

The Board of Directors is pleased to announce the following:

**A. UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE 2nd QUARTER ENDED 28 FEBRUARY 2007**

(Amounts in RM million unless otherwise stated)

	INDIVIDUAL QUARTER		CUMULATIVE	
	CURRENT YEAR QUARTER 28.02.2007	PRECEDING YEAR CORRESPONDING QUARTER 28.02.2006	CURRENT YEAR TO DATE 28.02.2007	PRECEDING YEAR CORRESPONDING PERIOD 28.02.2006
Revenue	5,682.0	4,831.4	11,283.7	9,742.8
Operating expenses	(4,292.2)	(4,147.4)	(8,544.9)	(8,239.8)
Other operating income	123.6	118.4	266.6	222.0
Operating profit	1,513.4	802.4	3,005.4	1,725.0
Foreign exchange				
- Translation gain	428.7	116.5	614.9	479.0
- Transaction gain/(loss)	8.9	9.6	(17.2)	(131.3)
Share of results of associates (net of tax)	23.5	-	23.2	6.5
Profit before finance cost	1,974.5	928.5	3,626.3	2,079.2
Finance cost	(323.4)	(385.9)	(637.6)	(789.0)
Profit from ordinary activities before taxation	1,651.1	542.6	2,988.7	1,290.2
Taxation				
- Company and subsidiaries	(241.7)	(117.0)	(508.0)	(133.0)
- Deferred taxation	165.4	(26.7)	341.9	(153.8)
Profit for the period	1,574.8	398.9	2,822.6	1,003.4
Attributable to:				
- Equity holders of the Company	1,554.8	399.5	2,801.0	995.1
- Minority interest	20.0	(0.6)	21.6	8.3
	1,574.8	398.9	2,822.6	1,003.4
	<b>Sen</b>	<b>Sen</b>	<b>Sen</b>	<b>Sen</b>
Earnings per share-Basic	36.30	9.88	66.15	24.64
Earnings per share-Diluted	35.70	9.77	64.27	24.23

The unaudited Condensed Consolidated Income Statements should be read in conjunction with the annual audited financial statements for the financial year ended 31 August 2006.

**B. UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 28 FEBRUARY 2007**  
(Amounts in RM million unless otherwise stated)

	<b>28-Feb-07</b>	<b>31-Aug-06</b> (Restated)
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	54,789.3	54,344.5
Prepaid operating lease payment	848.6	856.8
Coal mining rights	274.5	279.9
Associates	219.0	200.6
Investments	38.0	38.0
	<u>56,169.4</u>	<u>55,719.8</u>
<b>CURRENT ASSETS</b>		
Inventories	2,158.7	1,931.8
Trade receivables	2,091.9	1,852.1
Other receivables	1,605.5	1,563.3
Current tax assets	8.7	10.0
Amount owing from associates	44.5	43.6
Short term investments	12.6	12.6
Marketable securities	10.8	9.2
Deposits, bank and cash balances	4,837.2	3,949.7
Assets held for sale	40.7	-
	<u>10,810.6</u>	<u>9,372.3</u>
<b>CURRENT LIABILITIES</b>		
Trade payables	(2,570.4)	(2,488.8)
Other payables	(1,538.5)	(1,244.7)
Amount owing to associates	(209.5)	(212.4)
Current taxation	(591.5)	(184.6)
Short term borrowings	(2,335.2)	(2,534.7)
	<u>(7,245.1)</u>	<u>(6,665.2)</u>
<b>NET CURRENT ASSETS</b>	3,565.5	2,707.1
<b>LONG TERM LIABILITIES</b>		
Borrowings	(22,150.7)	(24,580.9)
Consumer deposits	(2,188.1)	(2,147.7)
Employee benefits	(2,525.3)	(2,314.1)
Other liabilities	(79.2)	(72.3)
Deferred taxation	(6,048.3)	(6,424.6)
Deferred income	(2,714.5)	(2,675.8)
Government development grants	(642.8)	(665.0)
	<u>(36,348.9)</u>	<u>(38,880.4)</u>
	<u>23,386.0</u>	<u>19,546.5</u>
<b>FINANCED BY:</b>		
Share capital	4,312.3	4,135.2
Share premium	5,116.6	3,912.9
Revaluation and other reserves	971.5	882.6
Retained profits	12,842.7	10,494.5
<b>SHAREHOLDERS' FUNDS</b>	<u>23,243.1</u>	<u>19,425.2</u>
Minority interests	142.9	121.3
	<u>23,386.0</u>	<u>19,546.5</u>
<b>NET ASSETS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>	Sen 539	Sen 470

The unaudited Condensed Consolidated Balance Sheets should be read in conjunction with the annual audited financial statements for the financial year ended 31 August 2006.

