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Sustainability Services | ESG Analytics

TELEKOSANG HYDRO ONE SDN BHD

- **TELEKOSANG ASEAN GREEN SRI SUKUK**
PROPOSED ISLAMIC MEDIUM TERM NOTES ISSUANCE OF UP TO RM470.0 MILLION IN NOMINAL VALUE
- **TELEKOSANG ASEAN GREEN JUNIOR BONDS**
PROPOSED JUNIOR BONDS ISSUANCE OF UP TO RM120.0 MILLION IN NOMINAL VALUE

SECOND OPINION REPORT

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ABOUT RAMC

RAM Consultancy Services Sdn Bhd (RAMC) is a provider of sustainability services and environment, social and governance (ESG) analytics. Incorporated on 31 May 2000, RAMC is a wholly owned subsidiary of RAM Holdings Berhad (RAM Group). RAMC is the first ASEAN-based provider of sustainability ratings and second opinions, and has the distinction of being the first Registered Observer of the International Capital Market Associations' Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines in ASEAN. For further details, please refer to <https://www.ram.com.my/sustainability>.

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SUMMARY OF SECOND OPINION ON TELEKOSANG ASEAN GREEN SRI SUKUK AND TELEKOSANG ASEAN GREEN JUNIOR BONDS

Telekosang Hydro One Sdn Bhd's (TH1 or the Issuer) proposed Telekosang ASEAN Green SRI Sukuk and Telekosang ASEAN Green Junior Bonds are aligned with the transparency and disclosure requirements of the ASEAN Green Bond Standards (ASEAN GBS) as well as the globally recognised Green Bond Principles (GBP). The proposed Telekosang ASEAN Green SRI Sukuk also adheres to the transparency and disclosure requirements of Securities Commission Malaysia's Sustainable and Responsible Investment (SRI) Sukuk Framework. Equally important is the fact that small hydropower projects are recognised as eligible green projects under the SRI Sukuk Framework, the ASEAN GBS and the GBP.

TH1, a JV between Inno Hydropower (T) Sdn Bhd (Inno Hydropower) and Senja Optima Sdn Bhd (Senja Optima), has been established to design, construct, own, operate and maintain a 24 MW small hydropower plant at Sungai Telekosang in the District of Kemabong, Tenom, in Sabah.

The proposed Telekosang ASEAN Green SRI Sukuk will be used to:

- (i) part finance the project cost related to the development, financing, design, construction, ownership, operation and maintenance of a 24MW small hydropower plant (TH1 Plant) at Sungai Telekosang in the District of Kemabong, Tenom, Sabah (TH1 Project);
- (ii) advance to Telekosang Hydro Two Sdn Bhd¹ (TH2) to part finance the project cost related to the development, financing, design, construction, ownership, operation and maintenance of a 16MW small hydropower plant (TH2 Plant) at Sungai Telekosang in the District of Kemabong, Tenom, Sabah (TH2 Project);
- (iii) fund the Finance Service Reserve Account which amounts to a sum equivalent to the profit due in the next six months; and
- (iv) pay fees, expenses and all other amounts payable under or related to the Telekosang ASEAN Green SRI Sukuk.

The proposed Telekosang ASEAN Green Junior Bonds will be used to:

- (i) part finance the project cost related to the development, financing, design, construction, ownership, operation and maintenance of the TH1 Project;
- (ii) advance to TH2 to part finance the project cost related to the development, financing, design, construction, ownership, operation and maintenance of the TH2 Project; and
- (iii) pay fees, expenses and all other amounts payable under or related to the Telekosang ASEAN Green Junior Bonds.

TH1 Project and TH2 Project shall collectively be referred to as "the Projects". The TH1 Plant and TH2 Plant shall collectively be referred to as "the Plants".

Telekosang ASEAN Green SRI Sukuk/Telekosang ASEAN Green Junior Bonds Framework provides clarity on important aspects of the intended use of proceeds, the processes for project evaluation and selection, the processes for the management of proceeds, and the Issuer's future reporting commitments. RAMC notes that the Issuer has not disclosed its sustainability framework and focus areas.

Sustainable project management requires an assessment of the issues and challenges within a local context. To this end, the Issuer and TH2 had commissioned the following assessments as part of their due diligence exercise in respect of the Projects: (i) feasibility studies; (ii) a technical due diligence by an independent check engineer (ICE); (iii) an environmental impact assessment (EIA); (iv) a power system study; (v) a water sampling study; and (vi) soil investigations. These studies have enabled the Issuer and TH2 to systematically identify key environmental risks and mitigating action plans pertaining to the construction, operation and maintenance of the Plants.

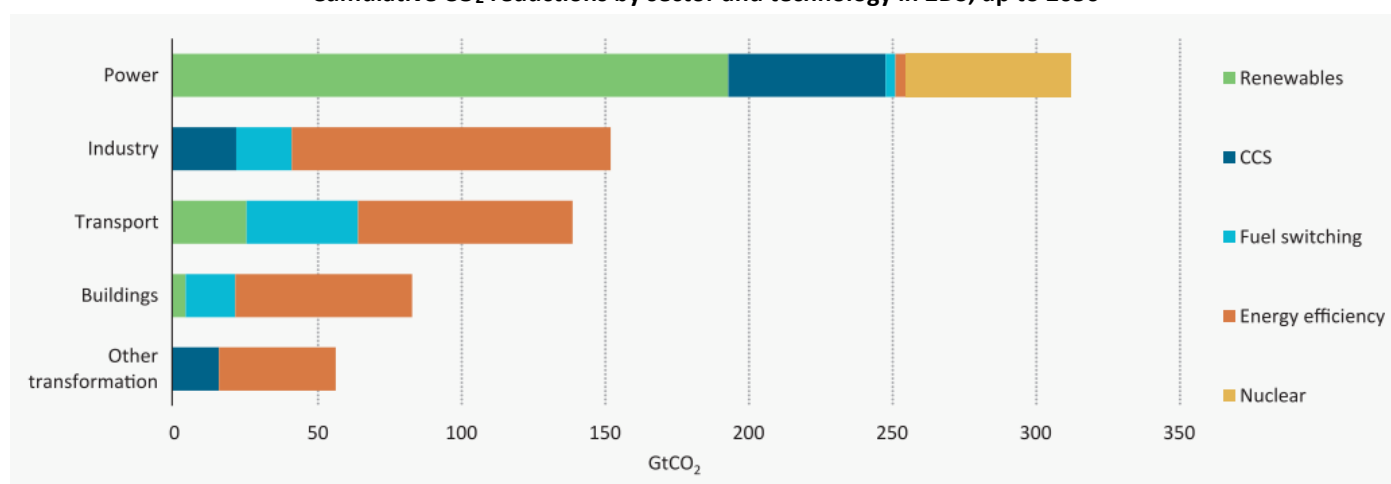
¹ Similar to TH1, TH2 is also a JV between Inno Hydropower and Senja Optima, established to design, construct, own, operate and maintain a 16MW small hydropower plant at Sungai Telekosang in the District of Kemabong, Tenom, in Sabah, Malaysia.

