



financial statements year 2004

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directors' report

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 2004.

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	807.5	1,759.8
Minority interests	6.2	0
Net profit for the financial year	813.7	1,759.8

DIVIDENDS

The dividends paid or declared since 31 August 2003 were as follows:

	RM'million
In respect of the financial year ended 31 August 2003, as shown in the Directors' Report for that financial year:	
Final dividend of 7.8 sen gross per ordinary share, less income tax at 28%, paid on 26 January 2004	174.8
In respect of the financial year ended 31 August 2004:	
Interim dividend of 3.0 sen per ordinary share, tax exempt, paid on 7 July 2004	93.9

The Directors had on 27 October 2004 recommend the payment of a final gross dividend of 10.0 sen per ordinary share and a special dividend of 4.0 sen per ordinary share, less income tax at 28%, amounting to RM317.4 million which, subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company, will be paid on 24 January 2005 to the shareholders registered on the Company's Register of Members at the close of business on 28 December 2004.

Directors' Report

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, 36,478,600 new ordinary shares of RM1.00 each were issued by the Company for cash by virtue of the exercise of options pursuant to the Company's Employee Share Option Scheme II ('ESOS II') at exercise prices of RM8.39 or RM8.74 per share. The new ordinary shares issued during the financial year ranked pari passu in all respects with the existing ordinary shares of the Company.

EMPLOYEE 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 the new Employee Share Option Scheme II ('ESOS II') on 8 July 2003 for a period of 10 years. The ESOS II is governed by the by-laws, which were approved by the shareholders at an Extraordinary General Meeting held on 29 May 2003.

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 32 to the financial statements.

The Company has been granted an exemption by the Companies Commission of Malaysia from having to disclose in this Report the name 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 of employees who were granted options representing 400,000 shares and above.

Other than the Directors' options disclosed in the Directors' interests in shares and debentures, the list of employees of the Company and its subsidiaries who were granted options representing 400,000 shares and above under ESOS II are as follows.

Name	Designation	No. of shares granted under the options	No. of shares exercised under the options
Datuk Abdul Hadi Mohd. Deros	Deputy President/Deputy Chief Executive Officer	400,000	Nil
Datuk Md. Sidek Ahmad	Senior Vice President, Operation	400,000	Nil
Dato' Haji Ir. Shafie Mat Zain	Vice President, Corporate Services	400,000	40,000
Dato' Mohd Zainal Azirun	Vice President, Transmission	400,000	Nil
Datuk Azizah Osman	Vice President, Human Resource	400,000	180,000

DIRECTORS

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

Datuk Amar Leo Moggie	(Appointed on 12.4.2004)
Dato' Azman bin Mokhtar	(Appointed on 15.6.2004)
Dato' Che Khalib bin Mohamad Noh	(Appointed on 1.7.2004)
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	(Appointed on 15.6.2004)
Dato' Abdul Rahim bin Mokti	(Appointed on 4.11.2004)
Puan Zalekha binti Hassan	(Alternate Director to Dato' Abdul Rahim bin Mokti) (Appointed on 4.11.2004)
Datin Husniarti binti Tamin	(Resigned on 31.10.2004)
Dato' Kamariah binti Hussain	(Alternate Director to Datin Husniarti binti Tamin) (Resigned on 31.10.2004)
Dato' Dr Awang Adek bin Hussin	(Resigned on 31.3.2004)
Dato' Pian bin Sukro	(Resigned on 1.7.2004)
Raja Dato' Zaharaton binti Raja Zainal Abidin	(Appointed on 8.3.2004) (Resigned on 7.6.2004)
Datuk Dr Halim bin Shafie	(Resigned on 7.6.2004)
Dato' Syed Hamzah bin Syed Othman	(Alternate Director to Datuk Dr Halim bin Shafie) (Resigned on 7.6.2004)
Datuk Iskandar Dzakurnain bin Badarudin	(Resigned on 21.12.2003)
Raja Dato' Zaharaton binti Raja Zainal Abidin	(Alternate Director to Datuk Iskandar Dzakurnain bin Badarudin) (Resigned on 21.12.2003)
Datuk Zainun Aishah binti Ahmad	(Resigned on 7.6.2004)
Dato' Shaziman bin Abu Mansor	(Resigned on 31.3.2004)
Datin Paduka Hajjah Seripah Noli binti Syed Hussin	(Resigned on 31.3.2004)
Ng Lip Yong @ Ng Lip Sat	(Resigned on 31.3.2004)

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 Executive Directors 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' Report

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 and options over shares in the Company are as follows:

	Number of ordinary shares of RM1.00 each			As at 31.8.2004
	As at 1.9.2003	Acquired	Disposed	
Dato' Zainal Abidin bin Putih	1,000	0	0	1,000

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.

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:

- 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
- 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:

- (a) except as disclosed in Note 7 to the financial statements, the results of the Group's and of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) 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 4 November 2004.



DATUK AMAR LEO MOGGIE

Chairman



DATO' CHE KHALIB BIN MOHAMAD NOH

President/Chief Executive Officer

income statements

FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2004

	Note	Group		Company	
		2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Revenue	3	17,712.1	16,457.8	16,538.3	15,306.9
Operating expenses					
– exceptional items	7	0	0	(227.4)	(335.5)
– others	4	(14,723.4)	(13,864.8)	(13,783.2)	(12,607.5)
Other operating income	6	336.5	269.7	922.7	735.8
Operating profit		3,325.2	2,862.7	3,450.4	3,099.7
Foreign exchange (loss)/gain	8	(571.8)	(16.6)	(358.4)	51.1
Share of results of associates		79.8	102.4	0	0
Profit before finance cost		2,833.2	2,948.5	3,092.0	3,150.8
Finance cost	9	(1,350.5)	(1,300.0)	(1,133.4)	(1,203.5)
Profit from ordinary activities before taxation		1,482.7	1,648.5	1,958.6	1,947.3
Taxation					
– Company and subsidiaries	10	(656.1)	(555.7)	(198.8)	(528.1)
– Share of taxes in associates		(19.1)	(28.2)	0	0
		(675.2)	(583.9)	(198.8)	(528.1)
Profit from ordinary activities after taxation		807.5	1,064.6	1,759.8	1,419.2
Minority interests		6.2	(2.7)	0	0
Net profit for the financial year		813.7	1,061.9	1,759.8	1,419.2
		Sen	Sen		
Earnings per share					
– basic	11(a)	26.1	34.1		
– diluted	11(b)	25.9	N/A		
Dividends per share:					
Interim dividend, tax exempt	12	3.0	3.0		
Final dividend (gross)	12	0	7.8		
Proposed final dividend (gross)	12	10.0	0		
Proposed special dividend (gross)	12	4.0	0		

The notes set out on pages 172 to 247 form an integral part of these financial statements.

balancesheets

AS AT 31 AUGUST 2004

	Note	Group		Company	
		2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
NON-CURRENT ASSETS					
Property, plant and equipment	13	53,443.7	51,768.4	42,566.4	44,846.9
Coal mining rights	14	312.2	0	0	0
Subsidiaries	15	0	0	771.4	195.4
Associates	16	132.1	601.4	132.5	379.9
Investments	17	100.5	158.1	84.7	84.7
Long term receivables	18	0	0	922.7	937.5
CURRENT ASSETS					
Inventories	19	1,569.2	1,552.0	814.4	1,051.1
Receivables, deposits and prepayments	20	3,503.6	2,989.3	2,941.7	2,492.7
Current tax assets		26.0	8.2	0	0
Amount owing from subsidiaries	21	0	0	4,036.7	3,591.0
Amount owing from associates		74.0	77.3	68.0	70.6
Short term investments	22	360.2	1,355.2	126.3	348.2
Marketable securities	23	10.3	11.7	10.3	11.7
Deposits, bank and cash balances	24	3,849.8	1,434.9	2,969.8	845.9
		9,393.1	7,428.6	10,967.2	8,411.2
CURRENT LIABILITIES					
Payables	25	3,000.7	3,137.8	2,176.6	2,361.5
Amount owing to subsidiaries	21	0	0	2,556.1	887.7
Amount owing to associates		304.9	216.8	300.0	209.7
Current taxation		262.8	235.3	262.0	254.6
Short term borrowings	26				
– bank overdrafts		1.6	4.5	0	0
– others		1,859.4	4,504.2	1,332.6	4,158.0
		5,429.4	8,098.6	6,627.3	7,871.5
NET CURRENT ASSETS/(LIABILITIES)		3,963.7	(670.0)	4,339.9	539.7
TOTAL ASSETS LESS CURRENT LIABILITIES		57,952.2	51,857.9	48,817.6	46,984.1

The notes set out on pages 172 to 247 form an integral part of these financial statements.

BalanceSheets

	Note	Group		Company	
		2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
NON-CURRENT LIABILITIES					
Borrowings	27	(30,626.2)	(26,404.4)	(21,404.2)	(21,833.8)
Consumer deposits		(1,766.5)	(1,598.0)	(1,668.4)	(1,508.5)
Employee benefits	28	(2,149.5)	(2,031.5)	(2,078.1)	(1,970.3)
Other liabilities		(79.2)	(84.1)	(68.3)	(72.7)
Deferred taxation	29	(5,503.8)	(4,876.7)	(4,994.9)	(4,860.2)
Deferred income	30	(2,379.9)	(2,299.9)	(2,152.7)	(2,084.9)
Government development grants	31	(556.9)	(519.9)	0	0
		14,890.2	14,043.4	16,451.0	14,653.7
FINANCED BY:					
Share capital	32	3,148.3	3,111.8	3,148.3	3,111.8
Share premium	33	3,451.4	3,181.7	3,451.4	3,181.7
Revaluation and other reserves	34	1,030.3	1,048.1	1,029.0	1,029.0
Retained profits	35	7,168.4	6,623.4	8,822.3	7,331.2
Shareholders' funds		14,798.4	13,965.0	16,451.0	14,653.7
MINORITY INTERESTS		91.8	78.4	0	0
		14,890.2	14,043.4	16,451.0	14,653.7
		Sen	Sen		
NET TANGIBLE ASSETS PER SHARE*		460.1	448.8		

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

The notes set out on pages 172 to 247 form an integral part of these financial statements.

consolidated statement OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2004

	Note	Non-distributable		Distributable		Total RM'million
		Ordinary shares of RM1.00 each RM'million	Share premium RM'million	Revaluation and other reserves RM'million	Retained profits RM'million	
At 1 September 2002						
– as previously reported		3,111.8	3,181.7	1,009.1	6,845.0	14,147.6
– prior year adjustments	40	0	0	0	(1,055.7)	(1,055.7)
– as restated		3,111.8	3,181.7	1,009.1	5,789.3	13,091.9
Net gains not recognised in income statement						
– currency translation differences	34	0	0	29.5	0	29.5
Negative goodwill on acquisition of an associate	34	0	0	9.5	0	9.5
Net profit for the financial year ended 31 August 2003		0	0	0	1,061.9	1,061.9
Dividends						
– financial year ended 31 August 2002		0	0	0	(134.4)	(134.4)
– financial year ended 31 August 2003	12	0	0	0	(93.4)	(93.4)
At 31 August 2003		3,111.8	3,181.7	1,048.1	6,623.4	13,965.0
At 1 September 2003						
– as previously reported		3,111.8	3,181.7	1,048.1	7,732.1	15,073.7
– prior year adjustments	40	0	0	0	(1,108.7)	(1,108.7)
– as restated		3,111.8	3,181.7	1,048.1	6,623.4	13,965.0
Net gains not recognised in income statement						
– currency translation differences	34	0	0	(17.8)	0	(17.8)
Net profit for the financial year ended 31 August 2004		0	0	0	813.7	813.7
Dividends						
– financial year ended 31 August 2003	12	0	0	0	(174.8)	(174.8)
– financial year ended 31 August 2004	12	0	0	0	(93.9)	(93.9)
Issuance of share capital						
– share options	32,33	36.5	269.7	0	0	306.2
At 31 August 2004		3,148.3	3,451.4	1,030.3	7,168.4	14,798.4

The notes set out on pages 172 to 247 form an integral part of these financial statements.

company statement OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2004

		Non-distributable		Distributable		
	Note	Ordinary shares of RM1.00 each RM'million	Share premium RM'million	Revaluation and other reserves RM'million	Retained profits RM'million	Total RM'million
At 1 September 2002						
– as previously reported		3,111.8	3,181.7	1,029.0	7,146.7	14,469.2
– prior year adjustments	40	0	0	0	(1,006.9)	(1,006.9)
– as restated		3,111.8	3,181.7	1,029.0	6,139.8	13,462.3
Net profit for the financial year ended 31 August 2003		0	0	0	1,419.2	1,419.2
Dividends						
– financial year ended 31 August 2002		0	0	0	(134.4)	(134.4)
– financial year ended 31 August 2003	12	0	0	0	(93.4)	(93.4)
At 31 August 2003		3,111.8	3,181.7	1,029.0	7,331.2	14,653.7
At 1 September 2003						
– as previously reported		3,111.8	3,181.7	1,029.0	8,383.1	15,705.6
– prior year adjustments	40	0	0	0	(1,051.9)	(1,051.9)
– as restated		3,111.8	3,181.7	1,029.0	7,331.2	14,653.7
Net profit for the financial year ended 31 August 2004		0	0	0	1,759.8	1,759.8
Dividends						
– financial year ended 31 August 2003	12	0	0	0	(174.8)	(174.8)
– financial year ended 31 August 2004	12	0	0	0	(93.9)	(93.9)
Issuance of share capital						
– share options	32,33	36.5	269.7	0	0	306.2
At 31 August 2004		3,148.3	3,451.4	1,029.0	8,822.3	16,451.0

The notes set out on pages 172 to 247 form an integral part of these financial statements.

cashflow STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2004

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit from ordinary activities after taxation	807.5	1,064.6	1,759.8	1,419.2
Adjustments for:				
Taxation	675.2	583.9	198.8	528.1
Depreciation	2,639.6	2,422.1	2,246.4	2,176.0
Amortisation of coal mining rights	10.8	0	0	0
Provision for employee benefits	271.2	235.6	258.9	226.1
Translation loss/(gain)	361.9	28.6	146.7	(35.4)
Release of deferred income	(279.2)	(266.6)	(252.2)	(241.4)
Gain on disposal of property, plant and equipment	(2.9)	(0.1)	(207.0)	0
(Gain)/loss on disposal of associates	(29.7)	29.9	(57.0)	(236.0)
Loss on disposal of long term investments	0	0.9	0	0.9
Loss on disposal of short term investments	2.2	0	2.2	0
Share of results in associates	(79.8)	(102.4)	0	0
Loss on disposal of marketable securities	2.3	0.9	2.3	0.9
Dividend income	(7.4)	(21.2)	(151.3)	(35.3)
Interest income	(95.8)	(47.7)	(372.3)	(300.1)
Interest on borrowings	1,267.1	1,230.0	1,054.4	1,133.5
Property, plant and equipment written off	95.4	2.5	95.4	2.5
Release of government development grants	(41.6)	(41.8)	0	0
Allowance for diminution in value of associates	61.5	0	40.0	0
Write back of diminution in value of marketable securities	(0.9)	(1.5)	(0.9)	(1.5)
Inventories written off	128.8	3.5	29.8	0
	5,786.2	5,121.2	4,794.0	4,637.5
Inventories	135.8	(337.8)	206.8	(722.8)
Receivables	(826.0)	(247.9)	(38.0)	(46.1)
Payables	(303.5)	(410.1)	(201.3)	(162.8)
Amount owing from/to subsidiaries	0	0	1,237.6	33.1
Amount owing from/to associates	91.4	(221.4)	92.9	(216.9)
	4,883.9	3,904.0	6,092.0	3,522.0
Employee benefits paid	(153.2)	(138.7)	(151.1)	(136.4)
Consumer contributions received	359.2	334.9	320.0	286.0
Consumer deposits received	168.5	143.0	159.9	135.0
Taxation paid	(21.0)	(109.0)	(17.6)	(39.1)
Net cash flow from operating activities	5,237.4	4,134.2	6,403.2	3,767.5

The notes set out on pages 172 to 247 form an integral part of these financial statements.

CashFlow

STATEMENTS

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
CASH FLOWS FROM INVESTING ACTIVITIES				
Additional investment in a subsidiary	0	0	(574.5)	0
Additional investment in associates	0	(52.4)	0	(52.4)
Proceeds from disposal of associates	140.0	240.0	140.0	240.0
Proceeds from disposal of long term investments	0	1.1	0	1.1
Proceeds from redemption of bonds	26.2	0	0	0
Proceeds from redemption of unsecured loan notes in an associate	15.3	13.1	15.3	13.1
Proceeds from redemption of redeemable preference shares in associates	3.4	0	3.4	0
Purchase of long term investments	(13.5)	(73.4)	0	0
Purchase of short term investments	0	(1,007.0)	0	0
Net proceeds from sale of short term investments	1,340.4	0	333.4	0
Net proceeds from sale of marketable securities	0	0	0	0
Investment income received	0	27.2	0	27.2
Interest income received	93.8	57.8	89.7	50.9
Purchase of property, plant and equipment	(4,194.8)	(3,124.8)	(3,456.8)	(2,455.1)
Proceeds from disposal of property, plant and equipment	212.2	10.3	3,941.9	0
Net cash flow from investing activities	(2,377.0)	(3,908.1)	492.4	(2,175.2)
CASH FLOWS FROM FINANCING ACTIVITIES				
Government development grants received	78.6	87.3	0	0
Proceeds from issuance of shares	306.2	0	306.2	0
Proceeds from long term borrowings	5,965.7	2,977.7	1,177.7	1,079.7
Repayment of long term borrowings	(3,543.2)	(1,727.2)	(3,129.8)	(1,433.1)
Interest paid	(1,538.1)	(1,501.8)	(1,388.8)	(1,406.6)
Dividends paid	(268.2)	(227.8)	(268.2)	(227.8)
Proceeds from short term borrowings	3,569.0	6,678.7	3,425.4	6,138.7
Repayment of short term borrowings	(5,054.6)	(6,290.3)	(4,894.2)	(5,662.8)
Issue of shares to minority interests	0.3	0	0	0
Net cash flow from financing activities	(484.3)	(3.4)	(4,771.7)	(1,511.9)

The notes set out on pages 172 to 247 form an integral part of these financial statements.

