

# CHAIRMAN'S LETTER TO SHAREHOLDERS

**DATO' ABDUL RAZAK BIN ABDUL MAJID**

Chairman



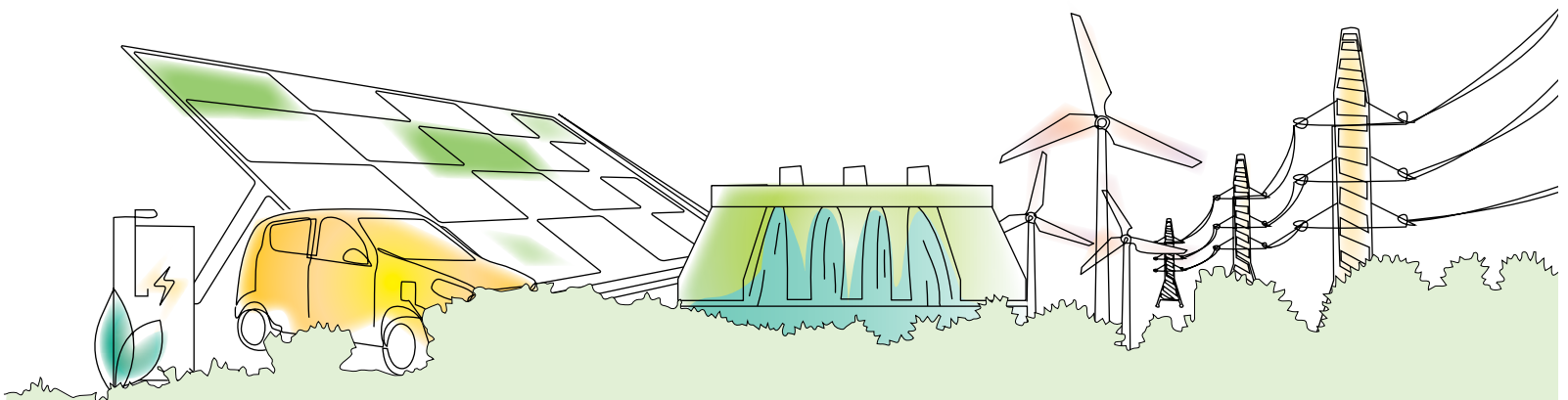
Dear Shareholders,

**It gives me great pleasure to present to you Tenaga Nasional Berhad's (TNB) Integrated Annual Report for the year 2023.**

## OVERVIEW

The year 2023 marked a significant turning point for the world with the declaration by the World Health Organization that COVID-19 was no longer considered a global health emergency. While the announcement in May provided some optimism that it would be the end of pandemic-related challenges, it was tempered with an equal measure of uncertainty and pessimism given persistent inflation and subsequent policy tightening. The macroeconomic environment was also impacted by the ongoing conflicts in Ukraine and the Middle East. The escalation of geopolitical tensions, particularly in the Middle East, had put markets on high alert, contributing to the volatility of gas prices and adding layers of complexity to the global energy landscape still adjusting to the aftermath of the Russia-Ukraine war.

These headwinds have weighed on sentiment and growth prospects, with subdued economic figures being recorded in 2023 compared to the robust numbers produced during the immediate post-COVID years. Consequently, the International Monetary Fund has projected global Gross Domestic Product (GDP) growth to moderate to 3.0% in 2023, slowing from the 3.5% posted in 2022.



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Domestically, Malaysia's economy mirrored the global narrative of moderated growth, as it recorded a GDP growth of 3.7% in 2023 following the strong 8.7% rebound in 2022. Despite the resilient domestic demand, Malaysia's growth was tempered by weak external demand, in line with the slower global economy.

On our part, TNB has continued to support Malaysia's economic growth. Our efforts are aligned with the Madani Economy Framework that was introduced by the government in 2023, which aims to restructure Malaysia's economy to elevate the nation towards becoming a leading Asian economy and to improve the quality of life of all Malaysians.

Meanwhile, Malaysia's electricity demand growth, which generally reflects the country's economic performance, posted a similar 3.8% year-on-year (YoY) growth in Peninsular Malaysia and Sabah, lower than the 6.1% YoY growth in the previous year. Growth was backed by healthy demand in both domestic and commercial segments, with YoY growth of 5.5% and 9.9%, respectively, reflecting Malaysia's robust domestic demand.

### OUR FINANCIAL PERFORMANCE

In 2023, our revenue saw an increase of 4.3% year-over-year, driven by a rise in electricity demand, but a decrease in EBITDA, which fell by 10.5% to RM18.6 billion, mainly due to a lower contribution from the generation business. In line with this, Profit After Tax decreased by 26.8% to RM2.6 billion, largely as a result of the volatility of global coal prices (accounted from stockpiled inventories).