SUMMARY OF SECOND OPINION ON TELEKOSANG ASEAN GREEN SRI SUKUK AND TELEKOSANG ASEAN GREEN JUNIOR BONDS

Malaysia has vast potential in generating clean and renewable energy from its abundant natural resources. Electricity generation via hydropower has a much smaller carbon footprint compared to fossil fuel-enabled power production. RAMC opines that the Plants conform with Malaysia’s renewable energy commitments and emission reduction targets.² In addition, the Plants have the potential to stimulate the socioeconomic development of the surrounding community.

Notably, the 2 Degrees Scenario (or 2DS) had been reaffirmed in the Paris Agreement during the 21st United Nations Framework Convention on Climate Change Conference of the Parties (COP21). The goal is to limit global temperature to well below 2 degrees Celsius (2°C) from pre-industrial levels. The International Energy Agency has identified the industries for which reductions in carbon emissions should be targeted for achievement by 2050.

Cumulative CO₂ reductions by sector and technology in 2DS, up to 2050



Key point : A portfolio of low-carbon technologies is needed to reach the 2DS; some solutions will be broadly applicable, while others will need to target specific sectors.

(Source: *Energy Technology Perspectives 2015, International Energy Agency*)

RAMC’s Environmental Benefit assessment essentially tiers projects and solutions based on their overall contributions to 2DS. Top-tiered projects comprise technologies that decarbonise the energy system. **RAMC has assigned a *Tier-1 Environmental Benefit*** to the Projects to be financed by the Telekosang ASEAN Green SRI Sukuk and Telekosang ASEAN Green Junior Bonds.

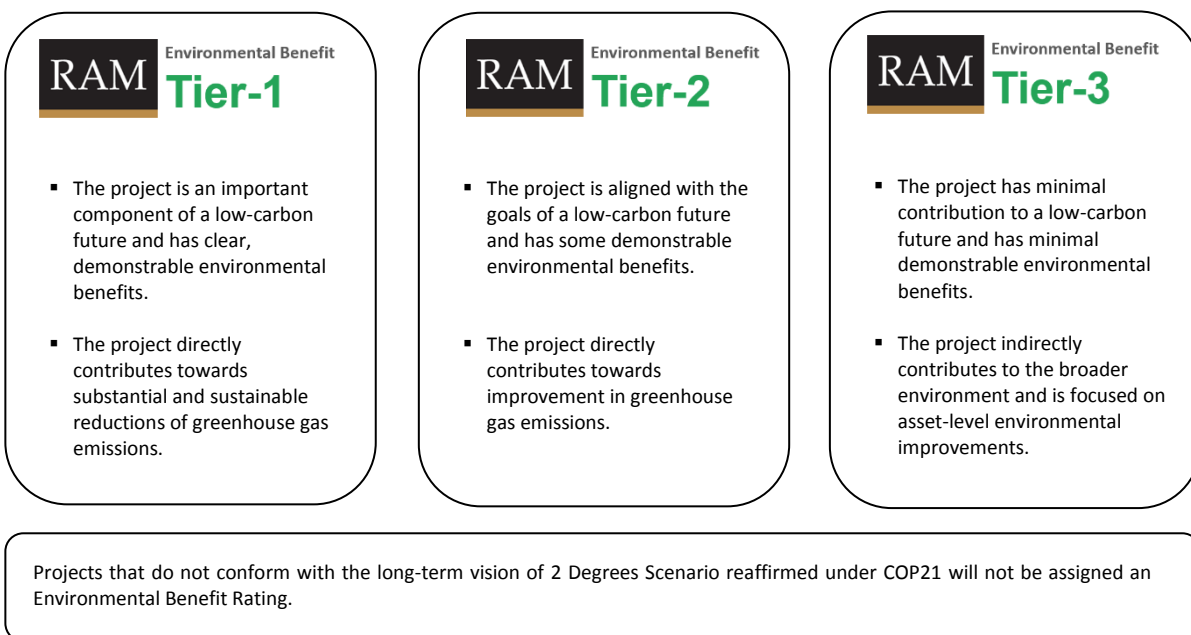


² The national target is to achieve the installed capacity for renewable energy of 8,885 MW.

RAMC'S ENVIRONMENTAL BENEFIT ASSESSMENT AND DEFINITION

Climate change represents a fundamental threat to the planet and society, and is transforming life on Earth. The effects of climate change are wide-ranging and can be observed everywhere in our biosphere. The COP21 sets a global action plan for the 197 participating governments, including the Government of Malaysia (GoM), to limit global warming to well below 2°C above pre-industrial levels (2 Degree Scenario or 2DS). In addition, these countries have committed to the United Nation's 17 Sustainable Development Goals that could transform the world by addressing areas of critical importance to the planet and society.

The ultimate objective of the green bonds/sukuk is to facilitate the financing of environmentally friendly solutions that can help mitigate the effects of climate change and/or create value for the surrounding ecosystem. RAMC's Green Bond/Sukuk assessment incorporates a subjective evaluation of a project's contributions to a low-carbon, sustainable future. The transparency and disclosure strength of the green bond/sukuk is also a key consideration. RAMC's Environmental Benefit assessment can be categorised as follows:



1. SCOPE AND OBJECTIVES

TH1 is a JV between Inno Hydropower and Senja Optima. It had been established to design, construct, own, operate and maintain the 24MW small hydropower plant located at Sungai Telekosang, District of Kemabong, Tenom, Sabah, Malaysia.