	Note	Group		Company	
		2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,376.1	222.7	2,123.9	80.4
EFFECT OF CHANGES IN FOREIGN CURRENCY		(1.7)	1.7	0	0
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		1,372.0	1,147.6	845.9	765.5
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	24	3,746.4	1,372.0	2,969.8	845.9

The notes set out on pages 172 to 247 form an integral part of these financial statements.

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THE FINANCIAL STATEMENTS

31 AUGUST 2004

1 GENERAL INFORMATION

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.

The Company is a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Board of the Bursa Malaysia Berhad.

The address of the registered office of the Company is 129 Jalan Bangsar, 59200 Kuala Lumpur, Malaysia.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements.

(a) Basis of accounting

The financial statements are prepared under the historical cost convention except as disclosed in this summary of significant accounting policies. For example, certain property, plant and equipment are stated at revalued amount.

The financial statements comply with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965. The new applicable approved accounting standard adopted in these financial statements is Malaysian Accounting Standards Board ('MASB') Standard No. 29 "Employee Benefits".

With the exception of MASB Standard No. 29, there are no changes in accounting policy that affect the net profit or shareholders' equity.

The effects of the changes in accounting policies are disclosed in Note 40 to the financial statements.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to the end of the financial year. Subsidiaries are those enterprises in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The consolidated income statement includes the results of subsidiaries acquired or disposed during the financial year from the date of their acquisition or up to the date of their disposal respectively using the acquisition method of accounting. At the date of the acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. All intragroup transactions, balances and unrealised surpluses and deficits on transactions are eliminated.

Minority interest is measured at the minorities' share of the post-acquisition fair values of the identifiable assets and liabilities of the acquiree. Separate disclosure is made of minority interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

(c) Associates

Associates are enterprises in which the Group exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not control over those policies. Investments in associates are accounted for in the consolidated financial statements by the equity method of accounting.

Equity accounting involves recognising in the income statement the Group's share of the results of associates for the financial year. The Group's investments in associates are carried in the balance sheet at an amount that reflects its share of the net assets of the associates. Premium paid on acquisition is written off against reserves. See Note (d) for accounting policy on negative goodwill.

(d) Goodwill

Goodwill arising on consolidation represents the excess of the purchase price over the fair value of the net assets of the subsidiary at the date of acquisition. Goodwill is written off to reserves in the year of acquisition.

Negative goodwill represents the excess of the fair value of the Group's share of identifiable net assets acquired over the purchase price. Negative goodwill is accounted for as movement in reserves in the year of acquisition.

(e) Foreign currency

Foreign currency transactions are converted into Ringgit Malaysia at exchange rates ruling at the transaction dates unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Monetary assets and liabilities in foreign currencies are translated at exchange rates ruling at the balance sheet date unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. All exchange differences are dealt with through the income statement.

Income statements of foreign entities are translated into Ringgit Malaysia at average rates of exchange for the financial year. Balance sheets are translated into Ringgit Malaysia at the rates of exchange ruling at the balance sheet date. Exchange differences arising from the translation of the results for the financial year at average rates and assets and liabilities at year end rates, and the restatement at year end rates of the opening net investments in foreign subsidiaries are taken to a foreign currency translation reserve account as a component of shareholders' funds.

The principal closing rates used in translation of foreign currency amounts were as follows:

Foreign currency	2004 RM	2003 RM
1 USD	3.8000	3.8000
100 JPY	3.4522	3.2466
1 GBP	6.8041	6.0107
100 PKR	6.4741	6.5824
1 EURO	4.5701	4.1456

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses.

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.

Surpluses arising on revaluation are credited to revaluation reserve. Any deficit arising from revaluation is charged against the revaluation reserve to the extent of a previous surplus held in the revaluation reserve for the same asset. In all other cases, a decrease in carrying amount is charged to income statement.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit/(loss) from ordinary activities before taxation. On disposal of revalued assets, amount in revaluation reserve relating to those property, plant and equipment are transferred to retained profits.

Freehold land and capital project-in-progress are not depreciated. Leasehold land is amortised over the period of the respective lease ranging from 5 to 99 years on a straight line basis.

Depreciation is provided on all other categories of property, plant and equipment on a straight line basis which reflects the estimated useful lives of the assets.

The estimated useful lives of property, plant and equipment are as follows:

Buildings and civil works	10 to 60 years
Plant and machinery	10 to 40 years
Lines and distribution mains	25 to 35 years
Distribution services	20 years
Meters	15 years
Public lighting	15 to 25 years
Furniture, fittings and office equipment	5 to 10 years
Motor vehicles	5 to 10 years

Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount. See Note (t) for accounting policy on impairment of assets.

(g) Intangible assets

Expenditure on acquired rights, patents, trademarks and licences is capitalised and amortised using the straight line method over their estimated useful lives. Intangible assets are not revalued.

(h) Capitalisation of interest

Interest incurred on external borrowings related to long term capital project-in-progress is capitalised until the assets are ready for their intended use.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of work-in-progress and finished goods comprise raw materials, direct labour and a proportion of the production overheads. Cost is determined on the weighted average and first-in-first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(j) Marketable securities

Marketable securities are stated at the lower of cost and market value on an aggregate portfolio basis. Cost is derived at on the weighted average basis. Market value is calculated by reference to stock exchange quoted selling prices at the close of business at the balance sheet date. Any write downs to the market value of investments or subsequent write backs to cost are dealt with through the income statement.

(k) Employee benefits

(i) Short term employee benefits

Wages, salaries, paid annual leave, bonuses, and non-monetary benefits are accrued in the financial year in which the associated services are rendered by employees of the Group.

(ii) Post-employment benefits

The Group has various post-employment benefit schemes in accordance with local conditions and practices in the countries in which it operates. These benefit plans are either defined contribution or defined benefit plans.

Defined contribution plans

The Group's contributions to defined contribution plans are charged to the income statement in the financial year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

Defined benefit plans

The Group makes contributions to the Company's Retirement Benefit Plan ('RBP'), a defined benefit plan and approved fund independent of the Company's finances. A book provision is also provided by the Company as the contribution rate required to fund the benefits under the RBP is in excess of the Inland Revenue maximum limit. The Group and the Company also provide for a post retirement medical plan for its employees. Prior to the adoption of MASB Standard No. 29, liabilities in respect of post retirement medical plan are not provided for.

The liability in respect of a defined benefit plan is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service cost. The Group determines the present value of the defined benefit obligation and the fair value of any plan assets with sufficient regularity such that the amount recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date.

The defined benefit obligation, calculated using the projected unit credit method, is determined by independent actuaries, considering the estimated future cash outflows using market yields at balance sheet date of government securities which have currency and terms to maturity approximating the terms of the related liability.

Plan assets in excess of the defined benefit obligation are subject to the asset limitation specified in MASB Standard No. 29.

Actuarial gains and losses arises from experience adjustments and changes in actuarial assumptions. The amount of net actuarial gains and losses recognised in the income statement is determined by the corridor method in accordance with MASB Standard No. 29 and is charged or credited to income over the average remaining service lives of the related employees participating in the defined benefit plan.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

(l) Income taxes

Current tax expense is determined according to the Malaysian tax laws.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax is recognised on temporary differences arising on investments in subsidiaries, associates and joint ventures except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Prior to the adoption of MASB Standard No. 25, deferred tax is recognised for timing differences except when there is reasonable evidence that such timing differences will not reverse in the foreseeable future.

(m) Investments

Investments in subsidiaries and associates held for long term are stated at cost, less allowance for any diminution in their value. Diminution in the value of an investment is recognised as an expense in the financial year in which the diminution is identified.

Investments in other non-current investments are shown at cost and an allowance for diminution in value is made where, in the opinion of the Directors, there is a decline other than temporary in the value of such investments. Where there has been a decline other than temporary in the value of an investment, such a decline is recognised as an expense in the financial year.

On disposal of an investment, the difference between the net disposal proceeds and its carrying amount is charged or credited to the income statement.

(n) Deferred income

Contributions received from certain customers to defray the cost of capital projects are credited to the deferred income account. The amount in this account is released to the income statement on a straight line basis over 15 years, being the average useful life of such projects.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

(o) Operating leases

A group company is the lessee

Leases of assets under which all the rewards and risks of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

A group company is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar assets.

(p) Trade receivables

Trade receivables are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An allowance is made for doubtful receivables based on review of all outstanding amounts at the financial year end.

(q) Trade payables

Trade payables are stated at cost, which is the fair value of the consideration to be paid in the future for goods and services received.

(r) Contingent liabilities

The Group does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation.

(s) Borrowings

Classification

Borrowings are initially recognised based on the proceeds received. The costs of issuing debt instruments are expensed as and when incurred.

Interest and dividends on financial instruments deemed as borrowings are reported within finance cost in the income statement.

(t) Impairment of assets

Property, plant and equipment and other non-current assets, including intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

(u) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(v) Revenue recognition

Sales are recognised upon invoiced value of services delivered net of billing adjustments.

Other operating income earned by the Group and Company comprises interest and leasing income as well as dividend income. Interest and leasing incomes are accrued unless collectibility is in doubt. Dividend income is recognised when the shareholders' right to receive payment is established.

(w) Government development grants

Government development grants relating to the construction of property, plant and equipment are included in long term liabilities and are credited to the income statement on a straight line basis over 15 years.

(x) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, payables, leases and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The Group and Company are also parties to financial instruments that manage exposure to fluctuations in foreign currency exchange and interest rate. These financial instruments, which mainly comprise foreign currency forward contracts, cross currency swap contracts and interest rate swap contracts, are not recognised in the financial statements. Derivative financial instruments are used in the Group and Company's risk management of foreign currency and interest rate risk exposure of its financial liabilities.

Foreign currency forward contracts

The Group enters into foreign currency forward contracts to protect the Group from movements in exchange rates by establishing the rate at which a foreign currency asset or liability will be settled.

Exchange gains and losses arising on contracts entered into as hedges of anticipated future transactions are deferred until the date of such transaction, at which time they are included in the measurement of such transactions.

All other exchange gains and losses relating to hedge instruments are recognised in the income statement in the same period as the exchange differences on the underlying hedged items.

Cross currency swap contracts

Cross currency swaps are entered into to manage exposure to movements in exchange rates by establishing the currency at which a foreign currency liability will be settled.

The notional principal of these contracts are off balance sheet. Any differential in terms of exchange gains or losses are recognised in the income statement in the same period as the exchange differences on the underlying hedged items.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

(x) Financial instruments (Cont'd.)

Interest rate swap contracts

Interest rate swaps, collars and caps agreements are designed to manage the Group's exposure to protect the Group from movements in interest rates. The notional principal of these contracts are off balance sheet. Any differential to be paid or received on an interest rate swap contract is recognised as a component of interest income or expense over the period of the contract. Gains and losses on early termination of interest rate swaps or on repayment of the borrowing are taken to the income statement.

Fair value estimation for disclosure purposes

In assessing the value of financial instruments, the Group and the Company make certain assumptions and apply the discounted cash flow method to discount future cash flows to determine the fair value of financial instruments. The fair values of financial liabilities are estimated by discounting future cash flows at current market interest rate available to the Group and the Company.

Fair value of publicly traded derivatives and securities is based on quoted market prices at balance sheet date whereas the fair value of foreign currency forward contracts is calculated using forward exchange market rates at balance sheet date.

The fair values for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

(y) Rural electrification and projects under the 7th Malaysia Plan

Rural electrification projects are capitalised as property, plant and equipment. The costs of the projects under the 7th Malaysia Plan in the State of Sabah are only capitalised and accounted for as property, plant and equipment upon receipt of formal handover documentation. The corresponding amounts are recorded as government development grants and such grants are released to the income statement on a straight line basis over the same period as the expected economic life of the projects.

3 REVENUE

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Sales – electricity	17,219.4	15,973.9	16,286.1	15,065.5
– goods and services	213.5	217.3	0	0
Release of deferred income (Note 30)	279.2	266.6	252.2	241.4
	17,712.1	16,457.8	16,538.3	15,306.9

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4 OPERATING EXPENSES

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Energy cost	10,266.5	9,411.6	9,948.7	8,743.7
Transmission cost	829.6	854.0	827.8	848.9
Distribution cost	2,421.5	2,415.2	2,404.1	2,349.3
Administrative expenses	740.5	626.0	479.0	327.2
Other operating expenses	465.3	558.0	123.6	338.4
	14,723.4	13,864.8	13,783.2	12,607.5
Operating expenses include the following items:				
Directors' remuneration				
– fees	0.7	0.8	0.5	0.5
– other emoluments	0.9	0.5	0.9	0.5
Auditors' remuneration	0.9	0.8	0.4	0.4
Allowance for doubtful debts	227.1	194.1	220.0	193.3
Amortisation of coal mining rights	10.8	0	0	0
Depreciation	2,639.6	2,422.1	2,246.4	2,176.0
Rental of land and buildings	74.4	56.5	61.2	80.1
Rental of plant and machinery	14.0	31.9	12.8	24.7
Research and development expenses	18.0	24.9	17.9	24.9
Property, plant and equipment written off	95.4	2.5	95.4	2.5
Inventories written off	128.8	3.5	29.8	0
Allowance for stock obsolescence	15.2	0	15.2	0
Loss on disposal of long term investments	0	0.9	0	0.9
Write back of diminution in value of marketable securities	(0.9)	(1.5)	(0.9)	(1.5)
Allowance for diminution in value of associates	61.5	0	40.0	0
Write back of allowance for doubtful debts	0	(137.5)	0	(86.1)
Staff costs (Note 5)	1,725.6	1,740.9	1,495.3	1,493.9

The estimated money value of benefits-in-kind received by the Directors was RM81,846 (2003: RM70,160) for the Group and the Company.

5 STAFF COSTS

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Wages, salaries and bonuses	1,151.8	1,228.4	988.5	1,032.1
Defined contribution retirement plan	106.9	110.6	99.5	104.0
Retirement benefit plan	177.4	144.4	174.8	143.7
Retirement medical plan	93.8	91.2	84.1	82.4
Other employee benefits	195.7	166.3	148.4	131.7
	1,725.6	1,740.9	1,495.3	1,493.9

The number of persons employed at the end of the financial year was 26,989 (2003: 27,238) for the Group and 22,928 (2003: 23,131) for the Company.

Details of the retirement benefit and retirement medical plans of the Group and the Company are set out in Note 28 to these financial statements.

6 OTHER OPERATING INCOME

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Dividend income from investments in:				
– quoted shares	7.1	21.2	7.1	21.2
– unquoted shares	0.3	0	144.2	14.1
Leasing income	0	16.9	4.5	17.9
Interest income	95.8	47.7	372.3	300.1
Rental income	1.3	4.2	20.0	30.2
Release of Government development grants (Note 31)	41.6	41.8	0	0
Government subsidies	28.2	28.2	0	0
Loss on disposal of marketable securities	(2.3)	(0.9)	(2.3)	(0.9)
Gain on disposal of property, plant and equipment	2.9	0.1	207.0	0
Gain/(loss) on disposal of associates	29.7	(29.9)	57.0	236.0
Loss on disposal of short term investments	(2.2)	0	(2.2)	0
Interest on late payments receivable	54.4	43.9	54.4	40.3
Minimum make up charges	26.1	24.6	26.1	24.6
Other income	53.6	71.9	34.6	52.3
	336.5	269.7	922.7	735.8

7 EXCEPTIONAL ITEMS

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Allowance for advances and diminution in value of investment in a subsidiary	0	0	227.4	335.5

The impairment charge was made against the advances given to a subsidiary, Sabah Electricity Sdn Bhd ('SESB'). During the financial year ended 31 August 2004, a further impairment charge was made against the Company's equity investment in and advances given to SESB.

8 FOREIGN EXCHANGE (LOSS)/GAIN

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Foreign exchange (loss)/gain comprises:				
Translation (loss)/gain – foreign term loans	(346.3)	(43.6)	(166.1)	20.1
Translation (loss)/gain – others	(15.6)	15.0	19.4	15.3
Transaction (loss)/gain	(209.9)	12.0	(211.7)	15.7
	(571.8)	(16.6)	(358.4)	51.1
The translation (loss)/gain is in respect of term loans denominated in foreign currencies which are repayable over the following periods:				
Within one year	(55.0)	46.9	(31.4)	45.9
After one and up to two years	(43.1)	(20.3)	(20.1)	(4.4)
After two and up to five years	(108.5)	(20.6)	(41.7)	(7.8)
After five and up to ten years	(136.7)	(39.2)	(36.2)	(8.0)
After ten and up to twenty years	(14.6)	(10.4)	(30.9)	(5.6)
After twenty and up to thirty years	11.6	0	(5.8)	0
	(346.3)	(43.6)	(166.1)	20.1

9 FINANCE COST

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Interest on borrowings	1,585.0	1,498.6	1,372.1	1,402.1
Less: Amount capitalised into property, plant and equipment	(317.9)	(268.6)	(317.7)	(268.6)
Interest on consumer deposits	83.4	70.0	79.0	70.0
	1,350.5	1,300.0	1,133.4	1,203.5

10 TAXATION

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Arising in Malaysia:				
Current tax	40.3	42.9	75.7	38.7
Over provision in respect of prior financial years	(11.3)	(5.1)	(11.6)	(7.5)
Deferred tax	585.5	517.9	84.7	496.9
Under provision in respect of prior financial year	41.6	0	50.0	0
	656.1	555.7	198.8	528.1

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10 TAXATION (Cont'd.)