Despite these challenges, we maintained our commitment to our dividend policy, which aims for a 30% to 60% payout ratio based on the reported Consolidated Net Profit Attributable to Shareholders After Minority Interest, excluding extraordinary and non-recurring items. Thus, the Board is pleased to declare a final single-tier dividend of 28.0 sen per share. Together with our interim dividend of 18.0 sen per share paid on 17 October 2023, this brings our total dividend for the financial year 2023 to 46.0 sen per share, matching the total dividend paid in FY2022. Consequently, the dividend payout ratio for FY2023 was higher at 66.6% of profit after tax and minority interests, compared to 55.2% in FY2022, demonstrating our ongoing commitment to delivering shareholder value.

### AT THE VANGUARD OF MALAYSIA'S ENERGY TRANSITION

The year 2023 entered the history books as the warmest year on record, a stark reminder of the impact of climate change exacerbated by the El Niño phenomenon. Domestically, we acknowledge that the nation was fortunate to be spared from the severe climate-related incidents that affected other parts of the world in 2023.

REVENUE  
**RM53.07**  
billion

**2022: RM50.87 billion**

TOTAL DIVIDEND  
**RM2.66**  
billion

**2022: RM2.65 billion**

In fact, we witnessed the government ushering in a watershed year in terms of elevating its climate action ambitions by launching the Malaysia Energy Transition Outlook (METO) and the National Energy Transition Roadmap (NETR), which helped to clarify Malaysia's vision for the Energy Transition.

While METO has detailed several possible future pathways for the development of a sustainable and cleaner energy system in Malaysia, the NETR focuses on actionable plans and the initiatives to gradually increase renewable energy (RE) to 70% of our country's total generation capacity by 2050, with the ultimate goal of accomplishing net zero emissions as early as 2050. However, here it is also worth noting that conventional power plants, including currently operating coal plants, will continue to be required in Malaysia at this stage, especially as the government seeks to balance energy security and reliability against energy generation cost considerations. In this context, the existing Imbalance Cost Pass-Through (ICPT) mechanism under the Incentive Based Regulation (IBR) framework will still be in effect to cater for the variability of fuel costs.

The NETR plays a crucial role in identifying and prioritising actions across the energy sector, with 10 flagship catalyst projects and initiatives grounded in six Energy Transition (ET) levers: Energy Efficiency (EE), RE, Hydrogen, Bioenergy, Green Mobility, and Carbon Capture, Utilisation and Storage (CCUS). TNB has been entrusted with leading three of NETR's flagship projects: Large Scale Solar Parks, Hybrid Hydro-Floating Solar (HHFS), and the Co-firing of Hydrogen and Ammonia. We support other levers through partnerships with the private and public sector. This highlights the collaborative effort needed to combat climate change, pooling expertise and resources from various sectors to achieve shared objectives.

I am heartened to see the Management team working to effect change and leading the charge for the ET journey for both the nation and TNB. In 2023, we demonstrated thought leadership through the successful organisation of the Energy Transition Conference in August which gathered local and international experts, policymakers, and industry leaders to discuss and strategise on the future of the energy transition. The conference focused on three critical sectors impact by the ET, namely Power, Transport and cities, with Digitalisation and Data Infrastructure as the key enablers. The conference highlighted the opportunities and insights within each sector, serving as the ideal platform for intellectual and industry convergence. This collaboration across sectors has resulted in numerous agreements and partnerships aimed at accelerating the journey towards Energy Transition.



Prime Minister YAB Dato' Seri Anwar bin Ibrahim unveiled the National Energy Transition Roadmap (NETR) at the Energy Transition Conference 2023, which was hosted by TNB.

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### Partnerships for Success



At TNB, we recognise that the Energy Transition (ET) journey is a shared responsibility and would be impossible to achieve on the strength of just one company. With the growing sense of urgency to push ahead with this agenda, it is heartening to note that others are also acknowledging this and reaching out to collaborate in order to achieve this mutually beneficial goal. With this as the backdrop, TNB has continued to forge partnerships with like-minded organisations across our entire value chain, from our generation business, transmission and distribution network as well as retail to benefit our customers. We have also been particularly interested in nurturing nascent green technologies that hold great potential to boost the ET journey, as we recognise that these technologies will require incubation before becoming commercially viable.

Thus, in 2023, we have collaborated with numerous partners, including regional utilities, multi-nationals and some of our biggest Malaysian conglomerates to explore decarbonisation, interconnection, renewable energy solutions, electrification of the transportation sector and green technologies. We believe that this pathway of forging partnerships will continue to be a critical enabler to future-proof our business as we continue implementing our Reimagining TNB strategy and Energy Transition plan.

