



New Possibilities...

Enriching Lives

Telekom Malaysia Berhad
(128740-P)

2003 Annual Report

OUR Vision

OUR VISION IS TO BE THE COMMUNICATIONS COMPANY OF CHOICE – FOCUSED ON DELIVERING EXCEPTIONAL VALUE TO OUR CUSTOMERS AND OTHER STAKEHOLDERS.

OUR Mission

To achieve our vision, we are determined to do the following:

- Be the recognised leader in all markets we serve
- Be a customer-focused organisation that provides one-stop total solution
- Build enduring relationships based on trust with our customers and partners
- Generate shareholder value by seizing opportunities in Asia Pacific and other selected regional markets
- Be the employer of choice that inspires performance excellence

No man is an island.

No nation exists in isolation.

We need to communicate, interact and exchange information.

From family to friends to business associates,
our lives are made richer through the power of interaction.

At Telekom Malaysia, we dedicate ourselves to creating new ways
to keep you in communication.

With fixed lines, mobile, Internet, Wi-Fi, broadband and more,
we are opening possibilities to enrich your lives.

Richer than ever before.



CONTENTS

TELEKOM MALAYSIA BERHAD
Annual Report 2003

| | |
|---|-----|
| Financial Calendar 2003 | 3 |
| Notice of Annual General Meeting | 4 |
| Statement Accompanying the Notice of Annual General Meeting | 6 |
| Five-Year Group Financial Highlights | 8 |
| Group Financial Performance 2003 | 10 |
| Group Segmental Analysis | 11 |
| Business and Other Statistics | 12 |
| Group Financial Review | 14 |
| Group Structure | 20 |
| Corporate Information | 22 |
| Board of Directors | 24 |
| Profile of the Board of Directors | 26 |
| Group Business Management | 36 |
| Corporate Governance Statement | 38 |
| Risk Management | 44 |
| Additional Compliance Information | 46 |
| Audit Committee Report | 48 |
| Statement on Internal Control | 52 |
| Chairman's Statement | 56 |
| Chief Executive's Statement | 60 |
| OPERATIONS REVIEW | |
| • Fixed Line Services – TM TelCo | 68 |
| • Cellular – Celcom (Malaysia) Berhad | 78 |
| Box Article 1 – Mobility Solutions | 82 |
| • Multimedia Services – TM Net Sdn. Bhd. | 88 |
| Box Article 2 – The World of Broadband | 94 |
| • International Operations – TM International Sdn. Bhd. | 98 |
| • Facilities Management – TM Facilities Sdn. Bhd. | 106 |
| Other Subsidiaries | 112 |
| Educational Excellence | 122 |
| Human Resources | 128 |
| Customer Relationship Management | 131 |
| Research and Development | 134 |
| Towards a Safe and Healthy Work Culture | 135 |
| Quality Initiatives | 137 |
| Our Contributions to the Nation | 144 |
| Awards & Recognition | 149 |
| Highlights of the Year 2003 | 150 |
| Corporate & Social Responsibilities | |
| – Caring for Shareholders | 156 |
| – Caring for Customers | 157 |
| – Caring for Employees | 158 |
| – Caring for Community | 160 |
| Reports and Financial Statements | 162 |
| Shareholding Statistics | 252 |
| List of Top 30 Shareholders | 253 |
| Shareholders and Investor Information | 255 |
| Net Book Value of Land & Buildings | 256 |
| Usage of Properties | 257 |
| Group Directory | 258 |
| Proxy Form | • |





20 May 2003

18th Annual General Meeting (AGM) of the Company.

27 May 2003

Announcement of the unaudited consolidated 1st quarter results for the three months ended 31 March 2003.

29-30 May 2003

Book Closure for determining the entitlement of the dividend.

23 June 2003

Date of payment of the final dividend of 10 sen per share (less 28% Malaysian Income Tax) in respect of the financial year ended 31 December 2002.

26 August 2003

Announcement of the unaudited consolidated 2nd quarter results for the six months ended 30 June 2003.

FINANCIAL CALENDAR 2003

TELEKOM MALAYSIA BERHAD
Annual Report 2003

21 November 2003

Announcement of the unaudited consolidated 3rd quarter results for the nine months ended 30 September 2003.

26 February 2004

Announcement of the audited consolidated results and the proposed final dividend and special dividend for the financial year ended 31 December 2003.

26 April 2004

Issuance of Notice of 19th AGM, Notice of Book Closure for Payment of Dividend and Annual Report for the financial year ended 31 December 2003.

18 May 2004

19th AGM of the Company.

26-27 May 2004

Book Closure for determining the entitlement for the dividend.

21 June 2004

Date of payment of the final dividend of 10 sen per share (less 28% Malaysian Income Tax) and special dividend of 10 sen per share (less 28% Malaysian Income Tax) in respect of the financial year ended 31 December 2003.

18 May 2004

004

NOTICE OF ANNUAL GENERAL MEETING

TELEKOM MALAYSIA BERHAD
Annual Report 2003

**NOTICE IS HEREBY GIVEN THAT
the Nineteenth Annual
General Meeting of the
Company will be held at
10:00 a.m., on Tuesday,
18 May 2004 at the Grand
Ballroom, 9th Floor,
The Legend Hotel, 100 Jalan
Putra, 50350 Kuala Lumpur,
for the following purposes:-**

1. To receive the Audited Financial Statements for the financial year ended 31 December 2003 together with the Reports of the Directors and Auditors thereon.

(Ordinary Resolution 1)
2. To approve the declaration of a final dividend of 10 sen per share (less 28% Malaysian Income Tax) and special dividend of 10 sen per share (less 28% Malaysian Income Tax) in respect of the year ended 31 December 2003.

(Ordinary Resolution 2)
3. To re-elect the following Directors retiring pursuant to Article 103:-
 - (i) Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor

(Ordinary Resolution 3)
 - (ii) Ir. Prabahar N.K. Singam

(Ordinary Resolution 4)
 - (iii) Dato' Lim Kheng Guan

(Ordinary Resolution 5)
 - (iv) Rosli bin Man

(Ordinary Resolution 6)
 - (v) Tan Poh Keat

(Ordinary Resolution 7)
 - (vi) Datuk Dr. Halim bin Shafie

(Ordinary Resolution 8)
 - (vii) Dato' Abdul Majid bin Haji Hussein

(Ordinary Resolution 9)
4. To approve the Directors' fees and remuneration.

(Ordinary Resolution 10)
5. To re-appoint the retiring Auditors and to authorise the Directors to fix their remuneration.

(Ordinary Resolution 11)
6. As **SPECIAL BUSINESS**
To consider and if thought fit to pass the following Ordinary Resolution:-
Authority to Allot and Issue Shares
"THAT subject to the Companies Act, 1965 (the Act), the Articles of Association of the Company, approval from the Malaysia Securities Exchange Berhad (MSEB) and other Government or regulatory bodies, where such approval is necessary, full authority be and is hereby given to the Board of Directors pursuant to Section 132D of the Act, to issue shares in the capital of the Company at any time upon such terms and conditions and for such purposes as the Directors may in their discretion deem fit provided always that the aggregate number of shares to be issued, shall not exceed 10% of the issued share capital of the Company."

(Ordinary Resolution 12)
7. To transact any other business of the Company of which due notice has been received.

FURTHER NOTICE IS HEREBY GIVEN THAT a Depositor shall be eligible to attend this meeting only in respect of:-

- (a) Shares deposited into the Depositor's Securities Account before 12:30 p.m. on 7 May 2004 (in respect of shares which are exempted from Mandatory Deposit);
- (b) Shares transferred into the Depositor's Securities Account before 4:00 p.m. on 7 May 2004 in respect of Ordinary Transfer;
- (c) Shares bought on the MSEB on a cum entitlement basis according to the Rules of the MSEB.

Shareholders are reminded that pursuant to the Securities Industry (Central Depositories) (Amendment No. 2) Act, 1998 (SICDA) which came into force on 1 November 1998, all shares not deposited with Malaysian Central Depository Sdn. Bhd. (MCD) by 12:30 p.m. on 1 December 1998 and not exempted from Mandatory Deposit, have been transferred to the Minister of Finance (MOF). Accordingly, the eligibility to attend this Meeting for such undeposited shares will be the MOF.

NOTICE OF BOOK CLOSURE FOR PAYMENT OF DIVIDENDS

NOTICE IS ALSO HEREBY GIVEN THAT the Register of Members will be closed from 26 May 2004 to 27 May 2004 (both dates inclusive) to determine the Shareholders' entitlement to the dividend payment. The dividend, if approved by the shareholders at the Company's Nineteenth Annual General Meeting, will be paid on 21 June 2004 to shareholders whose names appear in the Register of Depositors on 25 May 2004.

FURTHER NOTICE IS HEREBY GIVEN THAT a Depositor shall qualify for dividend entitlement only in respect of:-

- (a) Shares deposited into the Depositor's Securities Account before 12:30 p.m. on 21 May 2004 (in respect of shares which are exempted from Mandatory Deposit);
- (b) Shares transferred into the Depositor's Securities Account before 4:00 p.m. on 25 May 2004 in respect of Ordinary Transfers;
- (c) Shares bought on the MSEB on a cum entitlement basis according to the Rules of the MSEB.

Shareholders are reminded that pursuant to SICDA, all shares not deposited with MCD by 12:30 p.m. on 1 December 1998 and not exempted from Mandatory Deposit, have been transferred to the MOF. Accordingly, the dividend for such undeposited shares will be paid to MOF.

By Order of the Board

Wang Cheng Yong (MAICSA 0777702)
Zaiton Ahmad (MAICSA 7011681)
Secretaries

Kuala Lumpur
26 April 2004

Notes:

1. A member entitled to attend and vote at the above Meeting is entitled to appoint a proxy to attend and vote in his stead. A Proxy need not be a member of the Company and the provisions of Section 149(1)(b) of the Act shall not apply to the Company.
2. A member shall not be entitled to appoint more than two (2) proxies to attend and vote at the same meeting provided that where a member of the Company is an authorised nominee as defined in accordance with the provisions of the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
3. Where a member appoints two (2) proxies, the appointments shall be invalid unless the proportion of the holding to be represented by each proxy is specified.
4. This instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly appointed under a power of attorney or if such appointee is a corporation, either under its common seal or under the hand of an officer or attorney duly appointed under a power of attorney.
5. A corporation which is a member, may by resolution of its Directors or other governing body authorise such person as it thinks fit to act as its representative at the Meeting, in accordance with Article 92 of the Company's Articles of Association.
6. This instrument appointing the proxy must be deposited at the office of the Share Registrar, Tenaga Koperat Sdn. Bhd., 20th Floor, Plaza Permata (formerly known as IGB Plaza), Jalan Kampar, Off Jalan Tun Razak, 50400 Kuala Lumpur not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
7. **Explanatory Note for Ordinary Resolution No. 12**
In line with the Company's plan for expansion/diversification, the Company is actively looking into prospective areas so as to broaden its operating base and earnings potential. As the expansion/diversification may involve the issuance of new shares, the Directors, under present circumstances would be required to convene a general meeting to approve the issuance of new shares even though the number involved is less than 10% of the issued share capital. In order to avoid any delay and cost involved in convening a general meeting to approve such issue of shares, it is considered appropriate that the Directors be now empowered to issue shares in the Company up to an amount not exceeding in total, 10% of the issued share capital of the Company for the time being, for such purposes as they consider would be in the interest of the Company. This authority unless revoked or varied at a general meeting will expire at the next Annual General Meeting of the Company.

DIRECTORS RANKING FOR RETIREMENT AND RE-ELECTION AT THE 19TH ANNUAL GENERAL MEETING

The Directors retiring by rotation and who are seeking re-election, pursuant to Article 103 of the Company's Articles of Association are as follows:-

1. Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor
2. Ir. Prabahar N.K. Singam
3. Dato' Lim Kheng Guan
4. Rosli bin Man
5. Tan Poh Keat
6. Datuk Dr. Halim bin Shafie
7. Dato' Abdul Majid bin Haji Hussein

The respective profiles of the above Directors are set out in the Profile of the Board of Directors on pages 26 – 34 inclusive, of this Annual Report. Their securities holdings in the Company and its subsidiaries are set out in the Analysis of Shareholdings on page 254 of this Annual Report.

STATEMENT ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

TELEKOM MALAYSIA BERHAD
Annual Report 2003

LIST OF GENERAL MEETINGS from 1 January 2003 to 31 December 2003

| TYPE OF MEETING | DATE | TIME | VENUE |
|-------------------------------|---------------|------------|--|
| Extraordinary General Meeting | 31 March 2003 | 10:00 a.m. | Grand Ballroom 9th Floor, The Legend Hotel 100 Jalan Putra 50350 Kuala Lumpur |
| 18th Annual General Meeting | 20 May 2003 | 10:00 a.m. | Grand Ballroom 9th Floor, The Legend Hotel 100 Jalan Putra 50350 Kuala Lumpur |

ATTENDANCE OF DIRECTORS AT THE BOARD OF DIRECTORS' MEETINGS

The Board of Directors met fourteen (14) times during the financial year ended 31 December 2003. Details of their attendance are as follows:-

| NAME | TOTAL MEETINGS ATTENDANCE | PERCENTAGE OF ATTENDANCE |
|---|---------------------------|--------------------------|
| Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor | 14/14 | 100% |
| Dato' Dr. Md Khir bin Abdul Rahman | 14/14 | 100% |
| Dato' Dr. Abdul Rahim bin Haji Daud | 14/14 | 100% |
| Dato' Abdul Majid bin Haji Hussein | 11/14 | 79% |
| Datuk Dr. Halim bin Shafie | 9/14 | 64% |
| Y.B. Dato' Joseph Salang Gandum | 12/14 | 86% |
| Dato' Dr. Mohd Munir bin Abdul Majid | 13/14 | 93% |
| Y.B. Dato' Ir. Haji Mohd Zin bin Mohamed | 11/14 | 79% |
| Dato' Lim Kheng Guan | 14/14 | 100% |
| Ir. Prabahar N.K. Singam | 14/14 | 100% |
| Rosli bin Man | 14/14 | 100% |
| Tan Poh Keat | 13/14 | 93% |
| Mohammad Zanudin bin Ahmad Rasidi (Alternate Director to Dato' Abdul Majid bin Haji Hussein) | 3/14 | 21% |
| Dato' Suriah binti Abd Rahman (Alternate Director to Datuk Dr. Halim bin Shafie) | 5/14 | 36% |

FIVE-YEAR GROUP FINANCIAL HIGHLIGHTS

TELEKOM MALAYSIA BERHAD
Annual Report 2003

| In RM Million | 1999 | 2000 | 2001 | 2002 | 2003 |
|--|----------|----------|----------|----------|-----------------|
| 1. Operating revenue | 7,833.0 | 8,815.7 | 9,673.2 | 9,834.1 | 11,796.4 |
| 2. Profit before taxation# ^ | 1,017.0 | 1,250.8 | 2,443.6 | 1,530.4 | 1,810.5 |
| 3. Profit after taxation# ^ | 889.5 | 578.7 | 1,775.1 | 870.7 | 1,444.2 |
| 4. Profit after taxation and minority interests# ^ | 888.4 | 586.1 | 1,751.2 | 844.3 | 1,390.4 |
| 5. Total shareholders' fund# * ^ | 11,566.8 | 12,345.1 | 13,805.8 | 14,919.6 | 16,782.4 |
| 6. Total assets# ^ ~ | 25,630.1 | 27,311.9 | 27,395.1 | 28,935.4 | 36,040.3 |
| 7. Total borrowings ~ | 8,059.5 | 8,481.0 | 7,081.7 | 7,676.5 | 11,708.4 |

GROWTH RATES OVER PREVIOUS YEARS

| | | | | | |
|----------------------------------|--------|-------|--------|--------|--------------|
| 1. Operating revenue | -1.8% | 12.5% | 9.7% | 1.7% | 20.0% |
| 2. Profit before taxation# ^ | -52.1% | 23.0% | 95.4% | -37.4% | 18.3% |
| 3. Total shareholders' fund# * ^ | -4.1% | 6.7% | 11.8% | 8.1% | 12.5% |
| 4. Total assets# ^ ~ | 0.0% | 6.6% | 0.3% | 5.6% | 24.6% |
| 5. Total borrowings ~ | 2.0% | 5.2% | -16.5% | 8.4% | 52.5% |

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---------------------------------------|-----------|-----------|-----------|-----------|------------------|
| RATIO | | | | | |
| 1. Return on shareholders' fund# * ^ | 7.7% | 4.7% | 12.7% | 5.7% | 8.3% |
| 2. Return on total assets# ^ | 3.5% | 2.1% | 6.5% | 3.0% | 4.0% |
| 3. Debt equity ratio ^ | 0.7 | 0.7 | 0.5 | 0.5 | 0.7 |
| 4. Dividend rate | 10.0% | 10.0% | 15.0% | 10.0% | 20.0% |
| 5. Dividend cover# ^ | 2.9 | 1.9 | 3.8 | 2.7 | 2.1 |
| 6. Earnings per share# ^ – Basic | 29.5 sen | 19.1 sen | 56.6 sen | 26.8 sen | 43.6 sen |
| 7. Net tangible assets per share# * ^ | 382.0 sen | 399.9 sen | 444.8 sen | 433.0 sen | 391.0 sen |
| 8. Share price information | | | | | |
| High | RM14.70 | RM17.70 | RM12.60 | RM10.20 | RM9.20 |
| Low | RM7.55 | RM9.65 | RM7.50 | RM6.90 | RM7.15 |

Comparative figures for 1999 are restated to conform with the changed accounting policy in year 2000 on the treatment of foreign exchange differences as well as the prior year adjustment on the Group's share of post acquisition profits less losses of associates.

* Comparative figures for 1999 – 2001 are restated to conform with the change in accounting policy in year 2002 on the recognition of liabilities with respect to dividend proposed.

^ Comparative figures for 1999 – 2002 are restated to conform with the change in accounting policy in year 2003 with respect to the recognition of deferred tax and goodwill.

~ Comparative figures for 2000 – 2002 are restated to conform with current year presentation as explained in the financial statements.