### C. UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY AS AT 28 FEBRUARY 2007

(Amounts in RM million unless otherwise stated)

	Non-distributable				Distributable		Total
	Ordinary Shares of RM1.00 each	Share premium	Employees' Share Option Scheme Reserves	Revaluation and other reserves	Retained profits	Minority Interest	
As at 1 September 2006	4,135.2	3,912.9	-	843.6	10,533.5	121.3	19,546.5
PYA-Value of employee services (FRS 2)	-	-	39.0	-	(39.0)	-	-
As at 1 September 2006 (Restated)	4,135.2	3,912.9	39.0	843.6	10,494.5	121.3	19,546.5
Currency translation differences	-	-	-	88.1	-	-	88.1
Net profit for the 6-month period	-	-	-	-	2,801.0	21.6	2,822.6
Dividends paid	-	-	-	-	(459.7)	-	(459.7)
Provision for share option	-	-	7.7	-	-	-	7.7
Issuance of share capital - share options *	177.1	1,203.7	-	-	-	-	1,380.8
Realisation of revaluation reserve	-	-	-	(6.9)	6.9	-	-
As at 28 February 2007	<u>4,312.3</u>	<u>5,116.6</u>	<u>46.7</u>	<u>924.8</u>	<u>12,842.7</u>	<u>142.9</u>	<u>23,386.0</u>

\* Share options comprising:-

- Exercise of options representing 52,015,787 ordinary shares of RM1 each in TNB under the Employee Share Option Scheme II ("ESOS II");
- Conversion of TNB Capital (L) Ltd.'s Guaranteed Exchangeable Bonds into a total of 114,699,925 ordinary shares of RM1 each in TNB; and
- Conversion of Unsecured Convertible Redeemable Income Securities (CRIS) into a total of 10,417,446 ordinary shares of RM1 each in TNB.

	Non-distributable				Distributable		Total
	Ordinary Shares of RM1.00 each	Share premium	Employees' Share Option Scheme Reserves	Revaluation and other reserves	Retained profits	Minority Interest	
As at 1 September 2005	3,220.7	3,989.6	-	844.7	8,030.5	115.3	16,200.8
Reclassification adjustment	-	-	-	4.2	(4.2)	-	-
	3,220.7	3,989.6	-	848.9	8,026.3	115.3	16,200.8
Currency translation differences	-	-	-	17.3	-	-	17.3
Net profit for the 6-month period	-	-	-	-	995.1	8.3	1,003.4
Dividends paid	-	-	-	-	(279.4)	-	(279.4)
Issuance of share capital - share options	14.1	105.0	-	-	-	-	119.1
Additional to revaluation reserve	-	-	-	4.2	-	-	4.2
As at 28 February 2006	<u>3,234.8</u>	<u>4,094.6</u>	<u>-</u>	<u>870.4</u>	<u>8,742.0</u>	<u>123.6</u>	<u>17,065.4</u>

The unaudited Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the annual audited financial statements for the financial year ended 31 August 2006.

**D. UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 28 FEBRUARY 2007**

(Amounts in RM million unless otherwise stated)

	<b>2nd Quarter ended 28-Feb-07</b>	<b>2nd Quarter ended 28-Feb-06</b>
<b>Operating activities</b>		
Cash generated from operations	4,431.7	2,696.4
Retirement benefits paid	(110.0)	(96.6)
Consumer contributions received	229.8	193.1
Customer deposits received	40.3	94.7
Tax paid	(133.4)	(54.6)
Tax refund received	(0.1)	-
Net cash inflow from operating activities	<u>4,458.3</u>	<u>2,833.0</u>
<b>Investing activities</b>		
Proceeds from redemption of RULS in Associates	4.8	-
Investments:		
- proceeds from redemption of RULS in subsidiary	4.2	-
- dividend income received	-	1.1
Interest income received	120.1	52.3
Property, plant and equipment:		
- purchases	(1,857.4)	(1,455.7)
- disposals	0.1	0.2
Net cash flow from investing activities	<u>(1,728.2)</u>	<u>(1,402.1)</u>
<b>Financing activities</b>		
Bank borrowings:		
- new drawdowns	294.0	1,592.4
- repayments	(2,308.8)	(1,305.2)
Interest paid	(742.0)	(859.2)
Dividends paid	(459.7)	(279.4)
Proceeds from issuance of shares	1,380.8	119.1
Purchase loan stocks from minority interest	-	1.6
Others	(68.0)	(1.2)
Net cash flow from financing activities	<u>(1,903.7)</u>	<u>(731.9)</u>
<b>Changes in cash and cash equivalents</b>	826.4	699.0
<b>Currency translation differences</b>	(7.0)	(2.3)
<b>Cash and cash equivalents</b>		
- at start of period	3,936.7	2,833.4
- at end of period	<u>4,756.1</u>	<u>3,530.1</u>

