesia, the telecommunications industry recorded strong growth and XL enjoyed a boost to its customer base by adding on 62.4% more customers to breach the 15.5 million mark. XL posted a year-on-year revenue growth of 29.4% to Rp 8,364.7 billion for financial year 2007 arising from 62.4% growth in customer base as a result of the introduction of a nationwide single-tariff strategy which was well-received. XL's net income, however, decreased by 61.5% due to forex losses and the recognition of withholding taxes including penalty on off-shore interest in the 2007 financial year. By year-end, the number of XL's BTSs increased by 3,897 to bring the total to 11,153, achieving a 90.0% network coverage of the Indonesian population of 220 million.

In Bangladesh, we saw valuable additions to our customer base despite more competitor activity, growing by 1.3 million in the year under review to exceed 7.0 million customers by year end. TMIB posted a revenue growth of 9.9% to BDT 14.4 billion as compared to BDT 13.1 billion recorded in the corresponding period last year.

Over in Cambodia, where TMI just completed its acquisition of the remaining 49.0% in Telekom Malaysia International (Cambodia) Company Limited (TMIC) in 2006, a noteworthy development in the past year was a rebranding exercise revolving around the popular word 'hello'. The new identity was designed to be the basis for a brand promise in this growing market, focusing on improved service quality through a number of 'hello' points or shops, as well as a fundamental shift in direction. The rebranding campaign came along with increased investments of US$150.0 million to be spent from 2007 to 2009 to upgrade network capacity and extend coverage into the rural and provincial communities. In the year under review, TMIC achieved a 33.7% growth in revenue along with a 36.1% increase in the customer base to 311,650 at year end.

Keeping to our commitment to create value for stakeholders, on the 2nd anniversary of Dialog's listing on the Colombo Stock Exchange (CSE), TM sold 4.6% of its shareholding in Dialog as an effort to boost liquidity of Dialog's shares and therefore passing on more opportunity of ownership to the Sri Lankan public. This liquidity enhancement will indirectly support the growth of the capital market in Sri Lanka by potentially attracting large foreign funds, thus enhancing the profile of the CSE, for its potential inclusion into global equity indices. At the same time, Dialog would be able to achieve a broader scale of public ownership and project a strong image. Already the biggest company on the CSE, Dialog has moved into quadruple play and convergence services in Sri Lanka and has launched fixed wireless operations based on CDMA technology making it the first quadruple player in South Asia.

We also witnessed the successful debut of our Indian affiliate company, Spice, on the Bombay Stock Exchange. The IPO enabled Spice, first founded in 1997 as a cellular services provider, to make debt repayments and fund growth in Karnataka and Punjab, the two circles it currently operates in. Applications for licences in 20 other circles as part of the company's pan-Indian strategy are pending. Following the listing in July, TM's shareholding was reduced from 49.0% to 39.2%, which tied in with the Group's philosophy of value-add to stakeholder communities in local populations. Spice is now in the process of reconstructing its culture to reflect that of a listed company, with greater incorporation of the tenets of good corporate governance and management best practices.

The review of our international operations would not be complete without a mention of the effort by TM to take a lead role in the 17-member consortium of telcos to establish the first submarine cable system linking South-East Asia directly to the US. The 20,000-kilometre-long Asia-America Gateway is designed to help strengthen the communication and business linkages between Asia and the US, as well as increase broadband uptake and enhance the competitiveness of eight Asian countries.

KEY INITIATIVES

Shareholders will remember that early in 2006 we had noted a declining trend in our fixed-line revenue which was greater than the average when benchmarked regionally, and at the same time, faced competitive pressures from the domestic mobile segment. As an essential part of our response, we launched a five-year PIP in August 2006 to strengthen our domestic fixed business through a series of proactive measures, as well as regain our position in the highly-competitive mobile segment. In the first phase of PIP, the focus was to arrest the decline in the domestic business. For fixed services, the targets were to mitigate the decline in fixed-line revenue and drive broadband deployment aggressively. While for mobile business, the focus was to increase segment focus, spend and rejuvenate the Celcom brand and its distribution channels.

PIP efforts begun in the middle of 2006 bore fruit in 2007 as the decline in fixed services was arrested mainly as a result of more aggressive sales and pricing stimulation. Stated objectives to drive broadband growth were also fairly successful, despite continuing churn in this segment, and the year 2007 ended with a cumulative broadband customer base of 1.3 million. Lastly, quality enhancements were delivered as promised and notably, achievement time to restore service to customers improved from 4.5 days in 2006 to 1.5 days in 2007.

Meanwhile, PIP initiatives also impacted positively on Celcom. The year saw increased segment focus in both prepaid and postpaid as evidenced in the daily average prepaid recharge record of RM9.1 million posted in the year under review. Celcom adopted a bold new position with a rejuvenated branding strategy and reform of its distribution channels. The launch of *Blue Cube* resulted in greater awareness of its service offerings and as at the end of December 2007, 32 *Blue Cube* outlets were in operation nationwide offering virtual recharge.

For TMI, it is yet to feel the full impact from PIP measures although XL, Dialog and TMIB have pushed for revenue growth, while throughout the Group, network optimisation through synergistic relationships and efforts to innovate and share common products and services were conspicuous.

At the same time, our commitment to improving the quality of our customer service has never wavered. We completed the transformation of 104 TMpoint nationwide which serves as a one-stop centre for our customers to pay bills and find out more about our products and services. TM once again received recognition for its efforts in upgrading service quality. Continuing the tradition of previous years, TM won the top Frost & Sullivan Malaysia Telecoms Awards by being named Service Provider of the Year for the second consecutive year as well as the 2007 Data Communications Service Provider of the Year and 2007 Broadband Service Provider of the Year. TM capped this achievement by winning yet more awards at the 2007 Frost & Sullivan Asia-Pacific ICT Awards in Singapore. It emerged as the first Malaysian company to receive the coveted Service Provider of the Year Award which recognised TM's commitment in delivering customer service not only in Malaysia but also in the Asia-Pacific region.

Execution capacity of our people is key in making all our initiatives a success and this was given strong emphasis in PIP. In line with this, TM has put in place a lot of effort towards instilling a performance driven culture. This is supported by effective internal communications to ensure that all staff are well informed of the Group's key developments and aspirations. We believe that staff who are well informed are more motivated and understand how their roles fit into the bigger picture.

In 2007, we introduced a new communication program, a series of "Teh Tarik" sessions to provide a platform for direct interaction between staff and me. It gave the opportunity to share knowledge, exchange feedback, ideas and provide explanation over specific topics.

PIP is a success as TM's entire workforce rallied behind the program and took ownership of the initiatives that we set out to do. For PIP, we had 527 face-to-face briefing sessions talking to all staff across the Group to explain the program, motivate and get everyone to work towards the same universal targets set by the Company.

Clearly, all measures that have been put in place have enabled a shift in the employees mindset towards becoming more performance driven.

GLOBAL & REGIONAL ENVIRONMENT

From a fairly buoyant performance in 2006, the global economic environment was fragile but thankfully stable in 2007 despite fears of a credit crunch in the US, rising oil prices, global recessionary trends, conflict tensions and growing concerns over the issue of climate change. The two Asian giants, China and India, grew 11.5 and 8.9% respectively, and secured leading positions as the world's main growth engines. Nevertheless, even as the balance of power shifts from the traditional biggest economy in the world, USA, to the emerging economies of Asia and elsewhere, economic interdependence will still be vital to maintain orderly and sustainable growth in the global economy.

Asia recorded a surprising overall growth of 9.8%, which compared favourably with the 8.7% achieved in the previous year, and augurs well for the development blueprints of emerging markets in Asia. Generally, the outlook for Asia remained bullish in the year under review, despite contrarian trends noted elsewhere particularly in Europe and North America, which became more apparent in the second half of the year.

The ICT sector, meanwhile, remained in transition as players grappled to find sustainable business models in an increasingly convergent world. At the heart of this uncertainty were important decisions to be made towards migration to Next Generation Networks (NGN), be it at the core, transport or access networks. Many developing countries perceive NGN as an essential leap-frogging step towards closing the digital divide and helping economies become more resilient Information Societies. Companies such as TM continued to redefine and transform itself from the perspectives of strategy, operations and culture, in order to deal with the constant ebb and flow of change in the operating environment.

As such, telecommunications service providers need to mount a search for new revenue streams from the increasingly popular triple or quadruple play bundled package of IPTV, voice calls and ultra-high-speed broadband Internet access. This calls for the accelerated roll-out of fibre networks closer to homes and offices. According to the ITU, mobile operators now seek to collect advertising revenue from the range of user-generated, social-networking and other content running on ever-higher speed broadband networks, which the ITU calls 'ultra broadband' or 'broaderband' technology.

Growth in the ICT sector has been breathtaking over the last few years, aided by these continually changing technological developments and product and service innovations which are in high demand. There are also ongoing challenges in the ways in which these innovations are being delivered across multiple platforms and devices in response to new end-user lifestyle needs. By ITU accounts, at the end of 2006, there were nearly 4 billion mobile and fixed-line phone customers, plus over 1 billion Internet users worldwide. This included 1.3 billion fixed-line customers and 2.7 billion mobile customers. Revenue in the global telecom services and equipment market grew by an estimated 7.8% in 2006, reaching US$1.7 trillion and accounting for more than half of the total ICT market; of this, Asia's share was 26.0%.

Our research shows that for 2007, mobile customers alone were expected to grow to over 3.3 billion, with over 60.0% coming from developing countries and around 50.0% from Asia. Revenue for the telecom market is expected to reach over US$1.8 trillion, growing 8.5%, with Asia recording an above-average growth of 9.6%. Going forward, it is our expectation that regulators will seek to be more pro-growth and pro-end user, thus more liberalisation is expected in a convergence era. Further, the concept of technology neutrality and net-neutrality will come to the fore as regulation moves away from a one-service-on-one network approach to multiple services running on multiple platforms. It is also worth noting that in a world of IP-based convergence, consumer protection and cybersecurity will be paramount. As always, these technological developments will impact not only how the industry continues to be regulated, but the way in which we do business ourselves.

DOMESTIC ENVIRONMENT

Malaysia's GDP in 2007 grew by 6.3% mainly driven by strong private consumption, public sector spending and investment activities. The business outlook remained fairly cautious but was still positive, given that the consumer outlook continued to see encouraging spending behaviour. The ICT Industry (Services and Equipment) in the year under review was worth RM36.6 billion or 13.2% of Malaysia's GDP, representing a hefty growth over the previous year's RM23.9 billion.

Competition in Malaysia remained intense as players mounted price and branding wars to regain falling ARPUs and win back customers. The Malaysian market continued to move closer towards saturation with mobile penetration estimated at more than 80% at year end. Meanwhile, global and regional telcos and IT players were among the new entrants attracted to the local market, with some aiming for Malaysia's Enterprise Market and others taking advantage of the demand for broadband services.

Malaysia's MyICMS 886 initiative in line with the 3rd Industrial Masterplan was focused on delivering broadband via all technologies, hence the push for WIMAX licences and spectrum allocations through the Malaysian Communications & Multimedia Commission. Further, regulatory compliance issues particularly in respect to Mobile Number Portability and Mandatory Quality of Service continued to impact on the operations of TM. With growing competition on the one hand and tighter regulatory supervision on the other, the year offered its fair share of demands and challenges.

In such an industry, customers are service and price-sensitive, always expecting more for their money. As players fight for their share of wallet, they need to continually provide product and service differentiation and be savvy with micro-segmentation. We find that there is a demand for highly-personalised and customised services, driven by content and community needs. Customers demand freedom of choice and in the process, operators can expect high churn.

GOVERNMENT-LINKED COMPANIES TRANSFORMATION

Since the GLC transformation exercise began in 2004, TM has made clear progress towards the 10 overarching themes or improvement initiatives recommended for all GLCs. In essence, our transformation may be divided into three categories – Strategic, Operational and Cultural. A key strategic change involved a shift of focus from overseas and international operations to regional investments or a presence closer to home. We began to assess the opportunities presented by emerging markets in South and South-East Asia, particularly those with high-growth potential. Towards this end, we successfully made three acquisitions in recent years – in Indonesia, Pakistan and India. Additionally, we have also begun to sharpen our focus on growing our mobile and broadband business domestically. On matters of operations, we introduced PIP which not only set out specific roadmaps towards achieving our aspirations of becoming a domestic champion as well as a regional communications company of choice, but was also in line with GLC Transformation expectations. Cultural changes instituted by the Company in relation to work and performance have also been evident and brought about positive results. These included the need to set measurable targets, succession planning, driving performance consequence management as well as maintaining active employee engagement, among others.

In summary, the GLC transformation initiatives have enabled us to deliver a much improved performance as evidenced by our results which have been on an upward trend since 2004.

CORPORATE GOVERNANCE & BOARD EFFECTIVENESS

TM has always prized its reputation as a leading company with a high respect for the principles of good corporate governance. This commitment has been reinforced alongside the rest of the GLCs in Malaysia, TM has duly complied with the principles and best practices as set out in the Malaysian Code on Corporate Governance first rolled out in 2002 and subsequently revised in 2007. Additionally, TM abides by the best-practice principles applied to GLCs as contained and prescribed in the Guidelines to Enhance Board Effectiveness, also known as the Green Book, which was launched in 2006.

