



14) REVIEW OF PERFORMANCE (continued)

ECONOMIC PROFIT STATEMENT (continued)

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

The economic loss has also improved by RM185.2 million to record at negative RM178.2 million from negative RM363.4 million. This was due to improved EBIT margin from 17.5% to 19.1% resultant from improved revenue growth (from 3.8% to 17.9%), despite higher growth in operating expenses during the quarter (from -0.1% to 15.6%).

**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 (3rd Quarter FY2007) against the preceding quarter (2nd Quarter FY2007)

Compared to the immediate preceding quarter, the Group's revenue of RM5,910.7 million was RM228.7 million higher than the preceding quarter revenue of RM5,682.0 million.

However, the operating expenses increased by RM424.6 million, or 9.9% due to higher IPP cost by RM291.5 million resulted from the commissioning of the second unit of the Tanjung Bin power plant during the quarter under review. As a result, the operating profit decreased by RM199.9 million or 13.2% compared to the preceding quarter (2nd quarter FY2007).

16) CURRENT YEAR PROSPECTS

Whilst the Group's nine months FY2007 results reflects a significant increase in net profit attributable to shareholders when compared against the corresponding period in FY2006, the challenge would be sustainability of the Group's operating margin in light of rising fuel and other operating costs. With the commissioning of the second unit of the Tanjung Bin power plant on 28 February 2007, IPP cost had increased and is expected to rise further with the commissioning of the third unit in September 2007, thereby impacting profitability.

The Board of Directors noted that the current trend of electricity demand growth is slightly below expectation. However, with the rollout plans expected to be launched for major projects under the 9th Malaysia Plan, the demand for electricity continues to be positive.

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 and ZAKAT

Taxation for the quarter comprised the following:-

	Individual quarter		Cumulative	
	ended 31-May-07	ended 31-May-06	ended 31-May-07	ended 31-May-06
Taxation for the Group	(307.1)	(70.4)	(815.1)	(203.4)
Deferred taxation for the Group	(14.4)	(187.7)	327.5	(341.5)
Zakat	(21.0)	-	(21.0)	-
	<u>(342.5)</u>	<u>(258.1)</u>	<u>(508.6)</u>	<u>(544.9)</u>

The Group's effective tax rate for the period ended 31 May 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%.

However, the increase in the current tax mainly due to increase in chargeable income resulted from higher profit and lower capital allowances balance compared to the corresponding period last financial year.

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 the 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

- There were no purchases and disposals of quoted securities during the quarter.
- Investments in quoted securities as at 31 May 2007 are as follows:-

	Quarter ended 31-May-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

- 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.



21) STATUS OF CORPORATE PROPOSALS (continued)

- (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.

The acquisition was completed on 28 June 2007 and MTM is now a wholly owned subsidiary of TNB.

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.

- (d) On 30 April 2007, TNB announced that Dynamic Acres Sdn. Bhd. ("DASB") has entered into a Share Sale Agreement ("SSA") with PT Pamapersada Nusantara ("PAMA") in relation to the divestment of DASB's entire 99% shareholding in PT Dasa Eka Jasatama ("DEJ"). DASB is an investment holding company of DEJ and a 100% subsidiary of TNB Coal International Ltd ("TCIL"), which is a 92.5% subsidiary of TNB.

The completion of this divestment exercise is subject to the fulfillment of all conditions precedent under the SSA.

This transaction does not have any effect on the issued and paid-up capital and it does not have any material effect on the earnings and net assets of TNB Group or on the shareholding of the substantial shareholders of TNB.

Please refer to the announcement made to Bursa Malaysia for further details.

22) GROUP BORROWINGS

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

	As at 31 May 07	As at 31 Aug 06
Short term - secured	133.0	247.6
- unsecured	1,803.5	2,287.1
Sub-total	1,936.5	2,534.7
Long term - secured	3,494.7	3,348.6
- unsecured	18,064.6	21,232.3
Sub-total	21,559.3	24,580.9
Total	23,495.8	27,115.6



22) GROUP BORROWINGS (continued)

b) Currency denominations:-

Japanese Yen	3,695.3	4,023.7
US Dollar	6,617.6	8,947.4
Euro	5.8	10.2
Others	8.1	10.0
Total Ringgit equivalent of foreign currency borrowings	10,326.8	12,991.3
Ringgit borrowings	13,169.0	14,124.3
Total	23,495.8	27,115.6

c) Effective average cost of funding based on exposure as at 31 May 2007 was 5.95% (FY2006: 5.72%).

d) Repayments of long term debts during the period were as follows:

- (i) Foreign currency denominated term loans of RM1,880.0 million, and
- (ii) Ringgit denominated term loans of RM1,121.7 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).

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 6 July 2007, the outstanding notional principal amount of derivative financial instruments entered into by the Group was RM899.6 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 second 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 31-May-07	ended 31-May-06	ended 31-May-07	ended 31-May-06
(a) Basic earnings per share				
Profit attributable to equity holders of the Company (RM 'million)	1,091.7	395.4	3,892.7	1,390.5
Weighted average number of ordinary shares in issue ('000)	4,317,128	4,044,627	4,261,857	4,040,975
Basic earnings per share (sen)	25.29	9.78	91.34	34.41
(b) Diluted earnings per share				
Profit attributable to equity holders of the Company (RM 'million)	1,091.7	395.4	3,892.7	1,390.5
Elimination of interest expense net of tax effect (RM'million) on:				
(i) Guaranteed Exchangeable Bonds (RM 'million)	-	9.2	(6.8)	28.8
(ii) Unsecured Convertible Redeemable Income Securities (RM 'million)	0.1	-	4.0	-
	<u>1,091.8</u>	<u>404.6</u>	<u>3,889.9</u>	<u>1,419.3</u>
Weighted average number of ordinary shares in issue ('000)	4,317,128	4,044,627	4,261,857	4,040,975
Adjustments for:-				
- conversion of share options exercised ('000)	37,268	31,194	58,371	27,180
- conversion of:				
(i) Guaranteed Exchangeable Bonds ('000)	-	146,954	23,984	146,954
(ii) Unsecured Convertible Redeemable Income Securities ('000)	9,252	-	16,905	-
Weighted average number of ordinary shares for diluted earnings per share ('000)	<u>4,363,648</u>	<u>4,222,775</u>	<u>4,361,117</u>	<u>4,215,109</u>
Diluted earnings per share (sen)	25.02	9.58	89.20	33.67

By Order of the Board

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

Kuala Lumpur
13 July 2007