



Hello

Fixed Line Services



068

OPERATIONS REVIEW

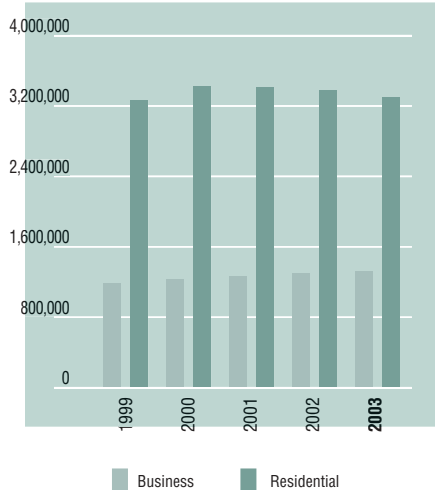
TELEKOM MALAYSIA BERHAD
Annual Report 2003

DATO' DR. IDRIS IBRAHIM
CHIEF OPERATING OFFICER
TM TELCO

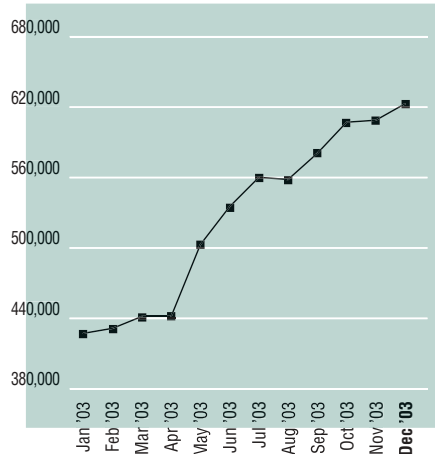
PERFORMANCE

TM TELCO, WHICH MANAGES AND OPERATES TELEKOM MALAYSIA'S FIXED LINE TELEPHONY AND DATA-BASED PRODUCTS AND SERVICES, CHARTED MODERATE PERFORMANCE IN THE YEAR 2003. THE COMPANY REGISTERED A REDUCTION IN REVENUE OF 0.4%, VALUED AT RM7,943.7 MILLION. PROFIT BEFORE INTEREST AND TAX, DROPPED BY 15.8% TO RM1,749 MILLION ATTRIBUTED TO HIGHER TOTAL COSTS AND DEPRECIATION. THE HIGHER COST OF INTERNATIONAL OUT-PAYMENTS AS WELL AS CHANGES AFFECTING DOMESTIC INTERCONNECT CHARGES HAD CONTRIBUTED TO THE TOTAL COSTS INCREASE. THE EBITDA MARGIN STOOD AT 53.3%, WHILE EBITDA INCREASED BY RM24.4 MILLION FROM THE PREVIOUS YEAR.

DEL Cumulative shows a downward trend due to reduced intake from the residential sector



64kbps-Equivalent Leased Circuit Cumulative shows an upward trend



The data business registered a positive increase with 203,418 64kbps-equivalent circuits sold compared to only 99,210 in 2002. Despite price reductions in the highly competitive market, data revenue experienced a remarkable 12.6% growth.

Revenue from the traditional Voice Sector decreased by 0.5%, as a result of lower revenue from international operations. Nevertheless, voice minutes, especially in long distance calls grew from an average of 720 million in the first quarter of 2003 to 760 million in the last quarter of the year.

Non-payment of bills and the migration to mobile reduced the number of telephones sold by 61,638 lines. As at end December 2003, TM TelCo had 4,531,662 registered telephone accounts.

Service quality has improved, with KTT (Fault per 1000 telephones per year) measuring 0.22 compared to 0.25 in 2002. Above all, TM TelCo achieved the industry Mandatory Quality of Service level as set by the Malaysian Communications and Multimedia Commission (MCMC). The improved quality of service and TM TelCo's commitment to maintaining quality customers had further contributed to a reduction in telephony bad debts over sales of 2.75% from 2.96% in 2002.

Overall, TM TelCo's Customer Satisfaction Index (CSI) has been positive. The MCMC Wave 5 Study for Fixed Lines gave TM TelCo's individual customers segment a 7.93 ranking and the commercial segment 7.57, both rankings being above the industry standard. Improvements in the installation process, network quality and ease of making and receiving calls were key to the improved customer satisfaction index.

The future of telecommunications is shaped by the convergence of voice and data. Customers are demanding cheaper but more reliable products. While the voice business is expected to grow at 2.2% per year, the data business is envisaged to register a double growth rate. Realising this trend over the last five years, TM TelCo has been repositioning its

business towards data. Moving forward, TM TelCo is planning a more advanced network configuration to support the various aspects of future customer demand.

OPERATIONS

NEW PRODUCTS INTRODUCED IN 2003

Enhanced Voice Products

To retain customers and stimulate Direct Exchange Line (DEL) usage and sales, several new products were introduced in 2003, including:

TM Home Prepaid: targeted at low-income customers. Rental is free and calls are made through the Ring Ring card. As at end December 2003, there were 24,168 customers and the number is growing.

Fixed SMS: launched in November 2003, it provides the popular mobile SMS to fixed line customers using the PSTN network.

Three promotional packages that provided attractive discounts and bundled competitive products were also introduced.

Ria Residen Package and Package Business Plus: these offer simple solutions for services such as DEL, enhanced facilities, CLIP (Caller Line Identifier) and fixed SMS.

Package SMI/SME: offers more extensive solutions for the small/medium business community in the form of basic services and up-market products such as tmnet streamyx and tmnet prepaid cards.

EzeePhone: offers a prepaid service to public dwellings such as hostels and apartments.

Value-Added Data Products

The following data products in step with the fast moving technology were introduced to meet the changing needs of customers.



VSAT (Very Small Aperture Terminal) DialNet Multi

User: launched in October 2003, this enhanced VSAT service uses a satellite network and is fully compatible with multiple communication protocols. Along with TM Net access, the price is expected to become extremely competitive, especially in comparison with the current VSAT price.

MYLOCA (Telekom Malaysia's total Data hosting and Recovery Solution) Disaster Recovery Call

Centre (DRCC): launched on 5 March 2003 in Cyberjaya, the centre offers total business continuity and recovery solutions. The first company to subscribe to this service was American Express, Malaysia.

COINS x-link single user and COINS x-link multi-

users: launched in January and April 2003 respectively, these services allow for more value added services that can be tailor-made to suit customers' requirements.

The following Special Projects were introduced in 2003 to meet specific business objectives.

i. SchoolNet

The SchoolNet project provides broadband connection to 10,000 schools in Malaysia. It is a government project handled by GITN Sdn. Bhd., a wholly-owned subsidiary of Telekom Malaysia. The schools will be connected with broadband Internet access.

ii. Telekom Malaysia Representative Office (TMRO)

Telekom Malaysia's Global ATM/Frame Relay/IPVPN nodes were established in the UK, US, Hong Kong and Singapore. IPLC cost and pricing development guidelines for each TMRO (except Singapore) was handed over to the respective office heads to allow for flexibility in sales and marketing in the individual TMROs.

iii. Project 100+ Initiative

A commercial alliance with strategic partners is being formed to plan and identify new services and market segments that would enable Telekom Malaysia to generate at least RM100 million over the next two years.

iv. Data Customer Service

Customer Services Management (CSM) was formed to oversee Data after-sales service. The key objective of CSM is to establish a dedicated and professional One Stop Data Customer Service Management Centre to provide total customer satisfaction.

v. Product Revenue Assurance

Over RM122 million in new revenue was realised as a result of improvements in the billing process and integrity of customer data. Agreements were also scrutinised to ensure accuracy and completeness, as part of the product revenue assurance focus.

Customer Network Operation (CNO) Outsourcing

The main objective of CNO outsourcing is to improve the quality and productivity of service delivery and maintenance of the current telephony and broadband circuits. CNO has a total of 595 contractors, of whom 318 are telephony contractors, 150 broadband contractors and 127 contractors focusing on maintenance on access network.



With this programme, CNO telephony service delivery achieved the national target of meeting all customer appointments set by Telekom Malaysia. For maintenance on access network, CNO achieved a reduced fault rate of 0.05 (*Data*) and 0.15 (*Telephony*).

e-CNO: Electronic Customer Network Operation

e-CNO is an effective solution for nationwide management and enhancement of information systems used by CNO personnel. Currently used systems include the Order Management System (OMS), Restoration Management System (RMS), Maintenance Management System (MMS), Workforce Management System (WFMS), Finance Management System, Project Management System, Inventory Management System and Alarm Management System.

Organisational Learning And Growth

TM TelCo has, since 2001, adopted the use of key performance indicators to drive its business. A balanced scorecard (BSC) approach was introduced in the middle of 2003 to enhance the business planning and development process. BSC focuses on four areas in its appraisal: Finance, Customers, Operations and Learning and Growth. A strategy map was developed to cater for the next three years' planning and, from that, objectives, measures and key initiatives were aligned to TM TelCo's overall strategic direction.