In addition, we will continue to strongly support initiatives that will elevate the energy literacy of our citizens as they too are important stakeholders. A better understanding of energy systems and the various impacts of energy transition will enable decision makers to make more informed decisions, which will hopefully lead to a brighter future for our planet.

Even as TNB forges ahead with the NETR's objectives, we will remain focused on strategic initiatives to enhance the flexibility and resilience of our transmission and distribution networks, embrace more sustainable generation and elevate customer service levels. We are also forging ahead with digitalisation initiatives, a key enabler to our energy transition journey, to enhance efficiency, sustainability and innovation within the organisation. As digitalisation expands, there is a need to step up our cybersecurity measures to safeguard the electricity assets as well as to ensure safe, secure and reliable operations. Guided by our Reimagining TNB strategy and Energy Transition Plan, we will continue to strongly support the country's transition towards a more sustainable and resilient energy future.

### SUPPORTING OUR COMMUNITIES

In building a Brighter Community, TNB focuses on community needs through our corporate social responsibility (CSR) programme that emphasises education, socioeconomic support, and environmental care. This year, we invested RM18.2 million in our CSR activities comprising the provision of educational opportunities, socioeconomic support and the upholding of our environmental commitments. In addition, we paid zakat amounting to RM40.4 million in 2023 across Peninsular Malaysia based on FY2022's aggregate income, in which a portion of the zakat returned to us in the form of wakalah was distributed through various programmes to ease the burden of targeted recipients.

Through Yayasan Tenaga Nasional, we continue to sponsor students at the higher education level, both locally and abroad, in the form of scholarships and convertible loans. For 2023, we contributed more than RM70 million to sponsor 3,397 students for their higher education. We also support the government's agenda to produce employable graduates and to grow Malaysia's own talent in the power and utility industry via Universiti Tenaga Nasional, TNB Integrated Learning Solution Sdn. Bhd. and TNB Research Sdn. Bhd. These institutions are preparing the future workforce for the Energy Transition through relevant training and capacity development, as well as conducting research & development into the latest technologies.

In terms of socioeconomic support, we continue to carry out our Homes for the Needy programme, including *Program Baiti Jannati*, launched in 2007, and *Projek Mesra Rakyat*, which began in 2012. Together, these initiatives have provided new or upgraded homes to more than 1,000 families. This year, we also provided 2,500 primary students from low-income families with school supplies and uniforms through the *Program Ceria ke Sekolah*, in addition to financial support of 11 primary schools across Peninsular Malaysia under our PINTAR School Adoption programme. In continuing our decades-long commitment to developing the sport of hockey in Malaysia, we have invested RM5.6 million to our TNB Thunderbolts programme which aims to develop and nurture high-potential youth hockey players from all over the nation.

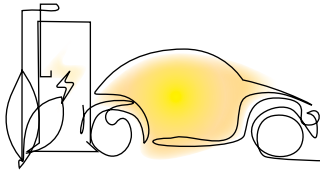
This year, our environmental efforts are further enhanced with the commitment to an investment of RM1.48 million to foster eco-friendly practices, biodiversity conservation and community involvement in environmental stewardship. Our flagship project, MY Brighter Green programme, kicked off in September 2023 in conjunction with TNB's 74<sup>th</sup> anniversary and has seen a total of 78,100 trees planted across various locations throughout Malaysia. Additionally, TNB has electrified 108 vehicles within its fleet, aligning with its objective to replace 30% of its vehicles with electric vehicles (EVs) by 2030, showcasing a tangible shift towards a more sustainable corporate transport policy. We are also expanding the participation of local companies and vendors in our energy transition initiatives through various vendor engagement and development programmes. The ongoing Advanced Metering Infrastructure project is a great testament where we managed to develop a pool of capable local vendors, manufactures and installers to realise the target of smart meter installations nationwide while contributing to job creation and skill development for the nation.

### GOVERNANCE

In 2023, Tenaga Nasional Berhad (TNB) made significant strides in enhancing its governance structures, with a pronounced emphasis on Environmental, Social and Governance (ESG) principles. I recognise Management's efforts in bolstering governance, especially in the ESG context as it underscores TNB's commitment to sustainability and responsible corporate conduct, aligning with expectations from stakeholders.

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## SUPPORTING OUR COMMUNITIES



TNB has electrified **108** vehicles within its fleet, aligning with its objective to replace **30%** of its vehicles with EVs by 2030

Among the notable initiatives undertaken by TNB this year included the enhancement of the roles and renaming of the Board Risk Committee (BRC) to the Board Sustainability and Risk Committee (BSRC) in August 2023, which will assist the Board of Directors in fulfilling its responsibilities by providing oversight of the implementation effectiveness of the Group's sustainability and risk management frameworks.

