



MESYUARAT AGUNG TAHUNAN

TENAGA NASIONAL BERHAD KE-32

2 JUN 2022

NET Z[⚡]ERO 2050

MSWG

- 1) In the company announcement dated 31 December 2021, Tenaga informed that the Government of Malaysia had decided to continue with the implementation of Imbalance Cost Pass- Through (ICPT) mechanism and maintained an ICPT rebate of 2.00 sen/kWh implemented to all customers including domestic customers with monthly consumption of 300 kWh and below, effective from 1 January 2022 until further notice. Tenaga also informed that the impact of ICPT implementation, based on the Regulatory implementation Guidelines, was neutral on Tenaga and would not have any effect to its business operations and financial position.
 - a) While the energy prices were at an elevated level and the ICPT was in an under-recovery position of RM1,300.8mn as at 31 September 2021, the Government of Malaysia decided to maintain an ICPT rebate instead of a tariff surcharge from 1 January 2022 until further notice. With the elevated fuel prices in 1H22, the deficit is likely to expand further in the coming quarters. Given the substantial under-recovery amount, the escalated fuel prices and the predicament of steep upward adjustments in electricity tariff in the near future, does Tenaga expect the ICPT to take prolonged time to return to a neutral position? Does Tenaga expect any forms of subsidy from the government to bring down the deficit?

Answer 1 (a) :

- Suruhanjaya Tenaga (ST) has announced on 28th January 2022 that the Government has approved the Imbalance Cost Pass Through (ICPT) implementation for the period of 1 February – 30 June 2022. The details are as follows:
 - i. **Domestic customers:**
ICPT rebate of 2.00 sen/kWh from the last ICPT implementation period is maintained for all Domestic customers.
 - ii. **Non- domestic customers:**
ICPT surcharge of 3.70 sen/kWh will be applicable to all Non-Domestic customers.
- In order to maintain the rebate and to cover the ICPT surcharge cost for the domestic customers, the Government has agreed to utilize available funding from Kumpulan Wang Industri Elektrik (KWIE) amounting to RM715 million. Any shortfall or excess in the ICPT will be funded or transferred to customers via the KWIE fund.
- TNB as a group will remain neutral from the fluctuation of fuel prices which allows TNB to reflect changes (either increase or reduction) in fuel and other generation-related costs in the electricity tariff every six (6) months in the form of rebate or surcharge.
- Since the introduction of Incentive Based Regulations (IBR) in the electricity industry, the Government has continuously upheld the framework and the mechanisms has successfully managed the volatility in fuel prices through tariff pass through to the consumers.
- For further details, please refer to Suruhanjaya Tenaga's website (<http://www.st.gov.my/>).

Operational & Financial Matters – Regulatory (3/3)

1) b) Before the above company announcement was made, the ICPT was already in an under-recovery position of RM 1,300.8mn as at 31 September 2021. Subsequently, the under- recovery position ballooned to RM3,034.4mn as at 31 December 2021 due to higher fuel price. Please explain why it would not have any effect to Tenaga's financial position given the increasing under-recovery position is expected to result in a significant jump in the receivables of the group, affecting cashflow and net gearing level of the group, as well as the additional interest cost associated with the increasing receivables.

Answer 1 (b) :

- TNB as a group will remain neutral from the fluctuation of fuel prices which allows TNB to reflect changes (either increase or reduction) in fuel and other generation-related costs in the electricity tariff every six (6) months in the form of rebate or surcharge.
- We acknowledged that our current receivables are high due to the current under-recovery position. As it is now, our cash flow position is at a healthy level.
- In the event there is a shortfall in the cash flow position, we will utilize the readily available short term banking facilities and funding program to manage the funding gap.
- We will continuously monitor our cash flow position and remain prudent in managing our expenditures.

- 2. The net debt to equity ratio has been on a consistent uptrend since 2017 and has almost doubled from 0.37 as at 31 August 2017 to 0.73 as at 31 December 2021 (page 9 of FY21 annual report).**
- a) Given the situation as mentioned in the Question 1 above, does the board expect the net debt to equity ratio to climb further in FY2022?**
 - b) Does the group have any target limit on the net debt to equity ratio?**
 - c) In recent years and except for FY17 ended 31 December 2017, the group has been paying out at least 50% of the earnings as ordinary dividends(page 45 of FY21 annual report). With the increasing net debt to equity ratio, would the company be able to sustain the dividend payout of at least 50% in the near to medium term?**

Answer 2 (a, b & c):

- a) We will continuously assess our requirement and we will make the necessary arrangement to raise funding, if necessary. Future funding requirements will be dependent on the cash flow position and market conditions.
- b) As at 31st March 2022, our gearing stood at 47.8% which is lower than the optimal gearing level for TNB of 55%. As part of our prudent capital management, internally we are observing a gearing level of less than 50%.
- c) We will continue to honour our dividend policy of 30% to 60% dividend payout ratio based on the adjusted Consolidated Net Profit Attributable to Shareholders After Minority Interest (PATAMI).

Thank You