Staff Leadership & New Skills

The human resource department strives to provide excellent service to TM TelCo's employees as well as its customers. It is committed to developing leadership skills among staff and retaining them by providing personal, technical and professional learning opportunities. New skills have been identified to propel TM TelCo into the world of data, apart from traditional voice technologies.

HR Business Strategy for 2004 And Beyond

Communication has played a key role in ensuring effectiveness of HR practices, particularly in giving the HR department the perceived image as being "fair" in tackling internal equity. The department plans to increase and improve its communication to staff on policies, benefits and rewards.

PROSPECTS

Advanced Future Infrastructure

1. International Market

Telekom Malaysia's mostly fibre optics-based international network currently has the capability to provide high capacity and quality global connections for Internet and other broadband services. The C7 links established with most countries provide a fast and quality call set-up.

Telekom Malaysia has also introduced VSAT services for both domestic and international private network applications, international gateway projects bridging the digital divide in rural and remote areas. Telekom Malaysia has, since July 2003, served 10 sites in Julau, Sarawak, and another 10 sites in Kinabatangan, Sabah.

With the SAT-3/WASC/SAFE (South Atlantic/West Atlantic Submarine Cable/South Asia Far East Cable) upgrade fully completed on 11 June 2003, Telekom Malaysia has become the sole landing country in the Far East providing direct connectivity via fibre optics to reach new destinations in the African continent at a cheaper cost per circuit. It also provides Telekom Malaysia with a route to Europe.

Two new international submarine cable systems are being planned to connect at the Submarine Cable Station (SKDL) in Melaka, namely the 320 Gbps DMCS (Dumai-Melaka Cable System) and the 1.28 Terrabits (Tbps) SEA-ME-WE4 (South East Asia – Middle East – West Europe Cable System). The DMCS is being jointly developed by Telekom Malaysia and PT Telkom of Indonesia to connect Melaka with Dumai,



Indonesia. Estimated to cost USD15 million (RM57 million), it is expected to be operational in September 2004.

The SEA-ME-WE4 project, meanwhile, will use Dense Wavelength Division Multiplexing technology, and is estimated to cost USD730 million (RM2,774 million). It should be operational by June 2005.

2. Local Market

a. Hyperband Leased Line

Hyperband Leased Line is a Gigabit optical networking solution offering high-speed connectivity up to 2.5Gbps for customers who need real-time applications such as Storage Area Network (SAN), Disaster Recovery service and imaging applications. It will be made available in 2004.

b. Digital Leased Line

This is a key product including Digitaline II and Broadband Leased Line. It is expected to contribute to the high growth of leased services in 2004, and will be made available to retailers in the form of wholesale services.

c. Broadband Fixed Wireless Access

BFWA (Broadband Fixed Wireless Access) is a wireless point to multipoint communication system. Telekom Malaysia has been granted licenses in the 3.5GHz and 10.5Ghz bands. The system is used to provide two-way high speed data services. Wireless Leased Line and Wholesale Wireless Leased Line will be introduced in year 2004 to complement DSL, Digitaline I (DG) and Digitaline II (DQ).

d. CDMA

The objective of the Code Division Multiple Access (CDMA) project is to provide Fixed Wireless Access (FWA) services to cater for rural, suburban and urban subscribers. Services offered are Fixed Wireless Voice and Fixed Wireless Data Applications.

Infrastructure with 1X upgrading and peak data speeds of 144kbs has been installed and completed for all core network elements (MSC and BCS). For Base Transmission Station (BTS), a total of 37 sites have been installed with 1X protocol, upgraded from IS-95B.

e. ADSL

In order to support Telekom Malaysia and the Malaysian broadband strategy, an Asymmetrical Digital Subscriber Line (ADSL) has been rolled out throughout the country. It is estimated that 2.5 million ADSL users will be connected by 2008.

f. Digitaline II

Digitaline II is a service that provides narrowband and broadband leased circuits and access circuits for other service providers including COINS, BT Concert, Infonet, TM Net and others.

Gearing Technology And Networks Towards Data Business

TM TelCo 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), which involves migrating towards packet-based networks. NGN is capable of handling data, voice and video communications simultaneously and can also offer flexible value-added services.

1. Next Generation Network (NGN)

NGN will be implemented to face future challenges and, in so doing, fulfil customer and business requirements. This network will be developed on IP-based switching systems. The implementation of NGN will be driven primarily by economic and technology factors. A "live" technical trial was conducted with four vendors from February to June 2003, during which some technical capabilities were tested and verified. A commercial trial is expected to be held in May 2004.



2. **Multiservice Access Node (MSAN)**

MSAN is a technology migration for CAN (Customer Access Network) equipment to provide narrowband and broadband services from a single integrated access node. Currently, narrowband services are provided by DLC (Digital Line Concentrator), broadband services via RDSLAM/DSLAM (Remote Digital Subscriber Line Access Multiplexer/Digital Subscriber Line Multiplexer), and MLCN (Managed Leased Circuit Network) services are provided by DDN (Digital Data Network) equipment.

MSAN is the next generation DLC to provide ATM and IP services. It will also be used to replace existing local switches. The MSAN system is currently being tested and is expected to roll out by mid-2004.

3. **IP VPN (Internet Protocol Virtual Private Network)**

IP VPN, being the technology for the future, is being planned to cater for the SMI/SME market segment. The infrastructure is expected to be ready by the second half of 2004. Five main key initiatives to grow IP VPN services have been outlined for year 2004, namely:

- Classes of IP VPN services with end-to-end SLA (Service Level agreement)
- IP delivery model for SMEs
- Product bundling packages, eg IP VPN & hosting services
- Introduction of Metro Ethernet
- International roaming as new value added services to IP VPN

4. **Technology Testing/Trials**

In line with Telekom Malaysia's objective of migrating towards next generation telecommunications and becoming a low-cost infrastructure provider, continuous research is



being conducted to enable the provisioning of a robust platform of high-valued products and services with Internet capabilities and web-based technology. TM TelCo is also looking into the bundling of value added fixed, data and mobile networks.



We're pioneering cellular technologies to surround your world
with the rich experience of multimedia.



UMTS

GPRS

SMS

GSM

MMS

Cellular



078

OPERATIONS REVIEW

TELEKOM MALAYSIA BERHAD
Annual Report 2003

DATO' RAMLI ABBAS
CHIEF EXECUTIVE OFFICER
CELCOM (MALAYSIA) BERHAD

PERFORMANCE

ON 17 APRIL 2003, CELCOM (MALAYSIA) BERHAD (CELCOM) BECAME A SUBSIDIARY OF TELEKOM MALAYSIA WHEN THE FORMER TOOK OVER OWNERSHIP OF TM CELLULAR SDN. BHD. THE MERGER PROPELLED CELCOM TO THE FOREFRONT OF THE MOBILE COMMUNICATIONS INDUSTRY IN TERMS OF NETWORK COVERAGE, CAPACITY AND CUSTOMER BASE. THE INTEGRATION EXERCISE IS IMPLEMENTED IN STAGES AND 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.

Financially, for the first time in five years, Celcom made profits before and after tax with revenue, EBITDA and the EBITDA margin increasing to a record high of RM3.6 billion, RM1.5 billion and 42% respectively.

Revenue for the year grew by 51% from RM2.4 billion the previous year, due primarily to growth in prepaid customers from 1.2 million pre-merger to 3.2 million at the end of 2003. Although revenue from postpaid remained fairly stagnant, Celcom expects to see 10-15% growth in the coming years from new packages introduced. Revenue growth came primarily from mobile data solutions, which more than doubled during the year. The launch of its Multimedia Messaging Service (MMS) attracted 18,000 subscribers initially and the number is expected to be more than double in 2004. This trend is expected to continue in the year ahead with data and mobile solutions targeted to contribute approximately 15% to Celcom Group's total revenue.

In the post-merger period, Celcom has focused on cost containment efforts such as streamlining dealers' incentives, rationalising advertising and brand promotion exercises, diversion of TM Cellular's traffic via the Celcom backbone and infrastructure, sharing of network sites, negotiation with foreign carriers for bulk discounts as well as revisiting and streamlining all product pricing and packages. These efforts have resulted in an approximate savings of RM151 million in the 2003 Group's operating costs.

Hence at the operational level, the Group managed to increase its EBITDA margin from a low of 32% (at acquisition) back to its original pre-merger level of 43% in December 2003. On the whole, the cost containment measures have managed to reduce the Group's operating cost, as a percentage of revenue from an average of 76% in 2002 to 58% in 2003.

In view of the integration, the Group incurred a capital expenditure of RM365 million during the year, a savings of approximately RM484 million as compared to the initial combined budget had the two companies not merged. In 2004, the Group's capital expenditure, including that for integration purposes, is expected to be not more than RM590 million. When fully integrated, Celcom is expected to reap further synergistic benefits from the merger.

During the year, for the first time ever, the earnings per share of the Celcom Group touched double digits of 13 sen as compared to 1.66 sen in 2002.





OPERATIONS

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 101 countries over 232 networks worldwide. The sharing of network infrastructure has increased Celcom's capacity and capability to support a greater number of concurrent users at any given geographical location.

