



25TH ANNUAL GENERAL MEETING

*MINORITY SHAREHOLDER
WATCHDOG GROUP*

14th December 2015

**BETTER ENVIRONMENT.
BRIGHTER FUTURE.**

QUESTIONS FROM SHAREHOLDERS

MINORITY SHAREHOLDER WATCHDOG GROUP (MSWG)



FINANCIAL RELATED



Q1

Tenaga Nasional Berhad on 23 November 2015 received Notices of Additional Assessment for the years of assessment 2013 and 2014 for the sum of RM985,574,533.39 and RM1,082,614,007.13 respectively.

a) Please share with shareholders on the additional assessment received and what is the current status of the appeal process?

Answer:

- The additional assessment follows from IRB's decision to disallow TNB's Reinvestment Allowance (RA) claim for the years of assessment 2013 and 2014.
- TNB had claimed RA for the years of assessment 2013 and 2014 subsequent to IRB's approval dated on 21 Jan 2013, which in principal approved TNB's RA claim.
- Notwithstanding this approval, vide its letters on 17 June 2015 and 15 Sept 2015, the IRB subsequently reversed its earlier approval on the basis that TNB is not in the business of manufacturing.
- We are unable to disclose the present status of the appeal at this juncture as it may prejudice the on-going appeal.

Q1

...continued

Tenaga Nasional Berhad on 23 November 2015 received Notices of Additional Assessment for the years of assessment 2013 and 2014 for the sum of RM985,574,533.39 and RM1,082,614,007.13 respectively.

b) Would there be any impact to the Group's cash position?

Answer:

Any impact to the Group's cash position will depend on the outcome of the appeal.

Q2

The Group's financial statement showed that the revenue increased marginally by 1.2% from RM42.8 billion to RM43.3 billion in FY2015.

What is the Group's targeted growth in revenue for the next few years?

Answer:

- Approximately 95% of the Group Revenue is derived from Sales of Electricity in Peninsular Malaysia. Thus, the revenue growth should follow the electricity demand growth in Peninsula.
- It has been observed in recent years that the electricity demand growth has been at a factor of approximately 0.6 of the national Gross Domestic Product (GDP).
- Thus, for Financial Year 2016, the electricity demand growth is expected to increase in tandem with the projected GDP growth of between 4.0% and 5.0%.
- The growth is mainly from expansion in the construction, services and manufacturing sectors as mentioned in the Malaysian 2016 budget.

Q2

...continued

The Group's financial statement showed that the revenue increased marginally by 1.2% from RM42.8 billion to RM43.3 billion in FY2015.

How would the Board plan to increase its revenue source?

Answer:

- With the successful implementation of Incentive Based Regulation (IBR) effective 1st January 2014, the domestic revenue from Sales of Electricity is expected to remain stable moving forward.
- Based on TNB 20-Year Strategic Plan, the 2nd Phase focused on the creation of new revenue stream, leveraging on TNB's knowledge and competencies in the energy business.
- During the 2nd Phase, we have successfully secured Operations and Maintenance (O&M) contracts in the international market such as in Saudi Arabia, Kuwait and Pakistan.
- The start of the new Phase will begin in January 2016, whereby TNB will venture into power/energy related investments in the international arena. At the same time, we will continue to look for opportunities towards increasing our market share in the domestic market.

Q5

As reported on page 47 (Strategic Review) of the Annual Report 2015, SESB is currently in the midst of reducing its dependency on fuel subsidies from the government and during the year, continued to do so through lower usage of diesel. This followed the decommissioning of several old power plants.

How is TNB strategising to phase out the fuel subsidies enjoyed by SESB?

Answer:

- Under the existing electricity tariff structure for Sabah, SESB is not able to recover the fuel costs of Medium Fuel Oil (MFO) and diesel used in generating electricity.
- The fuel subsidy was given to SESB by the government to recover its fuel costs above.
- The decision to phase out the fuel subsidies will depend on the government under its subsidy rationalisation plan.

Q5*...continued*

As reported on page 47 (Strategic Review) of the Annual Report 2015, SESB is currently in the midst of reducing its dependency on fuel subsidies from the government and during the year, continued to do so through lower usage of diesel. This followed the decommissioning of several old power plants.

Already recorded a marginal profit of 5.8% in FY2015, would SESB be able to break through if it excluded the subsidies?

