Annual Report 2003

Strategy & Direction

Planning & Budgeting

Organisational Structure

Business Process Reengineering

Performance Management

Technology & Competency

Shared Values & Culture

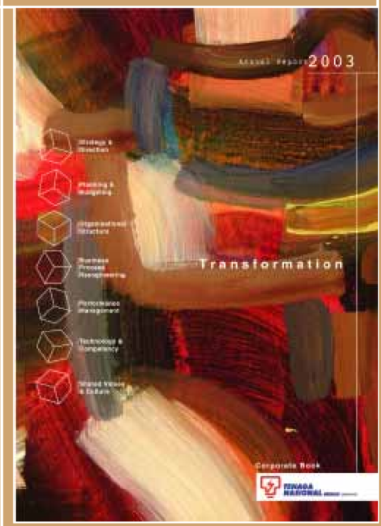
Transformation

Financial Report

TENAGA NASIONAL BERHAD (200866-W)

Cover Design Rationale

TRANSFORMATION

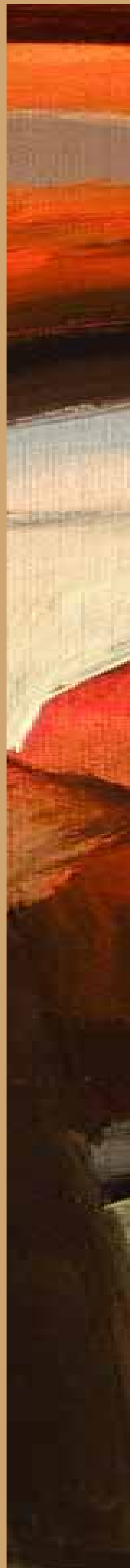


Tenaga Nasional Berhad (TNB) is a recognised leader in the generation, transmission and distribution of electricity in Malaysia. Our reputation has a rich heritage of several decades that has shaped our respected past and continues to serve as a trusted company powering the nation's progress. While doing well and doing right is a satisfaction in itself, emerging trends and evolving customer needs are reshaping the electricity business. Therefore, TNB has embarked on a transformation to be relevant as customer demands take new heights at every turn.

We have therefore interpreted transformation on a subliminal note with a myriad of energetic colours that present new perspectives to the eye, every colour connoting the change management process that TNB embraces in its transformation. Against the churn of colours in an abstract avant garde manner, we see new techniques, new skills, new methodologies, new innovations and new breakthroughs. Each of our seven transformation building blocks is depicted on the cover while the vibrant colours denote the energy within us to transform and to transform the lives of our customers.

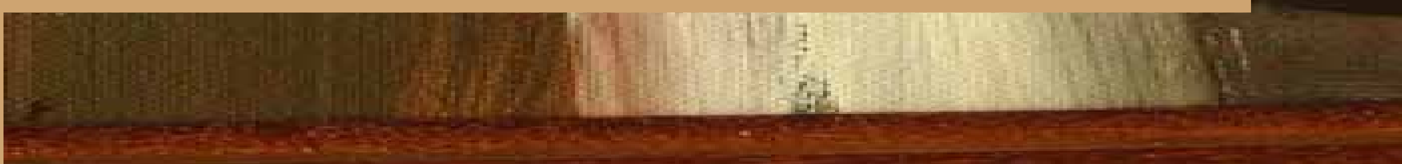
Our corporate logo and the theme are strategically placed to speak of this TRANSFORMATION that will elevate the national, economic and social prosperity of Malaysia.

