SIARAN AKHBAR

PRESS STATEMENT

EMBARGO

NOT TO BE PUBLISHED BEFORE 5.00 PM, 19TH JANUARY 2009

S.A. 2009/01/01 (HQ)

DECLINING PROFITS RESULTING FROM LOWER DEMAND GROWTH, HIGHER COAL PRICES AND WEAKER RINGGIT

- **Net profit of RM495.6million before forex translation**
- **27.2% increase in Group Revenue against a 48.9% increase in Operating Expenses**
- **1.1% Unit electricity demand growth in Peninsular Malaysia**
- **Average coal price USD113.9/mt**
- **EBITDA margin at 21.5% compared to 40.3% for the corresponding period in FY2008**

Tenaga Nasional Berhad (TNB) today announced a net loss after tax of RM944.1 million after accounting for a foreign exchange translation loss of RM1,439.7 million, for the 1st Quarter of the financial year ending 31 August 2009 (FY2009). The Group's performance reflects the combined impact of lower demand growth, higher fuel costs and the weaker Ringgit against both the US Dollar and Japanese Yen.

While the Group reported a 27.2% increase in total revenue principally from the impact of the tariff adjustment effective from 1 July 2008, electricity demand growth in Peninsular Malaysia for the 1st Quarter of FY2009 was at a low of 1.1%, year on year. The lower growth was reaffirmed by the latest Malaysian industrial production index (IPI) indicators released, which reported a decline of 1.7%, 2.9% and 7.7% in September, October and November 2008 respectively.

Commenting on the Group's electricity demand growth, TNB's Chairman, Tan Sri Datuk Amar Leo Moggie highlighted that, "the lower demand in Peninsular Malaysia was principally recorded in the industrial sector which recorded a negative growth of 1.7% and seems to indicate a substantial loss of exports momentum especially as a result of the global economic slowdown."

At the operating level, IPP and fuel cost reported a 60.9% increase from the higher gas and coal prices incurred during the period. Although the July 2008 tariff adjustment had enabled TNB to recover the full increase in gas price from RM6.40/mmbtu to RM14.31/mmbtu, it only provides for recovery of coal prices up to USD75/mt or equivalent RM247.5/mt (based on the prevailing USD/RM exchange rate in July 2008 of USD1:RM3.3). The quarter under review however reported average coal price at USD113.9/mt or equivalent RM410/mt (based on an average USD/RM exchange rate of USD1:RM3.6). Consequently, the Group's EBITDA margin deteriorated to 21.5% from 40.3% reported for the corresponding period in FY2008.

TNB's President/Chief Executive Officer, Dato' Sri Che Khalib Mohamad Noh commented that "the underlying factor which contributed to the Group's deterioration in earnings is the inability to recover the higher cost of coal. While it is true that coal prices have eased off and current spot prices indicate a level ranging between USD85–100.0/mt (including insurance and freight), but coal supply contracted today will only be delivered after February 2009."

At Group level, after accounting for depreciation and finance cost, profit before tax and forex translation dropped by 52.4% to RM667.0 million whilst the weaker Ringgit against both the US Dollar and Japanese Yen resulted in a forex translation loss of RM1,439.7 million giving rise to the net loss of RM944.1 million.

Dato' Sri Che Khalib further added that "under the current global economic conditions and volatility of currencies worldwide, the Malaysian Ringgit too has not been spared. We have been affected not only from our exposure to a basket of foreign currency debt but also the higher cost of settling our coal purchases and equipment purchases which are denominated in US Dollars".

As in previous years, the Group reported its Headline Key Performance Indicators ("KPIs") for FY2009. Tan Sri Leo added that "our continued quest will be towards further improving the efficiency of our operations and financial fundamentals whilst providing high quality and reliability services to our customers, in line with our target for Service Excellence by 2010 ("SE 10/10"). As for Company-Wide Initiatives, the focus for the year will be "sustainability" and to this effect, "Operations Trim X" has been launched throughout the organisation with the objective of optimising cost and value without compromising product & service quality and operational capability. Opportunities that have been identified include trimming wastage and excess from staff traveling expenses, over stocking of inventory, and rentals whilst in terms of productivity, opportunities are being identified to further improve operational efficiency by cutting down on over-production, eliminating idle process time and ineffective monitoring and supervision time. "

As mentioned by Malaysian Rating Corporation Berhad in their report, the recession in the advanced economies will set the tone for global economic outlook in 2009, and the extent to which fiscal pump priming and monetary easing measures will be effective will determine whether the world economy can be back on its feet. Against this backdrop, the prospects for the Malaysian economy will, to a large extent, depend on the sustainability of domestic demand and the strength of private consumption. Growth catalyst for the economy would, to a large extent, depend on the Government's stimulus package.