In November 2003, Celcom completed the first phase of its dual-band network integration in Kelantan and Perlis, a precursor to a fully integrated network. Upon completion of this exercise in October 2004, Celcom is expected to achieve total national coverage which, coupled with further improvements to its network capacity and quality, will make it the leading cellular service provider in the country.

Year 2003 also saw a visual identity change when the Company launched its new unified logo in October. The revitalised logo reflects a symbiosis of both tradition and the corporation's new direction. The bird in full flight symbolises the timeless spirit of freedom and aspiration. The new brand promise is about constantly delighting customers and exceeding their expectations. The tagline *It's In Your Hands* is about empowering customers with endless choice and possibilities to enhance their lifestyles. To build and enhance the Company's brand equity, several brand sponsorships under the banner of Celcom In-Play and In-Showbiz were introduced to communicate the compelling reasons that make Celcom a preferred brand.

In view of the maturing mobile industry in Malaysia, Celcom is placing emphasis on enhancing the quality of its customer service and the revenue derived from it. Aimed at matching the needs and aspirations of its customers, Celcom introduced a new range of consolidated postpaid plans, *EZY, CHAT, BIZ, SALAM, IMPERIAL* and *AURUM*, which are carefully segmented to specific target markets and more competitively positioned.

At the same time, Celcom's customised prepaid packs of *Xcel, Xceed* and *Xplore* were further enhanced with improved international roaming experience to Indonesia, Singapore, Thailand, the Philippines, Hong Kong, Brunei, Taiwan, Australia, the Netherlands, Cambodia and Vietnam. Better customer loyalty programmes were also introduced, such as airtime bonuses and free bonus SMS.

In keeping with the growth of the mobile data business, Celcom launched its MMS via the General Packet Radio Services (GPRS) platform in August 2003 which attracted an initial registration of 18,000 customers. Offering more than just a broadening of message content, MMS is a logical extension of SMS and is set to enhance the possibilities of mobile data solutions for customers.



During the year, Celcom introduced a series of new value-added SMS services through several strategic partnerships, such as Celcom Bernama News on Demand, Al-Jazeera News Services, a Prepaid Recharge facility via AmBank and the KRU Celebrity Portal. SMS traffic showed a significant increase of 35% in the year ended 2003, in tandem with growth in mobile data revenue.

The year was also significant in that Celcom scored the highest among telcos in a Customer Satisfaction Survey commissioned by the Malaysian Communications and Multimedia Commission. Celcom's Jalan Ampang Branch was also awarded the *Anugerah Kualiti Y.B. Menteri Tenaga, Komunikasi dan Multimedia* for providing the best customer service in 2003.

PROSPECTS

In the year ahead, Celcom will continue to focus on the following key areas:

- i) Building a strong brand and powerful market position from which to expand domestic and international access, hence achieve economies of scale, boost revenue and compete effectively in its chosen markets.
- ii) Deploying a stronger and more focused marketing and sales strategy to promote its full range of products and services.
- iii) Instilling total dedication to customer care and service at all customer touch points.
- iv) Empowering its employees and developing a spirit of shared values that will ultimately create a culture of excellence.

In addition, to further support the mobile solutions business strategy, future development will concentrate on enhancing the mobile network via GPRS and on preparing for the impending 3G services.

Celcom's long-term strategy is to expand its business beyond mobile voice communications into new market segments to access additional revenue streams. It will continue to introduce innovative and pragmatic mobile data services and solutions to keep people connected anywhere, anytime.

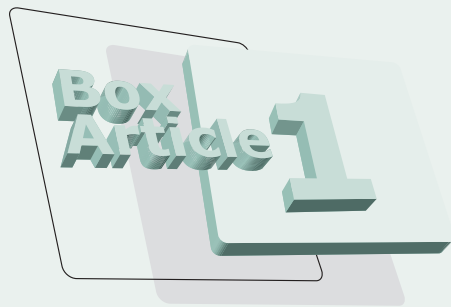


Celcom's new logo was launched amidst much fanfare marking the dawn of a new era.

THE EVER-EVOLVING WIRELESS WORLD

Over the past decade, if there were but one buzzword in technological advancement, it would be “wireless world”. People no longer limit their communication needs to fixed line telephones or Internet access. The need for mobility has increased research and development activities towards wireless technology and innovations.

As the mobile revolution continues to reshape the landscape of technology, mobile solutions are becoming increasingly important in everyone’s day-to-day routine, changing the way we live, work and play. The world is realising the importance of such tools in conducting business or just to communicate with a friend, for the ease and convenience that they offer.



Mobility Solutions

TELEKOM MALAYSIA BERHAD
Annual Report 2003

While the mobile industry is expanding worldwide, its growth is fastest in Asia, where the rapidly increasing number of mobile converts is expected to spur mobile technology and solutions to greater heights in the coming years.

According to findings from IDC’s Asia/Pacific Wireless Enterprise User Survey 2003, wireless technology will contribute significantly to a renewal in IT spending in 2004, and will present excellent opportunities for providers of enterprise solutions, telecommunications services and personal wireless devices.

WHERE IT BEGAN

In early 1990s, second-generation (2G) mobile systems were introduced around the world to ensure global interoperability. Since then, 2G has developed to provide consumers with roaming capabilities, enhanced non-voice services such as Short Message Service (SMS) and better quality voice services. However, with increasing demand to be able to do more with the phone than just make a call or send an SMS, a new generation of mobile systems – 2.5G (better known as General Packet Radio Service,

or GPRS) – was born. This meant higher data rates as well as an increase in mobile consumers globally.

Leveraging on the 2G-network system, 2.5G has taken a step forward in creating the right ecosystem for mobile data services for the upcoming third-generation mobile system (3G), which promises to satisfy consumers’ hunger for ever higher speeds of Internet access, richer multimedia content and services, and enhanced capabilities to further improve their lifestyle and quality of life.

Taking this step into the wireless world, however, necessitates the deployment of infrastructure such as WCDMA and CDMA2000 and an integration of world standards, so that mobile consumers will indeed be able to communicate anywhere and anytime, using any mobile device.

WHY THE HYPE FOR WIRELESS?

Consumers, having adopted mobile solutions as part of their daily routine over the past few years, are beginning to experience the many advantages that mobile solutions bring to their lives. At the end of 2002, there were more than 400 million mobile subscribers in Asia alone, representing an annual growth rate in subscription of more than 50%.

There is much potential for growth. However, it takes time to implement wireless solutions and for them to attract consumers' attention to become "the latest phenomenon". Also, as the mobile revolution continues to unfold, much needs to be done and many systems need to be implemented before 3G will be commonplace.

In the meantime, today's market already offers mobile consumers an array of mobile devices, and a host of playgrounds to deploy various applications and contents. Mobile telecommunication service providers are continuously looking for ways to fully leverage on these platforms, while considering both new network infrastructure and new partnerships with vendors or suppliers to design specific products.

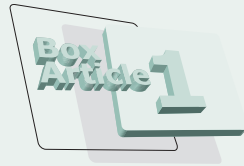
In Malaysia, the trend for mobile solutions, including hand phones and wireless LAN hotspots, has been on the upswing, following the rest of Asia and indeed the world. Demand for wireless handsets is still growing very rapidly in terms of both hand phone replacement sales and new subscriptions within mobile telecommunications service providers. At the same time, more and more wireless applications are entering the market to further enhance the end user experience, especially in non-voice services.

The one segment in this industry that has seen tremendous growth over the past year, and is set to take the cellular business to the next level, is mobile data, which is gaining more popularity than even voice. Text messages, better known as the Short Message Service (SMS), is probably the biggest phenomenon of our wireless application era since voice. What started in the late 1990s as a minor value-added application to mobile services grew beyond everyone's expectations into a craze that has continued into the new millennium.

According to industry reports, in Malaysia alone, a total of 3.6059 billion SMSs were sent in 2002; while in just the first quarter of 2003, the number had reached a high of 1.433 billion.

Indeed, SMS has become an "accidental success", one that took nearly everyone in the mobile industry by surprise and paved the way for cellular operators across the globe to further push non-voice technology to consumers. For the consumer, it was just what they needed – technology to communicate seamlessly. In other words, SMS represented a win-win situation.

Mobile service operators and consumers alike attribute the popularity of SMS to its simplicity, ease and convenience. Mobile service operators are taking the opportunity to offer customers exciting platters of SMS or text services that cater to everyone, from casual mobile users to serious business professionals.



Mobility Solutions

Celcom (Malaysia) Berhad is no exception. Upon integration with TM Cellular Sdn. Bhd. on 17 April 2003, Celcom introduced many firsts within Malaysia, setting milestones in SMS offerings such as the Al-Jazeera Package, Bernama News On Demand service and Mobile Karaoke. Through these offerings Celcom, has been able to capture a wide range of customers with diverse lifestyles, from those within the corporate world to those who just enjoyed singing.

And this is just the beginning. Celcom has plans to introduce many more exciting services that will enable consumers to conduct various transactions over their mobiles, such as buying canned drinks via SMS or even confirming if they are on the Jabatan Pengangkutan Jalan's (JPJ) blacklist.