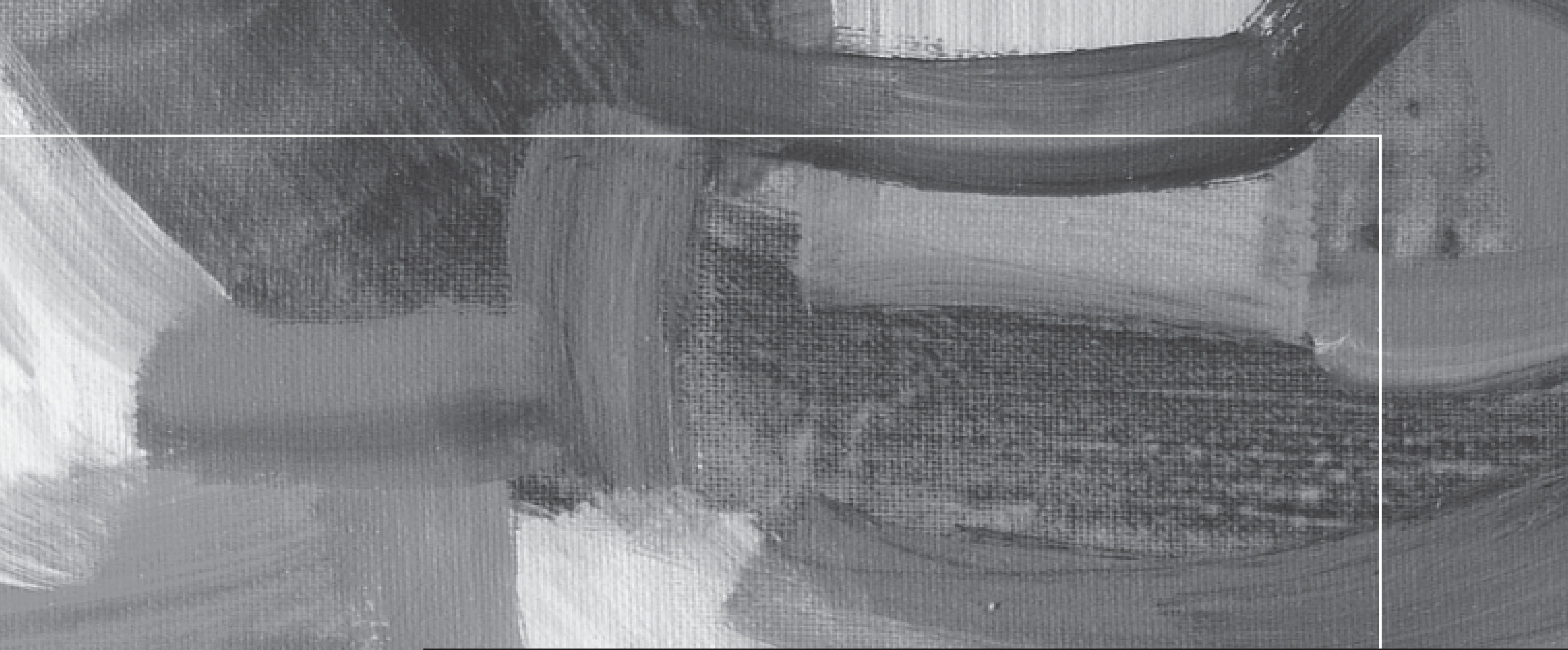
Extraordinary General Meeting/
Thirteenth Annual General Meeting
Tuesday 23 December 2003
Dewan Serbaguna
Kompleks Sukan TNB
Jalan Pantai Baru
59200 Kuala Lumpur
10.00 am



A complete Bahasa Malaysia
equivalent of this annual
report is available in
writing from :-

The Company Secretary
First Floor
Tenaga Nasional Berhad Headquarters
129 Jalan Bangsar
59200 Kuala Lumpur
Malaysia.
Tel : 603 2296 5640
Fax : 603 2283 5494