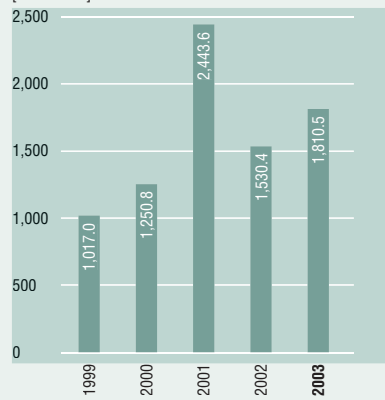
Operating Revenue

[RM Million]



Profit Before Taxation

[RM Million]



Profit After Taxation

[RM Million]



Total Shareholders' Fund

[RM Million]



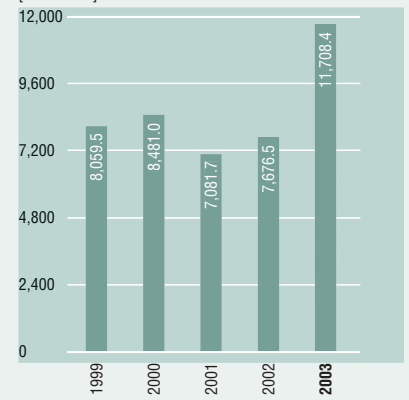
Total Assets

[RM Million]



Total Borrowings

[RM Million]



Return on Shareholders' Fund

[%]



Return on Total Assets

[%]



Debt Equity Ratio

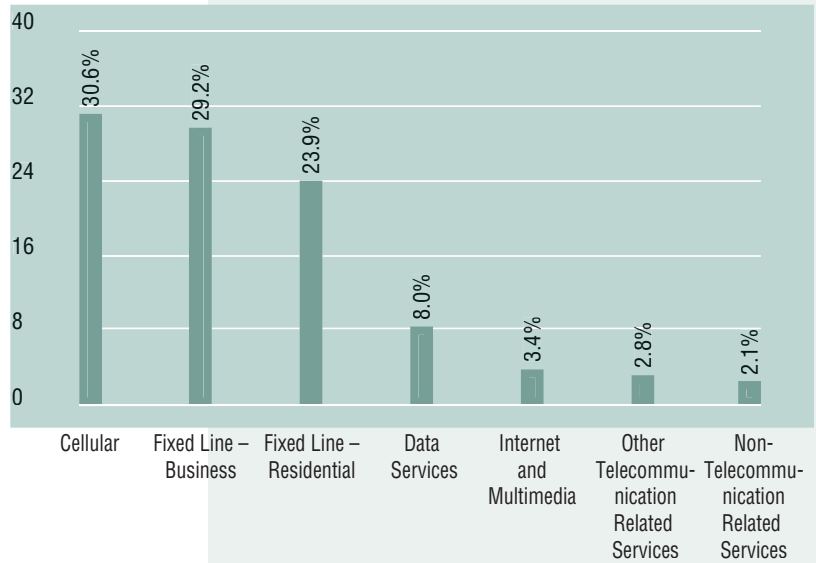


GROUP FINANCIAL PERFORMANCE 2003

TELEKOM MALAYSIA BERHAD
Annual Report 2003

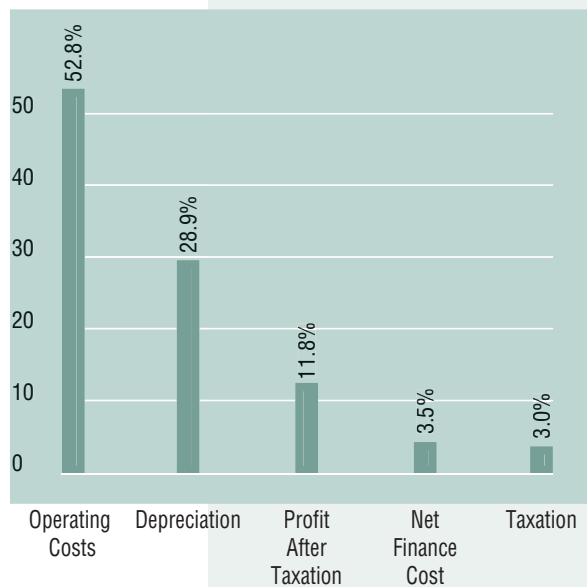
Operating Revenue

[%]



Distribution of Income

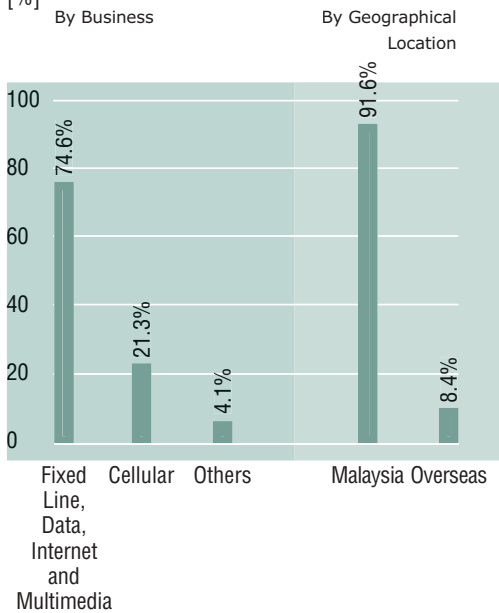
[%]



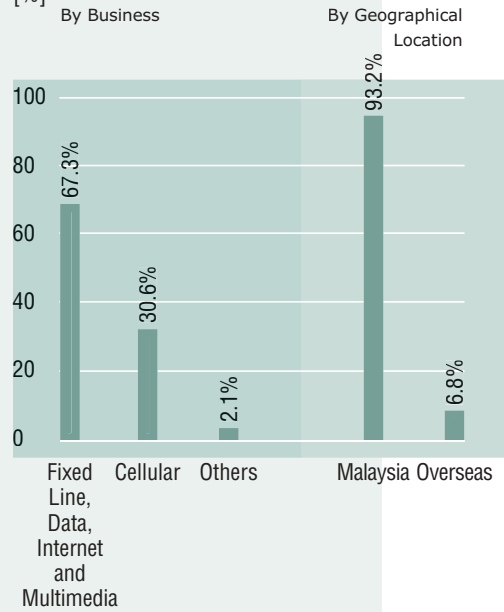
GROUP SEGMENTAL ANALYSIS

TELEKOM MALAYSIA BERHAD
Annual Report 2003

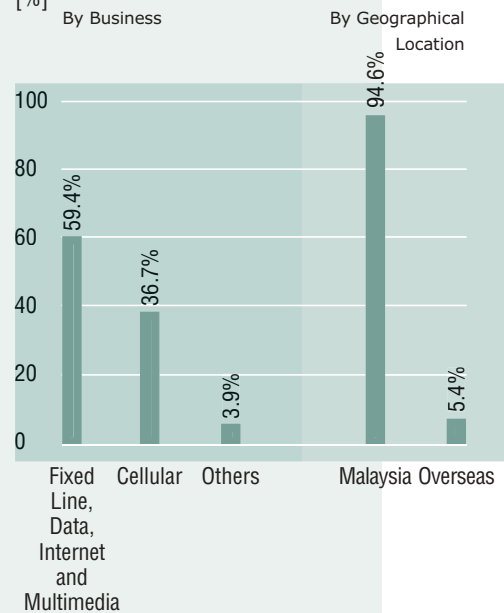
Segment Result
for the year ended 31 December 2003
[%]



Segment Operating Revenue
for the year ended 31 December 2003
[%]



Segment Assets
as at 31 December 2003
[%]



| Year ended 31 December | 1999 | 2000 | 2001 | 2002 | 2003 |
|------------------------|------|------|------|------|------|
|------------------------|------|------|------|------|------|

CUSTOMER BASE

TM TelCo

| | | | | | |
|--|-----------|-----------|-----------|-----------|------------------|
| 1. Residential telephone | 3,258,044 | 3,405,744 | 3,406,655 | 3,328,456 | 3,236,457 |
| 2. Business telephone | 1,172,755 | 1,228,601 | 1,252,352 | 1,264,844 | 1,295,185 |
| 3. Public telephone | 162,276 | 156,600 | 120,528 | 79,479 | 79,613 |
| 4. Leased circuits | 61,280 | 63,527 | 62,134 | 54,169 | 57,380 |
| 5. Other services | 6,031 | 5,592 | 5,022 | 4,671 | 4,488 |
| 6. Toll Free (1-300 and 1-800) | 1,295 | 1,573 | 1,658 | 1,703 | 2,195 |
| 7. ISDN | 18,089 | 34,512 | 52,202 | 64,976 | 63,587 |
| 8. Total access lines | 4,430,799 | 4,634,345 | 4,659,007 | 4,593,300 | 4,531,642 |
| 9. Total access lines per 100 population | 20.1 | 20.9 | 20.0 | 18.8 | 18.1 |

BUSINESS AND OTHER STATISTICS

TELEKOM MALAYSIA BERHAD
Annual Report 2003

Celcom (M) Berhad

| | | | | | |
|-------------|---|---|---|---|------------------|
| 1. Postpaid | — | — | — | — | 1,176,860 |
| 2. Prepaid | — | — | — | — | 3,160,065 |

TM Net Sdn. Bhd.

| | | | | | |
|-------------------------|---------|---------|-----------|-----------|------------------|
| 1. Access Services | 405,330 | 855,495 | 1,271,038 | 1,480,327 | 1,741,108 |
| 2. Application Services | — | 1,610* | 621 | 7,937 | 9,158 |
| 3. Content Services | — | — | 253,413 | 380,884 | 480,290 |

NETWORK CAPACITY

TM TelCo ('000)

| | | | | | |
|-----------------------------------|--------|--------|--------|--------|---------------|
| 1. Cable pair (kilometers) | 30,069 | 30,404 | 30,724 | 30,850 | 31,040 |
| 2. Fibre (kilometers) | 172 | 245 | 295 | 326 | 472 |
| 3. Exchange lines | 7,337 | 7,970 | 8,528 | 8,656 | 8,679 |
| 4. International gateway exchange | 33.0 | 34.5 | 40.3 | 45.7 | 45.7 |

Celcom (M) Berhad

| | | | | | |
|---|---|---|---|---|------------------|
| 1. No. of BTS ('000) | — | — | — | — | 5,322 |
| 2. Network Switching System (NSS) capacity ('000) | — | — | — | — | 5,046,517 |
| 3. Coverage populated area (%) | — | — | — | — | 95% |

| Year ended 31 December | 1999 | 2000 | 2001 | 2002 | 2003 |
|------------------------|------|------|------|------|------|
|------------------------|------|------|------|------|------|

PRODUCTIVITY

TM TelCo

| | | | | | |
|--|--------|--------|--------|--------|--------|
| 1. Number of employees | 25,442 | 24,789 | 21,237 | 20,708 | 18,654 |
| 2. Number of access lines per employee | 174 | 187 | 217 | 222 | 243 |

Celcom (M) Berhad

| | | | | | |
|----------------------------------|---|---|---|---|-------|
| 1. Number of employees | — | — | — | — | 4,264 |
| 2. Revenue per employee (RM'000) | — | — | — | — | 858 |
| 3. Customer per employee | — | — | — | — | 1,017 |

TM Net Sdn. Bhd.

| | | | | | |
|------------------------------|---------|---------|---------|---------|------------|
| 1. Number of employees | 332 | 254** | 406 | 424 | 510 |
| 2. Revenue per employee (RM) | 437,885 | 828,590 | 743,936 | 872,641 | 433,333 |
| 3. Revenue (RM'000) | 145,378 | 210,462 | 302,038 | 370,000 | 221,000*** |

QUALITY OF SERVICE

TM TelCo

| | | | | | |
|--|------|-------|------|------|------|
| 1. Faults report per line | 0.5 | 0.4 | 0.4 | 0.4 | 0.3 |
| 2. Complaints per 1000 lines | 10.2 | 8.3 | 5.6 | 5.2 | 4.3 |
| 3. Leased circuits fault restoration within 24 hours (%) | 97.3 | 100.0 | 85.1 | 96.7 | 97.5 |

Celcom (M) Berhad

| | | | | | |
|---|-------|-------|-------|-------|-------|
| 1. 013 – Overall Network Availability (%) | 99.81 | 99.61 | 99.95 | 99.91 | 95.94 |
| – Accessibility (%) | 98.13 | 89.27 | 95.67 | 96.78 | 97.84 |
| – Retainability (%) | 97.37 | 96.50 | 97.27 | 95.11 | 98.35 |
| 2. 019 – Overall Network Availability (%) | — | — | — | — | 99.50 |
| – Accessibility (%) | — | — | — | — | 96.59 |
| – Retainability (%) | — | — | — | — | 98.19 |

TM Net Sdn. Bhd.****

| | | | | | |
|---|---|---|---|---|------|
| 1. Complaints of bills issued (%) | — | — | — | — | 0.22 |
| 2. Number of complaints per 1,000 customers | — | — | — | — | 31 |

Notes:

* In year 2000, Netmyne offered a one-year free subscription for the service and 1,610 subscribers signed up. However, in 2001, a significant number of these subscribers terminated the service when the free subscription period ended.

** Significant drop in the number of employees in 2000 as more than half of the non-executives from Internet Data Centre (IDC) were transferred to COINS.

*** This is nett revenue reported in TM Net's 2003 audited report in which the PSTN revenue has been excluded.

**** Based on the Mandatory standards for Quality of Service regulated by MCMC.

GROUP FINANCIAL REVIEW

TELEKOM MALAYSIA BERHAD
Annual Report 2003

OPERATING REVENUE

For the financial year ended 31 December 2003, Group operating revenue increased by 20.0% (RM1,962.3 million) from RM9,834.1 million recorded in 2002 to RM11,796.4 million in 2003. The encouraging growth in revenue was mainly contributed by Cellular segment due to consolidation of Celcom (Malaysia) Berhad (Celcom), a subsidiary acquired during the year.

Revenue from Cellular segment comprises rental, calls charges, short message services and interconnect charges registered significant growth of 127.0% (RM2,017.4 million) from RM1,588.9 million recorded in 2002 to RM3,606.3 million in 2003. The consolidation of 8.5 month results of Celcom contributed RM1,826.0 million to the above increase and the remaining was jointly contributed by overseas subsidiaries namely MTN Networks (Pvt.) Limited, TM International (Bangladesh) Limited (TMIB) and Societe Des Telecommunications De Guinee.

Revenue from fixed line services mainly derived from the Company (Telekom Malaysia). Fixed line services comprise business telephony (which also includes Integrated Services Digital Network (ISDN), payphone, interconnect, international inpayment) and residential telephony recorded slight decrease in revenue of 2.5% (RM161.6 million) from RM6,428.8 million recorded in 2002 to RM6,267.2 million in 2003. Decreased call revenue was the main contributing factor to lower revenue from fixed line services.

An upward adjustment of RM3.0 ringgit per month on rental for residential customers since March 2003 contributed higher rental revenue. However, local, long distance and international call revenue declined by 3.1%, 5.7% and 33.0% respectively in comparison to the preceding year. Further more, there was a full year effect of the tariff reduction in 2003 as compared to only 6-9 months effect in 2002.

Lower interconnect revenue for fixed line services (net of inter-company transactions) also contributed to the decrease in fixed line revenue. In 2003, RM47.4 million being interconnect revenue earned from Celcom post acquisition was eliminated from call revenue. There was no such elimination in 2002. In addition, the revised interconnection rate in July 2003 further reduced the Company's interconnect revenue. Lower international inpayment also contributed to lower call revenue.

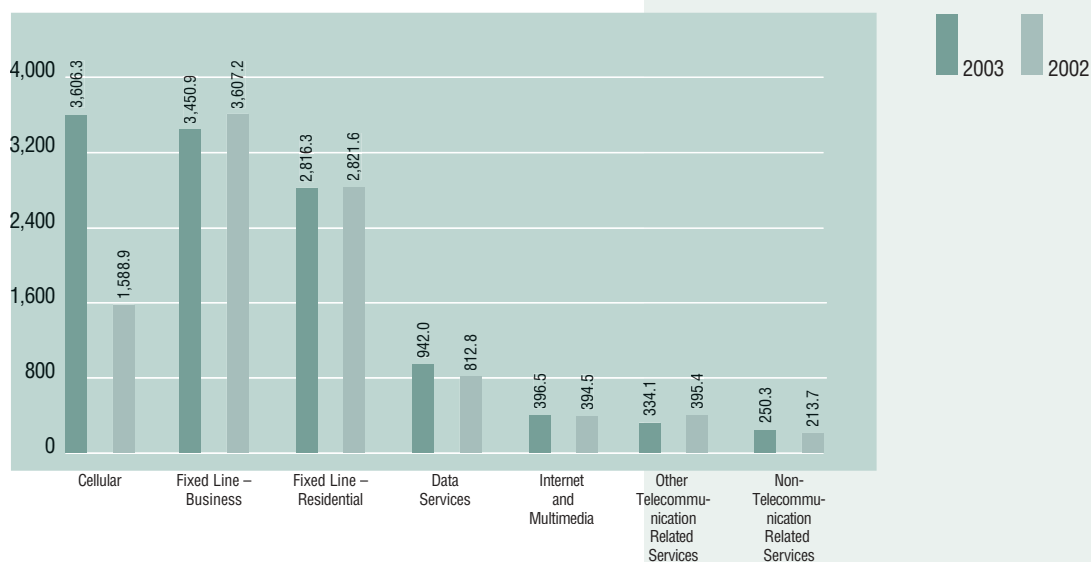
All the above factors contributed to the 6.1% (RM295.1 million) reduction in call revenue.

Revenue from data services, which include leased services, Corporate Information Superhighway (COINS) and frame relay and packet services recorded encouraging growth of 15.9% (RM129.2 million) as compared to 2002 mainly due to increase in customers for COINS services as well as introduction of new products such as Asymmetrical Digital Subscriber Line (ADSL).

Revenue from internet and multimedia services comprise mainly revenue from internet and other multimedia services, development of education system and software and advertisement charges. TM Net Sdn. Bhd. (TM Net), a wholly owned subsidiary that was corporatised in July 2002 to provide internet and multimedia services registered significant growth of 26.0% in operating revenue as compared to annualised revenue for 2002. This growth was achieved at the back of increase usage on application and content as well as increase in broadband

Operating Revenue

[RM Million]



subscribers. However, significantly lower revenue from development of education system and software of Telekom Smart School Sdn. Bhd. due to completion of pilot project off set the increase from TM Net. Consequently, internet and multimedia services only recorded marginal revenue growth of 0.5%.