Creating further personalised products and services, consumers will also soon be able to download images to send to friends or to display on the phone, as well as download ringtones, picture greetings and animations to add pizzazz to their messages.

Business professionals, meanwhile, can use their mobiles to receive SMS alerts on stock prices; and corporations may use it as an additional platform to conduct marketing promotions. The list of possible SMS usage is endless.

THE NEXT IN LINE

Expected to take centre stage as the evolutionary next step from the SMS is Multimedia Message Service (MMS), which is slated to be the next generation of messaging service. In order to be realised, however, MMS requires GPRS bandwidth and will be available only to those mobile users who have GPRS and MMS-enabled phones.

IDC forecasts that MMS users in the Asia Pacific region will grow by over 50% in 2004. Following the history and success of SMS, however, it has been forecasted that MMS will take another two years before it gains full mass appeal. Among some of the challenges to its mass adoption, which apply equally to other trend-setting wireless solutions, are global interoperability, roaming obstacles and the adoption of MMS-enabled handsets, i.e. camera-enabled mobile phones.

HOW DIFFERENT IS MMS FROM SMS?

MMS, as its name suggests, allows for content-rich messages comprising a combination of text, sounds, images and video to be sent to MMS-enabled mobile phones. Just like the traditional short message service (SMS), multimedia messaging (sometimes also called picture messaging) provides automatic and immediate delivery of personal messages.

Where MMS differs significantly from SMS is in its connectivity – with MMS, it is possible not only to send your multimedia messages from one phone to another, but also from phone to e-mail and vice versa. This revolution has bridged the wireless communication gap, bringing a majority of devices together. In turn, it will result in a dramatic increase in mobile communication possibilities, both for private and corporate use, especially for those on the go.

Multimedia messaging reshapes the landscape of mobile communications, making it more personal, more versatile and more expressive than ever before. It can, for example, send a photo or picture postcard annotated with text and/or an audio clip, a synchronised playback of audio, text, photo or, in the near future, a video emulating a free-running presentation or a video clip.

A mobile phone that supports MMS is an amazingly versatile device. The ability to take, edit and send images empowers mobile phone users in all areas of life, by enhancing personal connectivity and efficiency.

In the workplace, it will be used as a powerful tool for both conveying and responding to ideas and, coupled with Internet capabilities, serve as a virtual meeting room.

Although MMS encompasses a wide range of content types, it is a logical extension of SMS, making it easily adoptable by today's generation of mobile users. Another advantage of MMS is that the message is a multimedia presentation in a single entry, not a text file with attachments, making it much simpler and user-friendly. For example, photos taken on MMS camera phones can be sent instantly to a web album on the Internet to be shared by family and friends.

Like SMS, MMS is an open industry standard and MMS messages can be delivered using existing networks and protocols. The MMS standard supports various multimedia formats such as JPEG, GIF, text and AMR voice.

KNOCKING AT THE DOOR

Mobility solutions are already at our doorstep, knocking at the door for attention of the mobile community. SMS and MMS offer a whole new world of services for consumers and mobile network operators alike. However, these are just two of a larger base of services offered by powerful wireless solutions that include Wi-Fi, Bluetooth, GPRS and 3G which will further bridge the gap between the wired and wireless world.

The whole nature of a handheld, mobile phone or a PDA with wireless voice and data services is becoming more akin to a personal communication device, rather than just a phone or personal organiser. At the same time, people are changing the way they communicate from using predominantly audio cues to using visual cues in the form of pictures and even videos. Phones have been transformed into complex and sophisticated mobile devices with integrated and built-in cameras, PDA, MP3 players and video players, all in one. Coupled with the current GPRS, they can reach any Internet content anytime and anywhere they like.

The power and freedom of complete communication is now at mobile consumers' fingertips, giving them the freedom to choose and live life to the fullest.



Bottom lines

Meetings

Stocks

Clients

Deadlines

Multimedia Services



088

OPERATIONS REVIEW

TELEKOM MALAYSIA BERHAD
Annual Report 2003

DATO' BAHARUM SALLEH
CHIEF EXECUTIVE OFFICER
TM NET SDN. BHD.

PERFORMANCE

2003 WAS A CHALLENGING YEAR FOR TM NET SDN. BHD. (TM NET), ON THE BACK OF ITS STELLAR PERFORMANCE IN 2002, WHEN IT OUTPERFORMED ALL EXPECTATIONS BY CHALKING UP PROFITS WITHIN JUST SIX MONTHS OF OPERATIONS. NEVERTHELESS, TM NET CONTINUED TO CHART ITS GROWTH IN 2003. THANKS TO THE BROADBAND SERVICE, TM NET HAD RAKED IN RM290 MILLION, IN TOTAL REVENUE FOR 2003.

TM Net's other areas of business also registered growth. The applications, content and prepaid sectors grew by 99%, 405% and 133% respectively. This augurs well for the coming year in terms of broadening TM Net's sources of revenue.

In 2003, TM Net's subscriber base stood at 2.2 million. Of this, 1.7 million were from access services, while application and content services accounted for 9,158 and 480,290 subscribers respectively. Subscribers enjoyed the privilege of accessing some 303,817 contents via 20 channels on www.bluehyppo.com and the variety of applications introduced in 2003 such as e-Surveillance, e-Supplychain and e-Voice.

In 2003, with operating costs contained at RM288 million, the Company had registered a profit after tax of RM7.7 million (profit before tax of RM7.4 million) out of which RM5.4 million originated from non-operating sources.

OPERATIONS

Since launching its broadband tmnet streamyx in 2002, TM Net has built on this by enabling 221 exchanges, mostly in urban areas. More exchanges are expected to be commissioned. Initial delivery constraints have been rectified by correcting measures including the development and deployment of "pizza-boxes" (a technology that enables broadband) for those with fibre optic lines and wireless solutions in areas exceeding the 5km coverage radius. As of December 2003, TM Net through Telekom Malaysia had successfully deployed 200,000 broadband ports throughout Malaysia.

In 2003, TM Net had launched several initiatives to increase Internet usage among the Malaysian public. This included educational advertorials placed in local main newspapers and prime time broadcast programmes like *Jom Internet* and *Let's Click* on local TV Stations, and more product information on its website as well as on its bills. TM Net had also participated in activities involving the public to provide first-hand information on its services and products to customers.



tmnet prepaid one card offers you an exhilarating Internet experience.

Of significance was, TM Net's response to the call by the Government to further reduce the price of broadband service. The 30% reduction, which was implemented on 1 November 2003, made TM Net's offerings among the most competitive in the world.

Broadband

The number of TM Net's broadband subscribers surged from 18,200 in 2002 to 101,107 in 2003. On average, more than 20,000 streamyx applications were received every month.

With the advent of radio frequency technology, TM Net moved one step ahead in enabling broadband service anywhere, anytime. TM Net launched its wireless Internet broadband connection facility, tmnet hotspot in February 2003. tmnet hotspot is available at popular F&B outlets where Internet users can surf at speeds of up to 384kbps for as long as they want, provided they are within 300m of an access point. At the end of 2003, TM Net had expanded its hotspot coverage to 164 locations nationwide, mainly in the Klang Valley, Penang, Johor Bahru and Malacca. In the next phase of expansion, TM Net plans to cover banks, shopping malls, libraries, universities and colleges.

tmnet hotspot keeps you connected anytime from any location.



For the jetsetting customer, TM Net offers tmnet global roaming, which provides broadband Internet at over 3,000 hotspots in airports, hotels, convention centres and cafés around the world via wired or wireless connection. This service is available to all tmnet 1515, 1525 and streamyx customers.

To support the traveling subscribers, TM Net launched the wireless broadband Internet access through wireless local area network (WLAN) at various hotels nationwide. The hotel broadband solution (HBS) offers hotel guests broadband wireless in guestrooms and common areas as well as function rooms and the ballroom. Pan Pacific was the first hotel in the Klang Valley to make use of the service which enables guests to secure Internet connectivity at speeds up to 50 times faster than dial-up connection. At end-2003, nine hotels nationwide had taken up the HBS.

To expand its customer outreach, TM Net launched *Clickers*, a one-stop service centre where customers can access Internet, register for services and purchase merchandise such as prepaid cards. All this is done within a young, vibrant and dynamic café-like atmosphere. The first *Clickers* was opened in July 2003 in Kelana Jaya, at the former House of Internet. Following the success of tmnet *Clickers*, a second outlet was opened in Pulau Pinang. TM Net intends to introduce the concept to other major cities, namely Johor Bahru, Kota Kinabalu, Kuching, Ipoh and Kuantan.



To further improve its customer service, TM Net produced a self-installation CD that helps customers to install the software for tmnet streamyx themselves, without having to rely on technicians. TM Net also implemented a tmnet streamyx reseller programme by appointing 104 companies as resellers nationwide. These contributed to about 95% of total streamyx registrations. In addition, TM Net also introduced online applications.

TM Net's broadband attractions lie not only in ease of access, but also from the content available on the Internet portal BlueHyppo (www.bluehyppo.com) which offers 21 information-rich channels and 18 services. It even has a service that allows Malaysians to enjoy real-time, on-demand video streaming services from more than 10 channels ranging from comedy, sports, news, lifestyle, religious, documentaries from local television stations and two subscription based channels known as e-l@ne and *Jadelane*.

