



## corporate profile

Public-listed Tenaga Nasional Berhad (TNB) is the largest electricity utility company in Malaysia with more than RM65 billion in assets and a customer base of about 6.8 million throughout Peninsular Malaysia and Sabah.

Globally and regionally, TNB enjoys a reputation for outstanding performance. TNB is the only Malaysian energy company to rank among the top 50 energy companies in Asia in 2006, based on the prestigious Platts' survey of the top 250 Global Energy Companies. Internationally, Platts ranks TNB at 168<sup>th</sup> among the top 250 Global Energy Companies.

A highly integrated company, TNB's core business is the generation, transmission, and distribution of electricity. TNB controls Malaysia's largest generation capacity of about 11,000 MW (inclusive of Kapar Energy Ventures). TNB also manages and operates a complete transmission network, spanning the whole of Peninsular Malaysia forming a loop known as the National Grid, linking the electricity power producers, made up of TNB power stations and Independent Power Producers (IPPs), to the TNB Distribution networks and some large power customers.

TNB's business is complemented by a complete Distribution System, Customer Service Centres, Call Management Centres, and Administration throughout Peninsular Malaysia and Sabah.

Through its subsidiaries, TNB is also involved in several diversified businesses linked to the power industry. TNB's subsidiaries undertake the manufacturing of transformers, high voltage switchgears and cables; the provision of professional consultancy services, architectural, civil and electrical engineering works and services, repair and maintenance services and fuel; as well as research and development, property development, and project management services.

TNB is also committed to developing talent for the national and regional power sectors through its higher education vehicle, Universiti Tenaga Nasional.



Puncak plans  
cash reward  
for shareholders



P41



Hektar gets  
SC nod to  
list retail assets  
into REIT

P41

## NEWSWISE



## COMMODITIES

	OCT 11	OCT 10
KL Tin (US\$/MT)	9,150	9,250
CPO (RM/MT)	1,505	1,508
SMR (sen/kg)	854.00	851.00
Brent Oil (US\$/bbl)	57.72*	57.99
Gold (RM/gm)	68.23	68.82

Source: Bloomberg  
\* At press time

## FOREX RATES

	OCT 12	OCT 11
US Dollar	3.6940	3.6970
Euro	6.8596	6.8565
Japanese Yen	1.6302	1.6366
Singapore Dollar	0.890	0.8897
Malaysian Ringgit	3.284	3.3279
Indonesian Rupiah	47.4027	47.4305
Thai Baht	2.7589	2.7493

## MARKETS

	OCT 12	OCT 11
KLSE	64	-0.97
FTSE 100	96	+286.14
Nikkei 225	73.09	+10.30
DAX	4.44	+0.56
Hang Seng	3,368.81	-31.76
ASX	3.67	-0.23
6,073.50		+0.80
1.67		-0.40
11,852.73		-15.04
256.00		+29.00

## OTHER

# TNB Q4 net profit surges 82pc

By ZAIDI ISHAM ISMAIL  
xydee@nstp.com.my

TENAGA Nasional Bhd (TNB) said its fourth-quarter net profit surged 82 per cent, helped by its first tariff hike in nine years, and it expects demand for power to grow faster next year.

The state-owned firm expects an "encouraging" performance in 2007 as sales would be driven by developments under the Ninth Malaysia Plan.

Electricity demand is forecast to hit 7 per cent next year, from 4.2 per cent this year.

TNB reported a net profit of RM736.4 million in the fourth quarter ended August 31 2006 versus RM403.6 million in the same quarter a year ago. Revenue rose 13 per cent to RM5.62 billion in the June-August quarter.

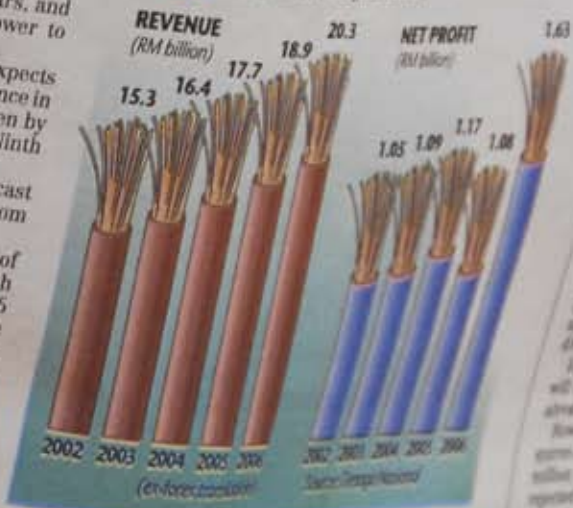
TNB president and chief executive officer Datuk Che Khalid Mohamad Noh said the tariff hike contributed RM400 million to its earnings during the year.

"However, it is important to note that the better performance was a combination of the tariff hike and initiatives carried out by the management which brought us a cost saving of RM893.7 million.

"The full realisation of the increase in electricity demand



**TENAGA NASIONAL**  
FINANCIAL PERFORMANCE  
(for year ended August 31 2006)



## Utility mulls building hydro plants

TENAGA Nasional Bhd (TNB) mulls building hydro plants.

"The cost of coal and gas are high and we are looking for alternative sources of power.

## Firm wants to buy SunInfra bonds

By Rupaninder Singh  
rupaninder@nstp.com.my

A LOCALLY-LISTED company wants to offer to buy the RM100 million in outstanding debt belonging to toll highway operator SunInfra Industries Bhd.

The offer comes as SunInfra's board of directors meets today to discuss the proposal.

It is unclear if the offer will be accepted, but it is a sign that the company is looking to reduce its debt.

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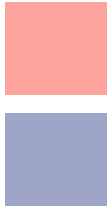


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## VISION AND MISSION

### OUR **VISION**

To be among the leading corporations in energy and related businesses globally



### OUR **MISSION**

We are committed to excellence in our products and services



	2006	2005	2004	2003	2002
<b>GROUP</b>					
<b>FINANCE (RM' million)</b>					
Total Revenue	20,384.2	18,977.5	17,712.1	16,457.8	15,375.1
Profit Before Tax#	2,751.9	1,818.9	1,482.7	1,648.5	1,513.5
Property, Plant and Equipment	55,201.3	54,721.0	53,443.7	51,768.4	50,710.7
<b>GENERATION</b>					
Group Installed Capacity (MW)	11,464.8	11,497.8	11,137.5	10,854.5	9,383.2
<b>SALES OF ELECTRICITY</b>					
Total Units Sold (GWh)	82,214.8	78,933.4	72,921.4	68,254.3	63,533.6
Sales Revenue (RM' million)	19,707.4	18,326.4	17,219.4	15,973.9	14,932.5
<b>CUSTOMERS</b>					
Total Number of Customers	6,814,523	6,582,374	6,323,719	6,069,561	5,789,181
<b>EMPLOYEES (GROUP)</b>					
Total Number of Employees	28,067	27,727	26,989	27,238	25,686
<b>SHAREHOLDERS</b>					
Total Number of Bumiputera Shareholders	5,943	5,971	6,526	6,778	7,118
Total Number of Non-Bumiputera Shareholders	17,318	14,935	15,726	16,471	16,669
Total Number of Institutional Shareholders	586	577	497	612	580
Total Number of Foreign Shareholders	1,067	1,379	715	702	883
Total Number of Government Agency Shareholders	28	35	42	43	54
Total Number of Nominee Company Shareholders	3,814	6,080	4,717	2,499	2,684
<b>DIVIDENDS (GROSS)</b>	14.8 sen	16.2 sen	18.2 sen	12.0 sen	10.2 sen
<b>FINANCIAL RATIOS#</b>					
Debt-Equity (Net of Cash) Ratio	1.19	1.69	1.94	2.11	1.98
Earnings Per Share - Basic (sen)	52.52	32.01	26.1	34.1	30.7
Net Assets Per Share (sen)	470	499	460	449	455

# The financials for 2002 has not been adjusted for the provisions of FRS 112 -Income Taxes and FRS 119-Employee Benefits.





## NOTICE OF 16TH ANNUAL GENERAL MEETING 2006

**NOTICE IS HEREBY GIVEN THAT the Sixteenth Annual General Meeting of Tenaga Nasional Berhad will be held on Thursday, 14 December 2006, at 11.00 a.m. at Dewan Serbaguna, Kompleks Sukan TNB, Jalan Pantai Baru, 59200 Kuala Lumpur to transact the following business:**

### **AS ORDINARY BUSINESS:-**

1. To lay before the meeting the Audited Financial Statements together with the reports of the Directors and Auditors thereon for the Financial Year ended 31 August 2006.

#### **Ordinary Resolution 1**

2. To approve the declaration of a first and final gross dividend of 12.0 sen per ordinary share less income tax of 28% and a tax-exempt dividend of 2.0 sen per ordinary share for the Financial Year ended 31 August 2006.

#### **Ordinary Resolution 2**

3. To approve the payment of Directors' fees for the Financial Year ended 31 August 2006.

#### **Ordinary Resolution 3**

4. To re-elect the following Directors who retire in accordance with Article 135 of the Company's Articles of Association:-

(i) Tan Sri Datuk Amar Leo Moggie;

#### **Ordinary Resolution 4**

(ii) Datuk Mohd Zaid bin Ibrahim.

#### **Ordinary Resolution 5**

5. To re-elect Dato' Puteh Rukiah binti Abd Majid who retires in accordance with Article 133 of the Company's Articles of Association.

#### **Ordinary Resolution 6**

6. To re-appoint Messrs PricewaterhouseCoopers, having consented to act, as Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.

#### **Ordinary Resolution 7**

### **AS SPECIAL BUSINESS:-**

7. To consider and if thought fit, to pass the following Ordinary Resolutions on issuance of shares, with or without any modification:-

- (i) Specific authority for the Directors to issue shares pursuant to the Employees' Share Option Scheme II

"THAT pursuant to the Tenaga Nasional Berhad Employees' Share Option Scheme II ("ESOS II") as approved at the Extraordinary General Meeting of the Company held on 29 May 2003, approval be and is hereby given to the Directors to issue shares in the Company at any time and in accordance with the terms and conditions of the said scheme."

#### **Ordinary Resolution 8**

- (ii) General authority for the Directors to issue shares pursuant to Section 132D, Companies Act, 1965

"THAT pursuant to Section 132D of the Companies Act, 1965, full authority is hereby given to the Directors to issue shares in the capital of the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued pursuant to this Resolution does not exceed ten per cent (10%) of the issued share capital of the Company for the time being, subject to the provision of the Companies Act, 1965, Articles of Association of the Company and approval from the Bursa Malaysia Securities Berhad and all the relevant regulatory bodies where such approval is necessary."

#### **Ordinary Resolution 9**





**NOTICE OF  
16TH ANNUAL  
GENERAL  
MEETING  
2006**

8. To consider and if thought fit, to pass the following Ordinary Resolutions:-

PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS ("RRPT") OF A REVENUE OR TRADING NATURE ENTERED WITH PERSONS CONNECTED TO KHAZANAH NASIONAL BERHAD ("KHAZANAH"), A MAJOR SHAREHOLDER OF TNB, AND/OR PERSONS IN WHICH KHAZANAH IS A MAJOR SHAREHOLDER, DETAILS OF WHICH ARE SET OUT IN APPENDIX A OF THE CIRCULAR

"THAT the mandate granted by the shareholders of the Company at the Extraordinary General Meeting of the Company held on 15 December 2005 pursuant to paragraph 10.09 of the listing requirements of Bursa Securities ("Listing Requirements") be and is hereby renewed to authorise the Company and its subsidiaries ("the Group") to enter into the specified RRPT as set out in Section 1 of Appendix A of the Circular with the specified persons connected to Khazanah and/or persons in which Khazanah is a major shareholder as mentioned therein which are necessary for the Group's day-to-day operations subject to the following:

- (i) the transactions are in the ordinary course of business and are on terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders; and
- (ii) disclosure of the aggregate value of transactions relating to the proposed renewal of shareholders' mandate for RRPT of a revenue or trading nature entered with persons connected to Khazanah and/or persons in which Khazanah is a major shareholder conducted during a financial year will be made in the annual report for the said financial year;

AND THAT such authority conferred by the renewed mandate shall continue to be in force until:

- (i) the conclusion of the Seventeenth AGM of the Company following the forthcoming AGM at which the proposed renewal of shareholders' mandate for RRPT of a revenue or trading nature entered with persons connected to Khazanah and/or persons in which Khazanah is a major shareholder is approved, at which time it will lapse, unless the mandate is renewed by a resolution passed at the Seventeenth AGM;

- (ii) the expiration of the period within which the Seventeenth AGM after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- (iii) revoked or varied by a resolution passed by the shareholders in a general meeting, whichever is the earlier.

AND THAT the Board be and is hereby authorised to complete and do all such acts and things as they may consider expedient or necessary to give effect to the proposed renewal of shareholders' mandate for RRPT of a revenue or trading nature entered with persons connected to Khazanah and/or persons in which Khazanah is a major shareholder."

**Ordinary Resolution 10**

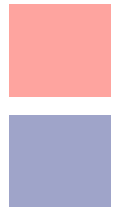
9. To consider and if thought fit, to pass the following Ordinary Resolutions:-

PROPOSED SHAREHOLDERS' MANDATE FOR RRPT OF A REVENUE OR TRADING NATURE ENTERED WITH PERSONS CONNECTED TO KHAZANAH, A MAJOR SHAREHOLDER OF TNB, AND/OR PERSONS IN WHICH KHAZANAH IS A MAJOR SHAREHOLDER, DETAILS OF WHICH ARE SET OUT IN APPENDIX A OF THE CIRCULAR

"THAT the Group be and is hereby authorised to enter into the specified RRPT as set out in Section 2 of Appendix A of the Circular with the specified persons connected to Khazanah as mentioned therein which are necessary for the Group's day-to-day operations subject to the following:

- (i) the transactions are in the ordinary course of business and are on terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders; and
- (ii) disclosure of the aggregate value of transactions relating to the proposed shareholders' mandate for RRPT of a revenue or trading nature entered with persons connected to Khazanah conducted during a financial year will be made in the annual report for the said financial year;





**NOTICE OF  
16TH ANNUAL  
GENERAL  
MEETING  
2006**

AND THAT such authority conferred by the above mandate shall continue to be in force until:

- (i) the conclusion of the Seventeenth AGM of the Company following the forthcoming AGM at which the proposed shareholders' mandate for RRPT of a revenue or trading nature entered with persons connected to Khazanah is approved, at which time it will lapse, unless the mandate is renewed by a resolution passed at the Seventeenth AGM;
- (ii) the expiration of the period within which the Seventeenth AGM after that date is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- (iii) revoked or varied by resolution passed by the shareholders in a general meeting whichever is the earlier.

AND THAT the Board be and is hereby authorised to complete and do all such acts and things as they may consider expedient or necessary to give effect to the proposed shareholders' mandate for RRPT of a revenue or trading nature entered with persons connected to Khazanah and/or persons in which Khazanah is a major shareholder."

**Ordinary Resolution 11**

10. To consider and if thought fit, to pass the following Special Resolution:-

Proposed Amendment to Article 105(4) of the Articles of Association

"THAT, subject to the passing of Special Resolution 1, the existing Article 105(4) of the Articles of Association of the Company reads as follows :

Subject to Article 106, a member shall be entitled to appoint another person or persons (whether a member or not) as his proxy to attend and vote instead of the member at any meeting of the company.

To be amended and to be read as follows:-

Subject to Article 106, a member shall be entitled to appoint not more than two (2) persons (whether a member or not) as his proxy to attend and vote instead of the member at any meeting of the Company."

**Special Resolution 1**

11. To transact any other business of which due notice shall have been given in accordance with the Companies Act, 1965.

**BY ORDER OF THE BOARD**

**NOR ZAKIAH BINTI ABDUL GHANI (LS 0008795)**  
Company Secretary

Kuala Lumpur  
22 November 2006







NOTICE OF  
**16TH ANNUAL  
GENERAL  
MEETING  
2006**

## EXPLANATORY NOTES ON SPECIAL BUSINESS

- (i) Ordinary Resolution 8 : Power for the Directors to issue Shares pursuant to the ESOS II.

The proposed Ordinary Resolution, if passed, is to empower the Directors to issue shares in the Company pursuant to the terms and conditions of the ESOS II, which was approved at the Extraordinary General Meeting of the Company held on 29 May 2003.

- (ii) Ordinary Resolution 9 : Power to issue shares pursuant to Section 132D, Companies Act, 1965.

The proposed Ordinary Resolution, if passed, is to give the Directors of the Company flexibility to issue and allot shares for such purposes as the Directors in their absolute discretion consider to be in the interest of the Company, without having to convene a general meeting. This authority will expire at the next Annual General Meeting of the Company.

- (iii) Ordinary Resolutions 10 and 11 : Details on the Proposed Renewal of Shareholders' Mandate and Proposed Shareholders' Mandate for RRPT of a revenue or trading nature which are in the ordinary course of business as mentioned above are set out in the Circular to Shareholders dated 22 November 2006.

- (iv) Special Resolution 1 : Details on the Proposed Amendment to the Articles of Association as mentioned above are set out in the Circular to Shareholders dated 22 November 2006.

## Notes:-

### Registration of Members/Proxies

**Registration of Members/Proxies attending the Meeting will be from 7.00 a.m. on the day of the Meeting. Members/Proxies are required to produce identification documents for registration.**

### Proxy

- (i) Any Member entitled to attend and vote at this Meeting is entitled to appoint another person or persons (whether a Member or not) as his proxy, or by a duly authorised representative for the particular case to attend and vote in his stead.
- (ii) A proxy need not be a Member of the Company.
- (iii) The instrument appointing a proxy shall be in writing under the hand of the appointer or of his corporation, either under its common seal or under the hand of an officer or attorney duly appointed under a power of attorney.
- (iv) The Form of Proxy **must be deposited at the Symphony Share Registrars Sdn. Bhd., Level 26, Menara Multi-Purpose, Capital Square, Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia** not less than forty-eight (48) hours before the time fixed for holding the Meeting and any adjournment thereof.

### Additional Information on Ordinary Resolutions 4 to 6

Additional Information on the Particulars of the retiring Directors, as required under Appendix 8A of the Bursa Malaysia Listing Requirements are detailed out in the Annual Report.





## STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

### PURSUANT TO PARAGRAPH 8.28 (2) OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

1. THE DIRECTORS WHO ARE STANDING FOR RE-ELECTION AT THE 16TH ANNUAL GENERAL MEETING OF THE COMPANY

(a) Directors retiring pursuant to Article 135 of the Company's Articles of Association:-

- Tan Sri Datuk Amar Leo Moggie;
- Datuk Mohd Zaid bin Ibrahim.

(b) Director retiring pursuant to Article 133 of the Company's Articles of Association:-

- Dato' Puteh Rukiah binti Abd Majid.

Further details of the three Directors seeking re-election are set out in their respective profiles which appear in the Directors' profiles on pages 54 to 60 of this Annual Report.

2. BOARD MEETINGS HELD DURING THE FINANCIAL YEAR ENDED 31 AUGUST 2006

(a) A total of 14 Board Meetings were held in the Financial Year ended 31 August 2006 as follows:-

- 26 September 2005
- 18 October 2005
- 25 October 2005
- 28 November 2005
- 13 January 2006

- 25 January 2006
- 17 March 2006
- 13 April 2006
- 27 April 2006
- 11 May 2006
- 15 June 2006
- 14 July 2006
- 1 August 2006
- 25 August 2006

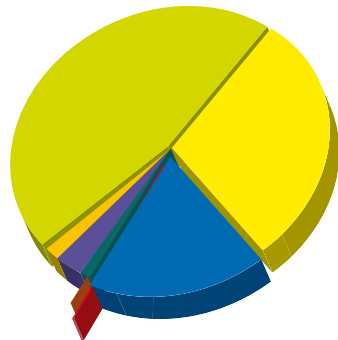
All the Board Meetings were held at Bilik Kapar, 11th Floor, Tenaga Nasional Berhad Headquarters, No. 129, Jalan Bangsar, 59200 Kuala Lumpur.

- (b) Details of attendance of Directors at the said Board Meetings are featured in the Statement of Corporate Governance set out on page 33.





## SALES OF ELECTRICITY (GWh) GROUP



Industrial 46.19%  
- 37,979.4 GWh

Commercial 29.57%  
- 24,311.7 GWh

Domestic 18.32%  
- 15,058.7 GWh

Agriculture 0.01%  
- 9.8 GWh

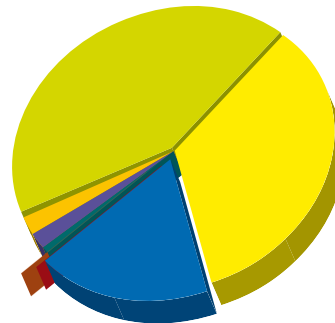
Mining 0.05%  
- 41.5 GWh

Public lighting 1.07%  
- 876.3 GWh

Export 3.04%  
- 2,498.6 GWh

Others (TNB LPL) 1.75%  
- 1,438.8 GWh

## SALES OF ELECTRICITY (RM'Million) GROUP



Industrial 42.09%  
- RM8,295.7 million

Commercial 34.75%  
- RM6,848.0 million

Domestic 17.99%  
- RM3,544.6 million

Agriculture 0.02%  
- RM3.0 million

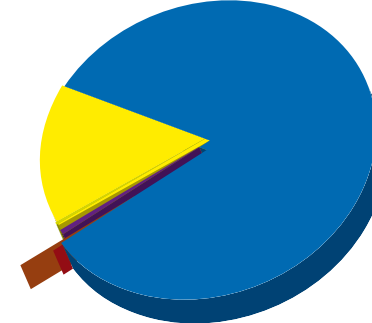
Mining 0.03%  
- RM 6.2 million

Public lighting 0.73%  
- 143.2 million

Export 2.03%  
- RM400.8 million

Others (TNB LPL) 2.36%  
- RM465.9 million

## NUMBER OF CUSTOMERS BY CLASSIFICATION GROUP



Industrial 0.4032%  
- 27,478

Commercial 15.6618%  
- 1,067,274

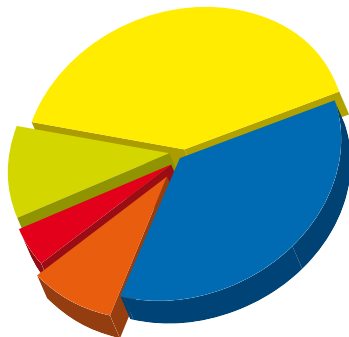
Domestic 83.3062%  
- 5,676,922

Agriculture 0.0071%  
- 481

Mining 0.0003%  
- 18

Public lighting 0.6214%  
- 42,350

## TNB GENERATION MIX (NATIONAL GRID)



Hydro 10.6%  
- 5,327.4 GWh

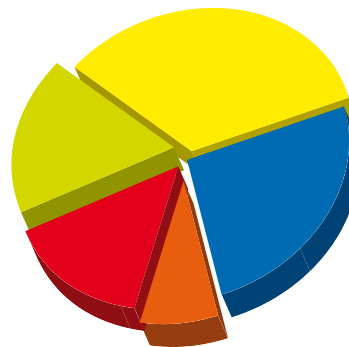
Conventional Thermal (Coal) 40.4%  
- 20,345.5 GWh

Combined Cycle 35.4%  
- 17,836.5 GWh

Conventional Thermal (Oil/Gas) 9.1%  
- 4,603.9 GWh

Gas Turbine 4.5%  
- 2,258.3 GWh

## TNB INSTALLED CAPACITY (NATIONAL GRID)



Hydro 17.6%  
- 1,910.5 MW

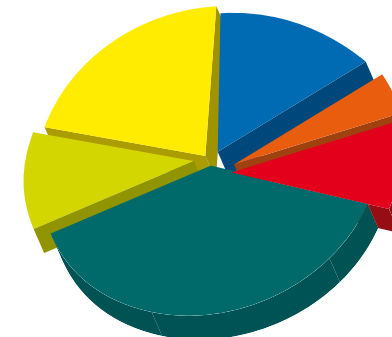
Conventional Thermal (Coal) 33.9%  
- 3,670.0 MW

Combined Cycle 25.5%  
- 2,761.0 MW

Conventional Thermal (Oil/Gas) 7.8%  
- 840.0 MW

Gas Turbine 15.2%  
- 1,653.0 MW

## TNB INSTALLED CAPACITY INCLUDING IPPS (NATIONAL GRID)



Hydro 10.8%  
- 1,910.5 MW

Conventional Thermal (Coal) 20.8%  
- 3,670.0 MW

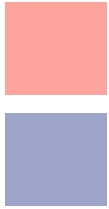
Combined Cycle 15.7%  
- 2,761.0 MW

Conventional Thermal (Oil/Gas) 4.8%  
- 840.0 MW

Gas Turbine 9.4%  
- 1,653.0 MW

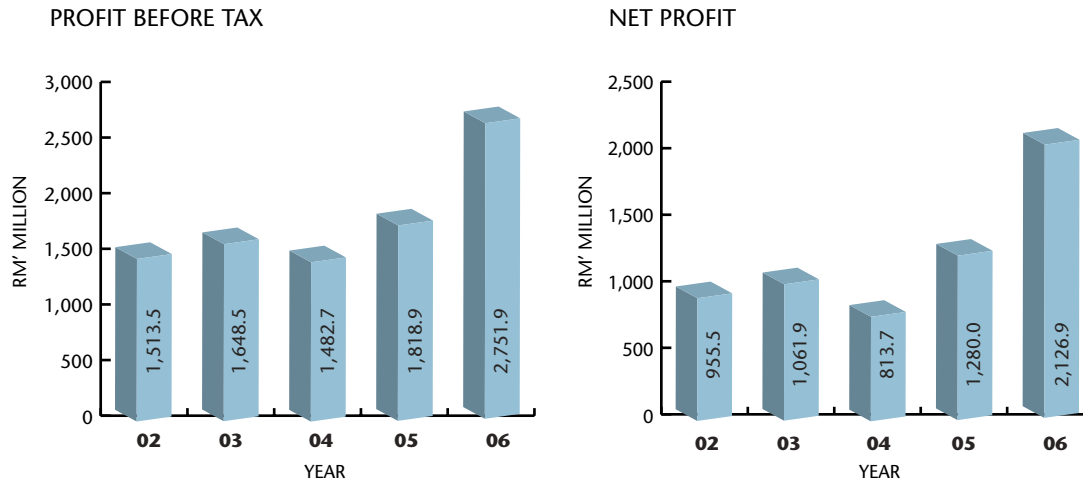
IPPS 38.5%  
- 6,787.4 MW



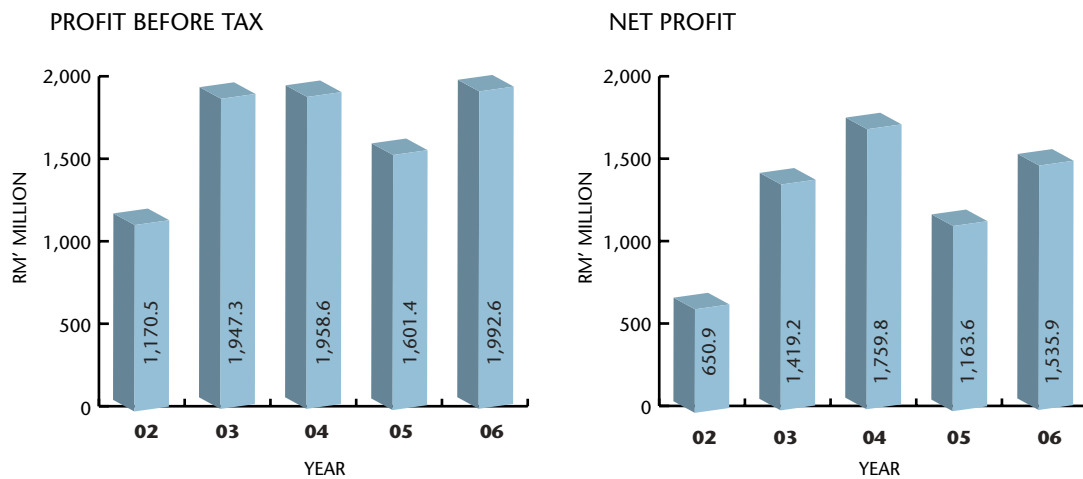


## CORPORATE PERFORMANCE CHARTS

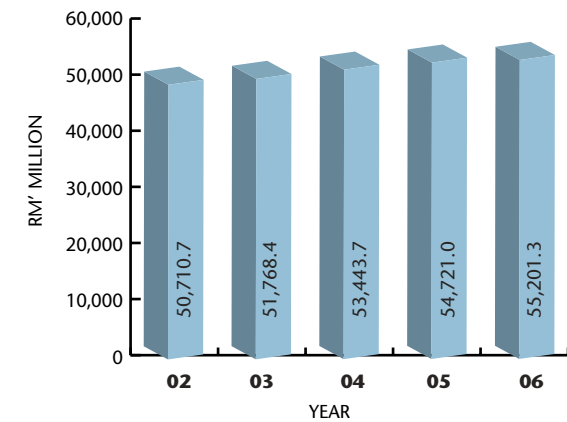
### PROFIT BEFORE TAX AND NET PROFIT (GROUP)#



### PROFIT BEFORE TAX AND NET PROFIT (COMPANY)#



### PROPERTY, PLANT AND EQUIPMENT (GROUP)

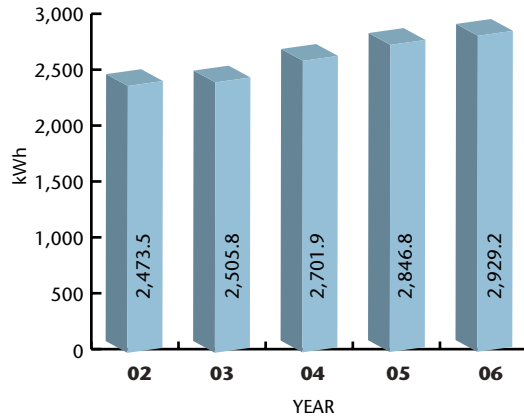


# The financials for 2002 has not been adjusted for the provisions of FRS 112 -Income Taxes and FRS 119-Employee Benefits.