Other telecommunication related services comprise mainly recoverable works order, maintenance, international services, broadcasting, restoration of submarine cable and etc registered 15.5% (RM61.3 million) reduction as compared to the preceding year. Lower revenue from restoration of submarine cable was the main contributing factor.

Non-telecommunication related services comprise mainly services from subsidiaries with core business in consultancy, property management, education, trading in consumers premises equipment and etc. This segment recorded 17.1% (RM36.6 million) growth in revenue mainly due to higher contribution from trading in consumers premises equipment and education.

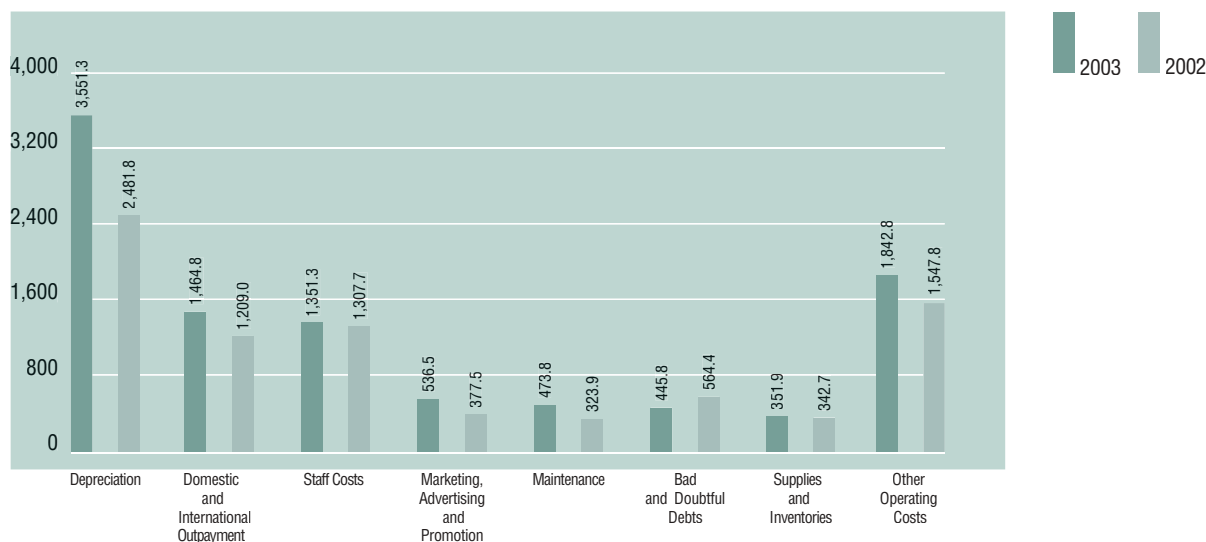
The acquisition of Celcom resulted in significant change in the revenue mix of the Group. In line with the Group's target, Cellular segment contributed 30.6% of Group revenue in 2003 as compared to only 16.1% in 2002. Accordingly, contribution from fixed-line segment reduced to 53.1% from 65.4% recorded in 2002. Contribution from data services, internet and multimedia services and other telecommunication related services maintained at the same level as 2002 i.e. 8.0% (2002: 8.3%), 3.4% (2002: 4.0%) and 2.8% (2002: 4.0%) respectively. Non-telecommunication related services contributed 2.1% (2002: 2.2%) to Group operating revenue.

OPERATING COSTS

For the financial year ended 31 December 2003, Group operating costs increased by 22.9% (RM1,863.4 million) from RM8,154.8 million recorded in 2002 to RM10,018.2 million in 2003 of which RM1,614.1 million was attributed to the consolidation of Celcom's results. All category of expenses have recorded significant increase especially depreciation charge and impairment of property, plant and equipment (PPE), domestic and international outpayment, marketing, advertising and promotion and maintenance which have jointly accounted for 93.0% (RM1,733.4 million) of the total increase in operating costs.

Operating Costs

(RM Million)



GROUP FINANCIAL REVIEW

TELEKOM MALAYSIA BERHAD
Annual Report 2003

Current year Group depreciation charge increased significantly by 43.1% (RM1,069.5 million) to RM3,551.3 million as compared to RM2,481.8 million recorded in 2002. The consolidation of Celcom's results and higher depreciation charge recorded by Telekom Malaysia and TM Cellular Sdn. Bhd. (TM Cellular) arising from higher asset additions in late 2002 and 2003 jointly contributed to the significant increase in depreciation charge. The Group also recorded RM99.2 million impairment of PPE mainly contributed by Celcom and TM Cellular. There was no impairment of PPE in 2002.

Domestic and international outpayment increased by 21.2% (RM255.8 million) to RM1,464.8 million. Higher international outpayment was mainly recorded at Telekom Malaysia level resulted from backdated adjustments for volume and traffic discrepancies whereas increased interconnect outpayment was jointly contributed by Telekom Malaysia and the consolidation of Celcom.

Consolidation of Celcom's results also contributed significant increase in marketing, advertising and promotion costs which increased by 42.1% (RM159.0 million) over the preceding year. Celcom contributed RM202.6 million to the increase whereas TM Cellular recorded reduction of RM56.1 million. On merged basis, Celcom and TM Cellular jointly accounted for 92.1% of the increase and TM Net Sdn. Bhd. and TMIB jointly contributed the balance.

The Group also recorded significant increase in maintenance cost of 46.3% (RM149.9 million) which was mainly contributed by Celcom and TM Cellular.

Despite consolidation of RM130.0 million staff costs of Celcom, Group staff costs only recorded marginal growth of 3.3% (RM43.6 million) due to reduction at Telekom Malaysia level since there was no cost incurred for voluntary separation program in 2003 as compared to RM147.0 million in 2002.

Allowance for bad and doubtful debts expense declined significantly by 21.0% (RM118.6 million) mainly due to lower provision at Telekom Malaysia resulting from improved credit control and better collection especially for fixed line services. TM Cellular also recorded lower allowance for bad debt of RM68.0 million but was off set with the post acquisition allowance for bad debt of Celcom of RM51.5 million.

Depreciation charge remained the biggest cost component and constituted 35.4% of Group operating costs followed by domestic and international outpayments (14.6%), staff costs (13.5%), marketing, advertising and promotion (5.4%), maintenance (4.7%), allowance for bad and doubtful debt (4.4%), supplies and inventories (3.5%), and etc.

NET FINANCE COST

The current year net finance cost of RM430.0 million was 41.5% (RM126.1 million) higher than RM303.9 million recorded in 2002. The consolidation of Celcom's net finance cost of RM67.3 million and higher net finance cost incurred by Telekom Malaysia of RM30.7 million due to increased borrowings jointly contributed to the increase. Total borrowings of Telekom Malaysia increased from RM7,279.0 million as at 31 December 2002 to RM9,418.5 million as at 31 December 2003 as a result of additional borrowings secured during the year to finance the acquisition of Celcom.

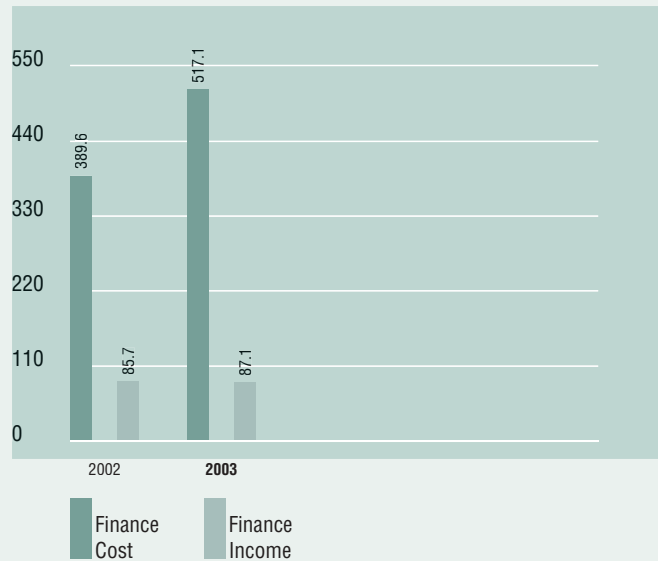
PROFIT BEFORE TAXATION

The Group recorded encouraging growth of 18.3% (RM280.1 million) in profit before taxation (PBT) from RM1,530.4 million in 2002 to RM1,810.5 million in 2003. Significant increase in share of associates' profits less losses was the main contributor to higher PBT.

The Group share of profits less losses of associates for 2003 of RM375.2 million was significantly higher than RM42.5 million recorded in 2002 mainly contributed by Telkom SA Limited (TSA). Improved performance of TSA was achieved on the back of increased revenue and reduced costs as compared to 2002 which included significant adjustment for staff benefits, fixed assets and provision for contingent liabilities. Contribution from Celcom as an associate of RM44.2 million as compared to loss of RM15.6 million in 2002 and recognition of one off exceptional gain from restructuring by Samart Corporation Public Company Limited also contributed to the outstanding performance of associates.

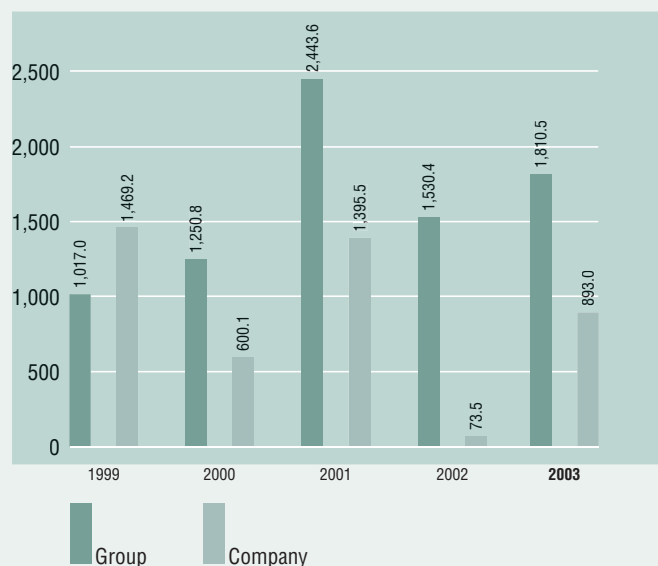
Net Finance Cost

[RM Million]



Profit Before Taxation

[RM Million]



GROUP FINANCIAL REVIEW

TELEKOM MALAYSIA BERHAD
Annual Report 2003

Despite 18.3% increase in PBT, taxation expense for 2003 was 44.5% (RM293.4 million) lower than 2002. This was mainly due to recognition of deferred tax income which relates to previously unrecognised temporary differences of RM160.4 million by a subsidiary. Adjustment for over provision of corporate taxation in respect of prior year at Telekom Malaysia of RM89.9 million also contributed to lower taxation expense.

Consequent from higher PBT and 44.5% decrease in taxation expense, profit for the year attributable to shareholders increase significantly by 64.7% (RM546.1 million) as compared to 2002.

ASSETS

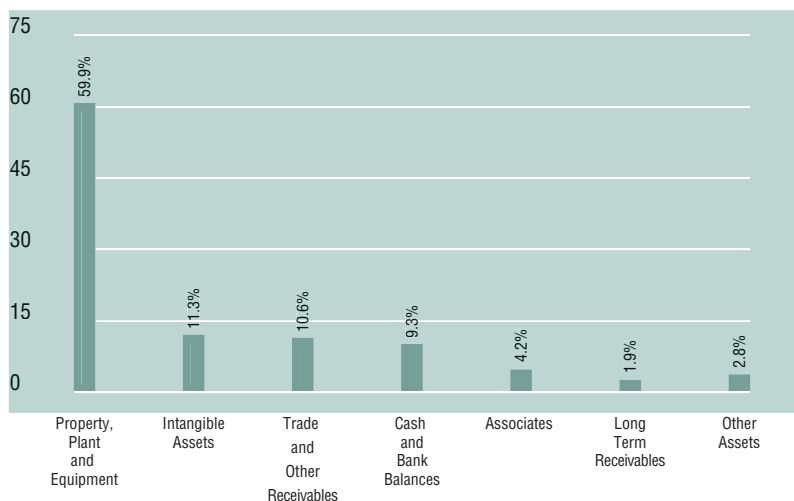
Total assets for the group increased from RM28,935.4 million in 2002 to RM36,040.3 million in 2003 mainly due to increase in intangible assets, property, plant and equipment (PPE), investments, deferred tax asset, trade and other receivables, cash and bank balances after netting off decrease in associates.

During the year, the Group changed its accounting policy with respect to goodwill. In line with the new policy, goodwill on acquisition of Celcom of RM4,022.7 million is now capitalised as intangible asset. In addition, expenditure incurred with respect to acquisition of 3G spectrum licence is also capitalised as intangible asset. These capitalisation increased the total assets by RM4,072.7 million.

PPE increased by RM2,039.4 million from RM19,566.5 million in 2002 to RM21,605.9 million in 2003 mainly due to consolidation of Celcom's PPE after netting off reduction at Telekom Malaysia. Higher trade and other receivable and cash and bank balances also mainly contributed by Celcom.

The acquisition of Measat Global Berhad increased the total investments to RM384.7 million as at 31 December 2003 and was RM245.1 million higher than the preceding year. Decrease of associates of RM1,246.9 million was mainly due to reversal of Celcom's carrying value to the respective line item of assets under consolidation accounting.

Total Assets 2003



Resulting from higher profit after taxation and increased total assets, the return on total assets increased from 3.0% in 2002 to 4.0% in 2003.

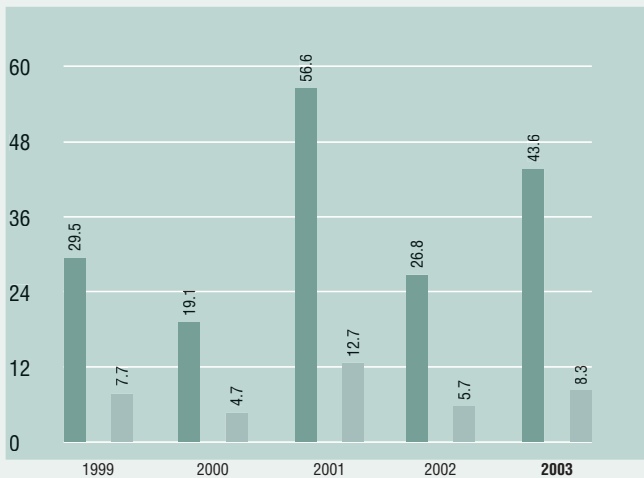
SHAREHOLDERS' FUND

The Group shareholders' fund increased from RM14,919.6 million recorded in 2002 to RM16,782.4 million in 2003. The increase was mainly attributed to issuance of new shares under the Employees Share Options Scheme and net profit of the year attributable to shareholders after netting off dividend paid during the year.

Consequent from significantly higher net profit for the year attributable to shareholders as mentioned earlier, return on shareholders' fund increased significantly from 5.7% in 2002 to 8.3% in 2003. Likewise, earnings per share (EPS) also increased from 26.8 sen in 2002 to 43.6 sen in 2003.

In line with improved performance in 2003, the proposed dividend for financial year 2003 comprised final dividend of 10.0 sen less tax at 28% and special dividend of 10.0 sen less tax at 28% had doubled up in comparison to final dividend of 10.0 sen less tax at 28% in 2002. Consequently, dividend cover declined from 2.7 in 2002 to 2.1 in 2003.

Shareholders' Fund



GROUP STRUCTURE

as at 31 March 2004

TELEKOM MALAYSIA BERHAD
Annual Report 2003



MULTIMEDIA

- >> 100%
TM NET SDN. BHD.
- >> 100%
TELEKOM MULTI-MEDIA SDN. BHD.
 - 51%
TELEKOM SMART SCHOOL SDN. BHD.
 - 49%
MAHIRNET SDN. BHD.
 - 30%
MUTIARA.COM SDN. BHD.
- >> 100%
TELEKOM PUBLICATIONS SDN. BHD.
 - 100%
CYBERMALL SDN. BHD.
- >> 70%
TELEKOM APPLIED BUSINESS SDN. BHD.
- >> 70%
TELEKOM TECHNOLOGY SDN. BHD.

INTERNATIONAL OPERATIONS

- >> 100%
TM INTERNATIONAL SDN. BHD.
 - 100%
MTN NETWORKS (PRIVATE) LIMITED
 - 100%
TM INTERNATIONAL LANKA (PRIVATE) LIMITED
 - 100%
TMI MAURITIUS LIMITED
 - 85%
G-COM LTD.
 - 51%
CAMBODIA SAMART COMMUNICATION CO. LTD.
 - 19.59%
SAMART CORPORATION PUBLIC COMPANY LIMITED
- >> 100%
TELEKOM MANAGEMENT SERVICES SDN. BHD.
- >> 70%
TM INTERNATIONAL (BANGLADESH) LIMITED
- >> 60%
SOTELGUI S.A. (Societe Des Telecommunications De Guinee)
- >> 60%
TELEKOM NETWORKS MALAWI LIMITED
- >> 100%
TELEKOM MALAYSIA – AFRICA SDN. BHD.
 - 40%
THINTANA COMMUNICATIONS LLC
 - 30%
TELEKOM SA LIMITED

FACILITIES MANAGEMENT

- >> 100%
TM FACILITIES SDN. BHD.
- >> 100%
MENARA KUALA LUMPUR SDN. BHD.