In recent years, TM has taken steps to strengthen its corporate governance in line with Green Book recommendations by reviewing the role and mandate of its Board, improving Board composition and balance, enhancing the performance management of the Board and also upgrading the Board structure and process. Besides strengthening the role of its Board, TM has also institutionalised the recommended board committees which include the Audit Committee, the Nomination & Remuneration Committee, the Tender Committee and the Employee Share Option Committee. Additionally, TM has in place a number of approved policies with respect to communications ethics, disclosure, whistle-blowers, investor relations and corporate responsibility. These provide guidelines and guidance to management in their day-to-day conduct.

In recognition of its standing in this area, TM was once again recognised by the Minority Shareholders Watchdog Group of Malaysia which conducted a study jointly with the Nottingham University Business School (Malaysia) and gave TM second place in its Corporate Governance Survey Report 2007. In a further show of appreciation for its commitment to good governance, TM was also conferred awards for the quality of its corporate and financial reporting. We clinched the Gold Award for the Overall Excellence category during the National Annual Corporate Report Awards (NACRA) 2007 held in Kuala Lumpur in November 2007. TM also took home the Industry Excellence Award for the Bursa Malaysia Main Board Companies category under the Trading & Services sector for the 11th consecutive time and the Gold Award for Best Designed Annual Report. TM also won the Excellence Award in the National Award for Management Accounting (NAfMA) 2007, beating nine other finalists to earn recognition for its best practices in management accounting.

In its Compliance Statement, TM states that the Board will continue to strengthen governance practices to safeguard the best interests of shareholders and other stakeholders which is a move beyond mere compliance with the principles and best practices of the Malaysian Code on Corporate Governance.

CORPORATE RESPONSIBILITY

TM's corporate responsibilities (CR) have traditionally been centred around the three platforms of Education, Sports Development and Community/Nation-building. However, the practice of CR today takes into consideration all those internal policies and procedures that govern the Group's relations with its various stakeholder constituencies.

Thus TM takes into account its role as an employer vis-à-vis its staff, and promotes good staff relations. In addition, it also ensures that several codes of conduct are in place to ensure sound and ethical business practices. TM has guidelines to support quality relationships with partners and vendors. It also practises transparent performance management and employee satisfaction schemes. Health and safety of the working environment are valued. In these ways, TM demonstrates that corporate responsibility is not an ad-hoc community project, neither is it about sponsoring programmes that merely promote its brand. In TM's response to the community as a whole, it considers seriously what constitutes good corporate practice and bases its decisions on business principles and ethics.

I am proud to inform that TM recently won Merit awards for The Malaysian Business CSR Awards 2007 under the category of the Overall Winner and Best Innovation in CSR. Participating companies were evaluated based on their compliance with the environmental, and workplace regulations, contributions to the community at large, compliance and contributions to the marketplace, and compliance with ethical standards.

OUTLOOK FOR 2008

The sub-prime fallout in the US has cast a cloud on global economic prospects for the current year, with world growth expected to slow down to 4.8%. Nevertheless, predictions are that this will be offset by continuing growth in emerging market economies – Asia in particular, which is expected to register growth of 8.8%. Despite record performance by the Chinese and Indian economies in 2006, growth can be expected at a slower pace to 10% and 8.4% respectively, in the current year, given the effect of US recessionary pressures and a weakening dollar. This will be somewhat mitigated if Asia maintains the strength of its domestic demand from its sizeable population. Malaysia, meanwhile, is expected to maintain its growth momentum and achieve a 5.8% GDP growth rate for 2008.

We can expect that the downside risks will come from any negative shocks to global capital markets arising from the US economic situation, as well as high oil prices. Trade and capital flows to emerging markets may be disrupted as a result. However, overall the world economy should be able to ride out these difficulties, provided economies do not resort to protectionist measures.

The global ICT industry is expected to continue to grow favourably in 2008, albeit at a slower rate of 6.4% versus that of 2007's expected growth of 8.5%. This is due not only to the anticipated economic slowdown but also as a result of declining fixed voice revenues and given that fixed-to-mobile substitution does not compensate in terms of revenue gains in the mobile sector. Further, the migration of services onto IP platforms may also erode previous margins enjoyed in the traditional network as operators fight to deliver more value to the customers to secure their loyalty.

The Internet will prove to be the new competitor to both fixed and mobile players as content and software come to the forefront of services. We can expect these to be key drivers in determining pricing schemes both for the consumer and enterprise markets. Mobile broadband will gain increasing traction and fixed players will focus on rising above this threat by rolling out high-speed broadband networks and making the digital home a reality. Formidable threats will also come from the likes of Apple and Google who are re-shaping the way telecom companies ought to do business. Hence the onus will be on TM's RegionCo and other telcos to innovate and find way-forward solutions to deal with the changing nature of the competitive landscape and the changes in customer behaviour.

On the domestic front, PIP initiatives will be accelerated to deliver more tangible outcomes in the fixed, broadband and data-related services as well as better Celcom delivery channels and customer experiences. On the international front, revenues will need to be driven aggressively in the face of mounting competition and economic and political uncertainties.

Finally, demerger will cause a number of fundamental changes to be made, mainly at staff and operating level. Although it will be business as usual, there will be additional responsibilities for us all such as training and deployment of talents to new positions, new roles for management and the continuing effort to boost operational excellence and evaluate value-enhancing investment opportunities for the long-term. As two organisations operating in the knowledge economy, the prevailing challenge will always be to develop, attract and retain good talent and build a knowledge-centric workforce to ensure high executional capabilities. These would indeed be major considerations that will impact on the outlook for 2008. It would be fair to say that 2008 will be a crucial year in that

TM going forward will be a different organisation, with two sets of financial reporting as its businesses successfully demerge.

The prospects for TM, which encompasses the retail as well as domestic and global wholesale fixed-line voice, data and broadband services continue to be exciting. Having arrested declining revenue in 2007, TM aims to stabilise revenue and create momentum by focusing on Internet, Data Services, and Value Added Services for consumers and businesses in 2008. Additionally, efforts will be targeted towards implementation of HSBB network, in partnership with the Government of Malaysia.

TMI is expected to continue to register further revenue growth in 2008, in line with its aspiration to become the leading regional mobile operator. TMI will continue to strengthen market share and improve its financial position in Sri Lanka, Bangladesh, Indonesia and Cambodia. TMI will also try to expand its presence in the South and South-East Asian regions by selectively looking for new investment opportunities.

Although the domestic mobile industry is reaching saturation point, Celcom is expected to register revenue growth in 2008 through a combination of well crafted strategies targeted at specific customer segments, as well as the introduction of new and competitive products. However TMI will have to be mindful of the challenges and risks facing its international operations, where unfavourable changes in political regimes, regulations and currency exchange rates may have financial impact.

ACKNOWLEDGEMENTS

As announced, I will be retiring as the Group CEO of TM to take up the appointment as President and CEO Designate of Maybank effective 2 June 2008. At this juncture, allow me to express my sincere gratitude to Tan Sri Radzi, Dato' Azman Mokhtar and other members of the Board for the trust and support extended to me from day one. Without such support, I wouldn't have been able to discharge my duties effectively. It has certainly been an honour and pleasure to serve the TM Group and to have worked closely with Tan Sri Radzi as the Chairman and fatherly figure of TM. I would also like to extend my utmost appreciation to all my colleagues in the Management Team and elsewhere throughout the TM Group for the opportunity to have led this Group for the past four years, and for their support and guidance. To the entire 35,000 TM Group employees, thank you for your support. I am glad that I had the opportunity to interact with you during the many dialog sessions during my tenure here. I especially cherish the 17 'Teh Tarik' sessions we had last year as the sessions provided us with an excellent platform to open up and communicate with each other.

I wish to also record the appreciation of the TM community to all our stakeholders which includes the Government of Malaysia and other host governments, regulators, partners, suppliers, customers and local communities who have collectively facilitated the delivery of our brand promise.

As this is a watershed year, in that we move on as two companies post-demerger, it is incumbent upon me as retiring Group CEO, to also recognise the efforts of everyone who have gone before me in the effort to transform our legacy. I am happy with the fact that upon completion of the demerger, I will be passing the batons over to two capable leaders in Dato' Zamzamzairani Mohd Isa and Dato' Jamaludin Ibrahim. Dato' Zam as the Group CEO designate of TM, has been in the telecommunication industry for more than 20 years. He has the benefit of looking at TM from both the inside and outside having been in TM during the Jabatan Telekom days before holding senior positions in several multinational companies and coming back to TM. While Dato' Jamaludin as the Group CEO designate of TMI is a well-known corporate figure in Malaysia. He has extensive experience in the telecommunications industry, specifically the mobile business, both in Malaysia and internationally. With their wealth of experience and deep knowledge of the industry, I am confident that they will lead both TM and TMI to greater heights into 2008 and beyond. With the efforts of all our 35,000 employees behind us, we remain confident of the future for TM.

Dato' Sri Abdul Wahid Omar
Group Chief Executive Officer

Malaysia Business

Facts at a Glance
Overview

Broadband Internet Customers

1,265,308 + 46.4%

Celcom

Facts at a Glance
Overview

Total Customer Base

7.2 million + 18%

Total Revenue

RM5,157.1 million + 13.1%

Prepaid Customer

5.9 million + 22.9%

Postpaid Customer

1.3 million + 8.3%

International Operations

Facts at a Glance
Operations

Mobile Customers

32.6 million + 45.3%

PATAMI

RM744.9 million + 19.7%

Business Review

TM Ventures

Facts at a Glance

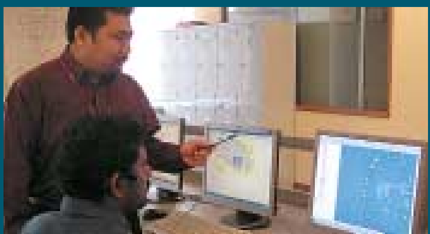
Overview

EBITDA

RM462.3 million + 114.6%

PATAMI

RM189.5 million + 247.1%

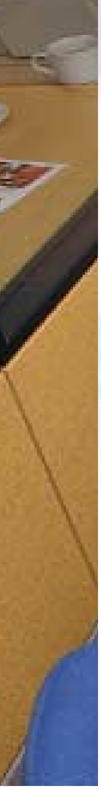


A Galaxy of Colours

It is said that looking into the Paua shell is like stepping into a galaxy of shimmering colour. One should be prepared to be entranced by its constantly changing hues, light and shades. The radiance and iridescence of the Paua is as limitless as the imagination.

A Universe of Possibilities

One needs to be given the key to unlock the imagination and to look beyond fixed and mobile services ... once there, you will begin to catch a glimpse of the vast potential Broadband is capable of delivering. As the appetite for high-speed broadband grows, Malaysians will be empowered for the future – a future where there are no limits, only endless possibilities.



DATO' ZAMZAMZAIRANI MOHD ISA
CHIEF EXECUTIVE OFFICER
Malaysia Business

OVERVIEW

Malaysia Business (MB) was established in August 2006 as a Strategic Business Unit (SBU) to consolidate all TM's domestic fixed services under a single leadership team. The establishment of Malaysia Business was also a strategic response to address the challenges faced by the domestic business, particularly in the fixed sector. By creating a focused and dedicated team under the leadership of one CEO, TM's strategic priorities for the domestic market could be better aligned and decision making would also be improved. As a result, performance improvements were noticeable in the year under review.

Facts at a Glance
Overview

Broadband Internet Customers

1,265,308 + 46.4%

FINANCIAL PERFORMANCE

Having launched its Performance Improvement Programme (PIP) in August 2006, and continued its initiatives into 2007, MB successfully arrested revenue decline in its fixed operations as part of the turnaround plan. In the financial year ended 31 December 2007, operations under MB recorded revenues of RM7.6 billion, an improvement of 2.0% over 2006. This led to EBITDA of RM3.0 billion for the year. However, EBITDA margins declined by 5.0% from 2006 as a result of corresponding increase in direct costs and higher support costs as well as one-off costs and bad-debt provisions.

Voice remained the key revenue generator for MB in 2007, contributing 64.2% to the unit's income which, although substantial, represented a drop of 4.5% over the revenue contribution registered in 2006 due to continuing migration to mobile and Internet-based communications. However, the decline was much lower compared to the 6.5% decline registered in the year before.

In line with industry trends showing consumer preferences for Internet and multimedia services, revenue from this segment posted a strong year-on-year growth of 22.7%, contributing 14.1% of the total operating revenue as compared to 11.7% in 2006.

A growth of total broadband customers comprising Streamyx, Streamyx Hotspot and Direct customers to 1,265,308 was recorded in 2007, representing a marked 46.4% improvement over the previous year. Data contributed 14.7% of revenue for MB, while other telecommunication and non-telecommunication services contributed the remaining 7.0% of revenue.

Total cost in MB including depreciation for the financial year ended 31 December 2007 increased by 4.9% from 2006 to RM6.6 billion in 2007. The increase in cost was due to increases in direct and operating cost, as well as higher provision for bad and doubtful debts. Positively, there were decreases in supplies and materials costs as well as lower depreciation and amortisation charges.

Driven by the need to align businesses with a common agenda as well as to capitalise on synergies, MB continues to focus on three core business segments namely retail, domestic wholesale and global business.

RETAIL

Servicing key retail customer segments namely consumers, SME, enterprise and government, MB's retail business concentrated on sales activities and building customer relationships in the year under review.