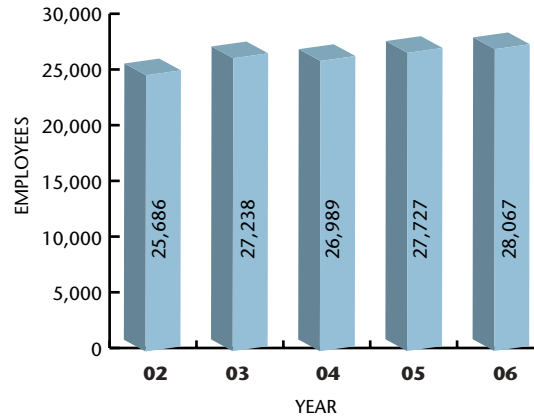


## PRODUCTIVITY (GROUP)

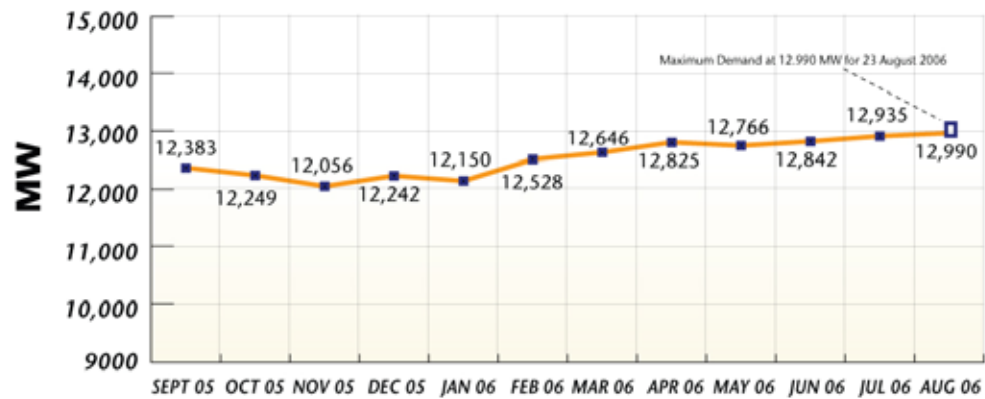
UNITS SOLD / EMPLOYEE



NUMBER OF EMPLOYEES



## MAXIMUM DEMAND TREND



going  
for the  
challenge





## CHAIRMAN'S LETTER TO SHAREHOLDERS

Tenaga Nasional Berhad (TNB) has had a very successful 2006 Financial Year. We are pleased with the Group's financial performance and happy to report that a lot has been done to improve our operational and technical efficiency levels, which are measured using System Average Interruption Duration Index (SAIDI), system minutes and Unplanned Outage Rates (UOR). This is proof of our commitment to our customers to provide service excellence.

As a leader and catalyst in the industry, TNB will continue to play a pivotal role in supplying power to all customer groups efficiently, reliably and competitively.

### Financial Performance

Tenaga Nasional Berhad recorded a commendable set of results by focusing on service excellence and efficiency. Net profit for the Financial Year ended 31 August 2006 was reported at RM2.13 billion compared to RM1.28 billion for the corresponding period in FY 2005, an increase of 66 per cent.

The Group's total revenue for the period increased by 7.4 per cent to breach the RM20 billion mark and is mainly attributed to the increase in electricity demand growth and the implementation of the new tariff rate, effective from 1 June 2006.

As a result of our on-going efficiency drive and the various Company-wide Initiatives to create value and savings, the Group reported a lower 4.4 per cent increase in operating expenses.

Thanks to the lower increase in operating expenses, the Group's EBITDA (EBIT before depreciation and amortisation) margin stood at 35.7 per cent and the EBIT (earnings before interest, taxes and minority interest) margin at 19.4 per cent in FY 2006 compared to 31.2 per cent and 16.5 per cent respectively in FY 2005.

Based on this, the Board has proposed to pay out a final gross dividend of 12.0 sen per ordinary share and tax-exempt dividend of 2.0 sen per ordinary share to TNB's shareholders.

### Industry Development

We thank the Government for sanctioning the first tariff rebalancing exercise in nine years, effective 1 June 2006. The revised tariffs are a more accurate reflection of our costs for producing and distributing electricity.

As a socially responsible body, we took great pains to ensure that domestic customers in the lower-income groups were not affected by the tariff rebalancing. In addition, we are proud that our tariffs are still among the lowest in the Asia-Pacific region.

With the new tariff in place, TNB is in a better position to carry out the necessary maintenance and upgrading of existing electricity supply infrastructure as well as undertake new supply projects in order to ensure reliable and quality electricity supply to our customers.

The new tariff structure was also designed to encourage efficient use of electricity. In 2006, TNB, with the cooperation of the Ministry of Energy, Water and Communications, embarked on an energy efficiency advertising campaign aimed at encouraging and educating the public on how to use electricity wisely and efficiently. We are happy this community service campaign has been well received by the public.

Also, in support of the Government's target of 350 MW capacity from Renewable Energy (RE) sources under the Ninth Malaysia Plan, TNB will continue to assist and initiate negotiations with Small Renewable Energy Power (SREP) developers on technical feasibility and project development. As at the end of FY 2006, TNB has signed six Renewable Energy Power Purchase Agreements (REPPA) with a total capacity of 36.2 MW. This figure is expected to rise in FY 2007 with the signing of four more RE agreements with a total capacity of 9.8 MW and the conclusion of negotiations for two more projects with a total capacity of 12 MW.

### Customer Focus

Our customers continue to be our priority. TNB has made great strides over the past two years in transforming our Company into an organisation that is more customer-oriented. In 2006, we implemented several customer-driven measures such as the use of the telephone and SMS to expedite our responses to customer feedback and complaints via our dedicated CareLine 15454. We also introduced the Mobile Money Wallet SMS service, which makes the payment of bills much more convenient for our customers.





**TAN SRI DATUK AMAR  
LEO MOGGIE**

Chairman





## CHAIRMAN'S LETTER TO SHAREHOLDERS

People are the core of customer service. It is therefore important that our staff are well prepared, ready and willing to embrace the transformation of our work culture. Our key challenges are to ensure our front-liners are customer-friendly, customer-oriented, knowledgeable and technically skilled. We aim to select and train the right people with the right qualities to communicate efficiently and effectively with our customers in order to guarantee a smooth and satisfying customer experience.

### **Corporate Governance**

Good corporate governance remains a key priority in TNB. This has been achieved in TNB through the development of a strong framework, which emphasises on continuous improvement and the development of a dynamic, productive and focused workforce.

The Company has undertaken continuous review efforts to improve corporate governance through the application of the principles of integrity, transparency and accountability in company processes through the Process Standardisation and Improvement (PSI) Programme.

The Company recognises that the key determinant in building a trusted and reliable organisation is the way our employees conduct themselves in their workplace and in the delivery of services to our customers. Thus, early in the year under review, we launched our Integrity and Ethics Plan. We have also successfully identified our talent pool and competency build-up under the Succession Planning and Talent Pool Development Programme. We are pleased to announce that TNB has successfully been accredited the MS ISO 9001:2000 during the year under review.

The Government Linked Companies (GLCs) Transformation Programme is also high on our agenda. We have embarked on several initiatives as set out in the Guidelines to Enhance Board Effectiveness published in the Green Book and on best practices for improving the procurement process as published in the Red Book. To spur performance, we have also announced our headline Key Performance Indicators (KPIs) for the year under review.

The Board of Directors will continue to recognise and encourage good corporate culture and practices throughout the Group for better returns and in the interest of our shareholders and stakeholders.

smart  
technology  
applied







## CHAIRMAN'S LETTER TO SHAREHOLDERS

### Safety Excellence

As a responsible utility company, ensuring a safe working environment and excellent occupational health is a continuous effort and takes precedence in TNB. Our Occupational Safety and Health (OSH) policy pledges a strong commitment for the provision of a safe and healthy working environment for our employees. We are actively instilling a proactive OSH work culture in all our employees through promotion and education.

With the implementation of the TNB Safety Excellence Management System (SEMS), the Company has progressed tremendously in OSH practices. Recognising that good OSH management is central towards creating a safe environment, management has also approved an enhanced OSH organisation structure in TNB. In our endeavour to be among the best utility companies in the world, TNB has also adopted the world-class OSH standard and management system.

### Corporate Social Responsibility

TNB is committed to corporate social responsibility (CSR). Our CSR policy is founded on philanthropy in key areas such as education, sports, the environment and helping the underprivileged.

We are pleased the Government has singled out our CSR policy as the basis of the pilot study on CSR for the Silver Book initiative, which was launched by the Government in September 2006 as part of the GLCs Transformation Programme.

During FY 2006, TNB implemented 100 Rural Electrification Projects costing RM15.5 million, which provide electricity supply to 1,621 households in rural areas throughout the country. As part of our social obligation, TNB also continues to carry out operations and maintenance activities for our

customers located in remote rural areas, including those accessible only via river or sea routes. We are also responsible for maintenance and operations of 12 and 24-hour diesel stations in rural areas as well as offshore islands at a subsidised rate totalling RM7 million a year. As at August 2006, TNB has also carried out, among others, the installation of about 36,000 streetlight units in rural areas.

Our sponsored educational programmes during the year under review included the UPSR Tutorials at Sekolah Kebangsaan Bebar, Pekan, Pahang, a 3-year project to supply the New Straits Times to 12 selected schools and a 6-month project to supply Utusan Melayu Mingguan Jawi to 20 schools.

We also assisted the Malaysian Association of the Blind in its fund-raising activities, while TNB workers gave generously in support of the Humanitarian Fund for the Pakistan Earthquake Victims. This year and for the fifth year running, we have also been actively promoting patriotism by sponsoring the "Patriotic Poetry Festival" jointly with Biro Tatanegara in conjunction with the country's Merdeka celebrations.

As an energy company for the future, TNB's commitment to the protection and preservation of the environment has also encouraged us to undertake long-term funding and rehabilitation of a very precious natural resource i.e. the firefly colony of Kuala Selangor. This is a cause close to our hearts because the firefly which generates light is symbolic of TNB in our role as the main provider of electricity in the country. The firefly is also a major tourist attraction but a very fragile one. With our help, we are hopeful that the firefly colony will be maintained and preserved for the future benefit and enjoyment of locals and tourists alike.

### Prospects and Challenges

Moving forward, the electricity industry will continue to grow at a projected rate of 5 - 5.5 per cent up to year 2010. In line with our pivotal role to Power the Nation's Progress, TNB will continue to be responsive to national economic growth. Therefore, it is critical for TNB to remain healthy and sustainable.

One of TNB's greatest challenges will be our readiness to move with the times and face an environment that is more liberalised and competitive, both in the domestic and international markets. Other challenges include coping with volatility and increases in fuel costs, the imminent reduction of fuel subsidies, the need for diversification and rising customer expectations. Quality of supply is another major concern. Certainly with growing sophistication and better quality of life, customers expect first-class quality of supply at all times.

Simultaneously, as we move forward, we believe TNB has to be prepared to pay market prices for all resources such as fuel. This makes it imperative for us to improve our efficiency in terms of generation, transmission, distribution and service. It is also important that all staff of TNB face these challenges with an open mind and a willingness to anticipate, adopt and embrace the changes necessary to ensure that TNB remains strong, effective and competitive as a company.

TNB is actively pursuing an energy diversification strategy that supports Government policy. We are also diligently exploring opportunities for tapping hydropower in Sarawak and commercialising bio-fuel and renewable energy sources across Malaysia.



We also recognise that in a globalised environment it is no longer sufficient to operate in single markets. Diversification abroad will help TNB spread its business risks and create new sources of income. In this regard, TNB intends to leverage our repair and maintenance skills under TNB Repair and Maintenance Sdn. Bhd. (REMACO) to penetrate promising markets abroad, especially in the emerging markets of the Middle East and Asia.

Meanwhile, we welcome the Government's initiatives to create a more efficient electricity supply industry and believe that further restructuring will take place in the coming years. The Government intends to reduce the reserve margin from the current 40 per cent to about 20 per cent, which is in line with our plan and will help our core generation business become more efficient and reduce wastage.

We also look forward to the outcome of the ongoing Government-initiated discussions with the Independent Power Producers (IPPs) and hope that it would be fair and provide a win-win solution for all parties in addressing the imbalances in the industry and the future role of the IPPs. The intended outcome must benefit the customers as well as the industry.

#### **Awards and Achievements**

During the year 2006, TNB was the proud recipient of several national and international awards and achievements in recognition of our status as a caring and responsible organisation and our endeavour towards excellence.

The TNB Workers Union received the Exemplary Private Sector Union award, while TNB was recognised as a Caring Employer in the major industry category by the Ministry of Human Resources, in conjunction with Labour Day 2006. TNB was also awarded the *Penjana Perpaduan* or Generator of Unity title during the 2006 national-level Unity Month Celebrations. This is in recognition of our efforts to encourage the spirit of *muhibbah* within our organisation.

At the regional level, TNB did the country proud by being listed as one of the biggest utility companies in ASEAN on the FTSE/ASEAN 40 Index. Our market capitalisation of USD9.2 billion (RM33.12 billion) places us in the ASEAN top ten, alongside other major Malaysian companies like Maybank, Maxis, Resorts World, Astro and YTL.

TNB also recorded a world-class achievement by being the only Malaysian company to have made it to the top 50 energy companies in Asia in the annual Platts Top 250 Global Energy Company rankings, which recognise outstanding financial performance by the world's leading energy businesses. TNB ranked 42nd among the top 57 energy companies in Asia and 168<sup>th</sup> among the top 250 Energy Companies globally. This recognition is significant as it places TNB in the same league with the world's largest and most successful energy producers.

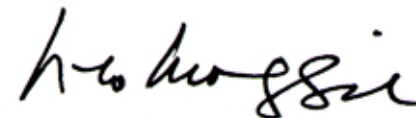
#### **Acknowledgements**

TNB owes its success to many quarters. We thank the Government, particularly the Ministry of Energy, Water and Communications and the Energy Commission, for their understanding and support of our mission and objectives to continue improving our performance and creating value for all our stakeholders, especially our customers and investors.

I would also like to thank TNB's management for their excellent work under the leadership of the President and CEO Dato' Sri Che Khalib bin Mohamad Noh. Credit must also go to all TNB employees for having achieved excellent efficiencies and cost savings and for their dedication in embracing a work culture of discipline, dedication and integrity aimed at delivering excellent and reliable service to all our customers.

As we move forward, we are counting on the commitment and full participation of all our staff to ensure TNB achieves its Vision. Most importantly, we recognise that we would not be able to achieve these goals without the support, understanding and patronage of our loyal customers. Thank you for allowing us to power you.

#### **"POWERING THE NATION'S PROGRESS"**



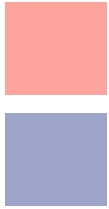
**TAN SRI DATUK AMAR LEO MOGGIE**  
Chairman





lighting  
grandeur  
powered by  
electricity





## PRESIDENT/CEO'S REVIEW

**Back in FY 2004, Tenaga Nasional Berhad (TNB) declared that it intended to become the best corporation in Malaysia by a self-imposed deadline of August 2007.**

**We aimed to do this via focusing on the T7 strategy for transformation and the inculcation of an effective goal-oriented culture underpinned by our core values of Integrity, Customer Focus, Business Excellence and being Caring. A key element of our transformation rests on our extensive "housekeeping" initiatives, which include maximising value by recovering long-term outstanding debt from delinquent customers, curbing electricity theft and addressing the high costs of fuel. Simultaneously, we implemented an aggressive cost-saving exercise to derive value from sustainable improvements. Furthermore, we are driven by a set of Company-wide Initiatives and Headline Key Performance Indicators (KPIs) which contain highly aggressive targets designed to push us to the forefront of regional and global utilities.**

During FY 2006, we have driven our journey in excellence further by continuing to pursue the strategies defined in our 20-Year Strategic Plan.

Value creation through savings is still very much a strategic imperative. Our value creation drive continued in FY 2006, and TNB has achieved tremendous value creation of RM893.7 million, or 49 per cent in excess of our targets, from company-wide initiatives such as back-billing, reduction in general expenses, value creation from the sale of non-operational strategically-located landbanks, the turnaround of the Sabah Electricity Sdn. Bhd. (SESB), recovery from delinquent accounts, and the improved management of administration costs.

Simultaneously, the first 5-year phase of our 20-year strategic plan revolves around achieving the milestone of "Service Excellence" and we have embarked on various initiatives for excellence, particularly in addressing the key issues of electricity supply and delivery quality, quality certification through process standardisation and improvement, and risk management. I am happy to note that operational and technical efficiency levels which are measured using System Average Interruption Duration Index (SAIDI), System Minutes and Unplanned Outage Rates (UOR) have improved significantly, which is proof of our on-going commitment to our customers to provide service excellence.

### **Towards Service Excellence**

Throughout the year under review, TNB focused its efforts on several key initiatives targeted to raise the reliability and quality of service in our on-going quest to achieve service excellence.

By improving the quality of our management and operational processes, we can raise our efficiency and directly improve service excellence. Notably, for the period under review, we focused on achieving the MS ISO 9001:2000 certification through the implementation of the Process Standardisation and Improvement (PSI) Programme, an initiative that will inculcate the culture of quality among our people. Commendably, TNB as a whole achieved ISO certification on 10 February 2006, which we believe will drive further improvements in efficiency and thus service excellence forward.

Being prepared for emergencies also enables TNB to anticipate and pre-empt crises to ensure supply reliability, which is central to service excellence. During the year, we reviewed the Emergency Response Plan and defined specific procedures and provided dedicated infrastructure for emergency responses to





**DATO' SRI CHE KHALIB  
BIN MOHAMAD NOH**

President/  
Chief Executive Officer





## PRESIDENT/CEO'S REVIEW

ensure uninterrupted supply of electricity, which plays a major role in national security. This includes the establishment of the National Operations Room, which will be the base for centralised crisis management for better control and positive handling of crisis situations.

In terms of our core businesses and operations, TNB continued to work diligently to ensure a secure, reliable and uninterrupted power supply which is critical to delivering service excellence. Significantly, strategic planning and planting up of generation capacity is a key part of the supply reliability equation and integral to optimising the reserve margin. During the year under review, the Government called for the optimisation of the country's reserve margin in order to conserve resources and create efficiency. In support of the Government's call, TNB will continue to work closely with the "Jawatankuasa Perancangan dan Pelaksanaan Pembekalan Elektrik dan Tarif" (JPPPET) to implement generation planning that optimises our reserve margin.

Further down the electricity supply chain, we continued to invest substantially in ensuring the robustness of the system through building in backups and emphasising maintenance in order to be able to withstand system disruptions. These initiatives are complemented by our continuous efforts to improve system reliability and efficiency through ongoing initiatives like the Central Area Reinforcement (CAR) Project, the Supervisory Control and Distribution Automation (SCADA) System which is being extended nationwide, the Distribution Automation (DA) Project and the upgrading of the National Load Despatch Centre (NLDC).

Elsewhere, TNB has made great strides in procurement efficiencies, which have in turn increased the efficiency and transparency of the Company's supply chain, and enable us to deliver our end-products and services more effectively and efficiently. A great deal of attention was paid

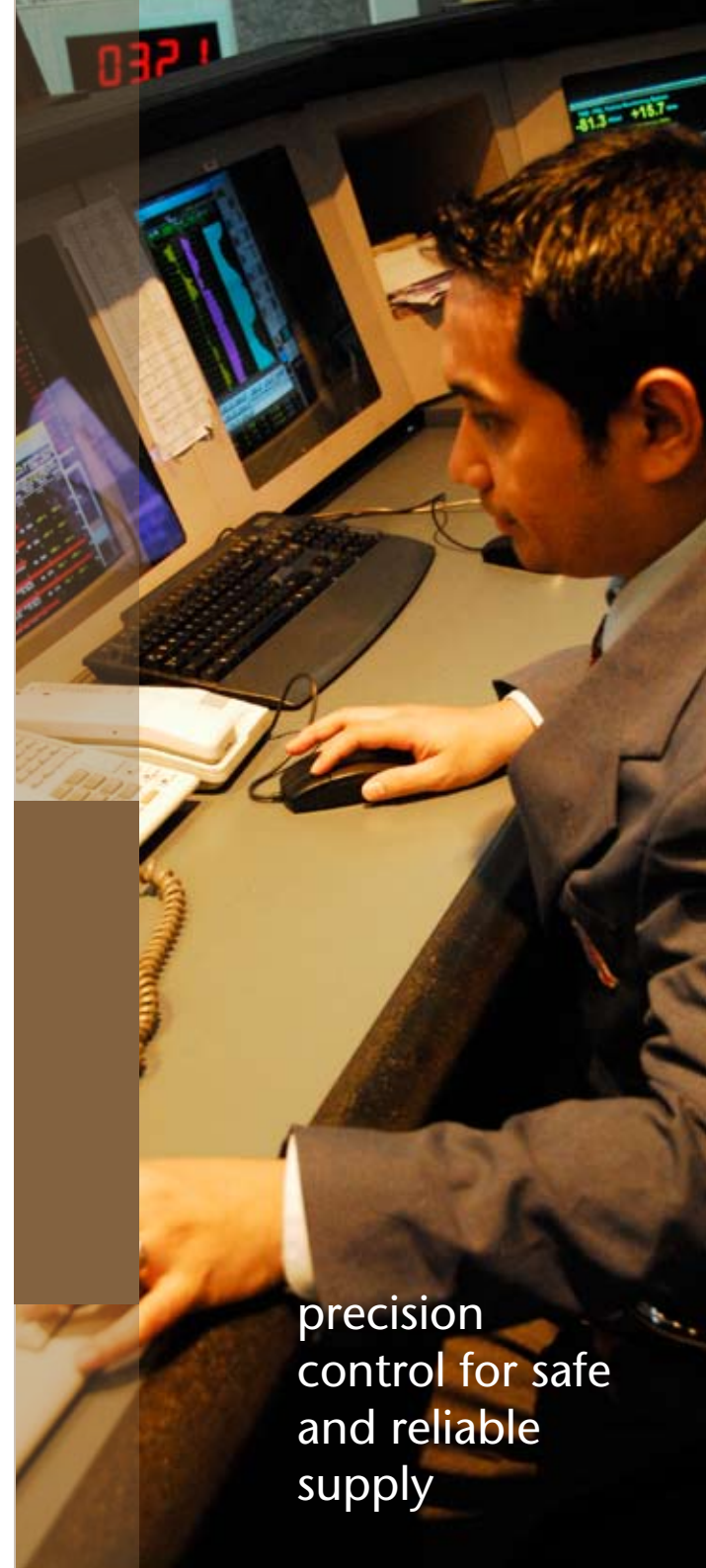
to procurement activities because of their potential to contribute to significant cost savings. During the year under review, TNB worked to improve the tender and delivery system to comply with the best practices outlined in the GLCs Red Book. TNB also promoted and implemented the National Procurement Policy, emphasising the Entrepreneur Development Programme in line with the objectives of the National Economic Policy (NEP).

