

TELEKOM MALAYSIA BERHAD (“TM”)

PROPOSED CAPITAL DISTRIBUTION TO SHAREHOLDERS OF APPROXIMATELY RM1,037.4 MILLION (“PROPOSED CAPITAL DISTRIBUTION”)

1.0 INTRODUCTION

On behalf of TM’s Board of Directors (“**Board**”), CIMB Investment Bank Berhad (“**CIMB**”) is pleased to announce that TM proposes to carry out a proposed capital distribution to its shareholders of approximately RM1,037.4 million or RM0.29 for each ordinary share of RM1.00 each in TM (“**TM Share**”).

2.0 DETAILS OF THE PROPOSED CAPITAL DISTRIBUTION

- 2.1 The Proposed Capital Distribution involves a capital distribution of approximately RM1,037.4 million to TM’s shareholders. Shareholders, whose names appear in TM’s Record of Depositors at the close of business on a date to be determined and announced later (“**Entitlement Date**”), shall be entitled to receive a cash payment under the Proposed Capital Distribution of RM0.29 for each TM Share held as at the Entitlement Date.
- 2.2 The Proposed Capital Distribution will be funded through the TM group’s existing cash balances, which stands at RM3,488.5 million as at 31 December 2010.
- 2.3 To facilitate the Proposed Capital Distribution, the following is proposed to be carried out:
 - (i) a bonus issue of approximately 3,577.4 million redeemable preference shares of RM0.01 each in TM (“**RPS**”) to TM’s shareholders, on the basis of 1 RPS for each TM Share held on the Entitlement Date. The RPS shall be issued at its par value of RM0.01 each by way of capitalisation of TM’s share premium account; and
 - (ii) redemption of the RPS shall be at a redemption price of RM0.29 for each TM Share held. The par value of RM0.01 per RPS, representing approximately RM35.8 million in total, will be redeemed out of TM’s retained profits, whereas the premium on redemption of RM0.28 per RPS, representing approximately RM1,001.6 million in total, will be redeemed out of TM’s share premium account. This will result in a cash payment of RM0.29 for each TM Share held or a total cash payment of approximately RM1,037.4 million to TM’s shareholders.
- 2.4 Based on TM’s latest audited financial statements as at 31 December 2010, TM has retained profits and share premium of RM1,996.9 million and RM1,055.1 million respectively. Accordingly, TM has sufficient reserves to be capitalised and applied for the redemption of the RPS under the Proposed Capital Distribution. TM’s retained profits and share premium are unimpaired by losses on a consolidated basis.

- 2.5 For avoidance of doubt, the RPS to be issued under the Proposed Capital Distribution will not be credited into the central depository system accounts of TM's shareholders and will not be listed on the Official List of Bursa Malaysia Securities Berhad. The RPS to be issued under the Proposed Capital Distribution shall, upon allotment and issue, rank equally amongst themselves in all respects. Upon redemption of the RPS, the RPS will be cancelled.
- 2.6 In addition, to facilitate the Proposed Capital Distribution, it is proposed that TM's authorised share capital be changed to allow for the issuance of the RPS and that TM's Memorandum and Articles of Association be correspondingly amended to reflect such changes. Details of the abovementioned changes and amendments will be set out in TM's circular to shareholders for the Proposed Capital Distribution to be issued in due course.

3.0 RATIONALE FOR THE PROPOSED CAPITAL DISTRIBUTION

The Proposed Capital Distribution is consistent with the objectives of TM's capital management framework which includes returning cash in excess of TM's requirement to shareholders, after taking into consideration TM's level of cash, business prospects, projected levels of capital expenditure and its investment plans and current and expected obligations. TM believes that this is an opportune time to implement the Proposed Capital Distribution in view of its strong cash position as a result of disposals of non-core assets undertaken by TM and/or its subsidiaries.

In addition to rewarding TM's shareholders through the cash distribution, TM believes that, by returning equity to its shareholders, it is providing immediate value enhancement and improvement to the shareholders' long term rates of return.

4.0 EFFECTS OF THE PROPOSED CAPITAL DISTRIBUTION

4.1 Share capital

The effects of the Proposed Capital Distribution on TM's issued and paid-up share capital are as follows:

	No. of TM Shares	No. of RPS	Total
	million	million	RM million
Issued and paid-up share capital as at 25 February 2011	3,577.4	*	3,577.4
Bonus issue of RPS under the Proposed Capital Distribution	-	3,577.4	35.8
Redemption of RPS under the Proposed Capital Distribution	-	(3,577.4)	(35.8)
Issued and paid-up share capital after the Proposed Capital Distribution	3,577.4	*	3,577.4

Note:

* *Negligible.*

4.2 Earnings per share

The Proposed Capital Distribution will result in a loss of interest income which would otherwise be derived from the monies proposed to be distributed. Save as disclosed above, the Proposed Capital Distribution is not expected to have any impact on TM's consolidated earnings per share.

