

OTHERS PROPOSED INTERNAL REORGANISATION OF TENAGA NASIONAL BERHAD AND ITS SUBSIDIARIES (PROPOSED INTERNAL REORGANISATION)

TENAGA NASIONAL BHD

Type	Announcement
Subject	OTHERS
Description	PROPOSED INTERNAL REORGANISATION OF TENAGA NASIONAL BERHAD AND ITS SUBSIDIARIES (PROPOSED INTERNAL REORGANISATION)

On behalf of the Board of Directors of Tenaga Nasional Berhad (“**TNB**”) (“**Board**”), Maybank Investment Bank Berhad wishes to announce that today the Board has approved the Proposed Internal Reorganisation which involves the transfer by TNB of its domestic power generation and electricity retail businesses to two (2) new wholly-owned subsidiaries of TNB which will be incorporated.


The Proposed Internal Reorganisation is expected to improve the efficiency, agility and performance of the business segments of the TNB group of companies (“**TNB Group**” or “**Group**”) and promote ownership, entrepreneurship and innovation within the Group. The Proposed Internal Reorganisation is in line with TNB’s strategic transformation plan, Reimagining TNB, and is envisaged to improve the TNB Group’s performance and returns to the shareholders of TNB in the medium to long-term.

Please refer to the attachment for details of the Proposed Internal Reorganisation.

This Announcement is dated 29 July 2019.

Please refer attachment below.

Attachments

 [TNB Announcement_290719.pdf](#)
330.7 kB

Announcement Info

Company Name	TENAGA NASIONAL BHD
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TENAGA NASIONAL BERHAD (“TNB” OR “COMPANY”)

PROPOSED INTERNAL REORGANISATION OF TNB AND ITS SUBSIDIARIES (“TNB GROUP” OR “GROUP”) (“PROPOSED INTERNAL REORGANISATION”)

1. INTRODUCTION

On behalf of the Board of Directors of TNB (“**Board**”), Maybank Investment Bank Berhad (“**Maybank IB**”) wishes to announce that the Board has approved a proposed internal reorganisation by way of a members’ scheme of arrangement under Section 366 of the Companies Act, 2016 (“**Act**”) (“**Scheme**”).

The Proposed Internal Reorganisation will involve the transfer by TNB of the assets, liabilities and business undertakings (including shares held in certain of its subsidiaries) of the following business divisions to two (2) new wholly-owned subsidiaries of TNB to be incorporated:-

- (i) transfer of the domestic power generation business of TNB (“**Generation Business**”) to a new wholly-owned subsidiary of TNB to be incorporated (“**GenCo**”) (“**Proposed GenCo Transfer**”); and
- (ii) transfer of the electricity retail business of TNB (“**Retail Business**”) to a new wholly-owned subsidiary of TNB to be incorporated (“**RetailCo**”) (“**Proposed RetailCo Transfer**”).

2. DETAILS OF THE PROPOSED INTERNAL REORGANISATION

2.1 Proposed GenCo Transfer

2.1.1 Details on the Proposed GenCo Transfer

TNB will enter into a conditional share purchase agreement (“**GenCo SPA**”) and a conditional asset purchase agreement (“**GenCo APA**”) with GenCo for the transfer of the assets, liabilities and business undertakings (including shares held in certain subsidiaries) related to TNB’s Generation Business (“**GenCo Assets & Liabilities**”) as at 30 June 2020 or such other date as TNB may decide (“**Cut-Off Date**”) to GenCo by way of the Scheme.

The Proposed GenCo Transfer will involve the transfer of the GenCo Assets & Liabilities to GenCo comprising the following:-

- (i) shares in the following subsidiaries of TNB:-
 - (a) 100% equity stake in Integrax Berhad;
 - (b) 60% equity stake in Kapar Energy Ventures Sdn. Bhd.;
 - (c) 100% equity stake in TNB Pasir Gudang Energy Sdn. Bhd.;
 - (d) 100% equity stake in TNB Connaught Bridge Sdn. Bhd.;
 - (e) 100% equity stake in TNB Manjung Five Sdn. Bhd.;
 - (f) 100% equity stake in TNB Janamanjung Sdn. Bhd.;
 - (g) 100% equity stake in TNB Prai Sdn. Bhd.;
 - (h) 51% equity stake in Southern Power Generation Sdn. Bhd.;
 - (i) 70% equity stake in Jimah East Power Sdn. Bhd.;
 - (j) 100% equity stake in TNB Sepang Solar Sdn. Bhd.;
 - (k) 100% equity stake in TNB Renewables Sdn. Bhd.; and
 - (l) 100% equity stake in TNB Repair and Maintenance Sdn. Bhd.