The proceeds from the proposed Islamic MTN issuance of up to RM470.0 million in nominal value (Telekosang ASEAN Green SRI Sukuk) shall be utilised to:

- (i) part finance the project cost related to the development, financing, design, construction, ownership, operation and maintenance of the TH1 Project;
- (ii) advance to TH2 to part finance the project cost related to the development, financing, design, construction, ownership, operation and maintenance of the TH2 Project;
- (iii) fund the Finance Service Reserve Account which amounts to a sum equivalent to the profit due in the next six months; and
- (iv) pay fees, expenses and all other amounts payable under or related to the Telekosang ASEAN Green SRI Sukuk.

The proceeds from the proposed issuance of junior bonds of up to RM120.0 million in nominal value (Telekosang ASEAN Green Junior Bonds) shall be utilised to:

- (i) part finance the project cost related to the development, financing, design, construction, ownership, operation and maintenance of the TH1 Project;
- (ii) advance to TH2 to part finance the project cost related to the development, financing, design, construction, ownership, operation and maintenance of the TH2 Project; and
- (iii) pay fees, expenses and all other amounts payable under or related to the Telekosang ASEAN Green Junior Bonds.

This second opinion covers an assessment of the Telekosang ASEAN Green SRI Sukuk/Telekosang ASEAN Green Junior Bonds Framework against the disclosure requirements of the **SRI Sukuk Framework** (only for the Telekosang ASEAN Green SRI Sukuk Framework), the ASEAN Capital Markets Forum's (ACMF) **ASEAN GBS**,³ and the International Capital Markets Association's (ICMA) **GBP**,⁴ as well as the Issuer's sustainability responsibilities.

Our assessment relies on public information and information provided by the Issuer. RAMC has not undertaken any audit or other related activity to ascertain the validity and accuracy of the information provided.

2. CORPORATE PROFILE

TH1 is a JV between Inno Hydropower and Senja Optima. The major shareholder, Senja Optima, is responsible for the overall management of the Issuer. **Table 1** provides a brief description of the background of TH1's two shareholders. **Diagram 1** highlights the Issuer's corporate structure.

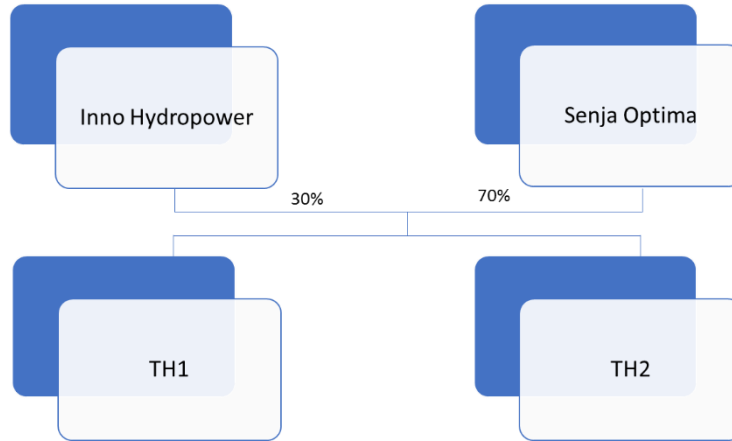
Table 1: Major Shareholders of TH1

Shareholder	Ownership	Description
Senja Optima	70%	<ul style="list-style-type: none">• SPV jointly owned by Kasa Tuah Resources Sdn Bhd and Jentayu Capital Sdn Bhd• Involved in the development of small hydropower plants
Inno Hydropower	30%	<ul style="list-style-type: none">• SPV of Yayasan Sabah Group• Involved in the development of small hydropower plants

³ The ASEAN GBS, developed by the ACMF, are standards that have been established to enhance the transparency, consistency and uniformity of ASEAN Green Bonds. Launched in November 2017 and revised in October 2018, the ASEAN GBS had been developed based on the ICMA's GBP. The ASEAN GBS are meant for issuers who intend to issue green bonds/sukuk within the ASEAN region.

⁴ The GBP, developed by the ICMA, are voluntary process guidelines that recommend transparency and disclosure measures for issuers. The guidelines were initially issued in January 2014, and revised in June 2018. The GBP is intended for broad use by a variety of participants in the green bonds/sukuk market, to channel financing towards climate-friendly solutions.

Diagram 1: Simplified Corporate Structure of TH1



3. REVIEW OF TELEKOSANG ASEAN GREEN SRI SUKUK/TELEKOSANG ASEAN GREEN JUNIOR BONDS FRAMEWORK

The reviewed focus areas are grouped under four principles that are embedded in the **SRI Sukuk Framework** (only for the Telekosang ASEAN Green SRI Sukuk Framework), the **ASEAN GBS** and the **GBP**: (i) Utilisation of Proceeds; (ii) Project Evaluation and Selection; (iii) Management of Proceeds; and (iv) Reporting Commitments.

For detailed comparisons, please refer to **Appendix 1** for the SRI Sukuk Framework Checklist; **Appendix 2** for the ASEAN GBS Checklist; and **Appendix 3** for the GBP External Review Form.

3.1. Utilisation of Proceeds

The utilisation of proceeds from the proposed Telekosang ASEAN Green SRI Sukuk and Telekosang ASEAN Green Junior Bonds are outlined in **Table 2** and **Table 3**, respectively.

Table 2: Utilisation of Proceeds from Telekosang ASEAN Green SRI Sukuk

Utilisation of Proceeds	Nominal Amount (up to RM million)
To part finance the project cost related to the TH1 Project;	267
To advance to TH2 to part finance the project cost related to TH2 Project;	178
To fund the Finance Service Reserve Account which amounts to a sum equivalent to the profit due in the next six months; and	15
To pay fees, expenses and all other amounts payable under or related to the Telekosang ASEAN Green SRI Sukuk.	10
Total	470

In the event that the amount allocated for any of the items above is not utilised in whole or in part for such a purpose, the Issuer may utilise such unutilised amount for any of the other purposes set out above.