To meet increasing demand, TM Net upgraded its capacity for international transit with a total capacity of 20 STM1 (Synchronous Transport Module 1); (20x155Mbps) by year-end 2003. Increments in this additional capacity is based on performance tracking, as this is to ensure efficient surfing experience. For this, TM Net has procured a network monitoring system, which also enables it to detect any network problems in real time. The network monitoring system will be fully operational by mid 2004.

Service

As part of its after sales service, TM Net has created a "flying squad" of technical experts tasked with resolving any service related issue from hardware maintenance to faulty equipment. The flying squad is dispatched upon receiving complaints – only to those related to TM Net services. The creation of the flying squad has greatly enhanced TM Net's after sales service and its ability to respond to customer-related problems speedily, while the service contractors help ease the customers' access to technical experts whenever they have problems with their hardware.



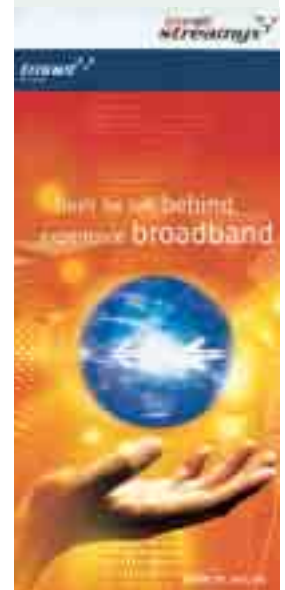
Keep in touch via tmnet hotspot.

In 2003, TM Net continued to promote the value of Internet access by making its prepaid products widely available and easy to reload. By the end of 2003, TM Net had appointed 12 master resellers, which established a nationwide network of agents, hence, ensuring the accessibility and availability of the prepaid products in the market. The inception of the resellers programme resulted in the sales of prepaid products to grow significantly.

In addition, TM Net and Maybank worked together to allow customers to reload their prepaid Internet access online. Reloading prepaid accounts via Maybank2u.com.my or Maybank KawanKu ATM machines is another means of reloading tmnet prepaid cards. Prior to this initiative, TM Net had already provided more reload centres via partnerships with, for example, Pos Malaysia, petrol stations, 7-Eleven outlets, Kedai Telekom, Easyway kiosks and *Clickers*.

To excite prepaid service subscribers, TM Net is scheduled to offer an amalgamated prepaid service for tmnet hotspot, tmnet prepaid and Voice over Internet Protocol (VoIP) in 2004.

TM Net has also commenced its online billing, e-Bill, beginning with its tmnet 1515 service. e-Bill is not only sent to customers immediately via e-mail, it also provides them with more detailed information about their accounts, such as the date, time and duration of their Internet connections and total call charges for every successful connection made.



Broadband solutions for hotels
launched by Tan Sri Nuraizah,
Chairman MCMC.



Serving Businesses and Organisations

To keep up with globalisation, high-speed Internet connectivity has become a necessity for business users. Realising that, TM Net offers broadband to businesses and organisations and develops affordable broadband applications to support the growth of SMEs.

TM Net has even created specific solutions for manufacturers, such as e-Supplychain which combines its expertise with that of partners DELL and B-Global to manage the entire supply chain of business transactions from manufacturers to the community of vendors, logistics partners and other SMEs. The service was jointly marketed as a packaged service of TM Net to Dell suppliers within Malaysia and its neighbouring countries but is expected soon to include suppliers of other manufacturers.

Another TM Net initiative in 2003 was to promote broadband service in the education sector. In March 2003, TM Net and Inti Universal Holdings Bhd. signed a deal to provide high-speed Internet access to students and staff of Inti's Group of colleges. The deal included unified communication services and campus short messaging services. Such facilities create an e-Community that improves communication and interaction as well as enables students to access

e-Learning content at their convenience from anywhere in the world. Similarly, TM Net has moved into other education facilities.

In 2003, TM Net promoted its communication services in all sectors including voice over broadband (Netmyne e-Voice), IP VPN (Internet Protocol Virtual Private Network) and e-Surveillance. Netmyne e-Voice offers reduced call rates on domestic long distance (STD) calls, international (IDD) calls, and long distance mobile calls to corporate organisations. The IP VPN solution enables customers to access remote sites over their corporate networks with appropriate security policies, while Netmyne e-Surveillance enables customers to get real-time video surveillance by using broadband Internet access and the web browser. Netmyne e-Surveillance was first launched in Malacca, with the State Government as the first customer.

As a strong supporter of growing a knowledge society (K-Society), TM Net is honoured by its appointment as one of the two operators for the Malaysian Internet Exchange (MIX), a government-initiated project led by the Ministry of Energy, Communications and Multimedia that aims to connect all Internet service providers in Malaysia through a common local backbone. With the exchange, users will enjoy faster access to local content, higher security and better quality and performance of local content. Most importantly, MIX will significantly reduce leased line costs and the need for excessive international bandwidth.

TM Net includes all its strengths in providing the best data centre service in the nation. As such, TM Net had launched two new data centres in Penang and Johor Bahru in addition to the existing five data centres in the Klang Valley. The new data centres offer customers of the northern and southern regions the physical and technical environment affording the reliability and flexibility necessary to outsource their mission-critical Internet operations.

TM Net had taken the opportunity to work with TV3 in the 2003 Sure Heboh Carnival, which was first introduced to the public by TV3. Through this ground activity, TM Net managed to reach out to more than two million visitors and gave first hand information and demonstrations on its products and services while enhancing its brand image.

Social Responsibility

While growing its business, TM Net does not forget the less fortunate members of the society such as schools without access to Internet and those suffering from cancer. TM Net initiated a project to raise funds for the needy.

In this regard, TM Net initiated its inaugural TM Net Charity Golf Classic. In March 2003, TM Net started the first leg of the TM Net Charity Golf Classic series at Kelab Golf Sultan Abdul Aziz Shah, Shah Alam. The remaining 6 legs took place in Kulim, Nilai, Johor Bahru, Kuala Terengganu, Kota Kinabalu and Subang Jaya. The golf series raised funds for the Cyber School community project – the adoption of needy schools from every state nationwide, especially from rural areas, to be equipped with computers connected via tmnet streamyx. The Charity Golf Classic was successful and it enabled TM Net to contribute computers with broadband connectivity to

the Cyber School project. In addition to that, a portion of the proceeds, raised from the charity golf series was channeled to Majlis Kanser Nasional (MAKNA) to support treatment for patients suffering from cancer.

PROSPECTS

Having introduced attractive cost-effective and efficient services such as broadband, VoIP and IP VPN, TM Net is confident the Malaysian public will appreciate that the Internet is quickly becoming a major communication tool of the future.

In the coming year, 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 tmnet streamyx 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 consumers or businesses.

Given that TM Net has seen 19% growth for 2003, we are bullish for year 2004 based on the demand for broadband, cheaper access services and greater acceptance of new services.

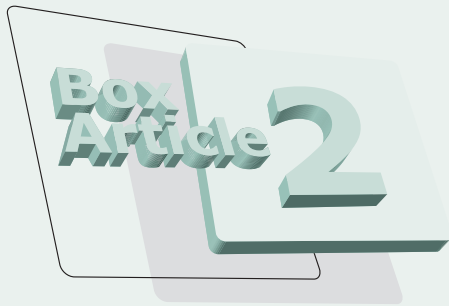
INTI College goes broadband with TM Net's Total Integrated Broadband Internet Solutions.



THE FUTURE IS HIGH SPEED

It is 6.00 a.m. on a cool Wednesday morning, and you wake up to the kaleidoscopic colours and sounds of your favourite artistes from around the world. Your new wake-up system pipes in the latest songs and videos online, matched to your own taste, right onto your bedroom wall. As you set about with your morning toilet, the corner of your bathroom mirror flickers with news feeds compiled from six news stations worldwide, giving you only the news you want. The LCD on your cupboard door lists out today's recommended attire, with colour and styling options, based on the schedule on your online diary.

All these were the domain of science fiction a mere 10 years ago. Yet, the services described are within the capabilities of existing technology, and may yet be delivered to us within the next five to 10 years. While the technology may seem impressive in its wide-ranging applications, there is one common denominator behind it all – broadband connectivity.



The World of Broadband

TELEKOM MALAYSIA BERHAD
Annual Report 2003

Malaysian broadband is currently defined as Internet access of more than 128 kbps, with 512 kbps fast becoming popular. 384 kbps is about seven times faster than the old dial-up Internet connection. This means that a music file that used to take two hours to download will now take only about 15-20 minutes.

Broadband brings to people more sophisticated and bandwidth-hungry applications of the Internet. This includes video, multimedia applications, games, entertainment and the transmission of large files.

By and large, the high demand for broadband is due to two principle features: high-speed and constant (i.e. "always-on") connection. These, coupled with flat rate offerings by services such as tmnet streamyx, enable Internet users to access richer interactive content and applications online.