The unaudited Condensed Consolidated Cash Flow Statements should be read in conjunction with the annual audited financial statements for the financial year ended 31 August 2006.

## **E. EXPLANATORY NOTES**

(Amounts in RM million unless otherwise stated)

### **1) BASIS OF PREPARATION**

The unaudited condensed interim financial statements of the Group have been prepared in accordance with Financial Reporting Standards (FRS) 134 "Interim Financial Reporting", paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad, and should be read in conjunction with the Group's audited financial statements for the year ended 31 August 2006.

The accounting policies, method of computation and basis of consolidation applied in the unaudited condensed interim financial statements are consistent with those used in the preparation of the FY2006 audited financial statements except for the changes arising from the adoption of the new and revised FRSs issued by MASB that are effective for financial year beginning on or after 1 January 2006. The new and revised FRSs adopted in this announcement are as follows:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-Current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

In addition to the above, the Group has also opted for early adoption of FRS 117 – Leases.

The adoption of FRS 3, 102, 108, 110, 116, 121, 127, 128, 131, 133, 136, 138 and 140 do not have a significant financial impact to the Group.

Standards currently in issue and adopted in Malaysia are subject to interpretations issued from time to time, and further standards may be issued, by the Malaysian Accounting Standards Board that will be adopted for our financial years beginning on or after 1 September 2006. The interpretation and application of these accounting standards are continuing to evolve locally and internationally. Therefore, the full financial effect of reporting under FRS as it will be applied and reported on in the Group's first FRS Financial Statements for the year ending 31 August 2007 may be subject to change.

## 1) **BASIS OF PREPARATION (continued)**

Listed below are the changes to the accounting policies, presentation and disclosures to the financial statements of the Group resulting from the adoption of the new and revised FRSs:

### **FRS 2**

The adoption of FRS 2 has resulted in a change in the accounting policy for share-based payment.

The Company granted an equity-settled share-based compensation plan for the employees of the Group, the Employee Share Option Scheme ("ESOS"). Prior to 1 September 2006, no compensation expense was recognised in the income statement for share options granted. With the adoption of FRS 2, the compensation expense relating to share options is recognised in the income statement over the vesting periods of the grants with a corresponding increase in equity. The total amount to be recognised as compensation expense is determined by reference to the fair value of the share options at the date of the grant and the number of share options to be vested by the vesting date. The fair value of the share option is computed using a trinomial model. At every balance sheet date, the Group revises its estimates of the number of share options that are expected to be vested by the vesting date. Any revision of this estimate is included in the income statement and a corresponding adjustment to equity over the remaining vesting period.

Under the transitional provisions of FRS 2, this FRS must be applied to share options that were granted after 31 December 2004 and had yet to be vested on 1 January 2006. The application is retrospective and accordingly, the comparative amounts as at 31 August 2006 are restated and the opening balance of retained earnings as at 1 September 2006 has been adjusted.

### **FRS 3, FRS 136 and FRS 138**

The adoption of FRS 3, FRS 136 and FRS 138 has resulted in changes in accounting policy for goodwill. Goodwill arising on consolidation has to be capitalised and subject to annual impairment test. Impairment of goodwill is charged to the income statement as and when it arises and reversal is not allowed.

### **FRS 5**

The adoption of FRS 5 requires a non-current asset or disposal group to be classified as held for sale if:

- i) its carrying amount will be recovered principally through a sale transaction rather than through continuing use
- ii) the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets or disposal group and the sale is highly probable.

