



MESYUARAT AGUNG TAHUNAN

Tenaga Nasional Berhad Ke - 29

14 Mei 2019

Q1a

The Reimagining TNB (2017-2025) blueprints sets TNB's strategic plan to emerge as one of the world's top 10 utilities by 2025, fueled by four pillars: future generation sources, grid of the future, winning over customers and future-proof regulations. On page 24 of TNB's Integrated Annual Report ("IAR") 2018, the company shared that one of the key development in Financial Year ("FY") 2018 is the establishment of TNB Renewables Energy Sdn. Bhd. ("TRe") in January 2018 to spearhead and accelerate the renewable energy business growth in Malaysia.

a) What are the opportunities and challenges (if any) for the Company moving into the renewable energy business?

Answer Q1a:

- Future Generation Sources pillar focuses on delivering value towards our Reimagining TNB aspirations, by shaping TNB's generation capability and portfolio growth in particular renewable energy which is in-line with Government's target of 20% renewable energy generated by 2025.
- TNB is targeting to achieve 1.7 GW of renewable capacity by 2025 through greenfield developments and acquisitions, locally and abroad.

Q1b

b) What are the key milestone, partnership, collaboration achieved to date by TRe and the expected projects in the pipeline for FY2019 and FY2020?

Answer Q1b:

- TNB had participated in the previous Large Scale Solar (LSS) biddings (LSS 1 and LSS2) and had won 1 lot for each bidding:
 - LSS1: TNB Sepang Solar (50MW) - commissioned on 19th Nov 2018
 - LSS2: TNB Bukit Selambau (30MW) - LSS2 - to be commissioned by 31 Dec 2020
- LSS3 bidding was recently announced by the Minister (Max per lot is now 100MW). Similar to any other business venture, TNB will evaluate the business model and ensure that it is value accretive to the shareholders.
- We have also embarked into self-generation solutions particularly on roof top solar through our subsidiary, GSPARX which is part of our non-regulated business. Through this initiative, customers can enjoy bill savings, and can also potentially shielded from tariff escalation by signing with fixed tariff offered by GSPARX. As at December 2018, 1.3MWp worth of Renewable Energy contracts have been confirmed under GSPARX.

Q2a In the Chairman's statement on page 17 of TNB of IAR 2018, it was disclosed that despite revenue growth of 6.3% for the FY2018 as compared to the prior FY2017 (1 Sept'16 - 31 Aug'17), the net profit in FY2018 dropped significantly by RM3.16 billion or 45.73%. The drop was mainly due to regulatory adjustment; Second Regulatory Period (RP2) (2018 - 2020), impairment and forex translation.

a) Please elaborate further on how the RP2 impacted the profits for FY2018?

Answer Q2a:

- In the recently published Guidelines on Electricity Tariff Determination under IBR for Peninsular Malaysia 2018, the guidelines introduced the implementation of the Annual Regulatory Adjustments, whereby TNB is required to return to the industry any excess revenue collected from higher actual sales which leads to higher revenue earned by the revenue cap entities and higher average selling price compared to Base Tariff for the price cap entity.
- Annual Regulatory Adjustment for FY2018 was fully recognized in 4QFY'18. Moving forward, any regulatory related adjustment will be provided for on monthly basis and will be disclosed quarterly through our quarterly result announcement.
- This requirement was not applied in Regulatory Period (RP) 1, hence TNB was allowed to keep revenue due to higher average selling price in RP1. This amount was in the region of 900 million Ringgit Malaysia (pre-tax) for each year in RP1.

Q2b b) Will the RP2 have similar impact for FY2019 and FY2020?

Answer Q2b:

Yes, it will have a similar impact in FY2019 and FY2020.

Q1a Based on the Corporate Governance (“CG”) report of the Company on the application of the practices under Malaysian Code on Corporate Governance (“MCCG”) 2017, please provide clarification on the following:

a) Practice 4.1 - At least half of the board companies comprises independent directors. For Large Companies, the board comprises a majority independent director.

The practice clearly states that for Large Companies the board comprises a majority independent directors. Therefore, TNB being a Large Company, as defined under MCCG 2017, has not met this requirement as currently the composition of independent directors stands at 50% (5 of 10 directors are independent). Please explain.

Answer Q1a:

- The Independent Non-Executive Directors make up 50% of the Board due to the recent significant movement on the Board, with the departure of several Board Members. Regardless of having 50% Independent Non-Executive Directors on Board, the Board continues to make informed decisions with due care and diligence, while exercising oversight on management in discharging its fiduciary duties and leadership functions for a proper purpose and in good faith and in the best interest of the Company.
- Based on the 2018 Board Evaluation Assessment, with the Board consensus, it is concluded that each of the Director’s level of performance was good and they had also met the prescribed performance criterias.
- In accordance with TNB’s Constitution, there are two (2) seat vacancies on Board. Hence, the Board shall continue to assess and consider the capabilities, commitment and qualities of candidates to be appointed as Board Members in accordance with TNB’s Constitution, taking into account the required mix of skills, background, experience/ expertise/knowledge relevant to Company’s business and industry, to maintain an appropriate dynamic on Board.