Streamlining the procurement process has improved internal and external vendor culture, and demonstrates TNB's commitment to build a stronger entrepreneurial culture among Malaysians. In line with its corporate social responsibility strategy, TNB instituted the Vendor Culture as part of the Vendor-Entrepreneur Programme that is intended to spur improvements in quality, and help vendors brand themselves. Improving and controlling vendor quality in compliance to certain standards will ultimately enhance the quality of TNB's end-products and services, enabling us to raise service excellence.

### **Delivering Customer Satisfaction**

Delivering customer satisfaction continues to be a strategic imperative for TNB as it strives to evolve into a customer-oriented and satisfaction-driven company. Our new customer-pleasing strategies in FY 2006 included upgrading the interface and communications between the customer and TNB frontliners, and expediting billing and payment processes.

Apart from revamping our Customer Call Management Centre (CMC), SMS-based initiatives were a key theme in FY 2006. Customers can now lodge complaints about power interruptions through SMS TNB CareLine 15454, which will speed up response time and allow for better management of calls to TNB's 24-hour call-management centres.



precision  
control for safe  
and reliable  
supply



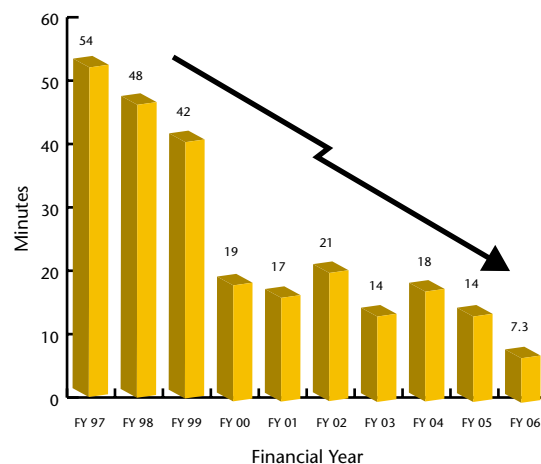
In terms of payment and billing, customers can now settle their electricity bills with ease and convenience through SMS via the Mobile Money Wallet (MM Wallet), which is an alternative channel for TNB bill payments. Indeed, customers will not forget to pay their bills, since the MM Wallet will remind them periodically about payment deadlines.

In future, customers will enjoy even more accurate meter readings and billings with TNB's proposed RM50 million investment in automatic meter reading (AMR) units from FY 2007 – 2009. In future, AMR will facilitate the billing process for customers, making it more timely and efficient. In turn, AMR will benefit TNB by reducing meter reading and meter maintenance costs.

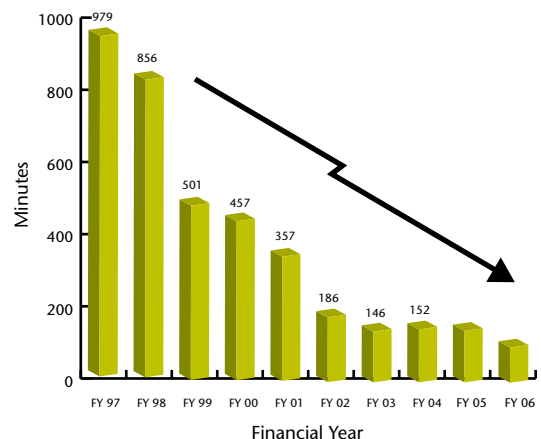
Apart from these initiatives, TNB continued to maintain open communication channels with major stakeholders – such as the Quarterly Forum of the Electricity Consultative Panel - in order to gather feedback, communicate developments in energy issues and build better relationships. Throughout the year under review, TNB held frequent dialogues with stakeholders such as the Energy Commission, the Ministry of Energy, Water and Communications and the Malaysian Industrial Development Authority (MIDA) as well as with industry representatives such as FOMCA, FMM and the Real Estate and Housing Development Agency (REHDA). TNB made further strides in raising customer service benchmarks when it became the first utility to sign a custom-designed Service Level Agreement with REHDA which clearly delineates the obligations of both parties.

TNB also maintained its focus on delivering reliable power supply through best practices such as reducing planned outages and system disruption. The SAIDI measure (a key measure of supply reliability) has improved tremendously to 101.6 minutes for FY 2006, exceeding the target of 133 minutes. TNB has also improved its UOR, which was reduced to 4.7 per cent for FY 2006 against the target of 5.0 per cent.

#### System Minutes Improved by 5.8 times



#### SAIDI Improved by 6.6 times





### **Improving Financial Performance**

While TNB has been making valiant efforts to create efficiencies and savings to put its finances in order, TNB's financial sustainability going forward has also been reassured by the recent approval of the tariff review by the Government. We thank the Government for the approved review which is in line with the Government's strategy to enable TNB to continue providing a reliable supply of electricity to all Malaysians. Among other things, the new tariff structure will improve TNB's cashflow and enable TNB to meet rising costs and re-invest to upgrade aging supply equipment.

The tariff review has been designed to ensure that the lower income group or lifeline consumers are not financially burdened by increases in energy costs. At the same time, TNB is maintaining the Special Industrial Tariff for those who qualify as well as the 10 per cent discount for Government schools, Government institutions of higher learning, welfare homes and places of worship. TNB has also introduced a Special Agriculture Tariff to control the costs of basic food products.

Reducing non-technical losses is a core strategy for TNB under its 20-Year Strategic Masterplan, and we made intensive efforts to curb power thefts during the year under review, since power theft is a major contributor to the non-technical losses suffered by TNB. TNB took a more aggressive approach to curbing power theft with the official launch of the Special Engagement Against Losses (SEAL) team in FY 2005. The SEAL team's main activities centre on minimising non-technical losses from power theft by conducting physical checks at meters. To increase effectiveness, the SEAL team has been beefed up with more technicians as well the procurement of new equipment and transportation to pursue suspected cases of power theft.

Debt recovery has also been a key element in TNB's on-going housekeeping programme. I am pleased to report that our debt recovery efforts have been highly successful. Indeed, we have come to an amicable resolution with our debtors and secured settlement for all outstanding delinquent accounts. As of October 2006, we collected RM166.7 million in debts, exceeding the earlier target of RM130 million.

TNB has also expanded the e-CIBS system to tag high-risk customers for better security against power theft. Using e-CIBS produces accurate analysis reports that can identify patterns of repeated power theft. In the year under review, we also introduced the RM20 million Remote Meter Reading project which has benefited 89 per cent of our 1400 Large Power Customers in the Klang Valley to date. TNB is also fixing Expanded Metal Protection Doors (EMPD) and Secure Meter Boxes in other tangible initiatives to reduce power theft.

### **Building Capacity and Improving Performance Environment**

TNB's human resource development focus is geared towards attaining our company-wide performance goals in an increasingly competitive environment while leveraging technology to improve personal and professional development.

Throughout the Financial Year under review, the major element emphasised was the need to cope with change, and to accept and manage change for maximum productivity and optimum output through change management programmes. The need to adapt from traditional work practices to methods and mindsets that were more aligned to achieving high performance was constantly stressed, in order to equip personnel with the skills to cope in an increasingly competitive environment.

To help achieve this positive change, TNB is investing RM60–70 million annually in targeted or customised training to improve our people's skills, knowledge and competencies. At the same time, TNB has implemented individual and organisational KPIs as targets to drive performance and accountability at all levels of the Company, and as benchmarks to measure performance.

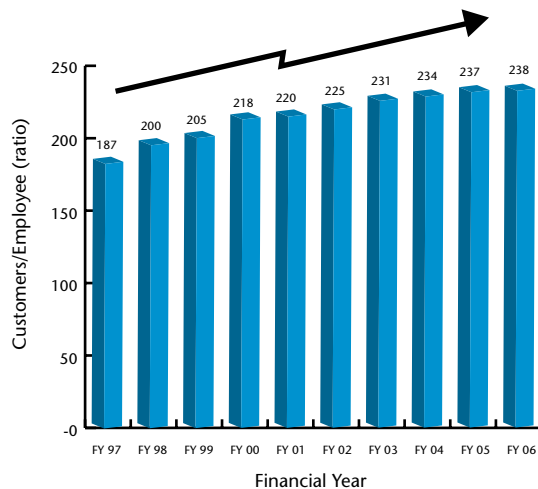
As part of this organisational culture change, a rewards-based system was introduced to differentiate between high performers and non-performers. Promotions were also based on performance, as were share options, with remuneration shifting to emphasise this method of reward.

Like other forward-looking organisations, TNB needs to groom new leaders who will be able to achieve the organisation's long-term objectives. To achieve this, succession planning has been developed and is scheduled for implementation in FY 2007. We have identified 240 potential leaders, based on resilience and adaptability as the main criteria.

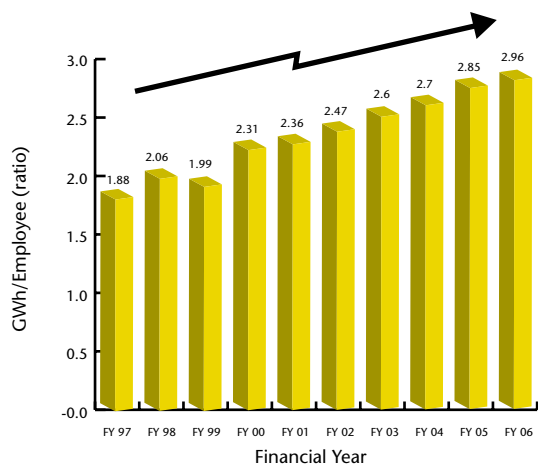
TNB's human resource development also focused on capacity building, which is crucial in the light of our 2010 target of marketing our services and expertise, such as repair and maintenance services. TNB is preparing to start selling its services abroad, seizing business opportunities as they arise. Therefore, the current focus is on building up a skilled staff base that will be able to meet this demand without compromising the quality and support of its core services as required by the local market. Non-executives and engineers are embarking on specialist career paths in preparation for 2010 while TNB develops retention strategies to ensure that it retains the talent it has trained.



**Productivity Improved by 1.71 times :  
Customers/Employee**



**Productivity Improved by 3 times :  
GWh/Employee**



Striking a balance between driving company performance and managing staff welfare is never easy, particularly in a highly competitive business environment. Since our people are our prime asset, management makes efforts to reach out and gather their feedback in order to improve the working environment. During the year under review, I have met face-to-face with staff through different platforms, such as the middle managers' forums, divisional conferences, and meeting the staff sessions, in order to promote open communications.

At the same time, TNB is committed to curbing abuses to enhance the efficiency and transparency of our system and operations while safeguarding staff welfare. We are delighted that our human resource development programmes and efforts to improve the performance environment have earned prestigious recognition. TNB was recognised as a Caring Employer in the major industry category by the Ministry of Human Resources in conjunction with Labour Day 2006.

#### Share Price Performance

During the year under review, TNB's share price experienced the greatest activity subsequent to the announcement of the tariff rebalancing on 24 May 2006. On the day following the announcement, TNB's share price leaped to RM9.50 early in the day and closed at RM9.15. A total volume of 33.56 million TNB shares were traded, which represented 18.7 per cent of the total volume traded on the KLCI on that day. For the period from January to April 2006, the monthly volume of trading in TNB shares ranged from 2.3 per cent to 3.8 per cent of the total monthly trading volume on Bursa Malaysia.

Feedback from major investment houses showed that there was 10 times more buying than selling

of TNB shares. While research houses and analysts rerated the stock positively, they believed the slow rise of TNB to be positive with potential upside still to be tapped.

TNB's foreign shareholding too has climbed from a low for the year of 9.68 per cent in December 2005 to 14.30 per cent and 16.80 per cent in August and September 2006 respectively.

The tariff review was also a factor behind TNB's rerating by credit rating agencies. Fitch Ratings upgraded TNB's long-term foreign and local currency debt rating from BBB- to BBB in May 2006 while short-term foreign and local currency debt ratings were affirmed at F3. The outlook on all ratings remains stable.

#### The Way Forward

Scaling up the economic value chain will be a priority for TNB in the years to come, in line with the Government's call to all companies to expand and strengthen their capabilities and capacity in order to compete regionally and globally.

To achieve this, TNB is exploring new sources of growth by leveraging on our existing strengths, guided by our 20-Year Strategic Plan. For instance, I can share that we intend to initiate new ventures abroad by exporting our expertise and capacity in repair and maintenance services through TNB Repair and Maintenance Sdn. Bhd. (REMACO), for starters. We have also decided to turn our Connaught Bridge facility into the "Regional O&M/R&M Hub". TNB is also actively exploring opportunities for selling our technical expertise and perhaps even expanding via joint-ventures into the emerging markets of Yemen, Egypt, the Philippines and Indonesia.





## PRESIDENT/CEO'S REVIEW

Given our ambition to go regional and international, it has made sense for TNB to play a more active role in thought leadership and regional cooperation at energy forums. We have stepped up our involvement in the Heads of ASEAN Power Utilities and Authorities (HAPUA) in FY 2006. Most recently, we openly placed our support strongly behind the development of an ASEAN power grid at the 22<sup>nd</sup> HAPUA council meeting in May 2006. We believe this grid will provide the necessary interconnectivity for the regional mobilisation of electricity sales and optimise the development of energy resources in the region.

Concurrent with our outward-looking orientation, we will also continue to focus on becoming a more efficient and effective organisation in all aspects: operations, strategy, finance, customer value, risk management, etc. Cushioning our existing business and markets will be even more necessary as the business landscape evolves to become more competitive and liberalised. Based on thorough market and trend analysis, TNB has moved to become more efficient and effective over the past few years.

Nevertheless, the task of escalating productivity is a continuous effort. We have to be prepared and alert to change, and embrace change, in order to defend our market leadership in our chosen businesses and to sustain and add stakeholder value. We must continue to put our shoulders to the wheel in order to achieve greater efficiency and economic value-add annually, in the interests of our stakeholders.

### Acknowledgements

Throughout our journey to excellence, TNB has enjoyed tremendous support from all our stakeholders who have encouraged us to work creatively and industriously to achieve our paradigm goal of becoming Malaysia's best company by 2007.

In particular, we must thank the Ministry of Energy, Water and Communications, the Energy Commission and the Putrajaya Committee on GLC High Performance for their untiring work in creating a more efficient and competitive environment through their strategic imperatives. We welcome such moves as the renegotiations of Supplementary Power Purchase Agreements which will bring Malaysia's power sector on par with developed and highly efficient markets elsewhere.

Further, we will continue to focus on ways to deliver customer satisfaction through our product and service innovations. TNB is nothing without its customers. We thank our loyal customers for their ongoing support and patronage and pledge to work more diligently in future to deliver excellence in service quality and customer service.

I must also thank the Board of Directors of TNB, who have helped shape, guide and support TNB's vision of a paradigm shift. The Board's wisdom in adopting the GLC Green Book for Enhancing Board Effectiveness and its active participation in Board Breakout Sessions has certainly made it more efficient, especially in terms of governance and oversight. Indeed, the Board's support of positive changes in the management and operations of TNB has helped us make it to the top 50 energy companies in Asia in the annual Platts Top 250 Global Energy Company rankings. This is a prestigious third-party validation of our stellar performance and improvement over the past three years, and testimony to our drive to create shareholder value for investors.

Of course, such an outstanding performance could not have been achieved without the commitment and backing of TNB's main asset, its people. I thank all the management and staff for continuing to break new productivity records, which is the early fruition of their inculcation of a values-based performance culture. On behalf of TNB, I pledge that the Company will continue to support the growth and professional development of our people as we move forward.

As we continue on our journey to becoming a respected power company with regional and international standing, I trust that all stakeholders will continue to give us their backing as we grapple with new challenges in our quest to be the best in Malaysia by 2007.

### "POWERING THE NATION'S PROGRESS"

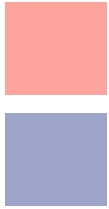
**DATO' SRI CHE KHALIB BIN MOHAMAD NOH**  
President/Chief Executive Officer





one team, one spirit,  
one goal





## STATEMENT OF CORPORATE GOVERNANCE

**Good corporate governance remains a key priority in Tenaga Nasional Berhad (TNB), and has been achieved through building a strong framework for effective governance which is analogous to the process of continuous improvement. Combined with the strong oversight and vigilant monitoring of the Company's Board of Directors, this stringent environment produces a dynamic, productive and focused workforce. The Board recognises and continuously encourages good corporate culture as this will directly benefit the shareholders and stakeholders whilst safeguarding their interests.**

The Government Linked Companies Transformation Programme is also high on the agenda to enhance corporate governance. TNB has embarked on several initiatives as set out in the Guidelines to Enhance Board Effectiveness which are published in the Green Book. TNB has also implemented best practices for improving the procurement process according to the Red Book; these best practices provide transparency and efficiency which can potentially result in significant savings and lead to high-quality services through the procurement of quality products.

The Company undertakes continuous review efforts through a structured Process Standardisation and Improvement (PSI) Programme to improve and update its business processes and systems. At the same time, the PSI programme emphasises the improvement of corporate governance through the application of the principles of integrity, transparency and accountability in company processes. During the Financial Year under review, the company has successfully been accredited to MS ISO 9001:2000.

The Company has also established a Succession Planning and Talent Pool Development Programme that has successfully identified individuals for the Company's talent pool and includes the preparation of individual development plans to build up competency.

A key determinant in building a trusted and reliable organisation of high standing is the manner in which its employees conduct themselves in their work and the delivery of services to its customers. In recognition of this, the Company during the year, launched the Integrity and Ethics Plan of TNB for company-wide application.

To spur performance, TNB announced its Headline Key Performance Indicators (KPIs) for the Financial Year under review. The transparency of these set targets or aspirations is aligned with the Company's strategy to be accountable for its performance and practices in the interests of good corporate governance and investor confidence. Shareholders can evaluate the actual performance of the Company against the Headline KPIs objectively.

The Board of Directors remains committed to improving corporate governance practices to ensure the highest standards of corporate practices through the Group for better returns and in the interest of shareholders. The Board is pleased to report to the shareholders on the manner in which the Company has strengthened its application of the principles of corporate governance and adopted the corporate governance best practices laid down in the Malaysian Code on Corporate Governance (the Code) and other globally-recognised standards.







delivering beyond  
stakeholder expectations





risk management  
systems in place

## **(A) THE BOARD OF DIRECTORS**

The Board, individually and collectively as a team, recognises its responsibility in governing, guiding and monitoring the direction of the Company with the ultimate objective of enhancing long-term sustainable value creation aligned with the interests of shareholders, while taking into account the interests of other stakeholders. The Board is committed to adopting good corporate governance practices as part of their continuing obligations, explicitly assuming the six principal responsibilities outlined in the Code, and operating within a set of governance parameters as set out below:

### **Composition of the Board**

The current Board of Directors of TNB is composed of eight members comprising one Non-Executive Chairman, one Executive Director, six Non-Executive Directors and in addition, two Alternate Directors. Collectively, the Board members are from the diverse backgrounds of business, finance, law, engineering, management and public administration, and provide considerable profundity of knowledge, expertise and experience to the Board of TNB. The Board is of the opinion that each of its members has the knowledge, aptitude and experience to perform the functions required of a director of a listed company. A brief profile of each Director is set out on pages 54 to 60 of this Annual Report.

### **Process of Appointment to the Board**

Appointment to the Board of TNB is made either by the Special Shareholder pursuant to Article 5(2) of the Company's Articles of Association or by the Board of Directors pursuant to Article 133 of the Company's Articles of Association.

The Board Nomination & Remuneration Committee (BNRC) scrutinises the sourcing and nomination of suitable candidates for appointment as a Director in TNB and its subsidiary companies before making recommendations to the Board for approval. This Committee will ensure the selection of Board members with the right experience, skill and expertise, thus strengthening the composition of the Board and contributing significantly to the effectiveness of the Board.

### **Roles and Responsibilities**

The Board has adopted the following six primary responsibilities laid out in the Code, which facilitate the discharge of the Board's responsibilities:

- (i) Reviewing and adopting a strategic plan for the Company;
- (ii) Overseeing the conduct of the Company's business;
- (iii) Identifying principal risks and implementing appropriate risk management systems;
- (iv) Implementing succession planning;
- (v) Maintaining effective communication with shareholders and investors; and
- (vi) Reviewing the adequacy and integrity of the Company's internal control systems.





## uploading the grid with power

The roles and responsibilities of the Chairman of the Board and the President/Chief Executive Officer are clearly defined and separated. The Chairman is responsible for the conduct of the Board and ensures that Board discussions are conducted in such a way that all views are taken into account, so that no individual Director or small group of Directors dominates proceedings. The Chairman is also responsible for ensuring Board effectiveness as well as representing the Board to the Shareholders. The Chief Executive Officer has the general responsibility for running the business on a day-to-day basis, thus ensuring a balance of power and authority so as to provide a safeguard against the exercise of unfettered powers in decision-making.

Accountability is part and parcel of governance in TNB. Whilst the Board is accountable to the shareholders, the Management is accountable to the Board. The Board ensures that the Management acts in the best interests of the Company and its shareholders by working to enhance the Company's performance.

There is a clear division of responsibility between the Board and the Management. The President/Chief Executive Officer is supported by his management team through committees, namely the Group Executive Council, Group Executive Management Committee, Group Management Tender Committee and the Energy Supply Committee. These committees are responsible for the implementation of Board resolutions, and hold overall responsibilities for the day-to-day operations of the Group's business and operational efficiency.

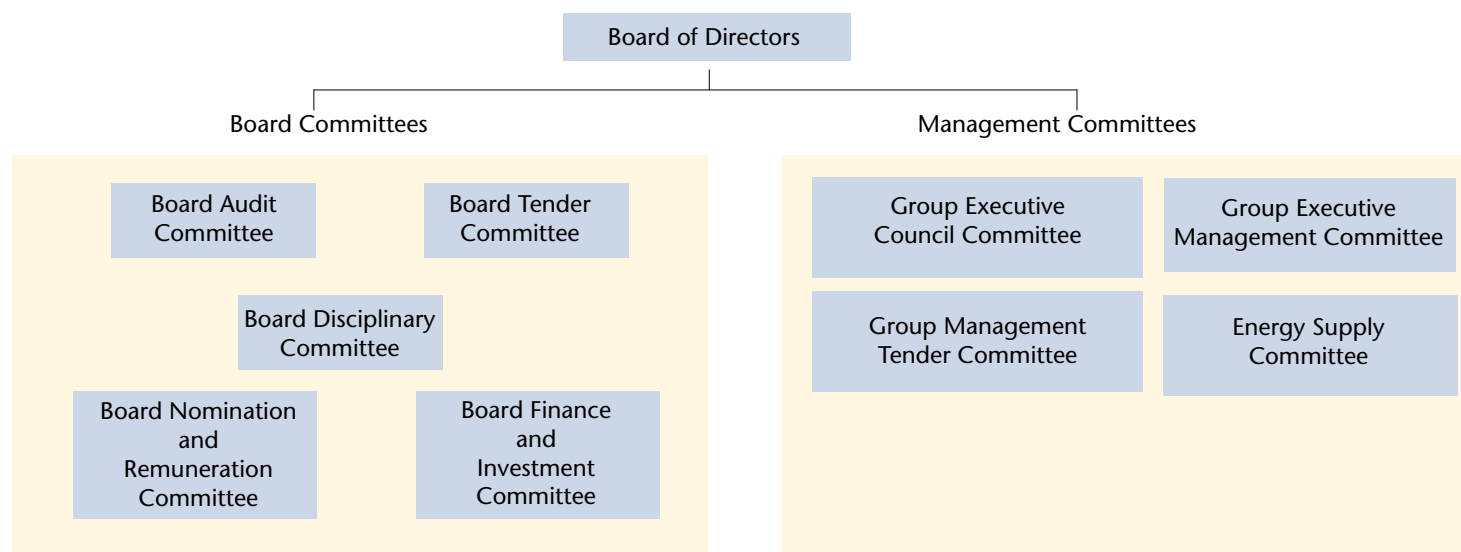
### **Operation of the Board**

The Board has entrusted certain responsibilities to Board Committees, which operate within clearly defined written terms of references. There are five Board Committees to assist the Board, and the Committees deliberate issues on a broad and in-depth basis before putting up any recommendation to the Board.

The Board Finance and Investment Committee has for the year under review resumed its function to discuss and review the annual budget proposals by the Management which include Capital Expenditure on new projects or investments before final approval by the Board.



A diagram outlining the main Committees involved in the decision-making process is set out below:-



### The Board Meetings

The Board meetings are scheduled in advance and during the Financial Year ended 31 August 2006, 14 Board meetings were convened to deliberate and consider a variety of significant matters, including review of business plan, budget, quarterly financial statements, risk assessment, KPIs of the senior management, debt restructuring and other corporate proposals such as divestment exercises, overall performance of the Company and the subsidiary companies, as well as other related business matters that required their deliberation and due approval.

The proceedings of and resolutions passed at each Board and Board Committee meetings are minuted and kept in the statutory register at the registered office of the Company. In the event of potential conflict of interest, the Directors in such a position will make a declaration to that effect as soon as practicable. The Directors concerned will then abstain from any decision-making process in which they are interested.





### Attendance Details of Board Members

Directors' commitment, resources and time allocated to the Company are evident from the attendance record that surpassed the 50 per cent attendance requirement of Bursa Malaysia Securities Berhad.

DIRECTORS	MEETING ATTENDANCE
Tan Sri Datuk Amar Leo Moggie (Chairman)	13/14
Dato' Sri Che Khalib bin Mohamad Noh	14/14
Dato' Azman bin Mokhtar	8/14
Tan Sri Dato' Lau Yin Pin @ Lau Yen Beng	14/14
Tan Sri Dato' Hari Narayanan a/l Govindasamy	13/14
Dato' Zainal Abidin bin Putih	13/14
Datuk Mohd Zaid bin Ibrahim	11/14
Mohammad Zainal bin Shaari (Alternate Director to Dato' Azman bin Mokhtar)	6/6
Dato' Puteh Rukiah binti Abd Majid (Appointed w.e.f. 13 September 2006) Datuk Zalekha binti Hassan (Alternate Director to Dato' Puteh Rukiah binti Abd Majid) (Appointed w.e.f. 13 September 2006)	Not Applicable
Dato' Abdul Rahim bin Mokti (Resigned on 18 August 2006) Datuk Zalekha binti Hassan (Alternate Director to Dato' Abdul Rahim bin Mokti) (Resigned as Alternate Director on 18 August 2006)	7/13 3/3

(Note: the attendance record of Alternate Directors must be read in concurrence with the attendance record of their respective Principal Directors)



### Supply of Information to the Board

The Board and its Committees have full and unrestricted access to all information within TNB pertaining to the Group's business and affairs.