Financial Report 2003

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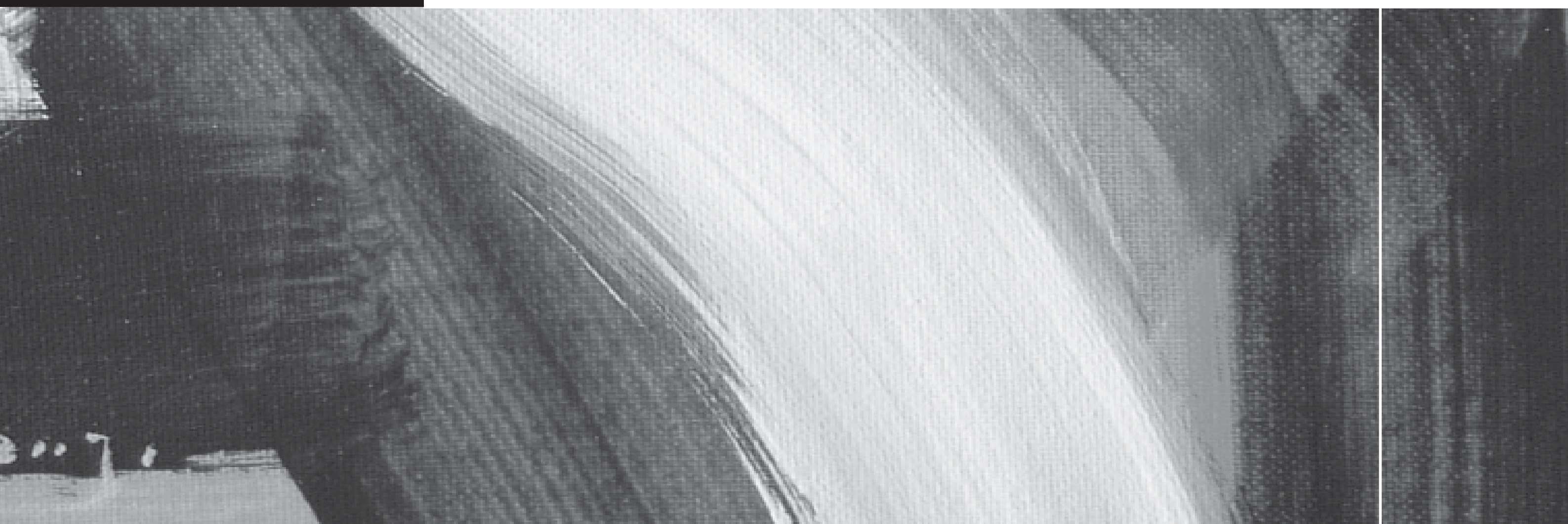

FINANCIAL CALENDAR

Financial Year From 1 September 2002 to 31 August 2003

RESULTS		
First Quarter ended 30 November 2002	Announced on	28 January 2003
Second Quarter ended 28 February 2003	Announced on	29 April 2003
Third Quarter ended 31 May 2003	Announced on	29 July 2003
Fourth Quarter ended 31 August 2003	Announced on	28 October 2003
DIVIDEND		
Interim	Announced on	29 April 2003
	Entitlement Date	10 June 2003
	Paid on	1 July 2003
Final	Announced on	28 October 2003
	Entitlement Date	30 December 2003
	Payable on	26 January 2004
DISTRIBUTION OF ANNUAL REPORT		1 December 2003
THIRTEENTH ANNUAL GENERAL MEETING		23 December 2003
CLOSURE OF SHARE REGISTER		31 December 2003

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of Directors' Responsibilities in respect of the Audited Financial Statements

Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which have been made out in accordance with the applicable approved accounting standards in Malaysia and give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and of the results and the cash flows of the Group and the Company for the financial year then ended. In preparing those financial statements, the Directors have:-

- adopted suitable accounting policies and then apply them consistently;
- made judgements and estimates that are prudent and reasonable;
- ensured applicable accounting standards have been followed. Material departures, if any, are disclosed and explained in the financial statements; and
- prepared the financial statements on the going concern basis as the Directors have a reasonable expectation, having made enquiries, that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and Company to enable them to ensure that the financial statements comply with the Companies Act, 1965. The Directors are also responsible for safeguarding the assets of the Group and Company and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 2003.

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.

