

TELEKOM MALAYSIA BERHAD (“TM” OR THE “COMPANY”)

PROPOSED ESTABLISHMENT OF A LONG TERM INCENTIVE PLAN OF UP TO TEN PERCENT (10%) OF THE ISSUED AND PAID-UP ORDINARY SHARE CAPITAL OF TM (EXCLUDING TREASURY SHARES) FOR THE ELIGIBLE EMPLOYEES AND EXECUTIVE DIRECTORS OF TM AND ITS SUBSIDIARIES (“PROPOSED LTIP”)

1. INTRODUCTION

On behalf of the Board of Directors of TM (“**Board**”), CIMB Investment Bank Berhad (“**CIMB**”) wishes to announce that TM proposes to establish a long term incentive plan of up to ten percent (10%) of the issued and paid-up ordinary share capital of TM (excluding treasury shares, if any) at any point in time over the duration of the Proposed LTIP (“**LTIP Period**”), for the employees and executive directors of TM and its subsidiaries (“**TM Group**”), who fulfill the eligibility criteria set out in Section 2.1.1 below (“**Eligible Employees**”).

2. DETAILS OF THE PROPOSED LTIP

The Proposed LTIP serves to retain, motivate and reward employees of the TM Group through the grant of ordinary shares of RM0.70 each in TM (“**TM Shares**” or “**Shares**”) (“**Grant**”) as determined by TM’s existing Nomination and Remuneration Committee or a separate committee to be established to administer the Proposed LTIP (“**LTIP Committee**”) in accordance with the by-laws governing the Proposed LTIP (“**By-Laws**”).

The Proposed LTIP will comprise a restricted share (“**RS**”) Grant and performance share (“**PS**”) Grant. For clarification purposes, the main differences in the features of the RS Grant and the PS Grant are the eligibility of the Eligible Employees in terms of their job grades in the Group, the performance metrics to be met which will be determined prior to the grant being made in writing to the Eligible Employees and the vesting periods of the Grant to the Eligible Employees.

(The RS Grant and PS Grant are collectively referred to as the “**Grants**”. An Eligible Employee who has accepted a RS Grant (“**RS Grantee**”) and an Eligible Employee who has accepted a PS Grant (“**PS Grantee**”) (as the case may be) are collectively referred to as the “**Grantees**”).

Further details of the Grants are set out below:

(a) **RS Grant**

The RS Grant is a restricted share grant for selected eligible employees and executive directors of the TM Group. The primary objective of the RS Grant is to incentivise and retain employees as well as encouraging ownership and long term interest in the Group.

Upon acceptance of the RS Grant by the RS Grantees, the RS will be vested in the RS Grantees over the duration of the LTIP Period as may be determined by the LTIP Committee at no consideration to the RS Grantees, which may be subject to individual performance metrics being met and the achievement of certain operational measures, including but not limited to a profit after taxation target and/or other financial measure(s) as may be relevant, in accordance with terms and conditions stipulated and determined by the LTIP Committee in its sole and absolute discretion.

In the event the performance metrics are not met over the period set by the LTIP Committee as being applicable to the RS Grantees, the RS Grant will not be vested to them at the end of the said period.

(b) PS Grant

The PS Grant is a performance share grant for top management and executive directors of the TM Group. The PS Grant aims to provide employees with an equity-linked reward that aligns their interest with those of the shareholders of the TM Group.

Upon acceptance of the PS Grant by the PS Grantees, the PS will be vested in the PS Grantees over the duration of the LTIP Period as may be determined by the LTIP Committee at no consideration to the PS Grantees, and after fulfillment of certain performance targets and/or conditions at the time of Grant and vesting, as determined by the LTIP Committee, whereby the PS Grantees will be assessed based on, amongst other factors, the individual's performance, the total shareholders' return of the TM Group and financial performance of the TM Group in accordance with the terms and conditions stipulated and determined by the LTIP Committee in its sole and absolute discretion.

In the event the performance metrics are not met over the period set by the LTIP Committee as being applicable to the PS Grantees, the PS Grant will not be vested to them at the end of the said period.

The LTIP Committee shall decide the terms and conditions of the Grants and vesting, including, without limitation, the performance metrics to be met prior to the making of the Grant and vesting of the Grants, the vesting period(s) and the number of TM Shares to be allocated in each Grant.