Table 3: Utilisation of Proceeds from Telekosang ASEAN Green Junior Bonds

Utilisation of Proceeds	Nominal Amount (up to RM million)
To part finance the project cost related to the TH1 Project;	71
To advance to TH2 to part finance the project cost related to TH2 Project; and	48
To pay fees, expenses and all other amounts payable under or related to the Telekosang ASEAN Green Junior Bonds.	1
Total	120

In the event that the amount allocated for any of the items above is not utilised in whole or in part for such a purpose, the Issuer may utilise such unutilised amount for any of the other purposes set out above.

Both TH1 and TH2 signed the Renewable Energy Power Purchase Agreements (REPPAs) with Sabah Electricity Sdn Bhd (SESB) on 28 March 2018. Under the REPPAs, SESB will be the sole off-taker of the electricity generated by the Plants for a 21-year concession period from the feed-in tariff commencement date.

The SRI Sukuk Framework, the ASEAN GBS and the GBP recognise several categories of eligible green projects. Broadly defined, green projects refer to innovative climate-friendly solutions that help deliver clear environmental benefits. Renewable energy projects are deemed "green" under the three guidelines and standards (refer to **Table 4**). Hydropower as a source of renewable energy is clean and infinite. In addition, small hydropower plants emit significantly lower levels of greenhouse gas (GHG) compared to power generated by fossil fuels.

Table 4: Renewable Energy Eligibility under SRI Sukuk Framework, ASEAN GBS and GBP

GBP	ASEAN GBS	SRI Sukuk Framework ⁵
Use of proceeds – Renewable energy (including production, transmission, appliances and products)	Item 4.1.5 (i) Use of Proceeds – renewable energy	Item 7.04 (b)(i) – new or existing renewable energy (solar, wind, hydro, biomass, geothermal and tidal)

Exclusion criteria determine specific activities that will not be considered in the bond or sukuk issuance. Under the ASEAN GBS, fossil fuel energy generation projects are not recognised as an eligible green project. According to the Telekosang ASEAN Green SRI Sukuk/Telekosang ASEAN Green Junior Bonds Framework, sukuk and junior bonds proceeds will not be used for any fossil fuel-related energy projects. The proceeds from the Telekosang ASEAN Green SRI Sukuk and Telekosang ASEAN Green Junior Bonds issuances will be mainly used for the Projects' costs and expenditure related to the Telekosang ASEAN Green SRI Sukuk and Telekosang ASEAN Green Junior Bonds.

3.2. Project Evaluation and Selection

Sustainable project management requires an assessment of issues and challenges within a local context. To this end, the Issuer has commissioned: (i) feasibility studies; (ii) technical due diligence by an ICE; (iii) an EIA; (iv) a power system study; (v) a water sampling study; and (vi) soil investigations for the Projects. These studies have enabled the Issuer to systematically identify key environmental risks and mitigating action plans pertaining to the construction, operation and maintenance of the Plants.

The project sites had been identified and selected after close examination of the following factors:

- i) Reasonable gross head levels⁶ at the proposed locations for intake;
- ii) The proposed project location is situated away from villages and settlement areas;
- iii) Access to the Projects' location via an existing road; and
- iv) The river system of Sungai Telekosang is not used as any government water or irrigation intake point, or recreational, navigational or leisure fishing activities.

3.3. Management of Proceeds

TH1 has clearly defined the formal internal processes linked to the management of proceeds. The proceeds from the Sukuk and the Junior Bonds will be placed in a **designated disbursement account** known as the "Issuer Collection Account" (ICA). This will be operated and maintained by the Security Agent – Malaysian Trustees Berhad. Disbursement from the ICA to meet the Projects' costs, which will be transferred into the TH1 and TH2 Project Accounts respectively operated and maintained by the Security Agent, will be supported by project documentation submitted by the Issuer. This includes certified progress billings from the engineering, procurement, construction and commissioning (EPCC)

⁵ As per Securities Commission Malaysia's (SC) *Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework*, issued on 9 March 2015 and revised on 11 October 2018 (Guidelines on LOLA Framework)

⁶ Gross head is defined as the difference in altitude between the reservoir level and downstream level available for energy generation, expressed in feet or metres.

contractor. An ICE has been appointed to validate and certify progress billings from the EPCC contractor during the construction of the Plants and after the issuance of the sukuk and junior bonds.

The Issuer has established a clear eligibility rule that serves as a guide for the investment of unutilised funds in the designated accounts. The Issuer will invest the available proceeds in the designated accounts of the Sukuk in Shariah-compliant investment products approved by the SC’s Shariah Advisory Council and/or Bank Negara Malaysia’s (BNM) Shariah Advisory Council and/or recognised Shariah authorities such as Islamic deposits maintained with a Shariah-compliant financial institution and Islamic money market instruments issued by a Shariah-compliant financial institution with a short-term rating of P1 by RAM Rating Services Berhad (RAM Ratings) or MARC-1 by Malaysia Rating Corporation Berhad (MARC) and a minimum long-term rating of AA₃ by RAM Ratings or AA- by MARC or its equivalent, Islamic treasury bills, Islamic money market instruments or sukuk issued by BNM or the GoM; and unit trusts that invest in Islamic capital market instruments.

In addition, TH1 will appoint independent auditors or another third party to verify the management of proceeds. The assurance statement from the independent auditors or other third party will be made publicly available on the Issuer’s corporate website.