CONSUMER SEGMENT

VOICE SERVICES

In 2007, MB increased its efforts towards arresting the decline in fixed-voice usage and sustaining a stable fixed-line customer base. One of its major initiatives was the introduction of the successful *Let's Talk* campaign aimed at rejuvenating the usage of fixed-line services. *Let's Talk* was offered in several packages to suit different customer lifestyle and usage needs, including some of the lowest domestic and international call rates with high voice quality. As a result of the aggressive promotional activities under this campaign, MB experienced a positive change in behaviour towards fixed-line usage, particularly evident in the increase of fixed-to-fixed calls.

MB also continued to retain its leadership in the prepaid VoIP market through several promotional offers especially during festive seasons. In conjunction with the *Visit Malaysia Year 2007* campaign, MB introduced *iTalk Travellers* featuring a new range of *iTalk* special edition card designs of Malaysia's attractions, mainly to serve inbound tourists. More product enhancements followed, with MB

Service with a smile

launching *iTalk Buddy* later in the year to cater for the youth segment with exciting interactive online features. MB also entered into a collaboration with AmBank (M) Bhd to launch *NexG-iTalk Prepaid MasterCard* which provided consumers with a new avenue to shop and call at the same time.

As a result of these activities, the overall year-on-year revenue experienced a slower decline from negative 13.2% in 2006 to negative 11.4% in 2007.

INTERNET/BROADBAND SERVICES

MB registered significant Internet growth in 2007 to reach a total customer base of 1.3 million by December 2007. The growth was driven by aggressive broadband promotions and sales activities such as the *Streamyx Super Duper Deal* and an improved reseller programme under the PIP initiative. The promotion was aimed at encouraging higher adoption of broadband services among Malaysians by giving customers extra value in an all-in-one digital lifestyle package.

MB also teamed up with several partners to expand its *Streamyx Hotspot* coverage, giving customers more options to access the Internet at their favourite locations. The customer growth of *Streamyx Hotspot* in 2007 also indicated a growing popularity of wireless computing through laptops and other mobile devices among Malaysians.

SALES & MARKETING

In terms of sales, MB focused on two nationwide events namely the *TM Syoknya Fiesta* and *Let's Talk Road Show* to serve as platforms to create awareness and introduce various TM's products and services to the population. As part of its customer service improvement drive, MB introduced *Frontliner Goes to Customer*, an innovative programme designed to enhance customer interaction using high-tech wireless tablet PCs that function as a virtual counter to assist customers with simple enquiries and introduce TM's latest product offerings.

The PIP also focused on delivering an improved reseller programme with clear guidelines and selection criteria of resellers that enabled MB to push for further reach of its sales activities.

SME SEGMENTS

VOICE SERVICES

For the SME segment, MB offered a range of customised call plans such as *Merdeka Plan* and *Smartcall* package to allow customers to get in touch with their clients and business associates at attractive low flat rates. These call plans managed to protect fixed-voice usage from the continuous threat of alternative voice service providers. In terms of total revenue performance in this segment, MB managed to record a slower year-on-year decline rate from negative 6.4% in 2006 to negative 1.3% in 2007.

INTERNET/BROADBAND SERVICES

Internet services such as *Streamyx* continued to be heavily promoted by MB to drive penetration of broadband Internet in the SME sector. Promotional packages included product offerings designed for small business performance such as the SOHO and Business Broadband packages.

DATA SERVICES & SOLUTIONS

Whilst the growth of traditional data services was challenged by price erosion, MB continued to evolve its data services by providing managed

networking services and solutions such as TM IPVPN range of networking solutions, hosting and e-commerce applications.

As SMEs expanded their business, the growing need for accessibility and efficiency were met by MB's data services and solutions. As a result of its efforts, MB experienced a slower data revenue decline from negative 11.9% in 2006 to negative 0.5% in 2007.

SALES & MARKETING ACTIVITIES

The SME market presented a clear opportunity for MB in the year under review. Annual Industrial Business Solution Seminar and SMI Biz Net activities were conducted to promote new business solutions to the SME community as well as to improve customer interaction and further understand their business needs to recommend the most appropriate solutions.

SME Save N Grow loyalty programme was an innovation to further assist SMEs in their quest for business growth while establishing a sense of partnership with existing customers. In 2007, *SME Save N Grow* members reached 58,000. Membership benefits included the following:

(a) Cost savings on telecommunications services.
(b) Business consultation CDs to assist members in streamlining their business processes and grow their business.
(c) Invitations to enrol into skill-building programmes in the areas of finance, marketing and IT.
(d) Cost savings and business enhancement tools via partners' offerings on financial, insurance, logistical and office security systems.
(e) Use of TM facilities to conduct business meetings and seminars.

ENTERPRISE & GOVERNMENT SEGMENTS

VOICE SERVICES

A major thrust for the year was retention of revenue and supporting customers' business by providing competitive call rates and high service quality. Customised call plans such as *Smartcall* were used effectively to manage voice churn as well as to satisfy customer needs for cost efficiencies.

DATA SERVICES

MB launched *Metro Ethernet Services*, a Carrier Class Ethernet standard-based technology, on 17 May 2007 offering high-speed and secured connectivity bandwidth ranging from 4.0Mbps up to 1Gbps. With these services, customers can add on bandwidth in multiples of 1.0Mbps whenever required, a concept called bandwidth on demand. *TM Metro Ethernet* services are offered on private networks and as connectivity-based solutions. Meanwhile, MB also worked in partnership with value-added solution service providers to offer applications alongside its networking services. Among the solutions on offer are managed security services, bandwidth management applications and managed storage services.

With a strong account management team, MB managed to grow its year-on-year data revenue from negative 0.1% in 2006 to 15.3% in 2007 in this segment. The contribution was mainly due to up selling opportunities and timely project completion, resulting in revenue realisation within 2007.

SALES & MARKETING ACTIVITIES

Sales and marketing activities were directed towards establishing outstanding customer relationships supported by personalised and experienced sales teams to handle enterprise customers. MB also embarked on a sales incentive programme to further motivate its sales personnel.

DOMESTIC WHOLESALE BUSINESS

Overall, the Domestic Wholesale Business or DWB posted a lower revenue of RM18.4 million against 2006 mainly due to lower achievement of PSTN Minutes and VoIP revenue and slow take-up on DSL Wholesale services. However, domestic interconnect revenue achieved 6.0% growth from 2006 to 2007. This was mainly contributed by improvements in categorisation of call types.

VOICE

VoIP traffic minutes

DWB provides the facility for VoIP Service Providers to establish and operate voice calls and fax services as well as a range of value-added applications. Utilising TM's extensive domestic network coverage, DWB offers VoIP Access that enables voice connectivity over VoIP platform, a more cost-effective solution for the wholesale market. With its established Clearing House service, VoIP Premium service, extensive network of partners and coverage, DWB is well positioned to serve the domestic licensed carriers' business needs.

Interconnect service

In addressing growing competition in the existing telecommunications market, DWB has positioned itself well through its competitive interconnect services where licensed carriers can now interconnect fixed and mobile voice, ISDN and fixed SMS services.

INTERNET/BROADBAND SERVICES

Broadband

Targeting Internet Service Providers (ISP), Network Service Providers (NSP) and Application Service Providers (ASP), the broadband service delivers DSL connectivity from end user Remote Terminal Units up to the TM IP network platform. At the end of 2007, DWB had delivered 1.6 million broadband ports nationwide.

Bringing the web into schools

DATA SERVICES

Bandwidth Services

As the main wholesale bandwidth services provider and with the progressive demand for higher bandwidth services especially to bring wireless services like 3G to end customers, DWB is offering a reliable and managed transmission media via Dense Wave Division Multiplexing (DWDM) across the country. However, DWB still continues to offer narrowband, broadband and optical bandwidth services over its legacy technology platform such as Digital Data Network (DDN) and Synchronous Digital Hierarchy (SDH).

Data Services

As one of DWB's technological breakthrough solutions, data services address the connectivity needs of customers over geographically-diverse sites. The domestic data services offered include Frame Relay, ATM and MPLS based IP networks to fully integrate customers' networking needs. Wholesale Ethernet service is available to support TM products and service packages such as TM Direct, TM IPVPN and Digital Home services.

INFRASTRUCTURE SERVICES

Infrastructure services allow for a customer's nationwide network expansion in a timely and cost-effective manner. It is gaining popularity as a substitute for infrastructural development through infrastructure sharing, network co-location and tenancy services. DWB provides the entire support infrastructure for customer equipment that ranges from tower space for fixed antenna and microwave dishes, power supply, climate control and building management.

Enhancing vendor relationships

GLOBAL BUSINESS

MB's Global Business (GB) has a continuing focus to drive new revenues while maximising TM assets in submarine cable systems, data centres and satellite earth stations. In 2007, GB's revenue achievement increased by 30.4%, compared to 2006. This was mainly due to high growth in bilateral voice and bandwidth businesses.

VOICE

GB provides voice services on two platforms namely, PSTN and VoIP. GB's core voice function is to ensure line-cost reduction and profitability for TM's international outbound voice traffic generated from its retail and domestic wholesale business entities, as well as addressing the International Carrier Wholesale market in respect of hubbing traffic business.

The performance of GB's voice traffic business was largely contributed by high growth in hubbing traffic and other initiatives as detailed below:

1. Demand for Bangladesh traffic increased as a result of regulatory action to cut off all grey routes.
2. Business collaboration with TMI subsidiaries and Celcom to route their organic traffic through GB.
3. Contribution of value-added services, successful alliances with carriers on delivery of premium services via VoIP and upgrading of TMUSA Softswitch.
4. Streamline Volume Commitment that limits the mass availability of Malaysia fixed-voice traffic supply, resulting in stability of Malaysia fixed-voice market rate.
5. Implementation of automated routing and monitoring tools for integrity control of GB voice business.

INTERNET/BROADBAND SERVICES

Global IP Transit

In support of the rapid demand for Internet access requirement from regional markets in 2007, TM repositioned Global IP Transit service as one of its premium core service offerings. Riding on ATOM (Any Transport over MPLS) IP network platform, it currently supports Streamyx service international requirements and is recognised as one of the leading carriers in the region.

The service is offered with a dedicated access link to customers from its global point of service with speeds ranging from 64kbps up to 10Gbps via submarine cable systems, satellite services and in-country local leased circuits or Metro Ethernet connections. In addition, the product also provides options for bundling with Global Co-location, Managed Router, and IPv6 Transit services.

IP Transit Point of Services

Region	Country of Presence
Asia	Malaysia Singapore Hong Kong Japan Korea Jakarta*
North America	Palo Alto San Jose Los Angeles Ashburn New York*
Europe	London Amsterdam
South Asia	Sri Lanka
Middle East	Bahrain* Egypt*

** Provided through Global Ethernet network*

DATA SERVICES

International bandwidth services
Enabling contact beyond Malaysian shores, a range of bandwidth services is offered via TM's extensive international network infrastructure, which includes a combination of terrestrial, submarine fibre optic cable systems and satellite. Accentuating One Stop Shopping (OSS) and Full Channel Service (FCS), international bandwidth services link Malaysia to any destination in the world.

TM's major submarine systems are SMW3, SMW4, SAFE/WASC/SAT-3, APCN2, JUSCN, CUSCN, DMCS and BRCS which connect Malaysia to North and South Asia, Europe, Africa, Middle East and United States of America. To meet the growing demand, TM is also in the process of upgrading SMW4, APCN2 and SAFE submarine cables, expected to be ready as early as 2009.

International Private Leased Circuit (IPLC)
TM's IPLC offers high-speed dedicated digital connections not only from Malaysia to the world but also links one country to another via the global artery of vital submarine cable systems.

International Satellite Services
With more than 10 satellites over Asia, TM's Bandwidth via Satellite services offers a point-to-point dedicated connectivity from Malaysia to the world. TM utilises major satellite systems such as MEASAT, INTELSAT, PANAMSAT, ASIASAT and JSAT which provide footprints to most locations around the world. Global VSAT offers a satellite-based Single Channel Per Carrier (SCPC) technology, which uses a Very Small Aperture Terminal (VSAT) antenna and indoor unit to provide reliable multi-way communication links globally.

Bandwidth Transit
Bandwidth Transit is a fast and reliable connectivity solution that is established in one country and terminates in another country while transiting via Malaysia.

Bandwidth Backhaul
Bandwidth Backhaul is a focused and dedicated capacity solution between Cable Landing Stations or Border Stations in Malaysia which the customer owns or Indefeasible Right of Use (IRU) capacity within the international submarine cable system or border facilities.

Global IPVPN
TM's Global IPVPN is a cost-effective managed networking solution that offers a simplified, secured and scalable communication network.

In 2007, TM continued to expand its own node in Sri Lanka to penetrate the IP market in the South Asia region. This will complement the existing node that has been located in the Middle East, North Africa, Europe, US, ASEAN and North Asia regions. In order to expand global reachability, Network-to-Network Interconnection (NNI) initiatives have been initiated to allow TM and its partners to leverage on each other's extensive IPVPN networks. A strategic NNI project has been successfully implemented with AsiaNetcom, ACASIA and C&W. Under this arrangement, TM can now offer its customers enhanced and seamless services covering a much wider service area.