Notes: * Pending arbitration proceedings

** Held through Telekom Enterprise Sdn. Bhd.

The above structure excludes dormant/inactive companies. The complete list of subsidiaries/associates is shown in notes 43 and 44 to the financial statements

CORPORATE INFORMATION

TELEKOM MALAYSIA BERHAD
Annual Report 2003

BOARD OF DIRECTORS

Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor

Chairman

(Non-Independent Non-Executive Director)

Dato' Dr. Md Khir bin Abdul Rahman

Chief Executive

(Non-Independent Executive Director)

Dato' Dr. Abdul Rahim bin Haji Daud

Deputy Chief Executive/Executive Director

(Non-Independent Executive Director)

Dato' Abdul Majid bin Haji Hussein

(Non-Independent Non-Executive Director)

Datuk Dr. Halim bin Shafie

(Non-Independent Non-Executive Director)

Y.B. Dato' Joseph Salang Gandum

(Non-Independent Non-Executive Director)

Dato' Dr. Mohd Munir bin Abdul Majid

(Senior Independent Non-Executive Director)

Y.B. Dato' Ir. Haji Mohd Zin bin Mohamed

(Independent Non-Executive Director)

Dato' Lim Kheng Guan

(Independent Non-Executive Director)

Ir. Prabahar N.K. Singam

(Independent Non-Executive Director)

Rosli bin Man

(Non-Independent Non-Executive Director)

Tan Poh Keat

(Non-Independent Non-Executive Director)

Mohammad Zanudin bin Ahmad Rasidi

(Alternate Director to Dato' Abdul Majid bin Haji Hussein)

(Non-Independent Non-Executive Director)

Dato' Suriah binti Abd Rahman

(Alternate Director to Datuk Dr. Halim bin Shafie)

(Non-Independent Non-Executive Director)

SECRETARIES

Wang Cheng Yong (MAICSA 0777702)
Zaiton Ahmad (MAICSA 7011681)

REGISTERED OFFICE

Level 51, North Wing
Menara Telekom
Off Jalan Pantai Baharu
50672 Kuala Lumpur
Tel No. : 03-2240 1211/1221/1225
Fax No. : 03-2283 2415/2284 8039

REGISTRAR

Tenaga Koperat Sdn. Bhd.
20th Floor, Plaza Permata
(formerly known as IGB Plaza)
Jalan Kampar
Off Jalan Tun Razak
50400 Kuala Lumpur
Tel No. : 03-4041 6522
Fax No. : 03-4042 6352

AUDITORS

PricewaterhouseCoopers
(Chartered Accountants)
11th Floor, Wisma Sime Darby
Jalan Raja Laut
50706 Kuala Lumpur
Tel No. : 03-2693 1077
Fax No. : 03-2693 0997

PRINCIPAL BANKERS

Bumiputra-Commerce Bank Berhad
Malayan Banking Berhad
Affin Bank Berhad

PRINCIPAL SOLICITORS

Zul Rafique & Partners
Zain & Co.
Nik Saghir & Ismail

STOCK EXCHANGE LISTING

Malaysia Securities Exchange Berhad

BOARD OF DIRECTORS

TELEKOM MALAYSIA BERHAD

from left to right:

Dato' Suriah binti Abd Rahman (Alternate Director)

Rosli bin Man (Director)

Tan Poh Keat (Director)

Ir. Prabahar N.K. Singam (Director)

Y.B. Dato' Ir. Haji Mohd Zin bin Mohamed (Director)

Y.B. Dato' Joseph Salang Gandum (Director)

Dato' Abdul Majid bin Haji Hussein (Director)

Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor (Chairman)



Dato' Dr. Md Khir bin Abdul Rahman (Chief Executive)

Dato' Dr. Abdul Rahim bin Haji Daud
(Deputy Chief Executive/Executive Director)

Datuk Dr. Halim bin Shafie (Director)

Dato' Dr. Mohd Munir bin Abdul Majid (Director)

Dato' Lim Kheng Guan (Director)

Mohammad Zanudin bin Ahmad Rasidi (Alternate Director)

Wang Cheng Yong (Company Secretary)

Zaiton binti Ahmad (Joint Secretary)



TAN SRI DATO'
Ir. MUHAMMAD RADZI
BIN HAJI MANSOR



026

PROFILE OF THE BOARD OF DIRECTORS

TELEKOM MALAYSIA BERHAD
Annual Report 2003

DATO' DR. MD KHIR
BIN ABDUL RAHMAN



TAN SRI DATO' Ir. MUHAMMAD RADZI BIN HAJI MANSOR

(62 years of age – Malaysian)

Chairman

Non-Independent Non-Executive Director

Tan Sri Dato' Ir. Muhammad Radzi was appointed Chairman and Director of Telekom Malaysia on 12 July 1999. He graduated with a Diploma in Electrical Engineering in 1962 from Faraday House Engineering College, London and a Masters in Science (Technological Economics) from the University of Stirling, Scotland in 1975.

A Chartered Professional Engineer registered with the Board of Engineers, Malaysia and Engineering Council, United Kingdom; he is a corporate member of the Institution of Engineers, Malaysia, the Institution of Electrical Engineers, United Kingdom and the Institute of Management, United Kingdom. He has been appointed as Board Member, Board of Engineers, Malaysia effective from 23 August 2002.

He served in various engineering and management capacities in the former Jabatan Telekom Malaysia (JTM) over a twenty-two year period, including a three-year secondment as Technical Adviser to the Ministry of Energy, Telecommunications and Post.

Tan Sri Radzi retired as Director General of Telecommunications upon corporatisation of JTM on 1 January 1987 and was subsequently appointed as Director of Operations of Telekom Malaysia. He served as Director of Marketing and Customer Services from 1989 to 1995. He was then appointed as Director of Regulatory Management and External Affairs, and retired in July 1996.

From 1997 to 1999, he was retained as a Consultant/Adviser on multimedia flagship application projects for the Multimedia Development Corporation Sdn. Bhd. (MDC), a company established by the Malaysian Government to oversee the development and implementation of multimedia projects.

Tan Sri Radzi currently serves as Chairman of the Board Nominating and Remuneration Committee and Board Employees' Share Option Scheme Committee. He is also a Board Member of a number of subsidiaries and associate companies of Telekom Malaysia. He is a Non-Executive Director nominated by the Minister of Finance (Inc), the Special Shareholder of Telekom Malaysia and has never been charged for any offence. He has no family relationship with any Director or major shareholder of the Company nor any conflict of interest with the Company.

DATO' DR. MD KHIR BIN ABDUL RAHMAN

(56 years of age – Malaysian)

Chief Executive

Non-Independent Executive Director

Dato' Dr. Md Khir was appointed Chief Executive and a Board Member on 1 May 2000. Prior to this, he was the Deputy Chief Executive/General Manager of Malaysian Electronics Payment System Sdn. Bhd. (MEPs).

He holds a Bachelor of Science Degree in Mathematics from University of Malaya, Masters in Agricultural Development and Doctorate of Science in Computing Statistics, from the State University of Ghent, Belgium.

Dato' Dr. Md Khir started his career in Malaysian Agricultural Research and Development Institute (MARDI) in 1972, before joining Bank Negara Malaysia in 1983. He served the Central Bank in various senior positions before joining the telecommunications sector in 1996 as the Managing Director of Mejati Technologies Group.

He is also a Director of VADS Berhad (VADS), MDC, Malaysian Industry-Government Group for High Technology (MIGHT) and SIRIM Berhad.

Dato' Dr. Md Khir is currently a Member of the Board Employees' Share Option Scheme Committee, Board Tender Committee TelCo, Board Re-listing of Celcom Committee and also a Board Member of a number of subsidiaries and associate companies of Telekom Malaysia. He is an Executive Director nominated by the Minister of Finance (Inc), the Special Shareholder of Telekom Malaysia and has never been charged for any offence. He has no family relationship with any Director or major shareholder of the Company nor any conflict of interest with the Company.



**DATO' DR. ABDUL RAHIM
BIN HAJI DAUD**

DATO' DR. ABDUL RAHIM BIN HAJI DAUD

(55 years of age – Malaysian)
Deputy Chief Executive/Executive Director
Non-Independent Executive Director

He was appointed as Deputy Chief Executive of the Company effective from 29 May 2001 and has held the position of Executive Director since 7 July 1998. He obtained a Bachelor of Engineering (Hons.) in Electronics from the University of Liverpool, United Kingdom, Masters in Science (Telecommunications Engineering) from University of Birmingham, United Kingdom and Doctorate in Engineering (Telecommunication) from the University of Bath, United Kingdom. He also obtained a Masters in Business Administration from University of Ohio, USA. He has attended the Harvard Business School's Advanced Management Program and also the Senior Executive Development Program at the Wharton School of Business, University of Pennsylvania, USA. He is a Member of the Board of Engineers, Malaysia and also a *Fellow* of the Institution of Engineers, Malaysia.

He joined JTM as a Telecommunications Engineer in 1973. He has wide experience in managing operations in relation to Telecommunications and Information Technology. In 1988, he was appointed General Manager, Information Systems and became the Senior General Manager, National Network Operations in 1993. In July 1995, he was made Senior Vice President, Network Services before his appointment to head Telekom Malaysia's TelCo as its Chief Operating Officer in 1996. Upon his appointment as Executive Director in July 1998, he remained as the Chief Operating Officer TelCo until 1 February 2001 when he assumed the position of Executive Director, Corporate Strategy and Development. He was the first Malaysian to be elected as Chairman of Commonwealth Telecommunications Organisation (CTO) comprising 35 countries for three terms from September 1999 to November 2002.

Dato' Dr. Abdul Rahim serves as a Member of Board Employees' Share Option Scheme Committee, Board Tender Committee TelCo and also a Board Member of a number of subsidiaries and associate companies of Telekom Malaysia. He is an Executive Director nominated by the Minister of Finance (Inc), the Special Shareholder of Telekom Malaysia and has never been charged for any offence. He has no family relationship with any Director or major shareholder of the Company nor any conflict of interest with the Company.



**DATO' ABDUL MAJID
BIN HAJI HUSSEIN**

**DATUK DR. HALIM
BIN SHAFIE**



DATO' ABDUL MAJID BIN HAJI HUSSEIN

(55 years of age – Malaysian)

Non-Independent Non-Executive Director

Dato' Abdul Majid was appointed Director of Telekom Malaysia on 5 December 2000. He obtained his Masters in Business Management from Asian Institute of Management, Manila and has attended the Advanced Management Program at the Harvard Business School, USA in 2000.

Upon graduating with a Bachelor of Economics majoring in Accountancy, he served the Accountant General's Office for two years and later the National Institute of Public Administration (INTAN) for six years as a lecturer and program coordinator. In 1983, he was seconded to the Federal Agricultural Marketing Authority (FAMA) as the Director of Planning and later served as the Deputy Director General in charge of Administration. From 1990 to 1993, he served as the Senior Assistant Director in the Budget Division of the Ministry of Finance. He continued his public service as the State Financial Officer of Negeri Sembilan, Director of Service in the Public Services Department and the State Secretary of Perak prior to being appointed to his present position as Deputy Secretary General Treasury (Operations) in the Ministry of Finance.

Dato' Abdul Majid currently serves as a Non-Executive Chairman of the Board Tender Committee TelCo and a Member of the Board Employees' Share Option Scheme Committee, Board Audit Committee and Board Re-listing of Celcom Committee. He is also a Director of Perusahaan Otomobil Nasional Berhad and Keretapi Tanah Melayu Berhad. He is a Non-Executive Director nominated by the Minister of Finance (Inc), the Special Shareholder of Telekom Malaysia and has never been charged for any offence. He has no family relationship with any Director or major shareholder of the Company nor any conflict of interest with the Company.

DATUK DR. HALIM BIN SHAFIE

(55 years of age – Malaysian)

Non-Independent Non-Executive Director

Datuk Dr. Halim was first appointed to the Board on 24 November 2000. He obtained a Bachelor of Economics (Hons.) from the University of Malaya in 1972, Masters in Public and International Affairs from the University of Pittsburgh, USA in 1980 and a Doctorate in Information Transfer from Syracuse University, USA in 1988. He also attended the Advanced Management Program at the Harvard Business School, USA in 2000.

He has held several positions in the Government sector, including Assistant Secretary at the Ministry of Education. He served as Program Co-ordinator for the National Computer Training Center at INTAN, and as Director of the Information Technology Division of the Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) in the Prime Minister's Department. He served as the Director of INTAN before becoming Deputy Secretary General, Communications and Multimedia, Ministry of Energy, Communications and Multimedia in 1999. He was appointed as Secretary General of the Ministry from November 2000.

Datuk Dr. Halim is currently a member of the Board Employees' Share Option Scheme Committee, Board Tender Committee TelCo, Board Re-listing of Celcom Committee and also a Board Member of a number of subsidiaries of Telekom Malaysia. He is also a Director of Tenaga Nasional Berhad and Pos Malaysia Berhad. He is a Non-Executive Director nominated by the Minister of Finance (Inc), the Special Shareholder of Telekom Malaysia and has never been charged for any offence. He has no family relationship with any Director or major shareholder of the Company nor any conflict of interest with the Company.

Y.B. DATO' JOSEPH SALANG GANDUM

(54 years of age – Malaysian)

Non-Independent Non-Executive Director

Y.B. Dato' Joseph Salang Gandum was first appointed to the Board on 6 January, 1987. He graduated with a Bachelor of Arts (Econs.) in 1974 from Western Maryland College, Maryland, USA and a Masters degree in Business Administration from Iran Center for Management Studies in 1975.

He formerly served as Regional Manager (East Malaysia) with Bank Pembangunan Malaysia Berhad (East Malaysia), Trade Manager of MISC Coastal Services Sdn. Bhd., Corporate Manager and Manager of Location (Kuching) of Standard Chartered Bank Malaysia Berhad. Y.B. Dato' Joseph is now a businessman and Member of Parliament for Julau Constituency, Sarawak. He is also a Director of Tabak Holdings Berhad and Borneo Securities Holdings Berhad.

He currently serves as a Non-Independent Non-Executive Member of the Board Audit Committee and Board Tender Committee TelCo. He is also a Board Member of a number of subsidiaries and associate companies of Telekom Malaysia and has never been charged for any offence. He has no family relationship with any Director or major shareholder of the Company nor any conflict of interest with the Company.

Note: Directors' profiles were based on the Annual Report cut-off date on 19 March 2004. Y.B. Dato' Joseph Salang Gandum was appointed as the Deputy Minister of the Foreign Ministry effective from 30 March 2004. He tendered his resignation as a Director of the Company and its Group on 1 April 2004.

DATO' DR. MOHD MUNIR BIN ABDUL MAJID

(56 years of age – Malaysian)

Senior Independent Non-Executive Director

Dato' Dr. Mohd Munir was appointed to the Board on 22 May 2000. He graduated with a Bachelor of Science (Economics) and a Ph.D. in International Relations from the London School of Economics and Political Science (LSE), United Kingdom.

He was the First Executive Chairman of the Securities Commission (SC), a position he held for two terms from March 1993 until February 1999. Upon his return from abroad, where he worked at the LSE and for Daiwa Europe N.V. in London, he served from 1979 – 1986 in various positions in the editorial department of the New Straits Times Press Berhad (NSTP) ending up as Group Editor (English) in NSTP. He was the Chief Executive of Commerce International Merchant Bankers Berhad (CIMB) from 1986, and was its Executive Chairman before resigning to become Executive Chairman of the SC.

He has also served as Director and Chairman of several other companies and council member of government agencies during his career. Some of the prominent ones include the Association of Merchant Banks, KLOFFE Sdn. Bhd., the Kuala Lumpur Stock Exchange (now known as the Malaysia Securities Exchange Berhad), the Council of Malaysian Industrial Development Authority (MIDA) and the Foreign Investment Committee (FIC) of the Prime Minister's Department. He is the Chairman of Celcom (Malaysia) Berhad (Celcom) and also a Director of Saujana Resorts (Malaysia) Berhad and Technology Resources Industries Berhad (TRI).

Dato' Dr. Mohd Munir currently serves as the Independent Non-Executive Chairman of the Board Audit Committee and a Member of the Board Nominating and Remuneration Committee. He is also a member of the Board Re-Listing of Celcom Committee and a Board Member of a number of subsidiaries of Telekom Malaysia. He has never been charged for any offence and has no family relationship with any Director or major shareholder of the Company nor any conflict of interest with the Company.



**Y.B. DATO' JOSEPH
SALANG GANDUM**

**DATO' DR. MOHD MUNIR
BIN ABDUL MAJID**



**Y.B. DATO' Ir. HAJI
MOHD ZIN BIN
MOHAMED**

Y.B. DATO' Ir. HAJI MOHD ZIN BIN MOHAMED

(49 years of age – Malaysian)

Independent Non-Executive Director

Y.B. Dato' Ir. Haji Mohd Zin was appointed to the Board on 22 May 2000. He is a civil engineer by profession, having obtained his Bachelor and Masters degrees from Bradley University, USA.

As a professional, he owns a Consultancy firm in Civil and Engineering works. He has served various government bodies and is currently on the Board of Universiti Teknologi Mara (UiTM) and Universiti Telekom Sdn. Bhd. (Multimedia University). He is also a Director of Kumpulan Hartanah Selangor Berhad, a member of the Institution of Engineers, Malaysia and the Board of Engineers, Malaysia.

He is also an experienced politician having been involved in Malaysian politics for almost 21 years. Y.B. Dato' Ir. Haji Mohd Zin currently is a Member of Parliament for Shah Alam constituency, Deputy Head of the UMNO Shah Alam Division, Deputy Chairman of Selangor's Council of Culture & Tourism, a Board Member of FAMA, a Board Member of Yayasan Selangor, a Counselor of the Municipal Council of Shah Alam, Selangor State assemblyman and the President of Malaysian Parliament Government Backbencher Club.

Y.B. Dato' Ir. Haji Mohd Zin is a member of Board Tender Committee TelCo and a Board Member of a number of subsidiaries of Telekom Malaysia. He has never been charged for any offence and has no family relationship with any Director or major shareholder of the Company nor any conflict of interest with the Company.

Note: Directors' profiles were based on the Annual Report cut-off date on 19 March 2004. Y.B. Dato' Ir. Haji Mohd Zin bin Mohamed was appointed a Member of Parliament for Sepang on 21 March 2004 and the Deputy Minister of the Works Ministry effective from 30 March 2004. He tendered his resignation as a Director of the Company and its Group on 1 April 2004.

DATO' LIM KHENG GUAN

DATO' LIM KHENG GUAN

(61 years of age – Malaysian)

Independent Non-Executive Director

Dato' Lim Kheng Guan was appointed to the Board of Telekom Malaysia on 23 June 2000.

