



31<sup>st</sup> AGM

## MINORITY SHAREHOLDERS WATCH GROUP (MSWG)

- 1) TNB has set the target of increasing its renewable energy (RE) capacity to 8,300MW (inclusive of large hydro projects) by 2025 from 3,398.2MW as of end of 2020. Of the 8,300MW, 62.6% of it (or 5,200MW) will comprise international RE assets and the remaining will be domestic assets.
- a) What is the estimated expenditure allocated to achieve the RE capacity target by 2025?
- b) How will the required expenditure to expand the RE portfolio affect TNB's earnings and shareholders' return in the near term?

#### Answer (a & b):

- The Group is estimating CAPEX of around RM6.5 billion for our RE investments. The proposed expenditure is expected to contribute an additional EBIT of around RM2.2 billion to the Group by 2025.
- The growth in our earnings will directly benefit our shareholders through our dividend distribution according to our dividend policy.

- 2) The Regulatory Period 2 had been extended for another year to 2021 with base tariff maintained at 39.45 sen per kWh and weighted average cost of capital (WACC) at 7.3%.
- a) i) Will the base tariff (which is computed based on capital expenditure and operating expenditure numbers before 2018) yield similar level of return in 2021, considering the rising operating cost over the years?
- ii) How does the extension impact the profitability of TNB?

### Answer (a i & ii):

The RP2 Extension determination sets the base tariff at 39.45 sen/kWh and weighted average cost of capital (WACC) at 7.3%, similar to RP2. We are allowed to recover approved OPEX while approved CAPEX will yield 7.3% on regulated asset base.

#### b) What are key salient points in TNB's RP3 proposal submission to the Energy Commission on 26 February 2021?

##### Answer:

We have submitted our RP3 proposal on 26<sup>th</sup> February 2021. Currently, we are in discussion with the regulator and we are unable to disclose any details.

Among the key salient points in TNB's RP3 proposal are:

- i. Fair regulated return for TNB as it is critical to ensure that the company has the ability to fund system investments.
- ii. CAPEX investment programme with aims to maintain safe and resilient network and system, meeting the growing and changing needs of consumers, and support the nation's energy transition. Example of investments are enhance system for system reliability, self healing grid, deployment of smart meter, Distributed Automation and others.
- iii. Effective OPEX to reflect the current operating requirement required for all regulated business entities.
- iv. Optimum Single Buyer Generation cost which ensure fuel cost assumptions for RP3 are optimal and within the global fuel price movement to avoid huge volatility in fuel prices during the regulatory period.

3) TNB did not provide a breakdown of revenue and profit contribution from local and overseas markets.

a) What is the financial contribution of overseas operations to TNB?

**Answer:**

- Currently, the contribution from our international investments are minimal.
- In FY2020, performance of all international assets are positive at EBITDA level, with the total EBITDA recorded at around USD530 million.

### 3) b) How will the overseas operation fare in FY2021?

#### Answer:

- TNB's growing international renewable energy footprint is now a core part of the company's operating ambitions, with the company aiming to deliver 8,300MW of installed renewable energy capacity by 2025. TNB strongly believes that our international business has huge growth potential and resilience as the world shifts to more sustainable energy sources with steady yield and lower financing cost. Currently, our international strategy focuses on growth in two regions namely UK/Europe and Southeast Asia.
- For FY2021, TNB aims to expand its international RE growth strategy in the UK/Europe region through the establishment of Renewable Asset Company (RACo). This will form the foundation for wider asset acquisition ambitions in future, benefiting from the experience operating in a renewable energy market like the UK, which has undergone significant transformation over recent years. We are also growing TNB's utility business in Southeast Asia mainly Singapore and Vietnam.

- 4) Major local banks such as Malayan Banking Berhad and CIMB Bank Berhad have placed the environmental, social and governance agenda (ESG) as their key priority moving forward.

For instance, CIMB Bank had recently introduced its Coal Sector Guide which highlighted its commitment to phase out coal from its portfolio by 2040. Under the Guide, companies like electricity utility firms that rely on coal as a fuel source are expected to provide a diversification strategy to reduce the share of coal in their power mix.

- a) Has the increasing adoption of the ESG agenda by financial institutions and institutional investors globally in their lending and investing exercises affected TNB?

#### Answer:

- We fully acknowledge on the current development of banks having stricter guidelines on managing their coal exposure as well as moving towards phasing out coal in totality from their portfolio in the long run. These moves may impact the company's current coal assets especially on the renewal of insurance.
- However, at the moment, the impact to TNB is currently manageable. Also in view of this, we have increased our emphasize on ESG agenda.