Exploring possibilities with broadband

Broadband wherever you are

PROSPECTS

Overall, the Malaysia fixed services market is expected to grow in 2008, with a strong bias towards data and broadband across all customer segments. MB is ideally positioned to capitalise on these growth opportunities, with its leading position in basic voice, broadband and data services, providing a springboard towards becoming Malaysia's leading next generation communications provider, embracing customer needs through innovation and execution excellence. MB will enrich consumer lifestyles and experiences, improve performance of its business customers – by providing next generation services, high-value solutions and upholding customer-driven principles.

2008 will be an important year for MB as it participates in the strategic demerger exercise and embark on its next wave of PIP anchored on two thrusts:

- Enhancing commercial excellence to drive topline revenue; and
- Driving operational excellence towards stronger cost and profitability management.

Enhancing commercial excellence to drive topline revenue.

For retail business, focus for the consumer and SME segment is to maintain strong broadband growth and stabilise the voice decline, whereas in the enterprise segment, new opportunities lie in the managed services and business process outsourcing areas. In the domestic wholesale business, the priority is to maintain current leadership position and capture growth opportunities in voice and bandwidth services. For the global business, the focus is to grow beyond current existing businesses.

Driving operational excellence towards stronger cost and profitability management.

Initiatives planned for the year will focus on driving procurement excellence, deploying lean network and business operations 'best practices' and enhancing quality and customer service operations. The overarching control framework across each business lines will be strengthened to ensure tighter cost and profitability management.

A Thing Of Beauty

Rated as the most beautiful of all pearls, the Blue Pearl is truly unique. It is only the Paua that can produce pearls of its fine quality and spectacular luster whilst its natural occurrence is exceedingly rare. Thus every pearl represents something borne from patience, perfection and careful nurturing.

A Crown Jewel

Celcom represents one of TM's finest creations. Determined to revolutionise Malaysia's mobile industry, Celcom has established its leadership, and offers some of the most innovative products and services. It is indeed one of TM's crown jewels. While Celcom can attribute its shining success to its rich potpourri of skills, creativity and technology, a key stimulus comes from the recognition of its full potential by TM. With careful nurturing and shaping, Celcom has been unleashed to carve a new future for itself.

Celcom (Malaysia) Berhad

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

OVERVIEW

Celcom's performance in 2007 was its strongest in recent years. The turnaround efforts started in 2006 were further intensified, and the sustained momentum resulted in a record-breaking performance beyond market expectations.

Facts at a Glance

Overview

Total Customer Base

7.2 million + 18%

Total Revenue

RM5,157.1 million + 13.1%

Prepaid Customer

5.9 million + 22.9%

Postpaid Customer

1.3 million + 8.3%

Celcom's successful implementation of the Performance Improvement Programme resulted in aggressive sales and marketing activities, intensified initiatives to reform distribution channels and efforts to implement a segment-focused brand strategy. As a result Celcom strengthened its market position, providing a strong foundation for further growth in 2008.

Celcom continued to maintain its leadership in coverage and network quality both in terms of 2G, 2.5G, 3G and HSDPA, customer service standards have been taken to new heights and the overall brand perception is at the highest ever recorded.

2007 also saw Celcom leading the industry in initiating a number of industry-firsts. Celcom was the first operator to rollout its own branded retail stores, Blue Cube. Celcom's partnership strategy resulted in Malaysia's first MVNO, and the first nationwide domestic roaming agreement. Celcom was also the first operator to launch the concept of branded customer service, introducing the 'Anna' icon. Its innovative broadband and data strategy also resulted in the introduction of the first 'daily use' and 'monthly capped' data plans.

FINANCIAL PERFORMANCE

The Celcom Group delivered a commendable performance for the financial year ended 31 December 2007, despite an environment of mounting and intense competition. The Group chalked up 3 significant record achievements: profit after taxation exceeded RM1 billion, revenue surpassed the RM5 billion mark, and its total customer base expanded to over 7 million.

Profit after tax and minority interests of RM1,051.6 million represented a healthy and significant growth of 28.8% from the RM816.4 million posted in the last financial year. This was attributable to a strong growth momentum in revenues during the year. Total revenue, includes other operating income posted for the year grew by 13.1% from RM4,560.1 million in 2006 to RM5,157.1 million in 2007, the highest recorded to date. Revenue growth came mainly from the buoyant prepaid segment, which recorded an increase in the customer base of 1.1 million or 22.9%, bringing the total number of prepaid customers to 5.9 million from 4.8 million previously.

The postpaid segment presented a challenge for Celcom in 2007 with increasing price pressure and aggressive competition. Despite an erosion in the customer base during the first half of the year, the introduction of various new innovative postpaid products in the second half resulted in the trend being reversed, successfully addressing the decline, and even resulting in net postpaid growth for the year. On a net basis, postpaid customers grew from 1.2 million in 2006 to 1.3 million as of December 2007.

As at 31 December 2007, Celcom's cumulative customer base exceeded the 7 million mark, growing by 18.0% from 6.1 million to 7.2 million customers.

The stronger revenue base coupled with continued cost control resulted in Celcom posting an earnings before interest, tax, depreciation and amortisation (EBITDA) of RM2,310.6 million in 2007 from RM1,962.9 million in 2006, an improvement of 17.7%. In line with this, EBITDA margins also improved from 43.0% to 44.8% in 2007.

In September 2007, Celcom distributed RM730.1 million in cash to its shareholders by way of a capital repayment exercise. This has resulted in an improvement in a number of key financial indicators namely earnings per share and return on equity, from 36.1 sen to 66.6 sen, and from 32.1% to 37.9% respectively.

Mobile connectivity – enhancing one's options

OPERATIONS

Leveraging on its leadership in network coverage and 3G, Celcom continued to expand its network capacity to meet the surge in demand for its services. Its leadership in the mobile sector was further reinforced when it won the best T2 service provider among cellular operators in 2007, an award conferred by the Malaysian Communications and Multimedia Commission (MCMC).

Capitalising further on its strengths, Celcom launched its new 'Unbeatable' campaign, which emphasized the company's superiority in speed, coverage, rates and service. The campaign was a huge success and featured Celcom's latest line-up of Power Icons such as Ryan Giggs, John Terry, Wang Lee Hom and Peterpan.

In 2007, Celcom also unveiled its new Branded Customer Service initiative aimed at providing a total customer experience. In line with this, Celcom introduced Anna, its Customer Service Ambassador, an icon who represents the very essence of excellent customer service, being courteous, attentive and helpful.

During the launch of this innovation, Celcom also introduced other customer service initiatives from online web registration for postpaid customers, to free calls to its contact centre throughout the day. New uniforms in line with the new Branded Customer Service also drew attention as did the launch of nationwide kiosks for cash, cheque and credit card payments.

In 2007, Celcom also launched Channel X, the New and Ultimate Mobile Content Channel, offering customers the latest mobile content and downloads ranging from music and movies to games. Channel X is the first cross media content brand which allows customers to experience mobile content via the Internet, mobile WAP, TV and radio.

The Channel X portal is accessible at www.channelx.com.my or by dialing *118# from mobile phones.

XPAX

The Xpax prepaid product continued to be the main contributor to Celcom's overall revenue. This was mainly due to the success of the Xpax Bonus campaign which featured four different bonuses – Every Month Bonus, Birthday Bonus, Reload Bonus and Stay Active Bonus. As a result, the prepaid customer base grew by 22.9%, to 5.9 million.

The 'Xpax Who Says' campaign was also another major success aimed at repositioning Xpax as the only prepaid that offers the best rates, the widest coverage, the fastest network and the best bonuses.

In an effort to reach out to the foreign workers segment, Celcom also introduced targeted packages and customised promotions for the Indian, Indonesian and Filipino communities.

SALES

On the sales front, 2007 saw the continuation of Celcom's dealer incentives programme, which was a key success factor in the turnaround experienced by the Group in the second half of 2006. Celcom's retail universe also grew to exceed 15,000 outlets.

Celcom also introduced the innovative Blue Cube retail store concept, aimed at revolutionising telecommunications retailing by providing consumers the chance to experience cutting-edge technologies. Blue Cube is a powerful 'one-stop' concept store for lifestyle mobile devices, 3G services and mobile content. It is the first concept store which allows consumers to experience, touch and feel the full range of mobile lifestyle products and services from Celcom. As of December 2007 over 30 Blue Cube outlets have been established nationwide.

Complementing Blue Cube, over 70 micro kiosks have been constructed and situated strategically at all major shopping centres throughout the country, reinforcing Celcom's brand presence within these key locations.

Introduction of Celcom's easy reload anchored by a newly developed online recharge platform with a capacity of 1.2 million transactions per day has also resulted in a stable performance in-market.

CELCOM BUSINESS

Despite an increasingly competitive environment, Celcom continued to grow its presence in the Enterprise market and is believed to be the country's largest business mobile provider by revenue.

The Celcom Business name was introduced in 2007 to crystallize the division's product offerings, service commitment and overall value proposition to business customers. This involved further enhancement of its product portfolio – marketed under the PowerTools brand – and diversification away from basic voice and data connectivity to higher value-added services and business applications. This repositioning was reinforced by the introduction of a Customer Service Charter with defined service level commitments for large corporate customers.

Celcom Business enjoyed robust growth of advanced data services in 2007. It recorded the fastest BlackBerry sales growth in the region and secured large machine-to-machine (M2M) customer contracts for remote meter reading, vehicle tracking, and wireless POS and ATM connectivity. Core voice product sales in 2007 were also boosted through channel expansion, with the creation of a Value-Added Reseller programme and tie-ups with regional and national Associations.

CELCOM BROADBAND

Recognising the increasing demand for 'anytime, anywhere' broadband connectivity, Celcom launched its branded broadband service, "Celcom Broadband" in July 2007, for both business and personal connectivity. The product provides the best value offering, providing a fully mobile, high speed broadband offering at affordable rates.

Bringing the community spirit into schools – Celcom XCHANGE

Celcom Broadband provides speeds up to 3.6Mbps based on High Speed Data Packet Access (HSDPA) technology, with the widest 3G and HSDPA in the country, covering approximately 60% of the population. Celcom Broadband customers can also roam globally on 2.5G or 3G networks over 168 operators and 59 operators respectively. A unique feature of the broadband offering is that customers have the flexibility to choose either a Celcom Broadband modem, or to use their existing 3G phones as a modem.

Celcom successfully launched a variety of innovative pricing packages providing simple consumer propositions, meeting the needs of all consumers: light users, can opt for a pay-per-use plan, with capped monthly charges; occasional users can opt for Malaysia's only daily unlimited plans whilst heavy users can opt for either of two monthly unlimited packages with speeds up to 384k or 3.6Mbps respectively.

Celcom Broadband – 'Anytime Anywhere'

STRATEGIC ALLIANCES

To widen its reach and take advantage of new business opportunities, Celcom formed alliances with several major corporations. In 2007, Celcom became the first and only mobile operator in Malaysia to join forces with various Mobile Virtual Network Operators (MVNOs) to complement Celcom's existing business. A MVNO targeting foreign workers was launched with Merchantrade Asia Sdn Bhd in July 2007, whilst MoUs have been signed with REDtone and Tune Talk, targeted to launch in 2008. These alliances will allow Celcom to further concentrate on specific target segments for its core brands, whilst allowing it to penetrate new markets via partners.

Furthermore, Celcom also signed Malaysia's first-ever nationwide domestic roaming agreement with UMobile Sdn Bhd (formerly known as MiTV Networks Sdn Bhd). UMobile customers will now be able to roam on Celcom's superior 2G network.

Celcom also entered into a MoU with Tune Money to launch Malaysia's first Mobile-enabled Prepaid Visa card, to be launched in 2008.

PROSPECTS

The year 2008 is anticipated to be an exciting and challenging year in the Malaysian mobile telecommunications industry. In addition to the expected launch of the Mobile Number Portability (MNP) exercise and the entrance of various MVNOs, two other 3G operators are expected to fully launch their services in competition with Celcom. These developments are expected to intensify the already competitive nature of the telco industry, thus forcing mobile operators to become more aggressive and more segment-focused especially in customer acquisition in an increasingly saturated marketplace.

Despite the likely industry challenges in 2008, Celcom believes that the initiatives and strategies implemented will form a strong foundation for continued strong performance. For 2008, Celcom aims to:

- focus on value retention and growth while maintaining profitability by prioritising key market segments
- expand the enterprise business via partnerships and increased customisation.
- work towards improving customer retention by leveraging on the initiatives introduced in 2007.
- continue to upgrade the distribution network and create new channels, enhancing operational processes and implementing cost-saving synergies.
- expand its leadership in mobile broadband and increase usage in mobile data services and content.
- Create new revenue streams in m-commerce and mobile advertising.

Celcom is also confident that post-demerger, being part of a focused mobile operation, RegionCo will provide further opportunities for value creation via identifying and implementing regional best practices and by working in closer collaboration with other TMI companies to realise cost saving opportunities.

Celcom's simple and innovative pricing packages

Greatly Appreciated

While the Blue Pearl can only be found in one species, its fame is not as limited. Across the world, people covet it for its almost unearthly beauty as much as for its rarity. No matter what the reason, the Blue Pearl will never be a mere purchase. It will be a treasure for always. That is because its monetary value is paled by its intrinsic quality.

Regional Appeal

In the business of communication, there is a constant need to expand reach. Through years of dedication and strong partnerships TM has established an intricate and extensive communication network and a portfolio of mobile assets across the region. This track record has earned TM recognition as one of the leading Asian telcos. But more importantly, through adherence to high standards, TM is better known and trusted for the intrinsic quality of its brand.