- Q1b** b) Practice 7.2 - The board discloses on a named basis the top 5 senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

On page 40 of the CG report, it was disclosed that the Company opted not to disclose the components of the remuneration of its Top Management as it may be unfavourable to the Company due to talent pinching and the Company would like to ensure employee retention efforts are safeguarded.

We note that the Company has disclosed an alternative practice where it was stated the remuneration paid to the Top Management is the results and recommendation done by an independent consultant ("BNRC") and later approved by the Board. However the details of the result and recommendation is not shared therefore the spirit of the intended income of the practice is not met. The disclosure of the remuneration allows stakeholders to understand the link between senior management remuneration and the company's performance. This will also enable stakeholders to determine whether the remuneration is fair and able to attract and retain talent.

Answer Q1b:

- A substantial portion of the remuneration has been made variable and is determined by individual performance against the Key Performance Indicators (KPIs) in a scorecard aligned with the Company objectives approved by the Board.
- On the subject of "whether the remuneration is fair and able to attract talent", the salary study was done and new salary for top management was implemented since 2016 based on market rates and is positioned at P50.
- Our low attrition rate for FY2018 which is below 0.5% for executives and none from Top Management, clearly demonstrate that our remuneration packages are fair and able to attract and retain talent.
- The Board took note of MSWG's comments and shall review our current standing on this disclosure.

- Q1c** c) Practice 12.3 - Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate voting in absentia and remote shareholders' participation at General Meetings.

On page 66 of TNB disclosed that it has yet facilitate voting in absentia and remote participation by shareholders at general meetings.

To encourage and faster meaningful relationship with shareholders, TNB is encouraged to leverage on technology as a potential enabler of general meetings with shareholder participation in mind i.e. live streaming of meeting proceedings and submission of question online. This is to attract a wider base of shareholding including foreign investors as we note that as at 31 December 2018, foreign shareholdings of TNB stands at 20.8% as disclosed on page 47 of IAR 2018.

Answer Q1c:

- The Company, wherever possible, do leverage on technology to reach out to a wider audience and to create ease of access and convenience in all communications with the shareholders. The Company has always conducted its general meetings at a venue that is easily accessible and familiar to the shareholders.
- As an alternative to the voting in absentia and remote shareholders' participation at General Meetings, the proxy form authorises the proxy(ies) or the Chairman of the Meeting, to attend and vote at the meetings, on behalf of the shareholders. Besides that, the shareholders may send their queries/questions through various communication channels provided by the Company, which will be addressed by the Management accordingly.
- Nevertheless, the Company shall continue to assess and consider various factors with regards to the voting in absentia and remote shareholders' participation at General Meetings, including the benefits and practicality of implementing the system as well as validity of the meeting in accordance with the applicable laws & regulations. The Board will re-evaluate its position upon the availability of appropriate and reliable technology in the future, in accordance with Section 334 of the Companies Act 2016 and pursuant to Clause 49 of the TNB Constitution.

Q2

We note from page 139 of the IAR that during FY2018, Group Internal Audit Department (“GIA”) issued a total of 196 reports arising from 70 planned audits, 3 investigation audits, 2 surprise audits and 11 follow-up audits. We commend the Company for the detailed disclosure.

- a) What were the key outcome/findings from the 3 investigation audits and 2 surprise audits?
- b) Based on (a), please quantify the financial or operational impact to the Company (if any).

Answer Q2:

- a) Based on the 3 investigations and 2 surprise audits which were part of our normal audit procedures, there were control weaknesses observed but these were not systemic. Management has taken action to strengthen the internal controls and take appropriate disciplinary actions where necessary.
- b) There was no material impact on financial and operational performance to the Group.

Q3 On page 34 of IAR 2018, it was disclosed that in FY2018, TNB conducted high speed broadband pilot using TNB's fibre optic cable in line with Government's National Fiberisation and Connectivity Plan ("NFCP") in Jasin, Melaka involving 1,100 homes. With the NFCP in place, TNB can monetize its mostly dormant fibre infrastructure and also help catalyse the government's drive to offer broadband connectivity that is "twice the speed, at half the cost". The above mentioned initiative, put TNB in a competitive position with Telekom Malaysia Berhad.

One of your directors, Ms Gee Siew Yoong is a director of both TNB and Telekom Malaysia Berhad and as such is in a conflict of interest situation. Has the Board discussed this conflict of interest situation? What is the Board's stance on this issue?

Answer Q3:

- The Board noted that Miss Gee Siew Yoong holds common directorships without interest in TNB and Telekom Malaysia Berhad. Nonetheless, the Board is of the view that the common directorships of Miss Gee Siew Yoong do not jeopardize her roles and responsibilities as Independent Non-Executive Director on Board in providing independent judgments.
- It is TNB's practice for any interested Directors to declare their interest and recuse himself/herself from the deliberations. The affected Director shall abstain from the decision-making.