(Collectively, the subsidiaries named in (a) to (l) above are referred to as “**GenCo Target Companies**”); and

- (ii) all other assets, liabilities and business undertakings, save for two (2) hydropower plants located at Ulu Jelai and Hulu Terengganu ("**Excluded Power Plants**"), related to the Generation Business.

The Excluded Power Plants shall remain in TNB and shall be transferred to GenCo in separate transactions at a later date to avail themselves of certain financial benefits which may no longer apply if the transfers were to be effected immediately. TNB and GenCo will also enter into an agreement for the operation and maintenance of the Excluded Power Plants by GenCo commencing after the completion of the Proposed Internal Reorganisation.

Upon completion of the Proposed GenCo Transfer, GenCo's principal activities will be the ownership, management and operation of the domestic power plants, renewable energy generation business, power plant operation and maintenance business and dry bulk terminal operations business.

2.1.2 Proposed consideration and mode of satisfaction

The proposed consideration for the GenCo Assets & Liabilities shall be the net carrying value of the GenCo Assets & Liabilities recorded by TNB in the unaudited balance sheet of the Generation Business (including investments in subsidiaries) ("**Generation Completion Accounts**") as at 1 July 2020 or such other date as TNB may decide ("**Transfer Date**"). For illustrative purposes, the proposed consideration for the GenCo Assets & Liabilities is approximately RM12.14 billion based on the net carrying value in the unaudited proforma balance sheet of the Generation Business as at 31 December 2018.

The proposed consideration amount shall be determined and agreed in writing between TNB and GenCo after finalisation of the Generation Completion Accounts which is targeted to be finalised within 60 days after the completion of the Proposed Internal Reorganisation or such other date as agreed between the parties. The mode of satisfaction for the proposed consideration shall also be agreed in writing between TNB and GenCo and announced at a later date.

2.1.3 Proposed salient terms of the GenCo SPA and GenCo APA

(i) Conditions Precedent

The GenCo SPA and GenCo APA are conditional upon the satisfaction of the following conditions:-

GenCo SPA and GenCo APA

- (a) the passing of a resolution to approve the Proposed Internal Reorganisation at a court-convened meeting of the members of TNB pursuant to an order of the High Court of Malaya ("**High Court**") under Section 366 of the Act;
- (b) vesting order granted by the High Court pursuant to Section 370 of the Act for the Scheme ("**Vesting Orders**") in relation to the Proposed Internal Reorganisation to be obtained by TNB;
- (c) execution of the GenCo SPA, GenCo APA, the conditional share purchase agreement between TNB and RetailCo ("**RetailCo SPA**") and the conditional asset purchase agreement between TNB and RetailCo ("**RetailCo APA**") (collectively, the "**Agreements**"), and fulfilment or waiver of the conditions under such Agreements as the case may be;

- (d) approval and consent of and/or notification to any relevant authority that is required to be obtained and/or issued for the Proposed GenCo Transfer including, amongst others, the following:-
- (i) consent from the Ministry of Energy, Science, Technology, Environment and Climate Change (“**MESTECC**”) and Energy Commission of Malaysia (“**EC**”) for the change in shareholding structure under the generation licences in relation to the Proposed Internal Reorganisation;
 - (ii) notification to the Department of Environment of Malaysia for change in ownership of project land or change in management of the power plants;
 - (iii) consent from the state government of Negeri Sembilan for the transfer of water abstraction licences from TNB to GenCo, if applicable;
 - (iv) consent from the Ministry of Finance, Malaysia (“**MOF**”) for the Proposed GenCo Transfer and for GenCo to assume TNB’s loan obligation from the Overseas Economic Cooperation Fund, Japan and the Japan Bank for International Corporation;
 - (v) confirmation from the MOF on the applicability of the tax exemption granted by the MOF on 14 June 2019 to the Proposed Internal Reorganisation;
 - (vi) approvals from the relevant state land authorities and Rulers of state/ Rulers in Council in respect of the transfer, alienation, lease or rent of the Malay reserve lands to GenCo, if applicable; and
 - (vii) notification to the Construction Industry Development Board Malaysia of the Proposed Internal Reorganisation;
- (e) written approval, consent or waivers to be obtained from counterparties (including, amongst others, the financiers/creditors of TNB) to material contract(s) entered into by TNB and/or the GenCo Target Companies for the conveyance, transfer, assignment or novation in favour of GenCo of any of the GenCo Assets & Liabilities; and