Non-current asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

The Group has applied FRS 5 prospectively on or after 1 September 2006. Consequent from the adoption of FRS 5, the Group has reclassified non-current assets identified for sale from property, plant and equipment to current assets held for sale.

### **FRS 101**

The adoption of FRS 101 has no financial impact on the Group but affected the presentation of minority interest, share of associates' results and certain disclosures. Minority interest is now presented within total equity in the Consolidated Balance Sheet and as an allocation from net profit for the period in the Consolidated Income Statement. The movement of minority interest is now presented in the Consolidated Statement of Changes in Equity. The share of associates' results is now presented net of tax in the Consolidated Income Statement. The presentation of the comparative financial statements of the Group has been restated to conform with current period presentation.



## **1) BASIS OF PREPARATION (continued)**

### **FRS 116**

The adoption of FRS 116 has resulted in extension of the accounting policy on property, plant and equipment. The strategic spares and standby equipment are capitalised and depreciated over their estimated useful lives.

### **FRS 117**

FRS 117 requires leasehold land to be treated as an operating lease. The Group has applied FRS 117 retrospectively on or after 1 September 2006. Consequent from the adoption of FRS 117, the group has reclassified the leasehold land as an operating lease instead of property, plant and equipment. The prepaid lease rentals are amortised on a straight-line basis over the lease period, which is similar to the depreciation policy when they were treated as property, plant and equipment.

### **FRS 121**

The adoption of FRS 121 has no material effect on the Group's policies. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance of the revised standard. Majority of the Group's entities have the same functional currency as their measurement currency. The Group has applied the accounting for goodwill and any fair value adjustment arising on the acquisition of a foreign entity as assets and liabilities of the foreign entity prospectively in accordance with the transitional provision of FRS 121.

### **FRS 127**

The adoption of FRS 127 has resulted in a change in accounting policy on recognition of subsidiaries by the inclusion of existence and effect of potential voting rights that are currently exercisable in assessing control. The Group has applied FRS 127 retrospectively and this FRS does not have any financial impact on the Group.

### **FRS 140**

The adoption of FRS 140 requires properties which are held for long-term rental yields and not occupied by the Group to be accounted for as investment properties. The Group has assessed the status of all properties based on the provisions of FRS 140 and concluded that the adoption of FRS 140 has no material financial impact on the Group.

## **2) AUDIT QUALIFICATION**

The annual audited financial statements for the financial year ended 31 August 2006 were not subject to any qualification.

## **3) SEASONAL OR CYCLICAL FACTORS**

The businesses of the Group are not subject to material seasonal or cyclical fluctuations.

## **4) UNUSUAL ITEMS AFFECTING ASSETS, LIABILITIES, EQUITY, NET INCOME or CASH FLOWS**

There were no unusual items of nature, size or incidence that affect the assets, liabilities, equity, net income or cash flows of the Group during the period.

## **5) MATERIAL CHANGES IN ESTIMATES OF AMOUNTS REPORTED**

There were no changes in the estimates of the amounts reported in the previous financial year that have a material effect on the results of the current quarter under review.



## **6) DEBT AND EQUITY SECURITIES**

- (a) As announced on 12 October 2006 and with reference to the earlier announcements made on 13 September 2006 and 29 September 2006 in relation to the redemption notice of 2.625% Guaranteed Exchangeable Bonds due 2007 ("Bonds"), with the expiry of the right to exchange the Bonds at close of business on 6 October 2006, a total of USD398,960,000.00 were exchanged. As such, a total of 187,155,756 new ordinary shares have been issued.
- (b) During the second quarter of the current financial year, a total of 177,133,158 ordinary shares of RM1 each were issued comprising:-
- (i) Exercise of options representing 52,015,787 ordinary shares of RM1 each in TNB under the Employee Share Option Scheme II ("ESOS II");
  - (ii) Conversion of TNB Capital (L) Ltd.'s Guaranteed Exchangeable Bonds into a total of 114,699,925 ordinary shares of RM1 each in TNB; and
  - (iii) Conversion of Unsecured Convertible Redeemable Income Securities (CRIS) into a total of 10,417,446 ordinary shares of RM1 each in TNB.

Except for the above, there were no other issuance, cancellation, repurchases, resales and repayments of debt and equity securities during the period.

## **7) DIVIDEND PAID**

In respect of the financial year ended 31 August 2006, TNB declared and paid a final gross dividend of 12.0 sen per ordinary share less income tax at 27%, and a tax-exempt dividend of 2.0 sen per ordinary share equivalent to gross dividend of 2.7 sen per ordinary share. The dividends, amounting to RM459.7 million, were paid on 4 January 2007.