The Board is provided with the agenda for every Board meeting, together with comprehensive management reports which include proposal analysis, risk evaluation and supporting documents in advance for the Board's examination. Before decisions are made, consideration is given to the adequacy of information available to the Board and, if necessary, decisions are deferred if further information is required.

All Directors have the right and duty to make further enquiries where they consider necessary. In most instances, senior management of the Company as well as external advisors are invited to be in attendance at Board meetings to provide insight and to furnish clarification on issues that may be raised by the Board. Whether as a full board or in their individual capacities, Directors are also at liberty to take independent professional advice on any matter connected with the discharge of their responsibilities as they may deem necessary and appropriate.

The Board is also notified of any corporate announcement made to Bursa Malaysia.

Directors also have full and unrestricted access to the services of the Company Secretary who undertakes the responsibility of an advisor in respect of compliance issues and ensures that the Board complies with any statutory and regulatory requirements pertaining to Directors' duties and responsibilities, Board meeting procedures and all applicable rules and regulations.

### Board Effectiveness

The present composition, size, modus operandi, and strength of relationship with the Management and functional Board Committees contribute to an effective Board. Apart from the convening of Board meetings on a frequent basis, deliberation and discussions at a Board meeting are conducted in a comprehensive and in-depth manner before arriving at any decision recommended by the Management.

A Board and Management interactive session known internally as the Board and Management Break Out Session is held twice a year. Each session provides the Board with an additional formal platform outside the boardroom and gives it an opportunity to scrutinise the performance, business plan and budget of the Company in greater detail, thus enabling the Board to chart the strategic direction for the Company and to provide effective control by linking the business plan to the KPIs.

### Board Balance and Independence

The requirement of the Code for board balance is fulfilled with the Independent Directors forming one-third of the Board. The classification for independence is in accordance with paragraph 1.01 (Definition and Interpretations) of the Bursa Malaysia Listing Requirements.

The present Board consists of three Independent Non-Executive Directors, namely Y. Bhg. Tan Sri Dato' Lau Yin Pin, Y. Bhg. Tan Sri Dato' Hari Narayanan a/l Govindasamy and Y. Bhg. Dato' Zainal Abidin bin Putih, who are independent of Management and free from any business relationship that could materially interfere with the exercise

of their independent judgement. The presence of Independent Directors assures an additional element of balance to the Board as they provide unbiased and independent views, advice and judgement to all Board deliberations. Y. Bhg. Tan Sri Dato' Lau Yin Pin is the Senior Independent Non-Executive Director. He is the Company's longest-serving Director with significant knowledge of the Company and its business, to whom any concerns on the Company may be conveyed by the shareholders and the public.

### Re-election

Pursuant to Article 133 of the Company's Articles of Association, newly-appointed Directors are subject to re-election by shareholders at the first opportunity after their appointment in accordance with Article 133 of the Articles of Association. Retiring Directors may offer themselves for re-election by the shareholders and all Directors are required to retire from office at least once in every three years in accordance with Article 135 of the Company's Articles of Association.

Further information concerning the Directors standing for re-election at the Annual General Meeting is included in the Statement Accompanying Notice of Annual General Meeting. The detailed profiles of directors submitted for re-election enable shareholders to make an informed decision on their election.





delivering  
on Key  
Performance  
Indices





## STATEMENT OF CORPORATE GOVERNANCE

### Continuing Board Development

Recognising the ever-increasing demands of their role as Directors of a leading public-listed Company, the Directors of TNB continue to equip themselves with the relevant professional advancement particularly in corporate regulatory developments and current developments in the industry.

All Directors have attended the Mandatory Accreditation Programme and they were also informed and encouraged to attend professional programmes organised by various professional bodies. Apart from attending various conferences and seminars organised by external organisers, the Board also benefits from an in-house Board Development Programme. The in-house Board Development Programme for the Financial Year under review was tailored to the specific needs of the Board. The topics covered were Risk Management, Interest Rate and Forex, Market Manipulation, Short Selling and Securities Fraud.

### Directors' Remuneration Procedure

The Board Nomination and Remuneration Committee recommends to the Board the framework and the remuneration package for the Executive Director and Senior Management. In determining the framework, the Committee has access to professional advice from both internal and external sources.

### The Level and Make-Up of Remuneration

(a) The remuneration package of the Executive Director comprises the following elements:

(i) Basic salary

The basic salary (inclusive of statutory employer contributions to the Employee Provident Fund) for an Executive Director is recommended by the Board Nomination and Remuneration Committee, taking into account the individual performance and information from independent sources on the salary rates for similar positions in a selected group of comparable companies.

(ii) Reward Scheme

The Group operates a bonus scheme for all employees, including the Executive Director. The criteria for the scheme are the levels of profit achieved from the Group's business activities against targets, together with an assessment of each individual's performance and competencies. Contractual bonus based on performance is payable to the Executive Director.

(b) The remuneration package of Non-Executive Directors comprises the following elements:

(i) Fees

The Directors are paid monthly fees and attendance allowances for each Board and Board Committee meeting that they attend. Such fees are tabled to the shareholders of the Company for approval.

(ii) Benefits-in-kind

Other benefits in the form of coverage of electricity bills and reimbursements are made available as appropriate.





## STATEMENT OF CORPORATE GOVERNANCE

### Disclosure on Directors' Remuneration

The details on the aggregate remuneration of directors for the Financial Year ended 31 August 2006 are as follows:

	Executive Director	Non-Executive Director	Total (RM)
Directors' Fees	-	*414,500.00	414,500.00
Meetings Allowance	-	*173,750.00	173,750.00
Salaries, Bonuses & Allowances	723,000.00	-	723,000.00
Employees Provident Fund	91,800.00	-	91,800.00
Benefits-in-kind	42,000.00	132,223.12	174,223.12
Professional Service - Messrs Zaid Ibrahim & Co.	-	228,403.64	228,403.64
<b>TOTAL</b>	<b>856,800.00</b>	<b>948,876.76</b>	<b>1,805,676.76</b>

\* Inclusive of RM33,000.00 and RM25,375.00 paid to Khazanah Nasional Berhad, in respect of Directors' Fee and Meeting Allowance provided for Dato' Azman bin Mokhtar and his alternate, Mohammad Zainal bin Shaari.

In compliance with the disclosure requirements under Bursa Malaysia's Listing Requirements, the following are the number of Directors whose total remuneration falls within the following bands during the Financial Year ended 31 August 2006:

Directors' Remuneration (RM)	Executive Director	Non-Executive Director	Total (RM)
0 - RM 50,000	-	2	2
RM 50,001 - RM 100,000	-	5	5
RM 250,001 - RM 350,000	-	1	1
RM 350,001 - RM 400,000	-	1	1
RM 750,001 - RM 900,000	1	-	1
<b>TOTAL</b>	<b>1</b>	<b>9</b>	<b>10</b>



## (B) SHAREHOLDERS

TNB is committed to maintaining constructive relationships with shareholders in pursuing the highest standards of corporate governance practices throughout the Group, with full appreciation of the impact of good governance on long-term corporate performance and optimal shareholder value.

### Relationship between the Company and Investors

TNB places great importance on company-investor relations as the Company aims to ensure the utmost satisfaction of its investors. The basis of this relationship is that the Company is to serve the legitimate interest of all investors with the utmost accountability, transparency and integrity at all times. In doing so, the Investor Relations and Management Reporting Unit (IRMRU), a dedicated unit under the Group Finance Division, is tasked with the responsibility to respond to all queries raised by shareholders and investors.

As part of the annual programme, IRMRU sets annual programmes to meet both local and international investment communities (both equity and fixed income) on a monthly basis. IRMRU also organises quarterly briefings and teleconference sessions with fund managers and analysts to announce the company's financial results after each quarter's announcements of financial results to Bursa Malaysia to address all the pertinent questions regarding the Company's performance, corporate governance practices and other matters affecting shareholders' interest.

The year under review also saw a significant 38 per cent increase in teleconference participants during analyst briefings compared to FY 2005, due to higher interest particularly from investors in Hong Kong and Singapore as well as interest from investors in the United Kingdom who had requested to participate in the teleconference sessions. Apart from the four teleconference sessions on TNB's quarterly financial results, IRMRU also conducted an additional six teleconference sessions to address investors' current issues with TNB.

IRMRU also arranged post-analyst briefings via teleconference sessions between top management and analysts to allow management to receive immediate feedback from investors.

For the benefit of all in the investing community, summaries of the financial quarter's results are also published in daily newspapers.

During the year under review, TNB attended and participated in eight investor conferences and forums in London, Singapore, Hong Kong and Kuala Lumpur. IRMRU held and attended 101 meetings with both local and foreign investors and analysts as part of its efforts to maintain good rapport and relationships with TNB's investors and analysts.

Information on the TNB Group which is up-to-date and fulfils the expectations of shareholders and stakeholders at large for satisfactory disclosure is made accessible through the website at [www.tnb.com.my](http://www.tnb.com.my).

### Constructive Use of the Annual General Meeting

The Annual General Meeting (AGM) is always the principal avenue for shareholders to communicate and engage in dialogue with the Board and Management of TNB. The highlights of the Company's technical and financial performance are disclosed in a visual presentation by the Chairman and President/Chief Executive Officer at the AGM. The turnout of shareholders at general meetings of TNB has always been high. A total of 2,446 shareholders attended the Fifteenth AGM held in 2005.

TNB at all times encourages constructive dialogue between the Board and the shareholders, whereby at the AGM, shareholders exercise their voting rights and the meeting is convened in strict compliance with the laws and procedures of general meetings. Separate resolutions are proposed for separate motions and the Chairman declares the outcome of each resolution after proposal and secondment are done by the shareholders. Each item of ordinary and special business in the notice of the general meeting would be accompanied by a full explanation of the effects of any proposed resolution. Shareholders are given the opportunity to put forward their questions on the proposed resolutions and the Group's operations. The Chairman will provide sufficient time for shareholders' questions on matters pertaining to the Company's performance and seek to explain to the shareholders their concern.

Immediately after the general meeting, the Chairman and the President/Chief Executive Officer will address all the issues raised by the press and analysts through a press conference and analyst briefing in the course of providing all stakeholders with the latest updates on the Company.



## **Continuing Disclosure of Material Information**

TNB observes the continuing disclosure obligation imposed upon a listed issuer by Bursa Malaysia. The Company has put in place a Corporate Disclosure Policy and Procedures since 1994, which provides for adoption of Best Practices in Corporate Disclosure as laid down by Bursa Malaysia in July 2004. As required under the said Best Practices, the Company Secretary is identified as "Corporate Disclosure Manager" within the context of the aforementioned Best Practices.

Timely and accurate disclosure is made on all material information. Throughout the Financial Year under review, the material information and the material development thereof on acquisition, disposal, divestment, issuance of notes, proposed financing facility, conversion of bonds, related party transaction, employee share options scheme, notice of book closure and change in boardroom were among the material information released to Bursa Malaysia via the Bursa Malaysia Link.

## **Confidentiality of Information**

In conducting briefings or presentations, the Company takes care to ensure that any information regarded as undisclosed material information about the Company and its operations will not be given to any single shareholder or group of shareholders.

## **(C) ACCOUNTABILITY AND AUDIT**

### **Financial Reporting**

The Directors are responsible for ensuring that financial statements are drawn up in accordance with the requirements of the Companies Act 1965 and in line with approved accounting standards in Malaysia so as to present an objective and understandable assessment of the Group's financial position and

prospects. TNB publishes quarterly financial reports so that its shareholders can monitor the Company's financial position regularly. In this Annual Report, an assessment of the Audited Financial Statements is provided in the Directors' Report.

On behalf of the Board, the Board Audit Committee (BAC) scrutinises the financial and statutory compliance aspects of the Audited Financial Statements and Companies' policies and procedures prior to full deliberation at the Board level. The Board ensures the integrity of the Company's financial reporting and fully recognises that accountability in financial disclosure forms an integral part of good corporate governance practices.

### **Relationship with the Auditors**

The Board has, through the BAC, established a formal, transparent and appropriate relationship with the Group's Auditors, both external and internal. A report by the Board Audit Committee is provided on pages 63 to 65 and its Terms of Reference are provided on pages 66 to 70.

The Board Audit Committee meets regularly with the external and internal auditors to discuss and review the audit plan, quarterly financial results, annual financial statements and the audit findings, and makes recommendations for the Board's approval.

On 8 August 2006, the Board Audit Committee met with the External Auditors without the presence of the Executive Director and the Management.

### **Internal Control**

The Board acknowledges that they are responsible for maintaining a sound system of internal controls to safeguard shareholders' investment and the Company's assets as required by the Code. TNB adheres to Bursa Malaysia guidelines on the Statement on Internal Control: Guidance for Directors of Public

Listed Companies, which serves as a guidance for compliance with these requirements.

The Board Audit Committee receives reports from the external auditors which include their findings and recommendations arising from their statutory audit work, with respect to internal controls and compliance matters. These reports and recommendations are discussed by the Board Audit Committee and Management is responsible for implementing agreed actions, as appropriate.

Information on the Group's internal controls is presented in the Statement on Internal Control, pursuant to paragraph 15.27(b) as set out on pages 69 to 72.

## **RESPONSIBILITY STATEMENT IN RESPECT OF THE FINANCIAL YEAR UNDER REVIEW**

(Pursuant to paragraph 15.27(a) of the Bursa Malaysia Listing Requirements)

The Board is fully accountable to ensure that the financial statements are prepared in accordance with the Companies Act, 1965 and the applicable approved accounting standards set by the Malaysian Accounting Standards Board so as to present a true and fair view, balanced and understandable assessment of the Group's financial position and prospects. In this Annual Report, an assessment is provided in the Directors' Report of the Audited Accounts.

The Board Audit Committee reviews the statutory compliance and scrutinises the financial aspects of the Audited Accounts prior to full deliberation at the Board level.



## ADDITIONAL COMPLIANCE STATEMENT

Apart from providing the shareholders and the stakeholders with an overview of the state of corporate governance in the Company, TNB is also pleased to disclose the following information:

### (1) Utilisation of Proceeds Raised from any Corporate Proposal

During FY 2006, TNB borrowed RM1.0 billion in term loans from Malayan Banking Berhad in February. The proceeds of the loans were intended to finance the Company's capital expenditure.

### (2) Share Buy-Backs for the Financial Year

There was no share buy-back exercise carried out by the Company for the Financial Year ended 31 August 2006.

### (3) Options, Warrants or Convertible Securities Exercised

The status on Options, Warrants or Convertible Securities exercised by the Company is as follows:

- (a) The Company launched the second Employees Share Option Scheme II (ESOS II) in July 2003 and as at October 2006, six offers have been made to eligible employees where:-
  - (i) under the First Offer, options representing 199,994,000 shares were offered at an option price of RM8.39 (being the 5-day weighted average price from 30 June 2003 to 4 July 2003 net of 10 per cent discount) to 22,815 eligible employees. Options representing a total of 199,347,000 shares were taken up by the grantees and the options exercised until October 2006 represented 138,052,149 shares. Under the First Offer an additional 6,000 share options were also offered and taken up by 1 eligible employee and until October 2006, 6,000 share options were exercised;
  - (ii) under the Second Offer, options representing 16,872,000 shares were offered at an option price of RM8.74 (being the 5-day weighted average price from 17 February 2004 to 24 February 2004 net of 10 per cent discount) to 2,927 eligible employees. Options representing a total of 16,838,000 shares were taken up and until October 2006, 10,684,930 share options were exercised;

- (iii) under the Third Offer, options representing 14,128,000 shares were offered at an option price of RM9.28 (being the 5-day weighted average price from 21 February 2005 to 25 February 2005 net of 10 per cent discount) to 2,209 eligible employees. Options representing a total of 13,192,000 shares were taken up and until October 2006, 4,258,670 share options were exercised;
- (iv) under the additional Offer, 450,000 share options were offered at an option price of RM9.69 (being the 5-day weighted average price from 18 January 2005 to 25 January 2005 net of 10 per cent discount) and RM9.75 (being the 5-day weighted average price from 10 June 2005 to 16 June 2005 net of 10 per cent discount) to two eligible employees. The total shares of 450,000 were taken up and until October 2006, the grantees have yet to exercise their share options;
- (v) under the fourth, fifth, sixth and seventh Offer, options representing 17,267,000 shares were offered at an option price of RM9.17 (being the 5-day weighted average price from 18 January 2006 to 24 January 2006 net of 10 per cent discount) to 4,055 eligible employees. Options representing a total of 16,843,000 shares were taken up and until October 2006, 3,612,100 share options were exercised;
- (b) The Company issued a total of 808,701,482 fully paid-up Bonus shares on the basis of one Bonus share for every four existing TNB shares held by shareholders on 28 February 2006.
- (c) The Company has not issued any warrants for the Financial Year ended 31 August 2006.
- (d) In May 2003, TNB issued RM200.0 million nominal Convertible Redeemable Income Securities (CRIS) at an issue price of RM1.00 per unit. The CRIS are convertible into ordinary shares at any time commencing from 9 June 2004 and ending on 9 April 2009. The conversion price was set at RM11.47 and was adjusted to RM9.18 pursuant to a Bonus Issue exercise undertaken by TNB in 2006. The said CRIS will mature on 8 May 2009.

There was no conversion throughout the financial year under review. As at 10 October 2006, a total of 2,623,800 of the CRIS were converted into 285,815 new TNB shares. The outstanding CRIS after the said conversion was 197,376,200.



- (e) In November 2002, TNB guaranteed USD400.0 million Guaranteed Exchangeable Bonds (GEB) issued by its wholly-owned subsidiary, TNB Capital (L) Limited (the Issuer). The GEB were exchangeable into TNB ordinary shares at any time commencing from 20 December 2002 to and including 21 October 2007, with an option for the Issuer to redeem early the outstanding GEB upon meeting the conditions stipulated in the indenture. The exchange price was set at RM10.15 and was adjusted to RM8.10 pursuant to a Bonus Issue exercise undertaken by TNB in 2006.

The Issuer had on 12 September 2006 issued a notice to the bondholders to exercise its option to redeem the outstanding GEB. With the expiry of the right to exchange the GEB at close of business on 6 October 2006, a total of USD398,960,000.00 of the GEB was exchanged. As a result of the exchange, the paid-up ordinary share capital of the Company increased by 187,155,756 new TNB shares.

The Redemption Price, comprising the principal amount of the unexchanged GEB of USD1,040,000.00 and the accrued and unpaid interest, was paid to the respective bondholders on the Redemption Date, which was 13 October 2006.

#### **(4) American Depositary Receipts (ADR)**

In January 1994, TNB launched its Level 1 American Depositary Receipts (ADR) in New York, the United States of America. Each ADR carries an equivalent of four underlying TNB shares. The only custodian bank for TNB's ADR programme is Malayan Banking Berhad. The Bank of New York in the USA is the Depository Bank and the ADRs are traded over the counter. As at 31 August 2006, the total number of ordinary shares held through these ADRs was 1,379,525 which represented less than five per cent of the issued and paid-up capital of the 4,135,170,337 shares of TNB.

#### **(5) Sanctions/Penalties**

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies during the Financial Year ended 31 August 2006.

#### **(6) Non-Audit Fees**

Apart from the annual audit fees, the Group paid non-audit fees to the external auditors. The amount paid for the Financial Year ended 31 August 2006 is as follows:-

External Auditors	Total Paid (RM)
PricewaterhouseCoopers	1,243,126.84
Consortium comprising PricewaterhouseCoopers, Minconsult and Australian Power & Water	1,882,806.00
Other External Auditors	611,366.61



## (7) Variation in Results

The Company did not issue any profit forecast for the Financial Year ended 31 August 2006. As such, no commentary is made on variation in results.

## (8) Profit Guarantee

The Company did not issue any profit guarantee for the Financial Year ended 31 August 2006.

## (9) Material Contracts

Save as disclosed below, there are no other contracts which may be material that have been entered into by TNB or its subsidiaries in the Financial Year under review, apart from material contracts concerning borrowings as follows:

- i. On 9 February 2006, TNB executed four sets of Term Loan Agreement for a total combined term loan facility of RM1.0 billion with Malayan Banking Berhad. The term loans were structured into 4 tranches of RM250 million each with varying tenors ranging from 7 to 10 years from the date of draw down.
- ii. On 24 August 2006, TNB entered into a Novation and Amendment Agreement with TNB Janamanjung Sdn. Bhd., TNB Capital (L) Ltd. and HSBC Bank plc to effect the novation of the outstanding ECA Loan equivalent to US\$503,003,321 from TNB Janamanjung Sdn. Bhd. to TNB Capital (L) Ltd. The novation forms part of the restructuring of the ECA Loan which entails a re-pricing of the interest rate and unification of the currencies into a single currency namely from USD, € and £ into US\$.

## (10) Revaluation Policy

The revaluation policy of the Company in relation to its landed properties is set out in Note 2(f) of the Notes to the Financial Statements set out on page 17 of the Financial Report in the full version of the digital Annual Report contained in the CD enclosed.

## (11) Recurrent Related Party Transactions of a Revenue Nature

At the Extraordinary General Meeting of the Company held on 15 December 2005, the shareholders of TNB had approved and ratified all recurrent transactions of a revenue or trading nature, which are necessary for the day-to-day operations of the Group, entered into by the Company and/or its subsidiaries with certain classes of related parties from 15 December 2005 until the forthcoming AGM. Such approval will expire at the conclusion of the forthcoming Sixteenth AGM, thus compelling the Board to propose to seek the shareholders' mandate for the renewal of the same, together with a new mandate on recurrent transactions of a revenue or trading nature with the new related parties.

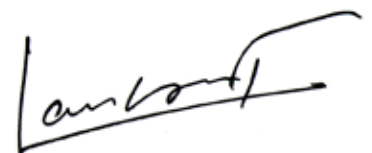
Pursuant to paragraph 4.1.5 of Practice Note 12/2001 of the Listing Requirements, a breakdown of the aggregate value of the Recurrent Transactions together with the type of the Recurrent Transactions, the related parties involved and the nature of their relationship with TNB in each type of the Recurrent Transaction made during the Financial Year are set out on page 44 to 47 of this Annual Report.

## STATEMENT ON COMPLIANCE WITH THE REQUIREMENT OF BURSA MALAYSIA IN RELATION TO APPLICATION OF PRINCIPLES AND ADOPTION OF BEST PRACTICES LAID DOWN IN THE MALAYSIAN CODE OF CORPORATE GOVERNANCE

(Pursuant to paragraph 15.26 of the Bursa Malaysia Listing Requirements)

The Board is pleased to report to shareholders that the Company has applied the principles of corporate governance in their entirety in full compliance with Part 1 of the Code. Further to that, the Board remains committed to attain the highest possible standard of corporate governance through the continuous adoption of best practices recommended in Part 2 of the Code and other globally-recognised best practices.

Signed on behalf of the Board of Directors in accordance with their resolution dated 17 October 2006.