GenCo APA

- (f) approval-in-principle for the issuance of licences, authorisations, orders, grants, confirmations, permissions, registrations and other approvals, where required, in relation to the power generation business to be held under GenCo and TNB having been obtained from the relevant authority by GenCo and TNB.

The parties may mutually agree in writing to waive the requirement to fulfil any of the conditions above and proceed to complete the Proposed GenCo Transfer.

(ii) Effective Date

The Scheme for the Proposed GenCo Transfer shall become effective on the date on which an office copy of the order of the High Court sanctioning the Proposed Internal Reorganisation has been lodged with the Registrar of Companies or such earlier date as the High Court may determine.

2.2 Proposed RetailCo Transfer

2.2.1 Details on the Proposed RetailCo Transfer

TNB will enter into a RetailCo SPA and a RetailCo APA with RetailCo for the transfer of assets, liabilities and business undertakings (including shares held in certain subsidiaries) related to TNB's Retail Business ("**RetailCo Assets & Liabilities**") as at the Cut-Off Date to RetailCo by way of the Scheme.

The Proposed RetailCo Transfer will involve the transfer of the RetailCo Assets & Liabilities as follows:-

- (i) shares representing 100% equity stake in TNBX Sdn. Bhd. and GSPARX Sdn. Bhd. (collectively referred to as "**RetailCo Target Companies**"); and
- (ii) all other assets, liabilities and business undertakings related to the Retail Business.

Upon completion of the Proposed RetailCo Transfer, RetailCo's principal activities will be the sale of electricity to customers, collection of revenues from customers, provision of customer services, operation of call management centres, green energy solution services and beyond the meter solution services.

2.2.2 Proposed consideration and mode of satisfaction

The proposed consideration for the RetailCo Assets & Liabilities shall be the net carrying value of the RetailCo Assets & Liabilities recorded by TNB in the unaudited balance sheet of the Retail Business (including investments in subsidiaries) ("**Retail Completion Accounts**") as at the Transfer Date. For illustrative purposes, the proposed consideration for the RetailCo Assets & Liabilities is approximately RM1.84 billion based on the net carrying value in the unaudited proforma balance sheet of the RetailCo Business as at 31 December 2018.

The proposed consideration amount shall be determined and agreed in writing between TNB and RetailCo after the finalisation of the Retail Completion Accounts which is targeted to be finalised within 60 days after the completion of the Proposed Internal Reorganisation or such other date as agreed between the parties. The mode of satisfaction for the proposed consideration shall also be agreed in writing between TNB and RetailCo and announced at a later date.

2.2.3 Proposed salient terms of the RetailCo SPA and RetailCo APA

(i) Conditions Precedent

The RetailCo SPA and RetailCo APA are conditional upon the satisfaction of the following conditions:-

RetailCo SPA and RetailCo APA

- (a) the passing of a resolution to approve the Proposed Internal Reorganisation at a court-convened meeting of the members of TNB pursuant to an order of the High Court under Section 366 of the Act;
- (b) Vesting Orders in relation to the Proposed Internal Reorganisation to be obtained by TNB;
- (c) execution of the Agreements and fulfilment or waiver of the conditions under such Agreements as the case may be;