## **8) SEGMENTAL REPORTING**

As the principal activities of the Group are the generation, transmission, distribution and sale of electricity in Malaysia, segmental reporting is deemed not necessary.

## **9) VALUATION OF PROPERTY, PLANT & EQUIPMENT**

The Directors have applied the transitional provisions of International Accounting Standard No. 16 (Revised) "Property, Plant and Equipment" as adopted by Malaysian Accounting Standards Board which allow the freehold land, leasehold land, buildings and civil works to be stated at their previous years' valuations less depreciation. Accordingly, these valuations have not been updated.

## **10) MATERIAL EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD**

There were no material events subsequent to the end of the financial period.

## **11) CHANGES IN THE COMPOSITION OF THE GROUP**

There were no material changes in the composition of the Group during the quarter.

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## 12) CONTINGENT LIABILITIES

Contingent liabilities of the Group include the following:-

	<b>As at 28 February 2007</b>	<b>As at 31 August 2006</b>
Claims by third parties	972.0	974.5
Trade guarantees and performance bonds	5.4	5.4
Stamp duties on transfer of assets	108.0	108.0
Other contingencies	62.0	67.2
	<u>1,147.4</u>	<u>1,155.1</u>

Claims by third parties include claims by contractors, consumers and former employees. These claims are being addressed and the Directors are of the opinion that their ultimate resolution will not have a material effect on the financial position of the Group.

## 13) CAPITAL COMMITMENTS

	<b>As at 28 February 2007</b>
<b>Property, plant and equipment committed over a 5 year period</b>	
Authorised but not contracted for	13,155.0
Contracted but not provided for in the financial statements	1,403.1
	<u>14,558.1</u>

## **F. ADDITIONAL INFORMATION AS REQUIRED BY PART A OF APPENDIX 9B OF THE BURSA MALAYSIA LISTING REQUIREMENTS**

### 14) REVIEW OF PERFORMANCE

- (a) Performance of the current six months ended 28 February 2007 (2nd Quarter FY2007) against the corresponding six months ended 28 February 2006 (2nd Quarter FY2006):

The Group recorded a net profit after tax and minority interest of RM2,801.0 million compared to RM995.1 million, an improvement of RM1,805.9 million or 181.5%. The improvement was largely driven by higher revenue from sale of electricity and supported by the various cost management initiatives embarked by the management emphasising on operational efficiency and service excellence. Further strengthening of Ringgit Malaysia against the major currencies which the Group was exposed to, compared to the corresponding period last financial year has also contributed to the better performance of the Group.

For the six months ended 28 February 2007, the Group recorded a total revenue of RM11,283.7 million or 15.8% higher than the corresponding period in the last financial year. The increase was mainly attributed to higher electricity sales in Peninsular Malaysia which increased by RM1,502.8 million or 16.0%. The commercial, industrial and domestic sectors were the main contributors to the increase of RM658.0 million (20.2%), RM601.3 million (15.4%) and RM164.7 million (9.5%) respectively.

In line with the gazetted Finance Act 2006, which stipulates that the corporate income tax rate for the year of assessment 2007 is 27% and thereafter at 26%, the Group has made the appropriate adjustments to the deferred tax provision.

#### 14) REVIEW OF PERFORMANCE (continued)

- (b) Performance of the current second quarter (three months) FY2007 against the corresponding second quarter (three months) FY2006:

For the quarter, the Group recorded a total revenue of RM5,682.0 million as against RM4,831.4 million for the same period last financial year, an improvement of 17.6% or RM850.6 million. The improvement was derived mainly from increase in sales of electricity in Peninsular Malaysia where the increases were RM371.6 million (23.5%) for the commercial, RM339.4 million (17.2%) for the industrial and RM91.7 million (10.9%) for the domestic sectors.

The Group registered a net profit after tax and minority interest of RM1,554.8 million for the current quarter as against RM399.5 million recorded for the corresponding quarter last year, an increase of RM1,155.3 million or 289.2% resulted mainly from the improvement in operating profit and higher foreign exchange gain compared to corresponding quarter last financial year.