3.4. Reporting Commitments

Transparency in reporting is an important characteristic of green bonds or sukuk. TH1 has committed to report the following to the sukukholders annually via its corporate website (refer to **Table 5**):

Table 5: Issuer’s Reporting Commitments

Use of Proceeds Reporting	<ul style="list-style-type: none"> ▪ The original amount earmarked for the Projects ▪ The amount utilised for the Projects ▪ The unutilised amount and where such unutilised amount is placed or invested pending utilisation
Impact Reporting	<ul style="list-style-type: none"> ▪ Impact objectives from the Plants, where feasible and to the extent possible ▪ Installed capacity of the Plants (MW) ▪ Annual electricity generated from the Plants (MWh) ▪ Corresponding GHG emissions avoided annually (tCO₂-e)

Given the various assumptions and calculation methods used to compute carbon emissions, the calculation of carbon emission avoidance can be supplemented by a disclosure of the methodology employed and the emission conversion factors employed. Furthermore, a disclosure of *ex-ante*⁷ estimates developed during the project’s design stage will allow comparisons between the project’s actual climate impact and initial projections.

4. SUSTAINABILITY ASSESSMENT

4.1. National-Level Drivers

The Telekosang ASEAN Green SRI Sukuk and Telekosang ASEAN Green Junior Bonds issued by TH1 may enable financing of the renewable energy sector. RAMC opines that the Telekosang ASEAN Green SRI Sukuk and Telekosang ASEAN Green Junior Bonds will support national-level objectives for renewable energy.

Table 6: National-Level Objectives and Plans

Category	National-Level Objectives and Plans
Renewable Energy	The GoM aims to raise the proportion of renewable energy in the national energy mix, from the current 2% to 20% by 2030. Enforced in 2011, the Renewable Energy Act is aimed at increasing the contribution of clean and renewable energy sources such as solar photovoltaic, biomass, biogas and hydro in Malaysia’s electricity generation mix. An important driver of the renewable energy industry is the feed-in-tariff mechanism, implemented and managed by the Sustainable

⁷ Based on forecasts.

	Energy Development Authority Malaysia. The mechanism supports the growth of the renewable energy industry by providing guaranteed long-term contracts for power generated from renewable energy sources.
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4.2. Group-Level Assessment

RAMC notes that the Issuer aims to support a low-carbon and climate-resilient future by embarking on the Projects. TH1 also aspires to contribute towards reducing Malaysia's dependence on fossil fuel-powered electricity generation. That said, we have not sighted any detailed sustainability strategic plan from the Issuer. TH1 has not disclosed any policy on environmental management, employee health and safety or other material sustainability matters.

RAMC has undertaken a media scan of TH1 and its shareholders on the web. We have not observed any significant controversies pertaining to the ESG practices of the organisation.

4.3. Sustainability Management of Small Hydropower Plants

The Plants will be a cascading scheme along Sungai Telekosang, partly within the Sipitang Forest Reserve and the Kuala Tomani Forest Reserve in Tenom, Sabah. A run-of-river concept will be employed by the Projects; the facilities will generate energy from available water according to the natural flow of the river, and no flooding or water storage is required. Low diversion weirs⁸ are used by the Plants to generate greater head levels.

The Issuer is required to sign an Agreement of Environmental Condition (AEC) with the Environmental Protection Department (EPD) of Sabah. The AEC stipulates all the legal requirements, monitoring obligations, preventive and mitigation measures that must be complied with and implemented for the Projects. The Issuer is also responsible for the submission of periodic environmental monitoring reports to the EPD every four months, until the completion of construction for the Projects.

In line with the new Sabah Forest Policy 2018,⁹ the Issuer is holding discussions with the Sabah Forestry Department (SFD), to allow the former to utilise the water royalty payments imposed by the SFD for the Payment of Ecosystem Services¹⁰. The Sabah Forest Policy 2018, approved by the State Cabinet on 1 August 2018, outlines Sabah's commitment to manage designated forest areas and tree cover through sustainable forest management.

The Projects at Sungai Telekosang fall under the Second Schedule of the Environmental Protection Enactment (Prescribed Activities) Order 2005¹¹, which states that an EIA report is required for the construction of dams and hydroelectric power schemes involving the diversion of streams, rivers or water courses.

The Issuer has appointed an independent consultant to conduct an EIA study, as required under Sabah's Environmental Protection Enactment (Prescribed Activities) Order 2005. The independent EIA consultant has analysed the impact of the Projects during their investigation, development and operation as well as abandonment phases. The EIA has discovered that soil erosion and water quality deterioration could lead to significant environmental consequences. The appointed EPCC contractor and operations and maintenance (O&M) operator will be responsible for establishing an environmental monitoring and management plan, to ensure the recommended mitigation measures in the EIA are implemented and adhere to the relevant environmental standards. Furthermore, the key management team of TH1 and the appointed project management consultant, SMHB Sdn Bhd (SMHB), will monitor the construction phase of the Projects to ensure that the identified environmental risks are addressed and mitigated. Established in 1962, SMHB has an extensive track record in project management for dams, off-river storage and water-supply projects.

⁸ A weir is an overflow structure built across an open channel, to raise the upstream water level and/or to measure the flow of water. The functions of a weir include diverting water, increasing water levels to develop head and safely diverting floodwater. While their main purposes are similar to those of a dam, weirs cannot be used for water storage.

⁹ Source: <http://www.forest.sabah.gov.my/images/pdf/publications/DH-Sabah.2018.pdf>

¹⁰ A scheme under which users of environmental services should pay for the provision, and providers of environmental services should be compensated for doing so. Source: <http://www.forest.sabah.gov.my/media-centre/broadcast/press-release/548-sfd-exploring-payment-for-ecosystem-services>

¹¹ The Second Schedule of the Environmental Protection Enactment (Prescribed Activities) Order 2005, which states that an EIA report is required for the construction of dams and hydroelectric power schemes involving either or all of the following:

- (a) Dams over 15 metres high and ancillary structures covering an area of 40 hectares or more;
- (b) Artificial lakes or reservoirs with a surface area covering 50 hectares or more;
- (c) Diversion of streams, rivers or water courses.


Source: <http://ww2.sabah.gov.my/jpas/laws/rules/Complaws.pdf#page=24>

The EPCC contractor and the O&M operator are contractually responsible to adhere to occupational safety and health rules, regulations and practices, in compliance with the Department of Occupational Safety and Health, Malaysia. This includes the appointment of Health, Safety and Environment (HSE) Officers and the establishment of an HSE policy.