The explanation of the relationship between tax expense and profit from ordinary activities before tax is as follows.

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Profit before taxation	1,482.7	1,648.5	1,958.6	1,947.3
Tax calculated at the Malaysian tax rate of 28% (2003: 28%)	415.2	461.6	548.4	545.2
Tax effect of:				
– income not subject to tax	(149.4)	(119.4)	(80.5)	(159.5)
– expenses not deductible for tax purposes	273.3	140.9	275.0	151.4
– gain on disposal of property, plant and equipment to subsidiary not subjected to tax	0	0	(582.4)	0
– current year's tax loss not recognised	60.4	72.1	0	0
– temporary differences not recognised	45.7	35.5	0	0
– expenses qualifying for double deduction	(0.3)	(1.7)	(0.1)	(1.5)
Over provision of current tax in prior years	(11.3)	(5.1)	(11.6)	(7.5)
Under provision of deferred tax in prior year	41.6	0	50.0	0
Tax charge	675.2	583.9	198.8	528.1
Average effective tax rate (%)	45.5	35.4	10.2	27.1

11 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2004	2003
Net profit for the financial year (RM'million)	813.7	1,061.9
Weighted average number of ordinary shares in issue ('000)	3,119,560	3,111,825
Basic earnings per share (sen)	26.1	34.1

11 EARNINGS PER SHARE (Cont'd.)**(b) Diluted earnings per share**

	Group	
	2004	2003
Net profit for the financial year (RM'million)	813.7	1,061.9
Weighted average number of ordinary shares in issue ('000)	3,119,560	3,111,825
Adjustment for share options ('000)	24,242	0
Weighted average number of ordinary shares for diluted earnings per share ('000)	3,143,802	3,111,825
Diluted earnings per share (sen)	25.9	N/A

As at 31 August 2004 and 31 August 2003, the Group had, in issue, RM1,520.0 million Guaranteed Exchangeable Bonds ('GEB') whose terms of conversion are set out in Note 27(c)(iv), still unexercised. MASB Standard No. 13 "Earnings per Share" prescribes that the GEB are dilutive when they would result in the issuance of ordinary shares for less than their fair value. Since the exercise price of the GEB is higher than the average fair value of the Company's shares for the financial year, the GEB are deemed not dilutive.

12 DIVIDENDS

	Group and Company	
	2004 RM'million	2003 RM'million
Interim:		
– 3.0 sen per ordinary share, tax exempt (2003: 3.0 sen per ordinary share, tax exempt)	93.9	93.4
Proposed:		
– 10.0 sen final gross and 4.0 sen special gross per ordinary share, less income tax at 28% (2003: 7.8 sen final gross per ordinary share, less income tax at 28%)	317.4	174.8
	411.3	268.2

Interim dividends are paid and accounted for in shareholders' equity as an appropriation of retained profits in the financial year.

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12 DIVIDENDS (Cont'd.)

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 August 2004 of 10.0 sen gross and a special dividend of 4.0 sen gross per ordinary share, both less income tax at 28%, amounting to RM317.4 million will be proposed for shareholders' approval. These final and special dividends will be accrued as a liability in the financial year ending 31 August 2005 when approved by shareholders.

In respect of the financial year ended 31 August 2003, a final dividend of 7.8 sen gross per ordinary share, less income tax at 28% amounted to RM174.8 million was declared.

13 PROPERTY, PLANT AND EQUIPMENT

Group 2004	As at 1.9.2003 RM'million	Exchange rate adjustment RM'million	Additions RM'million	Disposals RM'million	Transfers/ reclassi- fications RM'million	As at 31.8.2004 RM'million
Cost/valuation						
At 1984 and earlier valuations:						
Long leasehold land	8.4	0	0	0	0	8.4
Buildings and civil works	5.6	0	0	0	0	5.6
At 1994 valuation:						
Freehold land	687.5	0	0	(0.3)	0	687.2
Long leasehold land	602.7	0	0	(0.3)	0	602.4
Short leasehold land	3.1	0	0	0	0	3.1
Buildings and civil works	440.1	0	0	0	0	440.1
	1,747.4	0	0	(0.6)	0	1,746.8
At cost:						
Freehold land	439.2	(0.1)	2.2	0	(218.9)	222.4
Long leasehold land	174.5	0	2.8	0	218.9	396.2
Short leasehold land	38.5	0	0	0	0	38.5
Buildings and civil works	10,384.4	0	66.9	(16.5)	(450.9)	9,983.9
	12,784.0	(0.1)	71.9	(17.1)	(450.9)	12,387.8
Plant and machinery	28,934.5	(16.2)	815.3	(368.5)	389.4	29,754.5
Lines and distribution mains	17,170.5	0	727.4	(0.5)	(91.3)	17,806.1
Distribution services	1,980.0	0	81.1	0	(128.5)	1,932.6
Meters	865.3	0	35.8	0	(42.4)	858.7
Public lighting	257.0	0	6.5	0	(17.8)	245.7
Furniture, fittings and office equipment	665.5	0	58.6	(16.8)	(4.9)	702.4
Motor vehicles	178.7	0	14.3	(4.2)	(2.5)	186.3
	62,835.5	(16.3)	1,810.9	(407.1)	(348.9)	63,874.1
Capital project-in-progress	8,643.6	0	4,520.4	0	(3,448.2)	9,715.8
	71,479.1	(16.3)	6,331.3	(407.1)	(3,797.1)	73,589.9

13 PROPERTY, PLANT AND EQUIPMENT (Cont'd.)

Group 2004	As at 1.9.2003 RM'million	Charge for the financial year RM'million	Released on disposals/ transfers RM'million	As at 31.8.2004 RM'million
Accumulated depreciation				
At 1984 and earlier valuations:				
Long leasehold land	1.6	0.1	0	1.7
Buildings and civil works	3.1	0	0.2	3.3
At 1994 valuation:				
Freehold land	0	0	0	0
Long leasehold land	72.4	11.9	(0.1)	84.2
Short leasehold land	0.5	0	0	0.5
Buildings and civil works	124.1	16.6	0	140.7
	201.7	28.6	0.1	230.4
At cost:				
Freehold land	2.4	0	(2.4)	0
Long leasehold land	15.5	6.9	2.5	24.9
Short leasehold land	5.8	0.4	0	6.2
Buildings and civil works	2,155.7	251.2	(380.6)	2,026.3
	2,381.1	287.1	(380.4)	2,287.8
Plant and machinery	9,428.1	1,332.2	(1,793.6)	8,966.7
Lines and distribution mains	5,482.4	745.6	(7.3)	6,220.7
Distribution services	812.8	95.8	(11.2)	897.4
Meters	382.4	51.0	(4.8)	428.6
Public lighting	98.8	13.1	(2.1)	109.8
Furniture, fittings and office equipment	422.5	95.3	0	517.8
Motor vehicles	136.2	19.5	(4.7)	151.0
	19,144.3	2,639.6	(2,204.1)	19,579.8
Accumulated impairment losses				
Plant and machinery	566.4	0	0	566.4

NotesTo

THE FINANCIAL STATEMENTS

13 PROPERTY, PLANT AND EQUIPMENT (Cont'd.)

Group 2003	As at 1.9.2002 RM'million	Exchange rate adjustment RM'million	Additions RM'million	Disposals RM'million	Transfers/ reclassi- fications RM'million	As at 31.8.2003 RM'million
Cost/valuation						
At 1984 and earlier valuations:						
Long leasehold land	8.4	0	0	0	0	8.4
Buildings and civil works	5.6	0	0	0	0	5.6
At 1994 valuation:						
Freehold land	687.5	0	0	0	0	687.5
Long leasehold land	602.7	0	0	0	0	602.7
Short leasehold land	3.1	0	0	0	0	3.1
Buildings and civil works	440.1	0	0	0	0	440.1
	1,747.4	0	0	0	0	1,747.4
At cost:						
Freehold land	266.3	0.1	166.5	0	6.3	439.2
Long leasehold land	158.6	0	20.7	0	(4.8)	174.5
Short leasehold land	38.5	0	0	0	0	38.5
Buildings and civil works	9,610.4	0.1	770.5	(2.2)	5.6	10,384.4
	11,821.2	0.2	957.7	(2.2)	7.1	12,784.0
Plant and machinery	25,043.7	27.1	3,746.9	(10.1)	126.9	28,934.5
Lines and distribution mains	16,445.2	0	857.2	0	(131.9)	17,170.5
Distribution services	1,710.8	0	269.2	0	0	1,980.0
Meters	745.1	0	120.2	0	0	865.3
Public lighting	229.8	0	27.2	0	0	257.0
Furniture, fittings and office equipment	691.9	0.1	46.1	(72.1)	(0.5)	665.5
Motor vehicles	286.5	0	15.3	(121.5)	(1.6)	178.7
	56,974.2	27.4	6,039.8	(205.9)	0	62,835.5
Capital project-in-progress	11,179.2	0	3,381.5	0	(5,917.1)	8,643.6
	68,153.4	27.4	9,421.3	(205.9)	(5,917.1)	71,479.1

13 PROPERTY, PLANT AND EQUIPMENT (Cont'd.)

Group 2003	As at 1.9.2002 RM'million	Charge for the financial year RM'million	Released on disposals/ transfers RM'million	As at 31.8.2003 RM'million
Accumulated depreciation				
At 1984 and earlier valuations:				
Long leasehold land	1.5	0.1	0	1.6
Buildings and civil works	4.6	0	(1.5)	3.1
At 1994 valuation:				
Freehold land	0	0	0	0
Long leasehold land	60.4	12.0	0	72.4
Short leasehold land	0.4	0.1	0	0.5
Buildings and civil works	109.1	15.0	0	124.1
	176.0	27.2	(1.5)	201.7
At cost:				
Freehold land	0	2.4	0	2.4
Long leasehold land	11.7	2.3	1.5	15.5
Short leasehold land	5.3	0.3	0.2	5.8
Buildings and civil works	1,949.6	245.4	(39.3)	2,155.7
	2,142.6	277.6	(39.1)	2,381.1
Plant and machinery	8,147.8	1,165.4	114.9	9,428.1
Lines and distribution mains	4,812.4	709.6	(39.6)	5,482.4
Distribution services	716.9	95.9	0	812.8
Meters	333.9	48.5	0	382.4
Public lighting	85.6	13.2	0	98.8
Furniture, fittings and office equipment	412.3	82.3	(72.1)	422.5
Motor vehicles	224.8	29.6	(118.2)	136.2
	16,876.3	2,422.1	(154.1)	19,144.3
Accumulated impairment losses				
Plant and machinery	566.4	0	0	566.4

NotesTo

THE FINANCIAL STATEMENTS

13 PROPERTY, PLANT AND EQUIPMENT (Cont'd.)

Company 2004	As at 1.9.2003 RM'million	Additions RM'million	Disposals RM'million	Transfers/ reclassi- fications RM'million	As at 31.8.2004 RM'million
Cost/valuation					
At 1994 valuation:					
Freehold land	687.5	0	(0.3)	0	687.2
Long leasehold land	602.7	0	(0.3)	0	602.4
Short leasehold land	3.1	0	0	0	3.1
Buildings and civil works	440.1	0	0	0	440.1
	1,733.4	0	(0.6)	0	1,732.8
At cost:					
Freehold land	253.0	2.2	0	(53.9)	201.3
Long leasehold land	154.3	0	0	59.3	213.6
Short leasehold land	23.5	0	0	0	23.5
Buildings and civil works	9,383.1	111.9	(1,253.9)	19.6	8,260.7
	11,547.3	114.1	(1,254.5)	25.0	10,431.9
Plant and machinery	23,913.4	843.8	(4,534.4)	(27.1)	20,195.7
Lines and distribution mains	16,792.1	696.6	(0.5)	(91.3)	17,396.9
Distribution services	1,888.6	75.8	0	(128.5)	1,835.9
Meters	852.3	33.2	0	(42.3)	843.2
Public lighting	257.0	6.5	0	(17.8)	245.7
Furniture, fittings and office equipment	542.9	42.2	(16.7)	37.6	606.0
Motor vehicles	135.7	10.9	(3.4)	4.4	147.6
	55,929.3	1,823.1	(5,809.5)	(240.0)	51,702.9
Capital project-in-progress	7,171.8	3,830.9	0	(1,823.1)	9,179.6
	63,101.1	5,654.0	(5,809.5)	(2,063.1)	60,882.5

13 PROPERTY, PLANT AND EQUIPMENT (Cont'd.)

Company 2004	As at 1.9.2003 RM'million	Charge for the financial year RM'million	Released on disposals/ transfers RM'million	As at 31.8.2004 RM'million
Accumulated depreciation				
At 1994 valuation:				
Freehold land	0	0	0	0
Long leasehold land	72.4	11.9	(0.1)	84.2
Short leasehold land	0.5	0	0	0.5
Buildings and civil works	124.1	16.6	0	140.7
	197.0	28.5	(0.1)	225.4
At cost:				
Freehold land	0	0	0	0
Long leasehold land	13.5	4.5	0.4	18.4
Short leasehold land	4.6	0.4	0	5.0
Buildings and civil works	2,085.1	231.4	(382.1)	1,934.4
	2,300.2	264.8	(381.8)	2,183.2
Plant and machinery	8,870.2	1,025.7	(1,791.2)	8,104.7
Lines and distribution mains	5,367.6	715.4	(7.4)	6,075.6
Distribution services	765.8	85.7	(11.2)	840.3
Meters	377.9	49.8	(4.8)	422.9
Public lighting	98.8	13.1	(2.1)	109.8
Furniture, fittings and office equipment	360.9	78.6	13.5	453.0
Motor vehicles	112.8	13.3	0.5	126.6
	18,254.2	2,246.4	(2,184.5)	18,316.1

NotesTo

THE FINANCIAL STATEMENTS

13 PROPERTY, PLANT AND EQUIPMENT (Cont'd.)

Company 2003	As at 1.9.2002 RM'million	Additions RM'million	Disposals RM'million	Transfers/ reclassi- fications RM'million	As at 31.8.2003 RM'million
Cost/valuation					
At 1994 valuation:					
Freehold land	687.5	0	0	0	687.5
Long leasehold land	602.7	0	0	0	602.7
Short leasehold land	3.1	0	0	0	3.1
Buildings and civil works	440.1	0	0	0	440.1
	1,733.4	0	0	0	1,733.4
At cost:					
Freehold land	246.5	0.2	0	6.3	253.0
Long leasehold land	140.4	18.7	0	(4.8)	154.3
Short leasehold land	23.5	0	0	0	23.5
Buildings and civil works	9,242.4	139.5	(2.2)	3.4	9,383.1
	11,386.2	158.4	(2.2)	4.9	11,547.3
Plant and machinery	23,193.5	590.5	(1.1)	130.5	23,913.4
Lines and distribution mains	16,084.9	839.1	0	(131.9)	16,792.1
Distribution services	1,628.2	260.4	0	0	1,888.6
Meters	734.4	117.9	0	0	852.3
Public lighting	229.8	27.2	0	0	257.0
Furniture, fittings and office equipment	577.3	25.8	(70.3)	10.1	542.9
Motor vehicles	242.7	6.9	(120.1)	6.2	135.7
	54,077.0	2,026.2	(193.7)	19.8	55,929.3
Capital project-in-progress	6,473.5	2,724.5	0	(2,026.2)	7,171.8
	60,550.5	4,750.7	(193.7)	(2,006.4)	63,101.1

13 PROPERTY, PLANT AND EQUIPMENT (Cont'd.)

Company 2003	As at 1.9.2002 RM'million	Charge for the financial year RM'million	Released on disposals/ transfers RM'million	As at 31.8.2003 RM'million
Accumulated depreciation				
At 1994 valuation:				
Freehold land	0	0	0	0
Long leasehold land	60.4	12.0	0	72.4
Short leasehold land	0.4	0.1	0	0.5
Buildings and civil works	109.1	15.0	0	124.1
	169.9	27.1	0	197.0
At cost:				
Freehold land	0	0	0	0
Long leasehold land	10.6	1.7	1.2	13.5
Short leasehold land	4.1	0.3	0.2	4.6
Buildings and civil works	1,900.4	225.7	(41.0)	2,085.1
	2,085.0	254.8	(39.6)	2,300.2
Plant and machinery	7,784.1	1,003.2	82.9	8,870.2
Lines and distribution mains	4,727.8	679.4	(39.6)	5,367.6
Distribution services	681.3	84.5	0	765.8
Meters	330.4	47.5	0	377.9
Public lighting	85.6	13.2	0	98.8
Furniture, fittings and office equipment	352.7	70.2	(62.0)	360.9
Motor vehicles	202.7	23.2	(113.1)	112.8
	16,249.6	2,176.0	(171.4)	18,254.2

NotesTo

THE FINANCIAL STATEMENTS

13 PROPERTY, PLANT AND EQUIPMENT (Cont'd.)

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Net book value				
At 1984 and earlier valuations:				
Long leasehold land	6.7	6.8	0	0
Buildings and civil works	2.3	2.5	0	0
At 1994 valuation:				
Freehold land	687.2	687.5	687.2	687.5
Long leasehold land	518.2	530.3	518.2	530.3
Short leasehold land	2.6	2.6	2.6	2.6
Buildings and civil works	299.4	316.0	299.4	316.0
	1,516.4	1,545.7	1,507.4	1,536.4
At cost:				
Freehold land	222.4	436.8	201.3	253.0
Long leasehold land	371.3	159.0	195.2	140.8
Short leasehold land	32.3	32.7	18.5	18.9
Buildings and civil works	7,957.6	8,228.7	6,326.3	7,298.0
	10,100.0	10,402.9	8,248.7	9,247.1
Plant and machinery	20,221.4	18,940.0	12,091.0	15,043.2
Lines and distribution mains	11,585.4	11,688.1	11,321.3	11,424.5
Distribution services	1,035.2	1,167.2	995.6	1,122.8
Meters	430.1	482.9	420.3	474.4
Public lighting	135.9	158.2	135.9	158.2
Furniture, fittings and office equipment	184.6	243.0	153.0	182.0
Motor vehicles	35.3	42.5	21.0	22.9
	43,727.9	43,124.8	33,386.8	37,675.1
Capital project-in-progress	9,715.8	8,643.6	9,179.6	7,171.8
	53,443.7	51,768.4	42,566.4	44,846.9

13 PROPERTY, PLANT AND EQUIPMENT (Cont'd.)

Had the revalued property, plant and equipment been included in the financial statements at cost less depreciation, the net book value of the revalued property, plant and equipment would have been as follows:

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Freehold land	51.7	51.7	44.8	44.8
Leasehold land	66.0	68.8	66.0	68.0
Buildings and civil works	133.5	140.9	133.5	140.9
	251.2	261.4	244.3	253.7

The valuation of freehold land, leasehold land, buildings and civil works of the Company was based on an independent valuation by a professional firm of valuers on the open market value basis in 1994. The net surplus on revaluation was incorporated into the financial statements at 31 August 1996 and transferred to revaluation reserve.