- (d) approval and consent of and/or notification to any relevant authority that is required for the Proposed RetailCo Transfer to be obtained and/or issued including, amongst others, the following:-
 - (i) confirmation from the MOF on the applicability of the tax exemption granted by the MOF on 14 June 2019 to the Proposed Internal Reorganisation;
 - (ii) notification to the Sustainable Energy Development Authority of Malaysia of the Proposed Internal Reorganisation and to obtain consent for the novation of all the Renewable Power Purchase Agreements from TNB to RetailCo; and
 - (iii) consent from the MOF for the Proposed RetailCo Transfer;
- (e) written approval, consent or waivers to be obtained from counterparties (including, amongst others, financiers/creditors of TNB) to material contract(s) entered into TNB and/or the RetailCo Target Companies for the conveyance, transfer, assignment or novation in favour of RetailCo of any of the RetailCo Assets & Liabilities; and

RetailCo APA

- (f) approval-in-principle for the issuance of licences, authorisations, orders, grants, confirmations, permissions, registrations and other approvals, where required, in relation to the Retail Business having been obtained from the relevant authority by RetailCo.

The parties may mutually agree in writing to waive the requirement to fulfil any of the conditions above and proceed to complete the Proposed RetailCo Transfer.

(ii) Effective Date

The Scheme for the Proposed RetailCo Transfer shall become effective on the date on which an office copy of the order of the High Court sanctioning the Proposed Internal Reorganisation has been lodged with the Registrar of Companies or such earlier date as the High Court may determine.

3. RATIONALE FOR THE PROPOSED INTERNAL REORGANISATION

The Proposed Internal Reorganisation is undertaken to reorganise TNB's domestic power generation and electricity retail businesses under new holding companies. Each business entity shall be under the purview of a separate board and management team. This is in line with TNB's strategic transformation plan, Reimagining TNB, which aims to prepare TNB for the upcoming reforms in the electricity supply industry in Malaysia.

After the completion of the Proposed Internal Reorganisation, TNB's principal activities will be the operation of the high voltage national grid and the distribution of electricity to customers ("**Transmission and Distribution Business**"), the international power generation business including thermal power generation, conventional and renewable energy generation business, the provision of corporate and/or shared service functions to GenCo and RetailCo and other companies within the TNB Group.

The Proposed Internal Reorganisation is expected to provide the following benefits:-

(i) Greater focus driving improvements in efficiency, agility and performance

Each of the Generation Business and Retail Business has different business objectives, strategies and capital requirements. The formation of separate business entities and management teams for each business is envisaged to provide greater focus by having business strategies, performance management and investment initiatives that are tailored to meet the specific needs of each business. This is expected to increase the operational efficiency and agility of each business segment and improve the Group's performance and returns to the shareholders of TNB in the medium to long-term.

(ii) Greater independence promoting ownership, entrepreneurship and innovation

Each standalone business entity will be under the purview of a separate board and management team that is accountable for the performance and financial results of the business. At the same time, each business entity will retain the benefits of strategic oversight and operational synergy, co-operation and scale by continuing to be part of the Group with central leadership.

(iii) Preparation for the anticipated electricity market changes

The Proposed Internal Reorganisation is expected to allow TNB to place itself in an advantageous position to compete ahead of expected market changes to the electricity supply industry in Malaysia. Additionally, the separation of regulated and major-unregulated businesses through the creation of GenCo and RetailCo provides the shareholders of TNB with greater transparency over the business operations and financial performance of each subsidiary.

(iv) Flexibility in capital management and pursuing growth opportunities

The Generation Business, Retail Business and TNB (which primarily comprises the Transmission and Distribution Business) have different risk-reward profiles and growth opportunities. Through the Proposed Internal Reorganisation, each standalone business entity of RetailCo and GenCo has the option of raising capital directly in the future, as opposed to being limited to capital allocation by the Group, and tailoring the capital structure in line with their different risk-reward profiles to support their new growth opportunities.

4. EFFECTS OF THE PROPOSED INTERNAL REORGANISATION

4.1 Share capital

The Proposed Internal Reorganisation is not expected to have any effect on the share capital of TNB.

4.2 Substantial shareholders' shareholdings

The Proposed Internal Reorganisation is not expected to have any effect on the shareholdings of the substantial shareholders of TNB.