Electricity is the pulse of the country's development and productivity and for TNB, electricity demand growth is the key driver for revenue growth. At the operating level though, the Group continues to be plagued by issues of sustainability as a result of the inability to fully recover "uncontrollable costs" in particular coal and IPP expenditure especially in a volatile market.

The quarter under review reported a 61.1% decline in net profit before forex translation as a consequence of lower demand growth and higher operating costs incurred for the period.

Industrial activity during the month of December 2008 showed a decline, with the key sectors of manufacturing, construction, steel, wood and plastics cutting down on production. This was made worse by the prolonged closure during the festive holidays, which will again be featured in the next quarter. Global economic activities remain turbulent with major financial institutions and other industrial sectors reporting losses in recent months, whilst Governments of major economies continue to provide economic stimulus and providing financial support to their banking systems and the general economy.

Given the declining domestic economic activities, as evident from the recent IPI data released, demand growth for the full year FY2009 is expected to trend lower compared to the previous year. Whilst coal prices may ease slightly from the USD113.9/mt reported for the quarter, the weakening Ringgit will continue to keep coal price (and operating expenditure) high.

Further, the Group's profitability will continue to face downward pressure from higher capacity payments to IPPs particularly with the commissioning of 700MW of the Jimah Power Plant on 1 January 2009 and the remaining 700MW in July 2009. The capacity payment for the Jimah Power plant will rise to approximately RM1.0 billion by 2011. This represents an increase in TNB's fixed cost whereas the additional capacity could not be optimally utilized particularly with the lower demand growth which will erode the operating margin of the Group.

In addition, the Group's bottom line would also be adversely affected if the Ringgit continues to weaken against the US Dollar and Japanese Yen with higher interest payments for foreign currency loans.

Given the foregoing scenario, the Board of Directors is of the view that the Group's financial performance for FY2009 will likely be worse.

<u>Released in Kuala Lumpur on 19 January 2009</u>

Kindly forward all press enquiries to Mohd. 'Arshi Mat Daud at 019-2338727
or Arziril Alim Azizi at 019-2686630 or Hanim Idris at 019-2617617

Financial Highlights

RM' Million	3 months ended 30 November FY2009	3 months ended 30 November FY2008
Total Revenue	7,895.0	6,208.3
Operating Expenses	(7,060.6)	(4,742.6)
Other Operating Income	108.0	216.7
Operating Surplus (EBIT)	942.4	1,682.4
Finance Cost	(285.2)	(290.0)
Forex Translation (loss)/gain	(1,439.7)	242.4
Net Profit (before forex translation gain)	495.6	1,272.5
Net Profit/(Loss) Attributable to Shareholders	(944.1)	1,514.9
Basic (Loss)/Earnings per share	(21.78) sen	34.97 sen

About Tenaga Nasional Berhad

TNB's core activities are in the generation, transmission, and distribution of electricity. In addition to being the nation's primary electricity generation enterprise, TNB also transmits and distributes all the electricity in Peninsular Malaysia, Sabah and Federal Territory of Labuan. As at 31 August 2008, TNB supplies electricity to approximately 7.3 million customers.

TNB, through its subsidiaries, is also involved in the manufacturing of transformers, high voltage switchgears and cables; the provider of professional consultancy services, construction and operating and maintenance of district cooling facilities, generation equipment, repair and maintenance, fuel supply services; services related to renewable energy, energy efficiency and power quality; higher education and skill training and undertakes research and development.

As an integrated electricity provider, TNB has and will continue to meet its crucial role in powering the nation's progress.

For further information, please visit www.tnb.com.my