FINANCIAL RESULTS

	Group RM'million	Company RM'million
Profit after taxation	1,117.6	1,464.2
Minority interests	(2.7)	0
Net profit for the financial year	1,114.9	1,464.2

DIVIDENDS

The dividends paid or declared since 31 August 2002 were as follows:

	RM'million
In respect of the financial year ended 31 August 2002, as shown in the Directors' Report for that financial year:	
Final dividend of 6.0 sen gross per ordinary share, less income tax at 28%, paid on 27 January 2003	134.4
In respect of the financial year ended 31 August 2003:	
Interim dividend of 3.0 sen per ordinary share, tax exempt, paid on 1 July 2003	93.4

The Directors now recommend the payment of a final dividend of 7.8 sen gross per ordinary share, less income tax at 28%, amounting to RM174.8 million which, subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company, will be paid on 26 January 2004 to the shareholders registered on the Company's Register of Members at the close of business on 30 December 2003.

RESERVES AND PROVISIONS

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

EMPLOYEE SHARE OPTION SCHEME ('ESOS')

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

The Company implemented a new 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 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 Scheme.

(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 Kuala Lumpur Stock Exchange 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 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.

EMPLOYEE SHARE OPTION SCHEME ('ESOS') (continued)

The movement during the financial year in the number of options over the shares of the Company is as follows:

		No. of options over ordinary shares of RM1.00 each					
Grant date	Option price RM per share	As at 1.9.2002 RM'000	Granted RM'000	Exercised RM'000	Expired RM'000	As at 31.8.2003 RM'000	Expiry date
8 July 2003	8.39	0	199,347	0	0	199,347	7 July 2013
		0	199,347	0	0	199,347	

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 of 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 of 400,000 shares and above under ESOS II are as follows:

Name	Designation	No. of options granted	No. of options exercised
Dato' Engku Hashim Al Edrus Engku Pengiran Anum	Vice President, Distribution	400,000	Nil
Datuk Abdul Hadi Mohd Deros	Vice President, Generation	400,000	Nil
Dato' Tengku Mahmood Tengku Hamid	Advisor, Enterprise Wide Risk Management	400,000	Nil
Dato' Ir. Shafie Mat Zain	Vice President, Logistics Support & Project Services	400,000	Nil
Dato' Mohd Zainal Azirun	Vice President, Transmission	400,000	Nil
Datuk Md. Sidek Ahmad	Vice President, Corporate Planning, Development and Services	400,000	Nil
Datuk Azizah Osman	Vice President, Human Resource	400,000	Nil

DIRECTORS

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

Dato' Dr Awang Adek bin Hussin	*(Appointed on 1.12.2002)*
Dato' Pian bin Sukro	*(President/Chief Executive Officer)*
Datin Husniarti binti Tamin	
Dato' Kamariah binti Hussain	*(Alternate Director to Datin Husniarti binti Tamin)*
Datuk Dr Halim bin Shafie	
Dato' Syed Hamzah bin Syed Othman	*(Alternate Director to Datuk Dr Halim bin Shafie)*
Datuk Iskandar Dzakurnain bin Badarudin	
Raja Dato' Zaharaton binti Raja Zainal Abidin	*(Alternate Director to Datuk Iskandar Dzakurnain bin Badarudin)*
Datuk Zainun Aishah binti Ahmad	
Senator Dato' Lau Yin Pin @ Lau Yen Beng	
Tan Sri Dato' Hari Narayanan a/l Govindasamy	
Dato' Shaziman bin Abu Mansor	
Datin Paduka Hajjah Seripah Noli binti Syed Hussin	
Ng Lip Yong @ Ng Lip Sat	*(Appointed on 20.1.2003)*
Dato' Zainal Abidin bin Putih	*(Appointed on 1.5.2003)*
Dato' Dr Jamaludin bin Dato' Mohd Jarjis	*(Resigned on 21.11.2002)*
Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak	*(Resigned on 31.12.2002)*
Dato' Hamzah bin Bakar	*(Resigned on 1.2.2003)*