We also formed a new Sustainability Division, headed by the Chief Sustainability Officer, with the key roles to ensure the effective deployment of our sustainability strategies, thus helping us to meet our targets and strengthening sustainability governance across the Group.

## OUTLOOK

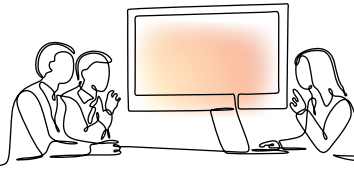
Looking ahead for Malaysia, economic growth is expected to track upwards to 4-5% in 2024, from the 3.7% recorded in 2023, driven by the recovery in exports and resilient domestic expenditure, according to Bank Negara Malaysia. Growth will be supported by a solid labour market, enhanced household spending and improvements in tourist arrivals. In addition, sustained investment activities propelled by ongoing multi-year projects in both the private and public sectors, as well as the execution of catalytic initiatives under national master plans provides further upside. Fuel prices are also expected to ease in 2024.

We see further upside for TNB going forward especially with the government's robust efforts to drive the decarbonisation agenda. With policies supporting the expanding adoption of EVs and EV infrastructure, EV sales are expected to more than double in 2024, according to forecasts made by the Malaysian Automotive Association. The other catalyst is Malaysia's growing prominence as a preferred destination for data centres which will drive the demand for renewable energy (RE). To support this, TNB has established the Green Lane Pathway programme to streamline the on-boarding process for data centres, expedite approvals and facilitate the smooth setting up of data centres in Malaysia. In addition, the government's plan to establish a regional green energy exchange bodes well for increased activity in RE export deals, in which we expect to be a key player.

We take cognisance of the latest development in the Sabah electricity supply industry in which, the Sabah state government through the Energy Commission of Sabah (ECoS) has officially taken over regulatory authority of the state's electricity supply in January 2024. TNB will continue to support the government through the 7-year transformation programme of Sabah Electricity Sdn. Bhd. into becoming a financially viable and sustainable utility, while simultaneously improving the state's power supply security and reliability.

For TNB, it will be a critical time as we enter the final year of Regulatory Period 3. I am confident that the Management team will put forward a responsible and prudent proposal for our submission for the RP4 which spans 2025-2027. In line with the Government's effort to rationalise various subsidies, coupled with the increase of

## GOVERNANCE



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RE penetration in the system, TNB is also working closely with the Ministry of Energy Transition and Water Transformation and the Energy Commission towards a more cost-reflective electricity tariff that features a targeted subsidy mechanism.

As we move forward, TNB remains steadfast in its journey towards achieving the ambitious goals outlined in our revised Reimagining TNB 2.0 strategy, guided by our purpose to brighten lives through innovative and sustainable energy solutions towards a better world. Our proactive engagement in Malaysia's energy transition, strategic investments in infrastructure, and unwavering commitment to sustainability and customer satisfaction have positioned us well to navigate the challenges ahead.

## ACKNOWLEDGEMENTS

It is my profound honour to extend my deepest gratitude to the Board of Directors for their unwavering support, invaluable wisdom, and strategic counsel throughout a year that was both challenging and continuously evolving. Their guidance has been instrumental in steering TNB towards its strategic goals and in navigating the complexities of our industry with grace and foresight.

Here, I would like to bid farewell to our former Chief Executive Officer (CEO), Dato' Seri Ir. Baharin Din, who has demonstrated exemplary leadership in guiding the Management Team and Warga TNB towards achieving the Company's goals and aspirations. I welcome our new CEO, Datuk Ir. Megat Jalaluddin Megat Hassan, who will have the full support of the Board, as he takes over the helm effective 1 March 2024 and works towards bringing TNB forward to a brighter future.

Our Management Team deserves special acknowledgment as well for their efforts, supported tirelessly by our employees, who have shown remarkable resilience and commitment, allowing us to continue brightening the lives of the rakyat every day. I am immensely proud of our Warga TNB for their dedication and hard work, which are fundamental to our success.

I wish to express my heartfelt appreciation to our stakeholders, including our shareholders, government ministries and agencies, regulators, industry partners, and most importantly, our customers. Your trust and engagement are the bedrock of our operations and motivate us to strive for excellence and innovation in delivering sustainable and reliable energy solutions. In closing, I look forward to the continued support and collaboration from all our stakeholders as we forge ahead with optimism and commitment towards a brighter, greener, and more sustainable tomorrow.

**DATO' ABDUL RAZAK BIN ABDUL MAJID**  
Chairman