Answer:

- Though SESB recorded a profit of RM98.605 million in FY2015, the total subsidy received for diesel and MFO from the government was recorded at RM361.0 million.
- Since the subsidy amount is substantial in comparison to the profit , thus SESB will not be able to break through if the subsidies is excluded.

Q6

As at 31 August 2015, the trade receivable's impairment losses of the Group stood at RM787.4 million (2014: RM743.8 million).

a) Is the impaired amount recoverable?

Answer:

- In compliance to the accounting standards to meet Critical Accounting Estimates and Judgment, TNB reviews its loans and receivables for objective evidence of impairment at least on quarterly basis.
- Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired.
- The impaired amount was mainly from the Electricity Debtors. The recoverability is as follows:
 - Individual impairment – RM241.7 million: **Low recoverability**
 - Collective Impairment of General Electricity Debtors – RM545.7 million: **Partially recoverable**

Q6*...continued*

As at 31 August 2015, the trade receivable's impairment losses of the Group stood at RM787.4 million (2014: RM743.8 million).

b) To date, of the total amount, how much have been collected and how has the management strategised for recovering the outstanding?

Answer:

Management strategies are as follows:

- Identified Individual Impairment:
 - Proactive and close monitoring of the accounts
 - Advance Payment Scheme for selected accounts
 - Disconnection upon non-compliance to Advance Payment Scheme / Non-Payment
 - Legal action upon default payment

- General Electricity Debtors:
 - Appoint Debt Collecting Agents
 - Debt reminder call by the Contact Center

OPERATIONAL RELATED



Q3

In driving operational excellence & cost efficiencies, please brief shareholders on the improvements achieved in plant availability, efficiency, inventory and maintenance cost optimisation within three plants in which TNB has piloted the program.

Answer:

	Plant Availability Improvement (%)	Efficiency Improvement (%)	Inventory	Maintenance Cost
SJ Sultan Azlan Shah, Manjung	2 – 3	3	Cost of avoidance of RM34 million through inventory optimisation	Target to achieve savings of RM60 million by August 2016
SJ Tuanku Jaafar, Port Dickson	7 – 8	1		
SJ Sg Perak	1	N/A		

Q4 To date, how has the acquisition of Integrax created value for TNB?

What is the targeted value creation in the next few years?

Answer:

- TNB has viewed the acquisition as strategic to ensure the security of supply chain integration objective is achieved. This is important as Integrax owns the jetty and coal handling facilities for TNB Janamanjung power plant.
- In April 2015, TNB Janamanjung has increased its total capacity from 2,100MW to 3,100MW with the commissioning of Manjung 4. The total capacity will further increase by another 1,000MW with the commissioning of Manjung 5 in 2017.
- Thus, the acquisition is deemed as a strategic decision for TNB to ensure the security of coal supply for TNB Janamanjung power plant.

Q7

9) There are some dormant companies
(Notes 14, 15 of the Annual Report 2015) under the Group.

What is the Board's plan with regard to the dormant companies and how much does the Group pay annually for holding the companies?

Answer:

- There are two categories of dormant companies:
 - Companies identified for Winding-Up : Status - ongoing
 - Companies identified for future investment purpose : Status-quo.
- Cost to maintain each dormant company is approximately around RM2,000 per annum, mainly for statutory compliance.

CORPORATE GOVERNANCE



Q1

MSWG is promoting standards of corporate governance best practices in PLCs. In this regard, we would like the Board to address the following issues:

Publishing a copy of the Company's Memorandum & Article of Association on the Company's website.

Answer:

- The Board of Directors took note the suggestion made by MSWG and we support the spirit of transparency and Good Corporate Governance.
- TNB will consider publishing a copy of our Memorandum and Article of Association in the website upon the Board's deliberation.

Q2

Fee for other non-audit services of the Group is more than 50% of total auditors' remuneration.

Can the Board provide to shareholders the nature of the non-audit services?

Is there a policy for “Non-Audit” services?

Answer:

- The nature of the non-audit services are as follows:
 - Advisory services relating to process reviews;
 - Due diligences on proposed acquisitions; and
 - Tax services.
- All services were procured competitively in accordance with TNB Procurement Policies and Procedures. Non-audit services can be offered by the External Auditors of the Group if there are clear efficiencies and value added benefits to the Group.
- The Board Audit Committee (BAC) assists the Board to assess whether the independence of the External Auditors has been maintained, having regard to any non-audit related services.
- The BAC has considered the provision of non-audit fees by the External Auditors during the Financial Year and has concluded that the provision of these fees does not compromise the External Auditors' independence or objectivity.