**TAN SRI DATO' LAU YIN PIN @ LAU YEN BENG**  
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR





planned audits to ensure  
good corporate governance



## RECURRENT RELATED PARTY TRANSACTIONS

On 15 December 2005, the shareholders of TNB had approved and ratified all recurrent related party transactions (RRPT) of a revenue or trading nature, which are necessary for the day-to-day operations of the Group, entered into by the Company and/or its subsidiaries with certain classes of related parties from 15 December 2005 until the forthcoming AGM. Pursuant to paragraph 4.1.5 of Practice Note 12/2001 of the Listing Requirements, a breakdown of the aggregate value of the recurrent transactions together with the type of the recurrent transactions, the related parties involved and the nature of their relationship with TNB in each type of the recurrent transaction made during the Financial Year are tabulated below:-

### (1) RENEWAL OF SHAREHOLDERS' MANDATE FOR RRPT OF A REVENUE OR TRADING NATURE

Transacting Companies in TNB Group	Persons Connected to Major Shareholders (Related Parties Involved)	Interested Major Shareholders	Nature of Relationship	Nature of Recurrent Transactions	Aggregate Value (RM) of the Transactions during the Validity of the Mandate
TNB	Ranhill Power Berhad	Khazanah Nasional Berhad	Khazanah Nasional Berhad being a Major Shareholder of TNB has an indirect interest of 5.46 % in Ranhill Power Berhad vide its indirect interest in Time Engineering Berhad. This makes Khazanah Nasional Berhad, a Major Shareholder of TNB, interested in the transactions between Ranhill Power Berhad and TNB	Payment on transmission contract-Engineering Procurement Contract	42,949,665.08
TNB	Edaran Otomobil Nasional Berhad	Khazanah Nasional Berhad	Khazanah Nasional Berhad being a Major Shareholder of TNB has 6.2% interest in Edaran Otomobil Nasional Berhad. This makes Khazanah Nasional Berhad, a Major Shareholder of TNB, interested in the transactions between Edaran Otomobil Nasional Berhad and TNB	(i) Purchase and repair of vehicle  (ii) Purchase of vehicle	1,196,368.70  1,005,937.72
TNB	Petronas Gas Berhad	Petroleum Nasional Berhad	Petroleum Nasional Berhad being a Major Shareholder of TNB (within the preceding 12 months of the FY 2005), has 60.63% interest in Petronas Gas Berhad, making the latter a person connected to the Major Shareholder	Purchase of gas	2,189,010,997.92
(i) TNB Fuel Services Sdn. Bhd.  (ii) Sabah Electricity Sdn. Bhd.	Petronas Dagangan Berhad	Petroleum Nasional Berhad	Petroleum Nasional Berhad being a Major Shareholder of TNB (within the preceding 12 months of the FY 2005), has 69.86% interest in Petronas Dagangan Berhad, making the latter a person connected to the Major Shareholder	(i) Purchase of fuel oil  (ii) Purchase of diesel	101,199,709.98  371,067,925.37





# **(1) RENEWAL OF SHAREHOLDERS' MANDATE FOR RRPT OF A REVENUE OR TRADING NATURE (cont'd)**

## **RECURRENT RELATED PARTY TRANSACTIONS**

Transacting Companies in TNB Group	Persons Connected to Major Shareholders (Related Parties Involved)	Interested Major Shareholders	Nature of Relationship	Nature of Recurrent Transactions	Aggregate Value (RM) of the Transactions during the Validity of the Mandate
TNB Fuel Services Sdn. Bhd.	MISC Berhad (formerly known as Malaysia International Shipping Corporation Berhad)	Petroleum Nasional Berhad	Petroleum Nasional Berhad being a Major Shareholder of TNB (within the preceding 12 months of the FY 2005), has 62.44% interest in MISC Berhad (formerly known as Malaysia International Shipping Corporation Berhad), making the latter a person connected to the Major Shareholder	Freight services	110,067,505.24
Sabah Electricity Sdn. Bhd.	Petronas Carigali Sdn. Bhd.	Petroleum Nasional Berhad	Petroleum Nasional Berhad, being a Major Shareholder of TNB (within the preceding 12 months of the FY 2005), wholly owns Petronas Carigali Sdn. Bhd., making the latter a person connected to the Major Shareholder	Purchase of gas	115,705,280.60
TNB	MISC Trucking & Warehousing Sdn. Bhd.	Petroleum Nasional Berhad	Petroleum Nasional Berhad being a Major Shareholder of TNB (within the preceding 12 months of the FY 2005), has 62.44% interest in MISC Berhad (formerly known as Malaysia International Shipping Corporation Berhad) which wholly owns MISC Trucking & Warehousing Sdn. Bhd. via MISC Integrated Logistics Sdn. Bhd., making the former a person connected to the Major Shareholder	Warehousing service	13,432,862.39
Tenaga Cable Industries Sdn. Bhd.	Polythylene Malaysia Sdn. Bhd.	Petroleum Nasional Berhad	Petroleum Nasional Berhad being a Major Shareholder of TNB (within the preceding 12 months of the FY 2005), has 40% interest in Polythylene Malaysia Sdn. Bhd., making the latter a person connected to the Major Shareholder	Cables insulation	5,982,000.00
TNB	Gas District Cooling (Holdings) Sdn. Bhd.	Petroleum Nasional Berhad	Petroleum Nasional Berhad being a Major Shareholder of TNB (within the preceding 12 months of the FY 2005), wholly owns Gas District Cooling (Holdings) Sdn. Bhd. via KLCC (Holdings) Sdn. Bhd., making the latter a person connected to the Major Shareholder	Power generation	6,158,938.05





**RECURRENT  
RELATED  
PARTY  
TRANSACTIONS**

**(2) SHAREHOLDERS' MANDATE FOR RRPT OF A REVENUE OR TRADING NATURE**

Transacting Companies in TNB Group	Persons Connected to Major Shareholders (Related Parties Involved)	Interested Major Shareholders/Directors	Nature of Relationship	Nature of Recurrent Transaction	Aggregate Value (RM) of the Transactions during the Validity of the Mandate
Fibrecomm Network (M) Sdn. Bhd.	Telekom Malaysia Berhad	Khazanah Nasional Berhad	Khazanah Nasional Berhad being a Major Shareholder of TNB has 40.78% interest in Telekom Malaysia Berhad, making the latter a person connected to the Major Shareholder	Rental of leased lines	456,314.99
Fibrecomm Network (M) Sdn. Bhd.	Time dotCom Berhad	Khazanah Nasional Berhad	Khazanah Nasional Berhad being a Major Shareholder of TNB has 30.4% interest in Time dotCom Berhad, making the latter a person connected to the Major Shareholder	(i) Rental of leased lines (ii) Lease of optic fibre cable facility & bandwidth	443,412.07 357,410.15
Fibrecomm Network (M) Sdn. Bhd.	Petrofibre Network (M) Sdn. Bhd.	Petroliam Nasional Berhad	Petroliam Nasional Berhad being a Major Shareholder of TNB (within the preceding 12 months of the FY 2005), has 40% interest in Petrofibre Network (M) Sdn. Bhd., making the latter a person connected to the Major Shareholder	(i) Sales of bandwidth (ii) Rental of optic fibre cable	1,300,687.60 100,832.14
TNB	Petronas Management Training Sdn. Bhd.	Petroliam Nasional Berhad	Petroliam Nasional Berhad being a Major Shareholder of TNB (within the preceding 12 months of the FY 2005), wholly owns Petronas Management Training Sdn. Bhd., making the latter a person connected to the Major Shareholder	Training	39,309.10
TNB	Lub Dagangan Sdn. Bhd.	Petroliam Nasional Berhad	Petroliam Nasional Berhad being a Major Shareholder of TNB (within the preceding 12 months of the FY 2005), has 20% interest in Lub Dagangan Sdn. Bhd. via Petronas Dagangan Berhad, making the latter a person connected to the Major Shareholder	Office rental	126,000.00





## Recurrent Related Party Transactions

### (2) SHAREHOLDERS' MANDATE FOR RRPT OF A REVENUE OR TRADING NATURE (cont'd)

Transacting Companies in TNB Group	Persons Connected to Major Shareholders (Related Parties Involved)	Interested Major Shareholders/Directors	Nature of Relationship	Nature of Recurrent Transaction	Aggregate Value (RM) of the Transactions during the Validity of the Mandate
TNB	Putrajaya Holdings Sdn. Bhd.	Khazanah Nasional Berhad  Petroleum Nasional Berhad	Khazanah Nasional Berhad being a Major Shareholder of TNB has 15.59% interest in Putrajaya Holdings Sdn. Bhd. and Petroleum Nasional Berhad being a Major Shareholder of TNB (within the preceding 12 months of the FY 2005), has 64.4% interest in Putrajaya Holdings Sdn. Bhd., making the latter a person connected to the Major Shareholders	Office rental	1,992,520.89
TNB	Petronas Research & Scientific Services Sdn. Bhd.	Petroleum Nasional Berhad	Petroleum Nasional Berhad being a Major Shareholder of TNB (within the preceding 12 months of the FY 2005), wholly owns Petronas Research & Scientific Services Sdn. Bhd., making the latter a person connected to the Major Shareholders	Fuel gas analysis	79,304.00
AGGREGATE VALUE OF THE TRANSACTIONS					2,962,672,981.99



# GROUP CORPORATE STRUCTURE

(AS AT OCTOBER 2006)

## ASSOCIATE/INVESTMENT COMPANIES

- **FIBRECOMM NETWORK (M) SDN. BHD.** (49%)
- **TEKNOLOGI TENAGA PERLIS CONSORTIUM SDN. BHD.** (20%)
- **PERUSAHAAN OTOMOBIL ELEKTRIK (MALAYSIA) SDN. BHD.** (20%)
- **GB3 SDN. BHD.** (20%)
- **LABUAN REINSURANCE (L) LTD.** (10%)
- **FEDERAL POWER SDN. BHD.** (8.91%)
- **BAKUN HYDRO-ELECTRIC CORPORATION SDN. BHD.** (6.67%)
- **MALAYSIAN TECHNOLOGY DEVELOPMENT CORPORATION SDN. BHD.** (3.44%)
- **ELECTROSTORM INC.** (1.58%)

### DORMANT SUBSIDIARIES:

- **TNB DISTRIBUTION SDN. BHD.** (100%)
- **SUMBER HIDRO MANAGEMENT SDN. BHD.** (100%)
- **TNB GENERATION SDN. BHD.** (100%)
  - **TNBG Power Services Sdn. Bhd.** (100%)
- **TNB HIDRO SDN. BHD.** (100%)
- **TNB-IT SDN. BHD.** (100%)
- **TNB KAPAR SDN. BHD.** (100%)
- **TNB KEKAL SDN. BHD.** (100%)
- **TNB LOGISTICS SDN. BHD.** (100%)
- **TNB PAKA SDN. BHD.** (100%)
- **TNB METERING SERVICES SDN. BHD.** (100%)
- **TNB RISK MANAGEMENT SDN. BHD.** (100%)
- **TNB PRAI SDN. BHD.** (100%)
- **TNB WORKSHOP SERVICES SDN. BHD.** (100%)
- **TNB TRANSMISSION NETWORK SDN. BHD.** (100%)

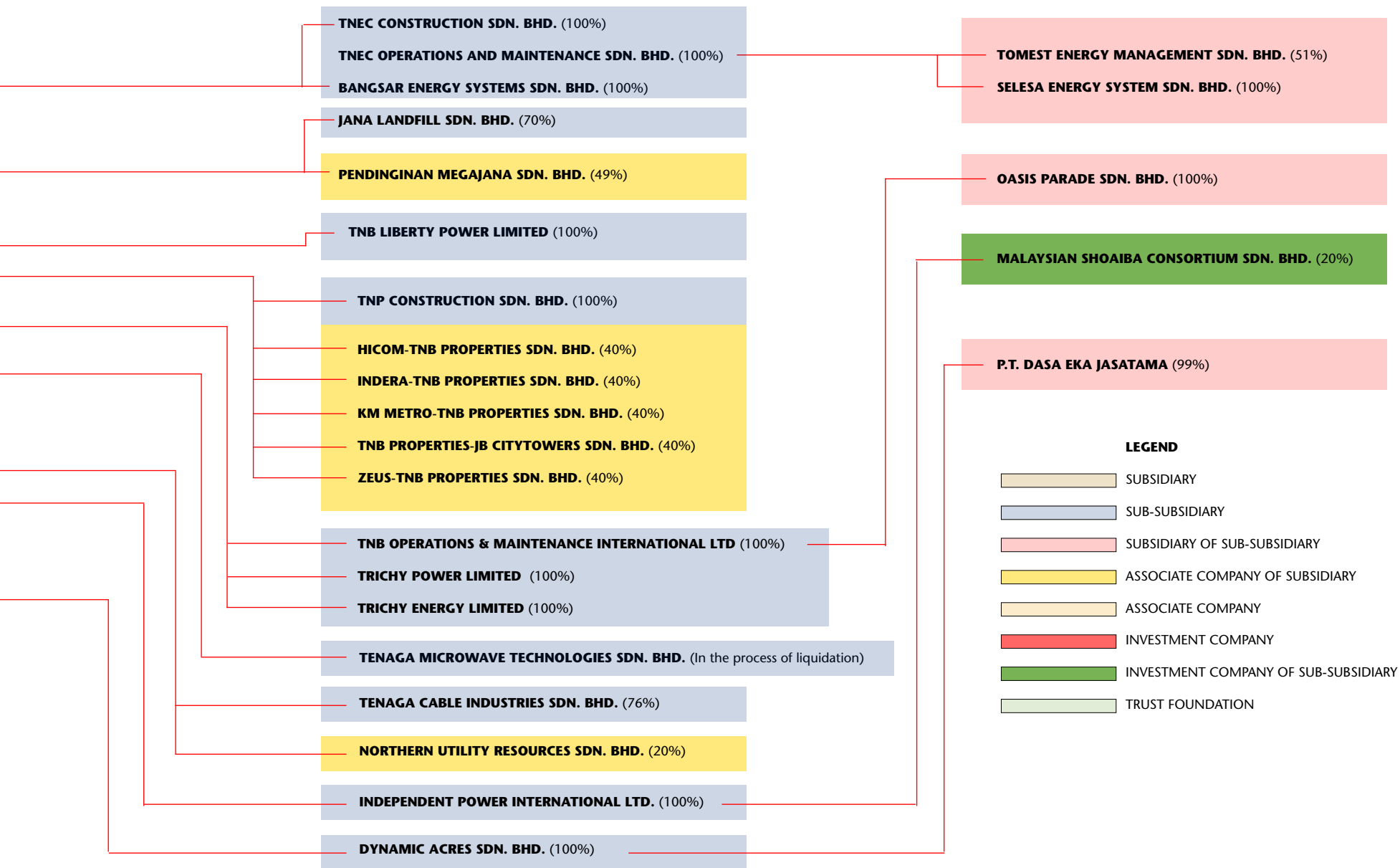
## TRUST FOUNDATION

- **YAYASAN TENAGA NASIONAL**
- **RETIREMENT BENEFIT TRUST FUND**

## SUBSIDIARIES

- **TNB ENGINEERING CORP. SDN. BHD.** (100%)
- **TNB ENGINEERS SDN. BHD.** (100%)
- **TNB ENERGY SERVICES SDN. BHD.** (100%)
- **TNB FUEL SERVICES SDN. BHD.** (100%)
- **TNB JANAMANJUNG SDN. BHD.** (100%)
- **TNB POWER DAHARKI LTD.** (100%)
- **TNB PROPERTIES SDN. BHD.** (100%)
- **TNB REPAIR AND MAINTENANCE SDN. BHD.** (100%)
- **TNB RESEARCH SDN. BHD.** (100%)
- **UNIVERSITI TENAGA NASIONAL SDN. BHD.** (100%)
- **TNB CAPITAL (L) LTD.** (100%)
- **TNB VENTURES SDN. BHD.** (100%)
- **POWER AND ENERGY INTERNATIONAL (MAURITIUS) LTD.** (100%)
- \* **TNB KULIM DISTRIBUTION SDN. BHD.** (100%)
- **TNB KULIM GENERATION SDN. BHD.** (100%)
- **TNB COAL INTERNATIONAL LIMITED.** (92.5%)
- **SABAH ELECTRICITY SDN. BHD.** (80%)
- **MALAYSIA TRANSFORMER MANUFACTURING SDN. BHD.** (73%)
- **SEPANG POWER SDN. BHD.** (70%)
- **TENAGA SWITCHGEAR SDN. BHD.** (60%)
- **KAPAR ENERGY VENTURES SDN. BHD.** (60%)

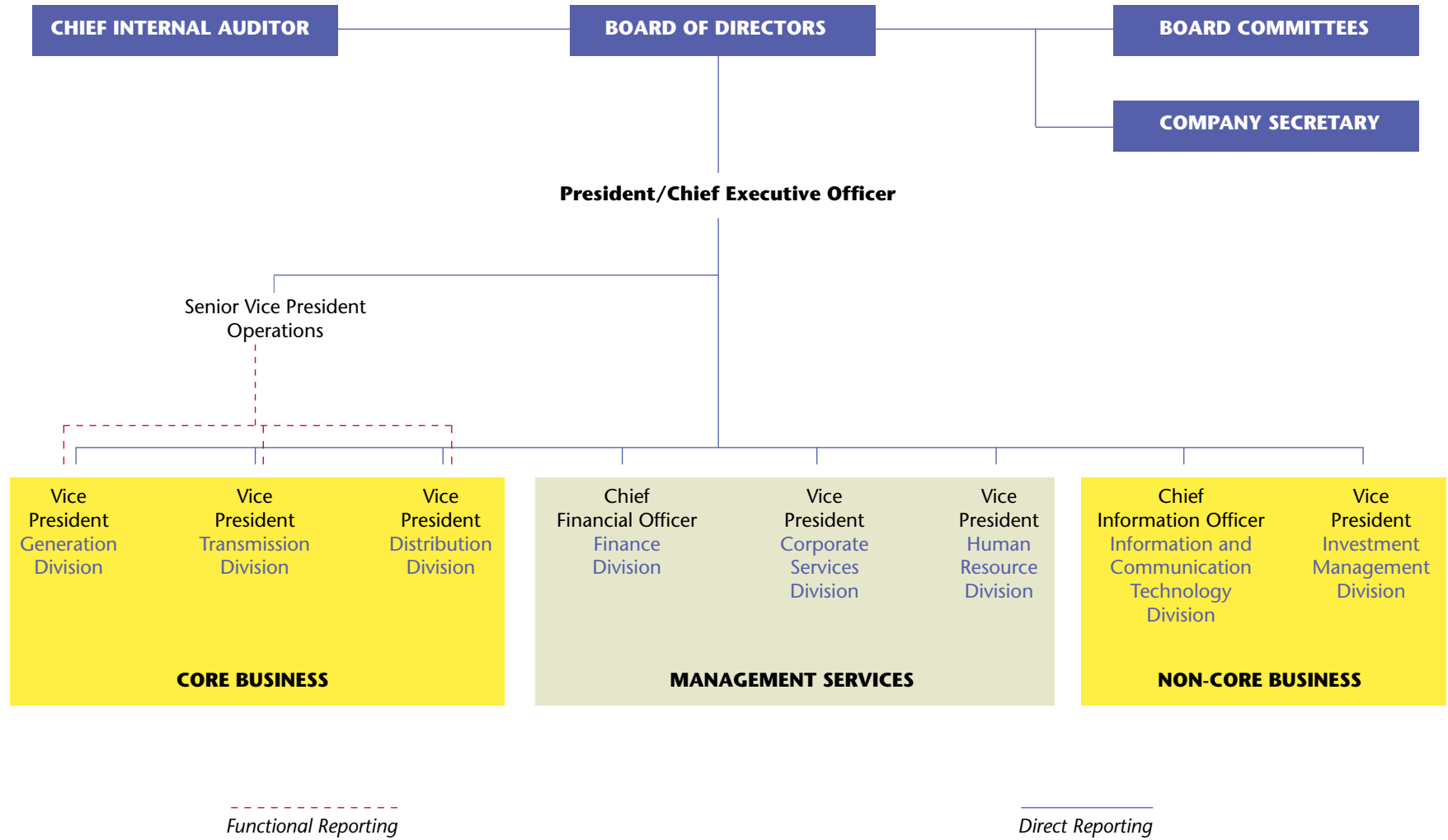








# ORGANISATIONAL STRUCTURE







due  
diligence  
always



#### **BOARD OF DIRECTORS**

**Tan Sri Datuk Amar Leo Moggie**  
(Non-Independent Non-Executive Chairman)

**Dato' Sri Che Khalib bin Mohamad Noh**  
(President/Chief Executive Officer)  
(Non-Independent Executive Director)

**Dato' Puteh Rukiah binti Abd Majid**  
(Non-Independent Non-Executive Director)  
(Appointed w.e.f. 13.09.2006)

**Dato' Azman bin Mokhtar**  
(Non-Independent Non-Executive Director)

**Tan Sri Dato' Lau Yin Pin @ Lau Yen Beng**  
(Senior Independent Non-Executive Director)

**Tan Sri Dato' Hari Narayanan a/l Govindasamy**  
(Independent Non-Executive Director)

**Dato' Zainal Abidin bin Putih**  
(Independent Non-Executive Director)

**Datuk Mohd Zaid bin Ibrahim**  
(Non-Independent Non-Executive Director)

**Datuk Zalekha binti Hassan**  
(Non-Independent Non-Executive Director)  
(Resigned as Alternate Director to Dato' Abdul Rahim bin Mokti on 18.08.2006)  
(Appointed as Alternate Director to Dato' Puteh Rukiah binti Abd Majid w.e.f 13.09.2006)

**Mohammad Zainal bin Shaari**  
(Non-Independent Non-Executive Director)  
(Alternate Director to Dato' Azman bin Mokhtar)

#### **BOARD AUDIT COMMITTEE**

**Tan Sri Dato' Lau Yin Pin @ Lau Yen Beng**  
(Chairman of the Committee)

**Dato' Azman bin Mokhtar**

**Tan Sri Dato' Hari Narayanan a/l Govindasamy**

**Dato' Zainal Abidin bin Putih**

#### **BOARD NOMINATION & REMUNERATION COMMITTEE**

**Tan Sri Datuk Amar Leo Moggie**  
(Chairman of the Committee)

**Dato' Puteh Rukiah binti Abd Majid**

**Tan Sri Dato' Hari Narayanan a/l Govindasamy**

#### **COMPANY SECRETARIES**

**Nor Zakiah binti Abdul Ghani**  
(LS 0008795)

**Wan Marzimin bin Wan Muhammad**  
(LS 0009013)  
(Appointed w.e.f 17.10.2006)





## CORPORATE INFORMATION

### SHARE REGISTRAR

#### **Symphony Share Registrars Sdn. Bhd.**

Level 26, Menara Multi-Purpose  
Capital Square  
Jalan Munshi Abdullah  
50100 Kuala Lumpur, Malaysia

### PRINCIPAL BANKERS

#### **Malayan Banking Berhad**

Level 1, Tower A, Dataran Maybank  
No.1, Jalan Maarof  
59000 Kuala Lumpur, Malaysia

#### **CIMB Bank Berhad**

(formerly known as Bumiputera-Commerce Bank Berhad)  
No. 21 & 23, Lorong Ara Kiri 1  
Lucky Garden, Bangsar  
59100 Kuala Lumpur, Malaysia

#### **Bank Islam Malaysia Berhad**

Cawangan KL Sentral  
Tingkat Bawah, No. CS/3B/G  
Block 3B, Plaza Sentral, KL Sentral  
50748 Kuala Lumpur, Malaysia

### EXTERNAL AUDITOR

#### **Messrs PricewaterhouseCoopers (No. AF: 1146)**

11th Floor, Wisma Sime Darby  
Jalan Raja Laut  
50350 Kuala Lumpur, Malaysia

### REGISTERED OFFICE AND HEAD OFFICE

#### **Tenaga Nasional Berhad (200866-W)**

No. 129, Jalan Bangsar  
59200 Kuala Lumpur, Malaysia

Telephone : 603-2296 5566

Facsimile : 603-2283 3686

Website : [www.tnb.com.my](http://www.tnb.com.my)

E-mail : [CoSec@tnb.com.my](mailto:CoSec@tnb.com.my)  
[lauyp@tnb.com.my](mailto:lauyp@tnb.com.my)

*Tan Sri Dato' Lau Yin Pin @ Lau Yen Beng*  
(Senior Independent Non-Executive Director)

### STOCK EXCHANGE LISTING

#### **Main Board**

Bursa Malaysia Securities Berhad  
Malaysia

### RATINGS

Baa1 (Moody's)  
BBB (Standard & Poor's)  
AA1 (Rating Agency Malaysia)  
AA+ (Malaysian Rating Corporation Berhad)

### AMERICAN DEPOSITORY RECEIPTS PROGRAMME (ADR)

ADR Level 1



## PROFILE OF BOARD OF DIRECTORS



**TAN SRI DATUK AMAR  
LEO MOGGIE**  
Chairman  
Non-Independent Non-Executive Director



**DATO' SRI CHE KHALIB  
BIN MOHAMAD NOH**  
President/Chief Executive Officer  
Non-Independent Executive Director



**DATO' PUTEH RUKIAH  
BINTI ABD MAJID**  
Non-Independent Non-Executive Director



**DATO' AZMAN  
BIN MOKHTAR**  
Non-Independent Non-Executive Director





**TAN SRI DATO' LAU YIN PIN  
@ LAU YEN BENG**  
Senior Independent Non-Executive  
Director



**TAN SRI DATO' HARI  
NARAYANAN A/L GOVINDASAMY**  
Independent Non-Executive Director



**DATO' ZAINAL ABIDIN  
BIN PUTIH**  
Independent Non-Executive Director



**DATUK MOHD ZAID  
BIN IBRAHIM**  
Non-Independent Non-Executive Director



PROFILE OF  
**BOARD OF DIRECTORS**



**DATUK ZALEKHA BINTI HASSAN**  
Non-Independent Non-Executive Director  
(Alternate Director to Dato' Puteh Rukiah  
binti Abd Majid)



**MOHAMMAD ZAINAL  
BIN SHAARI**  
Non-Independent Non-Executive Director  
(Alternate Director to Dato' Azman bin  
Mokhtar)



**NOR ZAKIAH BINTI ABDUL GHANI**  
Company Secretary



**WAN MARZIMIN  
BIN WAN MUHAMMAD**  
Joint Company Secretary



## TAN SRI DATUK AMAR LEO MOGGIE

*Chairman*

*Non-Independent Non-Executive Director*

Tan Sri Datuk Amar Leo Moggie, 65 years of age and a Malaysian was appointed Non-Independent Non-Executive Director of TNB on 12 April 2004. He is the Chairman of the Board Nomination and Remuneration Committee, and Board Finance and Investment Committee.

Tan Sri Datuk Amar Leo Moggie is a holder of a Master of Arts degree in History from University of Otago, New Zealand and Masters in Business Administration from Pennsylvania State University, USA.

He has vast experience holding senior ministerial posts both at the federal and state levels prior to his appointment as Chairman of TNB. Tan Sri Datuk Amar Leo Moggie was the former Minister of Energy, Communications and Multimedia (1998 – 2004), Minister of Works (1989 – 1995), Minister of Energy, Telecommunications and Posts (1978 - 1989, 1995 - 1998), in the Federal Cabinet and Minister of Local Government (1977 – 1978) and Minister of Welfare Services (1976 – 1977) in the State Government of Sarawak.

He started his career as a Civil Servant and held various positions in the Sarawak State Civil Service from 1966 to 1974. He was also a Member of Council Negeri Sarawak (1974 – 1978) and a member of Parliament (1974 – 2004). He also sits on the Board of Digi.Com Berhad.

Tan Sri Datuk Amar Leo Moggie attended 13 out of 14 Board Meetings held in the Financial Year.

## DATO' SRI CHE KHALIB BIN MOHAMAD NOH

*President/Chief Executive Officer*

*Non-Independent Executive Director*

Dato' Sri Che Khalib bin Mohamad Noh, 41 years of age and a Malaysian, was appointed as a Non-Independent Executive Director of TNB on 1 July 2004. He sits on the Board Tender Committee, Board Finance and Investment Committee and Board Disciplinary Committee.

He is a Fellow of the Association of Chartered Certified Accountants (United Kingdom) and also a member of the Malaysian Institute of Accountants.

Dato' Sri Che Khalib has held several key positions in the private sector. He started his career with Messrs Ernst & Young and later joined Bumiputra Merchant Bankers Berhad. Between 1992 and 1999, he served in several companies within Renong Group, including Projek Lebuhraya Utara-Selatan, HBN Management Services Sdn. Bhd., Renong Overseas Corporation Sdn. Bhd. and Marak Unggul Sdn. Bhd., the consortium company responsible for the management of Keretapi Tanah Melayu Berhad. In June 1999, he joined Ranhill Utilities Berhad as the Chief Executive Officer. He was the Managing Director and Chief Executive Officer of KUB Malaysia Berhad prior to his appointment as President/Chief Executive Officer of TNB.

Prior to joining TNB, Dato' Sri Che Khalib served as a member of the Board and Executive Committee of Khazanah Nasional Berhad from 2000 till 2004. He also served as Board member on several of the United Engineers Malaysia Berhad Group of Companies and Bank Industri & Teknologi Malaysia Berhad.

He attended all the 14 Board Meetings held in the Financial Year.