The valuations of long leasehold land and buildings of a subsidiary were carried out in 1982 and 1984 respectively based on independent valuations by professional firms of valuers on the open market value basis. The net surplus on revaluation was transferred to revaluation reserve.

The title deeds of certain lands are in the process of being registered in the Company's and a subsidiary's name.

Net book value of plant and machinery in respect of closed power stations held for disposal amounted to RM0.5 million (2003: RM0.9 million).

Interest capitalised during the financial year in capital project-in-progress amounted to RM317.9 million (2003: RM268.6 million) for the Group and RM317.7 million (2003: RM268.6 million) for the Company.

The capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation is 5.31% (2003: 5.49%) for the Group and 5.28% (2003: 5.49%) for the Company.

14 COAL MINING RIGHTS

	Group	
	2004 RM'million	2003 RM'million
Cost		
As at the beginning of the financial year	0	0
Additions	323.0	0
As at the end of the financial year	323.0	0
Accumulated amortisation		
As at the beginning of the financial year	0	0
Amortisation charge	10.8	0
As at the end of the financial year	10.8	0
Net book value as at the end of the financial year	312.2	0

During the financial year, TNB acquired a company which holds the concession to mine a coal reserve located in Kalimantan for a period of 30 years.

15 SUBSIDIARIES

	Company	
	2004 RM'million	2003 RM'million
Unquoted ordinary shares, at cost	196.9	195.4
Redeemable unsecured loan stocks, at cost	574.5	0
Redeemable preference shares, at cost	500.2	500.2
	1,271.6	695.6
Less: Allowance for diminution in value	(500.2)	(500.2)
	771.4	195.4

15 SUBSIDIARIES (Cont'd.)

Name of subsidiary	Group's interest		Principal activities	Country of incorporation
	2004	2003		
TNB Janamanjung Sdn Bhd	100%	100%	Operation of power plant and generation of electricity	Malaysia
TNB Power Daharki Ltd*	100%	100%	Investment holding	Mauritius
TNB Fuel Services Sdn Bhd	100%	100%	Purchase and supply of fuel and coal for power generation	Malaysia
TNB Energy Services Sdn Bhd	100%	100%	Generation and supply of various energy sources and provision of related technical services	Malaysia
TNB Research Sdn Bhd	100%	100%	Research and development, consultancy and other services	Malaysia
TNB Ventures Sdn Bhd	100%	100%	Investment holding for domestic and international ventures	Malaysia
TNB Properties Sdn Bhd	100%	100%	Provision of property management services	Malaysia
TNB Engineering Corporation Sdn Bhd	100%	100%	Project management and consultancy, engineering works and energy project development services	Malaysia
TNB Repair and Maintenance Sdn Bhd	100%	100%	Repair, maintenance and testing of power plants	Malaysia
TNB Engineers Sdn Bhd	100%	100%	Provision of contracting, trading and engineering services relating to the energy sector	Malaysia
TNB Capital (L) Ltd	100%	100%	Investment holding	Malaysia
Universiti Tenaga Nasional Sdn Bhd	100%	100%	Institute of higher learning	Malaysia
TNB Generation Sdn Bhd	100%	100%	Provision of operation and maintenance services	Malaysia

15 SUBSIDIARIES (Cont'd.)

Name of subsidiary	Group's interest		Principal activities	Country of incorporation
	2004	2003		
TNB Transmission Network Sdn Bhd	100%	100%	Provision of services related to the electrical transmission network system	Malaysia
TNB Distribution Sdn Bhd	100%	100%	Provision of management services to the ultimate holding company in relation to the distribution of electricity	Malaysia
TNB Risk Management Sdn Bhd	100%	100%	Risk management services, risk surveys and insurance activities	Malaysia
TNB Logistics Sdn Bhd	100%	100%	Freight forwarding	Malaysia
TNB-IT Sdn Bhd	100%	100%	Supply of information and multimedia services and works	Malaysia
TNB Workshop Services Sdn Bhd	100%	100%	Repair and maintenance of motor vehicles	Malaysia
TNB Kekal Sdn Bhd	100%	100%	Provision of property management services on behalf of its ultimate holding company, TNB	Malaysia
TNB Metering Services Sdn Bhd	100%	100%	Sales of meters and related services	Malaysia
TNB Hidro Sdn Bhd	100%	100%	Dormant	Malaysia
Sumber Hidro Management Sdn Bhd	100%	100%	Dormant	Malaysia
TNB Kapar Sdn Bhd	100%	100%	Dormant	Malaysia
TNB Prai Sdn Bhd	100%	100%	Dormant	Malaysia
TNB Paka Sdn Bhd	100%	100%	Dormant	Malaysia
Sabah Electricity Sdn Bhd	80%	80%	Generation, transmission, distribution and sale of electricity	Malaysia
Malaysia Transformer Manufacturing Sdn Bhd	73%	73%	Manufacturing, selling and repairing transformers	Malaysia
TNB Coal International Limited*	70%	70%	Investment holding	Mauritius

15 SUBSIDIARIES (Cont'd.)

Name of subsidiary	Group's interest		Principal activities	Country of incorporation
	2004	2003		
Tenaga Switchgear Sdn Bhd	60%	60%	Assemble and manufacture high voltage switchgears	Malaysia
Fibrecomm Network (M) Sdn Bhd*	59%	59%	Development and operation of fibre optic communication network	Malaysia
Kapar Energy Ventures Sdn Bhd	60%	0%	Operation and maintenance of power plants and generation of electricity	Malaysia
Subsidiaries of TNB Engineering Corporation Sdn Bhd				
Bangsar Energy Systems Sdn Bhd	100%	100%	Engage in erecting a district cooling plant for purposes of generating and supplying chilled water	Malaysia
TNEC Construction Sdn Bhd	100%	100%	Construction contractors	Malaysia
TNEC Operations and Maintenance Sdn Bhd	100%	100%	Operations and maintenance of cooling and power plants	Malaysia
Power and Energy International (Mauritius) Ltd*	100%	100%	Dormant	Mauritius
Subsidiary of Power and Energy International (Mauritius) Ltd				
Independent Power International Ltd*	100%	100%	Dormant	Mauritius
Subsidiaries of TNEC Operations and Maintenance Sdn Bhd				
Selesa Energy Systems Sdn Bhd	100%	100%	Dormant	Malaysia
Tomest Energy Management Sdn Bhd	51%	51%	Dormant	Malaysia
Subsidiary of TNB Generation Sdn Bhd				
TNBN Power Services Sdn Bhd	100%	100%	Dormant	Malaysia
Subsidiary of TNB Power Daharki Ltd				
TNB Liberty Power Limited	100%	100%	Operation of power plant and generation of electricity	Pakistan

15 SUBSIDIARIES (Cont'd.)

Name of subsidiary	Group's interest		Principal activities	Country of incorporation
	2004	2003		
Subsidiary of TNB Properties Sdn Bhd				
TNP Construction Sdn Bhd	100%	100%	Construction contractors	Malaysia
Subsidiary of TNB Research Sdn Bhd				
Tenaga Microwave Technologies Sdn Bhd [^]	70%	70%	Manufacture, selling and repairing transformers and switchgears	Malaysia
Subsidiary of TNB Energy Services Sdn Bhd				
Jana Landfill Sdn Bhd	100%	100%	Generation and distribution of heat and electricity using landfill gas and/or other renewable energy resources in Peninsular Malaysia and/or elsewhere	Malaysia
Subsidiary of TNB Repair and Maintenance Sdn Bhd				
Remaco Energy Ventures Limited*	100%	100%	Dormant	Mauritius
Subsidiaries of Remaco Energy Ventures Limited				
Trichy Power Limited*	100%	100%	Dormant	India
Trichy Energy Limited*	100%	100%	Dormant	India
Subsidiary of TNB Ventures Sdn Bhd				
Tenaga Cable Industries Sdn Bhd	55%	55%	Manufacturing and distribution of telephone, power, automotive and general cables, copper wire, copper rods and related activities	Malaysia
Subsidiary of TNB Coal International Limited				
Dynamic Acres Sdn Bhd*	100%	100%	Investment holding	Malaysia
Subsidiary of Dynamic Acres Sdn Bhd				
P.T. Dasa Eka Jasatama*	99%	99%	Extraction of coal, transportation and heavy equipment rental	Indonesia

* Not audited by PricewaterhouseCoopers.

[^] On 23 August 2002, the High Court has granted liquidation petition of Tenaga Microwave Technologies Sdn Bhd brought by the Company and TNB Research Sdn Bhd. The liquidation process is still in progress as at 31 August 2004.

16 ASSOCIATES

	Group	
	2004 RM'million	2003 RM'million
Share of net assets other than goodwill of associates	132.1	601.4

	Company	
	2004 RM'million	2003 RM'million
Unquoted shares, at cost	65.9	131.3
Less: Allowance for diminution in value	(49.6)	(9.6)
Redeemable preference shares, at cost	16.3	121.7
Unsecured loan notes	64.0	93.2
	52.2	165.0
	132.5	379.9

Name of associate	Group's interest		Principal activities	Country of incorporation
	2004	2003		
Port Dickson Power Berhad [#]	0%	20%	Independent Power Producer licensed by the Government to supply electricity exclusively to TNB	Malaysia
Segari Energy Ventures Sdn Bhd [^]	0%	20%	Independent Power Producer licensed by the Government to supply electricity exclusively to TNB	Malaysia
Teknologi Tenaga Perlis Consortium Sdn Bhd	20%	20%	Independent Power Producer licensed by the Government to supply electricity exclusively to TNB	Malaysia
Janaurus PDP Sdn Bhd [#]	0%	20%	Provision of operational and maintenance services for an Independent Power Producer	Malaysia
Perusahaan Otomobil Elektrik (Malaysia) Sdn Bhd	20%	20%	Manufacture of electric vehicles	Malaysia
GB3 Sdn Bhd	20%	20%	Design, develop, construction, operation and maintenance of electricity generating facility	Malaysia
Sepang Power Sdn Bhd [*]	30%	30%	Operation of power plants and generation of electricity	Malaysia

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16 ASSOCIATES (Cont'd.)

Name of associate	Group's interest		Principal activities	Country of incorporation
	2004	2003		
Associate of TNB Energy Services Sdn Bhd				
Pendinginan Megajana Sdn Bhd	49%	49%	District cooling system	Malaysia
Associates of TNB Properties Sdn Bhd				
HICOM-TNB Properties Sdn Bhd	40%	40%	Property development	Malaysia
INDERA-TNB Properties Sdn Bhd	40%	40%	Property development (Development and construction)	Malaysia
KM Metro-TNB Properties Sdn Bhd	40%	40%	Property development	Malaysia
TNB Properties-JB Citytowers Sdn Bhd	40%	40%	Property development	Malaysia
ZEUS-TNB Properties Sdn Bhd	40%	40%	Property development	Malaysia
Associate of TNB Ventures Sdn Bhd				
Northern Utility Resources Sdn Bhd	20%	20%	Operation of power plant, generation and supply of electricity	Malaysia

On 30 July 2004, the disposal of the Company's interest of 20% in both Port Dickson Power Berhad and Janaurus PDP Sdn Bhd were completed.

^ Pursuant to the Sale and Purchase Agreements ('SPA') dated 11 June 2004 between the Company, Malakoff Berhad ('MB') and Employees' Provident Fund ('EPF'), all of the Company's investment in Segari Energy Ventures' ('SEV') ordinary shares and loan notes will be disposed to MB and EPF. Accordingly, SEV has been reclassified to short term investments as the SPA is subject to certain conditions precedent/approvals.

* Pursuant to the Share Sale Agreement ('SSA'), 40% of the equity interest in Sepang Power Sdn Bhd ('SPSB') will be disposed to Mastika Lagenda Sdn Bhd. Accordingly, SPSB has been treated as an associate on the basis of the Company's 30% interest in its equity as certain terms and conditions of the SSA has not been met.

17 INVESTMENTS

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Unquoted shares, at cost	76.4	76.4	76.4	76.4
Unquoted unsecured loan stocks, at cost	3.8	48.8	48.8	48.8
Bonds	60.8	73.4	0	0
	141.0	198.6	125.2	125.2
Allowance for diminution in value:				
– unquoted shares	(36.7)	(36.7)	(36.7)	(36.7)
– unquoted unsecured loan stocks	(3.8)	(3.8)	(3.8)	(3.8)
	100.5	158.1	84.7	84.7

18 LONG TERM RECEIVABLES

	Company	
	2004 RM'million	2003 RM'million
Amounts owing from subsidiaries	922.7	937.5

The amounts owing from subsidiaries comprise advances and other receivables from TNB Liberty Power Limited ('TLPL') and TNB Power Daharki Ltd ('TPD') amounting to RM59.1 million (2003: RM73.9 million) and RM863.6 million (2003: RM863.6 million) respectively.

These amounts are unsecured and have no fixed terms of repayment. The amount owing from TLPL is interest free. The amount owing from TPD is subject to interest at rates ranging from 2.8% to 4.3% (2003: 2.8% to 7.6%) per annum.

19 INVENTORIES

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
At cost				
Raw materials, fuel and consumables	1,378.8	1,351.2	814.4	1,051.1
Work-in-progress	97.6	109.3	0	0
Finished goods	92.8	91.5	0	0
	1,569.2	1,552.0	814.4	1,051.1

20 RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Trade receivables	2,720.5	2,235.1	2,407.2	1,891.4
Less: Allowance for doubtful debts	(561.3)	(417.5)	(485.3)	(341.0)
	2,159.2	1,817.6	1,921.9	1,550.4
Rechargeable debtors	248.5	177.0	221.4	170.7
Less: Allowance for doubtful debts	(192.1)	(109.4)	(185.1)	(109.4)
	56.4	67.6	36.3	61.3
Staff advance/loans	726.3	729.0	721.6	724.1
Advance to contractors	129.1	64.3	54.9	9.9
Deposits and prepayments	121.7	115.4	23.8	33.0
Other receivables	310.9	195.4	183.2	114.0
	1,288.0	1,104.1	983.5	881.0
	3,503.6	2,989.3	2,941.7	2,492.7

The Group's and the Company's credit policy provides trade receivables with 30 days (2003: 30 days) credit period. The Group and the Company has no significant exposure to any individual customer, geographical location or industry category. All credit and recovery risks associated with receivables have been provided for in the financial statements.

Included in staff advance/loans of the Group and the Company are staff housing and car loans amounting to RM620.2 million (2003: RM593.7 million) which are not realisable within one financial year.

Included in other receivables of the Group and the Company as at 31 August 2004 is RM59.1 million (2003: RM59.1 million) in respect of the amount outstanding from the sale of 40% equity interest in Sepang Power Sdn Bhd (Note 16).

21 AMOUNTS OWING FROM/TO SUBSIDIARIES

Amount owing from TLPL is interest free. Amounts owing from TPD and TNB Janamanjung Sdn Bhd ('TNBJ') are subject to interest at rates ranging from 2.8% to 4.3% (2003: 2.8% to 7.6%) per annum and 9.5% (2003: 9.5%) per annum respectively. Amount owing from SESB is subject to an interest rate of 6.0% (2003: 6.0%) per annum, unsecured and has no fixed terms of repayment.

Amounts owing from/to all other subsidiaries are unsecured, interest free and have no fixed terms of repayment.

