

A lush forest scene with a waterfall in the foreground. The waterfall is cascading over rocks, creating white foam. The background is filled with dense green foliage, including ferns and tall trees. The overall atmosphere is serene and natural.

**TELEKOSANG
ASEAN GREEN SRI SUKUK
FRAMEWORK
12 DECEMBER 2018**

TELEKOSANG ASEAN GREEN SRI SUKUK FRAMEWORK

Introduction

Sabah Foundation was established through an Enactment No. 8 of the Sabah State Legislative Assembly in 1966. The foundation's vision was to promote a Malaysian consciousness among the people of Sabah. The objectives of the foundation are to provide educational facilities for all Malaysians in Sabah; creating opportunities for a more equitable distribution of economic wealth among the people in Sabah; and providing aids to charitable institutions and victims of natural disasters.

Sabah Foundation, today operationally referred to as Yayasan Sabah Group (“**YSG**”) has diversified its activities to meet the needs of the day and to keep the forest under its custody in perpetuity. From simply harvesting to downstream processing of timber, YSG has ventured into agro-plantation, hospitality and tourism, shipping and real estate development in the seventies and eighties. In the last decade, YSG has ventured further away from mainstream forestry into oil & gas and energy sector, biotechnology and horticulture besides fisheries and aquaculture related industries.

In 2017, YSG established a wholly-owned special purpose vehicle (“**SPV**”) subsidiary, Inno Hydropower (T) Sdn Bhd (“**IHT**”) through its wholly-owned subsidiary, Petrosabah Sdn Bhd. IHT was formed mainly to undertake a joint venture in hydropower business with Senja Optima Sdn Bhd (“**SOSB**”), a wholly-owned SPV of Jentayu Capital Sdn Bhd (“**JCSB**”). IHT will collaborate with SOSB to utilise the hydropower potential for electricity generation from the Telekosang River in the Tenom District of Sabah. JCSB has been involved in developments of small hydropower projects in Malaysia since establishment.

IHT and SOSB have established 2 project companies, both jointly-owned entities of IHT (30%) and SOSB (70%) as follows:

- (i) Telekosang Hydro One Sdn Bhd (“**TH1**” or the “**Issuer**”), who has obtained approval for Feed-in-Tariff from Sustainable Energy Development Authority (“**SEDA**”) and has signed a Renewable Energy Power Purchase Agreement of twenty one (21) years with Sabah Electricity Sdn Bhd (“**SESB**”) (“**Power Purchase Agreement (TH1)**”) to build, own and operate an integrated 24MW run-of-river small hydropower plant (“**SHP**”) in the Telekosang River Basin, Tenom, Sabah (“**TH1 Project**”); and
- (ii) Telekosang Hydro Two Sdn Bhd (“**TH2**”), who has obtained approval for Feed-in-Tariff from SEDA and has signed Renewable Energy Power Purchase Agreement of twenty one (21) years with SESB (“**Power Purchase Agreement (TH2)**”) to build, own and operate an integrated 16MW run-of-river SHP in the Telekosang River Basin, Tenom, Sabah (“**TH2 Project**”),

TH1 and TH2 shall collectively be referred to as the “**Project Companies**” and TH1 Project and TH2 Project shall collectively be referred to as the “**Projects**”.

Power Purchase Agreement (TH1) and Power Purchase Agreement (TH2) shall collectively be referred to “**PPAs**” and PPA shall mean where the context so requires be a reference to any one or more of them.

The Issuer will issue an Islamic medium term notes of up to RM460.0 million in nominal value under the Shariah principle of *Wakalah Bi Al-Istithmar* (“**Telekosang ASEAN Green SRI Sukuk**”) mainly to part finance the TH1 Project and to advance to TH2 to part finance the TH2 Project.

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This Telekosang ASEAN Green SRI Sukuk Framework (the “**Framework**”) is developed in alignment with the following standards (collectively known as the “**Standards**”):

Issuing Body	Standards	Version Date
ASEAN Capital Markets Forum	ASEAN Green Bond Standards	October 2018
International Capital Market Association	Green Bond Principles	June 2018
Securities Commission Malaysia (“ SC ”)	SRI Sukuk Framework	11 October 2018

Objectives

The Project Companies aim to play the role in the global drive to create a low-carbon, climate-resilient future and sustainable world by undertaking renewable energy projects and thus contributing to reducing the nation’s dependence on power generated using fossil fuels.