While the majority of households with broadband are currently higher-income urbanites, this does not skew the demographics of Malaysian broadband users towards people over 40. Experience has shown that more than half of all Malaysian Internet users are below 25, and this appears to be true for broadband as well. Children of these households are also heavy users of broadband.

This is most significant because, eventually, an entire generation of people will grow up with broadband access, much like the generation of people who grew up with the Internet and mobile phones; the generation who grew up with colour TV; and the generation who grew up with telephones.

Broadband access will then become a commodity, a necessary tool for fast, convenient communications, entertainment and work. It is not too far fetched to expect all Internet access of the near future to be via broadband. Broadband will be something people can take for granted.

In the past year, Malaysian broadband experienced tremendous growth. TM Net alone installed more than 100,000 broadband connections under its Digital Subscriber Lines (DSL) service. Complementing these fixed line services, more than 200 locations were enabled with wireless Internet access via Wi-Fi.

On the back of this high-speed connectivity, content and application providers have been producing increasingly sophisticated and rich content and applications to fit the demands of the broadband Internet user.

Massive Multiplayer Online Games (MMOG) blossomed worldwide with unprecedented growth, attracting millions of users. It is no secret that broadband fuelled this growth, as these impressive games are rich in audio and graphics and are thus bandwidth-hungry. South Korea, which emerged as the world's number one MMOG market, also has the world's number one broadband penetration rate.

Video applications such as video-on-demand and video monitoring are also growing rapidly. At Bluehyppo.com, TM Net's portal, users can access 15 different video channels covering various topics from sitcoms to fashion to sports.

In fact, Bluehyppo.com is in the midst of transforming into a true broadband portal. While the needs of narrowband users must still be met, Bluehyppo is ready for the eventual migration of all Internet users to broadband.

Having just finished a tough video meeting with partners in five countries, you check on your daughter at home. She is down with the flu and you are glad to see that she is resting well in her room, with her favourite blue teddy bear wrapped in her arms. At any rate, you can be quickly in touch with the doctor via video phone at any time.

Globally, it is proven that Internet users will spend more time doing more things online with faster access speed. This positive correlation between bandwidth and usage is also true in Malaysia.

The key factor here is time spent online. Experience shows that an Internet user who would normally be online for one hour a day on the old dial-up narrowband connection will spend 50% more time online with broadband. With the decrease in broadband prices, this online time is likely to increase even further, and average usage would probably be more than double that of dial-up.

What is significant is that broadband access engenders the habit to be online. Eventually, it will become second nature, and going online will be as commonplace as making a phone call. This is significant because it would make the more serious and powerful online applications more readily acceptable to users. This includes e-commerce, e-banking, e-learning and other such classes of applications.

One of the most important measures of (indeed, a prerequisite for) success for any of these applications is a certain critical mass of people using them. The natural progression of heavier usage encouraged by broadband would likely lead to this critical mass. In this sense, the proliferation of broadband directly contributes to the acceptance of online tools necessary to make the e-government ideal a reality. This in turn will boost the country's aspiration of becoming a wired knowledge economy.

Indeed, given the relatively short duration from now to year 2020, the proliferation of broadband can be seen as a necessary prerequisite for realising Vision 2020.

The possibilities are as exciting as they are promising. Fixed broadband connectivity will be even more pervasive as networks stabilise and technology extends the range and capacity of networks. Wireless broadband will become truly viable, providing always-on high-speed connectivity for people on the move.

The proliferation of IPv6 and MPEG4 standards will allow even richer content and applications to be delivered via broadband. These new standards effectively help deliver multiple-folds of content over the same bandwidth, enabling content and application developers to deliver highly sophisticated offerings online.

And all this is within reach in the near future with broadband.

On the way back from work, you receive a call from your cousin, who is a farmer. He is inviting you to his graduation ceremony. He has been studying for a degree in agriculture management with an accredited university, which he performed online, attending virtual classes and doing assignments even while out on the field! He had discovered this educational opportunity while video chatting on the Malaysian farmers e-community portal. Now, he happily tells you, other than receiving valuable information and buying and selling over the portal, it has actually led him to a degree.

Internet = broadband. That is the future. And that future is not far off. Worldwide, it is expected that the majority of Internet users will be on dial-up until 2006. After which most will switch to broadband. The switch in Malaysia is expected to happen soon after in fact, anytime before 2008. However, considering that Malaysian demand could be as high as 50% of Internet subscribers, the switch is likely to happen sooner rather than later.

This switch to broadband, wired or wireless, will be a milestone in the annals of Malaysian history. Because, soon after, the critical mass of powerful e-government, education and other key applications will be achieved. And the vision of a connected knowledge society will become a "virtual" reality.

At TM Net, we are now crafting this milestone.

After dinner, you order the latest movie featuring your favourite star. As you watch the movie, you are able to discover some interesting background details by calling up the interactive information blurbs. Before you go to bed, you double-check tomorrow's schedule on your online diary, just to make sure. You settle into bed with a starry night sky mosaic on your ceiling, the video fed live from the National Park. Another day done good, another day of opportunities tomorrow.

United States of America

United Kingdom

Hong Kong

Thailand

Cambodia

Bangladesh

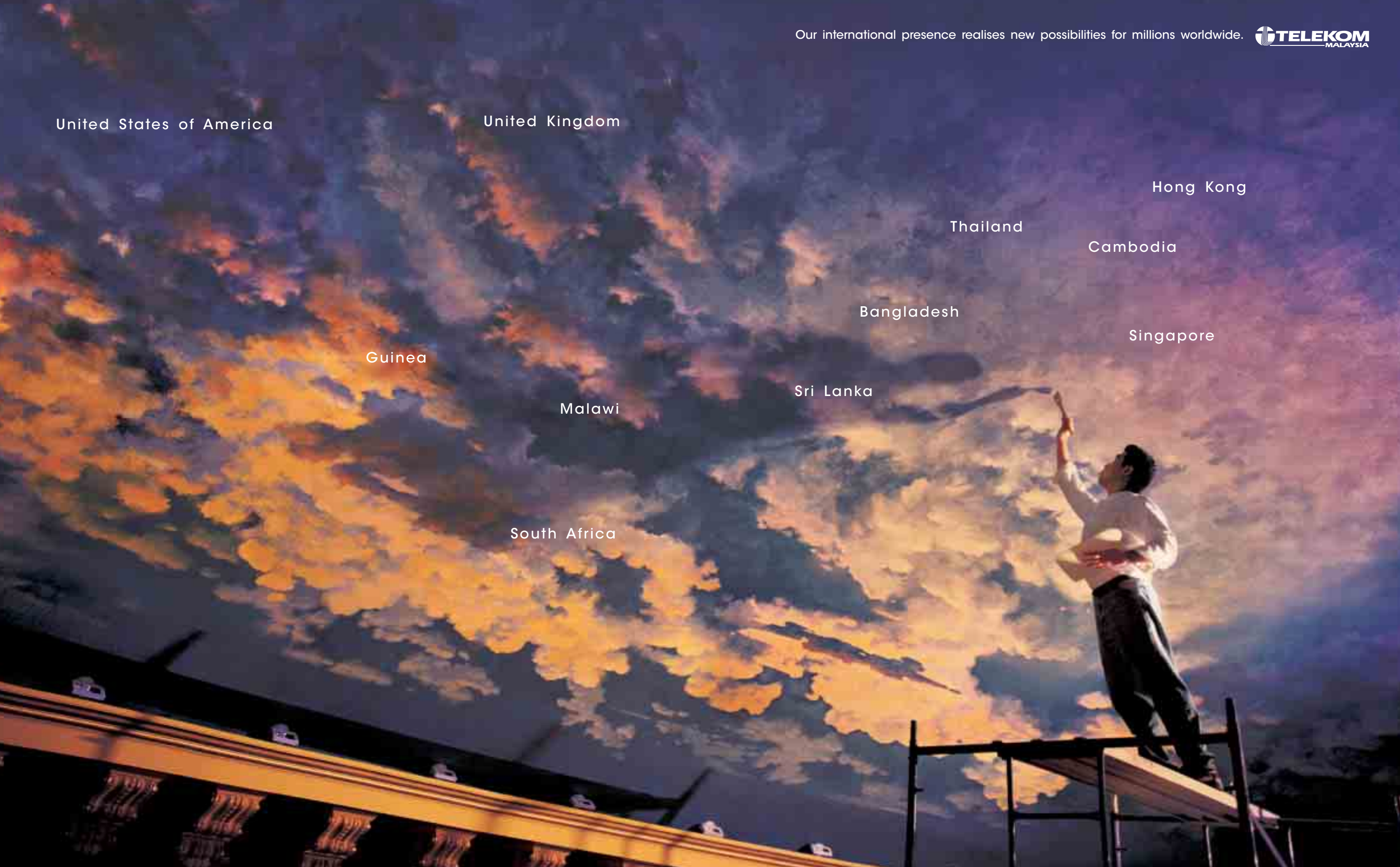
Singapore

Guinea

Sri Lanka

Malawi

South Africa



International Operations



098

OPERATIONS REVIEW

TELEKOM MALAYSIA BERHAD
Annual Report 2003

CHRISTIAN DE FARIA
CHIEF EXECUTIVE OFFICER
TM INTERNATIONAL SDN. BHD.