## DATO' PUTEH RUKIAH BINTI ABD MAJID

*Non-Independent Non- Executive Director*

Dato' Puteh Rukiah binti Abd Majid, 53 years of age and a Malaysian, was appointed as a Non-Independent Non-Executive Director to the Board of TNB on 13 September 2006. She is the Chairman of Board Tender Committee and a member of Board Nomination and Remuneration Committee, Board Finance and Investment Committee and Board Disciplinary Committee.

She is a holder of a Bachelor of Economics (Hons.) degree from University of Malaya, Malaysia and Masters (Economy) from Western Michigan University, USA.

Previously, she held the post of Deputy Under Secretary, Ministry of Finance (Inc.), Privatisation and Public Enterprise Division (2000-2004) and later as Under Secretary, Investment, Ministry of Finance (Inc.) and Privatisation Division (2004 - August 2006). Currently, she is the Deputy Secretary General (Systems and Controls), Ministry of Finance.

She sits on the Boards of Exim Bank Berhad, Penang Port Holdings Berhad, Perbadanan Usahawan Nasional Berhad, Perbadanan Aset Air Berhad and Cyberview Sdn. Bhd.





## DIRECTORS' PROFILES

### **DATO' AZMAN BIN MOKHTAR**

*Non-Independent Non- Executive Director*

Dato' Azman bin Mokhtar, 45 years of age and a Malaysian, was appointed as Non-Independent Non- Executive Director to the Board of TNB on 15 June 2004. He sits on the Board Audit Committee, Board Tender Committee and Board Finance and Investment Committee.

He held various key appointments which includes as Managing Director of Bina Fikir Sdn. Bhd., Director and Head of Research at Salomon Smith Barney, Malaysia, Director and Head of Research at Union Bank of Switzerland, Malaysia and Finance Manager of Lembaga Letrik Negara, now known as Tenaga Nasional Berhad. Currently, he is the Managing Director of Khazanah Nasional Berhad.

He is a holder of Masters of Philosophy in Development Studies from Darwin College, Cambridge University, United Kingdom and a Diploma in Islamic Studies from International Islamic University, Malaysia.

He is also a Fellow of the Association of Chartered Certified Accountants (ACCA) and a Chartered Financial Analyst (CFA).

He sits on the Board of Khazanah Nasional Berhad, United Engineers (Malaysia) Berhad, UEM World Berhad, Telekom Malaysia Berhad, Malaysian Agrifood Corporation Berhad and Value Cap Sdn. Bhd.

He attended eight out of 14 Board Meetings held in the Financial Year.

### **TAN SRI DATO' LAU YIN PIN @ LAU YEN BENG**

*Senior Independent Non- Executive Director*

Tan Sri Dato' Lau Yin Pin @ Lau Yen Beng, 57 years of age and a Malaysian. He is a Senior Independent Non- Executive Director of TNB and was appointed on 25 September 1990. He chairs the Board Audit Committee and sits on the Board Tender Committee.

He is a Chartered Accountant of the Malaysian Institute of Accountants (MIA) since 1979, a Fellow Member of the Chartered Association of Certified Accountants (ACCA), United Kingdom since 1981 and is also a graduate of the Institute of Chartered Secretaries and Administrators (ICSA), United Kingdom. He obtained his Diploma in Commerce (with Distinction), from Kolej Tunku Abdul Rahman.

His directorships in other Public Companies are YTL Power International Berhad, Star Publication (Malaysia) Berhad and Nanyang Press Holdings Bhd.

He attended all the 14 Board Meetings held in the Financial Year.

### **TAN SRI DATO' HARI NARAYANAN A/L GOVINDASAMY**

*Independent Non- Executive Director*

Tan Sri Dato' Hari Narayanan, 56 years of age and a Malaysian, is an Independent Non-Executive Director of TNB. He was appointed to the post on 1 March 1995. He is a member of the Board Audit Committee and Board Nomination and Remuneration Committee.

A businessman, Tan Sri Dato' Hari Narayanan's directorships in other Public Companies are SP Setia Berhad and Puncak Niaga Holdings Berhad.

He is a holder of a Bachelor of Electrical and Electronics Engineering degree from University of Northumbria, England.

He has extensive experience in the field of electrical and electronics engineering and has held various key positions such as Electrical Engineer at Inchcape Berhad, Project Manager of Tamco Cutler – Hammer Sdn. Bhd., Chairman of Noblemax Resources Sdn. Bhd. and Deputy Chairman of Emrail Sdn. Bhd.

He attended 13 out of 14 Board Meetings held in the Financial Year.





## DIRECTORS' PROFILES

### **DATO' ZAINAL ABIDIN BIN PUTIH**

*Independent Non- Executive Director*

Dato' Zainal Abidin bin Putih, 60 years of age and a Malaysian. He was appointed as Independent Non-Executive Director of TNB on 1 May 2003. He sits on the Board Audit Committee as well as the Board Finance and Investment Committee.

At present, he is the Chairman of the Malaysian Accounting Standards Board (MASB), Mobile Money International Sdn. Bhd. and Trustee of IJN Foundation.

He is a qualified Chartered Accountant from the England and Wales Institute. His experience in Public Accounting Practice is vast and extensive and has held various positions such as Partner, Executive Director, Country Managing Partner and Chairman in the firm of Hanafiah Raslan & Mohamed, which merged with Ernst & Young Malaysia in 2002.

He was also the past Chairman of Mentakab Rubber Company Berhad, Pengurusan Danaharta Nasional Berhad, a past President of Malaysian Institute of Certified Public Accountants (MICPA), a past member of Multimedia and Communication Commission of Malaysia and past Advisor to Ernst & Young Malaysia.

He also sits on the Board of CIMB Group Sdn. Bhd., CIMB Bank Berhad (formerly known as Bumiputra-Commerce Bank Berhad), CIMB Investment Bank Berhad (formerly known as Commerce International Merchant Bankers Berhad) and ESSO Malaysia Berhad.

Dato' Zainal Abidin bin Putih attended 13 out of 14 Board Meetings held during the Financial Year.

### **DATUK MOHD ZAID BIN IBRAHIM**

*Non-Independent Non-Executive Director*

Datuk Mohd Zaid bin Ibrahim, 55 years of age and a Malaysian, was appointed as a Non-Independent Non-Executive Director to the Board of TNB on 15 June 2004. He is the Chairman of the Board Disciplinary Committee.

He has wide and extensive experience in advising on a broad spectrum of legal matters encompassing corporate, administrative, constitutional, construction, financing and commercial law. He has served as an advocate and solicitor of the High Court of Malaya and as a Notary Public. Currently, Datuk Mohd Zaid is the Chairman of Messrs Zaid Ibrahim & Co.

He is a qualified Barrister-at-Law from Inner Temple, United Kingdom and a holder of Bachelor of Laws (Honours) degree from University of London, United Kingdom.

Datuk Mohd Zaid attended 11 out of 14 Board Meetings held during the Financial Year.

### **DATUK ZALEKHA BINTI HASSAN**

*Non-Independent Non-Executive Director  
(Alternate Director to Dato' Puteh Rukiah binti Abd Majid)*

Datuk Zalekha binti Hassan, 53 years of age and a Malaysian. She was appointed as the Alternate Director to Dato' Puteh Rukiah binti Abd Majid on 13 September 2006.

She is a holder of a Bachelor of Arts (Honours) degree from University of Malaya, Malaysia.

She has held various key positions in the civil service among others, Deputy Secretary in the Government Procurement Management Division of the Ministry of Finance, Senior Assistant Director with the Budget Division of the Ministry of Finance, Secretary with the Ministry of National Unity and Community Development, Principal Assistant Secretary with the Ministry of Welfare, Principal Assistant Secretary with the Public Services Department, Assistant Secretary with the Ministry of Health and Assistant Director with the Public Services Department.

She is currently the Secretary for the Government Procurement Management Division, Ministry of Finance.





## DIRECTORS' PROFILES

### MOHAMMAD ZAINAL BIN SHAARI

*Non-Independent Non-Executive Director  
(Alternate Director to Dato' Azman bin Mokhtar)*

Mohammad Zainal bin Shaari, 43 years of age and a Malaysian, was appointed as the Alternate Director to Dato' Azman bin Mokhtar on 20 December 2004.

He is a Fellow of the Institute of Chartered Accountants in England & Wales and the Association of Chartered Certified Accountants (UK) (ACCA). He is also a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants.

He has extensive experience in the field of accounting and has held various positions in an International Accounting Firm in the United Kingdom (1984-1990), PricewaterhouseCoopers (1990-2002) and Bina Fikir Sdn. Bhd. (January 2003-October 2004). Currently, he is an Executive Director as well as the Chief Operating Officer of Khazanah Nasional Berhad. He also sits on the Board of Proton Holdings Berhad.

Mohammad Zainal attended six out of six Board Meetings held in the Financial Year on behalf of Dato' Azman bin Mokhtar.





# BOARD AUDIT COMMITTEE REPORT

The Board Audit Committee (BAC) of Tenaga Nasional Berhad (TNB) is pleased to present the Audit Committee Report for the year ended 31 August 2006.

The BAC was established on 9 December 1990 by the Board of Directors, to assist them to carry out their responsibilities. The BAC is guided by their Terms of Reference which is set out on pages 64 to 68 of the Annual Report.

## MEMBERSHIP

The BAC comprised the following directors:

1. **Tan Sri Dato' Lau Yin Pin @ Lau Yen Beng - Chairman**  
(Senior Independent Non-Executive Director)
2. **Tan Sri Dato' Hari Narayanan a/I Govindasamy**  
(Independent Non-Executive Director)
3. **Dato' Zainal Abidin bin Putih**  
(Independent Non-Executive Director)
4. **Dato' Azman Bin Mokhtar**  
(Non Independent Non-Executive Director)

Tan Sri Dato' Lau Yin Pin @ Lau Yen Beng and Dato' Zainal Abidin bin Putih, both Independent Non-Executive Directors are members of the Malaysian Institute of Accountants.

## MEETINGS

During the year, the BAC met 16 times. The attendance of each member is as follows:

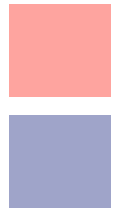
Name	Attendance	%
Tan Sri Dato' Lau Yin Pin @ Lau Yen Beng – Chairman	16/16	100
Tan Sri Dato' Hari Narayanan a/I Govindasamy	15/16	94
Dato' Zainal Abidin bin Putih	14/16	88
Dato' Azman bin Mokhtar *	13/16	81

\* including the attendance of an invited representative

The BAC meetings were mainly held at TNB's Headquarters. Three meetings were held at the station offices. This was to promote interaction between the BAC members and staff at the ground level, enhance appreciation of the operational activities and to facilitate feedback from operating management.

The Chief Internal Auditor and Company Secretary who is also the secretary to the BAC were in attendance during the meetings. The President/Chief Executive Officer, officers of the company, and the external auditor were invited to attend the meetings on the matters requiring their attention and feedback. Additionally, where required, external parties such as lawyers, consultants and technical specialists were in attendance to brief and explain matters requiring their input and clarification.





## BOARD AUDIT COMMITTEE REPORT

### SUMMARY OF ACTIVITIES OF THE BOARD AUDIT COMMITTEE

During the year, the BAC carried out the following activities in accordance with their Terms of Reference:

#### Risk Management

- Reviewed the adequacy of the risk management system for identifying and managing the Group's risks.
- Reviewed the Group's Bi-annual Strategic and Operating Risk Profiles, and the activities undertaken by the Enterprise Wide-Risk Management Department to promote and improve risk management awareness and processes.

#### Internal Audit

- Reviewed and approved Group Internal Audit (GIA)'s Budget and Annual Audit Plan to ensure adequacy of resources and coverage on auditable entities with significant and high risks.
- Reviewed internal audit reports issued by GIA and external parties on the effectiveness and adequacy of risk management, compliance and governance processes.
- Reviewed management response to GIA's recommendations and monitored the implementation of the audit recommendations to ensure that all key risks and control weaknesses were addressed. Where appropriate, the BAC directed management to rectify weaknesses identified by GIA.
- Reviewed and approved the appointments of external consultants performing outsourced/co-sourced internal audits.
- Reviewed the performance of the Group Internal Audit Department.

#### External Audit

- Recommended to the Board of Directors the appointment and remuneration of the Group External Auditor.

- Approved the External Audit Plan and scope prior to the annual audit.
- Conducted a meeting with the Group External Auditors in the absence of executive management to establish if there were any concerns.

#### Financial Reporting

- Deliberated and recommended the Quarterly and Annual Financial statements and announcements to the Board for their approval.

#### Related Party Transactions

- Reviewed the system for identifying, monitoring and disclosing related party transactions for TNB and its subsidiaries.

#### Annual Reporting

- Reviewed and recommended the Statement on Corporate Governance, Statement on Internal Control, Board Audit Committee Report, and Circular to Shareholders on Related Party Transactions, to the Board for approval.

### GROUP INTERNAL AUDIT

The internal audit function of the Group is carried out by the GIA Department. GIA is independent and reports directly to the BAC.

Internal audits were undertaken to provide independent and objective assessment of the following:

- Existence, effectiveness and adequacy of the internal control system to manage operations and safeguard the Group's assets.
- Adequacy and effectiveness of the risk management, governance and compliance functions to manage and anticipate potential risks over key business processes.



During the Financial Year, GIA issued reports for a total of 92 assignments. Most of the assignments were done in-house with some being outsourced and co-sourced. Outsourcing was mainly for ad hoc audits and review of subsidiary operations, whilst co-sourcing was done to enable the transfer of expertise from external parties.

The scope of coverage by GIA and external parties include the areas of generation, transmission, distribution, procurement and projects, finance, human resource, information and communication technology, investments in subsidiaries, and risk management and compliance.

The internal audit reports arising from the assignments were issued to management for their response, corrective actions and provision of deadlines to complete the relevant preventive and corrective actions. The reports were subsequently tabled to the BAC for their deliberation. Management staff were present during the deliberation of the reports to ensure that they undertake the responsibility of carrying out preventive and corrective actions on the weaknesses reported.



**Tan Sri Dato' Lau Yin Pin @ Lau Yen Beng**

Chairman

Board Audit Committee

Tenaga Nasional Berhad

(Senior Independent Non-Executive Director)





## TERMS OF REFERENCE OF THE BOARD AUDIT COMMITTEE

### 1. CONSTITUTION

- 1.1 The Board of Directors of Tenaga Nasional Berhad (TNB), in accordance with Article 146 of the Memorandum and Articles of Association of TNB, has established a Committee of the Board, known as the Board Audit Committee (BAC), vide Minute No. 39/90 on 9<sup>th</sup> October 1990.
- 1.2 The function and authority of the BAC extends to TNB and all its subsidiaries, joint ventures and associates where management responsibility is vested in TNB or subsidiaries of TNB (Collectively referred to as the “Group”).

### 2. COMPOSITION OF THE COMMITTEE

- 2.1 The members of the BAC shall be appointed by the Board of Directors of TNB and shall consist of not less than three members, the majority of whom shall be independent in accordance with the definition in Bursa Malaysia Listing Requirements.
- 2.2 Where the members for any reason are reduced to less than three, that Board shall within one month of the event, appoint such number of new members as may be required to make up the minimum number of three members.
- 2.3 At least one member of the Committee must meet the criteria set by the Bursa Malaysia Listing Requirements, i.e.:
  - (i) must be a member of the Malaysian Institute of Accountants or
  - (ii) if he/she is not a member of the Malaysian Institute of Accountants, he/she must have at least three years’ working experience, and:-
    - (a) he/she must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act, 1967; or
    - (b) he/she must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.

- 2.4 The Board shall elect a Chairman from the Committee who shall be an independent director as set out in the Bursa Malaysia Listing Requirements.
- 2.5 All members shall hold office only for as long as they serve as directors of TNB.
- 2.6 No alternate Directors shall be appointed to the BAC.

### 3. CHAIRMAN OF THE COMMITTEE

- 3.1 The following are the main duties and responsibilities of the Chairman of the Committee:
  - 3.1.1 to steer the Committee to achieve its objectives;
  - 3.1.2 to provide leadership to the Committee and ensure proper flow of information to the Committee, review adequacy and timing of documentation;
  - 3.1.3 to provide a reasonable time for discussion at the Committee meetings. Organise and present the agenda for Committee meetings based on input from Members and ensure that all relevant issues are on the agenda. In addition, the Chairman should encourage a healthy level of skepticism and independence;
  - 3.1.4 to ensure that consensus is reached on every Committee resolution and where considered necessary, call for a vote and the decision will be made by simple majority. Dissenting opinions should be captured;
  - 3.1.5 to manage the process and working of the Committee and ensure that the Committee discharges its responsibilities;
  - 3.1.6 to ensure that all members participate in the discussion to enable effective decisions to be made; and
  - 3.1.7 the Chairman of the BAC shall be available to answer questions about the Committee’s work at the Annual General Meeting of the Company.





## TERMS OF REFERENCE OF THE BOARD AUDIT COMMITTEE

### 4. COMMITTEE MEMBERS

4.1 Each Committee Member is expected to:-

- 4.1.1 provide independent opinions to the fact-finding, analysis and decision-making process of the Committee, based on their experience and knowledge;
- 4.1.2 consider viewpoints of the other committee members; and make decisions and recommendations for the best interest of the Group;
- 4.1.3 keep abreast of the latest corporate governance guidelines in relation to the Committee and the Board as a whole; and
- 4.1.4 continuously seek out best practices in terms of the processes utilised by the Committee, following which these should be discussed with the rest of the Committee for possible adoption.

### 5. OBJECTIVES OF THE COMMITTEE

The objectives of the Committee are:

- 5.1 to ensure transparency, integrity and accountability in the Group's activities so as to safeguard the rights and interests of the shareholders;
- 5.2 to provide assistance to the Board in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices;
- 5.3 to improve the Group's business efficiency, the quality of the accounting and audit function and strengthening public confidence in the Group's reported financial results;
- 5.4 to maintain, through regularly scheduled meetings, a direct line of communication between the Board and the External and Internal Auditors;

5.5 to ensure the independence of the external and internal audit functions; and

5.6 to create a climate of discipline and control which will reduce the opportunity for fraud.

### 6. AUTHORITY OF THE COMMITTEE

The Committee is authorised by the Board to:

- 6.1 investigate any activity within its Terms of Reference; or as directed by the Board of Directors;
- 6.2 determine and obtain the resources required to perform its duties, including approving the budget for the external and internal audit functions;
- 6.3 have full and unrestricted access to all employees, the Group's properties and works, to all books, accounts, records and other information of the Group in whatever form;
- 6.4 have direct communication channels with external auditors and person(s) carrying out the Internal Audit Function or activity for the Group;
- 6.5 direct the Internal Audit Function in the Group;
- 6.6 approve the appointment of the Head of Internal Audit;
- 6.7 engage independent advisers and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and
- 6.8 review the adequacy of the structure and Terms of Reference of the Board Committees, including the BAC.



## **7. FUNCTIONS OF THE COMMITTEE**

The functions and responsibilities are as follows:

### **7.1 Corporate Financial Reporting**

- 7.1.1 To review and recommend acceptance or otherwise of accounting policies, principles and practices.
- 7.1.2 To review the quarterly results and annual financial statements of the Company and Group before submission to the Board.

The review should focus primarily on:

- (i) any changes in existing or implementation of new accounting policies;
  - (ii) major judgment areas, significant and unusual events;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions;
  - (v) compliance with accounting standards; and
  - (vi) compliance with Bursa Malaysia Listing Requirements and other legal and statutory requirements.
- 7.1.3 To review with management and the external auditors the results of the audit, including any difficulties encountered.

### **7.2 Enterprise-Wide Risk Management (EWRM)**

- 7.2.1 To review the adequacy of and to provide independent assurance to the Board of the effectiveness of risk management functions in the TNB Group.
- 7.2.2 To ensure that the principles and requirements of managing risk are consistently adopted throughout the TNB Group.
- 7.2.3 To deliberate on the key risk issues highlighted by Group Risk Management Committee in their reports to BAC.

### **7.3 Internal Control**

- 7.3.1 To assess the quality and effectiveness of the systems of internal control and the efficiency of the Group's operations.
- 7.3.2 To review the findings on internal control in the Group by internal and external auditors.
- 7.3.3 To review and approve the Statement on Internal Control for the Annual Report as required under Bursa Malaysia Listing Requirements.

### **7.4 Internal Audit**

- 7.4.1 To approve the Corporate Audit Charters of internal audit functions in the Group.
- 7.4.2 To ensure that the internal audit functions have appropriate standing in the Group and have the necessary authority and resources to carry out their work. This includes a review of the organizational structure, resources, budgets and qualifications of the internal audit personnel.
- 7.4.3 To review internal audit reports and management's response and actions taken in respect of these. Where actions are not taken within an adequate time frame by management, the BAC will report the matter to the Board.
- 7.4.4 To review the adequacy of internal audit plans and the scope of audits, and ensure that the internal audit functions are carried out without any hindrance.
- 7.4.5 To appraise the performance of Head of Internal Audit.
- 7.4.6 To be informed of resignations and transfers of senior internal audit staff and provide resigning/transferred staff an opportunity to express their views.
- 7.4.7 To direct any special investigation to be carried out by Internal Audit.



## **7.5 External Audit**

- 7.5.1 To nominate the External Auditors together with such other functions as may be agreed to by the Board and recommend for approval of the Board the external audit fee, and consider any questions of resignation or termination.
- 7.5.2 To review external audit reports and management's response and actions taken in respect of these. Where actions are not taken within an adequate time frame by management, the BAC will report the matter to the Board.
- 7.5.3 To review external audit plans and scope of work.
- 7.5.4 The BAC shall meet the external auditors at least twice a year to discuss problems and reservations arising out of external audits and any matters the auditors may wish to discuss, in the absence of management, Executive Directors or non-independent Directors where necessary.

## **7.6 Corporate Governance**

- 7.6.1 To review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow up (including disciplinary action) of any instances of non-compliance.
- 7.6.2 To review the findings of any examinations by regulatory authorities.
- 7.6.3 To review any related party transaction and conflict of interest situation that may arise within the Group including any transaction, procedure or course of conduct that raises questions of integrity.
- 7.6.4 To review and approve the Statement of Corporate Governance for the Annual Report as required under Bursa Malaysia Listing Requirements.
- 7.6.5 To review the investor relations programme and shareholder communications policy for the Company.

- 7.6.6 To examine instances and matters that may have compromised the principles of corporate governance and report back to the Board.
- 7.6.7 To develop and regularly review TNB's Code of Corporate Governance and Business Ethics.
- 7.6.8 Where the BAC is of the view that a matter reported by it to the Board has not been satisfactorily resolved, resulting in a breach of Bursa Malaysia Listing Requirements, the BAC must promptly report such matters to Bursa Malaysia.

## **8. COMMITTEE MEETINGS**

- 8.1 The Committee shall convene meetings as and when required, and at least six times during the Financial Year of TNB.
- 8.2 The number of Committee meetings held a year and the details of attendance of each individual member in respect of meetings held should be disclosed in the Annual Report.
- 8.3 The Chairman of the Committee, or the Secretary, on the requisition of any member, the Head of Internal Audit or the External Auditors, shall at any time summon a meeting of the Committee by giving reasonable notice. It shall not be necessary to give notice of a Committee meeting to any member for the time being absent from Malaysia.
- 8.4 No business shall be transacted at any meeting of the Committee unless a quorum is present. The quorum for each meeting shall be three members.
- 8.5 The Chairman of the Committee shall chair the Committee meetings and in his absence, the members present shall elect one amongst themselves to be the Chairman of the meeting.
- 8.6 In appropriate circumstances, the Committee may deal with matters by way of circular reports and resolutions in lieu of convening a formal meeting.





## **TERMS OF REFERENCE OF THE BOARD AUDIT COMMITTEE**

- 8.7 Officers of the Group or others as necessary may be invited to attend meetings where the Committee considers their presence necessary.
- 8.8 All recommendations of the Committee shall be submitted to the Board for approval.
- 8.9 A Committee member shall excuse himself/herself from the meeting during discussions or deliberations of any matter which gives rise to an actual or perceived conflict of interest situation for the member. Where this causes insufficient Directors to make up a quorum, the Committee has the right to appoint another Director(s), which meets the membership criteria.
- 8.10 The Committee, through its Chairman, shall report to the Board after each meeting.
- 8.11 Subject to the provisions of this Terms of Reference and Memorandum and Articles of Association of TNB, the Committee shall establish its own procedures for meetings.

### **9. SECRETARY OF THE COMMITTEE**

- 9.1 The Secretary of the Committee shall be the Company Secretary.
- 9.2 The Secretary shall draw up an agenda for each meeting, in consultation with the Chairman of the Committee. The Agenda shall be sent to all members of the Committee and the Head of Internal Audit at least three working days before each meeting together with the relevant papers.
- 9.3 The Secretary shall promptly prepare the written minutes of the meeting and distribute it to each member. The minutes of the Committee meeting shall be confirmed and signed by the Chairman of the meeting at the next succeeding meeting.
- 9.4 The minutes of each meeting shall be entered into the minutes book kept at the registered office of the Company under the custody of the Company Secretary. The minutes shall be available for inspection by the members of the Board, external auditors, internal auditors, and other persons deemed appropriate by the Company Secretary.

### **10. DISCLOSURE**

- 10.1 The Committee shall assist the Board in making disclosures concerning the activities of the Committee, in the Report of the Board Audit Committee, to be issued in the Annual Report.
- 10.2 The Board requires all Directors to submit a Disclosure of Interest to avoid any conflict between their personal interests and the interests of the Company. In the event of a conflict, either perceived or actual, this Disclosure of Interest shall be submitted to the Chairman of the Committee with a copy to the Company Secretary.

### **11. REVISION OF THE TERMS OF REFERENCE**

- 11.1 Any revision or amendment to the Terms of Reference, as proposed by the Committee or any third party, shall be presented to the Board for its approval.
- 11.2 Upon the Board's approval, the said revision or amendment shall form part of this Terms of Reference and this Terms of Reference shall be considered duly revised or amended.



## STATEMENT ON INTERNAL CONTROL

### BOARD RESPONSIBILITY

The Board of Directors ("Board") acknowledges and is committed to its responsibilities of maintaining Tenaga Nasional Berhad's Group ("the Group") system of internal control and reviewing its adequacy and integrity. The system is designed to meet the Group's business objectives and safeguard shareholders' investments, the interest of customers, regulators and employees, and the group assets. The internal control system covers the areas of risk management, finance, operations, management information systems and compliance with the relevant laws, regulations, rules, directives and guidelines. The system implemented encompasses the identification, assessment and management of the risks faced by the Group and provides a reasonable but not an absolute assurance, against material misstatement, loss or fraud.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group. The process is regularly reviewed by the Board and is in accordance with the *Statement on Internal Control: Guidance for Directors of Public Listed Companies*. More detailed information on the system of internal control is elaborated in the following paragraphs.