Over the years, Sabah had faced electricity disruptions particularly in rural areas. The Projects would be able to provide local voltage stability to the electric power grid in Sabah. In addition, the Project Companies require materials and services sourced from Sabah which will help to create more job opportunities and propel economic growth in the state

The Projects are deemed as eligible sustainable and responsible investment projects pursuant to paragraph 7.04(b)(i) (renewable energy and energy efficiency – project relating to new or existing renewable energy) of the Securities Commission Malaysia’s Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework (issued on 9 March 2015 and effective of 15 June 2015 and revised on 11 October 2018) and as eligible green projects pursuant to paragraph 4.1.5(i) (renewable energy) under the ASEAN Green Bond Standards (“**Eligible Green SRI Project**”). Similarly, under the Green Bond Principles, the Projects are deemed eligible as they fall under the outlined category of renewable energy.

The Framework aims to improve transparency and in turn, integrity of its Telekosang ASEAN Green SRI Sukuk issuance. The Framework is developed on four key pillars: (i) utilisation of proceeds, (ii) process for project evaluation and selection, (iii) management of proceeds and (iv) reporting commitments. The information about the Second Opinion Report issued by RAM Consultancy Services Sdn Bhd (“**RAM**”) for this Framework is also provided.

1. Utilisation of Proceeds

Proceeds from the issuance of the Telekosang ASEAN Green SRI Sukuk will be mainly used to design, construct and own TH1’s 24MW SHP in the Telekosang River Basin, Tenom, Sabah and to advance to TH2 for its 16MW SHP in the same river basin. This includes the installation of preliminary items, civil and structural works, electro-mechanical equipment, interconnection facilities, and more related works.

2. Process for Project Evaluation & Selection

To holistically evaluate the Projects, the Project Companies have commissioned various studies on multiple facets pertaining to the Projects, including (i) water sampling; (ii) soil investigation; (iii) environmental impact assessment (“**EIA**”); (iv) feasibility study; (v) technical due diligence by an independent check engineer; and (vi) a power system study. Ultimately, TH1’s Chief Executive Officer, together with key management team, will be responsible for assessing the project’s environmental viability, along with the procedures involved. SMHB Sdn Bhd, the appointed project management consultant, will provide the relevant assistance to monitor and mitigate environmental risks during the construction period.

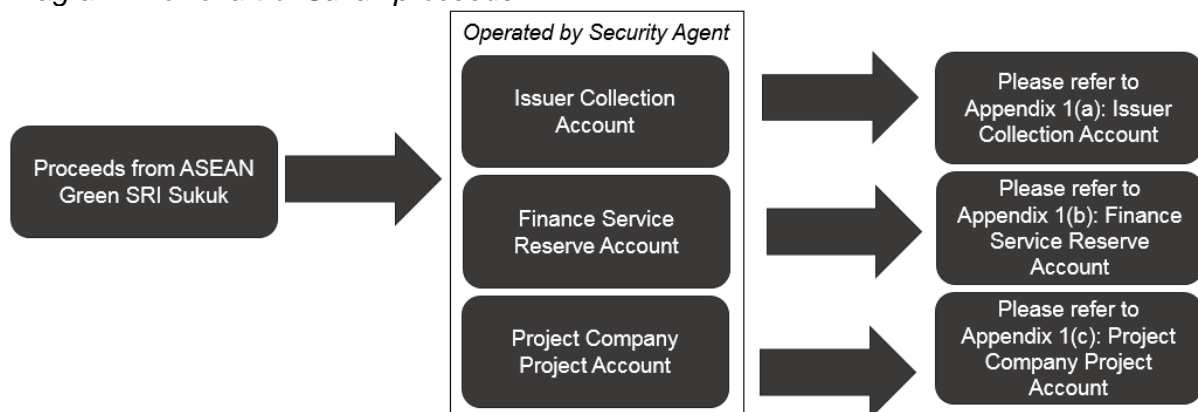
3. Management of Proceeds

Proceeds of the Telekomang ASEAN Green SRI Sukuk will be deposited into the following accounts (collectively known as “**Designated Accounts**”): (i) Issuer Collection Account, (ii) Finance Service Reserve Account (“**FSRA**”), and (iii) Project Company Project Account.