DATO' YUSOF ANNUAR YAACOB
CHIEF EXECUTIVE OFFICER
TM International Berhad

Facts at a Glance
Operations

Mobile Customers

32.6 million + 45.3%

PATAMI

RM744.9 million + 19.7%

OVERVIEW

TM International Berhad (TM International) oversees the Group's international operations and investments in nine Asian countries — Sri Lanka, Bangladesh, Indonesia, Cambodia, Pakistan, India, Iran, Singapore and Thailand. The year 2007 saw the Company building on the previous years' acquisitions and focusing on post-acquisition implementation activities. Among the highlights were the successful listing on the Bombay Stock Exchange of TM International's Indian associate, Spice Communications Limited in July and the announcement of the demerger between TM and TM International in September. In December, TM International was converted into a public company.

AS AT 31 DECEMBER 2007

Company	Country	Business	Effective interest	Customers
PT Excelcomindo Pratama Tbk.	Indonesia	Cellular	66.99%	15,468,600
Dialog Telekom PLC	Sri Lanka	Quadruple play	84.81%	4,259,529
TM International (Bangladesh) Limited	Bangladesh	Cellular, ISP	70.00%	7,183,382
Telekom Malaysia International (Cambodia) Company Limited	Cambodia	Cellular	100.00%	311,650
Multinet Pakistan (Private) Limited	Pakistan	Long Distance/ International voice; Broadband	89.00%	- na -
Spice Communications Limited	India	Cellular	39.20%	3,800,633
MobileOne Limited*	Singapore	Cellular	29.69%	1,535,000
Mobile Telecommunications Company of Esfahan	Iran	Cellular	49.00%	30,568
Samart I-Mobile Public Company Limited**	Thailand	Mobile content and mobile telephone distribution	35.58%	- na -
Samart Corporation Public Company Limited	Thailand	Holding company	18.97%	- na -

* *TM International and Khazanah Nasional Berhad jointly have a shareholding in M1 through a Company known as SunShare Investments Ltd. On 6 February 2008, TM International and TM International's indirect wholly-owned subsidiary, Indocel, entered into a Sale and Purchase Agreement (SPA) with Khazanah to acquire all of Khazanah's equity interests in SunShare and XL, to be satisfied through the issuance of new ordinary shares of RM1.00 each in TM International.*

** *TM International held directly 24.42% equity interest in Samart I-Mobile Public Company Limited (SIM). TM International also held indirect equity interest in SIM of 11.16% (2006: 10.90%) by virtue of its equity interest in Samart Corporation Public Company Limited.*

OPERATIONAL HIGHLIGHTS

International operations continued to record an impressive number of mobile customers in the year under review. International operations attracted 32.6 million customers as at end 2007, an increase of 45.3% from the 22.4 million customers the previous year.

For the financial year ended 31 December 2007, international operations recorded operating revenue of RM4,987.2 million compared to RM4,165.4 million the previous year. This translated to a growth of 19.7%.

Profit After Tax and Minority Interest (PATAMI) from international operations stood at RM744.9 million in 2007 compared to RM677.5 million in the year before.

The strengthening of the Ringgit against other local currencies in 2007 had adversely affected the Group's numbers in Ringgit terms. The stronger Ringgit has resulted in lower translated revenue and PATAMI numbers by 7.9% and 3.8%, respectively.


Satellite farm – Cyberjaya

CONSOLIDATION ACTIVITIES

After a succession of acquisitions in Indonesia, Singapore, Pakistan, Cambodia, Thailand and India over the past three years, TM International focused on strengthening its existing investments in 2007.

Among the more notable developments was the completion of the sale of the entire 60.0% shareholding in Telekom Networks Malawi Limited to MTL Mobile Limited for a total cash consideration of US$16.0 million (RM55.0 million) in April 2007. The sale was part of a broader re-orientation of TM Group's international investment strategy to focus on geographic regions closer to home.

In Sri Lanka, Dialog Telekom PLC (Dialog) executed a rights issue to raise SLR15.5 billion (RM482.1 million) to fund the Company's aggressive expansion plans. The rights issue was accompanied by a Rated Cumulative Redeemable Preference Shares (RCRPS) issue aimed at raising up to SLR5.0 billion (RM155.5 million). The proceeds of the rights issue and RCRPS totalilng approximately SLR20.5 billion (RM637.6 million) went to the partial financing of Dialog's capital expenditure for the next three years. The capital expenditure would target accelerated expansion of network capacity and coverage as well as transformational investments in convergent technologies spanning the multiple business lines of the Group. Dialog also received a US$70.0 million (RM240.6 million) package from International Finance Corporation (IFC) – a member of the World Bank Group – in September and entered into a deed with TM International (L) Limited allowing IFC to purchase up to 1.6% holding in Dialog. As at end 2007, TM's shareholding in Dialog stood at 84.81%.

Moving from strength to strength, TM International's Indian jointly controlled entity, Spice Communications Limited (Spice) made a spectacular debut on the Bombay Stock Exchange (BSE) in July. The stock opened at INR55.75 (RM4.60) per share, up 21.2% from its issue price of INR46.0 (RM3.80) per share. The Initial Public Offering (IPO), which was oversubscribed by 37.5 times, would enable the Company to fund debt repayments, pay for its recently acquired National and International Long Distance (NLD/ILD) licence fees and related capital expenditure as well as drive business expansion in the current two circles it operates in, i.e. Punjab and Karnataka.

In a move to further boost its presence in Indonesia, TM International entered into a Stock Purchase Agreement with AIF (Indonesia) Limited to purchase all of the latter's stake in PT Excelcomindo Pratama Tbk (XL). The acquisition, for a cash consideration of US$113.0 million (RM388.3 million), enabled the Company to raise its shareholding by 7.38%, thereby capitalising on one of the fastest-growing markets for mobile telephony services. XL ended the year by welcoming Etisalat International Indonesia Limited as one of its shareholders on 11 December 2007.

TM International's Cambodian operations, Telekom Malaysia International (Cambodia) Company Limited (TMIC), directed its effort towards acquiring a larger customer base in the year under review. Having invested more than US$76.0 million (RM261.2 million) over the years, TMIC plans to further invest US$150.0 million (RM515.5 million) over the next two years to upgrade network capacity and add 500 new Base Transceiver Stations (BTS) for coverage in rural and provincial areas. TMIC also rolled out its new VoIP service in August 2007. During the year, the Company underwent a major re-branding exercise which included the unveiling of its new 'hello' logo in November and substantial budget allocations for employee training programmes to boost operational efficiency and effectiveness.

The renewed focus on boosting executional capability throughout its operations abroad in 2007 culminated in the decision by TM's Board of Directors in September 2007 to de-merge the mobile and non-Malaysian businesses from TM Group. The proposed de-merger would accelerate operational improvements and growth efforts through clearer strategic and organisational focus. It would also provide greater transparency of the financial and operational performance of both entities. The exercise would result in the proposed listing of the entire issued and paid-up ordinary share capital of TM International Berhad on the Main Board of Bursa Malaysia Securities Berhad.

VODAFONE ALLIANCE

OVERVIEW

TM entered into a partnership with Vodafone Alliance on 25 January 2006 where each party agreed to jointly explore and identify opportunities to enhance the businesses of their respective companies through collaboration in international mobile telecommunications products and services. This would be achieved via the adoption of Vodafone Global Products and Services under the internationally-recognised Vodafone brand throughout the Group.

Subsequently, Vodafone entered into a separate Cooperation and Branding Agreement with respective TM subsidiaries namely Celcom, Dialog and XL.

The overall objective of the Cooperation Agreement was to establish an effective and efficient framework for the following:

- Increased roaming revenue for both Vodafone Group and TM Group companies via the implementation of Vodafone Global Product and Services in the area of international mobile telecommunications.
- A segmented dual brand and coordinated brand and advertising initiatives.
- Cooperation in the acquisition, service provision and management of internationally-operating corporate customers.
- Reciprocal Roaming Agreements between members of the Vodafone Group, TM Group and any Partner Networks.

PRODUCTS & SERVICES LAUNCH HIGHLIGHTS

Among the key Products and Services launches which took place throughout the tenure of the Partnership were:

- Vodafone Enterprise Proposition including BlackBerry from Vodafone which was successfully launched by Celcom, Dialog and XL respectively.
- Vodafone Mobile Connect cards and other PC connectivity products.
- Collaboration in MNC initiatives for the acquisition, provision and management of services to international corporate customers.
- Vodafone Roaming propositions such as the establishment of Virtual Home Environment, Prepaid Roaming, GPRS, 3G Roaming, Assisted/Managed Roaming and Data Roaming Tariff.
- Segmented dual branding in respect of Vodafone Global Products and Services.
- Participation in Procurement Arrangements/Supply Chain Management of handsets particularly Ultra Low Cost Handsets (ULCH).

ASIA MOBILITY INITIATIVE (AMI) ALLIANCE

TM's participation in AMI was formed through Celcom, XL and MobileOne Limited (M1). M1 has been a member since April 2003 while Celcom and XL joined the alliance in June 2005.

Formed in 2003, AMI was one of the first Asian alliances set up to work towards various business initiatives for member countries and provide deliverables for mobile customers in these areas. It also helps increase its members' market shares in their respective home markets as well as improve profitability through strategic key initiatives like developing selective marketing packages and cross-border service offerings. In addition, AMI facilitates economies of scale by having vendor benchmarking, group-wide procurement, and content sharing. It also serves as a common platform for sharing technological know-how and experience.

In the year under review, AMI welcomed Idea Cellular and Sun Cellular to the six-member group, replacing SMART and Telstra. The number of customers represented by Celcom, XL, DTAC, M1, Idea and Sun totalled 60 million. Among the key programmes introduced in 2007 were flat rate roaming service, full interconnect for VHE services, Roaming Voucher Recharge (RVR) and Airtime Exchange (ATE) Project, CAMEL II Interconnectivity and Enterprise Programmes.

INDUSTRY CHALLENGES

While consolidation activities dominated TM International's focus throughout the year, the Company underwent a number of industry-related challenges. In Sri Lanka, Dialog's revenue potential was diluted by intermittent disruption of services in the country's Northern and Eastern provinces during the first half of 2007 and a reduction in tourist arrivals which, in turn, diluted International Roaming Revenues relative to their full potential. The Company also experienced operational and direct cost expansion during the second half of 2007, largely arising from macro-economic conditions, aggressive rollout of multiple new services and expansion of customer base.

In Bangladesh, TM International (Bangladesh) Limited (TMIB) encountered challenges in the area of VoIP regulation and pricing. The Company took immediate measures to counter these challenges including the execution of its 100-day Performance Improvement Programme (PIP) exercise to address revenue and market share issues.

In Indonesia, XL introduced lower tariffs for its *bebas* plan to boost revenue and voice traffic in the third and fourth quarters of the financial year. The Company also implemented a hybrid distribution system which led to the expansion of more than 400,000 direct and indirect distribution channels. In terms of improving its network infrastructure, XL ended the year with 11,153 BTSs or an additional 3,897 BTSs in 2007. The Minutes of Use (MoU) per customer in Indonesia is still low compared to other countries. This is mainly because the Average Revenue Per Minute (ARPM) in Indonesia is still relatively high compared to other countries. With interconnect rates coming down in 2008, the Company expects continued decline in revenue/minute.

REGIONAL PRESENCE

The year 2008 will see TM International housing all international investments and Celcom post-Demerger. The Company's investment strategy will remain focused on high growth and emerging markets closer to home. This is in line with the Company's aim to become the leading South and South-East Asian mobile operator.

The Company will continue to manage and expand investments in India and Indonesia, two of the fastest growing mobile markets in the region. Particular emphasis will also be given to the dynamic economies of Indochina where the telecommunications sector has immense growth potential.

Indonesia

PT EXCELCOMINDO PRATAMA TBK (XL)

OVERVIEW

In 2007, the Indonesian telecommunications industry had another year of strong growth. At the end of 2007, there were approximately 102 million cellular customers in Indonesia. This was an increase of 50.0% from the previous year, and amounted to a penetration rate of 42.0%. With the existence of 11 players offering more than 20 products in the market, XL faced mounting competition in the year under review.

Nevertheless, the Company grew its customer base and revenue by 62.4% and 29.4%, respectively, clearly outperforming the industry. XL's fortified market position was driven by its innovative pricing strategy and new market positioning. XL ended the year 2007 with 15.5 million customers.

XL's stellar performance in 2007 led to the Company making a clean sweep of several industry awards. The awards included *Best E-Corp 2007 Award for Best IT System* category from SWA magazine; *Best Prepaid GSM Cellular Award 2007* for its *bebas* prepaid card; *Best Innovation in Marketing; Best Customer Care Cellular Award 2007 for Customer Service* and the Indonesian *MAKE (Most Admired Knowledge Enterprise) Winner 2007.*

FINANCIAL PERFORMANCE

XL's gross revenue increased by 29.4% to IDR8,364.7 billion [RM3,153.5 million] in 2007. This growth was mainly attributable to the successful execution of several key strategies, especially in pricing and distribution channel management. A nationwide single tariff of IDR25 per second was introduced in February 2007. In April 2007, XL further enhanced the offering by introducing a reduced on-net tariff of IDR10 per second which resulted in a progressive increase in call volume. This was then followed by the launching of IDR1 per second for on-net tariff and IDR10 per second for off-net tariff which had stimulated duration per call and successfully increased the revenue and voice traffic in the third and fourth quarters of 2007. At the same time, XL was able to enhance its operational profitability leading to EBITDA margin improvement of 2.5% to 42.0% as compared to 2006. XL's EBITDA showed a significant growth of 37.4% to IDR3,509.2 billion [RM1,323.0 million].