In implementing the Proposed LTIP, the LTIP Committee may, in its sole and absolute discretion, decide that the vesting of any TM Shares comprised in a Grant be satisfied by any of the following methods:

- (i) allotment and issuance of TM Shares by the Company to the Grantees;
- (ii) cash payment by the Company to the Grantees in lieu of TM Shares; or
- (iii) a combination of allotment and issuance of TM Shares and/or cash payment in lieu of TM Shares pursuant to the By-Laws.

In considering the settlement mode of the Grants as detailed in Section 2 (b) (i) to (iii) above, the LTIP Committee will take into consideration factors including but not limited to, the issue price of the new TM Shares, the prevailing market price of the TM Shares at the relevant time and the dilutive effects of such issuance on the capital base, future returns and cash requirements of the TM Group.

2.1 Salient terms and conditions of the Proposed LTIP

2.1.1 Eligibility

Eligible Employees of the TM Group who fulfill the following criteria as at the date of the Grant shall be eligible for consideration by the LTIP Committee to participate in the Proposed LTIP:

- (a) has attained the age of eighteen (18) years and is not an undischarged bankrupt nor subject to any bankruptcy proceedings;
- (b) has entered into a full-time or fixed-term employment with, and is on the payroll of any company within the TM Group and has not served notice of resignation or received notice of termination;
- (c) has received confirmation of his/her service/employment in writing;

- (d) is not a non-executive or an independent director of the Company; and
- (e) has fulfilled any other eligibility criteria which has been determined by the LTIP Committee at its sole discretion from time to time.

For the avoidance of doubt, the LTIP Committee may determine any other eligibility criteria and/or waive any of the eligibility criteria as set out in Section 2.1.1 above.

2.1.2 Basis of allocation and maximum allowable allotment

The total number of TM Shares that may be granted and/or vested to any one Eligible Employee under the Proposed LTIP shall be determined at the sole and absolute discretion of the LTIP Committee, taking into consideration, amongst other factors, the performance, his/her potential for future development and contribution to the success and development of the TM Group and such other criteria as the LTIP Committee may deem relevant.

Notwithstanding the foregoing, the total number of TM Shares which may be granted under the Proposed LTIP that may be allocated to an Eligible Employee who, either singly or collectively through persons connected (which has the same meaning as ascribed in Paragraph 1.01 of the Main Market Listing Requirements (“**Listing Requirements**”) of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) with such Eligible Employee, holds twenty percent (20%) or more of TM’s issued and paid-up share capital (excluding treasury share, if any), shall not exceed ten percent (10%) of the total number of TM Shares to be made available under the Proposed LTIP and/or any other schemes involving new issuance of TM Shares to eligible employees to be implemented from time to time.

The LTIP Committee shall have sole and absolute discretion in determining whether the TM Shares available for vesting under the Proposed LTIP are to be granted to the Eligible Employees or any group or groups of Eligible Employees via:

- (a) one single Grant (as the case may be) at a time determined by the LTIP Committee; or
- (b) several Grants (as the case may be) where the vesting of TM Shares comprised in those Grants are staggered or made in several tranches at such times and on terms determined by the LTIP Committee.

In the event the LTIP Committee decides that the Grant or vesting of any number of TM Shares is to be staggered, the number of TM Shares to be granted in each Grant and the timing for the vesting of the same shall be decided by the LTIP Committee at its sole and absolute discretion. Each Grant shall be separate and independent from the others.

In addition, no Eligible Employees shall participate in any deliberation or discussion on their own respective allocations.

2.1.3 Size of the Proposed LTIP

The total number of TM Shares which may be made available under the Proposed LTIP shall not exceed in aggregate ten percent (10%) of the issued and paid-up ordinary share capital of TM (excluding treasury shares) (“**Maximum Shares**”) at any point in time over the duration of the Proposed LTIP.

2.1.4 Duration of the Proposed LTIP

The Proposed LTIP shall continue to be in force for a period of ten (10) years commencing from the effective date of implementation of the Proposed LTIP, being the date on which full compliance with the relevant requirements under the By-Laws and the Listing Requirements in relation to the Proposed LTIP, have been obtained and/or met.

On the expiry of the Proposed LTIP, any Grants which have yet to be vested (whether fully or partially) shall be deemed terminated and be null and void.

Notwithstanding anything set out in the By-Laws and subject to compliance with the Listing Requirements in relation to the Proposed LTIP, TM may terminate the Proposed LTIP at any time during its term.

2.1.5 Ranking of the new TM Shares

The new TM Shares to be made available pursuant to the Proposed LTIP shall be subject to the provisions of the memorandum and articles of association of TM.