Government appointed Directors as at the date of this Report are:

Dato' Dr Awang Adek bin Hussin
Dato' Pian bin Sukro
Datuk Zainun Aishah binti Ahmad
Datin Husniarti binti Tamin
Datuk Dr Halim bin Shafie
Dato' Iskandar Dzakurnain bin Badarudin

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 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' 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 1.9.2002	Acquired	Disposed	As at 31.8.2003
Dato' Pian bin Sukro	14,000	0	0	14,000
Dato' Zainal Abidin bin Putih	1,000	0	0	1,000

	Number of options over ordinary shares of RM1.00 each			
	As at 1.9.2002	Granted	Exercised	As at 31.8.2003
Dato' Pian bin Sukro	0	600,000	0	600,000

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

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:

(a) 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

(b) 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:

(a) 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

(b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or

(c) 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.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (continued)

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

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

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

(b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

OTHER STATUTORY INFORMATION

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

In the opinion of the Directors:

(a) except as disclosed in Note 6 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 13 November 2003.

DATO' DR AWANG ADEK BIN HUSSIN
CHAIRMAN

DATO' PIAN BIN SUKRO
PRESIDENT/CHIEF EXECUTIVE OFFICER

INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2003

	Note	Group		Company	
		2003	2002	**2003**	2002
		RM'million	RM'million	**RM'million**	RM'million
Revenue	3	**16,457.8**	15,375.1	**15,306.9**	14,333.5
Operating expenses					
- exceptional items	6	**0**	16.0	**(335.5)**	(660.2)
- others	4	**(13,794.2)**	(13,108.7)	**(12,544.9)**	(13,120.2)
Other operating income	5	**269.7**	271.0	**735.8**	1,676.3
Operating profit		**2,933.3**	2,553.4	**3,162.3**	2,229.4
Foreign exchange (loss)/gain	7	**(16.6)**	(55.6)	**51.1**	36.3
Share of results of associates		**102.4**	142.9	**0**	0
Profit before finance cost		**3,019.1**	2,640.7	**3,213.4**	2,265.7
Finance cost	8	**(1,300.0)**	(1,127.2)	**(1,203.5)**	(1,095.2)
Profit from ordinary activities before taxation		**1,719.1**	1,513.5	**2,009.9**	1,170.5
Taxation					
- Company and subsidiaries	9	**(573.3)**	(535.6)	**(545.7)**	(519.6)
- Share of taxes in associates		**(28.2)**	(37.3)	**0**	0
		(601.5)	(572.9)	**(545.7)**	(519.6)
Profit from ordinary activities after taxation		**1,117.6**	940.6	**1,464.2**	650.9
Minority interests		**(2.7)**	14.9	**0**	0
Net profit for the financial year		**1,114.9**	955.5	**1,464.2**	650.9
		Sen	Sen		
Earnings per share					
- basic	10(a)	**35.8**	30.7		
- diluted	10(b)	**N/A**	N/A		
Dividends per share (net)	11	**8.6**	7.3		

The notes set out on pages 17 to 75 form an integral part of these financial statements.