PERFORMANCE

AS TELEKOM MALAYSIA'S VEHICLE OVERSEEING AND MANAGING ITS FOREIGN VENTURES, TM INTERNATIONAL SDN. BHD. (TM INTERNATIONAL) ASPIRES TO BE AN ESTABLISHED, WELL-RECOGNISED, SELF-SUPPORTING AND PROFITABLE COMPANY THAT SERVES AS THE FLAGSHIP FOR THE GROUP'S INTERNATIONAL INVESTMENTS.

In the financial year ended 31 December 2003, Telekom Malaysia's overseas investments contributed approximately 28.76% to the Group's profit after tax or RM399.85 million, compared to RM137 million the previous year. This is an increase of 192%, compared to 73% the previous year. With cellular services serving as the cornerstone of its investments, TM International's presence in South Africa, Guinea, Malawi, Bangladesh, Sri Lanka and Cambodia provided access to a cellular subscriber base of some 11 million as at end 2003.

Having had its origins in the International Ventures Division, TM International has today made the successful transition from an operating division to a wholly-owned subsidiary of Telekom Malaysia. In this regard, the restructuring exercise undertaken the previous year aimed at consolidating all international ventures under TM International continued unabated into 2003.

OPERATIONS

MTN NETWORKS (PRIVATE) LIMITED (MTN)

As Telekom Malaysia's pioneer international investment, MTN was initially set up in Sri Lanka in 1995 to provide GSM cellular service on the 900 Mhz frequency band, under an 18-year licence valid until 2013. Under the brand name Dialog GSM, the network is also Sri Lanka's pioneer digital cellular network. As at end 2003, it had a subscriber base in excess of 830,000 involving investments of some US\$72.6 million (some RM257 million) to date. This subscriber base is supported by over 370 base stations and international roaming facilities with 302 operators in 177 countries.

A key development on the cellular side of MTN's business in 2003 has been the roll-out of the GSM dual band network on the 1800 frequency band. Yet another key development in the Sri Lankan market in 2003 has been its liberalisation, marking the end of incumbent Sri Lanka Telecom's monopoly on

International Direct Dialling (IDD) calls. A direct consequence of this has been the award of an international gateway operator licence to MTN, thereby facilitating Dialog's IDD services through its own gateway.

Apart from the launch of international services, 2003 also witnessed MTN building on its unassailable competitive advantage with respect to product and service delivery. Numerous new value-added services for existing customers such as GPRS roaming (in 18 countries covering 25 operators), video streaming and dual SIM (prepaid and postpaid) Information On Demand were offered. At the same time, the Company also enhanced its service levels using various tools, such as automated service registration (using SMA and IVR) and Dialog Buzz, the mobile customer service centre.

MTN also successfully garnered the international GSM Award for a record third consecutive year in 2003 for "Best Use of Wireless for Emergency Situations". In 2003, the Company also established two new branches in the North and East, previously strife-torn areas.

TM INTERNATIONAL (BANGLADESH) LIMITED (TMIB)

TMIB was established in 1997 as a joint venture company between AK Khan & Co (a leading Bangladesh business group) and Telekom Malaysia. The Company operates a GSM cellular service on the 900 Mhz frequency band, under a 15-year licence. As at end 2003, the net customer base stood at 401,680 subscribers, representing a market share of 22%. This comprises some 144,151 postpaid and 257,529 prepaid customers.



Telkom SA's listing debut on the New York Stock Exchange.

A major milestone of 2003 was the addition of some 245,670 customers to the subscriber base, an increase of 192% over the previous year. TMIB's network coverage, has also been progressively growing and as at end December 2003, 53 out of 64 districts in Bangladesh have been covered, involving a total of 369 base stations.

Customer acquisition and network expansion aside, the product and service delivery aspects of the Company have also seen active inroads in 2003. Various packages for both prepaid and postpaid continued to be rolled out. Two key developments, namely the acquisition of a nationwide ISP licence, as well the Bangladeshi Government's decision to liberalise the provision of VoIP services, have opened up possibilities for TMIB's future operations. TMIB is exploring the possibility of maximising both these opportunities in the coming years.

TELKOM SA LIMITED (TSA)

Telekom Malaysia's 12% effective holding in TSA is by far its largest foreign investment. The stake is held via Thintana Communications LLC, a partnership between Telekom Malaysia and US-based SBC International Inc. As strategic equity partners, the two companies jointly hold a 30% stake in TSA. TSA also owns 50% of Vodacom, the leading cellular operator in South Africa.

The ending of TSA's five-year exclusivity in May 2002 was preceded by a single-minded pursuit of an extensive business transformation process in strategic preparation for competition. This culminated in TSA's listing on both the Johannesburg Stock Exchange (JSE) and New York Stock Exchange (NYSE) in March 2003. As a result of the IPO, the current shareholding structure is made up of 39.3% with the Government of South Africa, 30% with Thintana and a free float of 30.7%. The share price has performed impressively well, with the original listing price of ZAR28 per share rising to a high of ZAR72.9 at end 2003.

Overall, 2003 was a good year for TSA in terms of financial performance despite the global and South African economic environment. Group revenue, operating profit and operating cash flow saw strong growth. A positive albeit smaller growth in the core fixed line revenue was matched by significant cost savings in the fixed line business and a strong contribution from the Vodacom mobile business.

TSA and the market as a whole had responded to certain key developments designed to meet the Government's aspiration for increased liberalisation and competition in the industry. These include the call for bids for a second network operator (SNO) licence for under service area licences (USAL) as well as the initiation of convergence policy development. Despite these challenges, the Company fared well in a 2003 "Top Brand Survey". It was voted the top telecommunications provider, the second-most admired company in South Africa (after Coca Cola), and the company which has done the most to uplift the lives of South Africans.

SAMART CORPORATION PUBLIC COMPANY LTD. (SAMART)

Public-listed SAMART, in which Telekom Malaysia has a 19.59% stake as at end 2003, provides a wide range of value-added telecommunications services including the manufacture and distribution of telecommunications equipment such as TV antennas and satellite dishes in Thailand.

In end September 2003, the Company successfully completed its debt restructuring exercise under which debts, obligations and commitments estimated at Baht 6.5 billion were reduced to some Baht 2.35 billion. This generated a gain on debt restructuring amounting to Baht 1.65 billion plus removal of all obligations and commitments.

Other key developments in 2003 saw the wholly-owned subsidiary Samart Comtech participating as a key member of the consortium ASIS, which won the Airport Information Management System (AIMS) project for the new Bangkok airport. The project is valued at some Baht 2.3 billion.

Samart I-Mobile, a 68.5% subsidiary of SAMART, underwent a successful IPO exercise in December 2003, with listing on the Stock Exchange of Thailand. A total of 110 million ordinary shares of par value Baht 1 were sold at an initial price of Baht 11 per share.

TELEKOM NETWORKS MALAWI LIMITED (TNM)

TNM was established in 1996 as a joint venture between Telekom Malaysia and Malawi Telecommunications Ltd. (MTL), the Government-owned incumbent, with Telekom Malaysia holding 60% equity and MTL the other 40%. TNM operates a GSM service under a licence valid until 2014.

After eight years of operations, TNM has emerged as the leading cellular service provider in Malawi, with a customer base of 62,000 as at end 2003, an increase of some 80% over the previous year. The Company has commanded a 57% market share since 2001 in what has become an increasingly competitive market.



The growing subscriber base is supported by a new prepaid intelligent network system successfully migrated in October 2003. Apart from new capabilities, the new prepaid system has an increased capacity able to cater for 100,000 subscribers from the present 45,000. The TNM network is currently supported by some 58 base stations and in July 2003, an additional international link was established via Very Small Aperture Terminal (VSAT) through Telekom Malaysia to harvest calls from the Asian region.

SOCIETE DES TELECOMMUNICATIONS DE GUINEE (SOTELGUI s.a.)

Sotelgui s.a., formed out of a strategic partnership with the Government of Guinea provides both fixed and cellular services in this West Africa country. Telekom Malaysia holds a 60% stake in Sotelgui s.a. while the Guinea Government owns the remaining 40%.

For Sotelgui s.a., 2003 was marked by important infrastructural achievements, with GSM being deployed in 19 towns in the provinces. The overall customer base (fixed and cellular) at end 2003 stood at 111,004. New projects in Internet and prepaid fixed (Ezeephone) were also initiated, while rehabilitation and extension of the cable network continued to be a high priority for the Company.

Consumers benefited from some key pricing decisions taken during 2003 which included a 50% discount on the subscription and rental fee for Internet service, a lowering to GNF 25,000. The timing of GSM usage was also changed from one-minute blocks to 30-second blocks.