4.3 Earnings and earnings per ordinary share in TNB ("Share") ("EPS")

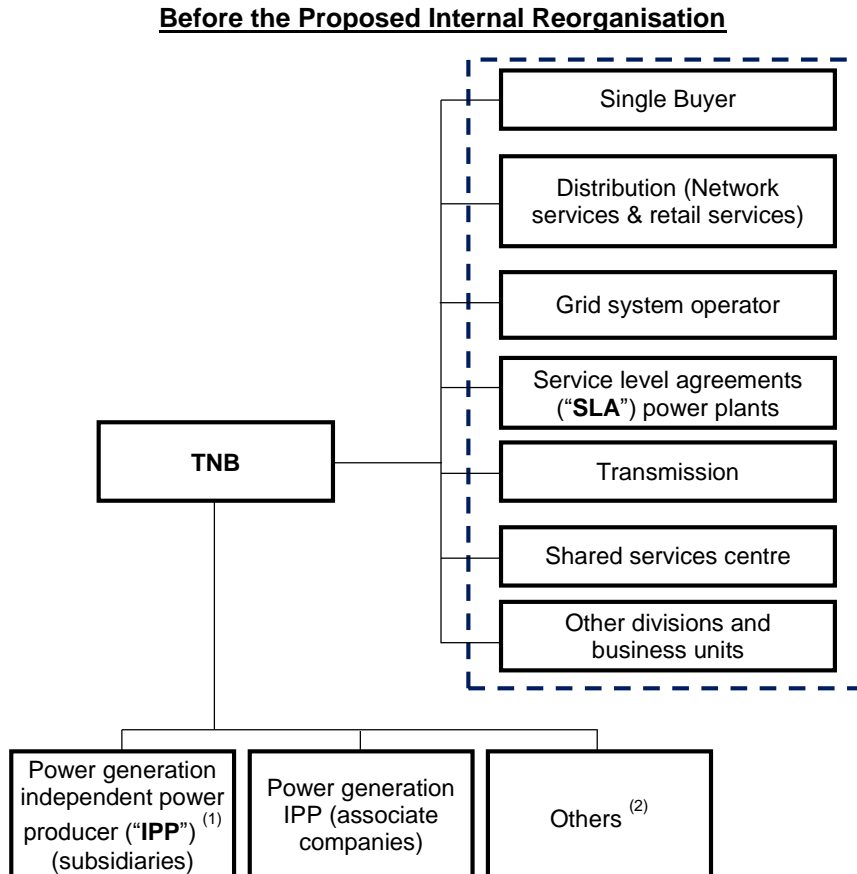
The Proposed Internal Reorganisation is not expected to have a material effect on the earnings and EPS of the TNB Group for the financial year ending 31 December 2019. The Proposed Internal Reorganisation is expected to be completed in the third (3rd) quarter of 2020.

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

The Proposed Internal Reorganisation is not expected to have a material effect on the NA per Share and gearing of the TNB Group.

4.5 Group structure

The group structure of the Group before and after the Proposed Internal Reorganisation are as follows:-