The Designated Accounts will be solely operated by the Security Agent – Malaysian Trustees Berhad. Disbursements of the funds will be supported by relevant certification from the technical adviser or such other acceptable professional certification or documentary evidence in form and substance acceptable to the Security Agent.

Any unutilised proceeds in the Designated Accounts will be invested into Shariah-compliant investment products approved by the Shariah Advisory Council (“**SAC**”) of the SC and/or Bank Negara Malaysia’s SAC and/or recognised Shariah authorities (“**Permitted Investments**”). Additionally, the Issuer will employ external auditors to provide an external independent assurance on the management of proceeds. The external independent assurance statement will be made publicly available on the Issuer’s corporate website.

Diagram: Flowchart of Sukuk proceeds



For detailed information on the accounts related to the Telekomang ASEAN Green SRI Sukuk, please refer to the Principal Terms and Conditions of this issuance, to be made publicly available on Bank Negara Malaysia’s Fully Automated System for Issuing/Tendering and the SC’s website after issuance of the Telekomang ASEAN Green SRI Sukuk.

4. Reporting Commitments

The Project Companies are committed to managing corporate sustainability and relevant environmental reporting commitments of the Projects. To enable investors to follow the development and prioritised areas, the Issuer will provide, at least annually, disclosure on the following:

- (i) utilisation of sukuk proceeds; and
- (ii) impact objectives of the Projects.

Disclosures under these two (2) areas include reporting on key items of interest such as:

- (i) brief description of the Projects and the expected socioeconomic benefits obtainable;
- (ii) total disbursement amount and uses of the funds;
- (iii) installed renewable energy capacity (MW);
- (iv) renewable energy produced (MWh); and
- (v) corresponding carbon emissions (t/CO₂e) avoided.

Additional indicators and information may be reported at the discretion of the Project Companies' management, such as methodology employed to calculate carbon emissions avoided and emission conversion factors.

Second Opinion Report

The Issuer has appointed RAM to issue a Second Opinion Report on the alignment of the Framework to the Standards. The Framework and RAM's Second Opinion Report will be made publicly available on the Issuer's corporate website when possible as its ongoing commitment to transparency and integrity.

Appendix 1: Information on Management of Proceeds

a. Issuer Collection Account

Sources of funds

- The balance proceeds from the Telekomang ASEAN Green SRI Sukuk on the issue date after (i) depositing the RM30,000 into the Sukuk Trustee's Reimbursement Account; (ii) deducting all fees, expenses and all other amounts in connection with the Telekomang ASEAN Green SRI Sukuk accrued prior to the issuance of the Telekomang ASEAN Green SRI Sukuk; and (iii) the initial deposit to be remitted into the FSRA to meet the amounts equivalent to the profit and principal of the Telekomang ASEAN Green SRI Sukuk due in the next six (6) months ("**FSRA Minimum Required Balance**");
- Transfer from the Project Company Revenue Account for amounts required to meet the FSRA Minimum Required Balance and amounts which are at least equivalent to the relevant portion of the profit and principal amount under the Telekomang ASEAN Green SRI Sukuk;
- Amounts released from the FSRA in excess of the FSRA Minimum Required Balance; and
- nominal amounts together with profits/returns received from Permitted Investments made from the Issuer Collection Account.

Utilisation of funds

- Transfer to each Project Company Project Account, being the amount equivalent to the relevant Project Cost (as defined below), on the issue date of the Telekomang ASEAN Green SRI Sukuk;
- Payment of profit and principal amounts, fees, commissions and other payments payable under the Telekomang ASEAN Green SRI Sukuk;
- Transfer to the FSRA to meet the FSRA Minimum Required Balance;
- Purchase of the Telekomang ASEAN Green SRI Sukuk by the Issuer in accordance with Provisions on buyback (as defined below) and Provisions on early redemption (as defined below); and
- Investments in Permitted Investments.

Project Cost shall mean the cost in relation to Project Company's construction and project development cost in respect of the relevant Project which include:

- (a) costs and expenses payable under the engineering, procurement and construction contracts ("**EPC Contract**");
- (b) profit payments payable which amounts in aggregate are equivalent to periodic distributions under the Telekomang ASEAN Green SRI Sukuk payable during construction period of the Projects;
- (c) costs and expenses payable under the performance bond/security to be given or procured for the benefit of SESB in accordance with the PPAs; and
- (d) any other Project related costs, including project management and operations fees, consultancy fees, stamp duties, taxes, *Takaful* contributions/insurance premium, working capital requirements and contingencies.