He is a Chartered Accountant by profession and an Associate Member of the Malaysian Institute of Accountants, Associate of the Malaysian Institute of Certified Public Accountants, Fellow of Australian Society of Certified Practising Accountants, Associate of the Australian Institute of Bankers and a Member of the Malaysian Institute of Management. He has also attended Advanced Management Programs at Manchester Business School, INSEAD and London Business School.

He has more than 30 years of experience in accounting, management consulting and senior managerial positions in local and multinational public listed companies. Currently, he is the Executive Director of Malaysian Management Consultants Sdn. Bhd. and a Director of Celcom and TRI.

Dato' Lim Kheng Guan currently serves as an Independent Non-Executive Chairman of the Board Commercial Dispute Resolution Committee and a Member of the Nominating and Remuneration Committee and Board Audit Committee of Telekom Malaysia. He is also a Board Member of a number of subsidiaries and associate companies of Telekom Malaysia. He has never been charged for any offence and has no family relationship with any Director or major shareholder of the Company nor any conflict of interest with the Company.



Ir. PRABAHAR
N.K. SINGAM

ROSLI BIN MAN



Ir. PRABAHAR N.K. SINGAM

(42 years of age – Malaysian)

Independent Non-Executive Director

Ir. Prabahar was appointed Director of Telekom Malaysia on 23 June 2000. He is an engineer by profession and has a Bachelor of Science (Civil Engineering) degree from Portsmouth Polytechnic, United Kingdom in 1985.

A member of the Board of Engineers, Malaysia, the Institution of Engineers, Malaysia and Environmental and Research Association, Malaysia (ENSEARCH). He is a professional engineer who has wide experience in the civil engineering sector, especially in the areas of consultancy, contracting, project management and project financing.

Ir. Prabahar currently serves as an Independent Non-Executive Member of the Board Audit Committee and Board Nominating and Remuneration Committee. He is also a Board Member of a number of subsidiaries and associate companies of Telekom Malaysia and has never been charged for any offence. He has no family relationship with any Director or major shareholder of the Company nor any conflict of interest with the Company.

ROS LI BIN MAN

(50 years of age – Malaysian)

Non-Independent Non-Executive Director

Rosli bin Man was appointed to the Board on 15 July 2000. He has more than 26 years of experience in the telecommunications industry. Rosli holds a Bachelor in Science in Electrical and Electronic Engineering (Electrical Design and Instrumentation) from University of Glasgow, United Kingdom and a Diploma in Electrical and Electronic Engineering (Communications) from Technical College, Kuala Lumpur.

He joined JTM in 1976 as Assistant Controller where he gained wide exposure in telecommunication services including the task to implement the country's first mobile telecommunication service i.e. ATUR 450. In 1985, he made a career move to the private sector by joining the Fleet group as its Group Manager, Technical Services where he was part of the team responsible in overseeing the roll-out and operations of the nation's first privately operated terrestrial television station namely Sistem Television Malaysia Berhad (TV3). From 1988 to 1996, he was instrumental in setting up the first privately owned telecommunication company in Malaysia i.e. Celcom (M) Sdn. Bhd., catering for the cellular mobile telecommunication business. He left Celcom (M) Sdn. Bhd. as its President in 1996 to join Prismanet Sdn. Bhd. as Managing Director and held the position until November 1998. In July 2000, he joined Natrindo Telpon Sellular (NTS), the GSM 1800 cellular operator in East Java, Indonesia. As the Chief Operating Officer, he was responsible for the planning, development, successful roll-out of the network and the day-to-day operations of the business. He was then appointed as Deputy Chief Operating Officer of Lippo Telecom to oversee NTS planning, roll-out and operation of NTS National Cellular Operation. He left NTS in January 2002. Rosli is also a director of Celcom and TRI.

He currently serves as a member of the Board Commercial Dispute Resolution Committee and a Board member of a number of subsidiaries of Telekom Malaysia. He is a Non-Executive Director nominated by the Company's Substantial Shareholder, Khazanah Nasional Berhad and has never been charged for any offence. He has no family relationship with any Director or major shareholder of the Company nor any conflict of interest with the Company.



TAN POH KEAT

TAN POH KEAT

(67 years of age – Malaysian)

Non-Independent Non-Executive Director

Tan Poh Keat was appointed Director of Telekom Malaysia on 29 August 2000. He graduated with a Bachelor of Engineering (Electrical) degree and Masters of Engineering Degree, both from Auckland University, New Zealand under the Colombo Plan Scholarship.

He joined JTM in 1962 as an engineer and has served in various appointments, the last being Deputy Director General. Subsequently, he joined Telekom Malaysia as Director, Networks Service and retired at the end of 1991. Currently, he is an independent consultant to a number of local and international companies.

Tan Poh Keat is also a Director of VADS, Celcom, TRI and Measat Global Berhad.

He currently serves as a Member of the Board Tender Committee TelCo and a Board Member of a number of subsidiaries and associate companies of Telekom Malaysia. He is a Non-Executive Director nominated by the Minister of Finance (Inc), the Special Shareholder of Telekom Malaysia and has never been charged for any offence. He has no family relationship with any Director or major shareholder of the Company nor any conflict of interest with the Company.



MOHAMMAD ZANUDIN
BIN AHMAD RASIDI

DATO' SURIAH BINTI
ABD RAHMAN



MOHAMMAD ZANUDIN BIN AHMAD RASIDI

(50 years of age – Malaysian)

Alternate Director to Dato' Abdul Majid bin Haji Hussein
Non-Independent Non-Executive Director

Mohammad Zanudin was appointed as Alternate Director to Dato' Abdul Majid bin Haji Hussein on 12 December 2000. He has a Bachelor of Economics from Universiti Kebangsaan Malaysia and a Master Degree in Public Management from Carnegie-Mellon University, USA. He has also completed the Harvard International Tax Program at the Harvard University in 1992.

He began his career with the Treasury in 1984 as Assistant Secretary in the Economic and International Division. After four years, he was assigned to the Tax Analysis Division where he was directly involved in formulating policies and strategies for budget proposals. He was then promoted to be Principal Assistant Secretary in 1998. Subsequently, he was transferred to the Public Enterprises, Privatisation and Minister of Finance Incorporated Coordination Division as Principal Assistant Secretary in November 2000, a position he holds until today.

Mohammad Zanudin is also the Alternate Member/Director to Dato' Abdul Majid on the Board Employees' Share Option Scheme Committee, Board Tender Committee TelCo and Board Re-listing of Celcom Committee where Dato' Abdul Majid has been appointed as a member. He has never been charged for any offence and has no family relationship with any Director or major shareholder of the Company nor any conflict of interest with the Company.

DATO' SURIAH BINTI ABD RAHMAN

(54 years of age – Malaysian)

Alternate Director to Datuk Dr. Halim bin Shafie
Non-Independent Non-Executive Director

Dato' Suriah was appointed to the Board on 24 November 2000 as Alternate Director to Datuk Dr. Halim bin Shafie. She holds a Bachelor of Arts (Hons.) from University of Malaya and a Master of Arts from the University of Leeds, United Kingdom. She began her career in the public service as an Assistant Secretary in Treasury and rose to the position of Principal Assistant Secretary in the Government Procurement Management Division.

She then served various Ministries and Government Agencies including the Social Economic Research Unit, Prime Minister's Department, Ministry of Housing and Local Government, Malaysian Institute of Maritime Affairs, Public Service Department and Implementation Coordination Unit of the Prime Minister's Department before assuming her current position as Deputy Secretary General 1, Ministry of Energy, Communications and Multimedia on 1 November 2000.

Dato' Suriah is the Alternate Member/Director to Datuk Dr. Halim on the Board Employees' Share Option Scheme Committee, Board Tender Committee TelCo, Board Re-listing of Celcom Committee and all the subsidiaries of Telekom Malaysia, where Datuk Dr. Halim has been appointed as a member. She has never been charged for any offence and has no family relationship with any Director or major shareholder of the Company nor any conflict of interest with the Company.



GROUP BUSINESS MANAGEMENT

TELEKOM MALAYSIA BERHAD

from left to right:

DATO' DR. ABDUL RAHIM BIN HAJI DAUD
Deputy Chief Executive/Executive Director
Telekom Malaysia Berhad

DATO' DR. MD KHIR BIN ABDUL RAHMAN
Chief Executive, Telekom Malaysia Berhad

DATO' DR. IR. HAJI MOHD KHIR BIN HARUN
Chief Group Business Restructuring & Coordination
Telekom Malaysia Berhad

DATO' DR. IDRIS BIN IBRAHIM
Chief Operating Officer, TM TelCo

DATO' RAMLI BIN ABBAS
Chief Executive Officer, Celcom (Malaysia) Berhad

DATO' BAHARUM BIN SALLEH
Chief Executive Officer, TM Net Sdn. Bhd.

CHRISTIAN DE FARIA
Chief Executive Officer, TM International Sdn. Bhd.
(since February 2003)

JAFFA SANY BIN ARIFFIN
Group Chief Financial Officer
Telekom Malaysia Berhad
(since July 2003)

HAMZAH BIN YACOB
Chief Executive Officer, TM Facilities Sdn. Bhd.

MD FAUZI BIN SAID
Senior Vice President, Group Human Resource
Management, Telekom Malaysia Berhad



RANBIR SINGH NANRA
Senior Vice President, Group Marketing
Telekom Malaysia Berhad
(since February 2003)

DATO' ADNAN BIN ROFIEE
Senior Vice President, Major Business &
Government, Telekom Malaysia Berhad

HAJI MOHD YAHAYA BIN MOHD SHARIFF
Senior Vice President, Network Services
Telekom Malaysia Berhad

DATO' ABDUL MALEK BIN MOHAMAD
Project Director, TM Retail
Telekom Malaysia Berhad

HAJI HAMIS BIN HASAN
Chief Financial Officer, TM TelCo

HAJI ROMLI BIN HUSSIN
Vice President, Customer Network Operations
Telekom Malaysia Berhad

ABDUL MAJID BIN ABDULLAH
Vice President, Corporate Strategy & Planning
Telekom Malaysia Berhad

GAZALI BIN HARUN
Vice President, Corporate Finance
Telekom Malaysia Berhad

KAIRUL ANNUAR BIN MOHAMED ZAMZAM
General Manager, Corporate Affairs
Telekom Malaysia Berhad

“MANAGING WITH INTEGRITY, TRANSPARENCY AND ACCOUNTABILITY – INTRINSIC COMPONENTS IN THE PRESERVATION OF SHAREHOLDER VALUE”

CORPORATE GOVERNANCE STATEMENT

TELEKOM MALAYSIA BERHAD
Annual Report 2003

038

The Company is committed to achieving high standards of corporate governance and the effective application of the principles and best practices as set out in the Malaysian Code on Corporate Governance (the Code) throughout its Group. The Board will continue to play an active role in improving governance practices to ensure that the best interests of shareholders and other stakeholders are served by transparent disclosure policies.

The Board considers that the Company has fully complied with Part I of the Code. This Statement, together with other statements, such as the Statement on Internal Control, sets out the manner in which the Company has applied the principles and best practices of the Code.

BOARD OF DIRECTORS

An experienced Board consisting of Members with a wide range of business, financial, technical and public service background leads and controls the Group. This brings depth and diversity in

expertise and perspectives to the leadership of a highly regulated telecommunication business. Directors' profiles, appearing on pages 26 to 35 inclusive, illustrate an impressive spectrum of experiences vital to the direction and management of a telecommunication company.

During the year, fourteen (14) board Meetings were held and the attendance of individual Directors is recorded in the Statement accompanying the Notice of the Annual General Meeting.

Board Composition and Balance

The total of twelve (12) Directors of the Board consist of a Non-Executive Chairman, two (2) Executive Directors designated as the Chief Executive and Deputy Chief Executive/Executive Director, five (5) Non-Executive Directors and four (4) Independent Non-Executive Directors representing one third of the Board.

The roles of the Non-Executive Chairman and the Chief Executive are separate with clear distinction of responsibilities between them. Dato' Dr. Mohd. Munir Abdul Majid is the Senior Independent Non-Executive Director, called for in the Code and to whom concerns pertaining to the Group may be conveyed by shareholders and the public.

The Board's principal focus is the overall strategic direction, development and control of the Group. In support of this focus, 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 Executive Directors are responsible for the implementation of broad policies approved by the Board and they are 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 in ensuring the integrity and effectiveness of the relationship between the Non-Executive and Executive Directors.

The 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. 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.

Independence and Conflict of interest

The Independence of the Non-Executive Directors is under constant review against best practices and regulatory provisions. 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 Group has adopted a process whereby each Director is required to make written declarations whether they have any interest in transactions tabled at every board meeting of the Group.

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 Nominating and Remuneration Committee taking into account the required mix of skills and experience and other qualities, before making a recommendation to the Board.

Re-Election

In accordance with the Listing Requirements of the Malaysia Securities Exchange Berhad (MSEB) and the Company's Articles of Association, all Directors are subject to re-election by rotation once at least every three (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 disclosed in the Statement accompanying the Notice of Annual General Meeting (AGM) with references to other sections of this Annual Report.

Directors' Training

The Board acknowledged the importance of continuous education and training to enable effective discharge of their responsibilities. All the Directors have successfully completed the Mandatory Accreditation Programme. During the year, the Directors have also attended various seminars and international conventions to gain insight into the state of the economy as well as latest regulatory and technological developments in relation to the Group's business. Following the introduction of the mandatory Continuing Education Programme (CEP) by MSEB in July 2003, the Directors have also actively pursued relevant courses and seminars recognised under the CEP.

Directors' Remuneration

The Nominating and Remuneration Committee has recommended to the Board a framework for the remuneration of the Executive and Non-Executive Directors.

The Executive Directors' remuneration comprises a salary, allowances, bonuses and other customary benefits as appropriate. Salary reviews take into account market rates and the performance of the individual and the Group. 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.



Details of the remuneration of each Director of the Company, categorised into appropriate components for the financial period ended 31 December 2003, are as follows:

| NAME OF DIRECTORS | SALARY (RM) | FEES & ALLOWANCES (RM) | EX-GRATIA (RM) | BENEFIT IN KIND (RM) | TOTAL (RM) |
|--|----------------|------------------------------|-------------------|----------------------------|------------------|
| Executive | | | | | |
| Dato' Dr. Md Khir bin Abdul Rahman | 264,000 | 76,125 | 96,000* | 93,023 | 529,148 |
| Dato' Dr. Abdul Rahim bin Haji Daud | 264,000 | 47,010 | 60,000* | 10,649 | 381,659 |
| Non-Executive | | | | | |
| Tan Sri Dato' Ir. Muhammad Radzi bin Hj Mansor | — | 154,320 | — | 9,100 | 163,420 |
| Datuk Dr. Halim bin Shafie | — | 38,900 | — | 1,500 | 40,400 |
| Dato' Abdul Majid bin Haji Hussein | — | 37,200 | — | 1,500 | 38,700 |
| Y.B. Dato' Joseph Salang Gandum | — | 146,188 | — | 48,125 | 194,313 |
| Y.B. Dato' Ir. Haji Mohd Zin bin Mohamed | — | 108,858 | — | 48,125 | 156,983 |
| Dato' Dr. Mohd Munir bin Abdul Majid | — | 210,700 | — | 138,330 | 349,030 |
| Ir. Prabahar N.K. Singam | — | 60,280 | — | 1,500 | 61,780 |
| Dato' Lim Kheng Guan | — | 110,170 | — | 38,150 | 148,320 |
| Rosli bin Man | — | 113,500 | — | 4,672 | 118,172 |
| Tan Poh Keat | — | 108,325 | — | 3,690 | 112,015 |
| Alternate Directors | | | | | |
| Mohammad Zanudin bin Ahmad Rasidi (Alternate to Dato' Abdul Majid bin Haji Hussein) | — | 4,200 | — | 1,500 | 5,700 |
| Dato' Suriah binti Abd Rahman (Alternate to Datuk Dr. Halim bin Shafie) | — | 4,700 | — | 1,500 | 6,200 |
| TOTAL | 528,000 | 1,220,476 | 156,000 | 401,364 | 2,305,840 |

Note: * – Ex-Gratia provided for 2002 paid in 2003

Access to Information

The Board and its Committees are supplied with an agenda and relevant up-to-date information for review in good time prior to each meeting to enable them to make informed decisions. The process of Board papers approval, compilation and dissemination is expedited via an efficient and secure electronic Board Document Management System to facilitate an informed decision-making process within the Group.

The Board has full and timely access to all relevant information to discharge its duties effectively. 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.

BOARD COMMITTEES

The Board delegates certain responsibilities to Board Committees, namely, the Audit Committee, Nominating and Remuneration Committee, Tender Committee TelCo, Employee Share Option Scheme (ESOS) Committee, Re-Listing of Celcom Committee (RLCC) and the Commercial Dispute Resolution Committee (CDRC). All committees have written terms of reference and operating procedures and the Board receives reports of their proceedings and deliberations. The Chairmen of the various committees report the outcome of the committee meetings to the Board and relevant decisions are incorporated in the minutes of the full Board meeting.

Audit Committee

A full Audit Committee report enumerating its membership, its role and its activities during the year is set out on pages 48 to 51 inclusive.

Nominating and Remuneration Committee

Membership:

Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor (*Chairman – Non-Executive*)

Dato' Dr. Mohd. Munir bin Abdul Majid (*Independent Non-Executive*)

Ir. Prabahar N.K. Singam (*Independent Non-Executive*)

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

Objectives:

The main objectives of the Nominating and Remuneration Committee are:-

- to ensure that the Directors of the Board bring characteristics to the Board, which provide a required mix of responsibilities, skills and experience.
- to set the policy framework and to make recommendations to the Board on all elements of the remuneration, terms of employment, reward structure and fringe benefits for Executive Directors and other top selected management positions with the aim to attract, retain and motivate individuals of the highest quality.

Principal Duties and Responsibilities:

- Recommend to the Board, candidates for directorship on the Board of the Company and its Group as well as membership of all other Board Committees. In making its recommendations, the Committee considers candidates from the Management

for directorship in its Group of companies as proposed by the Chief Executive;

- 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;
- 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 Directors having regard to the overall Group policy guidelines and framework;
- Advise the Board on the performance of the Executive Directors and an assessment of their entitlement to performance related pay and advise the Executive Directors 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.

The Nominating 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. The Committee met seven (7) times during the year.