The new TM Shares to be allotted and issued to the Grantees pursuant to the Proposed LTIP, shall, upon issuance and allotment, rank equally in all respects with the then existing TM Shares, except that they shall not be entitled to any dividend, rights, allotment and/or other distribution, the entitlement date of which is prior to the date on which the new TM Shares are allotted to the Grantees pursuant to the Proposed LTIP.

2.1.6 Restrictions on Transfer

The TM Shares to be allotted and issued pursuant to the Grants will be subject to such restriction on transfer upon the terms and conditions in accordance with the By-Laws.

3. RATIONALE OF THE PROPOSED LTIP

The rationale of the Proposed LTIP is as follows:

- (a) to retain and reward Eligible Employees whose services are vital to the continued growth and execution of business strategies of the TM Group;
- (b) to motivate each Eligible Employee to raise his/her performance standards and optimise efficiency as well as to sustain high level contributions over a multi-year period through a long term reward programme under the Proposed LTIP;
- (c) to align the interest of the Eligible Employees with long term shareholder value enhancement and long term success of the TM Group through the Eligible Employees' direct equity participation in the TM Group via the Proposed LTIP;
- (d) to sharpen focus of the Eligible Employees on the achievement of the TM Group's multi-year objectives; and
- (e) to attract prospective employees with the relevant, required and complementary skills to join the TM Group and to add shareholders' value for the TM Group.

4. UTILISATION OF PROCEEDS

No proceeds will be raised pursuant to the Proposed LTIP given that the TM Shares to be allotted and issued, and/or cash payment to be paid by the Company (in equivalent cash value of the Grant) to the Grantees would not require any payment by the said Grantees.

5. EFFECTS OF THE PROPOSED LTIP

5.1 Issued and paid-up share capital

The Proposed LTIP will not have an immediate effect on the existing issued and paid-up ordinary share capital of the Company. However, the issued and paid-up ordinary share capital of TM will increase progressively as and when the new TM Shares are allotted and issued pursuant to the vesting of the Grant under the Proposed LTIP.

For illustration purposes only, assuming that the Maximum Shares (as defined in Section 2.1.3) are made available under the Proposed LTIP and are fully granted and vested by the issuance of new TM Shares to the Grantees and that there is no other increase in the issued and paid-up capital of TM during the LTIP period, the proforma effects of the Proposed LTIP on TM's issued and paid-up ordinary share capital are as follows:

	<u>No. of TM Shares</u>	<u>RM</u>
As at 3 March 2016	3,757,934,823	2,630,554,376
To be issued pursuant to the Proposed LTIP	375,793,482	263,055,437
Enlarged issued and paid-up ordinary share capital	<u>4,133,728,305</u>	<u>2,893,609,813</u>

It should be noted that even if the Maximum Shares stipulated above are allocated to the Grantees, the actual number of TM Shares to be issued may be less in view of the following:

- (a) only Grantees who meet the grant and vesting conditions would be entitled to the full vesting of the TM Shares allocated under their Grant; and/or
- (b) the Company may pay the equivalent cash value of the Grant in full or partial satisfaction of the vesting of TM Shares pursuant to the Proposed LTIP.

Nonetheless, in the event there is a need to increase the authorised share capital of TM in order to facilitate the Maximum Shares (as defined in Section 2.1.3) to be allotted and issued to the Grantees in the future, TM will seek its shareholders' approval to increase its authorised share capital accordingly.

(The rest of this page has been intentionally left blank)

5.2 Substantial shareholders' shareholdings

The Proposed LTIP will not have an immediate effect on the shareholdings of the substantial shareholders of TM. The dilution to the shareholdings of TM's substantial shareholders will depend on the number of new TM Shares issued for delivery to the Grantees at the relevant point in time pursuant to the Proposed LTIP.

For illustrative purposes only, the proforma effects on the Proposed LTIP on TM's substantial shareholders' shareholdings as at 3 March 2016 are set out in the table below:

	As at 3 March 2016				After Proposed LTIP			
	Direct		Indirect		Direct		Indirect	
	No. of TM Shares held	%	No. of TM Shares held	%	No. of TM Shares held	%	No. of TM Shares held	%
Khazanah Nasional Berhad	1,076,725,713	28.65	-	-	1,076,725,713	26.05	-	-
Employees Provident Fund Board	575,636,336	15.32	-	-	575,636,336	13.93	-	-
AmanahRaya Trustees Berhad - Amanah Saham Bumiputera	436,754,595	11.62	-	-	436,754,595	10.57	-	-

(The rest of this page has been intentionally left blank)

5.3 Net assets (“NA”) per Share and gearing

The Proposed LTIP will not have an immediate effect on the consolidated NA, NA per Share and gearing of the TM Group until such time that new TM Shares are issued and/or cash paid in lieu of TM Shares, in satisfaction of the Grants vested pursuant to the Proposed LTIP. Any potential effect on the NA per Share will depend on the number of TM Shares to be issued and/or cash to be paid in lieu of TM Shares, which can only be determined at the point of the vesting of the Grant and the mode of settlement of the Grant at the date of vesting.