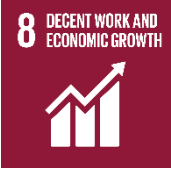
4.4. Bond/Sukuk Positive Impact Creation

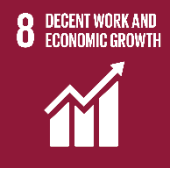
RAMC anticipates the Projects will lead to many positive effects on the economy, the environment and society in general. **Table 7** highlights the positive effects that may be expected from the Projects.

Table 7: Positive Impact Created and Alignment with United Nations Sustainable Development Goals & Targets

Positive Impact	Description	Alignment with United Nations Sustainable Development Goals & Targets
Renewable Energy	<p>Climate change is a serious planetary threat and may have costly repercussions on global communities and economies. Approximately two-thirds of the world’s GHG emissions today can be attributed to energy production and systems. Therefore, the energy sector plays a critical role in global efforts to mitigate the effects of climate change. The transition towards low-carbon energy systems is already taking place. Renewable energy provides a means to generate electricity from clean and sustainable sources such as sunlight, wind, hydro, biomass and other renewable resources. The deployment of renewable energy solutions could significantly reduce the GHG emission intensity of the global energy system. As such, investments in renewable energy ought to be scaled up so that the world can achieve the emission reduction goals set out under the Paris Climate Accord. RAMC opines that innovative renewable energy will be a key component in the building of a low-carbon future. According to the International Renewable Energy Agency, renewable sources could account for 65% of global energy use by 2050.</p> <p>The Plants are projected to generate at least 147.168 GWh and 98.112 GWh of long-term average energy per year, respectively, under the REPPAs. Small hydropower plants have relatively negligible carbon emissions relative to the intensity of fossil fuel emissions. Compared against the grid emission intensity¹² for Sabah, this translates into the potential avoidance of approximately 131,470 metric tonnes of carbon emissions annually.</p>	

¹² Baseline CO₂ for Peninsular Malaysia = 0.536 tCO₂ metric tonnes/MWh (2014) (source: Sustainable Energy Development Authority Malaysia)

Positive Impact	Description	Alignment with United Nations Sustainable Development Goals & Targets
Local Employment and Commerce Opportunities	<p>The Projects have the potential to generate socio-economic benefits through the provision of employment opportunities during the construction, installation and maintenance of the small hydropower facilities.</p> <p>Local communities in the nearby villages of Kampung Ulu Telekosang 1 and Kampung Sumambu Tenom will be given priority in direct employment by the Projects. This will improve the expertise available for the necessary skills to operate and maintain the small hydropower plants. Furthermore, the Projects will increase business opportunities for local contractors and machinery suppliers.</p>	



APPENDIX 1

APPENDIX 1: SRI SUKUK FRAMEWORK CHECKLIST

Reference:

Guidelines on LOLA Framework
Part 3: Corporate Bonds and Sukuk
Chapter 7: SRI Sukuk

No.	Item	Requirement	Alignment	Comment
7.03 & 7.04	Eligible SRI Projects	<p>Eligible SRI projects refer to projects that aim to-</p> <p>(c) promote the use of renewable energy;</p> <p>Only a project or physical assets/activities relating to an existing project in any of the following sectors is deemed to be an Eligible SRI project:</p> <p>(b) Renewable energy and energy efficiency – projects relating to-</p> <p>(i) new or existing renewable energy (solar, wind, hydro, biomass, geothermal and tidal);</p>	Yes	<p>The proceeds from the Telekomang ASEAN Green SRI Sukuk of up to RM470.0 million in nominal value will be used to:</p> <p>(i) part finance the project cost related to the development, financing, design, construction, ownership, operation and maintenance of the TH1 Project;</p> <p>(ii) advance to TH2 to part finance the project cost related to the development, financing, design, construction, ownership, operation and maintenance of the TH2 Project;</p> <p>(iii) fund the Finance Service Reserve Account which amounts to a sum equivalent to the profit due in the next 6 months; and</p> <p>(iv) pay fees, expenses and all other amounts payable under or related to the Telekomang ASEAN Green SRI Sukuk.</p> <p>The Projects are new renewable energy projects that involve the design, construction, ownership, operation and maintenance of two small hydropower plants. As such, the Projects are deemed Eligible SRI projects.</p>
7.06	Disclosure Requirements	<p>Where an issuer issues a disclosure document in relation to the SRI sukuk, the disclosure document must include-</p> <p>(a) Details of the Eligible SRI project and, to the extent possible, impact objectives from the Eligible SRI project.</p>	Yes	<p>Details of the identified projects can also be found in this Second Opinion report prepared by RAMC. The Issuer will report to the sukukholders on the impact objectives of the Projects to be financed by the Telekomang ASEAN Green SRI Sukuk, where feasible and to the extent possible.</p>
		<p>(b) A statement that the Issuer has complied with the relevant environmental, social and governance standards or recognised best practices relating to the Eligible SRI project.</p>	Yes	<p>Please refer to Section 4.2 Group-Level Assessment (page 10) and 4.3 Sustainability Management (page 10).</p>
7.05 & 7.07	Appointment of an independent expert	<p>The Issuer may appoint an independent expert to undertake an assessment of the Eligible SRI project.</p> <p>Where the independent expert has issued a report on the Eligible SRI project and the Issuer is proposing to issue a disclosure document in relation to the SRI sukuk, the Issuer may, subject to the consent of the independent expert, include the report in the disclosure document.</p>	Yes	<p>RAMC has been appointed as an independent expert to provide a second opinion on the Telekomang ASEAN Green SRI Sukuk Framework, which covers an assessment of the framework against the disclosure requirements of the SRI Sukuk Framework, the ASEAN GBS and the GBP, as well as the Issuer's sustainability responsibilities.</p>

No.	Item	Requirement	Alignment	Comment
7.08	Reporting to Investors	<p>The Issuer or, where the Issuer is a special purpose vehicle, the obligor must provide annual reporting, via newsletters, website updates, annual report or any other communication channels, to sukukholders on the following:</p> <ul style="list-style-type: none"> (a) The original amount earmarked for the Eligible SRI project; (b) The amount utilised for the Eligible SRI project; (c) The unutilised amount and where such unutilised amount is placed or invested pending utilisation; and (d) Where feasible and to the extent possible, the impact objectives from the Eligible SRI project. 	Yes	The Issuer is committed to disclosing all the required information annually to the sukukholders via its corporate website. For more detailed information, please refer to Section 3.4 Reporting Commitments (page 9).