Tender Committee TelCo

Membership:

Dato' Abdul Majid bin Haji Hussein (*Chairman – Non-Executive*)

Dato' Dr. Md Khir bin Abdul Rahman (*Chief Executive*)

Dato' Dr. Abdul Rahim bin Haji Daud (*Deputy Chief Executive/ Executive Director*)

Datuk Dr. Halim bin Shafie (*Non-Executive*)

Y.B. Dato' Joseph Salang Gandum (*Non-Executive*)

Y.B. Dato' Ir. Mohd. Zin bin Mohamed (*Independent Non-Executive*)

Tan Poh Keat (*Non-Executive*)

Mohammad Zanudin bin Ahmad Rasidi (*Alternate to Dato' Abdul Majid bin Haji Hussein*)

Dato' Suriah binti Abd Rahman (*Alternate to Datuk Dr. Halim bin Shafie*)

The principal duties and responsibilities of the Tender Committee TelCo are to ensure that the procurement process complies with the relevant policies and requirements and to consider, evaluate and approve or recommend awards which are beneficial to the Company taking into consideration various factors such as price, usage of product and services, its quantity, duration of service and other relevant factors. The Committee met seven (7) times during the year.

ESOS Committee

Membership:

Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor (*Chairman – Non-Executive*)

Dato' Dr. Md Khir bin Abdul Rahman (*Chief Executive*)

Dato' Dr. Abdul Rahim bin Haji Daud (*Deputy Chief Executive/ Executive Director*)

Dato' Abdul Majid bin Haji Hussein (*Non-Executive*)

Datuk Dr. Halim bin Shafie (*Non-Executive*)

Mohammad Zanudin bin Ahmad Rasidi (*Alternate to Dato' Abdul Majid bin Haji Hussein*)

Dato' Suriah binti Abd Rahman (*Alternate to Datuk Dr. Halim bin bin Shafie*)

The principal duties and responsibilities of the ESOS Committee are to construe and interpret the Employee Share Option Scheme (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. The Committee only meets as and when required.

Ad-Hoc Committee

Apart from the above, specific and ad-hoc Board Committees, such as the RLCC and CDRC have been established during the year on need basis to deliberate and expedite decision-making processes on specific aspects of the business and corporate exercises.

RELATIONSHIP AND COMMUNICATION WITH SHAREHOLDERS/INVESTORS

The Company is committed to regular and proactive communication with investors and shareholders. Formal channels of communication are used to give an account to shareholders on the performance of the Group.

In addition to quarterly financial reports, the Company communicates with shareholders and investors through its annual report, with comprehensive and sufficient details about financial results and activities of the Group. The annual report published in English language, is despatched to shareholders who are also given the option to receive the annual reports in Bahasa Malaysia (the national language) upon request. Established procedures are in place to ensure the timely public release of share price sensitive information.

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 raised to Board members and Committees' Chairmen. The Company supports the Code's principle 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 Directors and Chief Financial Officer are present to clarify and explain issues raised by the media.

To ensure easy and convenient access to the Group's financial information by shareholders and investors, press releases, annual reports and other corporate information, a website is maintained at www.telekom.com.my. The MSEB also provides for the Company to electronically publish all its announcements including its quarterly results and Annual Report through MSEB internet website at www.announcements.klse.com.my.

INVESTOR RELATIONS

In line with good corporate governance practices, the Company's Investor Relations (IR) unit proactively and actively disseminates relevant information about the Group to the investment community, specifically the institutional fund managers and analysts.

Telekom Malaysia is one of the most actively covered companies in the Kuala Lumpur Stock Exchange Composite Index with regular tracking by more than 18 research brokers, 3 rating agencies and over 200 domestic and foreign institutional investors, both in the equity and debt markets. The IR unit maintains very close contact with them, to ensure that the Group's strategies, operational activities and financial performance are well understood and that such information is made available to them in a timely manner.

Regular contacts to provide accurate and timely information are established through road shows, company visits, and one on one meetings, teleconferences and e-mails. Telekom Malaysia participated actively in more than 10 local and overseas investor conferences in New York, London, Hong Kong and Singapore, in the year 2003 including the MSEP Investor Week 2003.

Telekom Malaysia is one of the few corporations in Malaysia that conducts teleconferences every quarter to brief analysts on its quarterly results. At these sessions, analysts are not only given a comprehensive review of the Group's financial performance but are also given the opportunity to clarify whatever queries they may have in question and answer sessions. The content of these briefings is posted on the Company's website.

The senior management of the Group, the Chief Executive, Deputy Chief Executive/Executive Director, Chief Financial Officer, Vice Presidents and Heads of the operating companies are actively involved in IR activities, meeting fund managers and analysts regularly.

Information that is disseminated to the investment community conforms to MSEP disclosure rules and regulations. Care has been taken to ensure that no market sensitive information such as corporate proposals, financial results and other material information is disseminated to any party without first making an official announcement to the MSEP.

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.

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 Directors

consider that in presenting these financial statements, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

The Directors have a general responsibility for ensuring that the Company and the Group keep accounting records and financial statements, which disclose with reasonable accuracy the financial position of the Company and the Group. Due care and reasonable steps are taken by the Directors to ensure that such financial statements comply with the Companies Act, 1965, approved accounting standards in Malaysia and other regulatory provisions.

Internal controls

The Board acknowledges its overall responsibility for maintaining a sound system of internal controls to safeguard shareholders' investment and Group's assets. The Statement on Internal Control is set out on pages 52 to 53 of the annual report providing an overview of the state of internal controls within the Group.

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 the 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 page 51.

Audit Committee

The Audit Committee also conducts review of the Internal Audit Function in terms of its authority, resources and scope as defined in the Internal Audit Charter. Furthermore, it ensures the independence of the internal auditors and unrestricted access to information and people in the Group. Highlights of activities conducted by the Committee are detailed in the Audit Committee Report on pages 49 and 50.

Signed on behalf of the Board of Directors pursuant to a resolution dated 26 February 2004.



TAN SRI DATO' Ir. MUHAMMAD RADZI BIN HAJI MANSOR
Chairman

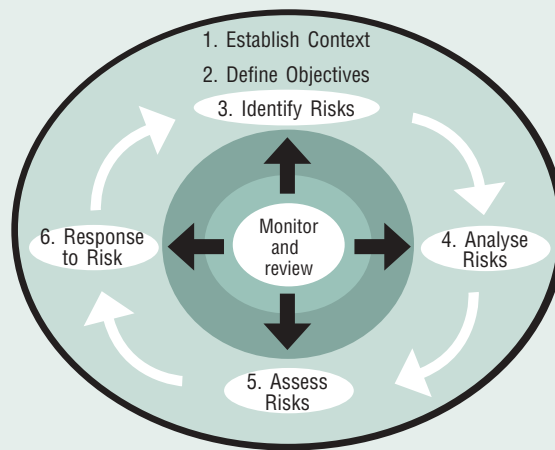
Risk Management

Telekom Malaysia recognises the importance of sound internal controls and risk management practices to good corporate governance. It is for this reason that it continues to embed risk-based systems of internal controls to provide reasonable assurance of achieving the Group's business objectives while at the same time safeguarding and enhancing shareholder investment and the company's assets.

The Group has put in place a Risk and Internal Control Policy and an Enterprise Risk Management (ERM) Framework. The Board is following through the process of identifying, evaluating and managing significant risks that affect the achievement of business objectives using the approved ERM process and the Risk Control & Reporting platform, as illustrated below:

044

Enterprise Risk Management Process



Risk Control & Reporting Platform

| | | | |
|-----------------------|-----------------------|-----------------------------------|-------------------|
| Policies & Guidelines | Management Committees | Risk Reporting & Monitoring Tools | External Auditors |
|-----------------------|-----------------------|-----------------------------------|-------------------|

RISK IDENTIFICATION AND EVALUATION

During the year under review, the Risk Management Unit, with the assistance of Group Internal Audit, conducted 20 Enterprise Risk Management Workshops with key business units and subsidiaries including Group Finance, TelCo Network Operations, Group Marketing, TM Facilities, TM Net, Multimedia University Telekom, MTN Networks Sri Lanka and the TelCo Information Technology Division.

From these workshops, a total of 750 key risks were identified, evaluated and reasonable assurance plans to further manage these risks were secured from designated “risk owners”. Further risk review sessions will be conducted with the risk owner at six-month intervals to track the implementation of the assurance plan and update the risk profile register. The Board of Directors is kept updated on the progress of risk management activities through the Audit Committee.

RISK REPORTING AND MONITORING TOOLS

Considering the size of the Group, it is more efficient for the inventory of risk profiles to be automated. Hence, the Group has invested in an inventory system using Risk Information Management System (RiMS) software that allows risk owners to capture their risks, tabulate action plans, track the implementation of the assurance plans and constantly review and update their risk profiles at their own work stations. The Risk Management Unit remains the key controller of the risk profiles inventory.

RISK FACILITATORS TRAINING

To streamline the methodology of all risk management workshops, risk facilitators are being trained by professional consultants. The first training session, conducted in May 2003 was attended by 20 key risk facilitators from the Risk Management Unit, Internal Audit and other key business units.

RISK MANAGEMENT REFERENCE KIT

As a reference document, an Enterprise Risk Management Reference booklet has been produced to assist all employees understand and practise the standard risk management process, methodology and language adopted by the Group.

CONCLUSION

Given that the Group would need to adapt to the ever-changing business environment in the shortest possible time in order to uphold its business objectives, risk management has become an essential tool to ensure risks and rewards are duly balanced. The challenge ahead, is to ensure everybody in the Group understands the risk and internal control policy and objectives and to embed the ERM process in all their decision-making processes.

The following plans to further enhance risk management practices in the Group has been drawn up for year 2004:

- To intensify risk identification and evaluation programmes through second-phase ERM workshops
- To conduct a risk profile review for those risks identified in 2003
- To encourage further participation of senior management in the Group Risk Management Committee
- To establish an ERM communication channel to increase awareness among all staff.

The following information is provided in compliance with the Listing Requirements of Malaysia Securities Exchange Berhad (MSEB) for financial year ended 31 December 2003:

1. SHARE BUYBACKS

The Company did not enter into any share buyback transactions 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, save for a public reprimand on Technology Resources Industries Berhad (TRI), a subsidiary company of Celcom (Malaysia) Berhad by the MSEB and Securities Commission (SC) on 9 August 2003. The public reprimand was in respect of breaches of regulatory guidelines by TRI prior to TRI becoming a subsidiary of Telekom Malaysia. The public reprimand can be accessed from MSEB's website at www.klse.com.my.

ADDITIONAL COMPLIANCE INFORMATION

TELEKOM MALAYSIA BERHAD
Annual Report 2003

4. NON-AUDIT FEES

The amount of non-audit fees paid and payable to the external auditors and their affiliated companies by the Group for the financial year ended 31 December 2003 is as follows:

| | RM |
|---|------------------|
| a) PricewaterhouseCoopers, Malaysia | 725,000 |
| b) PricewaterhouseCoopers Taxation Services Sdn. Bhd. | 537,000 |
| c) Overseas Firm affiliated to PricewaterhouseCoopers, Malaysia | 1,244,500 |
| Total | 2,506,500 |

5. UTILISATION OF PROCEEDS FROM ISSUANCE OF BONDS

The Company, via Tekad Mercu Sdn. Bhd., a special purpose entity of the Company issued RM2,000.0 million nominal value 10-year redeemable unsecured bonds due 2013 and RM1,000.0 million nominal value 15-year redeemable unsecured bonds due 2018. The proceeds from this exercise were used to repay the bridging loans undertaken by the Company to fund the Mandatory General Offer (MGO) of Celcom, details are as described in note 2 to the financial statements.

6. VARIATION IN RESULTS

There was no profit estimation, forecast or projection made or released by the Company during the financial year under review.

7. PROFIT GUARANTEE

There was no profit guarantees given by the Company during the financial year under review.

8. 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 2003 or entered into since the end of the previous financial year ended 31 December 2002 except for a related party transaction disclosed in note 33 to the financial statements on page 221 of this Annual Report.

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

The Company had at its Extraordinary General Meeting (EGM) held on 21 May 2002 obtained a general mandate from its shareholders to allow the Company and/or its subsidiaries, in their normal course of business to enter into RRPT with related parties which are necessary for its day-to-day operations, on terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders (RRPT Mandate).

Paragraph 4.1 of Practice Note No. 14/2002 (PN14) issued by the MSEC on 28 November 2002 set out eight (8) new categories of transactions which are not regarded as related party transactions which include, inter-alia, transactions between a listed Issuer and/or its subsidiaries and another person:

- which involves the purchase of goods based on non-negotiable fixed price or rate which is published or publicly quoted and where the prices are applied consistently to all customers or classes of customers; and
- where there are no other interested relationships except for common directorships where the directors who have common directorship have:
 - no shareholdings in the other person;
 - shareholding of less than 5% in the listed issuer; and
 - has no other interest such as commission or other kind of benefits received from the listed issuer or any of its subsidiaries or the other person in relation to the said transaction.

In view of the above, the following transactions, which were included in the RRPT Mandate granted by the shareholders at the EGM held on 21 May 2002 would no longer be regarded as RRPT with related parties pursuant to Paragraph 4.1 (a) and 4.1 (h) of PN14 which took effect on 1 January 2003:

- a) The provision of engineering and information technology services by Meganet Communications Sdn. Bhd. to Telekom Malaysia; and
- b) The provision of network integrated planning and provisioning system by Telekom Applied Business Sdn. Bhd. to Telekom Malaysia.

01



02



03



AUDIT COMMITTEE REPORT

TELEKOM MALAYSIA BERHAD
Annual Report 2003

04



05



06



- 01. Dato' Dr. Mohd Munir bin Abdul Majid
(Chairman)
Independent Non-Executive Director
- 02. Dato' Abdul Majid bin Haji Hussein
Non-Independent Non-Executive Director
- 03. Y.B. Dato' Joseph Salang Gandum
Non-Independent Non-Executive Director
- 04. Dato' Lim Kheng Guan
Independent Non-Executive Director
- 05. Ir. Prabahar N.K. Singam
Independent Non-Executive Director
- 06. Hashim bin Mohammed
Group Chief Auditor/Secretary to Audit Committee

1. MEMBERSHIP

The Audit Committee comprises three Independent Non-Executive Directors and two Non-Independent Non-Executive Directors of the Board as follows:

Dato' Dr. Mohd Munir bin Abdul Majid

(Chairman)

Independent Non-Executive Director

Dato' Abdul Majid bin Haji Hussein

Non-Independent Non-Executive Director

Y.B. Dato' Joseph Salang Gandum

Non-Independent Non-Executive Director

Dato' Lim Kheng Guan

Independent Non-Executive Director

Ir. Prabahar N.K. Singam

Independent Non-Executive Director

Hashim bin Mohammed

Group Chief Auditor/Secretary to Audit Committee

Members of the Audit Committee shall not have a relationship which in the opinion of the Board of Directors, 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. Dato' Lim Kheng Guan who is an independent non-executive director is a member of the Malaysian Institute of Accountants (MIA).

2. MEETINGS

The Committee had four (4) meetings in the financial year 2003. Dato' Dr. Mohd Munir bin Abdul Majid, Dato' Lim Kheng Guan and Ir. Prabahar N.K. Singam attended all four (4) meetings, whilst Dato' Abdul Majid bin Haji Hussein and Y.B. Dato' Joseph Salang Gandum attended three (3) out of the four (4) meetings.

The Group's Deputy Chief Executive attended three (3) meetings, the Group Chief Financial Officer (CFO) and Acting Group CFO attended two (2) meetings each respectively whilst the General Manager, Group Finance representing management attended all of the four (4) meetings upon invitation by the Chairman of the Committee during the course of those meetings. The Group Internal Auditors attended all these meetings whilst the External Auditor, PricewaterhouseCoopers (PwC) attended the meetings upon invitation by the Chairman of the Committee. Prior to the meetings, the Group Chief Auditor and PwC auditors met with the Chairman of the Audit Committee in private without the executive director's presence.

3. SUMMARY OF ACTIVITIES IN THIS FINANCIAL YEAR

The Audit Committee carried out its duties as set out in the terms of reference as in page 51.

Apart from its duties as set out in its terms of reference, the Audit Committee also reviewed and deliberated on reports and updates as provided by:

- a) The Task Force for Best Practices (TFBP) which was established by the Audit Committee in year 2001 mainly to support them on the following:
 - New updates and developments of best business practices and exposure drafts, principally on Corporate Governance, statutory and regulatory requirements, compliance to accounting standards and other business guidelines. The Task Force consistently submitted their reports at every Audit Committee Meetings.
 - The planning, implementation and progress report of enterprise-wide risk management programme that were identified and implemented at various major divisions and subsidiaries of the Group to institute risk management, control and governance practices by management to achieve business excellence and support overall group objectives.
 - Receive and review reports on the adequacy, effectiveness and reliability of the system of internal controls based on control self assessment performed annually by the Chief Executive Officer, CEO/Chief Operating Officer, COO of the Operating Companies/Subsidiaries through the Annual Internal Control Assurance Letter and Internal Control Incidents submitted to the Group Chief Auditor and Chief Executive.
 - Receive and review reports on the status of financial controls based on self assessment conducted quarterly by the CEO/CFO of the Operating Companies/Subsidiaries through the Financial Controls Compliance and Assurance Letter submitted to the Group CFO.
 - Review and recommend the Risk and Internal Control Policy for the Audit Committee's approval.
 - Review and deliberate on new policy updates, revisions or enhancements of the Business Process Manual (BPM) and Subsidiary Policy (SP) as recommended by management to ascertain that the improvements made are aligned with business best practices and effective internal control processes.

- Monitoring and coordinating reviews on the effectiveness of the Group's system of internal controls, through reports furnished by the Group Internal Auditor, the External Auditor and the Management.
 - The implementation of the Enhanced Telecom Operation Maps (ETOM) as the telecommunication industry business framework and best practices to be used for reference by management and the internal auditor to benchmark against the industry standard.
- b) The Management Audit Action Committee which was established by the Audit Committee in year 2002 to update the Audit Committee 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 actions.
- c) The Internal Control Incident (ICI) Committee which was established in year 2003 to deliberate alleged major control incidents or failures based on reports submitted from management or special investigation/audits conducted and to propose next line of actions. 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 affecting the image and reputation of the Group.
 - lateral learning to prevent recurrence of similar incidents within the Group.
 - status of actions taken by management to remedy the control weaknesses and appropriate disciplinary actions.