On the other hand, XL's net income decreased by 61.5% to IDR250.8 billion [RM94.5 million] in the year under review. This was mainly due to Management's decision to book the IDR368.5 billion [RM138.9 million] withholding tax (including penalty) on US$ bond interest for the period of 2004-2007, and forex losses as a result of the depreciation of the IDR against the US$ in 2007.

A total of IDR7.1 trillion [RM2.7 billion] was added to fixed assets for network infrastructure and other investments. XL's cash flow from operating activities was IDR3,959.4 billion [RM1,492.7 million] while cash flow from financing activities was IDR3,382.9 billion [RM1,275.3 million]. Cash flow from financing activities was in the form of Rupiah Bond of IDR1.5 trillion and new bank loans of US$230.0 million and IDR400.0 billion. At the end of 2007, XL's cash and cash equivalent stood at IDR805.8 billion [RM283.6 million].

OPERATIONS

XL's customer base registered significant growth in 2007 with the acquisition of 5.9 million new customers. At the end of 2007, XL's customer base was 15.5 million, an increase of 62.4% from 2006.

XL's customer base mostly consisted of prepaid customers which represented 96.9% of its total customer base. Net-adds from prepaid services contributed 98.4% to the total net-adds or 5.8 million new customers. The increase in prepaid customers was mainly driven by *bebas* which accounted for 87.9% of the total net-adds and recorded 106.7% customer growth. This was a result of XL's pricing strategy of IDR1 per second which was launched in July 2007.

At the end of 2007, XL recorded 10.1 million *bebas* customers and 4.9 million jempol customers. Its postpaid service (Xplor) grew by 24.3% to 481,000 customers or 3.1% of its total customer base.

In 2007, XL's coverage reached 90.0% of the Indonesian population. Around 75.0% of its capital expenditure for the year was spent on improving coverage while the rest was spent on improving capacity. XL's focus was still in Java, Bali and Lombok with 67.0% of its new customers from these areas.

XL – forging ahead in Indonesia

ARPU
Since applying its pricing strategy of IDR1 per second, XL was able to improve ARPU. As a result of the reduction in on-net and off-net tariffs, MoU per customer significantly increased by 74.0% to 50 minutes, the highest growth over the last 5 years. Therefore, the ARPU increased slightly to IDR47,000 from IDR46,000 in 2006, despite the reduction in average tariffs per minute.

ARPU from *bebas* services increased 7.0% to IDR47,000, while ARPU from jempol decreased by 5.0% to IDR37,000. Overall, XL's prepaid ARPU increased slightly by 2.0% to IDR43,000 compared to last year. ARPU from Xplor decreased 10.0% to IDR155,000.

PRODUCTS & SERVICES
In February 2007, *bebas* simplified its core voice service by offering a flat tariff of IDR25 per second – for any type of call, at any time, to any operator, to any destination. The offering was then enhanced by another promotion in April 2007, introducing a reduced on-net tariff of IDR10 per second. To make the product even more appealing, *bebas* further offered a reduction of its tariff to IDR1 per second for on-net tariff and IDR10 per second for off-net tariff in July 2007.

In April 2007, to further enhance its position as a product with the most affordable SMS tariff, jempol reduced its SMS on-net tariff by 55.0%, offering it at IDR45 per SMS to other XL numbers during off-peak hours. These off-peak hours were extended in June 2007. Recognising the demand for overseas calls, jempol also offered an affordable tariff starting at IDR16 per second to 51 countries through VoIP (Voice Over Internet Protocol).

XL's postpaid service, Xplor, followed suit by simplifying its voice tariff in the year under review.

Under its "Business Solutions" label, XL continued to provide:

1. Fixed Communication Services, including Domestic Leased Line, International Leased Line, Domestic MPLS, International MPLS, Broadband Internet Access (including NAP), VoIP and Collocation
2. Mobile Communication Services, including Corporate User Group, Corporate Data (GPRS 3G), Push Mail (XPand, BlackBerry), Mobile Application and Corporate SMS Broadcast; and
3. Convergence Communication Services, including Office Zone, GSM PBX Integration, Instant Office, Hosted PBX, Machine to Machine (Wireless ATM, Wireless EDC), WiFi over Picocell, and Vehicle Tracking System (XLocate).

In 2007, XL expanded and reinforced its fibre-optic network in Medan, Bandung, Surabaya, Semarang and Denpasar with its inner ring road network. It also reinforced more than 2,000 km fibre optic from Medan to Jakarta following the construction of submarine fibre-optic spread out from Jakarta to Batam and Riau island.

In anticipation of high network capacity demand, XL built about 500 km fibre optic in Jakarta; a multiplex network with a capacity of 10 Gbps, DWDM, MPLS and NGN networks to replace the conventional TDM technology. It also built a network building in Bintaro as part of the DRP system (Disaster Recovery Plan).

BTS
XL continued to build its BTS network to expand and strengthen its coverage and minimise its dependency on other operators. XL's committed capital expenditure in 2007 was US$700.0 million. Half of that amount was used to expand and reinforce its coverage in Java, Bali and Lombok while one third was used to build a BTS network in Sumatera island. The rest was dedicated to East Indonesia. At the end of 2007, XL's coverage had reached 90.0% of the Indonesian population. The Company added 3,897 BTSs, bringing its total number of stations to 11,153 by year end.

Dialog's eZ Pay service – South Asia's first in mobile commerce initiative

Sri Lanka

DIALOG TELEKOM PLC (DIALOG)

OVERVIEW

In 2007, the telecommunications sector grew by approximately 25.0% and contributed over 20.0% to the GDP. Total tele-density in Sri Lanka saw a sharp increase with approximately 50.0% of the population owning some mode of telecommunication (fixed and mobile phones). The mobile industry had 7.1 million users by September 2007 relative to 5.4 million in 2006, representing a 32.4% growth in mobile telephony ownership. The industry growth was fuelled by increased competitiveness with all four operators competing intensely on all four strategic dimensions of price, quality, coverage and convenience, giving the Sri Lankan consumer total value for money.

The fixed-line sector also grew by 30.0% in 2007 led by CDMA technology-enabled phone sales (58.0% growth) that catered to a largely unfulfilled demand for low-cost fixed-line telephony in the market. Several telecommunications projects were in progress during the year to enhance product, service quality and coverage. Third-generation mobile technology witnessed an increased take-up by consumers for both voice and data.

Internet penetration in Sri Lanka grew by 24.0% to reach 0.16 million customers. This was largely due to the introduction and aggressive promotion of fixed broadband Internet.

Aggressive adoption and marketing of wireless broadband within the Sri Lankan market was one of the key highlights for the year with deployment of High Speed Downlink Packet Access (HSDPA) and High Speed Uplink Packet Access (HSUPA) applications in addition to 3G. Dialog, the first entrant into the Sri Lankan wireless broadband market, still remained the market leader despite the entry of Mobitel through the provision of 7.2 Mbps speed wireless data access.

The Pay TV industry saw modest growth due to the economic downturn which led to low customer additions to the industry. The perception of Pay TV in Sri Lanka as a luxury service with higher taxes being targeted at imports of key equipment and services was one of the key factors for its lower-than-expected performance in 2007.

In 2007, Dialog established one of Sri Lanka's most technologically-advanced Enterprise Management Centre that has enabled top Sri Lankan enterprises to offer their customers the best service experience from a well-trained customer-centric workforce.

Dialog's superior business strategy in 2007 led to its recognition in several areas of the telecommunications industry. Among the awards that it received in 2007 were *Best Use of Mobile for Social & Economic Development for Disaster and Emergency Warning Network (DEWN)*; *Outstanding Achievement in Customer Relationship Excellence; Customer Service Centre of the Year; Best Use of Knowledge Management of the Year* and *Innovative Technology of the Year* at the Customer Relationship Excellence (CRE) Awards held in Hong Kong.

FINANCIAL PERFORMANCE

For the 2007 financial year, Dialog recorded SLR32.5 billion (RM1.0 billion) in revenue, representing an increase of 26.6% from the previous year.

The Company chalked up gross profit of SLR19.1 billion (RM594.4 million) for the 2007 financial year. This represents a 13.4% increase from the SLR16.9 billion (RM553.6 million) recorded for the year ended 31 December 2006.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) stood at SLR13.7 billion (RM427.3 million) for the year ended 31 December 2007. This represents a marginal decline of 0.03% from the previous year's reported figures.

Dialog recorded a Profit After Tax (PAT) of SLR9.0 billion (RM278.9 million) representing a drop in performance by 11.4% relative to the year ended 31 December 2006.

OPERATIONS

Venturing into the spheres of satellite broadcasting, Dialog launched Dialog Satellite TV, a Direct-to-Home satellite television service in Sri Lanka in February 2007. Dialog Satellite TV features world-class entertainment and the widest spectrum of channels with a special focus on News, Entertainment and Knowledge-based Programming.

In July 2007, Dialog Broadband Networks (DBN) launched its fixed wireless operations based on CDMA technology. With its entrance into CDMA, Dialog became a provider of a total connectivity solution, encompassing Mobile, Fixed, Broadband and Media.

Dialog together with NDB Bank, one of the leading private sector commercial banks in Sri Lanka, unveiled eZ Pay, South Asia's first mCommerce (Mobile Commerce) initiative in August 2007, a revolutionary service that allows consumers to purchase goods, pay bills, transfer money and perform banking transactions via their mobile phones.

Dialog, the pioneer in International Roaming in the South Asian region, celebrated 10 years of Roaming excellence in October 2007 with a host of special promotions and privileges designed to reward its roaming customers who have extended loyal patronage to its roaming service.

DBN, a fully-owned subsidiary of Dialog, became the first in Sri Lanka to introduce Broadband Internet, powered by WiMAX technology in November 2007.

A milestone was reached when Dialog achieved four million customers in October 2007, further strengthening its market position in the Sri Lankan telecommunications industry.

PREFERENCE SHARE ISSUE

Dialog entered into an agreement with banks and financial institutions in Sri Lanka to raise SLR5.0 billion (RM155.5 million) via the issuance of 5.0 billion Rated Cumulative Redeemable Preference Shares of SLR1 per share.

RIGHTS ISSUE

Dialog shareholders approved a Rights Issue worth SLR15.5 billion (RM482.1 million) which represented the single-largest equity-raising exercise in the Sri Lankan capital market.

The Company's principal shareholder Telekom Malaysia Berhad (TM) has pledged to enhance its direct investment in the country through subscribing in full for its entitlement under the rights issue.

1,000 2.5 G BASE STATIONS

Dialog unveiled their 1,000th base station at Yodakandiya. The largest and fastest growing cellular company in the country, Dialog's local coverage spans all provinces of the country. The Company's extensive network coverage is a reflection of its commitment to cater to all segments of society regardless of demographic disparity, which is an important part of the Company's corporate responsibility philosophy.

ENTRY INTO BPO

Dialog recently launched a new programme to provide Business Process Outsourcing (BPO) services for both local and international enterprises. The programme, known as Enterprise Contact Management (ECM), offers a wide range of contact options including multiple modes of Agent Voice, Automated Voice, SMS, fax, email and web chat.

Bangladesh

TM INTERNATIONAL (BANGLADESH) LIMITED (TMIB)

OVERVIEW

TM International (Bangladesh) Limited (TMIB) was incorporated on 15 December 1997. TMIB operates a GSM cellular service on the 900 and 1800 MHz frequency bands under the brand name AKTEL. The year 2007 saw the industry facing steep competition amongst the six mobile operators in Bangladesh.

FINANCIAL PERFORMANCE

For the year ended 31 December 2007, TMIB recorded a gross revenue of BDT14,390.1 million [RM718.7 million], an increase of 9.5% from BDT13,139.6 million [RM704.3 million] achieved in the previous financial year. This result was achieved despite declining ARPU brought about by the falling average tariff from intense competition in the industry. The increase in revenue was mainly attributed to the increase of 1.4 million new customers in 2007 arising from various marketing initiatives, improved network capacity and expanded customer service network. Nonetheless, due to a one-off Government compensation in the third quarter of 2007 and higher customer acquisition cost, particularly arising from the SIM tax subsidy, EBITDA and PAT fell from BDT5,998.1 million [RM321.5 million] and BDT4,333.4 million [RM232.3 million] in 2006 to BDT4,263.7 million [RM212.9 million] and BDT105.2 million [RM5.3 million] in 2007, respectively.

OPERATIONS

In 2007, TMIB embarked on various marketing initiatives to create more value for its customers. AKTEL Prepaid attracted customers with its Phurti Campaign, Power re-launch, recharge bonuses and special rates from Power and Joy. On the other hand, postpaid solutions saw offers like BTTB FnF, insurance and zero-line rent. AKTEL customers also received special bundle offers of free AKTEL PA, SMS and MMS.

For its corporate clients, AKTEL introduced its Power Pack solution and Corporate Messaging Platform for additional savings. Its International Roaming Unit also launched additional bilateral voice roaming and GPRS Roaming in 2007.