#### ECONOMIC PROFIT STATEMENT

	INDIVIDUAL QUARTER		CUMULATIVE PERIOD	
	Current Year Quarter 28.02.2007	Preceding Year Corresponding Quarter 28.02.2006	Current Year To Date 28.02.2007	Preceding Year Corresponding Period 28.02.2006
<u>NOPLAT computation:</u>				
Earning Before Interest and Tax (EBIT)*	1,309.4	608.5	2,578.7	1,352.7
Adjusted Tax	(353.5)	(170.4)	(696.2)	(378.8)
<b>NOPLAT</b>	<b>955.9</b>	<b>438.1</b>	<b>1,882.5</b>	<b>973.9</b>
<u>Economic Charge computation:</u>				
Average Invested Capital	53,022.1	52,807.1	53,022.1	52,807.1
WACC	7.5%	7.5%	7.5%	7.5%
<b>Economic Charge</b>	<b>(990.2)</b>	<b>(986.2)</b>	<b>(1,980.4)</b>	<b>(1,972.3)</b>
<b>Economic loss</b>	<b>(34.3)</b>	<b>(548.1)</b>	<b>(97.9)</b>	<b>(998.4)</b>

#### EXPLANATORY NOTES

Economic Profit (EP) is a measure of value created by a business during a single period. By looking at just the operating activities of a company, it tells how much return a business makes over its cost of capital. In other words, it is the difference between TNB's rate of return and cost of capital.

**14) REVIEW OF PERFORMANCE (continued)**  
**ECONOMIC PROFIT STATEMENT (continued)**

- (a) Performance of the current six months ended 28 February 2007 (2nd Quarter FY2007) against the corresponding six months ended 28 February 2006 (2nd Quarter FY2006):

The economic loss has reduced significantly by RM900.5 million to record at negative RM97.9 million from negative RM998.4 million. This was attributable to improved EBIT margin by 23.2% from 14.1% as a result of higher revenue growth (16.0% from 6.1%) and slightly higher operating expenses (3.7% from 8.4%).

- (b) Performance of the current second quarter FY2007 against the corresponding second quarter FY2006:

The economic loss has also declined notably by RM513.8 million to record at negative RM34.3 million from negative RM548.1 million. This was due to improved EBIT margin by 23.4% from 12.8% resultant from improved revenue growth (17.8% from 4.1%) and slightly higher operating expenses (3.5% from 5.0%).

*\*EBIT = Operating profit adjusted for released of deferred income and other operating income.*

**15) MATERIAL CHANGES IN THE QUARTERLY RESULTS COMPARED TO THE PRECEDING QUARTER**

Performance of the current quarter (2nd Quarter FY2007) against the preceding quarter (1st Quarter FY2007)

Compared to the immediate preceding quarter, the Group's revenue of RM5,682.0 million was RM80.3 million higher than the preceding quarter revenue of RM5,601.7 million.

The operating expenses have been rather stable with a marginal increase of RM39.5 million, or 0.9%. This was mainly the result of the cost control initiatives embarked by the management.

**16) CURRENT YEAR PROSPECTS**

On the back of the 9<sup>th</sup> Malaysia Plan and the Government's drive to promote tourism under Visit Malaysia 2007, Bank Negara Malaysia has projected GDP to grow at 6% for 2007 (5.9% in 2006) whilst inflation is projected to moderate around 2% to 2.5% (3.6% in 2006). The positive economic outlook augurs well for electricity demand growth which coupled with the tariff increase will raise Group revenue further.

Operating expenses rose moderately for the first 6 months but with the commissioning of the second unit of the Tanjung Bin power plant on 28 February 2007, IPP cost is expected to further increase thereby impacting profitability.

Whilst continuing to place emphasis on numerous cost management initiatives, the management is focused on further improving service excellence, higher productivity and value creation. Given this commitment which will further drive operational and financial efficiency, the Board of Directors is of the view that the Group's financial performance for the full year of FY2007 continues to be encouraging.

**17) VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT**

This note is not applicable.

**18) TAXATION**

Taxation for the quarter comprised the following:-

	Individual quarter		Cumulative	
	ended 28-Feb-07	ended 28-Feb-06	ended 28-Feb-07	ended 28-Feb-06
Taxation for the Group	(241.7)	(117.0)	(508.0)	(133.0)
Deferred taxation for the Group	165.4	(26.7)	341.9	(153.8)
	<u>(76.3)</u>	<u>(143.7)</u>	<u>(166.1)</u>	<u>(286.8)</u>

The Group's effective tax rate for the period ended 28 February 2007 is lower than the statutory tax rate mainly due to reversal of deferred tax provision to reflect the reduction of the corporate tax rate from 28% to 26%.