4. INTERNAL AUDIT FUNCTION

The Group has a well established Group Internal Audit division which reports to the Audit Committee on its activities based on the approved annual Internal Audit Plan.

The risk-based internal audit plan is developed to cover key financial, operational and compliance matters that are significant to the overall performance of the Group. The audit activities include:

- Governance and Management Control review
- Business Process Review including reviews of strategic plan
- Information Technology and System Review
- Financial Audit
- Human Resource Management
- Marketing Audit
- Technical and Network Audit
- Enterprise Risk Management (ERM) Programme
- Control Self Assessment (CSA) Programme
- Review on Legal requirements and Compliance
- Special review as requested either by Board of Directors, Board Audit Committee or Management
- Consultancy services such as training of finance managers on financial controls and drafting of code of ethics

The Audit Committee receives regular and timely reports from the Group Chief Auditor on audit work and activities. The Internal Audit reports are submitted to the Audit Committee based on the quarterly audit plan as well as additional reports based on special requests by Management. In 2003, Group Internal Audit undertook 213 audit assignments covering locations at Corporate Headquarters, local and overseas operating subsidiaries and strategic business units. It also coordinated the follow-up review on the resolutions of both internal and external audit and control issues.

The Audit Committee reviews and approves the Group Internal Audit's annual budget and human resource requirement to ensure that the function is adequately resourced with competent and proficient internal auditors. As at 31 December 2003, the Group Internal Audit has 40 auditors with a various mix of expertise and experience.

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

1. COMPOSITION OF THE AUDIT COMMITTEE

The Committee and the Chairman shall be appointed by the Board of Directors or The Nominating and Remuneration Committee and shall consist of at least three (3) Non-Executive Directors, the majority of whom are independent. All members of the Audit Committee, including the Chairman, will hold office only so long as they serve as Directors of the Company.

The composition of the committee shall meet the independence and experience requirements of the Malaysia Securities Exchange Berhad (MSEB) Listing Requirements and other rules and regulations of the Securities Commission. The Board of Directors must review the terms of office and performance of the Audit Committee and each of its members at least once every three (3) years to determine whether the Audit Committee has carried out their duties in accordance with its terms of reference.

2. MEETINGS

The Committee shall meet not less than four (4) times a year and reports to the Board of Directors. The quorum of the Committee meetings, shall consist of at least two thirds of the members, with Independent Non-Executive Directors forming the majority. All committee members are expected to attend each meeting in person. Meeting agendas and briefing materials will be prepared and provided in advance to members. Minutes will be prepared.

3. AUTHORITY

The Audit Committee has unrestricted access to information, records, properties and personnel of the Group. It also has direct communication channels with the external and internal auditors. The Committee is also authorised by the Board to obtain external independent professional advice as necessary.

4. DUTIES AND RESPONSIBILITIES

The following are the main duties and responsibilities of the Committee collectively:

- i. 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;
- ii. Review the Internal Audit Plans and results of the internal audit process; to ensure appropriate actions are taken on the recommendations made by the Internal Audit function;
- iii. Review and appraise the performance and remuneration of the Group Chief Auditor and be consulted on his appointment and removal;

- iv. Review the scope of internal and external auditors' assessments of internal controls over financial reporting and obtain reports on significant findings and recommendations, together with management's responses;
- v. Consider the appointment of a suitable accounting firm to act as external auditor 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 or dismissal and to recommend the audit fee payable thereof;
- vi. Discuss with the external auditor before the audit commences, the nature, approach and scope of the audit and ensure co-ordination where more than one audit firm will be involved;
- vii. Review the quarterly interim financial results, half-year and annual financial statements of the Board;
- viii. 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;
- ix. Discuss problems and reservations arising from the interim and final audits and any matter the auditor may wish to discuss in the absence of the management where necessary;
- x. Review the integrity and adequacy of the Group's internal control systems and management information systems, including systems for compliance with applicable laws, rules, directives and guidelines;
- xi. Review the follow-up actions by management on the weaknesses of internal accounting procedures and controls as highlighted by the external and internal auditors;
- xii. Review the assistance and co-operation given by the Company and its officers to the external and internal auditors;
- xiii. 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, Malaysia Accounting Standards Board (MASB) and other applicable laws, rules, directives and guidelines;
- xiv. Propose, monitor and ensure an adequate system of risk management for management to safeguard the Group's assets and business sustainability;
- xv. Consider, review and disclose when required any significant transactions which are not within the normal course of business and any related party transactions (RPT) that may arise within the Company and the Group;
- xvi. Advise the Board of Directors with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations with the Company code of business ethics; and
- xvii. Consider other topics as defined by the Board.

STATEMENT ON INTERNAL CONTROL

TELEKOM MALAYSIA BERHAD
Annual Report 2003

INTRODUCTION

As stated in the Malaysian Code on Corporate Governance, the Board of Directors should maintain a sound system of internal controls including the review of its effectiveness, to safeguard shareholders' investment and Group's assets. Set out below is the Board Statement on Internal Control in compliance with the MSEC's Listing Requirements and the Statement on Internal Control: Guidance for Directors of Public Listed Companies. The Board continues with its commitment to ensure the smooth implementation of an integrated risk management framework and programme throughout the Group.

RESPONSIBILITY

The Board strives to maintain a sound system of internal controls and effective risk management practices to ensure long-term sustainability of the Group. The Board reaffirms its responsibility to review the integrity and effectiveness of the Group's system of internal control and management information systems, including

systems for compliance with applicable laws, rules, directives, guidelines, and risk management. The Board is informed of all major control issues encompassing internal controls, regulatory compliance and risk taking. The system of internal controls includes governance, management controls, financial controls, operational efficiency and effectiveness, compliance monitoring, information technology systems, process improvement, self-assessment and risk management. This system of internal controls can only provide reasonable but not absolute assurance against material misstatement or loss.

RISK MANAGEMENT

The Risk and Internal Control Policy and Enterprise Risk Management Framework are in place. The Board is following through the process for identifying, evaluating and managing significant risks that affect the achievement of the Group's business objectives. During the year under review, management with assistance of Group Internal Audit had conducted 20 Enterprise Risk Management Workshops with key business units and subsidiaries of the Group, which includes Group Finance, TM TelCo Network Operations, Group Marketing, TM Facilities, TM Net, Multimedia University, MTN Networks Sri Lanka and the TM TelCo Information Technology Division. An Enterprise Risk Management Reference booklet has been produced to assist all employees to understand and practice the standard risk management process, methodology and language adopted by the Group.

CONTROL SELF-ASSESSMENT

The Board places importance on the implementation of the Control Self-Assessment (CSA) process as a paradigm shift towards management self-assessment as compared to compliance based auditing. The Group internal auditor's role is more like a business process facilitator, since CSA is a process where business units at operational levels are required to identify risks that prevent the achievement of their business objectives. Management has been very receptive of CSA and feedback indicates that CSA has made an impact with management awareness and understanding of risks and linkages to the business objectives. Throughout 2003, a total of 42 CSAs were performed involving more than 1,000 employees in various operating units within the Group.

OTHER KEY ELEMENTS OF INTERNAL CONTROL SYSTEMS

The other key elements of the Group's internal control systems are as follows:

1. Board reviewed and approved Business Plans within which the business objectives, strategies, key performance indicators and targets are clearly stated. These business plans are cascaded throughout the organisation to ensure effective execution and follow through.
2. Clear segregation of roles and responsibilities to committees of the Board, Management at the Corporate Centre and subsidiaries, including financial authority limits set in the Business Process Manual as well as the Subsidiary Policy and Guidelines.
3. Structured review of all proposals for material capital and investment acquisitions by the business segments within the Group, namely the TM TelCo Executive Committee and respective boards of major operating companies before approval by the Board.
4. Self-assessment and disclosures by all the Group's companies with management control, the Internal Control Incidents and Controls Assurance Letter on an annual basis affirming the effectiveness, reliability and adequacy of systems of internal controls.
5. Documented policies, procedures and guidelines with respect to Financial Controls, Procurement, Network Operations, Information Technology, Marketing, Human Resources and Health and Safety.
6. Detailed budgeting process, which is in place, is reviewed at the operating company levels and approved by the Board.
7. Performance reports on financial performance and business objectives are regularly provided to operating companies' management and Boards, to enable them to review the Group's progress against its goals.
8. Monitoring of regulatory and statutory compliance to support the Board on proper management of effective corporate governance practices and requirements. The Technical Compliance Division has been set up to report and update the Board and the Group on proper practices and compliance to these requirements.
9. Regular monitoring of external and internal audit control issues to ensure completion through the Management Audit Action Committee to ensure actions are taken by management to resolve the issues effectively.
10. A Special Affairs Unit has been set up to review and monitor the ethical conducts and practices of all employees including the senior management and Board. Investigations reports are tabled to a newly set up Internal Control Incident Committee and updates are reported to the Audit Committee and the Board.
11. Implementation and internalisation of the three corporate core values (KRISTAL), Total Commitment to Customers, Uncompromising Integrity, Respect and Care. These corporate values form the set of guiding principles for the new Group culture.

The statement does not include the state of internal controls in material joint ventures and associated companies, which have not been dealt with as part of the Group.

There was no material loss incurred as a result of internal control weaknesses.

Whatever your mind can conceive, we can help deliver.



CHAIRMAN'S STATEMENT

TELEKOM MALAYSIA BERHAD
Annual Report 2003



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

Dear Shareholders,

On behalf of the Board of Directors and the management of Telekom Malaysia it is my pleasure to present the Annual Report and Accounts for the financial year ended 31 December 2003.

As we entered the fourth year of the new Millennium, Malaysians have just gone to the Polls to elect the Government of their democratic choice. And choose they did with a thumping majority to the ruling Party. It is a propitious time, heralding a new leadership and a new national agenda. Telekom Malaysia congratulates the Government on its resounding victory, constituting as it does a massive vote of confidence and an unequivocal endorsement of the reform initiatives upon which it has embarked. Following the smooth transition in leadership change, the Elections reaffirmed the continuity and stability that have been the enduring hallmarks of Malaysia's political culture. We pledge our full support.

The feel good factor manifested in the ballot boxes is all pervasive. Economic recovery is also convincingly under way. The global scene is sending messages of recovery, with broad-based growth in major industrial countries and reinforced by strong growth in the Asian region. Consumer and investor confidence are returning. GDP achieved a respectable growth of 5.2% for 2003 and is expected to grow by 6% to 6.5% this year. External reserves were and continue to be at an all time high with productivity rising and interest rates, inflation and unemployment kept at low levels. Malaysia is well to the fore.

Given this favourable environment, we are glad to report that your Company has recorded strong financial performance for 2003 with revenue and profit before tax increasing by 20.0% or RM1,962.3 million and 18.3% or RM280.1 million respectively. We remain committed to the creation of shareholder value.

2003 was a year of consolidation and rationalisation thus putting us in a better shape to face increasing competition. The most major feature in 2003 was the merger of TM Cellular Sdn. Bhd. with Celcom (Malaysia) Berhad (Celcom). It was a necessarily long and careful negotiation but Telekom Malaysia has emerged not only the undisputed leader of the industry in terms of size and capability but, thanks to the potential for synergy, more versatile and resourceful. We are ready to fulfil and make the most of the leadership role bestowed on us.

Under the buoyant economic environment, the Group is optimistic that the momentum will continue in 2004 driven by more robust revenue growth from stronger demand for mobile, broadband and data services, complemented by the benefits derived from the completion of the TM Cellular/Celcom merger later in the year.

The 21st Century is a fast paced world with escalating competition in the telecommunications industry. We need to be agile and responsive. We need to manage change that can be only more rapid and profound than ever before but sometimes unexpected. In a high technology industry like ours we need to keep pace with the relentless advance of technology whilst keeping up at the other end of the scale with developments in the market place, the fast evolving composition of our clientele and equally the fast evolving criteria of customer preferences.

We believe in enriching lives of our customers and those of all Malaysian consumers. Science is placed at the service of mankind to improve lives and lifestyles. We in particular are one of the life technologies bringing a higher standard of living to the people and with the special capability of reaching the remotest corners of the land that otherwise might be left behind in the march of progress. The ultimate test of what we bring to the community is enhanced quality of life. Hence the theme of this year's Annual Report is "New Possibilities... Enriching Lives."

Last year we imposed a necessary discipline upon expansion given the troubled international environment. Telekom Malaysia's strategy was to focus more on domestic operations, concentrating on enhancing customer service and creating value for our shareholders. We have also created the environment to revitalise the company. We continued to streamline our operations in order to be more efficient and cost effective with judicious right sizing through further restructuring of our core business into wholesale and retail activities for sharper focus. We are more service and market oriented to the point of being customer obsessed. We continue to aspire to our vision of becoming the communications company of choice.

Our international outreach was also prudently restricted mainly to markets nearer home like Sri Lanka and Bangladesh, Thailand and Cambodia. The relative proximity and in most cases a cultural affinity provides some comfort. The only exception was our continued profitable experience in Telkom SA in South Africa, our single largest investment overseas. Last year this highly successful venture was listed, with better than expected results, a real jewel for Telekom Malaysia's growth. In fact, excellent performances were registered not only in South Africa but in Sri Lanka and Bangladesh. Overall our international operations have contributed some 26% to the Group Profit After Tax in 2003. With the present new mood of opening up to new possibilities, it is not too far-fetched to see ourselves becoming a regional telecommunications player.

Ultimately we put our faith in our people. Human capital in the knowledge society is one of the key drivers of business. The stakes have been enormously raised. The basic requirement of an industry like ours is both technical and marketing know how. Our technical training effort is unremitting. Beyond the core competencies, however, there is today the need to master the

new and complex disciplines of a technology that is still developing, often at an accelerating pace. The parameters of the professionalism relating to our business have been greatly extended, including Marketing, Accounting & Finance and Risk Management that have become an integral part of our business strategy. Life in other words has become immeasurably complicated. Telekom Malaysia's empowerment programme based on performance measurement through KPIs for senior managers to top executives is not only strategic but also our way of enriching the lives of our own people. It is an ongoing process. Telekom Malaysia accepts the obligation to foster a culture of excellence in all we do and therefore to provide the individual with the means and the opportunity to excel.

The events on the world stage be it hostility, physical threat, or financial scandals have made us all the more conscious of moral issues. We hail the outright war on corruption the Government has declared, and pledge our support to the noble ideals it espouses.

Much is talked today about corporate governance and transparency as prime judgemental factors in evaluating a modern corporation. There is nothing new in this. Telekom Malaysia has practised these virtues from day one as can be seen from our high rating in corporate governance over the years. We have as a company always subscribed to the highest standards of integrity and have no difficulty in complying with the prescribed ethics of contemporary business.

Corporate citizenship also takes on an even greater significance. Telekom Malaysia last year continued to give back to society through our participation in numerous charitable, sporting, social and cultural activities. This is in line with the caring society we are striving for as one of the important goals of Vision 2020.

Special mention goes to our role in accelerating communications to the countryside and the less developed rural areas, always associated with Telekom Malaysia more than any other telecommunications provider. We have been proactive in these efforts in consonance with the priority currently accorded to this particular sector. When more development is brought to these otherwise unserved areas the existing telecommunications infrastructure will already be in place to facilitate it.

If 2003 was a year we consolidated not just our organisation but our identity we now have to address ourselves as to how we should be positioned in the evolving world of 2004. Here we find ourselves occupying a unique niche. Malaysia is increasingly recognised as a role model of moderate and progressive Islamic country. We like to think that we also exemplify the spirit of Islamic justice and brotherhood in this multiracial and multireligious society, demonstrating that modernisation and technology are not incompatible with Islam. Our own highly technological industry becomes a showcase in this regard.

I wish to thank fellow members of the Board of Directors, the Chief Executive, Management and staff of Telekom Malaysia for all the support they have given us. I also like to welcome "home" our colleagues in Celcom with the new partnership and the extended client base they have brought with them.

May we also congratulate our two former Directors, Y.B. Dato' Joseph Salang Gandum and Y.B. Dato' Ir. Haji Mohd Zin bin Mohamed who have been appointed Deputy Ministers in the new Government and resigned as Directors of the Company and the Group with effect from 1 April 2004. We wish to express our

gratitude and appreciation for their invaluable contributions during their tenure as Directors of Telekom Malaysia.