BALANCE SHEETS
AS AT 31 AUGUST 2003

	Note	Group 2003 RM'million	Group 2002 RM'million	Company 2003 RM'million	Company 2002 RM'million
NON-CURRENT ASSETS					
Property, plant and equipment	12	**51,768.4**	50,710.7	**44,846.9**	44,300.9
Subsidiaries	13	**0**	0	**195.4**	144.1
Associates	14	**601.4**	806.9	**379.9**	394.4
Investments	15	**158.1**	390.1	**84.7**	389.8
Long term receivables	16	**0**	0	**937.5**	3,659.6
CURRENT ASSETS					
Inventories	17	**1,552.0**	1,216.2	**1,051.1**	328.3
Receivables, deposits and prepayments	18	**2,997.5**	2,772.2	**2,492.7**	2,236.9
Amount owing from subsidiaries	19	**0**	0	**3,591.0**	269.8
Amount owing from associates		**77.3**	4.7	**70.6**	3.8
Short term investments	20	**1,355.2**	0	**348.2**	0
Marketable securities	21	**11.7**	10.7	**11.7**	10.7
Deposits, bank and cash balances	22	**1,434.9**	1,154.0	**845.9**	765.5
		7,428.6	5,157.8	**8,411.2**	3,615.0
CURRENT LIABILITIES					
Payables	23	**3,137.8**	3,478.2	**2,361.5**	2,539.7
Amount owing to subsidiaries	19	**0**	0	**887.7**	234.0
Amount owing to associates		**216.8**	364.6	**209.7**	359.8
Current taxation		**235.3**	306.4	**254.6**	262.5
Short term borrowings	24				
- bank overdrafts		**4.5**	6.4	**0**	0
- others		**4,504.2**	2,448.3	**4,158.0**	2,061.0
		8,098.6	6,603.9	**7,871.5**	5,457.0
NET CURRENT (LIABILITIES)/ASSETS		**(670.0)**	(1,446.1)	**539.7**	(1,842.0)
TOTAL ASSETS LESS CURRENT LIABILITIES		**51,857.9**	50,461.6	**46,984.1**	47,046.8
NON-CURRENT LIABILITIES					
Borrowings	25	**(26,404.4)**	(26,773.2)	**(21,833.8)**	(23,828.3)
Consumer deposits		**(1,598.0)**	(1,455.0)	**(1,508.5)**	(1,373.8)
Retirement benefits	26	**(513.7)**	(487.4)	**(509.3)**	(482.2)
Other liabilities		**(84.1)**	(97.3)	**(72.7)**	(76.9)
Deferred taxation	27	**(5,285.8)**	(4,750.3)	**(5,269.3)**	(4,776.1)
Deferred income	28	**(2,299.9)**	(2,231.6)	**(2,084.9)**	(2,040.3)
Government development grants	29	**(519.9)**	(474.4)	**0**	0
		15,152.1	14,192.4	**15,705.6**	14,469.2
FINANCED BY:					
Share capital	30	**3,111.8**	3,111.8	**3,111.8**	3,111.8
Share premium	31	**3,181.7**	3,181.7	**3,181.7**	3,181.7
Revaluation and other reserves	32	**1,048.1**	1,009.1	**1,029.0**	1,029.0
Retained profits	33	**7,732.1**	6,845.0	**8,383.1**	7,146.7
Shareholders' funds		**15,073.7**	14,147.6	**15,705.6**	14,469.2
MINORITY INTERESTS		**78.4**	44.8	**0**	0
		15,152.1	14,192.4	**15,705.6**	14,469.2
		Sen	Sen		
NET ASSETS PER SHARE	10(c)	**484**	455		

The notes set out on pages 17 to 75 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2003