### RISK MANAGEMENT

The Board has put in place an enterprise-wide risk management system to identify, assess, treat, report and monitor risks. This process is one of the Group's key support processes and forms a part of TNB's Corporate Quality Management System. The Board Audit Committee (BAC) reviews the effectiveness of this system bi-annually and is assisted by management in the review, treatment and monitoring of the Group's strategic and operating risks. These reviews are presented to the Board for approval. Additionally, the following initiatives were also reviewed by the BAC and presented to the Board during the year:

- Streamlining risk management and business planning activities to ensure that controls and mitigation plans for risk management are built into the business plans and budgets of the Group.
- Reviewing key operating risks and in particular exposure to legal and fraud risks, and the development of action plans to mitigate these risks which include the establishment of the Tenaga Nasional Berhad ("TNB") Code of Ethics and Whistleblowing Procedures which are currently being formulated.

- Refining the Emergency Response Plan ("the Plan") which was started in the previous Financial Year. The Plan facilitates a prompt, coordinated and effective response to system related emergency situations to ensure resumption of supply to customers, protection of employees and assets, whilst minimising interruptions to business operations. Mock drills were also carried out to test the Plan and identify the gaps.
- Continuous communication and co-ordination of risk management activities in the Group through Risk Coordinators Forums held throughout the year.
- Review of the effectiveness of the risk management system at the station level by Group Internal Audit when performing planned audits of the stations.

### CONTROL STRUCTURES

The Board is committed to maintaining an effective control structure and environment for the proper conduct of the Group's business operations. The following key internal control structures were implemented to ensure an effective control environment:

#### Board and Management Committees

Board and Management Committees were established by the Board to assist the Board to ensure the effectiveness of the Group's operations and that the Group's actions and operations are in accordance with approved strategies, objectives, business plans, and policies. The responsibilities and authority of the Committees are governed by specific terms of reference. These committees report to the Board and make recommendations for the Board's approval.

#### Board Committees

- Audit Committee
- Tender Committee
- Disciplinary Committee
- Nomination and Remuneration Committee
- Finance and Investment Committee





## STATEMENT ON INTERNAL CONTROL

### Management Committees

- Group Executive Council Committee
- Group Executive Management Committee
- Energy Supply Committee
- Tender Committees
- Group Risk Management Committee

### Organisation Structure

The Board has approved a divisional structure for the Group. The divisional structure enables the division heads to focus on their assigned core areas of the Group's operations or support functions. Additionally, with each division and operating entity, clear lines of accountability and responsibilities have been established. Limits of authority are also established to govern the management of financial and non financial approval limits.

The Board also reviews and refines the effectiveness of the Group and control structures to ensure that the Group's strategic and operational requirements are met. During the year, a new reporting structure was instituted for financial officers to enable direct reporting and monitoring of financial performance and finance related matters to the Chief Financial Officer. Additionally, an accountability structure was refined for the Core Divisions (Generation, Transmission and Distribution) to facilitate effective budget utilisation and enhance related work processes.

### Management Information Systems

The Board recognises the importance of the use of information and communication technology to provide efficient and effective control over business operations, and timely and accurate reporting to stakeholders. During the year, the systems and projects undertaken were as follows:

- **TNB Risk Information System (TRIS).**  
The system enables the recording of risks, controls and tracking of mitigation actions to manage risks. The first phase of the project was completed in August 2005, and the second phase was completed on 29 August 2006.

- **e-Customer Information & Billing System (e-CIBS).**

This new system was developed to enhance Distribution Division's customer management and billings functions. The functionalities include customer service, financials, meter and billing and cross application support services. This system was rolled out in November 2005 and nation-wide roll out was completed in June 2006.

- **Telecommunication Projects.**

These were carried out to mainly enhance, upgrade and improve the transmission and telecommunication structures to support transmission, distribution and corporate functions.

### Group Policies and Procedures

The Board has approved policies and procedures to govern the financial and operational functions of the Group. The objectives of these are to ensure that internal control principles and mechanisms are embedded in operations so that the organisation can respond quickly to evolving risks and procedures are available for immediate reporting of any significant control failings. Among others, the policies and procedures implemented are:

- Internal Control Guidelines
- Group Financial Policies & Procedures
- Safety & Health Policy
- Environmental Policy
- Investment Policy
- Procurement Policy
- Disciplinary Policy
- Information and Communication Technology Security Policy and Codes of Practice
- Enterprise-Wide Risk Management Policy and Guidelines





During the year, TNB's Corporate Office attained the International Standards Organisation (ISO) certification under the Process Standardisation and Improvement (PSI) Project which started in the previous year. The purpose of the project was to streamline, standardise, improve and document operating policies and procedures of the whole Group.

### **Special Engagement Against Losses**

The Special Engagement Against Losses (SEAL) team continued with their efforts of reducing non-technical losses arising from the theft of electricity. Their efforts resulted in substantial amounts of back billing and collections. Additionally, for the first time, the Energy Commission with inputs from Tenaga Nasional Berhad had successfully convicted a company for the theft of electricity under Section 37(3)e of the Electricity Supply Act, 1990.

## **MONITORING AND REVIEW**

### **Board Interactions With Management via Board Break Out Sessions**

The Board plays an active role in breakout sessions held with management to discuss and review the plans, strategies, performance and risks faced by the Group. During the year, two breakout sessions were conducted. Concerns such as rising fuel costs, availability of gas supply to new power plants, high payments to Independent Power Producers (IPP)s, tariff revision timing and its impact on cashflow, generation and transmission performance, and other major factors faced were deliberated. Strategies and action plans were then reviewed and mandates were given to management by the Board to carry out the agreed strategies and action plans.

### **Business Planning And Budgeting Review**

Business plans and budgets are aligned to the Group's 20-Year Strategic Plan, to guide the organisation in achieving its vision of becoming among the leading corporations in the energy and related business globally.

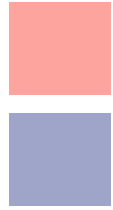
Based on strategies identified in the Strategic Plan, 5-Year Business Plans and Annual Operating Plans together with Key Performance Indicators are drawn up and approved by the Board. This is to ensure accountability and achievement of the Group's objectives and strategies. Strategies are also revised based on the changes in business and operating environments. Inputs from the Board Breakout Sessions are used to develop the 5-Year and Annual Operating Plans.

The 5-Year Business Plan and Annual Operating Plan also contain the budget of the Company, to enable the Company to direct its resources toward the achievement of its financial objectives. Effective utilisation of the budget is attained through regular monitoring by management.

### **Financial and Operational Review**

Quarterly financial statements and the Group's performance are deliberated by the Board Audit Committee, who subsequently presents them to the Board for their review, consideration and approval. Monthly management accounts containing key financial results, operational performance indicators and budget comparisons are also issued to the Board and senior management to enable them to have regular and updated information of the Group's performance.





## STATEMENT ON INTERNAL CONTROL

### **Group Internal Audit (GIA)**

The Board established the GIA Department to provide independent assurance on the adequacy of risk management, internal control and governance systems. GIA reports to the Board Audit Committee. Regular reviews are carried out on the business processes to monitor compliance with the Group's procedures, assess the effectiveness of internal controls and highlight significant risks impacting the Group. The Board Audit Committee (BAC) holds regular meetings to review internal audit reports, management actions and monitor the implementation of preventive and corrective actions for areas with significant and high risks. The scope of coverage by GIA includes the areas of generation, transmission, distribution, procurement and projects, finance, human resource, information and communication technology, investment in subsidiaries, and risk management and compliance.

Annual Audit Plans are presented to the Board Audit Committee for their review and approval. The review is to ensure adequacy of resources and sufficient coverage on significant and high risk areas. The audits in the Annual Audit Plans are mostly done internally, with some being outsourced or co-sourced. Outsourcing and co-sourcing of internal audits are done to enable adequate coverage and the transfer of knowledge from external consultants through co-sourcing.

### **CONCLUSION**

For the Financial Year under review, some weaknesses in internal control were identified. However, after due and careful inquiry and based on the information and assurance provided, the Board is satisfied that there were no material losses as a result of weaknesses in the system of internal control, that would require separate disclosure in Tenaga Nasional Berhad's Annual Report. Nevertheless, for areas requiring attention, measures have been and are being taken to ensure ongoing adequacy and effectiveness of internal controls and to safeguard shareholders' investments and the Group's assets.

This statement is made in accordance with the resolution of the Board of Directors dated 17 October 2006.

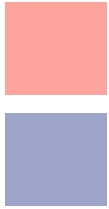






skills  
from our  
human  
capital



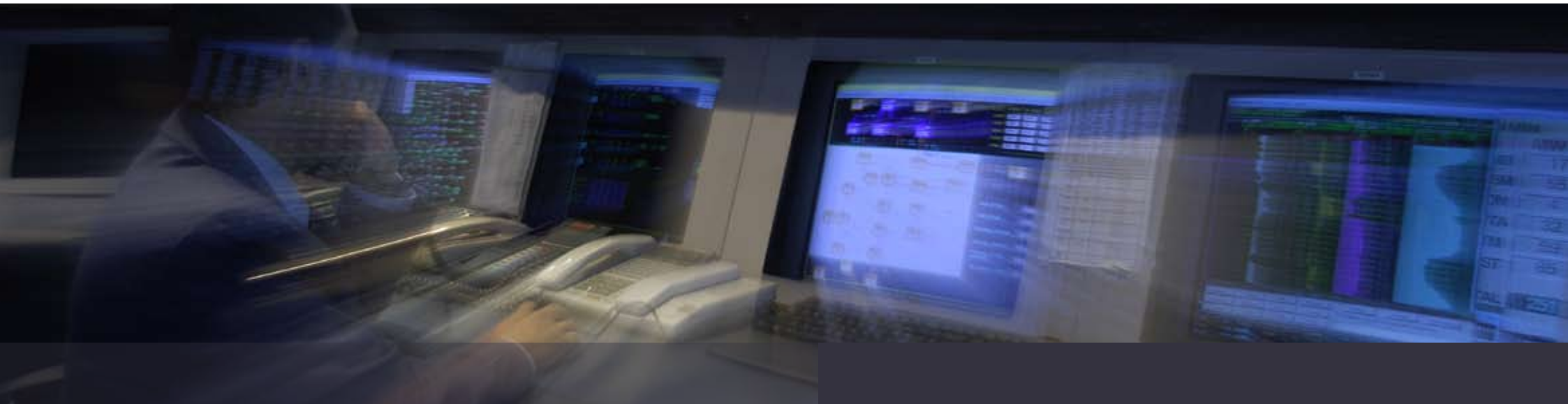


## FINANCIAL CALENDAR

QUARTERLY RESULTS	ANNOUNCEMENT DATE
First Quarter ended 30 November 2005	25 January 2006
Second Quarter ended 28 February 2006	13 April 2006
Third Quarter ended 31 May 2006	14 July 2006
Fourth Quarter ended 31 August 2006	12 October 2006

Distribution of Annual Report	22 November 2006
Sixteenth Annual General Meeting	14 December 2006





Friday 13 October 2006

Tel: 03 7967 1610 Fax: 03 7955 4091 E-mail: starbiz@thestar.com.my

Affin Holdings chairman Jee (R) Tan Sri Mohd Zahidi Zainuddin launches AFFINBANK Debit MasterCard Unembossed Card. PS

REGIONAL MARKETS (October 12)			
KUALA LUMPUR Composite Index	975.82	▲	(+5.25)
SINGAPORE Straits Times Index	2,840.84	▼	(-0.57)
HONG KONG Hang Seng Index	17,871.04	▲	(+10.30)
TOKYO Nikkei 225	16,568.81	▼	(-33.76)
SYDNEY All Ordinaries Index	3,254.30	▼	(-21.00)
SEOUL Composite Index	1,333.78	▲	(+6.20)

# Star BIZ



## TNB net profit jumps 52%

BY JAGDEV SINGH SIDHU  
jagdev@thestar.com.my

**KUALA LUMPUR:** Tenaga Nasional Bhd (TNB) reported a big jump in profit for its financial year ended Aug 31, thanks to the ongoing cost-cutting measures and the increase in power tariffs.

The utility firm expects demand growth for power consumption in the current financial year to move closer to the five-year average of between 7% and 8% versus 4.2% in 2006.

"We believe we have delivered and, in most cases, outperformed the (KPI) targets we had set," chairman Tan Sri Leo Moggie said when announcing the company's latest financial results.

TNB reported a 52% increase in net profit excluding foreign exchange gains of RM1.6bil compared with RM1.0bil in the previous comparative period. Net profit after tax and minority interest amounted to RM2.1 bil, or



and return on assets have risen and are now comparable to those of regional utility firms.

Moggie said the TNB management was finalising the key performance indicators (KPIs) for the current financial year after it had exceeded nearly all KPIs for 2006.

"The challenges ahead would be sustainability in the light of inflationary pressure and managing the cost of industry excess capacity over the medium term," he added.

During the year, TNB managed to collect payments from four of the five biggest customers and expects to settle the RM200mil it owes by the end of its current financial year.

Moggie said TNB expected average prices beyond RM6.40 per mmbtu to be in line with the company's financial results should not affect the price structure for public and businesses were currently paying.

"The Government has made it clear there will be no change in tariffs to consumers," he said.

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Analysis of Convertible Redeemable Income

Security 2004-2009 (CRIS) Holdings

Properties List

Proxy Form

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The Directors have pleasure in submitting their Report with the audited financial statements of the Group and of the Company for the financial year ended 31 August 2006.

## PRINCIPAL ACTIVITIES

The principal activities of the Group and of the Company are the generation, transmission, distribution and sale of electricity.

There have been no significant changes in these activities during the financial year under review.

## FINANCIAL RESULTS

	Group RM'million	Company RM'million
Profit after taxation	2,161.7	1,535.9
Minority interests	(34.8)	0
Net profit for the financial year	2,126.9	1,535.9

## DIVIDENDS

The dividends paid or declared since 31 August 2005 were as follows:

	RM'million
In respect of the financial year ended 31 August 2005, as shown in the Directors' Report for that financial year	
Final gross dividend of 12.0 sen per ordinary share, less income tax at 28% paid on 10 January 2006	279.4

For the financial year ended 31 August 2006, the Directors had on 17 October 2006 recommended the payment of a final gross dividend of 12.0 sen per ordinary share, less income tax at 28% and 2.0 sen per ordinary share, tax exempt, subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company. The Books Closure and Payment dates will be announced in due course.

## RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.



## ISSUE OF SHARES

During the financial year, 914,451,307 new ordinary shares of RM1.00 each were issued by the Company comprising:-

- (a) 33,335,924 ordinary shares of RM1.00 each in TNB pursuant to the Employees' Share Option Scheme II ('ESOS II') at exercise prices of RM8.39, RM8.74 or RM9.28 and RM9.17 per share. The exercise prices were adjusted to RM6.71, RM6.99, RM7.42 and RM 7.33 respectively pursuant to the issuance of the bonus shares, and
- (b) 72,413,901 ordinary shares of RM1.00 each in TNB pursuant to the exchange of Guaranteed Exchangeable Bonds at the exercise price of RM8.10 per share, and
- (c) 808,701,482 ordinary shares of RM1.00 each in TNB pursuant to the bonus issue on the basis of one (1) bonus share for every four (4) existing shares held by shareholders on 28 February 2006.

The new ordinary shares issued during the financial year ranked pari passu in all respects with the then existing ordinary shares of the Company.

## EMPLOYEES' SHARE OPTION SCHEME

Options under the ESOS were granted to eligible Directors, employees and retirees of the Group to subscribe for ordinary shares of RM1.00 each. The first ESOS expired on 11 May 2002.

The Company implemented a new ESOS II on 8 July 2003 for a period of 10 years. The ESOS II is governed by the bye-laws, which were approved by the shareholders at an Extraordinary General Meeting ('EGM') held on 29 May 2003 and amended at the EGM held on 15 December 2005.

The main features and movement during the financial year in the number of options over the shares of the Company is set out in Note 33 to the financial statements.

The Company has been granted an exemption by the Companies Commission of Malaysia via a letter dated 9 October 2006 from having to disclose in this Report the names of the persons to whom options have been granted during the period and details of their holdings pursuant to Section 169 (11) of the Companies Act, 1965 except for information on employees who were granted options representing 450,000 ordinary shares and above.

The list of employees of the Company who were granted options representing 450,000 ordinary shares and above under ESOS II are as follows:-

Name	Designation	No. of ordinary shares granted under the options and acquired under the bonus issue	No. of ordinary shares exercised under the options
Dato' Abdul Razak bin Abdul Majid	Vice President, Generation	495,000	20,000
Dato' Ir Aishah binti Dato' Haji Abdul Rauf	Vice President, Distribution	475,000	100,000
Che Zurina binti Zainul Abidin	Vice President, Corporate Services	470,000	150,000
Dato' Haji Nik Ibrahim bin Nik Mohamed	Vice President, Investment Management	477,500	162,500
Kamaruzzaman bin Jusoh	Vice President, Human Resource	494,000	64,000





## DIRECTORS' REPORT

### DIRECTORS

The Directors who have held office during the period since the date of the last Report are:

Tan Sri Datuk Amar Leo Moggie	
Dato' Sri Che Khalib bin Mohamad Noh	
Dato' Abdul Rahim bin Mokti	<i>(Resigned on 18 August 2006)</i>
Dato' Puteh Rukiah binti Abd Majid	<i>(Appointed on 13 September 2006)</i>
Dato' Azman bin Mokhtar	
Tan Sri Dato' Lau Yin Pin @ Lau Yen Beng	
Tan Sri Dato' Hari Narayanan a/l Govindasamy	
Dato' Zainal Abidin bin Putih	
Datuk Mohd Zaid bin Ibrahim	
Mohammad Zainal bin Shaari	<i>(Alternate Director to Dato' Azman bin Mokhtar)</i>
Datuk Zalekha binti Hassan	<i>(Alternate Director to Dato' Abdul Rahim bin Mokti, resigned on 18 August 2006. Reappointed on 13 September 2006 as an alternate Director to Dato' Puteh Rukiah binti Abd Majid)</i>

### DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, except for the options granted to the President/Chief Executive Officer pursuant to the ESOS II.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits disclosed as Directors' remuneration and benefits in Note 4 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.





## DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

According to the Register of Directors' shareholdings, particulars of the interests of Directors who held office as at the end of the financial year in shares in the Company are as follows:

	Number of ordinary shares of RM1.00 each			
	As at 1.9.2005	Acquired under the bonus issue	Disposed	As at 31.8.2006
Dato' Zainal Abidin bin Putih	1,000	250	0	1,250

	Number of options over ordinary shares of RM1.00 each			
	As at 1.9.2005	Options granted and acquired under the bonus issue	Exercised	As at 31.8.2006
Dato' Sri Che Khalib bin Mohamad Noh	0	375,000	0	375,000

According to the Register of Directors, none of the other Directors held any options over shares in the Company.

No other Directors in office at the end of the financial year held any other interest in shares and debentures of the Company and its related corporations.

## STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the income statements and balance sheets of the Group and of the Company were made out, the Directors took reasonable steps:

- to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and of the Company had been written down to an amount which they might be expected so to realise.

At the date of this Report, the Directors are not aware of any circumstances:

- which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
- which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.





## DIRECTORS' REPORT

### STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or of the Company to meet their obligations when they fall due.

At the date of this Report, there does not exist:

- (a) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

### OTHER STATUTORY INFORMATION

At the date of this Report, the Directors are not aware of any circumstances not otherwise dealt with in this Report or the financial statements which would render any amount stated in the financial statements misleading.

In the opinion of the Directors, there has not arisen in the interval between the end of the financial year and the date of this Report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this Report is made.

### AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors, in accordance with their resolution dated 17 October 2006.

**TAN SRI DATUK AMAR LEO MOGGIE**  
CHAIRMAN

**DATO' SRI CHE KHALIB BIN MOHAMAD NOH**  
PRESIDENT/CHIEF EXECUTIVE OFFICER





**INCOME  
STATEMENTS**  
for the financial year  
ended 31 August  
2006

	Note	2006 RM'million	Group 2005 RM'million	2006 RM'million	Company 2005 RM'million
Revenue	3	20,384.2	18,977.5	18,815.1	17,561.3
Operating expenses					
- exceptional items	7	0	0	(129.6)	(382.1)
- others	4	(16,924.9)	(16,215.9)	(16,480.0)	(15,405.0)
Other operating income	6	489.3	374.1	691.0	825.3
Operating profit		3,948.6	3,135.7	2,896.5	2,599.5
Foreign exchange gain/(loss)	8	324.9	141.8	197.3	105.7
Share of results of associates		17.7	91.0	0	0
Profit before finance cost		4,291.2	3,368.5	3,093.8	2,705.2
Finance cost	9	(1,539.3)	(1,549.6)	(1,101.2)	(1,103.8)
Profit from ordinary activities before taxation		2,751.9	1,818.9	1,992.6	1,601.4
Taxation					
- Company and subsidiaries	10	(587.1)	(469.6)	(456.7)	(437.8)
- Share of taxes in associates		(3.1)	(26.5)	0	0
		(590.2)	(496.1)	(456.7)	(437.8)
Profit from ordinary activities after taxation		2,161.7	1,322.8	1,535.9	1,163.6
Minority interests		(34.8)	(42.8)	0	0
Net profit for the financial year		2,126.9	1,280.0	1,535.9	1,163.6

		Sen	Sen
Earnings per share			
- basic	11(a)	52.52	32.01
- diluted	11(b)	50.56	31.39
<b>Dividends per share:</b>			
Interim dividend, tax exempt	12	0	3.0
Final dividend (gross)	12	0	12.0
Proposed final dividend (gross)	12	12.0	0
Proposed final dividend, tax exempt	12	2.0	0

The notes set out on pages 15 to 93 form an integral part of these financial statements.





## BALANCE SHEETS

as at  
31 August 2006

	Note	2006 RM'million	Group 2005 RM'million	2006 RM'million	Company 2005 RM'million
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	13	55,201.3	54,721.0	44,826.4	43,813.3
Coal mining rights	14	279.9	290.7	0	0
Subsidiaries	15	0	0	743.1	866.2
Associates	16	200.6	158.7	135.8	109.2
Investments	17	38.0	39.7	56.8	99.1
Long term receivables	18	0	0	841.8	922.7
<b>CURRENT ASSETS</b>					
Inventories	19	1,931.8	1,741.6	1,113.4	900.2
Receivables, deposits and prepayments	20	3,415.4	3,563.2	2,501.4	3,029.6
Current tax assets		10.0	101.7	0	97.0
Amount owing from subsidiaries	21	0	0	5,445.9	4,200.5
Amount owing from associates		43.6	6.8	30.7	0
Short term investments	22	12.6	12.6	12.6	12.6
Marketable securities	23	9.2	9.4	9.2	9.4
Deposits, bank and cash balances	24	3,949.7	2,849.4	3,124.7	1,987.3
		9,372.3	8,284.7	12,237.9	10,236.6
<b>CURRENT LIABILITIES</b>					
Payables	25	3,733.5	3,418.7	2,394.9	2,428.8
Amount owing to subsidiaries	21	0	0	5,610.5	4,364.8
Amount owing to associates		212.4	203.0	212.4	198.1
Current taxation		184.6	214.3	175.1	212.9
Short term borrowings	26	2,534.7	2,979.6	1,964.5	2,320.6
		6,665.2	6,815.6	10,357.4	9,525.2
<b>NET CURRENT ASSETS</b>		2,707.1	1,469.1	1,880.5	711.4
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		58,426.9	56,679.2	48,484.4	46,521.9

The notes set out on pages 15 to 93 form an integral part of these financial statements.







**BALANCE  
SHEETS**  
as at  
31 August 2006  
(Continued)

	Note	2006 RM'million	Group 2005 RM'million	2006 RM'million	Company 2005 RM'million
<b>NON-CURRENT LIABILITIES</b>					
Borrowings	27	(24,580.9)	(27,008.8)	(16,101.0)	(16,902.6)
Consumer deposits	28	(2,147.7)	(1,952.3)	(2,029.6)	(1,845.3)
Employee benefits	29	(2,314.1)	(2,248.2)	(2,221.3)	(2,162.9)
Other liabilities		(72.3)	(79.4)	(72.2)	(76.6)
Deferred taxation	30	(6,424.6)	(5,997.8)	(5,758.4)	(5,456.5)
Deferred income	31	(2,675.8)	(2,505.9)	(2,400.6)	(2,271.0)
Government development grants	32	(665.0)	(686.0)	0	0
		(38,880.4)	(40,478.4)	(28,583.1)	(28,714.9)
Net Assets		19,546.5	16,200.8	19,901.3	17,807.0
<b>FINANCED BY:</b>					
Share capital	33	4,135.2	3,220.7	4,135.2	3,220.7
Share premium	34	3,912.9	3,989.6	3,912.9	3,989.6
Revaluation and other reserves	35	843.6	844.7	1,017.6	1,028.7
Retained profits	36	10,533.5	8,030.5	10,835.6	9,568.0
Shareholders' funds		19,425.2	16,085.5	19,901.3	17,807.0
MINORITY INTERESTS		121.3	115.3	0	0
		19,546.5	16,200.8	19,901.3	17,807.0
		Sen	Sen		
<b>NET ASSETS PER SHARE*</b>		470.0	499.4		

\* The net assets per share is calculated by dividing the net assets of the Group by the number of ordinary shares in issue at the balance sheet date.

The notes set out on pages 15 to 93 form an integral part of these financial statements.