APPENDIX 2

APPENDIX 2: ASEAN GBS CHECKLIST

Reference:

ASEAN Capital Markets Forum – ASEAN GBS

Item	No.	Requirement	Alignment	Comment
Eligible Issuers and Issuance	3.1	(i) Must be an ASEAN Issuer; or (ii) In the case of a Non-ASEAN Issuer, the eligible Green Projects must be located in any of the ASEAN countries.	Yes	The Issuer is an entity incorporated in Malaysia, a member of ASEAN. The Projects are also situated in Malaysia.
	3.2	ASEAN Green Bonds issuances must be originated from any of the ASEAN member countries.	Yes	The Telekomang ASEAN Green SRI Sukuk and Telekomang ASEAN Green Junior Bonds originate from Malaysia.
Eligible Green Projects	4.1.5	There are several broad categories of eligibility for Green Projects which contribute to environmental objectives such as climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control. The categories include renewable energy and energy efficiency.	Yes	The Projects are renewable energy projects that involve the development, financing, design, construction, ownership, operation and maintenance of two small hydropower plants.
Ineligible Projects	4.1.6	For clarification purposes, fossil fuel power generation projects are excluded from the ASEAN GBS.	Yes	The Projects are not powered by fossil fuels.
Continuous Accessibility to Information and Reporting	4.2.1	The Issuer of ASEAN Green Bonds must clearly communicate to investors – (i) The environmental sustainability objectives; (ii) The process by which the Issuer determines how the projects fit within the eligible Green Projects categories identified above; and (iii) The related eligibility criteria, including, if applicable, exclusion criteria or any other process applied to identify and manage potentially material environmental and social risks associated with the Green Projects.	Yes	TH1 aspires to create a low-carbon, climate-resilient future through the Projects. The process for the evaluation and selection of the project sites are detailed in the Issuer's Telekomang ASEAN Green SRI Sukuk/Telekomang ASEAN Green Junior Bonds Framework.
	4.2.5	The Issuer must make the following publicly available on a website designated by the Issuer at the time of the issuance and throughout the tenure of ASEAN Green Bonds: (i) The process for project evaluation; (ii) The use of proceeds; and (iii) External review report on the process (if any).	Yes	The Issuer is committed to publishing the Telekomang ASEAN Green SRI Sukuk/Telekomang ASEAN Green Junior Bonds Framework on its corporate website. The Telekomang ASEAN Green SRI Sukuk/Telekomang ASEAN Green Junior Bonds Framework includes information that describes the use of proceeds, project evaluation and selection, management of proceeds and annual reporting commitments.
	4.3.1	Prior to the issuance of the ASEAN Green Bonds, the Issuer must disclose to investors in the documentation for the issuance of the ASEAN Green Bonds the process for managing the net proceeds from the ASEAN Green Bonds.	Yes	The net proceeds from the issuance of the Telekomang ASEAN Green SRI Sukuk and Telekomang ASEAN Green Junior Bonds will be deposited in designated accounts, to be operated and maintained solely by the Security Agent. The information on the designated accounts and details on proceeds management will be disclosed in the information memorandum to be issued on the Telekomang ASEAN Green SRI Sukuk and Telekomang ASEAN Green Junior Bonds.

Item	No.	Requirement	Alignment	Comment
	4.3.4	The Issuer must also disclose to investors in the documentation for the issuance of the ASEAN Green Bonds the intended types of temporary placement for the balance of unallocated proceeds.	Yes	Pending allocation of the proceeds, the Issuer will invest the proceeds in Shariah-compliant investment products approved by the SC's Shariah Advisory Council and/or BNM's Shariah Advisory Council and/or recognised Shariah authorities such as Islamic deposits maintained with a Shariah-compliant financial institution and Islamic money market instruments issued by a Shariah-compliant financial institution with a short-term rating of P1 by RAM Ratings or MARC-1 by MARC and a minimum long-term rating of AA ₃ by RAM Ratings or AA- by MARC, Islamic treasury bills, Islamic money market instruments or sukuk issued by BNM or the GoM; and unit trusts that invest in Islamic capital market instruments.
	4.4.5	The Issuer must provide to investors the annual reporting and the external review on the annual reporting, if any, through a website designated by the Issuer and/or annual reports throughout the tenure of the ASEAN Green Bonds.	Yes	The Issuer is committed to disclosing information on the use of proceeds, project evaluation and selection, as well as the management of proceeds, annually through its corporate website throughout the tenure of the Telekomang ASEAN Green SRI Sukuk and Telekomang ASEAN Green Junior Bonds.
Encourage More Frequent Reporting	4.4.1	Issuers must report to investors at least on an annual basis and encouraged to make more frequent reporting on the use of proceeds until full allocation, and as necessary thereafter in the event of material developments. This should include a list of the projects to which the ASEAN Green Bonds proceeds have been allocated, as well as a brief description of the projects and the amounts allocated and their expected impact.	Yes	The Issuer is committed to an annual disclosure on its corporate website vis-à-vis the use of proceeds until full allocation, and as necessary thereafter in the event of material developments. This should include information on the Projects, the allocation of proceeds for the Projects, the amount that had been allocated and the impact of the Telekomang ASEAN Green SRI Sukuk and Telekomang ASEAN Green Junior Bonds.
External Review	5.1	Issuers are recommended to appoint external review providers for their ASEAN Green Bonds issuances.	Yes	RAMC has been appointed to provide a second opinion on the Telekomang ASEAN Green SRI Sukuk/Telekomang ASEAN Green Junior Bonds Framework. The review covers an assessment of the Telekomang ASEAN Green SRI Sukuk/Telekomang ASEAN Green Junior Bonds Framework against the disclosure requirements of the ASEAN GBS, the SRI Sukuk Framework and the GBP, as well as the Issuer's sustainability responsibilities.
	4.2.4	It is recommended that the Issuer's process for project evaluation and selection be supported by an external review.	Yes	The second opinion covers project evaluation and selection.
	4.3.5	It is recommended that the Issuer's management of proceeds be supplemented by the use of an auditor, or other third party to verify the internal tracking method and the allocation of funds from the ASEAN Green Bonds proceeds.	Yes	The Issuer will appoint an external auditor to verify the process for the management of proceeds from the issuance of the Telekomang ASEAN Green SRI Sukuk and Telekomang ASEAN Green Junior Bonds. The external independent assurance statement will be made available on the Issuer's corporate website.
	4.3.6	Where the Issuer appoints an auditor or other third party to verify the Issuer's management of proceeds, the Issuer must make the report produced by the auditor or other third party publicly available on a website designated by the Issuer at the time of issuance of the ASEAN Green Bonds.	Yes	The external independent assurance statement on the process employed for the management of proceeds will be made available on the Issuer's corporate website.