#### 4) b) How will TNB manage this risk and mitigate the impact arising from this paradigm shift?

**Answer:**

TNB Board of Directors is aware of the importance of ensuring sustainability and ESG is integrated in the strategic direction of the organization. TNB is currently charting our sustainability pathways toward transformation of energy sector to reduce energy-related GHG emissions in response to growing concerns over climate change and environmental sustainability.



- 5) Some major power producers globally have announced their commitment to achieving a net zero carbon emission target.
- a) Being the largest power producer in Malaysia, when will TNB follow suit to demonstrate its commitment in upholding the environmental sustainability agenda?
  - b) Moving forward, TNB is looking into setting targets for the reduction of Scope 1 and Scope 2 GHG emissions as well as implementing a roadmap of climate change mitigation and adaptation actions (page 152 of IAR2020). When will this be finalised and implemented?

#### Answer (a & b):

- TNB Board of Directors is aware of the importance of ensuring sustainability and ESG is integrated in the strategic direction of the organization.
- TNB is currently charting our sustainability pathways toward transformation of energy sector to reduce energy-related GHG emissions in response to growing concerns over climate change and environmental sustainability.

6) TNB's short-term borrowings rose 84% to RM6.4 billion from RM3.48 billion in FYE2019 (page 176 of IAR2020).

What are the reasons for the significant increase?

**Answer:**

The significant increase in the short term borrowings is mainly due to the classification of the RM2.0 billion loan as short term following the maturity period within 1 year's time.

7) TNB's impairment losses on trade receivables jumped 110% to RM576.4 million in FY2020 from RM274.2 million in FY2019 (page 311, Note 46 (b)(i), Financial Statement, IAR2020).

Will the level of impairment losses on trade receivables remain elevated in FY2021? Does TNB foresee the bill payment default rate to increase in FY2021?

### Answer:

- During FY2020, we recorded higher trade receivables due the COVID-19 pandemic and implementation of Movement Control Order (MCO), hence contributing to higher impairment losses on trade receivables.
- Based on our observation, signs of recovery can be seen as the sales and collections for all sectors has improved following the ease of restriction as most of the businesses are allowed to operate. However, some challenges persists following the current Covid-19 situation. The level of impairment losses on trade receivables would largely depend on the global and domestic economic situation.

8) TNB seeks shareholders' approval for the proposed grant and allotment of up to 4,400 TNB Shares to Ms. Noor Liyana binti Baharin (being person connected to TNB's President/CEO Datuk Ir. Baharin bin Din) under the Long Term Incentive Plan (LTIP) for the Eligible Employees of TNB and its subsidiaries and executive directors of TNB.

What are the assessments conducted by the LTIP Committee on Ms. Noor Liyana's eligibility to participate in the LTIP? What are the KPIs attained by Ms. Noor Liyana to be qualified for the shares?

### Answer:

- TNB's LTIP was introduced in 2015, as per TNB's shareholders' approval and the scheme is for 10 years till 2025. In the LTIP scheme, there are two (2) types of Grants given to employees:-
  - i. Restricted Shares (RS) for all employees in TNB Group (all level of employees including Top Management);
  - ii. Performance Shares (PS) for top management staff of TNB and its subsidiaries.
- Both grants, RS and PS, are subjected to conditions as per the By-Laws of LTIP and employees achieving a minimum Key Performance Indicator (KPI).

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What are the assessments conducted by the LTIP Committee on Ms. Noor Liyana's eligibility to participate in the LTIP? What are the KPIs attained by Ms. Noor Liyana to be qualified for the shares? (Con't)

**Answer:**

- All grants may be vested if:-
  - i. for RS over a period of three (3) years and subjected to two (2) conditions:
    - Company achieving the target of Profit After Tax (PAT) set at the point of Grant;
    - Employees achieving a minimum KPI.
  - ii. for PS after three (3) years and subjected to the conditions:
    - Company achieving the Total Shareholder Return (TSR) and Return On Asset (ROA) targets;
    - Top Management staff achieving the targeted KPI.
- Based on the above, Ms. Noor Liyana is entitled for LTIP Restricted Shares (RS) grants based on the criteria as stated in 3(a) above. The Board Long Term Incentive Plan (BLTIP) Committee will determine the eligibility of her RS grants and vesting on yearly basis.