22 SHORT TERM INVESTMENTS

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Quoted shares, at cost	0	335.6	0	335.6
Quoted warrants, at cost	12.6	12.6	12.6	12.6
Unquoted shares, at cost	272.0	0	38.1	0
Unsecured loan notes	75.6	0	75.6	0
Credit linked notes	0	1,007.0	0	0
	360.2	1,355.2	126.3	348.2
Market value:				
– quoted shares	0	334.7	0	334.7
– quoted warrants	12.6	21.1	12.6	21.1
	12.6	355.8	12.6	355.8

A fixed charge has been created over the Company's short term investment in SEV to secure the liability of that investment. The carrying value of the Company's investment, subject to the charge, comprise the following:

	Company	
	2004 RM'million	2003 RM'million
Unquoted ordinary shares, at cost	38.1	38.1
Unsecured loan notes	75.6	82.9
	113.7	121.0

23 MARKETABLE SECURITIES

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Quoted in Malaysia, at cost:				
Shares	28.4	30.6	28.4	30.6
Less: Allowance for diminution in value	(18.1)	(18.9)	(18.1)	(18.9)
	10.3	11.7	10.3	11.7
Market value	10.3	11.7	10.3	11.7

24 DEPOSITS, BANK AND CASH BALANCES

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Cash in hand and at bank	526.6	622.1	102.5	196.2
Deposits with licensed banks	3,314.9	795.6	2,867.3	647.7
Deposits with finance companies	8.3	17.2	0	2.0
	3,849.8	1,434.9	2,969.8	845.9

The interest rate per annum of deposits, bank and cash balances that was effective as at balance sheet date were as follows:

	Group		Company	
	2004 %	2003 %	2004 %	2003 %
Deposits with licensed banks and finance companies	1.57 – 3.00	0.05 – 3.00	2.69 – 3.00	0.05 – 1.12
Bank balances	1.00	1.00	1.00	1.00

Deposits with licensed banks are held in short term money market. Deposits have maturity period ranging from 2 to 32 days (2003: 6 to 34 days) for the Group and the Company.

Deposits of the Group and the Company at the end of the financial year have an average maturity period of 26.2 days (2003: 19.6 days) and 27.0 days. (2003: 19.6 days).

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Cash and cash equivalents at end of the financial year comprise:				
Cash in hand and at bank	526.6	622.1	102.5	196.2
Deposits with licensed banks	3,314.9	795.6	2,867.3	647.7
Deposits with finance companies	8.3	17.2	0	2.0
Bank overdrafts	(1.6)	(4.5)	0	0
Deposits held in trust*	(100.2)	(50.6)	0	0
Cash at bank held in trust*	(1.6)	(7.8)	0	0
	3,746.4	1,372.0	2,969.8	845.9

* Deposits and cash at bank held in trust are in respect of a grant given to a subsidiary by the Malaysian Government for a designated capital project.

25 PAYABLES

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Trade payables	1,982.2	1,721.7	1,504.2	1,375.3
Accrued interest on borrowings	417.7	364.0	336.3	353.0
Payroll liabilities	145.7	142.0	139.0	140.5
Deposits	56.1	258.8	50.4	253.2
Other payables and accruals	399.0	651.3	146.7	239.5
	3,000.7	3,137.8	2,176.6	2,361.5

Credit terms of trade payables of the Group and the Company vary from 30 to 60 days (2003: 30 to 60 days) depending on the terms of the contracts.

26 SHORT TERM BORROWINGS

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Portion of borrowings due within one financial year (Note 27) – unsecured	1,681.8	2,827.3	1,302.1	2,658.8
– secured	82.1	95.8	0	0
	1,763.9	2,923.1	1,302.1	2,658.8
Short term loans – unsecured	35.4	13.1	30.5	0.2
– secured	0	10.0	0	0
Bank overdrafts – unsecured	1.6	4.5	0	0
Bankers' acceptances	60.1	1,558.0	0	1,499.0
	1,861.0	4,508.7	1,332.6	4,158.0

The short term borrowings carry interest at rates ranging from 0.11% to 15.00% (2003: 0.71% to 10.25%) per annum for the Group and 0.20% to 9.25% (2003: 0.13% to 10.25%) per annum for the Company.

The bank overdraft of a certain subsidiary was secured by the corporate guarantee and bears interest at 0.75% (2003: 1.50%) per annum above lenders' prevailing base lending rates.

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27 BORROWINGS

	Note	Group		Company	
		2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Unsecured					
– Term loans	(a)	12,070.3	11,567.5	8,107.9	8,685.0
– Notes	(b)	1,709.0	2,050.0	1,709.0	2,050.0
– Bonds	(c)	12,394.7	13,443.1	10,874.7	11,923.1
– Income Securities	(d)	1,700.0	1,500.0	1,700.0	1,500.0
– Amount due to Cagamas Berhad		314.7	334.5	314.7	334.5
– Redeemable Unsecured Loan Stocks		383.0	0	0	0
		28,571.7	28,895.1	22,706.3	24,492.6
Secured					
– Term loans	(a)	416.4	432.4	0	0
– Bonds	(c)	3,402.0	0	0	0
		32,390.1	29,327.5	22,706.3	24,492.6
Payable within one year included under short term borrowings (Note 26)					
		1,763.9	2,923.1	1,302.1	2,658.8
Repayable after one year:					
After one and up to two years		4,182.0	1,592.7	1,876.4	1,278.0
After two and up to five years		7,957.0	9,806.7	6,115.1	7,510.3
After five and up to ten years		8,496.3	7,241.0	5,409.3	5,743.9
After ten and up to twenty years		7,231.0	5,809.4	5,734.4	5,401.6
After twenty and up to thirty years		2,189.9	1,384.6	1,699.0	1,330.0
After ninety years		570.0	570.0	570.0	570.0
		30,626.2	26,404.4	21,404.2	21,833.8
		32,390.1	29,327.5	22,706.3	24,492.6

27 BORROWINGS (Cont'd.)

	Group	
	2004 RM'million	2003 RM'million
Net book values of property, plant and equipment pledged as security for term loans:		
(i) Machinery and equipment	3,236.1	46.4
(ii) Building	790.9	21.5
	4,027.0	67.9

Unsecured term loans include RM19.6 million (2003: RM20.7 million) due to the Government of Malaysia and RM3,181.9 million (2003: RM2,472.4 million) guaranteed by the Government of Malaysia.

(a) Term loans

Details of term loans with designated derivative financial instruments are as follows:

(i) 10-YEAR JPY37.0 BILLION TERM LOAN

In 1997, the Company entered into a 10-year JPY37.0 billion unsecured loan, paying interest at floating rates, to mature on 30 June 2007. The translated RM balance of the loan as at 31 August 2004 in accordance with the Company's accounting policy is RM383.2 million (2003: RM480.5 million). This loan is an amortising loan, whose principal amount is payable in equal semi-annual instalments over the life of the loan. The repayments commenced since 1997. The notional principals of the hedging contracts illustrated below amortise in the same manner as this loan.

Interest rate swap ('IRS')

On one tranche of the loan, the Company entered into an IRS agreement on 31 December 1997 that entitles it to receive floating interest rates, and obliges it to pay interest at a fixed rate of 1.927% to mature on 30 June 2007. The notional principal of the swap is JPY8.6 billion. The effect of this transaction is to fix the interest rate payable on that tranche of the loan.

For the period from 1 July 2002 to 30 June 2007, the Company entered into IRS agreements that entitle it to receive interest at floating rates on notional principals totalling JPY14.0 billion and oblige it to pay interest at fixed rates ranging from 2.74% to 2.94%.

(ii) JAPANESE YEN LOANS FOR SPECIFIC PROJECTS

In February 1985, the Company entered into two 21-year long term loans, paying fixed interest at 4% per annum each. The outstanding balance of these loans as at 31 August 2004 is JPY1.7 billion (2003: JPY2.8 billion). These loans will mature on 20 February 2006.

JPY/USD Cross-currency interest rate swap

The Company had entered into cross currency swap ('CCS') agreements to convert its JPY fixed rate loans to USD fixed rate loans with fixed interest rates payable ranging between 6.4% to 6.5%. The outstanding balance of these USD loan exposures as at 31 August 2004 is USD15.2 million (2003: USD25.4 million). The translated RM balance of this exposure as at this date, as per the Company's accounting policy is RM57.9 million (2003: RM96.5 million).

27 BORROWINGS (Cont'd.)

(a) Term loans (Cont'd.)

(iii) TNB JANAMANJUNG SDN BHD ('TNBJ') 12-YEAR AMORTISING LOAN

TNBJ, a wholly owned subsidiary of the Company, had in 1999 entered into a 12-year amortising loan facility with floating interest rates to part finance the construction of a power plant. The loan is guaranteed by the Company and is denominated in three major currencies amounting to GBP207.9 million (2003: GBP264.1 million), Euro129.2 million (2003: Euro161.1 million) and USD69.6 million (2003: USD97.1 million) as at 31 August 2004. The loan is repayable in equal semi-annual instalments commencing August 2003. The translated outstanding balance in accordance with the Group's accounting policy as at 31 August 2004 is RM2,269.6 million (2003: RM2,108.6 million).

Forward interest rate swap

TNBJ has entered into IRS agreements that entitle it to receive interest at floating rates and oblige it to pay interest at fixed rates in the range of 6.59% to 6.92% (depending on counterparty) on notional principals of GBP250.0 million. The effect of this transaction is to fix the interest rate on the tranche.

(iv) 30-YEAR JPY26.0 BILLION TERM LOAN

On 30 March 2004, TNB Capital (L) Ltd ('TNBCL') a wholly owned subsidiary of TNB entered into a 30-year JPY26.0 billion unsecured loan, paying interests at USD fixed rates. The loan will mature on 13 April 2034. The loan is an amortising loan whose principal is payable in 20 equal annual instalments. The first repayment shall be due on 13 April 2015. The interest is paid semi-annually on 13 April and 13 October each year commencing 13 October 2004. The balance as at 31 August 2004 is RM897.6 million.

USD-JPY Option on the principal repayment

In April 2004, TNBCL entered into Currency Option Agreements with a notional amount of JPY26.0 billion as a hedge on its Term Loan. This transaction enables TNBCL to reduce its exposure to losses that may arise from adverse fluctuation on foreign currency exchange rates in relation to the above Term Loan.

(b) Notes

Details of notes with designated derivative financial instrument is as follows:

10-YEAR RM600.0 MILLION ISLAMIC REVOLVING UNDERWRITTEN FACILITY

On 19 August 1996, the Company entered into a RM600.0 million syndicated Islamic Revolving Underwritten Notes Issuance Facility with AmMerchant Bank Berhad (formerly known as Arab Malaysian Merchant Bank Berhad), the arranger. Each issue has a tenor of 3 to 6 months. The facility will mature on 19 August 2006. The balance as at 31 August 2004 is RM200.0 million (2003: RM300.0 million).

Interest rate swap on Commercial Paper Program

In May 2003, the Company entered into an IRS agreement that entitles it to receive floating interest rates, and obliges to pay interest at a fixed rate of 3.48% to mature on 26 August 2006. The notional principal of the swap is RM200.0 million. The effect of this transaction is to fix the interest rate payable on the Commercial Paper Program.

27 BORROWINGS (Cont'd.)

(c) Bonds

Details of bonds with designated derivative financial instruments are as follows.

(i) 10-YEAR USD500.0 MILLION NOTES

In April 1997, the Company issued USD500.0 million 10-year 7.625% redeemable unsecured Notes. The translated balance of the Notes as at 31 August 2004 in accordance with the Company's accounting policy is RM1.9 billion (2003: RM1.9 billion). The Notes are redeemable in full on 29 April 2007. For the purposes of hedging the Notes, the Company has adopted two strategies for each USD250.0 million tranche of the Notes.

Tranche 1: USD250.0 million

USD-JPY cross-currency swap ('CCS') and JPY interest rate collar

On the first USD250.0 million tranche, the Company has entered into CCS agreements in 1997 and 1998 that entitle it to receive a fixed rate of 7.625% in USD and oblige it to pay floating interest rates in JPY. The principals of the swaps amount to USD250.0 million and this would be received by the Company in return for the payment of JPY31.6 billion on maturity. The swaps will be terminated on 27 April 2007.

The Company has also entered into various interest rate collar arrangements with the effect of limiting the JPY floating rate liability to a maximum rate but subject to a minimum rate.

Forward interest rate swap

On the same tranche of JPY31.6 billion, upon maturity of the aforementioned JPY interest rate collar arrangements, the Company has entered into IRS agreements that entitle it to receive interest at floating rates and oblige it to pay interest at fixed rates ranging from 3.71% to 4.38% (dependent on the swap counterparty) on notional principals of JPY31.6 billion, maturing on 27 April 2007.

The effect of the above transactions is to convert the USD fixed rate Notes into a JPY fixed rates liability.

Tranche 2: USD250.0 million

USD-JPY Cross-currency swap and JPY interest rate collar

On the second USD250.0 million tranche, the Company has entered into CCS/IRS agreements in 1998 that entitle it to receive a fixed rate of 7.625% in USD and oblige it to pay floating interest rates in JPY. The principals of the swaps amount to USD250.0 million and this would be received by the Company in return for the payment of JPY31.4 billion upon maturity. The swaps will be terminated on 28 April 2007.

The Company has also entered into interest rate collar arrangements with notional principals of JPY18.7 billion for the period from 28 April 1999 to 27 April 2007 which hedges the JPY floating interest rate payable on the above swap.

The effect of these transactions is to convert the USD fixed rate Notes into a JPY floating rate liability. For notional principals of JPY18.7 billion, the floating rates are limited to a maximum and minimum rate.

27 BORROWINGS (Cont'd.)

(c) Bonds (Cont'd.)

(ii) 10-YEAR USD600.0 MILLION NOTES

In 1994, the Company had issued USD600.0 million 10-year 7.875% redeemable unsecured Notes. The translated balance of the Notes as at 31 August 2004 as per the Company's accounting policy is nil (2003: RM1,048.4 million). The Notes were redeemed in full on 15 June 2004. For purposes of hedging the Notes, the Company has adopted two strategies, one for the USD500.0 million tranche and another for the other USD100.0 million tranche.

Tranche 1: USD500.0 million (unswapped)

The Company has fully redeemed this tranche on 15 June 2004.

Tranche 2: USD100.0 million

Cross-currency zero-coupon swap ('CCZS')

On the second USD100.0 million tranche, the Company entered into CCZS arrangements with several financial institutions, for the period 15 June 1998 to 14 June 2004, to convert the USD100.0 million bonds to a 6-year JPY zero-coupon bond. The CCZS matured on 15 June 2004.

(iii) 10-YEAR USD570.0 MILLION NOTES

In April 2001, the Company issued USD600.0 million 10-year 7.625% redeemable unsecured notes. In May 2001, the Company repurchased USD30.0 million of the USD600.0 million notes leaving a balance of USD570.0 million 7.625% redeemable unsecured notes.

USD interest rate swap with collar

In April 2002, the Company entered into an IRS with collar agreement on USD200.0 million notional amount that entitles it to receive interest at a fixed rate of 7.625% in USD and obliges it to pay interest at floating rates in USD for a period 1 April 2002 to 1 April 2003. The effect of this transaction is to convert USD fixed rate liability on the USD200.0 million notional amount into USD floating rate liability, with those floating rates limited to a maximum and minimum rate.

(iv) 5-YEAR USD400.0 MILLION GUARANTEED EXCHANGEABLE BONDS ('GEB')

On 20 November 2002, TNBCL a wholly owned subsidiary of TNB, issued USD400 million 2.625% GEB. The GEB will mature on 20 November 2007.

The holders of the GEB are entitled to exchange, at par, the GEB for TNB's share based on an exchange price commencing on 20 December 2002 and ending on 21 October 2007. In addition, the holders of the GEB have the option to put the bonds to TNBCL for redemption on 20 November 2005. The translated RM balance of the bond as at 31 August 2004 in accordance with the Group's accounting policy is RM1,520.0 million (2003: RM1,520.0 million).

Interest rate swap

In February 2003, TNBCL entered into IRS agreements that entitle it to receive fixed interest rates at 2.625% and obliges it to pay floating interest rates on a notional principal of USD400.0 million maturing in November 2005. The effect of this transaction is to convert the GEB coupon into floating interest rates.

27 BORROWINGS (Cont'd.)

(c) Bonds (Cont'd.)

(v) ISLAMIC DEBT SECURITIES – BAI BITHAMIN AJIL (“BaIDS”)

On 28 June 2004, Kapar Energy Ventures Sdn Bhd (“KEV”), a subsidiary of TNB obtained RM3,402.0 million BaIDS to finance the acquisition of Stesen Janaelektrik Sultan Salahuddin Abdul Aziz. The tenure of the BaIDS Facility ranges from 1 to 15 years with a profit of 3.65% to 8.70% per annum.

The BaIDS are secured by the followings:

- (i) Charge over KEV’s leased lands. The charge of the leased lands was not effected as at 31 August 2004.
- (ii) Debenture over KEV’s assets and properties and assignment of all rights, title interest and benefits under the project documents, the assigned insurances, and the designated accounts to secure the payment and repayment of the total secured amounts.
- (iii) The Priority and Security Sharing Agreement.

The terms of BaIDS require deposits to be placed in the debt reserve account with licenced bank to meet the debt servicing requirements. The terms of BaIDS also require KEV to maintain certain financial covenants.