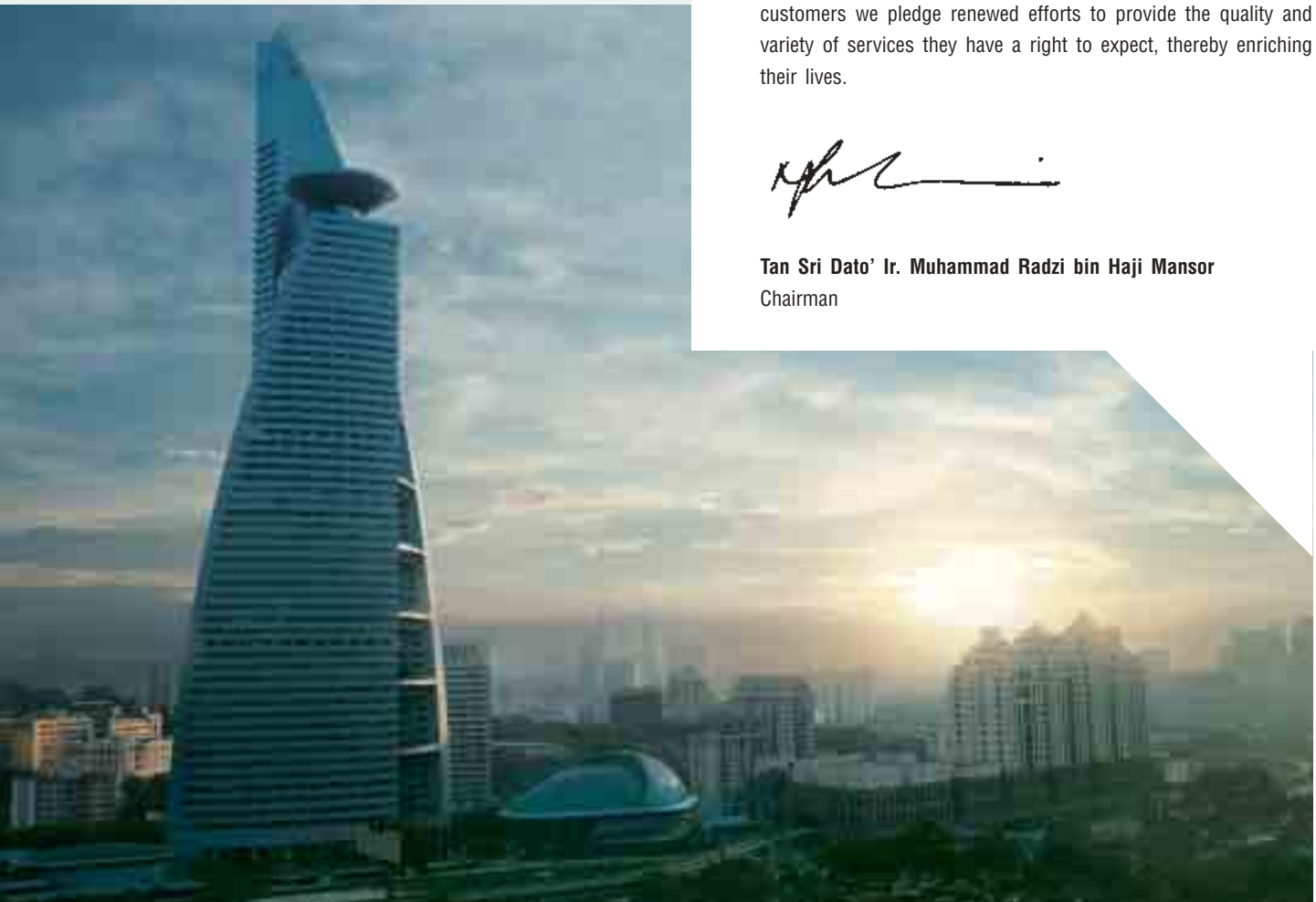
On behalf of the Telekom Malaysia Group, may I extend our best wishes to Y.Bhg. Datuk Amar Leo Moggie who has retired as our longest serving Minister. His first portfolio was the newly created Ministry of Energy, Telecommunications and Post in 1978. The next 27 years, except for the brief sabbatical in the Works Ministry, were devoted to our Ministry with full dedication to enriching lives and lifestyles. We benefit tremendously from his wise guidance to which we here pay tribute and thank him for all he did for us.

It is also timely for me on behalf of the Board of Directors, management and staff to bid a very warm welcome to Y.B. Dato' Seri Dr. Lim Keng Yaik, our new Minister for the renamed Ministry of Energy, Water and Communications and the Deputy Minister Y.B. Dato' Shaziman Abu Mansor. Telekom Malaysia stands committed to give our full support for the efforts to bring the industry to greater levels of service efficiency for the benefit of all consumers.

Finally we thank our shareholders and other stakeholders for their continued faith in us as well as the professional fraternity with whom we have had cordial relations over the year. To all our customers we pledge renewed efforts to provide the quality and variety of services they have a right to expect, thereby enriching their lives.



Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor
Chairman



CHIEF EXECUTIVE'S STATEMENT

TELEKOM MALAYSIA BERHAD
Annual Report 2003



Dato' Dr. Md Khir bin Abdul Rahman
Chief Executive

OPENING REMARKS

The past adversities of recent years should be put firmly behind us now and we are to look forward once again to a new era of growth and a brighter future. Telekom Malaysia is moving with vigour towards its transformation into a fully integrated communications company of choice for the new millennium. We are charting a new course together as a Group. The seeds of change, which were sown in 2000, continue to be nurtured and we are beginning to see signs of fruition in a number of key strategic areas such as in our cellular, broadband, data and Internet Protocol (IP) related businesses; of positive mindset change in our organisational culture and a fresh approach in our interaction with customers.

“The information age is opening up new possibilities for all of us, for our children and for the entire nation”

BILL GATES

Telekom Malaysia has undergone significant realignments in structures to better suit our future businesses such as the reorganisation into the five operating companies and the acquisition of Celcom (Malaysia) Berhad (Celcom). This is all a part of the change process and is necessary for the sustainability and creation of further shareholder value in the next era of growth. This year we will put in place the blueprint for TM Telco's transformation into TM Wholesale and TM Retail, in line with our strategic plan to consolidate our networks across the Group and doubling our efforts on customer relationship management.

This transformation goes beyond us as a Group, indeed the nation itself shows full commitment in moving towards a Knowledge Economy and Society. Telekom Malaysia is pleased to be able to continue to support Malaysia's Vision and in helping to create new possibilities for us and for the nation, with the main objective of enriching lives.



2003 GROUP PERFORMANCE

The ICT Environment is recovering...

Global/Regional

The outlook for the global economy in 2004 has improved significantly with more broad-based growth in major industrial countries; reinforced by strong growth in the Asian region. The industry is breathing a sigh of relief as strong signals of recovery are emerging especially in North America where U.S. telecom companies will boost capital spending for the first time since 2000.

This new period is being driven by the market pull for services that comes from a real convergence of information and communications technologies (ICT). ICT will continue to play a leading role in future development of global nations both socially and economically.

In recent years, we have seen the onslaught of various new technologies that have given rise to an array of new services, which are more network and cost efficient and have forced traditional business models to be reinvented. Non-traditional competitors, such as power utilities and niche players continue to emerge adding to the already fierce competitive landscape. Certainly, the defining element of new technologies has arguably been IP based networking but in broad terms, these products are creating increasing market demand:

- VOIP with increasingly quality of service will grow in consumer and business markets
- Enterprise managed services to deliver dynamic customized services on a wide scale
- Broadband initiatives to move value beyond access
- Wireless/wireline integration to address basic access issues and introduce more value-add in areas previously underserved
- In Asia particularly, mobile services will continue to surpass fixed in terms of lines and revenue growth.

The environment will undoubtedly become more complex as multiple vendors in an increasingly international operating environment will offer multiple services. This will have global regulatory impact as boundaries become less clear, thus affecting accountability for service performance and consumer rights to recourse. The challenges for an incumbent player are indeed formidable but tremendous opportunities abound too.

Malaysia

The significantly improved external environment will reinforce stronger domestic demand in Malaysia. Higher consumer and business confidence is expected to support the stronger momentum of growth in private consumption and investment while the public sector gradually consolidates. The combination of stronger domestic demand and rising exports resulted in a stronger-than-expected GDP growth of 5.2% for the whole of 2003. Further, the 6.4% GDP growth in the 4th quarter 2003 promises a strong economic outlook for 2004, which the government projects to grow by between 5.5% and 6%. This augurs well for the local telecommunications industry.

Improving economic conditions over the short-term will help to stimulate traffic volumes in voice and data, as business activity picks up and making consumers feel more confident in spending. Indeed 2004 should see further commitments in new growth areas especially mobile services, data services and broadband.



The future of the fixed-line industry, in Asia as anywhere else, depends upon carriers redefining their access markets. There is a need to move away from just voice connections to higher-bandwidth access, which can offer improved services and applications. This is an important part of not just finding new growth in this segment, but in differentiating the fixed offering from that of mobile.

The national agenda is still very much on “Bridging the Digital Divide” and it is also one of Telekom Malaysia’s priorities as a responsible corporate citizen. We echo this sentiment with this year’s annual report theme of “New Possibilities, Enriching Lives” which is very much a Telekom Malaysia agenda, as we strive to better Malaysian lives through new offerings in mobile, data, internet and even enhanced basic voice services via our wired and wireless access options.

It is against this more upbeat environmental backdrop that I am pleased to announce Telekom Malaysia’s 2003 performance and future prospects.

Performance Review

Telekom Malaysia is happy to report a strong 2003 financial performance despite the setbacks of recent times. We have seen good revenue and profit growth, with improving EBITDA margins and EPS. Capital expenditure has also stabilized at under RM2 billion.

For the financial year under review, the Group revenue increased by 20.0% (RM1,962.3 million), driven primarily by cellular segment, data and non telecommunication services. Significant increase in cellular revenue is mainly due to consolidation of Celcom, acquired during the second quarter 2003. Celcom also largely contributed to the growth in Group profit before taxation for the financial year under review, which increased by 18.3% (RM280.1 million).

Post-merger, Celcom was the first mobile network operator in the country to offer domestic roaming over its dual-band network. Currently, 4.3 million Celcom 019 and 013 customers are enjoying greater connectivity and domestic roaming at no extra cost. Celcom customers can also enjoy international roaming in 86 countries over 200 networks worldwide. At the network level, the sharing of infrastructure has increased Celcom’s capacity and capability to support a greater number of concurrent users at any given geographical location.



Our fixed line voice and data services charted moderate performance in the year 2003 with data experiencing a 12.6% growth despite a highly competitive market. Fixed line voice services remains the main revenue contributor providing stable cash flows with better collection and lower bad debts. Intensive product promotion and competitive pricing have also increased network utilization.

We have also seen better broadband performance, especially in high speed internet access, where revenue increased four-fold in the last year with aggressive broadband expansion – TMnet Streamyx subscribers increased by more than 5 times to over 111,000 customers.

In our international operations, we have also enjoyed better EBITDA and bottom line contribution. The average EBITDA margin achieved by overseas subsidiaries for 2003 was 48.7% with average PAT margin from overseas subsidiaries at 33.7%. This resulted in an aggregate profit contribution of 26% to Group PAT.

EPS for the year 2003 was 43.6 sen, a tremendous improvement over 2002 EPS of 26.8 sen. On the basis of the overall stronger 2003 financial performance of Telekom Malaysia Bhd, the Board is pleased to recommend a final dividend of 10.0 sen per share less tax at 28% and a special dividend of 10.0 sen per share less tax at 28% for the shareholders’ approval at the forthcoming Annual General Meeting of the Company.

Key Initiatives

The following key initiatives are a culmination of efforts since 2000, and part of the transformation roadmap of Telekom Malaysia towards becoming the Communications Company of Choice whilst simultaneously supporting Malaysia towards Vision 2020.

In the mobile space, the merger of TM Cellular and Celcom has propelled the new Celcom to the forefront of the Malaysian mobile communications industry in terms of network coverage, capacity and customer base. The integration exercise has been implemented in stages and is expected to be completed by end 2004. It is aimed at presenting a single integrated view and experience to customers, repositioning market offerings and consolidating the new brand position.

Groundwork is still being laid for general deployment and marketing of 3G services at the end of 2004 and early 2005. However, we will monitor 3G developments in the region very closely together with other operators and market analysts whom are not expecting rapid adoption before 2006. Thus, the focus will be on delivering 3G-like services on current networks whilst migration works from 2G to 2.5G and beyond are progressing.



TM Net will expand its applications, contents and services. In addition to being a content aggregator for online and cellular, TM Net will continue to increase high speed internet availability and introduce other services such as multimedia messaging services (MMS), video-on demand (VOD), interactive video streaming and other value added services; be it for consumer or the businesses.

Throughout 2003, TM Telco has been putting itself more closely in touch with the needs of its customers by reviewing product lines and bundling strategies. Some of these exciting new products for fixed line services include TMHome Prepaid, Fixed SMS and Ria Residen, Business Plus and SMI/SME Packages. In

Data Services, we continue to introduce state-of-the-art technology such as VSAT, MyLoca Disaster Recovery Call Centre and enhanced COINS to meet the changing needs of our customers. We have also established TM Representative Offices (TMRO) in the UK, US, Hong Kong, Singapore and India to capture a share of the data markets abroad.

TM is committed to its objective of turning Malaysia into a regional telecommunications hub by continuously developing and expanding its hubbing business. The company plans to introduce a Next Generation Network (NGN), the implementation of which will involve migration towards packet-based data networks. The IP-based NGN is capable of handling data, voice and video communications simultaneously and can also offer flexible value-added services.

Telekom Malaysia has always taken great pride in our contributions to national development towards a Knowledge Economy. Our latest initiative in this arena is in leading the SchoolNet project, which provides broadband connection to all schools in Malaysia. This is a government project handled by GITN Sdn Bhd a wholly-owned subsidiary of Telekom Malaysia, where about 10,000 schools will be provided with broadband Internet Access, part of which will be connected with DSL (Digital Subscriber Line) using the COINS x-link.

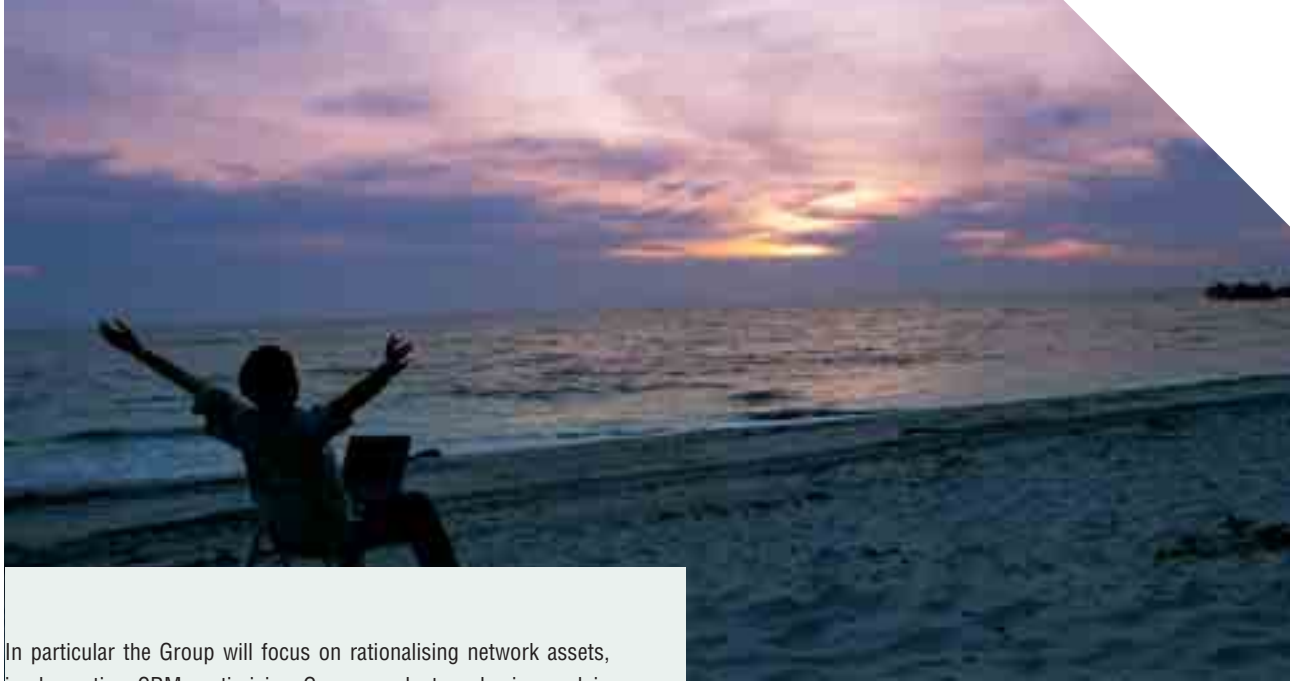
Be it via our training and human resource development programs, or our educational and academic endeavours such as the Multimedia University, Telekom Training Colleges, TM Research and Development, the Smart School and SchoolNet projects as well as our Scholarship Foundation; we hope to help prepare Malaysia and ourselves for a better future.

PROSPECTS

The continuing increase in demand for mobile services, wireless access, bandwidth and data services will drive stronger revenue growth for the year. The Group is optimistic that this growth momentum will be further complemented by benefits derived from the completion of Celcom/TM Cellular integration later in the year. Meanwhile, the Group will continuously intensify efforts to achieve improved cost and operational efficiency.

Telekom Malaysia's strategic direction for 2004 centres around these 5 pillars:

- Stakeholder value creation
- Leadership in key customer segments
- Solutions valued by customers
- Improved quality and customer service
- Optimal operating cost structure



In particular the Group will focus on rationalising network assets, implementing CRM, optimising Group product packaging and in improving our procurement process whilst continuing to uphold best practice Corporate Governance. TM Telco will concentrate on defending voice revenues and growing the SME data markets. Celcom will place great emphasis on increasing quality, subscribers and ARPU as well as mobile data revenues. TM Net will continue to sustain the quality of service to our narrow band customer base whilst expanding our broadband efforts. TM International will continue to look for investment opportunities in Asian emerging market.

One of the initiatives that will radically change the way Telekom Malaysia operates in face of global challenges is our strategic attention to Wholesale Business. The impending split of the current TM Telco into two effective operating units; TM Wholesale and TM Retail will be implemented to allow more focus on each respective core businesses and customers, where Wholesale will concentrate on infrastructure service offerings to its customers, and Retail will concentrate in selling end user services without having to maintain the vast networks. This approach will impose a greater responsibility and accountability in ensuring the best of service offerings to customers, which eventually will be reflected via their separate profit and loss accounts.

Significant benefits from this strategic move are in terms of improved customer focus, cost efficiency, increase in revenue, growth in product offerings, improved asset utilization, widening of business opportunity, first mover advantage as well as in addressing the regulator's agenda.

CLOSING REMARKS

*"The greatest visionaries see things others don't
– new routes to success,
new ways of enriching lives, new possibilities of what can be"
(Leslie Kossoff, author of "Executive Thinking":
The Dream, The Vision, The Mission Achieved)*

We at Telekom Malaysia have set a vision for ourselves; and in doing so are firmly committed to making it a reality. The transformation roadmap towards that vision is a progressive workplan of firm actions designed to produce results. Execution and implementation will be critical but we must be flexible enough to face whatever challenges that lie ahead. 2003 has been a good year with which to launch us forward and upward. There will always be new possibilities for Telekom Malaysia.

With that, I would like to express my gratitude to the management and staff of the Group for their hard work in 2003 and to offer continual encouragement for their ongoing efforts in Telekom Malaysia. On behalf of the group, let me also thank the Board of Directors and our shareholders for their invaluable support and guidance through all of our endeavours.

Let us move forward together to build new possibilities and enrich lives.

Dato' Dr. Md Khir Abdul Rahman
Chief Executive