In terms of network capacity, TMIB had a total of 3,905 BTSs at the end of 2007. The Company added an impressive 1.4 million new customers to end the year with 7.2 million customers. To meet the demands of its growing customer base, TMIB expanded its customer service network to 19 walk-in Customer Care Centres in 2007.

Boosting performance at AKTEL

OVERVIEW

Telekom Malaysia International (Cambodia) Company Limited (TMIC) provides services on the GSM 900 frequency band under a 35-year cellular concession commencing 1996 from the Ministry of Posts and Telecommunications. In November 2007, TMIC launched a re-branding campaign to introduce its identity "hello" which will spearhead the Company's plan to aggressively add new business, especially with the establishment of 500 additional base stations.

The re-branding process was crucial as it was a key factor in achieving TMIC's projected target to eventually become the leading mobile operator in Cambodia. The re-branding campaign also focused on areas such as the distribution network, customer service quality, manpower and new brand identity for 10 "hello point" outlets located in Phnom Penh and the provinces.

FINANCIAL PERFORMANCE

TMIC achieved a 33.7% growth in revenue, from US$30.9 million [RM113.3 million] recorded in financial year 2006 to US$41.3 million [RM142.0 million] in 2007. The surge in revenue was the result of a healthy 36.1% increase in its customer base as well as high blended ARPU, which currently stands at US$9.4 per month as compared to US$8.9 per month in the previous year. On the back of stronger revenue figures, EBITDA margin stood relatively stable at 44.4%. Profit after tax for the financial year 2007 was US$9.8 million [RM33.7 million], an increase of 46.3% from US$6.7 million [RM24.6 million] reported previously. The Company achieved a Return on Total Assets (ROTA) above the local industry rate of 15.1%.

OPERATIONS

As at 31 December 2007, TMIC had a customer base of 311,650. Prepaid customers totalled 308,243 while postpaid customers totalled 3,407. TMIC's blended ARPU is the highest among TM International subsidiaries, and currently stands at US$9.4 per month.

The Company will continue to focus on network expansion in the year 2008. In line with this, TMIC will execute Phase 6.1 of Project Expansion, which will give the Company a wider coverage area and higher quality network in the Kingdom of Cambodia.

Cambodia

TELEKOM MALAYSIA INTERNATIONAL (CAMBODIA) COMPANY LIMITED (TMIC)

"hello" – spearheading TMIC in Cambodia

multinet

Pakistan

MULTINET PAKISTAN (PRIVATE) LIMITED (MULTINET)

Multinet – moving broadband in Pakistan

OVERVIEW

Multinet's predominant area of business is broadband connectivity. Broadband take-up, however, has been slow in Pakistan due to various reasons including the availability of content and cost of bandwidth which is more expensive compared to other countries in the region.

Introduced in 2002, DSL is the oldest form of broadband connectivity in Pakistan. Due to its long presence in the market, it is the dominant means of connectivity.

The year 2007 saw the incumbent operator's entry into the DSL market, resulting in greater accessibility and affordability for end users. However, DSL cannot handle the rapidly-increasing bandwidth and customer numbers. This has led to an extensive rollout of FTTH and Wireless networks.

Due to the growing market size, problems in service delivery and decreasing ARPUs, there has been tremendous interest in the data delivery business with massive WiMax rollouts in 2007.

FINANCIAL PERFORMANCE

For the year ended 31 December 2007, Multinet registered total revenue and negative EBITDA of PKR345.5 million [RM19.6 million] and PKR13.5 million [RM0.8 million], respectively. This represents a 121.9% and 71.1% growth from the results reported last year. Loss after taxation reduced from PKR106.4 million [RM6.4 million] in 2006 to PKR36.6 million [RM2.1 million] recorded in 2007.

OPERATIONS

In 2007, Multinet maximised its revenue through the development of new product lines such as MPLS and Co-location services, aggressive customer acquisition and retention, business process enforcement and skill sets enhancement. The Company is in the final stage of completion of its 4,250 km fibre network across Pakistan through Project Ittehad. As at 31 December 2007, 82.3% of the project was completed. Multinet expects to achieve 100.0% project completion in the second quarter of 2008.

As at 31 December 2007, Multinet's customer base stood at 3,300 with a majority of them being Broadband DSL customers.

India

SPICE COMMUNICATIONS LIMITED (SPICE)

OVERVIEW

India's telecom industry experienced a healthy increase of activity in 2007. In an effort to further open up the telecom sector to competition, the industry saw the emergence of Unified Access Service Licence (UASL); Letters of Intent (LoIs) issued to eligible licence seekers as per the telecom policy; and spectrum allocated to new players. The customer gained the most as telecom services became more affordable and innovative offerings flooded the market. Telecom regulations were also being developed to ensure better service to the customer such as the launch of National Do Not Call registry (NDNC) – an effort to rein in telemarketers who contact customers using their mobile numbers. NDNC is expected to put a stop to unwanted telemarketing calls and thus improve mobile customer experiences.

In 2007, wireless customers in India reached 233.6 million, a 56.1% increase from 149.6 million the previous year. In December 2007, mobile phone customers in India grew by over 8 million, making it the world's fastest-growing telecom market. The market has been consistently adding more than 8 million customers every month since July 2007. The major drivers for this growth are low call rates (as low as US$0.01 a minute) and cheap handsets. Still, only about a quarter of the population has a telephone. India had 272.9 million (23.9% of the population) telephone users at the end of December 2007. The government has targetted 500 million users by 2010.

Spice is amongst the first private GSM operators to commence operations in India. The cellular operator provides GSM services in Punjab and Karnataka in the 900 MHz range. The total spectrum allocated in Punjab and Karnataka is 7.8 MHz and 6.2 MHz, respectively. Spice has one of the largest roaming networks with over 450 roaming agreements with operators worldwide.

Spice's successful IPO

The Company's IPO was completed successfully in 2007 with 37.5 times oversubscription rate. The stock enjoys listing status on the Bombay Stock Exchange.

A major achievement for Spice in 2007 was the acquisition of a licence to operate National and International Long Distance (NLD/ILD) services in India by the Department of Telecommunications. This development allowed the Company to carry both voice and data traffic nationally and internationally.

Further, on 10 January 2008, Spice received a Letter of Intent (LoI) for the Award of Licence to provide Unified Access Services (UAS) in 4 additional circles or service areas i.e. Delhi, Maharashtra, Andhra Pradesh and Haryana. The licences will be issued on a non-exclusive basis subject to compliance of the UAS Guidelines.

FINANCIAL PERFORMANCE

In 2007, the Company recorded total revenue of INR10,346.3 million [RM861.3 million] compared to INR8,323.5 million [RM670.9 million] in 2006. This translates to a year-on-year increase of 24.3%. EBITDA saw an increase to INR7,396.2 million [RM615.7 million] in 2007 from INR2,283.0 million [RM184.0 million] recorded in 2006. The Company registered profit after tax of INR3,801.3 million [RM316.4 million] for the financial year ended 31 December 2007 as compared to loss after tax of INR245.2 million [RM19.7 million] recorded in the previous financial year.

Improved performance of Spice was mainly attributed to 55.5% growth in customer base, wider population coverage from the increased number of cell sites and gain on sale of telecommunication towers.

OPERATIONS

Spice operates in two circles – Punjab and Karnataka – which are still undergoing network expansion. The number of cell sites in Punjab increased from 1,192 in December 2006 to 2,031 in December 2007, taking the percentage of population covered to 67.0% from 50.0%. In Karnataka, the number of cell sites increased from 838 in December 2006 to 1,632 in December 2007, taking the percentage of population covered to 40.0% from 20.0%.

The ARPU in both Punjab and Karnataka has decreased from INR364 and INR423 in December 2006 to INR269 and INR260 in December 2007 respectively.

In January 2007, Spice had a total of 2.5 million customers (1.8 million in Punjab and 0.7 million in Karnataka). By December 2007, this number had swelled to 3.8 million customers (2.3 million in Punjab and 1.4 million in Karnataka).

Singapore

MOBILEONE LTD (M1)

OVERVIEW

M1 is a leading mobile communications provider in Singapore, with more than one million customers. It provides a full range of mobile voice and data communications services over its 2G/3G/3.5G network.

M1 also provides international call services to both mobile and fixed-line customers. It has partnered operators globally to provide its customers coverage and roaming services in over 200 countries and territories.

With a newly-upgraded 3G network, M1 became the first mobile operator in Singapore to offer High Speed Downlink Packet Access (HSDPA) in 2006 when it launched 'M1 Broadband', Singapore's first island-wide wireless broadband service.

M1 is listed on the Singapore Exchange and its current major shareholders are SunShare Investments Ltd, Keppel Telecoms Pte Ltd and SPH Multimedia Private Limited. As at 31 December 2007, SunShare Investments, a joint-controlled entity between TM International and Khazanah Nasional, held a 29.69% equity interest in M1.

M1 – Breaking new ground in Singapore

FINANCIAL PERFORMANCE

For the year ended 31 December 2007, operating revenue increased by 3.9% to SG$803.3 million [RM1,832.2 million] driven by the 6.4% growth in service revenue to SG$727.1 million [RM1,658.4 million]. Postpaid revenue and international call revenue for the year under review was recorded at SG$538.5 million [RM1,228.3 million] and SG$127.1 million [RM289.9 million], and representing a growth of 6.2% and 11.5% respectively from the previous year. Contribution from mobile data revenue increased from 6.3% of the service revenue in 2006 to 8.4% in 2007. PAT for the year increased by 4.4% to SG$171.8 million [RM391.9 million] while earnings per share (EPS) improved 11.4% to 18.5 cents.

OPERATIONS

M1 recorded a 14.8% increase in its total customer base, with 1.535 million customers as at 31 December 2007, comprising 856,000 postpaid customers and 679,000 prepaid customers. Postpaid and prepaid ARPU increased quarter-on-quarter. Monthly postpaid churn remained stable at 1.2%.

For 2008, M1 expects to see sustained growth in data traffic from M1 Broadband and mobile devices. Apart from driving operating efficiencies, M1 will tap on the continuing telecom media convergence and develop new businesses anchored on its core competencies. To manage growing lease circuit requirements, the Company has started to roll out its own cellular backhaul network.

Mobile Telecommunication Company Of Esfahan

Iran

MOBILE TELECOMMUNICATIONS COMPANY OF ESFAHAN (MTCE)

OVERVIEW

Mobile Telecommunications Company of Esfahan (MTCE) commenced its operations on 24 June 2002 as the first provider of mobile prepaid SIM cards in Iran. The Company is licensed to operate a GSM 900 MHz mobile communication service with a capacity of 35,000 customers in the Esfahan province of the Islamic Republic of Iran. This licence is valid for a 15-year period commencing 19 May 2001.

The telecommunications industry in Iran saw a major change at the start of 2007 with the introduction of a second nationwide mobile operator. This introduction marked the initial phase of Iran's liberalisation of the telecommunications sector, resulting in a near doubling of mobile customers from 15.4 million in 2006 to 27.5 million at the end of 2007. Correspondingly, the country's mobile customer penetration rate also increased from 22.2% to 39.0% during the year.

FINANCIAL PERFORMANCE

Despite greater competition with a threat of declining ARPU, MTCE was able to marginally improve its revenue contribution to IRR45.3 billion [RM16.8 million] from IRR43.8 billion [RM17.5 million] previously recorded in 2006.

However, due to higher direct and operational costs arising from an enlarged network and high inflation rate, the Company was not able to sustain its EBITDA. Comparatively, EBITDA decreased to IRR21.8 billion [RM8.1 million] in 2007 from IRR27.7 billion [RM11.1 million] in the previous year.

OPERATIONS

In 2007, the Company continued to focus on growing its prepaid services. Taking advantage of its newly-installed customer network capacity of 35,000, the Company embarked on a marketing drive which resulted in an increase in its customer base from 20,459 at the end of 2006 to 30,568 by the end of 2007. The Company operates 64 BTSs in 12 cities within the Esfahan Province.

Moving the prepaid market in Iran

Thailand

SAMART I-MOBILE PUBLIC COMPANY LIMITED (SIM)

OVERVIEW

Samart I-Mobile Public Company Limited (SIM), a Company listed on the Stock Exchange of Thailand (SET), is a majority-owned subsidiary of Samart Corporation Public Company Limited (Samart).

In February 2006, TM International initiated its investment in SIM by acquiring a direct 24.42% stake in the Company. SIM provides wireless information services and mobile content in addition to distributing mobile telephones and accessories. TM International's share acquisition was completed on 27 March 2006.

In 2007, SIM saw a decrease in revenue due to the discontinued export of selected mobile telephone brands to a third country. However, the Company continued to achieve higher handset sales for its house brand in both the local and overseas markets. The Company chalked up impressive sales in Malaysia, followed by countries like Indonesia, Laos, Vietnam, Cambodia and Bangladesh.

FINANCIAL PERFORMANCE

In 2007, SIM recorded total revenue of THB15.4 billion (RM1,587.4 million) a 37.3% decrease from THB24.6 billion (RM2,370.7 million) recorded in the previous year. The Company registered a net profit of THB321.1 million (RM33.0 million), which was a 34.2% decrease from the previous year's figure of THB488.1 million (RM47.0 million).