(d) Income Securities

Fixed Income Securities (‘FIS’)

The FIS consists of both redeemable bonds and Redeemable Preference Shares (‘RPS’). Details of the FIS are as follows:

- 1,500 interest bearing 10-year redeemable unsecured bonds (“Bonds”) of an aggregated nominal value of RM999.0 million issued at 100% of nominal value (in denominations of RM999,000.0 each), with detachable coupons representing interest on the Bonds. The Bonds are to be redeemed at par in two tranches with redemption amounts of RM999.0 million and RM499.5 million on 16 August 2011 and 19 September 2011 respectively, and;
- 1,000 Class A RPS of RM1.00 each, issued at a premium of RM999.0 per share and 500 Class B RPS of RM1.00 each, issued at a premium of RM999.0 per share. Both classes of RPS are redeemable at RM1,000 each at the Company’s option at any time on or after 16 August 2010 and 19 September 2010, for Class A and B RPS respectively. If the Class A and B RPS are not redeemed by 16 August 2011 and 19 September 2011 respectively, an additional sum of RM1.0 million on the first tranche and RM0.5 million on the second tranche shall become due and payable under the final Bond Coupon payment for each of the tranches.
- If the Company elects to declare and pay dividends on the RPS, payment of such dividends amounting to RM71.9 million per annum (net of income tax) shall be on a six monthly basis non-cumulative. In addition, interest under the Bond Coupons amounting to RM0.2 million per annum shall be payable. In the event that dividends on the RPS are not declared or paid, interest payable under the Bond Coupon is RM94.5 million per annum payable semi-annually.
- The FIS are classified as debt instruments and hence are reported as liabilities. Accordingly, the annual net dividend payment of the RPS amounting to RM71.9 million is classified as an interest expense in the income statement.
- Under the terms of the FIS, if the holder of the RPS is unable to receive the related tax credits associated with the transaction, the Company has to indemnify the holder of the RPS, in respect of the benefits denied and any penalties arising which the RPS holder may incur.

28 EMPLOYEE BENEFITS

The movements during the financial year in the amounts recognised in the consolidated balance sheet are as follows:

Group	Retirement benefit plan RM'million	Retirement medical plan RM'million	Total RM'million
At 1 September 2002	708.8	1,225.8	1,934.6
Charged to income statement	144.4	91.2	235.6
Contributions and benefits paid	(79.8)	(58.9)	(138.7)
At 31 August 2003	773.4	1,258.1	2,031.5
Charged to income statement	177.4	93.8	271.2
Contributions and benefits paid	(90.8)	(62.4)	(153.2)
At 31 August 2004	860.0	1,289.5	2,149.5

The amounts recognised in the consolidated balance sheet is analysed as follows:

Group	Retirement benefit plan RM'million	Retirement medical plan RM'million	Total RM'million
At 31 August 2003			
Present value of obligations	1,168.6	1,258.1	2,426.7
Fair value of plan assets	(256.0)	0	(256.0)
Present value of unfunded obligations	912.6	1,258.1	2,170.7
Unrecognised past service cost	(139.2)	0	(139.2)
Liability in the balance sheet	773.4	1,258.1	2,031.5
At 31 August 2004			
Present value of obligations	1,317.4	1,289.5	2,606.9
Fair value of plan assets	(314.2)	0	(314.2)
Present value of unfunded obligations	1,003.2	1,289.5	2,292.7
Unrecognised actuarial losses	(19.5)	0	(19.5)
Unrecognised past service cost	(123.7)	0	(123.7)
Liability in the balance sheet	860.0	1,289.5	2,149.5

28 EMPLOYEE BENEFITS (Cont'd.)

The expense recognised in the consolidated income statement is analysed as follows:

Group	Retirement benefit plan RM'million	Retirement medical plan RM'million	Total RM'million
2003			
Current service cost	88.2	5.4	93.6
Interest cost	71.5	85.8	157.3
Expected return on plan assets	(15.3)	-	(15.3)
Total, included in staff costs	144.4	91.2	235.6
Actual return on plan assets	(15.3)	0	(15.3)
2004			
Current service cost	102.7	5.8	108.5
Interest cost	80.3	88.0	168.3
Expected return on plan assets	(21.1)	0	(21.1)
Past service cost	15.5	0	15.5
Total, included in staff costs	177.4	93.8	271.2
Actual return on plan assets	(13.5)	0	(13.5)

The charge to income statement was included in the administrative expenses.

28 EMPLOYEE BENEFITS (Cont'd.)

The principal actuarial assumptions used in respect of the Group's defined benefit plans were as follows:

Group	Retirement benefit plan %	Retirement medical plan %
At 31 August 2003		
Discount rates	7.0	7.0
Expected return on plan assets	8.0	N/A
Expected rate of salary increases	5.0	N/A
Medical cost inflation		
– inpatient	N/A	6.0
– outpatient	N/A	6.0
At 31 August 2004		
Discount rates	7.0	7.0
Expected return on plan assets	8.0	N/A
Expected rate of salary increases	5.0	N/A
Medical cost inflation		
– inpatient	N/A	6.0
– outpatient	N/A	6.0

The movements during the financial year in the amounts recognised in the Company's balance sheet are as follows:

Company	Retirement benefit plan RM'million	Retirement medical plan RM'million	Total RM'million
At 1 September 2002	703.6	1,177.0	1,880.6
Charged to income statement	143.7	82.4	226.1
Contributions and benefits paid	(78.3)	(58.1)	(136.4)
At 31 August 2003	769.0	1,201.3	1,970.3
Charged to income statement	174.8	84.1	258.9
Contributions and benefits paid	(89.5)	(61.6)	(151.1)
At 31 August 2004	854.3	1,223.8	2,078.1

28 EMPLOYEE BENEFITS (Cont'd.)

The amounts recognised in the Company's balance sheet is analysed as follows:

Company	Retirement benefit plan RM'million	Retirement medical plan RM'million	Total RM'million
At 31 August 2003			
Present value of obligations	1,164.2	1,201.3	2,365.5
Fair value of plan assets	(256.0)	0	(256.0)
Present value of unfunded obligations	908.2	1,201.3	2,109.5
Unrecognised past service cost	(139.2)	0	(139.2)
Liability in the balance sheet	769.0	1,201.3	1,970.3
At 31 August 2004			
Present value of obligations	1,311.7	1,223.8	2,535.5
Fair value of plan assets	(314.2)	0	(314.2)
Present value of unfunded obligations	997.5	1,223.8	2,221.3
Unrecognised actuarial losses	(19.5)	0	(19.5)
Unrecognised past service cost	(123.7)	0	(123.7)
Liability in the balance sheet	854.3	1,223.8	2,078.1

The expense recognised in the Company's income statement is analysed as follows:

Company	Retirement benefit plan RM'million	Retirement medical plan RM'million	Total RM'million
2003			
Current service cost	87.5	0	87.5
Interest cost	71.5	82.4	153.9
Expected return on plan assets	(15.3)	0	(15.3)
Total, included in staff costs	143.7	82.4	226.1
Actual return on plan assets	(15.3)	0	(15.3)

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28 EMPLOYEE BENEFITS (Cont'd.)

Company	Retirement benefit plan RM'million	Retirement medical plan RM'million	Total RM'million
2004			
Current service cost	100.0	0	100.0
Interest cost	80.4	84.1	164.5
Expected return on plan assets	(21.1)	0	(21.1)
Past service cost	15.5	0	15.5
Total, included in staff costs	174.8	84.1	258.9
Actual return on plan assets	(13.5)	0	(13.5)

The charge to income statement was included in the administrative expenses.

The principal actuarial assumptions used in respect of the Company's defined benefit plans were as follows:

Company	Retirement benefit plan %	Retirement medical plan %
At 31 August 2003		
Discount rates	7.0	7.0
Expected return on plan assets	8.0	N/A
Expected rate of salary increases	5.0	N/A
Medical cost inflation		
– inpatient	N/A	6.0
– outpatient	N/A	6.0
At 31 August 2004		
Discount rates	7.0	7.0
Expected return on plan assets	8.0	N/A
Expected rate of salary increases	5.0	N/A
Medical cost inflation		
– inpatient	N/A	6.0
– outpatient	N/A	6.0

29 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Deferred tax liabilities:				
– subject to income tax	(5,472.8)	(4,845.7)	(4,963.9)	(4,829.2)
– subject to capital gains tax	(31.0)	(31.0)	(31.0)	(31.0)
	(5,503.8)	(4,876.7)	(4,994.9)	(4,860.2)

The movements during the financial year relating to deferred tax are as follows:

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
As at the beginning of the financial year (Charged)/credited to income statement:	(4,876.7)	(4,358.8)	(4,860.2)	(4,384.6)
– property, plant and equipment	(720.4)	(568.6)	(230.3)	(547.8)
– provision and allowances	93.3	50.7	95.6	50.9
	(627.1)	(517.9)	(134.7)	(496.9)
Adjustment as a result of transfer of assets and liabilities from subsidiaries	0	0	0	21.3
As at the end of the financial year	(5,503.8)	(4,876.7)	(4,994.9)	(4,860.2)
<u>Subject to income tax</u>				
Deferred tax assets (before offsetting)				
Provision and allowances	790.6	697.3	790.2	694.6
Property, plant and equipment	2.4	1.9	0	0
Offsetting	(793.0)	(699.2)	(790.2)	(694.6)
Deferred tax assets (after offsetting)	0	0	0	0
Deferred tax liabilities (before offsetting)				
Property, plant and equipment	(6,265.8)	(5,544.9)	(5,754.1)	(5,523.8)
Offsetting	793.0	699.2	790.2	694.6
Deferred tax liabilities (after offsetting)	(5,472.8)	(4,845.7)	(4,963.9)	(4,829.2)
<u>Subject to capital gains tax</u>				
Deferred tax liabilities				
Property, plant and equipment	(31.0)	(31.0)	(31.0)	(31.0)

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29 DEFERRED TAXATION (Cont'd.)

The amount of deductible temporary differences and unused tax losses (both of which have no expiry date) for which no deferred tax assets is recognised in the balance sheet are as follows:

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Deductible temporary differences	985.1	552.5	0	0
Tax losses	1,006.2	799.9	0	0

As at 31 August 2004, the temporary differences associated with unremitted earnings of subsidiaries for which deferred tax liabilities have not been recognised amounted to RM105.8 million (2003: RM90.8 million).

30 DEFERRED INCOME

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Movement of deferred income, comprising contributions by customers, is as follows:				
As at the beginning of the financial year	2,299.9	2,231.6	2,084.9	2,040.3
Received during the financial year	359.2	334.9	320.0	286.0
Released to income statement (Note 3)	(279.2)	(266.6)	(252.2)	(241.4)
As at the end of the financial year	2,379.9	2,299.9	2,152.7	2,084.9

31 GOVERNMENT DEVELOPMENT GRANTS

	Group	
	2004 RM'million	2003 RM'million
Movement of Government development grants is as follows:		
As at the beginning of the financial year	519.9	474.4
Received during the financial year	78.6	87.3
Released to income statement (Note 6)	(41.6)	(41.8)
As at the end of the financial year	556.9	519.9

The Government development grants are in respect of capital grants received for capital projects in the State of Sabah.

32 SHARE CAPITAL

	Group and Company	
	2004 RM	2003 RM
<u>Authorised:</u>		
Ordinary shares of RM1.00 each	5,000,000,000	3,500,000,000
Special Rights Redeemable Preference Share of RM1.00 each	1	1
Class A Redeemable Preference Shares of RM1.00 each As at the beginning/end of the financial year	1,000	1,000
Class B Redeemable Preference Shares of RM1.00 each As at the beginning/end of the financial year	500	500
<u>Issued and fully paid:</u>		
Ordinary shares of RM1.00 each	3,148,303,900	3,111,825,300
Special Rights Redeemable Preference Share of RM1.00 each	1	1
Total share capital issued and fully paid as at the end of the financial year	3,148,303,901	3,111,825,301
<u>Movements on issued ordinary shares of RM1.00 each</u>		
As at the beginning of the financial year	3,111,825,300	3,111,825,300
Issuance of ordinary shares of RM1.00 each under the ESOS II	36,478,600	0
As at the end of the financial year	3,148,303,900	3,111,825,300

32 SHARE CAPITAL (Cont'd.)

Employee Share Option Scheme ('ESOS')

The Company implemented a new Employee Share Option Scheme II ('ESOS II') on 8 July 2003 for a period of 10 years. The ESOS II is governed by the by-laws, which were approved by the shareholders at an Extraordinary Meeting on 29 May 2003.

The main features of ESOS II are as follows:

- (a) The total number of ordinary shares to be issued by the Company under the ESOS II shall not exceed 10% of total issued and paid-up ordinary shares of the Company, such that not more than 50% of the shares available under the ESOS II is allocated, in aggregate, to Directors and senior management.
- (b) Not more than 10% of the shares available under the ESOS II is allocated to any individual Director or employee who, either singly or collectively through his/her associates, holds 20% or more in the issued and paid-up capital of the Company.
- (c) Any employee, including any Executive Director, but excluding a Skim A employee (the scheme governing employees who, upon the corporatisation and privatisation of the Lembaga Letrik Negara in 1990, remain employed under the Government's terms and conditions) are eligible to participate in the ESOS II.
- (d) The option price under the ESOS II is the higher of the weighted average market price of the shares as shown in the daily official list issued by the Bursa Malaysia Berhad for the five trading days preceding the date of offer with a 10% discount on the nominal value of the shares.
- (e) In the event of any alteration to the capital structure of the Company during the option period which expires on 7 July 2013, such corresponding alterations shall be made in:
 - (i) the number of new shares in relation to the ESOS II so far as unexercised;
 - (ii) the option price; and/or
 - (iii) the method of the exercise of the option.
- (f) Options granted under the ESOS II carry no dividends or voting rights. Upon exercise of the options, shares issued rank pari-passu in all respects with the then existing ordinary shares of the Company.
- (g) The persons to whom the options have been granted under the ESOS II have no right to participate in any share issue of any other company within the Group.

Set out below are the details of options over the ordinary shares of the Company granted under ESOS II:

No. of options over ordinary shares of RM1.00 each

Grant date	Option price RM per share	As at				As at		Expiry date
		1.9.2003 '000	Granted '000	Exercised '000	Expired '000	31.8.2004 '000		
8 July 2003	8.39	199,347	0	(36,168)	(509)	162,670	7 July 2013	
25 February 2004	8.74	0	16,872	(311)	(46)	16,515	7 July 2013	
		199,347	16,872	(36,479)	(555)	179,185		

32 SHARE CAPITAL (Cont'd.)

Details relating to options exercised during the financial year are as follows:

Exercise date	Fair value of shares at share issue date RM/share	Exercise price RM/share	Number of shares issued as at 31.8.2004
September 2003	8.95 – 9.35	8.39	313,000
October 2003	9.00 – 9.60	8.39	21,500
November 2003	8.95 – 9.60	8.39	83,000
December 2003	8.95 – 9.55	8.39	106,600
January 2004	9.05 – 9.65	8.39	101,700
February 2004	9.10 – 9.95	8.39	304,800
March 2004	9.65 – 11.00	8.39	1,706,300
April 2004	9.50 – 11.00	8.39	16,502,700
May 2004	8.55 – 9.80	8.39/8.74	228,600
June 2004	9.20 – 10.30	8.39/8.74	500,000
July 2004	9.95 – 10.50	8.39/8.74	8,794,400
August 2004	9.70 – 10.00	8.39/8.74	7,816,000
			36,478,600
			As at 31.8.2004 RM'000
Ordinary share capital, at par			36,478.6
Share premium			269,685.6
Proceeds received on exercise of share options			306,164.2
Fair value at exercise date of shares issued			368,118.8

32 SHARE CAPITAL (Cont'd.)

Special Rights Redeemable Preference Share ("Special Share")

- (a) The Special Share would enable the Government of Malaysia through the Minister of Finance Incorporated to ensure that certain major decisions affecting the operations of the Company are consistent with the Government's policies. The Special Shareholder, which may only be the Government or any representative or person acting on its behalf, is entitled to receive notices of meetings but not to vote at such meetings of the Company. However, the Special Shareholder is entitled to attend and speak at such meetings.

The Special Shareholder has the right to appoint any person, but not more than six at any time, to be Government Appointed Directors.

- (b) Certain matters, in particular the alteration of the Articles of Association of the Company relating to the rights of the Special Shareholder, creation and issue of additional shares which carry different voting rights, the dissolution of the Company, substantial disposal of assets, amalgamations, merger and takeover, require the prior consent of the Special Shareholder.
- (c) The Special Shareholder does not have any right to participate in the capital or profits of the Company.
- (d) The Special Shareholder has the right to require the Company to redeem the Special Share, at par, at any time.

Class A and Class B Redeemable Preference Shares ('RPS')

The main features of the Company's Class A and Class B RPS are as follows:

- (a) The RPS do not carry any right to participate in the assets and surplus profit of the Company.
- (b) The RPS holders have no voting rights except on resolution to amend the RPS holders' rights.
- (c) These RPS are not convertible to ordinary shares.
- (d) The Company has the right to redeem all Class A and Class B RPS on or after 16 August 2010 and 19 September 2010 respectively at RM1,000 each.

As described in Note 27(d) to the financial statements, these RPS form part of the Company's Fixed Income Securities.

33 SHARE PREMIUM

	Group and Company	
	2004 RM'million	2003 RM'million
As at the beginning of the financial year	3,181.7	3,181.7
Arising in respect of ordinary shares issued under the ESOS II	269.7	0
As at the end of the financial year	3,451.4	3,181.7

34 REVALUATION AND OTHER RESERVES

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
<u>Non-distributable</u>				
Revaluation reserve	1,034.9	1,034.9	1,029.0	1,029.0
Foreign currency translation reserve	(14.1)	3.7	0	0
Reserve on consolidation	9.5	9.5	0	0
	1,030.3	1,048.1	1,029.0	1,029.0

The movements in each category of reserves were as follows:

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
<u>Revaluation reserve</u>				
As at the beginning/end of the financial year	1,034.9	1,034.9	1,029.0	1,029.0
<u>Foreign currency translation reserve</u>				
As at the beginning of the financial year	3.7	(25.8)	0	0
Arising in the financial year	(17.8)	29.5	0	0
As at the end of the financial year	(14.1)	3.7	0	0
<u>Reserve on consolidation</u>				
As at the beginning of the financial year	9.5	0	0	0
Arising in the financial year	0	9.5	0	0
As at the end of the financial year	9.5	9.5	0	0
<u>Total revaluation and other reserves</u>				
As at the beginning of the financial year	1,048.1	1,009.1	1,029.0	1,029.0
Arising in the financial year	(17.8)	39.0	0	0
As at the end of the financial year	1,030.3	1,048.1	1,029.0	1,029.0

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35 RETAINED PROFITS

Subject to agreement by the Inland Revenue Board, the Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 available to frank approximately RM1,242.9 million (2003: RM1,318.5 million) of its retained profits as at 31 August 2004, if paid out as dividends.