4.3 Net assets and gearing

Based on TM's audited consolidated financial statements as at 31 December 2010, the proforma effect of the Proposed Capital Distribution on TM's consolidated net assets and gearing assuming the Proposed Capital Distribution was completed on 31 December 2010 is set out below.

	Audited as at 31 December 2010 RM million	After the Proposed Capital Distribution RM million
Share capital ⁽¹⁾	3,568.1	3,568.1
Share premium	1,055.1	17.7
Retained profits	2,719.4	2,686.3 ⁽²⁾
Capital redemption reserve ⁽¹⁾	35.8	71.6 ⁽²⁾
Other reserves	331.0	331.0
Total capital and reserves attributable to TM's equity holders / Net assets	7,709.4	6,674.7
No. of TM Shares in issue (million) ⁽¹⁾	3,568.1	3,568.1
Net assets per share (RM)	2.16	1.87
Total borrowings	5,532.9	5,532.9
Gearing (times)	0.72	0.83

Notes:

⁽¹⁾ On 17 March 2008, TM issued 137.6 million TM Shares, representing approximately 4% of the prevailing total issued and paid-up share capital of TM then ("**ESOS Shares**"), under TM's Employee Share Option Scheme ("**ESOS**") to TM ESOS Management Sdn Bhd ("**TEM**"), a wholly-owned special purpose entity established to act as a trustee to acquire, hold and manage the ESOS Shares under a trust arrangement, in exchange for investment in TEM, thereby making TEM a subsidiary as well as a shareholder of TM. In the consolidated financial statements, the issuance of the ESOS Shares to TEM is deemed an intra-group transaction and therefore not recorded until the ESOS Shares are transferred to employees or other parties external to the TM group.

Whilst the ESOS has expired on 16 September 2010, as at 31 December 2010, TEM continues to hold 9.2 million ESOS Shares, which represents TM Shares not offered to employees or for which options were unexercised and consequentially lapsed under the ESOS. The ESOS Shares will be recorded as paid-up capital in TM's consolidated financial statements upon disposal of the ESOS Shares by TEM.

⁽²⁾ Illustrates the adjustments to TM's consolidated retained profits as follows:

- (i) creation of a capital redemption reserve of RM35.8 million, being the par value of approximately 3,577.4 million RPS at RM0.01 each, out of retained profits; and
- (ii) adjustment of approximately RM2.7 million to the TM's consolidated retained profits to reflect the redemption of RPS in connection with the ESOS Shares held by TEM as at 31 December 2010, representing 9.2 million RPS of RM0.29 each.

4.4 Substantial shareholders' shareholdings

The Proposed Capital Distribution will not have any effect on the shareholdings of the substantial shareholders of TM.

4.5 Dividends

The Proposed Capital Distribution is not expected to have an impact on TM's dividend policy.

5.0 APPROVALS REQUIRED

The Proposed Capital Distribution is subject to the following:

- (i) approval of TM's shareholders at an Extraordinary General Meeting to be convened;
- (ii) Bank Negara Malaysia ("**BNM**") for the issuance of the RPS to TM's non-resident shareholders; and
- (iii) approvals/consents of other relevant authorities/parties, if required.

Barring any unforeseen circumstances, the application to BNM is expected to be made within 2 months from the date of this announcement.

6.0 EXPECTED IMPLEMENTATION/COMPLETION DATE

Barring any unforeseen circumstances, the Proposed Capital Distribution is expected to be completed in the second quarter of 2011, whereby payment to TM's shareholders under the Proposed Capital Distribution is intended to be made concurrently with payment of TM's proposed final gross dividend for the financial year ended 31 December 2010 of 13.1 sen (less 25% tax).

7.0 DIRECTORS AND MAJOR SHAREHOLDERS' INTERESTS

None of TM's Directors and major shareholders and persons connected to them have any interest, direct or indirect, in the Proposed Capital Distribution other than their respective entitlements as shareholders of TM under the Proposed Capital Distribution.

8.0 DIRECTORS' STATEMENT

The Board, having considered all aspects of the Proposed Capital Distribution, is of the view that the Proposed Capital Distribution is in the best interest of TM.

9.0 ADVISER

CIMB Investment Bank Berhad has been appointed as adviser to TM for the Proposed Capital Distribution.

This announcement is dated 25 February 2011.