CAMBODIA SMART COMMUNICATION CO. LTD. (CASACOM)

CASACOM which started commercial operations in 1999 is the latest among Telekom Malaysia's foreign investments, providing services on the GSM 900 and NMT 900 Mhz frequency bands in Cambodia. Telekom Malaysia holds a 51% stake in the venture while the remaining 49% is held by SAMART Corp. CASACOM operates under a 35-year cellular concession commencing 1996 from the Ministry of Posts and Telecommunications. It is currently the second largest cellular operator in Cambodia.

Chairman, Telekom Malaysia plays host to overseas visitors at Menara Telekom.



Operating under the brand name “Hello”, CASACOM enjoyed first mover advantage in 2003 on new services such as General Packet Radio Services (GPRS), Multimedia Messaging Service (MMS) and various content services. With a base of 85,339 GSM subscribers, the Company marked 2003 with a marketing strategy that emphasised a good quality network, nationwide coverage, competitive pricing, extensive international roaming and the establishment of a one-stop centre for telecommunications services.

PROSPECTS

Going forward, TM International plans to adopt strategies and initiatives which mitigate the downward profit pressure in the domestic market as well as increase Telekom Malaysia’s profile in the regional marketplace. In this regard, strengthening its core business becomes a key strategic thrust and TM International aims to secure three new core investments over the next three years. In addition, emphasis will be given on growing the existing businesses in Sri Lanka and Bangladesh through rapid network expansion and enhanced service offerings. TM International will also seek to integrate the licences and operations owned by Celcom in Bangladesh.

Another strategic thrust for TM International is to assist in creating value for the Telekom Malaysia Group. In this regard, the Company plans to identify and deploy products already available within the Group to be used in various ventures abroad. With its established presence in Asia and Africa, TM International is well positioned to bring business back to the Group through its hubbing activities and usage of its global infrastructure. Plans are also afoot for TM International to be the international retail and marketing agent for home-grown products and services.

TM International also intends to pursue cost efficiency in procurement. Its Global Procurement initiative is aimed at standardising network equipment and systems, so as to ensure cost efficiency over the long run and to offer value services to customers.



We're upgrading our customer service and infrastructure.
So you have less worry, less stress and more zen.



Peace

of

mind



Facilities Management



106

OPERATIONS REVIEW

TELEKOM MALAYSIA BERHAD
Annual Report 2003

HAMZAH YACOB
CHIEF EXECUTIVE OFFICER
TM FACILITIES SDN. BHD.

PERFORMANCE

SINCE ITS INCEPTION IN JANUARY 2002, TM FACILITIES SDN. BHD. (TM FACILITIES) HAS MANAGED THE NON-CORE BUSINESSES OF TELEKOM MALAYSIA, NAMELY ITS STRATEGIC BUSINESS UNITS (TELEKOM MALAYSIA SBUs) OF MALAYSIAN LOGISTICS, MALAYSIAN SECURITY, FACILITIES MANAGEMENT & INFRASTRUCTURE DEVELOPMENT, PROPERTY DEVELOPMENT & CONSULTANCY AND FLEET MANAGEMENT. TM FACILITIES CONTINUOUSLY EXPLORES NEW BUSINESS MODELS AND OPTIONS TO ENHANCE THE NICHE AREAS OF EXPERTISE OF EACH SBU IN ORDER TO TRANSFORM IT INTO A FULL-FLEDGED BUSINESS ENTITY.

In 2003, the five Telekom Malaysia SBUs generated a total revenue of RM355.5 million from both internal and external sources, an increase of 2% over the previous year. Profit before interest and taxation was at RM34.6 million. This is the second successive year, Telekom Malaysia SBUs had recorded profits. As a countermeasure against economic uncertainties, concerted efforts were made to retain businesses while costs were managed and contained.

OPERATIONS

Malaysian Logistics

Malaysian Logistics (ML) provides total logistics and related support services to Telekom Malaysia and its subsidiaries. Its services comprise mainly of traffic and transportation, warehousing, scrap management, contracts management and liaison with the Customs Department. With a network of warehouses located around the nation, ML has the capacity and economies of scale to take on the role of a total logistics solution provider for Telekom Malaysia as well as external customers.

Apart from Telekom Malaysia, ML rents out idle land or extra space in warehouses to external customers in its efforts to generate additional income. Among the external parties that have made use of this value

added service are Shapadu Linfox and Shell Gas. For the past few years, Shell Gas has stationed its central LPG storage facilities in ML warehouses in Prai, Melaka, Kuantan and Alor Star. The partnership with Shell Gas has been so successful that the petroleum company is very keen to open up new storage centres at ML sites in Johor Bahru and Sandakan, Sabah.

ML intends to diversify its business by introducing new services such as document storage and retrieval as well as public warehousing.

Malaysian Security

Malaysian Security (MS) is responsible for safeguarding Telekom Malaysia's assets, resources and personnel. This role has assumed greater importance today with the ever-increasing challenges faced by security and safety services.

MS' main activity is to provide armed and unarmed security guards for high-risk areas such as exchanges, earth satellite stations, submarine cables stations, hill stations, office buildings, business centres and other government gazetted key installations that fall under *Arahan Tetap Sasaran Penting Negara*.

Looking out from Menara Telekom's spacious and gleaming lobby.



MS also provides value added services such as investigation, security for cash-in-transit, crime prevention patrol, night vaulting and patrolling of optical fibre routes as well as overhead and underground cables. Due to the prevalent threat of terrorism, MS also provides specialised security audits and conducts security awareness and preventive programmes.

To reduce its overheads, a pilot study was undertaken on remote surveillance systems which can be managed from a centralised control unit hence reducing the need for security personnel onsite.

Facilities Management and Infrastructure Development

Facilities Management & Infrastructure Development (FMID) is responsible for the management, operations and maintenance of all Telekom Malaysia buildings, facilities and installations. It provides electrical, mechanical and civil engineering services as well as commercial building maintenance to the Group.

While it has previously outsourced some of its key functions to third parties, FMID has made its mission to be more self-reliant – either by teaming up with a reputable international Comprehensive Facilities Management (CFM) company or by becoming a CFM contractor itself. This approach is to enable it to



better serve Telekom Malaysia as well as to capture more external business. A pilot study on property management as well as operations and maintenance functions will be carried out on a model building, such as Menara Telekom, with the objective of acquiring world-class standards. For benchmarking purposes, a visit to Telkom SA was made recently to experience firsthand the high standard of building management practised by the company.

Besides internal revenue from Telekom Malaysia, FMID expects to generate external cash revenue from Celcom through the provision of mechanical & electrical and battery rectifiers maintenance services as well as infrastructure development. To enhance quality and accountability, FMID is making an effort to save on energy by retrofitting certain systems. Meanwhile, a Customer Service Management System was introduced to reduce the time between receiving a docket/work order and delivery of the product or service by vendors/contractors.

Property Development and Consultancy

Property Development & Consultancy (PDC) is responsible for identifying and unlocking the value of idle land banks belonging to Telekom Malaysia. PDC hopes to develop these plots of land via joint ventures or by appointing a joint land development partner. PDC is also responsible for managing TM TelCo's infrastructure projects and for property land administration of all Telekom Malaysia assets.





In addition to its maiden development project in Ijok, Kuala Selangor, PDC is also embarking on projects in other parts of the Klang Valley. PDC expects to generate RM3.50 million in revenue, or 1% of the total sales development value of RM357 million for the land bank earmarked for development over the next five years. In another positive development, Telekom Malaysia's decision to transfer additional land to TM Facilities will give PDC's development efforts a boost.

Apart from being the 'custodian' of all Telekom Malaysia assets, the Property Land Administration unit under PDC also acts as an intermediary with all land offices and local authorities, collecting rental and managing the payment of property taxes (leased rentals, quit rent and assessment fees).

Fleet Management

The Fleet Management (FM) unit oversees the entire Telekom Malaysia fleet of about 7,000 vehicles. It is the only entity in the country that manages such a large number of utility vehicles. FM's principal activities include vehicle maintenance and repair, licensing and permits, insurance and claims as well as the purchase of new vehicles and sale of used vehicles.

In year 2003, RM35 million was allocated to procure new utility vehicles and cars to replace those which are beyond economic maintenance of which more than half are above 10 years old. Although the allocation is not sufficient to replace all the vehicles that merit replacement, the new vehicles will shore up the overall quality of the fleet and reduce maintenance costs. FM managed to secure RM5.6 million in revenue from the sale of scrap vehicles.

As part of its value added services, FM has successfully installed custom-designed vans – complete with coin collection boxes – for the Payphone division; and also provided a canopy for vehicles under the Customer Network Operations (CNO) group.

The management has proposed that FM continues to serve Telekom Malaysia as an SBU under TM Facilities. However, to further tap external business opportunities, it is proposed that the company could become a Telekom Malaysia subsidiary by entering into a joint venture or smart partnership with a third party.

For its role in overseeing and managing the five SBUs, TM Facilities received RM6.8 million in management fees from Telekom Malaysia. Profit after tax was at RM2.6 million.

PROSPECTS

In the year 2004, TM Facilities hopes to evolve some of the five SBUs into business entities via joint ventures or smart partnerships with third parties. This would help further develop Telekom Malaysia's non-core businesses with the view of enhancing shareholder value.

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From there