In addition, the Company has tax exempt income as at 31 August 2004 arising from the Income Tax (Amendment) Act, 1999, relating to tax on income earned in 1999 being waived and exempt dividend income amounting to approximately RM216.1 million (2003: RM303.1 million) available for distribution as tax exempt dividends to shareholders. This tax exempt income is subject to agreement by the Inland Revenue Board.

36 COMMITMENTS

(a) Capital and other commitments

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Authorised capital expenditure not provided for in the financial statements:				
Contracted for:				
Capital expenditure	5,801.0	4,155.1	5,239.9	3,752.7
Investment in another company	0	19.0	0	19.0
Not contracted for:				
Capital expenditure	9,990.6	15,684.5	9,737.9	15,399.8
Equity participation in another company	0	203.5	0	203.5
	15,791.6	20,062.1	14,977.8	19,375.0

(b) Non-cancellable operating lease commitments

	Group and Company	
	2004 RM'million	2003 RM'million
<u>Future minimum lease payments</u>		
Not later than one year	13.3	13.3
Later than one year and not later than five years	53.1	53.1
Later than five years	11.0	24.3
	77.4	90.7

The above lease payments relate to the non-cancellable operating leases of the Group and the Company.

37 CONTINGENT LIABILITIES (UNSECURED)

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
Claims by third parties	601.0	576.6	529.1	504.7
Trade guarantees and performance bonds	5.5	5.5	0	0
Corporate guarantees given to financial institutions in respect of facilities granted to subsidiaries	0	0	4,819.2	3,952.3
Stamp duties on transfer of assets to a subsidiary ⁽¹⁾	108.0	108.0	0	0
Other contingent liabilities	66.4	56.6	0	0
	780.9	746.7	5,348.3	4,457.0

Claims by third parties include claims by contractors, consultants, consumers and former employees. These claims are being resolved and the Directors are of the opinion that their outcome will not have a material adverse effect on the financial positions of the Group and the Company.

⁽¹⁾ In respect of stamp duties on transfer of assets from Lembaga Letrik Sabah. SESB is in the process of obtaining a vesting order to exempt itself from any potential liability.

38 SIGNIFICANT RELATED PARTY DISCLOSURES

In addition to related party balances mentioned elsewhere in the financial statements, set out below are other significant related party transactions which were carried out on terms and conditions negotiated amongst the related parties:

	Group		Company	
	2004 RM'million	2003 RM'million	2004 RM'million	2003 RM'million
(a) Sales of electricity to associates	0.4	25.1	0.4	25.1
(b) Purchases of electricity from associates	2,318.8	2,523.4	2,318.8	2,523.4
(c) Interest income received from associates:				
– GB3 Sdn Bhd	30.9	0	30.9	0
– Port Dickson Power Berhad	1.2*	3.6	1.2*	3.6
– Segari Energy Ventures Sdn Bhd	7.8 [#]	9.1	7.8 [#]	9.1
– Tenaga Teknologi Perlis Consortium Sdn Bhd	2.5	0	2.5	0

38 SIGNIFICANT RELATED PARTY DISCLOSURES (Cont'd.)

Sales and purchases of electricity to and from associates are aggregated because the transactions are similar in nature and no single transaction is significant enough to warrant separate disclosure.

As stated under paragraph 5 of MASB Standard No. 8 "Related Party Disclosures", disclosure of significant related party transactions between a state-controlled enterprise with other state-controlled enterprises is not required in the financial statements.

Accordingly, significant related party transactions between the Company and other Government controlled entities are not presented as the principal shareholders of the Company are the Malaysian Government and related entities owned.

* Interest income received from Port Dickson Power Berhad is in relation to the period till the date of disposal as disclosed in Note 16 to the financial statements.

SEV has been treated as short term investments as at 31 August 2004 as disclosed in Note 16 to the financial statements and thus interest income received from SEV is in relation to the period till the date when it ceased to be an associate.

39 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.

40 PRIOR YEAR ADJUSTMENTS

During the financial year, the Group and the Company changed its accounting policy to comply with the new MASB Standard No. 29. The details are set out below.

Employee benefits

During the financial year, upon the initial adoption of MASB Standard No. 29, liabilities for post retirement medical plan are provided and a transitional provision in relation to the RBP have been recognised by the Group and the Company.

This change in accounting policy has been accounted for retrospectively and has the effect of decreasing retained profits of the Group and the Company as at 31 August 2003 by RM1,108.7 million and RM1,051.9 million respectively. This change in accounting policy also resulted in the decrease of deferred taxation of the Group and the Company as at 31 August 2003 by RM409.1 million and RM409.1 million respectively.

40 PRIOR YEAR ADJUSTMENTS (Cont'd.)

	As previously reported RM'million	Effect of change in policy RM'million	As restated RM'million
Group			
At 31 August 2002:			
– retained profits	6,845.0	(1,055.7)	5,789.3
– deferred taxation	4,750.3	(391.5)	4,358.8
– employee benefits:			
– retirement benefit plan	487.4	221.4	708.8
– retirement medical plan	0	1,225.8	1,225.8
At 31 August 2003:			
– retained profits	7,732.1	(1,108.7)	6,623.4
– deferred taxation	5,285.8	(409.1)	4,876.7
– employee benefits:			
– retirement benefit plan	513.7	259.7	773.4
– retirement medical plan	0	1,258.1	1,258.1
Financial year ended 31 August 2003:			
– other operating expenses	13,794.2	70.6	13,864.8
– taxation – Company and subsidiaries	573.3	(17.6)	555.7
– net profit for the financial year	1,114.9	(53.0)	1,061.9
Company			
At 31 August 2002:			
– retained profits	7,146.7	(1,006.9)	6,139.8
– deferred taxation	4,776.1	(391.5)	4,384.6
– employee benefits:			
– retirement benefit plan	482.2	221.4	703.6
– retirement medical plan	0	1,177.0	1,177.0
At 31 August 2003:			
– retained profits	8,383.1	(1,051.9)	7,331.2
– deferred taxation	5,269.3	(409.1)	4,860.2
– employee benefits:			
– retirement benefit plan	509.3	259.7	769.0
– retirement medical plan	0	1,201.3	1,201.3
Financial year ended 31 August 2003:			
– other operating expenses	12,544.9	62.6	12,607.5
– taxation	545.7	(17.6)	528.1
– net profit for the financial year	1,464.2	(45.0)	1,419.2

41 FINANCIAL RISK MANAGEMENT

(a) Financial risk management objectives and policies

The main risks arising from the Group's financial assets and liabilities are foreign currency exchange, interest rate, credit, liquidity and cash flow risks. The Group's overall risk management seeks to minimise potential adverse effects of these risks on the financial performance of the Group.

The Group has established risk management policies, guidelines and control procedures to manage its exposure to financial risks. Hedging transactions are determined in the light of commercial commitments; derivative financial instruments are used only to hedge underlying commercial exposures and are not held or sold for speculative purposes.

- **Foreign currency exchange risk**

The foreign currency exchange risk of the Group arises from borrowings denominated in foreign currencies. The Group has foreign cross-currency borrowings to reduce the foreign currency exposures on the borrowings. The main currency exposures are primarily in United States Dollar and Japanese Yen. The Group also has subsidiaries operating in foreign countries, which generate revenue and incur costs denominated in foreign currencies. The main currency exposure is primarily in United States Dollar.

- **Interest rate risk**

The Group has cash and bank balances and deposits placed with creditworthy licensed banks and financial institutions. The Group manages its interest rate risks by placing such balances on varying maturities and interest rate terms.

The Group's debt includes bank overdrafts, bank borrowings, bonds and notes. The Group's interest rate risk management objective is to manage the interest expense consistent with maintaining an acceptable level of exposure to interest rate fluctuations. In order to achieve this objective, the Group targets a mix of fixed and floating debt based on assessment of its existing exposure and desired interest rate profile. To obtain this mix, the Group uses combined cross-currency interest rate swaps, interest rate swaps and options to convert certain long term foreign currency borrowings from variable to fixed rate and vice versa.

- **Credit risk**

Financial assets that potentially subject the Group to concentrations of credit risk consist primarily of receivables, cash and cash equivalents, marketable securities and financial instruments used in hedging activities.

Due to the nature of the Group's business, customers are mainly segregated into business and residential. The Group has no other major significant concentration of credit risk other than business and residential trade receivables due to its diverse customer base. Credit risk is managed through the application of credit limits and monitoring procedures. Where appropriate, the Group obtained deposits or bank guarantees from the customers.

The Group places its cash and cash equivalents and marketable securities with a number of creditworthy financial institutions. The Group's policy limits the concentration of financial exposure to any single financial institution.

All hedging instruments are executed with creditworthy financial institutions with a view to limit the credit risk exposure of the Group. The Group, however is exposed to credit-related losses in the event of non-performance by counterparties to financial derivative instruments, but does not expect any counterparties to fail to meet their obligations.

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Financial risk management objectives and policies (Cont'd.)

- **Liquidity and cash flow risks**

In the management of liquidity and cash flow risk, the Group monitors and maintains a level of cash and cash equivalent deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Due to the dynamic nature of the underlying business, the Group aims at maintaining flexibility in funding by keeping both committed and uncommitted credit lines available.

(b) Interest rate risk

The tables below summarise the Group and the Company's exposure to interest rate risk. Included in the tables are the Group and the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of repricing or contractual maturity dates. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative instruments. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of assets and their corresponding liability funding.

Group	Floating rate RM'million	Fixed rate instruments maturing or repriced in			Total interest sensitive RM'million
		<1 year RM'million	1-5 years RM'million	>5 years RM'million	
2004					
Financial assets					
Investments	0	41.8	19.0	0	60.8
Trade and other receivables	53.6	0	0	0	53.6
Amount owing from associates	0	74.0	0	0	74.0
Marketable securities	0	0	0	0	0
Deposits and bank balances	80.2	3,325.9	0	0	3,406.1
Other assets (amount receivable from swap counterparties)	0	0	0	0	0
	133.8	3,441.7	19.0	0	3,594.5
2003					
Financial assets					
Investments	0	1,007.0	73.4	0	1,080.4
Trade and other receivables	25.3	343.1	0	0	368.4
Amount owing from associates	0	77.3	0	0	77.3
Marketable securities	0	0	0	0	0
Deposits and bank balances	87.2	1,015.6	0	0	1,102.8
Other assets (amount receivable from swap counterparties)	0	0	0	0	0
	112.5	2,443.0	73.4	0	2,628.9

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) Interest rate risk (Cont'd.)

Group	Total interest sensitive RM'million	Non interest sensitive RM'million	Balances under Islamic principles RM'million	Total RM'million
2004				
Financial assets				
Investments	60.8	399.9	0	460.7
Trade and other receivables	53.6	2,572.5	365.3	2,991.4
Amount owing from associates	74.0	0	0	74.0
Marketable securities	0	10.3	0	10.3
Deposits and bank balances	3,406.1	354.6	89.1	3,849.8
Other assets (amount receivable from swap counterparties)	0	66.5	0	66.5
	3,594.5	3,403.8	454.4	7,452.7
2003				
Financial assets				
Investments	1,080.4	432.8	0	1,513.2
Trade and other receivables	368.4	2,154.5	292.6	2,815.5
Amount owing from associates	77.3	0	0	77.3
Marketable securities	0	11.7	0	11.7
Deposits and bank balances	1,102.8	332.1	0	1,434.9
Other assets (amount receivable from swap counterparties)	0	57.2	0	57.2
	2,628.9	2,988.3	292.6	5,909.8

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) Interest rate risk (Cont'd.)

Company	Floating rate RM'million	Fixed rate instruments maturing or repriced in			Total interest sensitive RM'million
		<1 year RM'million	1-5 years RM'million	>5 years RM'million	
2004					
Financial assets					
Investments	0	0	0	0	0
Trade and other receivables	0	0	0	0	0
Amount owing from subsidiaries	863.6	2,767.0	59.1	0	3,689.7
Amount owing from associates	0	68.0	0	0	68.0
Marketable securities	0	0	0	0	0
Deposits and bank balances	0	2,807.3	0	0	2,807.3
Other assets (amount receivable from swap counterparties)	0	0	0	0	0
	863.6	5,642.3	59.1	0	6,565.0
2003					
Financial assets					
Investments	0	0	0	0	0
Trade and other receivables	0	343.1	0	0	343.1
Amount owing from subsidiaries	863.6	2,549.8	73.9	0	3,487.3
Amount owing from associates	0	70.6	0	0	70.6
Marketable securities	0	0	0	0	0
Deposits and bank balances	0	649.7	0	0	649.7
Other assets (amount receivable from swap counterparties)	0	0	0	0	0
	863.6	3,613.2	73.9	0	4,550.7

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) Interest rate risk (Cont'd.)

Company	Total interest sensitive RM'million	Non interest sensitive RM'million	Balances under Islamic principles RM'million	Total RM'million
2004				
Financial assets				
Investments	0	211.0	0	211.0
Trade and other receivables	0	2,497.2	365.3	2,862.5
Amount owing from subsidiaries	3,689.7	1,269.8	0	4,959.5
Amount owing from associates	68.0	0	0	68.0
Marketable securities	0	10.3	0	10.3
Deposits and bank balances	2,807.3	73.4	89.1	2,969.8
Other assets (amount receivable from swap counterparties)	0	54.9	0	54.9
	6,565.0	4,116.6	454.4	11,136.0
2003				
Financial assets				
Investments	0	432.8	0	432.8
Trade and other receivables	343.1	1,819.1	292.6	2,454.8
Amount owing from subsidiaries	3,487.3	1,041.3	0	4,528.6
Amount owing from associates	70.6	0	0	70.6
Marketable securities	0	11.7	0	11.7
Deposits and bank balances	649.7	195.9	0	845.6
Other assets (amount receivable from swap counterparties)	0	56.8	0	56.8
	4,550.7	3,557.6	292.6	8,400.9

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) Interest rate risk (Cont'd.)

Group	Floating rate RM'million	Fixed rate instruments maturing or repriced in			Total interest sensitive RM'million
		<1 year RM'million	1-5 years RM'million	>5 years RM'million	
2004					
Financial liabilities					
Trade and other payables	186.1	1.7	0.2	0	188.0
Amount owing from associates	0	300.0	0	0	300.0
Borrowings	4,032.0	415.8	5,239.1	13,178.6	22,865.5
Other liabilities (amount payable to swap counterparties)	0	0	0	0	0
	4,218.1	717.5	5,239.3	13,178.6	23,353.5
On-balance sheet interest sensitivity gap	(4,084.3)	2,724.2	(5,220.3)	(13,178.6)	(19,759.0)
Off-balance sheet interest sensitivity gap	(899.7)	0	624.3	0	(275.4)
Total interest sensitivity gap	(4,984.0)	2,724.0	(4,596.0)	(13,178.6)	(20,034.4)
2003					
Financial liabilities					
Trade and other payables	0	221.2	0	0	221.2
Amount owing to associates	0	209.7	0	0	209.7
Borrowings	5,924.3	1,842.3	5,036.2	11,904.0	24,706.8
Other liabilities (amount payable to swap counterparties)	0	0	0	0	0
	5,924.3	2,273.2	5,036.2	11,904.0	25,137.7
On-balance sheet interest sensitivity gap	(5,811.8)	169.8	(4,962.8)	(11,904.0)	(22,508.8)
Off-balance sheet interest sensitivity gap	(1,382.2)	(115.9)	2,732.7	(1,502.7)	(268.1)
Total interest sensitivity gap	(7,194.0)	53.9	(2,230.1)	(13,406.7)	(22,776.9)

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41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) Interest rate risk (Cont'd.)

Group	Total interest sensitive RM'million	Non interest sensitive RM'million	Balances under Islamic principles RM'million	Total RM'million
2004				
Financial liabilities				
Trade and other payables	188.0	1,807.2	15.0	2,010.2
Amount owing to associate	300.0	4.9	0	304.9
Borrowings	22,865.5	317.2	9,718.4	32,901.1
Other liabilities (amount payable to swap counterparties)	0	33.6	0	33.6
	23,353.5	2,162.9	9,733.4	35,249.8
On-balance sheet interest sensitivity gap	(19,759.0)	1,240.9	(9,279.0)	(27,797.1)
Off-balance sheet interest sensitivity gap	(275.4)	0	0	(275.4)
Total interest sensitivity gap	(20,034.4)	1,240.9	(9,279.0)	(28,072.5)
2003				
Financial liabilities				
Trade and other payables	221.2	2,106.6	0	2,327.8
Amount owing to associates	209.7	7.1	0	216.8
Borrowings	24,706.8	360.3	6,282.2	31,349.3
Other liabilities (amount payable to swap counterparties)	0	20.0	0	20.0
	25,137.7	2,494.0	6,282.2	33,913.9
On-balance sheet interest sensitivity gap	(22,508.8)	494.3	(5,989.6)	(28,004.1)
Off-balance sheet interest sensitivity gap	(268.1)	0	0	(268.1)
Total interest sensitivity gap	(22,776.9)	494.3	(5,989.6)	(28,272.2)

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) Interest rate risk (Cont'd.)