Nonetheless, assuming the effects of the Proposed LTIP only, the consolidated NA per Share of TM is expected to be diluted following the allotment and issuance of new TM Shares to satisfy any Grants pursuant to the Proposed LTIP.

Notwithstanding the above, the Proposed LTIP is not expected to have a material impact on the TM Group’s consolidated NA per Share and consolidated gearing for the financial year ending 31 December 2016.

5.4 Earnings and Earnings per Share (“EPS”)

With the adoption of Malaysian Financial Reporting Standards 2 Share-based Payment (“**MFRS 2**”), the potential cost of the Grants under the Proposed LTIP will need to be measured at fair value on the date of Grant and recognised as an expense in the income statement over the vesting period of such Grants.

The extent of the effect of the Proposed LTIP on the TM Group’s consolidated earnings and EPS cannot be determined at this juncture as it would depend on the fair value of the new TM Shares to be issued as at the respective dates of the Grants. However, it is important to note that the potential cost of the Grants (at the date of the Grant) pursuant to the Proposed LTIP do not represent a cash outflow and is only an accounting treatment. For clarification purposes, there will be a cash outflow pursuant to the Proposed LTIP in the event the Company pays the equivalent cash value of the Grant in full or for the partial satisfaction of the vesting of TM Shares.

The Proposed LTIP is expected to have a dilutive effect on the TM Group’s EPS due to an increase in the number of TM Shares should there be any allotment and issuance of new TM Shares to satisfy any Grants pursuant to the Proposed LTIP.

In view of this, the Board has taken note of the potential effects of MFRS 2 on TM Group’s earnings and will take reasonable measures to manage the effect on the consolidated EPS of the TM Group in the granting of the Grant to the Eligible Employees.

5.5 Convertible securities

TM does not have any other convertible securities as at the date of this announcement.

6. APPROVALS REQUIRED

The Proposed LTIP is subject to approvals being obtained from the following:

- (a) Bursa Securities for the listing of and quotation for the new TM Shares to be issued under the Proposed LTIP on the Main Market of Bursa Securities;
- (b) TM's shareholders at an extraordinary general meeting ("**EGM**") to be convened:

For clarification, the approval from the shareholders on the Proposed LTIP will allow TM to grant the Grants in accordance with the By-Laws throughout the existence of the Proposed LTIP; and/or

- (c) any other relevant authorities or party, if required.

The application to Bursa Securities in relation to Section 6 (a) above is expected to be submitted within one (1) month from the date of this announcement.

7. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

All the Executive Directors of TM are entitled to participate in the Proposed LTIP and are therefore deemed interested in the Proposed LTIP to the extent of their allocations under the Proposed LTIP (collectively, the "**Interested Directors**"). As such, the Interested Directors have abstained and will continue to abstain from deliberating on the resolutions pertaining to their entitlements and entitlements of persons connected with them under the Proposed LTIP at the relevant Board meetings.

The Interested Directors will also abstain from voting in respect of their direct and/or indirect shareholdings in TM (if any) on the respective resolutions pertaining to their entitlements and the entitlement of persons connected with them under the Proposed LTIP at the forthcoming EGM. The Interested Directors have also undertaken to ensure that persons connected with them will abstain from voting in respect of their direct and/or indirect shareholdings in the Company at the relevant Board meetings and on the resolution pertaining to their entitlements under the Proposed LTIP to be tabled at the forthcoming EGM.

Save as disclosed above, none of TM's Directors, major shareholders and/or persons connected with them have any direct and/or indirect interest in the Proposed LTIP.

8. DIRECTORS' STATEMENT

The Board, having considered and deliberated all aspects of the Proposed LTIP as a whole (not in respect of the allocations to the Interested Directors and allocations to persons connected with them), is of the view that the Proposed LTIP is in the best interests of TM Group.

9. ADVISER

CIMB has been appointed by TM as the Adviser for the Proposed LTIP.

10. ESTIMATED TIMEFRAME TO COMPLETION

Barring any unforeseen circumstances, TM expects to implement the Proposed LTIP by the second half of 2016.

This announcement is dated 9 March 2016.