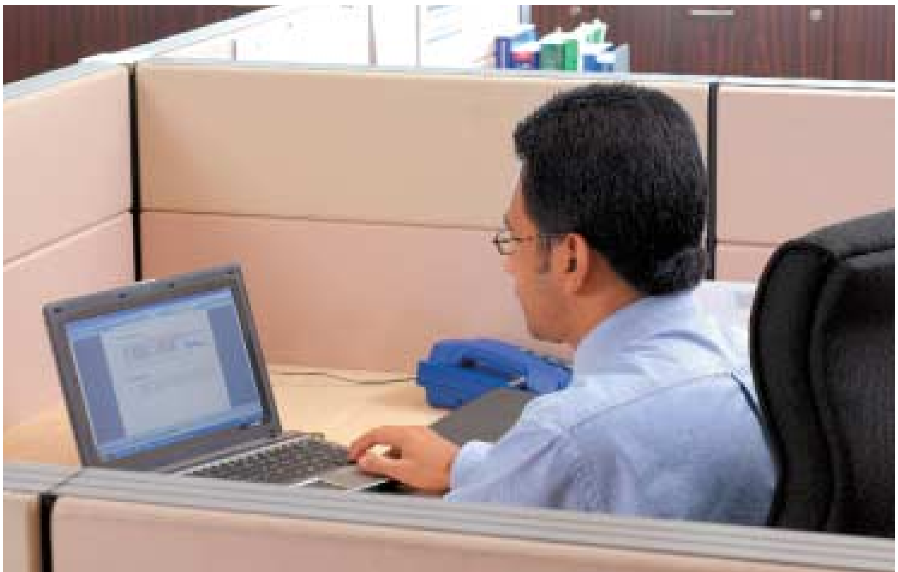
OPERATIONS

SIM recently underwent a business restructuring to support its growth and global expansion. Using the strategy of advanced product development with new product lines, SIM redefined the Company and created more distinct business groups, which consisted of the 'i-mobile' brand, other main mobile brands, multimedia content and new businesses. These initiatives further strengthened SIM's ability to maximise its assets and penetrate the market for each group.

More importantly, the introduction of new product lines, both for mobile phones and other communication devices, provided customers with more options, and attracted customers to purchase products and goods from the Company's multiple channels of distribution. The variety of communication products on offer, special content and applications, SIM's comprehensive national and regional distribution network further strengthened the Company's leadership in the Asian market.

In 2007, approximately 2.5 million I-mobile handsets were sold in Thailand. This propelled the brand to take the number two spot in the Thai handset market. I-mobile's market share increased from 28.0% in 2006 to 31.0% in 2007.

The year 2008 will see the Company looking towards regional market expansion after successful penetration in Malaysia, Indonesia, Vietnam, Bangladesh, Laos, Cambodia and India. SIM's content business will also be expanded regionally where I-mobile has a strong presence, namely Malaysia, Indonesia and Vietnam. New businesses will be introduced to partners in order to serve a wider customer base.



OVERVIEW

Established in 1989, Samart Corporation Public Company Limited (Samart) is involved in three main areas of business:

1. ***Mobile multimedia***
   Integrated mobile and interactive media including infotainment, billing systems for 1900 MHz mobile phones as well as media production and development.

2. ***ICT solutions and services***
   Telecommunications networks and total ICT solutions system designed for the government and private sectors.

3. ***Technology-related businesses***
   Manufacture and distribution of television and radio antennas and satellite dishes, provision of Call Centre services for government and private sectors, distribution, installation and maintenance of Communication and Security Systems including Total Waste Management Solution in Suvarnabhumi Airport, provision of air traffic control services in Cambodia and electric generating supply to Kampot Cement factory in Cambodia.

TM's interest in Samart was formalised on 9 June 1997. In February 2006, TM International repositioned its business partnership with Samart by obtaining a direct 24.42% stake in Samart I-Mobile Public Company Limited (SIM), a majority-owned Samart subsidiary. As at 31 December 2007, TM International held a 18.97% stake in Samart.

FINANCIAL PERFORMANCE

For the year ended 31 December 2007, Samart recorded a total revenue of THB19.6 billion (RM2,021.0 million) and net profit of THB573.6 million (RM59.0 million). This represents a decrease of 36.6% and 71.2%, respectively, due mainly to the economic slowdown and political uncertainties. However, the Company's performance was still deemed satisfactory when benchmarked against industry performance.

OPERATIONS

In 2007, Samart focused on internal organisation improvement, business restructuring, value-added services, market channel expansion and human capital development. The Company developed many new business initiatives notably its collaboration with the National Nuclear Institute for further investment and development in nuclear technology, the newly-designed I-mobile phone, ICT business realignment and international market expansion in ICT outsourcing, content and mobile businesses.

A robust increase in the number of flights in Cambodia by 16.7% in the year under review contributed to an encouraging growth of 15.6% in revenue (US$20.6 million) for Air Traffic Services Co. Ltd, a company wholly-owned by Samart. The Company's concession period was extended an additional 10 years, bringing it to a total of 27 years. Kampot Powerplant Co. Ltd. produces electricity for Kampot Cement under a 10-year contract.

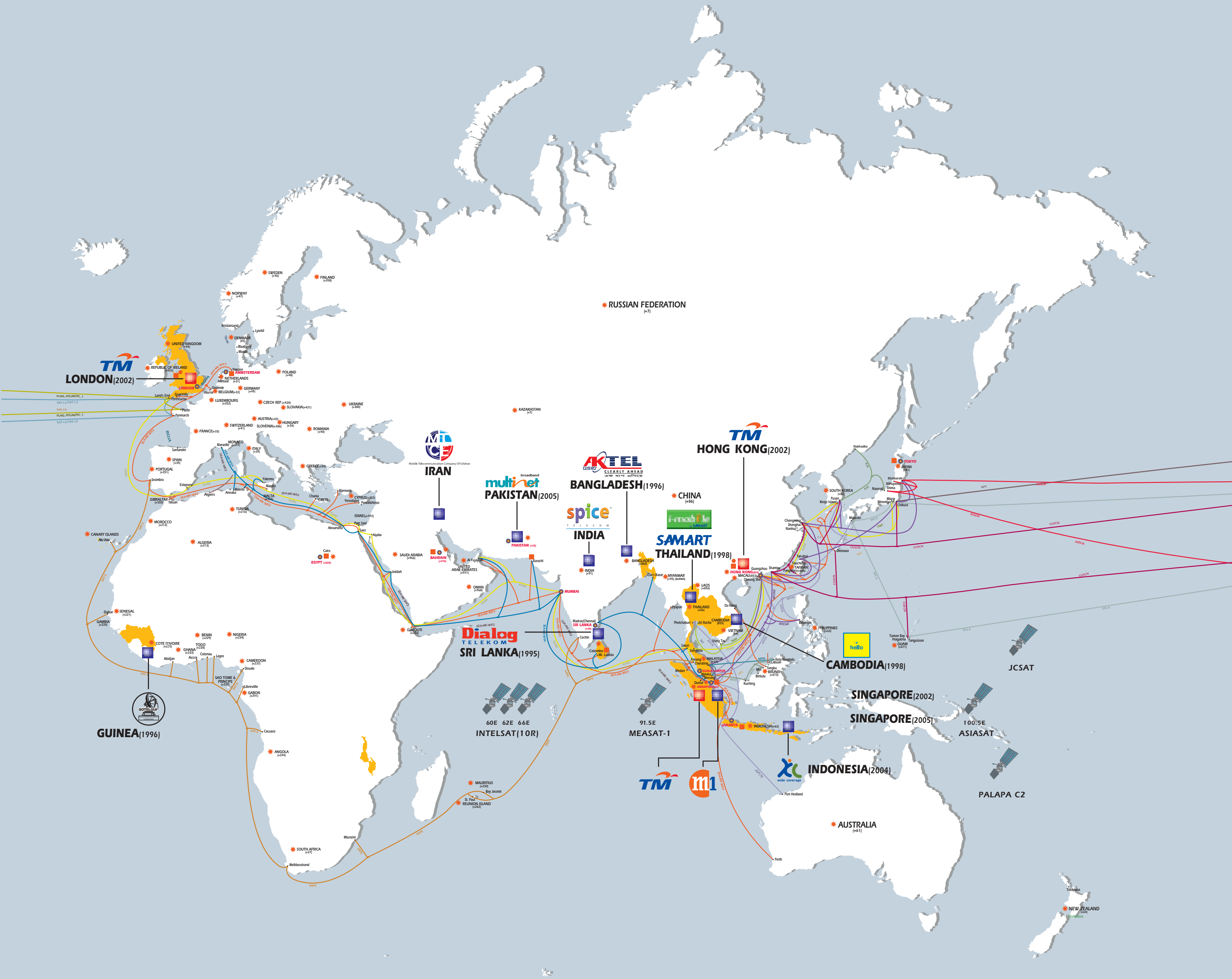
Thailand

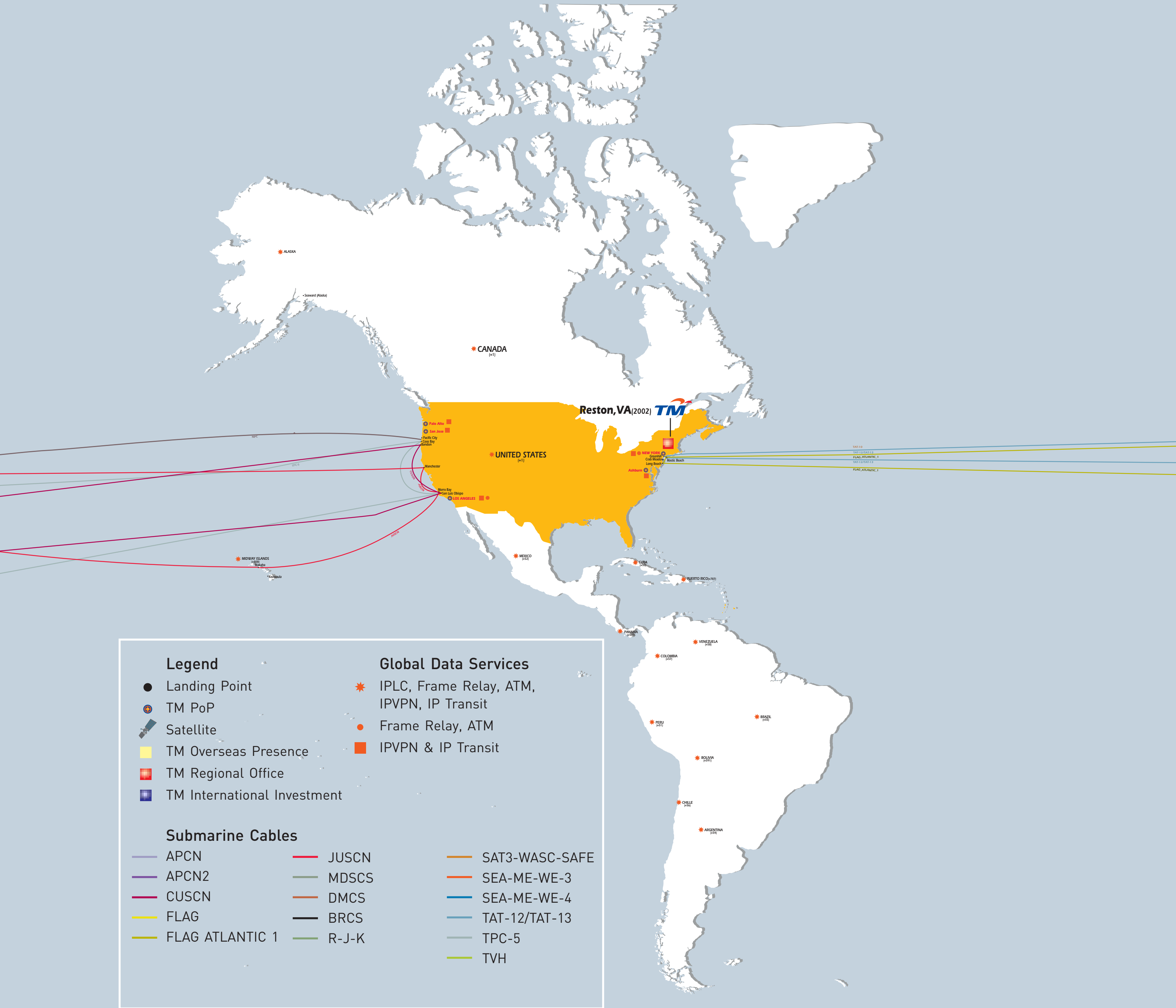
SAMART CORPORATION PUBLIC COMPANY LIMITED (SAMART)

Samart – diversified communication services in Thailand and the region

In 2008, Samart aims to achieve a substantial revenue increase of 40.0% to 50.0% by providing products and services that match customer needs, as well as expanding its operations in markets with high potential.

Global Cable Services,
International Investments & Presence





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Reston, VA (2002)
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Legend
Landing Point
TM PoP
Satellite
TM Overseas Presence
TM Regional Office
TM International Investment
Global Data Services
IPLC, Frame Relay, ATM, IPVPN, IP Transit
Frame Relay, ATM
IPVPN & IP Transit
Submarine Cables
APCN
APCN2
CUSCN
FLAG
FLAG ATLANTIC 1
JUSCN
MDSCS
DMCS
BRCS
R-J-K
SAT3-WASC-SAFE
SEA-ME-WE-3
SEA-ME-WE-4
TAT-12/TAT-13
TPC-5
TVH