# ANALYSIS OF SHAREHOLDINGS

## ANALYSIS OF SHAREHOLDINGS AS AT 17 OCTOBER 2006 SHARE CAPITAL

Authorised Share Capital	5,000,000,000 ordinary shares of RM1.00 per share, 1 (One) Special Rights Redeemable Preference Share of RM1.00 per share, 1,000 Class A Redeemable Preference Shares of RM1.00 per share, 500 Class B Redeemable Preference Shares of RM1.00 per share.
Issued and Fully Paid-Up Share Capital	4,235,906,915 ordinary shares of RM1.00 per share, 1 (One) Special Rights Redeemable Preference Share of RM1.00 per share, 1,000 Class A Redeemable Preference Shares of RM1.00 per share, 500 Class B Redeemable Preference Shares of RM1.00 per share.
Voting Right	One voting right for one ordinary share

## DISTRIBUTION OF SHAREHOLDINGS AS AT 17 OCTOBER 2006

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Ordinary Shares Held	% of Issued Share Capital
Less than 100	498	1.83	11,565	0.00
100 - 1,000	2,950	10.85	1,977,093	0.05
1,001 - 10,000	21,446	78.86	51,988,676	1.23
10,001 - 100,000	1,493	5.49	43,439,390	1.03
100,001 to less than 5 % of issued shares	805	2.96	1,598,578,946	37.73
5% and above of issued shares	4	0.01	2,539,911,245	59.96
	27,196	100.00	4,235,906,915	100.00

## SUBSTANTIAL SHAREHOLDERS (5 PER CENT AND MORE)

Name of Shareholders	No. of Ordinary Shares Held	Percentage
1) Khazanah Nasional Berhad	1,551,826,964	36.64
2) Employees Provident Fund Board	450,242,081	10.63
3) Amanah Raya Nominees (Tempatan) Sdn Bhd Skim Amanah Saham Bumiputera	324,420,900	7.66
4) Kumpulan Wang Amanah Pencen	213,421,300	5.04
	2,539,911,245	59.97





## LIST OF 30 LARGEST SHAREHOLDERS AS AT 17 OCTOBER 2006

No.	Name of Shareholders	No. of Ordinary Shares	Percentage
1	Khazanah Nasional Berhad	1,551,826,964	36.64
2	Employees Provident Fund Board	450,242,081	10.63
3	Amanah Raya Nominees (Tempatan) Sdn Bhd Skim Amanah Saham Bumiputera	324,420,900	7.66
4	Kumpulan Wang Amanah Pencen	213,421,300	5.04
5	Bank Negara Malaysia	109,747,500	2.59
6	Cartaban Nominees (Tempatan) Sdn Bhd Petroliam Nasional Berhad (Strategic Inv)	80,850,700	1.91
7	Lembaga Tabung Haji	51,270,075	1.21
8	Amanah Raya Nominees (Tempatan) Sdn Bhd Amanah Saham Wawasan 2020	42,069,300	0.99
9	Cimsec Nominees (Tempatan) Sdn Bhd Security Trustee (Kcw Issue 1)	32,697,800	0.77
10	Amanah Raya Nominees (Tempatan) Sdn Bhd Amanah Saham Malaysia	31,332,950	0.74
11	HSBC Nominees (Asing) Sdn Bhd Exempt An For JPMorgan Chase Bank National Association (U.S.A)	29,050,751	0.69
12	Cartaban Nominees (Asing) Sdn Bhd State Street London Fund Hknp For Stichting Pensioenfonds Abp	26,042,700	0.61
13	Permodalan Nasional Berhad	25,714,675	0.61
14	Malaysia Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (Par 1)	24,700,000	0.58
15	Amanah Raya Nominees (Tempatan) Sdn Bhd Sekim Amanah Saham Nasional	23,586,250	0.56
16	Citigroup Nominees (Asing) Sdn Bhd GSI For OZ Asia Master Fund, Ltd	21,802,974	0.51

## ANALYSIS OF SHAREHOLDINGS





## ANALYSIS OF SHAREHOLDINGS

No.	Name of Shareholders	No. of Ordinary Shares	Percentage
17	Citigroup Nominees (Asing) Sdn Bhd Goldman Sachs International	21,177,078	0.50
18	Valuecap Sdn Bhd	19,314,700	0.46
19	Citigroup Nominees (Asing) Sdn Bhd GSI For OZ Master Fund Ltd	19,271,195	0.45
20	Citigroup Nominees (Asing) Sdn Bhd Exempt An for American International Assurance Company Limited	19,158,750	0.45
21	Amanah Raya Nominees (Tempatan) Sdn Bhd Amanah Saham Didik	18,994,850	0.44
22	HSBC Nominees (Asing) Sdn Bhd Exempt an for JP Morgan Chase Bank, National Association (U.A.E)	17,960,915	0.42
23	HSBC Nominees (Asing) Sdn Bhd Exempt An For J.P. Morgan Bank Luxembourg S.A	17,036,850	0.40
24	HSBC Nominees (Asing) Sdn Bhd Exempt An For Morgan Stanley & Co. Incorporated	16,878,323	0.40
25	Citigroup Nominees (Tempatan) Sdn Bhd Exempt an for Prudential Assurance Malaysia Berhad	15,502,475	0.37
26	HSBC Nominees (Asing) Sdn Bhd Morgan Stanley And Co International London (Firm A/C)	14,705,761	0.35
27	HSBC Nominees (Asing) Sdn Bhd Exempt An For Morgan Stanley & Co. International Limited	14,346,057	0.34
28	Cartaban Nominees (Asing) Sdn Bhd Credit Suisse Securities (Europe) Limited	14,013,900	0.33
29	HSBC Nominees (Asing) Sdn Bhd Exempt An For JPMorgan Chase Bank National Association (U.K.)	13,773,950	0.33
30	HSBC Nominees (Asing) Sdn Bhd HSBC Bk Plc For Prudential Assurance Company Ltd	13,087,725	0.31
		3,273,999,449	77.29



# ANALYSIS OF CONVERTIBLE REDEEMABLE INCOME SECURITIES

## 2004 - 2009 ("CRIS") HOLDINGS

### ANALYSIS OF CONVERTIBLE REDEEMABLE INCOME SECURITIES 2004 - 2009 ("CRIS") HOLDINGS AS AT 17 OCTOBER 2006

Type of Security: 3.05% 5 year Unsecured Convertible Redeemable Income Securities 2004 - 2009 (CRIS) with nominal value of RM1.00 each

Voting Right: None until upon conversion into Ordinary Shares of RM1.00 each

### DISTRIBUTION OF CRIS HOLDINGS AS AT 17 OCTOBER 2006

Category	No. of CRIS Holders	% of CRIS Holders	Nominal Value of CRIS (RM)	% of CRIS Issued
Less than 100 CRIS	0	0.00	0	0.00
100 - 1,000 CRIS	7	4.46	4,000	0.00
1,001 - 10,000 CRIS	30	19.12	192,000	0.10
10,001 - 100,000 CRIS	38	24.20	2,034,400	1.05
100,001 to less than 5% of issued CRIS	77	49.04	103,521,400	53.40
5% and above of issued CRIS	5	3.18	88,124,400	45.45
	157	100.00	193,876,200	100.00

### SUBSTANTIAL CRIS HOLDERS (5 PER CENT AND MORE)

Name of CRIS Holders	Nominal Value of CRIS (RM)	Percentage
1 Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad for Public Bond Fund (N14011960380)	34,873,400	17.99
2 Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad for Public Regular Savings Fund (N14011940100)	17,025,000	8.78
3 Amanah Raya Nominees (Tempatan) Sdn Bhd Public Savings Fund	15,999,100	8.25
4 Amanah Raya Nominees (Tempatan) Sdn Bhd Public Dividend Select Fund	10,226,900	5.27
5 Malaysia National Insurance Berhad	10,000,000	5.16
	88,124,400	45.45





## ANALYSIS OF CRIS HOLDINGS

### LIST OF 30 LARGEST CRIS HOLDERS AS AT 17 OCTOBER 2006

	Name of CRIS Holders	Nominal Value of CRIS (RM)	Percentage
1	Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad for Public Bond Fund (N14011960380)	34,873,400	17.99
2	Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad for Public Regular Savings Fund (N14011940100)	17,025,000	8.78
3	Amanah Raya Nominees (Tempatan) Sdn Bhd Public Savings Fund	15,999,100	8.25
4	Amanah Raya Nominees (Tempatan) Sdn Bhd Public Dividend Select Fund	10,226,900	5.27
5	Malaysia National Insurance Berhad	10,000,000	5.16
6	Citigroup Nominees (Tempatan) Sdn Bhd ING Insurance Berhad (INV-IL PAR)	8,911,800	4.60
7	AMMB Nominees (Tempatan) Sdn Bhd Amtrustee Berhad for HLG Dividend Fund (HLGDF)	8,884,300	4.58
8	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (PAR 1)	6,800,000	3.51
9	Hong Leong Assurance Berhad As Beneficial Owner (Life Par)	6,500,000	3.35
10	Amanah Raya Nominees (Tempatan) Sdn Bhd PB Fixed Income Fund	6,374,900	3.29
11	Amanah Raya Nominees (Tempatan) Sdn Bhd Public Far-East Select Fund	5,374,200	2.77
12	AMMB Nominees (Tempatan) Sdn Bhd Amassurance Berhad (LF 1/148-1)	5,000,000	2.58
13	Amanah Raya Nominees (Tempatan) Sdn Bhd Public Enhanced Bond Fund	4,790,400	2.47
14	Amanah Raya Nominees (Tempatan) Sdn Bhd Public Growth Fund	4,603,700	2.37
15	Amanah Raya Nominees (Tempatan) Sdn Bhd Kumpulan Wang Bersama	3,000,000	1.55





## ANALYSIS OF CRIS HOLDINGS

Name of CRIS Holders	Nominal Value of CRIS (RM)	Percentage
16 Hong Leong Assurance Berhad As Beneficial Owner (Life Ann Par)	2,500,000	1.29
17 Hong Leong Assurance Berhad As Beneficial Owner (Life Non Par)	2,500,000	1.29
18 CIMSEC Nominees (Tempatan) Sdn Bhd CIMB for Ku Tien Sek (PB)	2,500,000	1.29
19 Hong Leong Assurance Berhad As Beneficial Owner (General Npar)	2,000,000	1.03
20 Hong Leong Assurance Berhad As Beneficial Owner (Unitlinked OP)	2,000,000	1.03
21 CIMSEC Nominees (Tempatan) Sdn Bhd CIMB for Lim Ka Kian (PB)	1,800,000	0.92
22 CIMSEC Nominees (Tempatan) Sdn Bhd CIMB Bank Berhad (ETP)	1,750,000	0.90
23 Mayban Nominees (Tempatan) Sdn Bhd Mayban Life Assurance Berhad (Par Fund)	1,640,000	0.85
24 HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for OSK-UOB Kidsave Trust (3621)	1,544,000	0.80
25 Mayban Trustees Berhad Strategic Bond Fund	1,510,000	0.78
26 Jerneh Insurance Bhd	1,460,000	0.75
27 HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for OSK-UOB Income Fund (4314)	1,220,000	0.63
28 Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad for Income Plus Fund (N14011980070)	1,000,000	0.52
29 Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad for Balanced Returns Fund (N14011980060)	1,000,000	0.52
30 Amsec Nominees (Tempatan) Sdn Bhd Ammerchant Bank Bhd for Tan Kim Kuan @ Tan Kim Chin	1,000,000	0.52
	173,787,700	89.64



# PROPERTIES LIST

## RESIDENTIAL

Nature of Functional Activity	LAND									BUILDINGS			Description
	Leasehold			Freehold			Total No. of Lots (1+4)	Total Area (sq M) (2+5)	Total NBV (RM'000) (3+6)	No. (10)	Built-Up Area (sq M) (11)	Total NBV (RM'000) (12)	(13)
Residential and others	No. of Lots (1)	Area (sq M) (2)	NBV (RM'000) (3)	No. of Lots (4)	Area (sq M) (5)	NBV (RM'000) (6)							
Location													
Perlis	1	1,037	336	6	50,816	1,987	7	51,853	2,323	13	6,151	6,456	Residential Houses, Holiday Bungalows, Office Buildings, Main Store and Warehouse
Kedah	5	43,983	2,595	29	259,202	22,711	34	303,185	25,306	42	39,168	25,958	
Pulau Pinang	8	26,829	5,515	26	373,623	36,854	34	400,452	42,369	54	13,628	142,701	
Perak	37	78,110	3,188	53	1,074,710	28,544	90	1,152,820	31,732	115	134,749	67,096	
Selangor	37	33,010,358	166,685	48	780,830	108,737	85	33,791,188	275,422	324	80,974	1,063,845	
W.Persekutuan	3	18,757	7,336	13	82,126	133,751	16	100,883	141,087	115	136,326	149,273	
Putrajaya/Cyberjaya	-	-	-	-	-	-	-	-	-	-	-	-	
N.Sembilan	10	113,329	2,097	28	359,906	29,597	38	473,235	31,694	71	132,894	62,511	
Melaka	4	99,097	8,723	20	142,288	9,582	24	241,385	18,305	30	28,635	10,442	
Johor	23	384,439	37,612	49	773,793	22,953	72	1,158,232	60,565	119	76,373	69,445	
Pahang	22	756,348	15,211	24	67,598	8,419	46	823,946	23,630	92	76,822	144,107	
Terengganu	25	3,306,420	30,639	4	1,922	2,362	29	3,308,342	33,001	53	47,434	69,340	
Kelantan	11	229,863	7,615	22	87,845	5,822	33	317,708	13,437	54	322,636	61,740	
Sabah	5	122,369	3,275	2	59,490	10,043	7	181,859	13,318	12	33,500	20,546	
Pakistan	-	-	-	1	856,206	3,101	1	856,206	3,101	3	12,713	2,428	
Kalimantan*	-	-	-	-	-	766	-	-	766	-	-	-	
Total	191	38,190,939	290,827	325	4,970,355	425,229	516	43,161,294	716,056	1,097	1,142,003	1,895,888	

**Note :**

### RESIDENTIAL

'Residential Property' includes staff quarters, holiday bungalows and apartments. 'Others' include office buildings, main store and warehouse.

\* Land Area for holding overburdened soil during coal mining.

**Note : NBV - Net Book Value**





## PROPERTIES LIST

### GENERATION

Nature of Functional Activity	LAND									BUILDINGS			Description
	Leasehold			Freehold			Total No. of Lots (1 +4)	Total Area (sq M) (2+5)	Total NBV (RM'000) (3+6)	No. (10)	Built-Up Area (sq M) (11)	Total NBV (RM'000) (12)	(13)
Generation	No. of Lots (1)	Area (sq M) (2)	NBV (RM'000) (3)	No. of Lots (4)	Area (sq M) (5)	NBV (RM'000) (6)							
Location													
Perlis	-	-	-	2	1,499	52	2	1,499	52	-	-	-	Office Buildings, Stores, Jetties, Power Stations, Rural Power Stations, Dams and Mini Hydros
Kedah	2	1,676	29	6	22,280	6,047	8	23,956	6,076	21	2,493	6,006	
Pulau Pinang	1	16,226	11,565	2	67,726	2,136	3	83,952	13,701	12	10,258	159,618	
Perak	8	2,933,400	137,382	10	1,684,595	63,916	18	4,617,995	201,298	114	80,378	596,205	
Selangor	5	16,892,869	128,180	4	514,707	54,611	9	17,407,576	182,791	37	11,688	922,920	
W.Persekutuan	-	-	-	-	-	-	-	-	-	10	150	7,471	
Putrajaya/Cyberjaya	-	-	-	-	-	-	-	-	-	-	-	-	
N.Sembilan	4	170,812	4,244	1	13,550	1,657	5	184,362	5,901	20	3,257	168,242	
Melaka	-	-	-	-	-	-	-	-	-	-	-	-	
Johor	3	89,012	13,390	2	167,515	14,086	5	256,527	27,476	27	9,850	70,618	
Pahang	47	230,588	213	58	98,742	8,677	105	329,330	8,890	137	2,755	39,105	
Terengganu	45	239,386	17,095	48	28,817	13,938	93	268,203	31,033	89	12,316	461,222	
Kelantan	75	76,498	565	39	56,539	1,348	114	133,037	1,913	89	4,444	883,920	
Sabah	23	5,462,413	6,893	18	4,017,445	5,769	41	9,479,858	12,662	50	11,000	193,499	
Total	213	26,112,880	319,556	190	6,673,415	172,237	403	32,786,295	491,793	606	148,589	3,508,826	

**Note :**

### GENERATION

Electricity is produced through a process of converting other forms of energy into electrical energy. This conversion process is known as generation and is mainly carried out at power stations.

In addition, a number of mini hydro stations and numerous diesel generating sets are operated by TNB.

**Note : NBV - Net Book Value**





## PROPERTIES LIST

### TRANSMISSION

Nature of Functional Activity	LAND									BUILDINGS			Description
	Leasehold			Freehold			Total No. of Lots (1 +4)	Total Area (sq M) (2+5)	Total NBV (RM'000) (3+6)	No. (10)	Built-Up Area (sq M) (11)	Total NBV (RM'000) (12)	(13)
Transmission	No. of Lots (1)	Area (sq M) (2)	NBV (RM'000) (3)	No. of Lots (4)	Area (sq M) (5)	NBV (RM'000) (6)							
Location													
Perlis	4	110,024	1,073	2	15,860	474	6	125,884	1,547	16	3,145	67,750	Main Intake Substations
Kedah	12	445,892	3,619	8	71,451	36,292	20	517,343	39,911	52	7,694	167,748	
Pulau Pinang	15	1,311,447	8,449	9	114,908	4,548	24	1,426,355	12,997	31	3,653	161,067	
Perak	10	157,193	1,560	9	26,438	10,656	19	183,631	12,216	37	8,146	240,222	
Selangor	20	257,523	25,516	26	92,713	34,599	46	350,236	60,115	91	13,673	575,629	
W.Persekutuan	10	176,794	11,450	10	79,800	12,114	20	256,594	23,564	31	7,740	323,011	
Putrajaya/Cyberjaya	-	-	-	-	-	-	-	-	-	-	-	-	
N.Sembilan	13	688,904	6,983	11	87,029	4,620	24	775,933	11,603	38	3,836	121,275	
Melaka	6	59,717	1,387	17	20,627	13,326	23	80,344	14,713	34	7,167	75,041	
Johor	30	554,552	22,917	34	64,522	15,149	64	619,074	38,066	81	9,027	707,354	
Pahang	8	86,487	959	17	155,835	4,275	25	242,322	5,234	35	2,934	160,065	
Terengganu	5	170,622	3,503	-	-	-	5	170,622	3,503	22	3,544	71,337	
Kelantan	3	95,628	1,914	6	176,029	2,542	9	271,657	4,456	24	5,551	59,299	
Sabah	3	30,904	1,655	1	14,165	134	4	45,069	1,789	13	3,600	25,370	
Total	139	4,145,687	90,985	150	919,377	138,729	289	5,065,064	229,714	505	79,710	2,755,168	

**Note :**

#### TRANSMISSION

Transmission activity relates to the process of transmitting electricity generated at power stations to the load centres where it is required, eg. townships, industrial growth centres and major customers.

A network of transmission lines, forming the National Grid, is required for this purpose. At appropriate sites, transmission substation are constructed to channel electricity from the National Grid to the numerous load centres. The transmission system operates at voltage levels of 500 kV, 275 kV, 132 kV and 66 kV.

**Note : NBV - Net Book Value**





## PROPERTIES LIST

### DISTRIBUTION

Nature of Functional Activity	LAND									BUILDINGS			Description
	Leasehold			Freehold			Total No. of Lots	Total Area (sq M)	Total NBV (RM'000)	No.	Built-Up Area (sq M)	Total NBV (RM'000)	
Distribution	No. of Lots (1)	Area (sq M) (2)	NBV (RM'000) (3)	No. of Lots (4)	Area (sq M) (5)	NBV (RM'000) (6)							(13)
Location													
Perlis	35	16,378	462	44	71,964	1,352	79	88,342	1,814	52	1,200	5,045	Distribution Substations
Kedah	167	296,580	5,146	311	510,601	33,173	478	807,181	38,319	208	46,250	40,215	
Pulau Pinang	106	71,696	7,916	361	131,413	24,270	467	203,109	32,186	173	12,880	25,480	
Perak	530	563,012	9,442	228	528,843	11,637	758	1,091,855	21,079	272	12,617	46,863	
Selangor	419	201,800	38,619	530	482,718	77,575	949	684,518	116,194	676	121,313	177,399	
W.Persekutuan	169	122,882	40,015	130	122,976	28,149	299	245,858	68,164	237	16,820	339,095	
Putrajaya/Cyberjaya	-	-	-	-	-	-	-	-	-	6	-	28,618	
N.Sembilan	234	108,319	2,919	146	40,826	2,830	380	149,145	5,749	120	6,872	6,219	
Melaka	207	80,639	6,009	231	67,681	23,553	438	148,320	29,562	154	6,136	6,375	
Johor	637	464,188	25,760	632	388,894	35,295	1,269	853,082	61,055	452	19,774	40,939	
Pahang	197	157,472	6,059	181	94,830	2,480	378	252,302	8,539	143	9,957	30,204	
Terengganu	173	638,856	4,817	86	41,337	1,083	259	680,193	5,900	118	4,508	18,697	
Kelantan	165	493,617	4,521	186	236,271	5,981	351	729,888	10,502	137	67,062	10,522	
Sabah	51	637,841	3,746	37	173,243	1,881	88	811,084	5,627	306	84,500	24,615	
Total	3,090	3,853,280	155,431	3,103	2,891,597	249,259	6,193	6,744,877	404,690	3,054	409,889	800,286	

**Note :**

#### DISTRIBUTION

The distribution process begins at the termination of the transmission line where distribution substations step down voltage to enable electricity to be distributed to TNB's customers.

The distribution system consists of distribution substations, overhead lines and underground cables operating at voltage levels of 33 kV and below.

**Note : NBV - Net Book Value**





magnificence and precision



Number of Ordinary Share(s) held	
CDS Account No.:	



**PROXY  
FORM**

I/We, \_\_\_\_\_ NRIC No./Passport No./Co.No. \_\_\_\_\_  
(FULL NAME IN CAPITAL)  
 of \_\_\_\_\_ being a Member/Members of Tenaga Nasional Berhad,  
(ADDRESS)  
 hereby appoint \_\_\_\_\_ NRIC No./Passport No./Co.No. \_\_\_\_\_  
(FULL NAME IN CAPITAL)  
 of \_\_\_\_\_  
(ADDRESS)  
 or failing him/her \_\_\_\_\_ NRIC No./Passport No./Co.No. \_\_\_\_\_  
(FULL NAME IN CAPITAL)  
 of \_\_\_\_\_  
(ADDRESS)

Or failing him/her, the Chairman of the Meeting, as my/our proxy, to vote for me/us, and on my/our behalf at **THE SIXTEENTH ANNUAL GENERAL MEETING of TENAGA NASIONAL BERHAD** to be held at Dewan Serbaguna, Kompleks Sukan TNB, Jalan Pantai Baru, 59200 Kuala Lumpur on Thursday, 14 December 2006, at 11.00 am and/or at any adjournment thereof.

My/Our proxy is to vote as indicated below:

			FOR	AGAINST
1.	<b>ORDINARY RESOLUTION 1</b>	Receive the Directors' and Auditor's Reports and Audited Financial Statements for the Financial Year ended 31 August 2006	<input type="checkbox"/>	<input type="checkbox"/>
2.	<b>ORDINARY RESOLUTION 2</b>	Declaration of Dividend	<input type="checkbox"/>	<input type="checkbox"/>
3.	<b>ORDINARY RESOLUTION 3</b>	Payment of Directors' Fees	<input type="checkbox"/>	<input type="checkbox"/>
4.	<b>ORDINARY RESOLUTION 4</b>	Re-election of Tan Sri Datuk Amar Leo Moggie	<input type="checkbox"/>	<input type="checkbox"/>
5.	<b>ORDINARY RESOLUTION 5</b>	Re-election of Datuk Mohd Zaid bin Ibrahim	<input type="checkbox"/>	<input type="checkbox"/>
6.	<b>ORDINARY RESOLUTION 6</b>	Re-election of Dato' Puteh Rukiah binti Abd Majid	<input type="checkbox"/>	<input type="checkbox"/>
7.	<b>ORDINARY RESOLUTION 7</b>	Re-appointment of Messrs PricewaterhouseCoopers as the Company's Auditors	<input type="checkbox"/>	<input type="checkbox"/>
<b>SPECIAL BUSINESS:</b>				
8.	<b>ORDINARY RESOLUTION 8</b>	Issuance of Shares Pursuant to Employees' Share Option Scheme II (ESOS II)	<input type="checkbox"/>	<input type="checkbox"/>
9.	<b>ORDINARY RESOLUTION 9</b>	Issuance of New Shares Pursuant to Section 132D, Companies Act, 1965	<input type="checkbox"/>	<input type="checkbox"/>
10.	<b>ORDINARY RESOLUTION 10</b>	Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions (RRPT) of a Revenue or Trading Nature Entered With Persons Connected to Khazanah Nasional Berhad (Khazanah)	<input type="checkbox"/>	<input type="checkbox"/>
11.	<b>ORDINARY RESOLUTION 11</b>	Proposed Shareholders' Mandate for RRPT of a Revenue or Trading Nature Entered With Persons Connected to Khazanah	<input type="checkbox"/>	<input type="checkbox"/>
12.	<b>SPECIAL RESOLUTION 1</b>	Proposed Amendment to the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>

*(Please indicate "X" in the appropriate box against each Resolution as to how you wish your proxy/proxies to vote. If no voting instruction is given, this form will be taken to authorise the proxy/proxies to vote at his/her discretion).*

Dated: \_\_\_\_\_ December 2006

\_\_\_\_\_  
Signature of Shareholder(s) or Common Seal

**NOTES –**

- Any member entitled to attend and vote at this Meeting of the Company is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the Company.
- The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly appointed under a power of attorney. Where the instrument appointing a proxy/proxies is executed by a corporation, it shall be executed either under its common seal or under the hand of any officer or attorney duly appointed under a power of attorney.
- Where a member appoints another person or persons as his proxy, the appointment shall be invalid unless the percentage of the holding to be represented by each proxy is specified.
- A corporation which is a member, may by resolution of its Directors or other governing body authorise such person as it thinks fit to act as its representative at the Meeting, in accordance with Article 107(6) of the Company's Articles of Association.
- The instrument appointing a proxy/proxies must be deposited at Symphony Share Registrars Sdn. Bhd., Level 26, Menara Multi-Purpose, Capital Square, Jalan Munshi Abdullah, 50100 Kuala Lumpur, not less than forty-eight (48) hours before the time set for the Meeting.



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Stamp

**The Registrar of Tenaga Nasional Berhad**  
Symphony Share Registrars Sdn. Bhd.  
Level 26, Menara Multi-Purpose  
Capital Square  
Jalan Munshi Abdullah  
50100 Kuala Lumpur

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