On 31 December 2006, the Government gazetted the Finance Act 2006, which stipulates that the corporate income tax rate for the year of assessment 2007 is 27% and thereafter at 26%. The effect of this reduction has been adopted in this 2nd Quarter results for FY2007.

**19) PROFIT/(LOSS) ON SALE OF INVESTMENTS**

There were no disposals of any investments during the period.

**20) PURCHASES AND DISPOSALS OF QUOTED SECURITIES**

- a) There were no purchases and disposals of quoted securities during the quarter.  
b) Investments in quoted securities as at 30 November 2006 are as follows:-

	Quarter ended 28-Feb-07
At cost	1.0
At carrying value	Nil
At market value	Nil

The above quoted securities are managed by external fund managers.

**21) STATUS OF CORPORATE PROPOSALS**

- (a) On 28 December 2006, TNB announced that it has entered into a Share Sale Agreement with Khazanah Nasional Berhad ("Khazanah") to dispose 3,187,500 ordinary shares with par value of RM1.00 each held in Malaysian Technology Development Corporation to Khazanah for a total consideration of RM605,625.00. The full consideration was received on 28 December 2006.

Save for Dato' Azman Hj.Mokhtar who is a Director of TNB and Managing Director of Khazanah, none of the directors and /or the major shareholders of TNB and /or person connected with a director or major shareholders have any interest, direct or indirect in the disposal.

- (b) On 24 January 2007, TNB announced that it has entered into a conditional Sale and Purchase of Shares Agreement ("SPSA") with ABB Power T&D Ltd. (UK) ("ABB") in relation to the acquisition of ABB's entire 27% shareholding in Malaysia Transformer Manufacturing Sdn.Bhd. ("MTM") by TNB.

Pursuant to the SPSA, TNB will acquire the entire 1,350,000 ordinary fully paid-up shares of RM1.00 each in MTM from ABB at a purchase consideration of RM26,149,009.00.

## 21) STATUS OF CORPORATE PROPOSALS (continued)

None of the Directors or Major Shareholders of TNB or persons connected to the Directors or Major Shareholders or TNB have an interest, direct or indirect, in the said transaction.

- (c) On 1 March 2007, TNB announced that TNB Energy Services Sdn.Bhd. ("TNBES"), a wholly owned subsidiary of TNB, entered into a Share Sale and Purchase Agreement with Seseni Energy Services Sdn.Bhd. and Cyberview Sdn.Bhd. for the disposal by TNBES and Seseni to Cyberview all the equity interest in Pendinginan Megajana Sdn.Bhd. ("PMSB") comprising 16,420,000 ordinary shares of RM1.00 each for a total consideration of RM2.00 only.

On 2 April 2007, TNB announced that the disposal had been completed on 30 March 2007. Upon completion, PMSB ceased to be an associate company of TNBES.

## 22) GROUP BORROWINGS

- a) The analysis of Group borrowings classified under short and long term categories are as follows:-

	<b>As at 28 Feb 07</b>	<b>As at 31 Aug 06</b>
Short term - secured	134.7	247.6
- unsecured	2,200.5	2,287.1
Sub-total	2,335.2	2,534.7
Long term - secured	3,499.1	3,348.6
- unsecured	18,651.6	21,232.3
Sub-total	22,150.7	24,580.9
Total	24,485.9	27,115.6

- b) Currency denominations:-

Japanese Yen	3,716.1	4,023.7
US Dollar	7,477.6	8,947.4
Euro	8.0	10.2
Others	8.8	10.0
Total Ringgit equivalent of foreign currency borrowings	11,210.5	12,991.3
Ringgit borrowings	13,275.4	14,124.3
Total	24,485.9	27,115.6

- c) Effective average cost of funding based on exposure as at 28 February 2007 was 6.0% (FY2006: 5.75%).
- d) Repayments of long term debts during the period were as follows:
- (i) Foreign currency denominated term loans of RM1,135.7 million, and
  - (ii) Ringgit denominated term loans of RM1,021.8 million.

### **23) OFF BALANCE SHEET FINANCIAL INSTRUMENTS**

TNB has certain financial instruments including assets and liabilities incurred in the normal course of business. As part of its risk management's strategy, the Company manages its exposure to market rate movements of its financial liabilities through the use of derivative financial instruments. Virtually all foreign currency contracts are denominated in US Dollar and Japanese Yen.