Item	No.	Requirement	Alignment	Comment
	4.4.4	It is recommended that the Issuer's annual reporting on the use of proceeds be supplemented by a confirmation of such use of proceeds by an external reviewer along with any relevant updates of the external review.	Yes	The Issuer will appoint an independent auditor as the assurance provider, to independently confirm the accuracy of the reported allocation of proceeds. The confirmation from the independent auditor will supplement the Issuer's annual reporting.

APPENDIX 3

APPENDIX 3: GBP EXTERNAL REVIEW FORM

Green Bond / Green Bond Programme External Review Form

Section 1. Basic Information

Issuer name: Telekomang Hydro One Sdn Bhd (TH1 or the Issuer)

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: Telekomang ASEAN Green SRI Sukuk and Telekomang ASEAN Green Junior Bonds

Independent External Review provider's name: RAM Consultancy Services Sdn Bhd

Completion date of this form: 17 May 2019

Publication date of review: Not applicable

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to the Second Opinion Report on Telekomang ASEAN Green SRI Sukuk/Telekosang ASEAN Green Junior Bonds Framework.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

The proceeds from the Telekosang ASEAN Green SRI Sukuk shall be utilised to:

- (i) part finance the project cost related to the development, financing, design, construction, ownership, operation and maintenance of a 24MW small hydropower plant at Sungai Telekosang in Tenom, Sabah, Malaysia;
- (ii) advance to Telekosang Hydro Two Sdn Bhd to part finance the project cost related to the development, financing, design, construction, ownership, operation and maintenance of a 16MW small hydropower plant at Sungai Telekosang in Tenom, Sabah, Malaysia;
- (iii) fund the Finance Service Reserve Account which amounts to a sum equivalent to the profit due in the next six months; and
- (iv) pay fees, expenses and all other amounts payable under or related to the Telekosang ASEAN Green SRI Sukuk.

The proceeds from the Telekosang ASEAN Green Junior Bonds shall be utilised to:

- (i) part finance the project cost related to the development, financing, design, construction, ownership, operation and maintenance of a 24MW small hydropower plant in Sungai Telekosang, Tenom, Sabah, Malaysia;
- (ii) advance to Telekosang Hydro Two Sdn Bhd to part finance the project cost related to the development, financing, design, construction, ownership, operation and maintenance of a 16MW small hydropower plant at Sungai Telekosang in Tenom, Sabah, Malaysia; and
- (iii) pay fees, expenses and all other amounts payable under or related to the Telekosang ASEAN Green Junior Bonds.

Use of proceeds categories as per GBP:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

The Issuer had commissioned: (i) feasibility studies; (ii) technical due diligence by an independent check engineer; (iii) environmental impact assessment; (iv) a power system study; (v) a water sampling study; and (vi) soil investigations for the 24MW and 16MW small hydropower projects (the Projects). These studies have enabled the Issuer to systematically identify key environmental risks and mitigating action plans pertaining to the construction, operation and maintenance of the small hydropower plants.

Evaluation and selection

- | | |
|--|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives | <input type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

The process for management of proceeds is in line with the expected norms for green bonds/sukuk. The issuance proceeds of the sukuk and junior bonds will be placed in a designated account, i.e. the Issuer Collection Account, which will be operated and maintained by the Security Agent. Pending utilisation of the proceeds, the Issuer will invest the proceeds in Shariah-compliant investment products approved by the SC's Shariah Advisory Council and/or BNM's Shariah Advisory Council and/or recognised Shariah authorities such as Islamic deposits maintained with a Shariah-compliant financial institution and Islamic money market instruments issued by a Shariah-compliant financial institution with a short-term rating of P1 by RAM Rating Services Berhad (RAM Ratings) or MARC-1 by Malaysia Rating Corporation Berhad (MARC) and a minimum long-term rating of AA₃ by RAM Ratings or AA- by MARC, Islamic treasury bills, Islamic money market instruments or sukuk issued by BNM or the GoM; and unit trusts that invest in Islamic capital market instruments. Additionally, independent auditors or other third parties will be engaged to verify the management of proceeds.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|---|--|
| <input type="checkbox"/> Allocations to future investments only | <input type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify): |

4. REPORTING

Overall comment on section (if applicable):

The process for reporting is in line with the expected norms for green bonds/sukuk. The Issuer will disclose the following information on its corporate website:

- The original amount earmarked for the Projects
- The amount utilised for the Projects
- The unutilised amount and where such unutilised amount is placed or invested pending utilisation
- Impact objectives from the Projects, where feasible and to the extent possible
- Installed capacity of the Projects (MW)
- Annual electricity generated from the Projects (MWh)
- Corresponding GHG emissions avoided annually (tCO₂-e)

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Green Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify): | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Information reported (expected or ex-post):

- | | |
|---|---|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Other ESG indicators (please specify): Impact of the financed small hydropower plants, including the installed capacities of the plants and the annual quantum of electricity generated (MWh) |

Means of Disclosure

- | | |
|---|---|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify): Corporate website |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

Corporate website

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|---|
| <input type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (please specify): | |

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP

1. **Second Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
2. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
3. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
4. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.



Sustainability Services | ESG Analytics

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