Company	Floating rate RM'million	Fixed rate instruments maturing or repriced in			Total interest sensitive RM'million
		<1 year RM'million	1-5 years RM'million	>5 years RM'million	
2004					
Financial liabilities					
Trade and other payables	0	0	0	0	0
Borrowings	1,326.0	366.5	3,492.5	11,730.1	16,915.1
Amount owing to subsidiaries	0	2,556.1	0	0	2,556.1
Amount owing to associates	0	300.0	0	0	300.0
Other liabilities (amount payable to swap counterparties)	0	0	0	0	0
	1,326.0	3,222.6	3,492.5	11,730.1	19,771.2
On-balance sheet interest sensitivity gap	(462.4)	2,419.7	(3,433.4)	(11,730.1)	(13,206.2)
Off-balance sheet interest sensitivity gap	(1,080.8)	0	805.3	0	(275.5)
Total interest sensitivity gap	(1,543.2)	2,419.7	(2,628.1)	(11,730.1)	(13,481.7)
Company	Total interest sensitive RM'million	Non interest sensitive RM'million	Balances under Islamic principles RM'million	Total RM'million	
2004					
Financial liabilities					
Trade and other payables	0	1,743.2	0	1,743.2	
Borrowings	16,915.1	268.1	5,918.4	23,101.6	
Amount owing to subsidiaries	2,556.1	0	0	2,556.1	
Amount owing to associates	300.0	0	0	300.0	
Other liabilities (amount payable to swap counterparties)	0	26.5	0	26.5	
	19,771.2	2,037.8	5,918.4	27,727.4	
On-balance sheet interest sensitivity gap	(13,206.2)	2,078.8	(5,464.0)	(16,591.4)	
Off-balance sheet interest sensitivity gap	(275.5)	0	0	(275.5)	
Total interest sensitivity gap	(13,481.7)	2,078.8	(5,464.0)	(16,866.9)	

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) Interest rate risk (Cont'd.)

Company	Floating rate RM'million	Fixed rate instruments maturing or repriced in			Total interest sensitive RM'million
		<1 year RM'million	1-5 years RM'million	>5 years RM'million	
2003					
Financial liabilities					
Trade and other payables	0	0	0	0	0
Borrowings	3,446.2	1,754.4	3,281.5	11,339.6	19,821.7
Amount owing to subsidiaries	0	866.4	0	0	866.4
Amount owing to associates	0	209.7	0	0	209.7
Other liabilities (amount payable to swap counterparties)	0	0	0	0	0
	3,446.2	2,830.5	3,281.5	11,339.6	20,897.8
On-balance sheet interest sensitivity gap	(2,582.6)	782.7	(3,207.6)	(11,339.6)	(16,347.1)
Off-balance sheet interest sensitivity gap	(1,364.9)	(115.9)	1,212.7	0	(268.1)
Total interest sensitivity gap	(3,947.5)	666.8	(1,994.9)	(11,339.6)	(16,615.2)

Company	Total interest sensitive RM'million	Non interest sensitive RM'million	Balances under Islamic principles RM'million	Total RM'million
Financial liabilities				
Trade and other payables	0	1,680.5	0	1,680.5
Borrowings	19,821.7	297.1	6,265.4	26,384.2
Amount owing to subsidiaries	866.4	0	0	866.4
Amount owing to associates	209.7	0	0	209.7
Other liabilities (amount payable to swap counterparties)	0	20.0	0	20.0
	20,897.8	1,997.6	6,265.4	29,160.8
On-balance sheet interest sensitivity gap	(16,347.1)	1,560.0	(5,972.8)	(20,759.9)
Off-balance sheet interest sensitivity gap	(268.1)	0	0	(268.1)
Total interest sensitivity gap	(16,615.2)	1,560.0	(5,972.8)	(21,028.0)

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) Interest rate risk (Cont'd.)

The table below summarises the effective weighted average interest rate as at 31 August 2004 and 31 August 2003 by major currencies for each class of financial asset and financial liability.

	USD %	JPY %	EURO %	RM %	Others %
Group					
2004					
Financial assets					
Receivables	0	0	0	4.00	8.20
Deposits and bank balances	1.57	0	0	2.73	1.40
Financial liabilities					
Borrowings	6.02	2.53	2.64	6.14	4.84
2003					
Financial assets					
Receivables	0	0	0	4.00	0
Deposits and bank balances	1.10	0.05	0	0.81	0.06
Financial liabilities					
Borrowings	6.07	2.90	0	5.72	3.74
Company					
2004					
Financial assets					
Amount owing from subsidiaries	3.49	0	0	9.50	0
Trade and other receivables	0	0	0	4.00	0
Deposits and bank balances	0	0	0	2.73	0
Financial liabilities					
Borrowings	7.00	2.13	3.22	6.05	1.36
2003					
Financial assets					
Amount owing from subsidiaries	2.70	0	0	9.50	0
Trade and other receivables	0	0	0	4.00	0
Deposits and bank balances	1.10	0.05	0	0	0
Financial liabilities					
Borrowings	6.88	2.89	0	6.40	1.73

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41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) Credit risk

(i) On balance sheet, commitment and contingencies

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The following tables analyse the Group's and the Company's financial assets by industry concentration as at the balance sheet date.

Group	Deposits and bank balances (excl. cash) RM'million	Investment in unquoted instruments# RM'million	Trade receivables and other assets RM'million	Interest receivable from swap counter- parties RM'million	Total on-balance sheet RM'million	Commitment and contingencies RM'million
2004						
Government	0	0	100.6	0	100.6	0
Financial institutions	3,294.3	38.0	22.2	66.5	3,421.0	0.2
Business	2.0	46.6	1,660.5	0	1,709.1	0
Individuals	0	0	1,047.8	0	1,047.8	0
Others	0	0	195.4	0	195.4	0
	3,296.3	84.6	3,026.5	66.5	6,473.9	0.2
2003						
Government	0	0	126.1	0	126.1	0
Financial institutions	931.7	1,045.0	27.6	56.8	2,061.1	0
Business	4.0	120.0	1,489.0	0	1,613.0	0
Individuals	0	0	1,034.7	0	1,034.7	0
Others	0	0	138.0	0	138.0	0
	935.7	1,165.0	2,815.4	56.8	4,972.9	0

This amount excludes equity instruments amounting to RM22.9 million (2003: RM359.9 million), net of allowance.

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) Credit risk (Cont'd.)

(i) On balance sheet, commitment and contingencies (Cont'd.)

Company	Deposits and bank balances (excl. cash) RM'million	Investment in unquoted instruments# RM'million	Trade receivables and other assets RM'million	Inter- company RM'million	Interest receivable from swap counter- parties RM'million	Total on-balance sheet RM'million	Commitment and contingencies RM'million
2004							
Government	0	0	100.6	0	0	100.6	0
Financial institutions	2,867.3	38.0	22.2	0	54.9	2,982.4	0
Business	0	46.6	1,617.5	0	0	1,664.1	0
Individuals	0	0	994.8	0	0	994.8	0
Associates	0	0	0	68.0	0	68.0	0
Subsidiaries	0	0	0	4,959.5	0	4,959.5	4,819.2*
Others	0	0	127.4	0	0	127.4	0
	2,867.3	84.6	2,862.5	5,027.5	54.9	10,896.8	4,819.2
2003							
Government	0	0	70.8	0	0	70.8	0
Financial institutions	649.6	38.0	11.4	0	56.8	755.8	0
Business	0	46.6	1,320.9	0	0	1,367.5	0
Individuals	0	0	971.5	0	0	971.5	0
Associates	0	0	0	70.6	0	70.6	0
Subsidiaries	0	0	0	4,528.6	0	4,528.6	3,952.3
Others	0	0	80.2	0	0	80.2	0
	649.6	84.6	2,454.8	4,599.2	56.8	7,845.0	3,952.3

This amount excludes equity instruments amounting to RM22.9 million (2003: RM359.9 million), net of allowance.

* This amount represents the financial guarantees issued by the Company on the borrowing facilities given to subsidiaries.

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) Credit risk (Cont'd.)

(ii) Off balance sheet

The Group and the Company are exposed to credit risk where the fair value of the contract is favourable, where the counterparty is required to pay the Group or the Company in the event of contract termination. The following table summarises the favourable fair values of the contracts, indicating the credit risk exposure.

	Group		Company	
	Contract or notional principal amount RM'million	Favourable net fair value RM'million	Contract or notional principal amount RM'million	Favourable net fair value RM'million
2004				
Interest rate swap	3,514.2	5.0	293.2	0
Forward start interest rate swap	1,380.9	7.2	1,380.9	7.2
Cross currency interest rate swap	1,007.2	0	1,007.2	0
Currency swaption interest rate swap	950.0	0	950.0	0
	6,852.3	12.2	3,631.3	7.2
2003				
Interest rate swap	3,339.6	2.5	316.9	2.5
Forward start interest rate swap	0	0	0	0
Cross currency interest rate swap	1,039.7	29.6	1,039.7	29.6
Currency swaption interest rate swap	950.0	57.2	950.0	57.2
	5,329.3	89.3	2,306.6	89.3

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) Foreign exchange risk

The currency exposure of financial assets and financial liabilities of the Group and the Company that are not denominated in the functional currency of the respective companies is set out below.

Group	USD RM'million	JPY RM'million	EURO RM'million	Others RM'million
2004				
Financial assets				
Investments	67.1	0	0	0
Receivables, deposits and prepayments	0	0	0	0
Deposits and bank balances	187.5	249.4	0	73.3
Other assets	61.5	5.0	0	0
	316.1	254.4	0	73.3
Financial liabilities				
Payables	3.8	0	0.7	0
Borrowings	9,230.2	4,575.3	608.8	1,453.3
Other liabilities	7.5	26.1	0	0
	9,241.5	4,601.4	609.5	1,453.3
2003				
Financial assets				
Investments	1,080.4	0	0	0
Receivables, deposits and prepayments	10.2	0	0	0
Deposits and bank balances	625.4	157.0	0	2.6
Other assets	56.4	0.4	0	0
	1,772.4	157.4	0	2.6
Financial liabilities				
Payables	35.7	0	0	104.0
Borrowings	11,212.2	3,165.0	0	1,988.1
Other liabilities	0.8	19.2	0	0
	11,248.7	3,184.2	0	2,092.1

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41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) Foreign exchange risk (Cont'd.)

Company	USD RM'million	JPY RM'million	EURO RM'million	Others RM'million
2004				
Financial assets				
Amount owing from subsidiaries	863.6	0	0	0
Deposits and bank balances	1.1	0.4	0	0.1
Other assets (interest receivable from swap counterparties)	49.9	5.0	0	0
	914.6	5.4	0	0.1
Financial liabilities				
Borrowings	7,062.9	3,623.0	18.2	38.9
Other liabilities (interest payable to swap counterparties)	0.4	26.1	0	0
	7,063.3	3,649.1	18.2	38.9
2003				
Financial assets				
Amount owing from subsidiaries	863.6	0	0	0
Deposits and bank balances	532.2	157.5	0	2.6
Other assets (interest receivable from swap counterparties)	56.4	0.4	0	0
	1,452.2	157.9	0	2.6
Financial liabilities				
Borrowings	8,675.6	3,109.9	0	79.0
Other liabilities (interest payable to swap counterparties)	0.8	19.2	0	0
	8,676.4	3,129.1	0	79.0

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) Fair value

The fair value of a financial instrument is assumed to be the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in forced or liquidation sale. Quoted market prices, when available, are used as the measure of fair values. However, for a significant portion of the Group's and the Company's financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using the net present value or other valuation techniques. The above techniques involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values.

The face values for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

(i) On balance sheet

The carrying amounts of financial assets and liabilities of the Group and the Company at the balance sheet date approximated their fair values except as set out below.

	Group		Company	
	Carrying amount RM'million	Fair value RM'million	Carrying amount RM'million	Fair value RM'million
2004				
Financial assets				
Long term receivables	0	0	922.7	921.3
Receivables, deposits and prepayments	7.8	6.9	0	0
Financial liabilities				
Payables	8.5	7.3	0	0
Borrowings (exclude Islamic instruments and include short term portion of borrowings)	23,182.7	24,358.5	17,183.2	18,255.2
2003				
Financial assets				
Long term receivables	0	0	937.5	935.1
Receivables, deposits and prepayments	0	0	0	0
Financial liabilities				
Payables	0	0	0	0
Borrowings (exclude Islamic instruments and include short term portion of borrowings)	24,960.8	25,030.9	20,118.8	20,406.7

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) Fair value

(i) On balance sheet (Cont'd.)

Financial assets

The fair value of long term receivables is lower than carrying amount at balance sheet date as the Company gives its subsidiaries advances at below current market rate. The Directors consider the carrying amount fully recoverable as they do not intend to realise the financial assets via exchange with another counterparty.

Financial liabilities

The fair value of quoted bonds has been estimated using the respective quoted offer price. For unquoted borrowings with fixed interest rate, the fair values have been estimated by discounting the estimated future cash flows using the prevailing market rates for similar credit risks and remaining period to maturity. For unquoted borrowings with floating interest rate, the carrying values are generally reasonable estimates of their fair values.

For all other short term on balance sheet financial instruments maturing within one year or are repayable on demand, the carrying values are assumed to approximate their fair values.

(ii) Off balance sheet

The financial derivative instruments are used to hedge foreign exchange and interest rate risks associated with certain long term foreign currency borrowings. The contract notional principal amounts of the derivative and the corresponding fair value adjustments are analysed as below.

Fair values of financial derivative instruments are the present values of their future cash flows and are arrived at based on valuations carried out by the Company's bankers. Favourable fair value indicates amount receivable by the Company if the contracts are terminated as at 31 August 2004 or vice versa.

	Contract or notional principal amount RM'million	Favourable net fair value RM'million	Unfavourable net fair value RM'million
Group			
2004			
Interest rate swap	3,514.2	5.0	(45.9)
Forward start interest rate swap	1,380.9	7.2	(63.0)
Cross currency interest rate swap	1,148.7	0	(72.5)
Currency swaption interest rate swap	1,084.0	0	(24.4)
Zero cost collar swap	647.1	0	(26.3)
Currency option	897.6	0	(14.6)
Cross currency zero coupon swap	0	0	0
	8,672.5	12.2	(246.7)

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) Fair value

(ii) Off balance sheet (Cont'd.)

	Contract or notional principal amount RM'million	Favourable net fair value RM'million	Unfavourable net fair value RM'million
2003			
Interest rate swap	3,339.6	2.5	(94.9)
Forward start interest rate swap	1,183.6	0	(100.5)
Cross currency interest rate swap	1,122.4	34.9	(84.8)
Currency swaption interest rate swap	1,019.4	87.3	0
Zero cost collar swap	608.6	0	(21.6)
Currency option	0	0	0
Cross currency zero coupon swap	495.9	0	0
	7,769.5	124.7	(301.8)
Company			
2004			
Interest rate swap	293.2	0	(2.8)
Forward start interest rate swap	1,380.9	7.2	(63.0)
Cross currency interest rate swap	1,148.7	0	(72.5)
Currency swaption interest rate swap	1,084.0	0	(24.4)
Zero cost collar swap	647.1	0	(26.3)
Cost currency zero coupon swap	0	0	0
	4,553.9	7.2	(189.0)
2003			
Interest rate swap	316.9	2.5	(6.3)
Forward start interest rate swap	1,183.6	0	(91.1)
Cross currency interest rate swap	1,122.4	34.9	0
Currency swaption interest rate swap	1,019.4	87.4	0
Zero cost collar swap	608.6	0	(30.1)
Cost currency zero coupon swap	495.9	0	(85.7)
	4,746.8	124.8	(213.2)

Certain comparative information has been restated to conform with the current financial year's presentation.

42 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 4 November 2004.

statementbydirectors

PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, Datuk Amar Leo Moggie and Dato' Che Khalib bin Mohamad Noh, two of the Directors of Tenaga Nasional Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 164 to 247 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 August 2004 and of the results and the cash flows of the Group and of the Company for the financial year ended on that date in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

In accordance with a resolution of the Board of Directors dated 4 November 2004.



DATUK AMAR LEO MOGGIE
Chairman



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

statutorydeclaration

I, Dato' Che Khalib bin Mohamad Noh, the Director primarily responsible for the financial management of Tenaga Nasional Berhad, do solemnly and sincerely declare that the financial statements set out on pages 164 to 247 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



DATO' CHE KHALIB BIN MOHAMAD NOH

Subscribed and solemnly declared by the abovenamed Dato' Che Khalib bin Mohamad Noh at Kuala Lumpur, Malaysia on 4 November 2004 before me.



MOHD RADZI BIN YASIN
Commissioner For Oaths

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 (AF 1146)
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auditors' report

TO THE MEMBERS OF TENAGA NASIONAL BERHAD
 (COMPANY NO. 200866-W)
 (INCORPORATED IN MALAYSIA)

We have audited the financial statements set out on pages 164 to 247. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
- (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Group and of the Company as at 31 August 2004 and of the results and cash flows of the Group and of the Company for the financial year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of the subsidiaries of which we have not acted as auditors are indicated in Note 15 to the financial statements. We have considered the financial statements of these subsidiaries and the auditors' reports thereon.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any material qualification and did not include any comment made under subsection (3) of section 174 of the Act.



PRICEWATERHOUSECOOPERS
 (No. AF: 1146)
 Chartered Accountants



DATO' AHMAD JOHAN BIN MOHAMMAD RASLAN
 (No. 1867/09/06 (J))
 Partner of the firm

4 November 2004