TNB has entered into interest rate swap agreements and currency option agreements, which mature from year 2007 to 2034. TNB has entered into these derivatives to reduce its exposure to losses resulting from adverse fluctuations in interest rates or foreign currency exchange rates on underlying debt instruments.

The details and the financial effects of the derivative financial instruments that TNB has entered into are substantially described in note 27 to the financial statements of TNB for the financial year ended 31 August 2006 (pages 53-57 of TNB's Annual Report).

The details and the financial effects of the derivative financial instruments that TNB has entered into are substantially described in note 27 to the financial statements of TNB for the financial year ended 31 August 2006 (pages 53-57 of TNB's Annual Report).

There has been no material changes to the derivative financial instruments described therein between the date of financial statements (dated 17 October 2006) and the date of this announcement except for:-

- a) In October 2006, TNB entered into a Cross Currency and Interest Swap Agreement (CCIRS) with a notional amount of JPY7.7 billion as a hedge on its JPY Syndicated Term Loan. This transaction enables TNB to reduce its exposure to losses that may arise from adverse fluctuation on foreign currency exchange rates and interest rates in relation to the JPY Syndicated Term Loan.
- b) In January 2007, a wholly owned subsidiary of TNB, TNB Janamanjung Sdn.Bhd., unwound the existing floating to fixed interest rate swaps on its 12-year amortising loan due to the restructuring of the underlying loan.
- c) As at 9 April 2007, the outstanding notional principal amount of derivative financial instruments entered into by the Group was RM1,280.1 million. While this amount is the total of the notional principal amount of outstanding financial instruments, it is not a measure of the extent of risks that TNB is exposed to.

All the above instruments were executed with creditworthy financial institutions and the Directors of TNB are of the view that the possibility of non-performance by these financial institutions is unlikely on the basis of their respective financial strength.

### **24) MATERIAL LITIGATION**

There is no pending material litigation at the date of this announcement other than those disclosed in the circular to shareholders dated 22 November 2006.

### **25) DIVIDEND**

The Board of Directors has recommended a gross interim dividend of 10 sen per ordinary share (2006: Nil) in respect of the financial year ending 31 August 2007. The Books Closure and Payment dates will be announced in due course.



**26) EARNINGS PER SHARE**

	Individual quarter		Cumulative quarter	
	ended 28-Feb-07	ended 28-Feb-06	ended 28-Feb-07	ended 28-Feb-06
<b>(a) Basic earnings per share</b>				
Profit attributable to equity holders of the Company (RM 'million)	1,554.8	399.5	2,801.0	995.1
Weighted average number of ordinary shares in issue ('000)	4,283,614	4,042,171	4,234,226	4,039,149
Basic earnings per share (sen)	36.30	9.88	66.15	24.64
<b>(b) Diluted earnings per share</b>				
Profit attributable to equity holders of the Company (RM 'million)	1,554.8	399.5	2,801.0	995.1
Elimination of interest expense net of tax effect (RM'million) on:				
(i) Guaranteed Exchangeable Bonds (RM 'million)	-	9.6	(6.8)	19.6
(ii) Unsecured Convertible Redeemable Income Securities (RM 'million)	0.7	-	3.9	-
	<u>1,555.5</u>	<u>409.1</u>	<u>2,798.1</u>	<u>1,014.7</u>
Weighted average number of ordinary shares in issue ('000)	4,283,614	4,042,171	4,234,226	4,039,149
Adjustments for:-				
- conversion of share options exercised ('000)	54,104	(2,628)	62,909	(347)
- conversion of:				
(i) Guaranteed Exchangeable Bonds ('000)	-	148,530	35,976	148,530
(ii) Unsecured Convertible Redeemable Income Securities ('000)	19,890	-	20,727	-
Weighted average number of ordinary shares for diluted earnings per share ('000)	<u>4,357,608</u>	<u>4,188,073</u>	<u>4,353,838</u>	<u>4,187,332</u>
Diluted earnings per share (sen)	35.70	9.77	64.27	24.23

By Order of the Board

**NOR ZAKIAH BINTI ABDUL GHANI (LS 0008795)**  
**WAN MARZIMIN BIN WAN MUHAMMAD (LS 0009013)**  
Company Secretaries

Kuala Lumpur  
16 April 2007