Provisions on buyback shall mean the Issuer or its agent may at any time purchase the Telekomang ASEAN Green SRI Sukuk in the open market or by private treaty at any price, but any Telekomang ASEAN Green SRI Sukuk repurchased by the Issuer

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and its subsidiaries or its agent shall be cancelled and cannot be resold. The Telekosang ASEAN Green SRI Sukuk purchased by the Issuer's related companies need not be cancelled but shall not be counted for voting in a meeting of the Sukukholders.

Provisions on early redemption shall mean, subject to the consent of the Sukukholders by a special resolution in accordance with the terms of the Trust Deed, the Issuer may redeem the Telekosang ASEAN Green Sukuk prior to their maturity by giving the requisite notice at the redemption price to be mutually agreed between the Issuer and the Sukukholders in the said special resolution.

b. FSRA

Sources of funds

- An initial deposit equivalent to the profit due in the next six (6) months to be captured from the proceeds of the Telekosang ASEAN Green SRI Sukuk;
- Transfer from the Issuer Collection Account for the FSRA Minimum Required Balance or amount required to top up the FSRA Minimum Required Balance; and
- Nominal amounts together with profits/returns received from Permitted Investments made from the FSRA.

Utilisation of funds

- The monies in this account may be withdrawn to the extent that funds in the Issuer Collection Account are insufficient to fulfil the Issuer's payment obligations in respect of the profit and principal of the Telekosang ASEAN Green SRI Sukuk within thirty (30) days prior to the next Periodic Distribution Date (as defined below) and/or maturity date; and
- For Permitted Investments.

Periodic Distribution Date shall mean the periodic distributions of the relevant series of the Telekosang ASEAN Green SRI Sukuk distributed semi-annually or such other period to be determined prior to issue date of the relevant series of the Telekosang ASEAN Green SRI Sukuk.

c. Project Company Project Account

Sources of funds

- Any amounts received from the Issuer Collection Account on issue date of the Telekosang ASEAN Green SRI Sukuk;
- Shareholder's Funds (as defined below);
- All revenues and receivables under the Project and the Power Purchase Agreement including revenues and other payments received prior to the Commercial Operating Date ("**COD**") of the relevant Plant (as defined below);
- Proceeds of *Takafull*/insurance claims received by the Project Company prior to the COD of the relevant Plant;
- Any claims received by the Project Company in respect of third party performance bonds/guarantees, liquidated damages or any other compensation received prior to the COD of the relevant Plant; and

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- Nominal amounts together with profits/returns received from Permitted Investments made from the Project Company Project Account.

Shareholder's Funds shall mean all shareholder's equity contribution made directly or indirectly by the Shareholder into the Projects and/or Project Companies, whether in the form of ordinary share capital, redeemable preference shares or subordinated advances/financing in accordance with the terms of the relevant Transaction Documents.

Plants shall mean the hydroelectric energy generating facilities in Tenom, Sabah, to be constructed in accordance with the terms and conditions of its respective PPA and EPC Contract, and "**Plant**" shall where the context so requires be a reference to any one or more of them.

Utilisation of funds

All payments from this account shall be applied in the priority of cash flow:

- Based on certification from the technical adviser or such other acceptable professional certification or documentary evidence in form and substance acceptable to the Security Agent, for payment of the relevant Project Company's Project Cost prior to the COD of the relevant Plant;
- In respect of proceeds from *Takaful*/insurance claims received by the Project Company prior to the COD of the Plant, the proceeds shall be, inter alia, utilised to rebuild, repair or restore the affected portion of the Plant save that any proceeds from third party liability and workers' compensation *Takaful*/insurance shall be applied in payment of the relevant claim;
- In respect of performance bonds/guarantees, liquidated damages or any other compensation received by the Project Company from third parties prior to the COD of the relevant Plant, it shall be applied for payment to SESB or the relevant third party, as the case may be, of any damages or compensation payable by the Project Company to SESB or the relevant third party, as the case may be, or where SESB has called on the performance bonds to make good such damages or compensation, the payment from such performance bonds shall be made to the extent of the damages or compensation amount that has been claimed by SESB and the balance thereof, if any, to the Project Company; and
- For Permitted Investments.