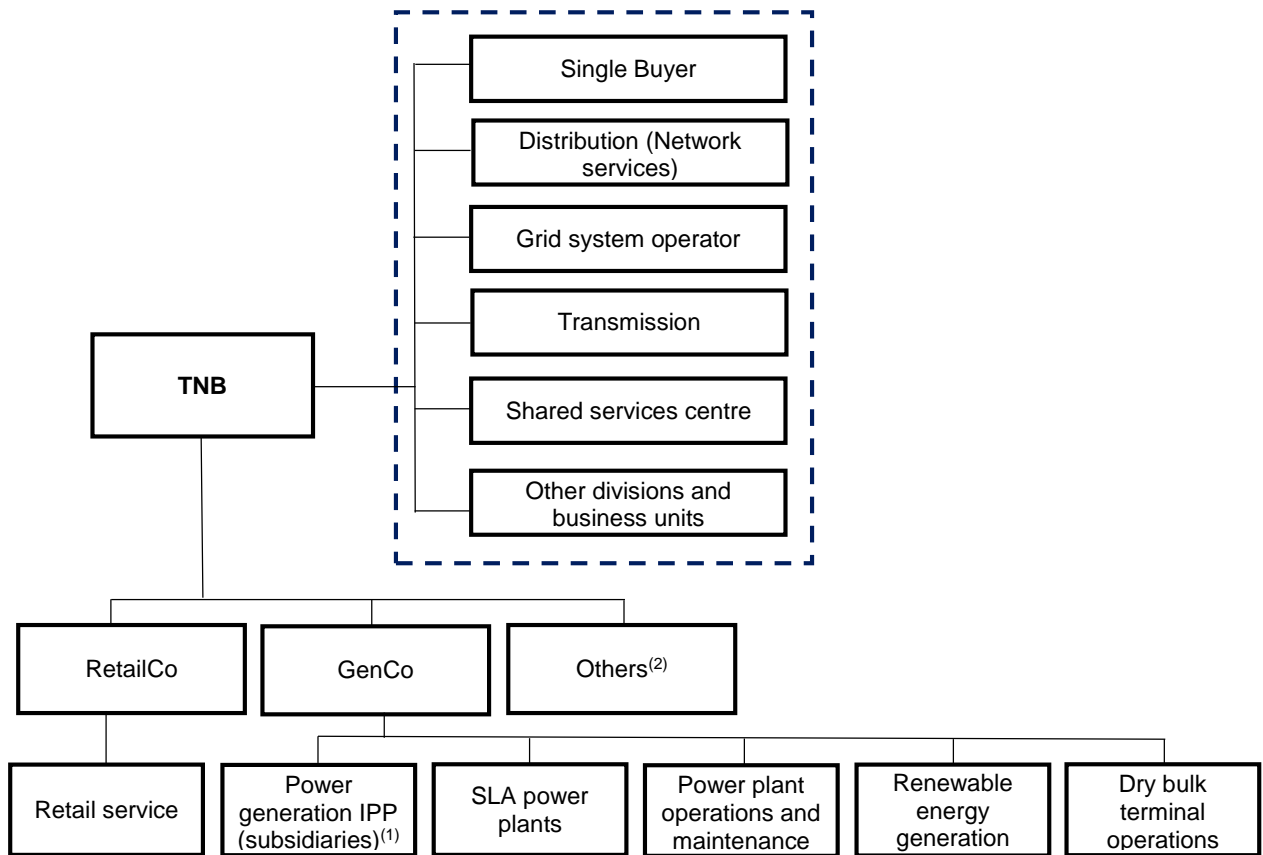


Notes:-

(1) Inclusive of local and international IPPs

(2) Other subsidiaries and associate companies

After the Proposed Internal Reorganisation



Notes:-

(1) *Excluding the Excluded Power Plants, which shall remain in TNB*

(2) *Other subsidiaries, associate companies and business units including power generation IPP (associate companies) and Excluded Power Plants*

5. APPROVALS REQUIRED

The Proposed Internal Reorganisation is subject to the following being obtained:-

- (i) approval of the shareholders of TNB at a court-convened meeting to be convened for the Proposed Internal Reorganisation;
- (ii) order of the High Court sanctioning the Scheme and granting of the Vesting Orders in relation to the Proposed Internal Reorganisation;
- (iii) approval/consent of the financiers/creditors of TNB;
- (iv) approval/consent of MESTECC, EC and MOF as detailed in Sections 2.1.3(i) and 2.2.3(i) of this Announcement; and
- (v) approval, consent and/or sanction of any other relevant authorities/parties, if required.

The Proposed GenCo Transfer and Proposed RetailCo Transfer are inter-conditional upon each other. The Proposed Internal Reorganisation is not conditional upon any other corporate exercise of TNB.

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

None of the Directors of the Company, major shareholders of the Company and/or persons connected with them has any interest, direct and/or indirect, in the Proposed Internal Reorganisation.

7. DIRECTORS' STATEMENT

The Board, having considered all aspects of the Proposed Internal Reorganisation, including but not limited to, rationale and effects of the Proposed Internal Reorganisation, is of the opinion that the Proposed Internal Reorganisation is in the best interest of TNB.

8. ADVISER

Maybank IB has been appointed as Principal Adviser to TNB for the Proposed Internal Reorganisation.

9. APPLICATION TO AUTHORITIES AND ESTIMATED TIMEFRAME FOR COMPLETION

The application to the relevant authorities in relation to the Proposed Internal Reorganisation is expected to be made within two (2) months from the date of this Announcement.

Barring unforeseen circumstances, the Proposed Internal Reorganisation is expected to be completed by the third (3rd) quarter of 2020.

This Announcement is dated 29 July 2019.