	Note	Ordinary shares of RM1.00 each RM'million	Share premium RM'million	Non-distributable Revaluation and other reserves RM'million	Distributable Retained profits RM'million	**Total RM'million**
At 1 September 2001						
- as previously reported		3,106.8	3,143.4	1,157.2	9,104.5	16,511.9
- prior year adjustments	38	0	0	(202.2)	(2,933.0)	(3,135.2)
- as restated		3,106.8	3,143.4	955.0	6,171.5	13,376.7
Net gains not recognised in income statement						
- currency translation differences	32	0	0	54.1	0	54.1
Premium on acquisition of associates written off		0	0	0	(55.0)	(55.0)
Net profit for the financial year ended 31 August 2002		0	0	0	955.5	955.5
Dividends						
- financial year ended 31 August 2001		0	0	0	(133.6)	(133.6)
- financial year ended 31 August 2002	11	0	0	0	(93.4)	(93.4)
Issuance of share capital						
- share options	30, 31	5.0	38.3	0	0	43.3
At 31 August 2002		3,111.8	3,181.7	1,009.1	6,845.0	14,147.6
At 1 September 2002						
- as previously reported		**3,111.8**	**3,181.7**	**1,211.3**	**10,223.3**	**17,728.1**
- prior year adjustments	**38**	**0**	**0**	**(202.2)**	**(3,378.3)**	**(3,580.5)**
- as restated		**3,111.8**	**3,181.7**	**1,009.1**	**6,845.0**	**14,147.6**
Net gains not recognised in income statement						
- currency translation differences	**32**	**0**	**0**	**29.5**	**0**	**29.5**
Negative goodwill on acquisition of an associate	**32**	**0**	**0**	**9.5**	**0**	**9.5**
Net profit for the financial year ended 31 August 2003		**0**	**0**	**0**	**1,114.9**	**1,114.9**
Dividends						
- financial year ended 31 August 2002	**11**	**0**	**0**	**0**	**(134.4)**	**(134.4)**
- financial year ended 31 August 2003	**11**	**0**	**0**	**0**	**(93.4)**	**(93.4)**
At 31 August 2003		**3,111.8**	**3,181.7**	**1,048.1**	**7,732.1**	**15,073.7**

The notes set out on pages 17 to 75 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2003

		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 2001						
- as previously reported		3,106.8	3,143.4	1,231.2	9,662.5	17,143.9
- prior year adjustments	38	0	0	(202.2)	(2,939.7)	(3,141.9)
- as restated		3,106.8	3,143.4	1,029.0	6,722.8	14,002.0
Net profit for the financial year ended 31 August 2002		0	0	0	650.9	650.9
Dividends						
- financial year ended 31 August 2001		0	0	0	(133.6)	(133.6)
- financial year ended 31 August 2002	11	0	0	0	(93.4)	(93.4)
Issuance of share capital						
- share options	30, 31	5.0	38.3	0	0	43.3
At 31 August 2002		3,111.8	3,181.7	1,029.0	7,146.7	14,469.2
At 1 September 2002						
- as previously reported		**3,111.8**	**3,181.7**	**1,231.2**	**10,531.7**	**18,056.4**
- prior year adjustments	**38**	**0**	**0**	**(202.2)**	**(3,385.0)**	**(3,587.2)**
- as restated		**3,111.8**	**3,181.7**	**1,029.0**	**7,146.7**	**14,469.2**
Net profit for the financial year ended 31 August 2003		**0**	**0**	**0**	**1,464.2**	**1,464.2**
Dividends						
- financial year ended 31 August 2002	**11**	**0**	**0**	**0**	**(134.4)**	**(134.4)**
- financial year ended 31 August 2003	**11**	**0**	**0**	**0**	**(93.4)**	**(93.4)**
At 31 August 2003		**3,111.8**	**3,181.7**	**1,029.0**	**8,383.1**	**15,705.6**

The notes set out on pages 17 to 75 form an integral part of these financial statements.

CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2003

	Group		Company	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit from ordinary activities after taxation	**1,117.6**	940.6	**1,464.2**	650.9
Adjustments for:				
Taxation	**601.5**	572.9	**545.7**	519.6
Write back of impairment loss on property, plant and equipment	**0**	(16.0)	**0**	0
Depreciation	**2,422.1**	2,242.7	**2,176.0**	2,036.6
Provision for retirement benefits	**58.2**	59.7	**57.7**	57.7
Translation loss/(gain)	**28.6**	95.4	**(35.4)**	3.2
Release of deferred income	**(266.6)**	(257.1)	**(241.4)**	(234.5)
Gain on disposal of property, plant and equipment	**(0.1)**	(1.1)	**0**	(5.4)
Loss/(gain) on disposal of an associate	**29.9**	0	**(236.0)**	0
Loss on disposal of long term investments	**0.9**	0	**0.9**	0
Share of results in associates	**(102.4)**	(142.9)	**0**	0
Loss on disposal of marketable securities	**0.9**	36.0	**0.9**	36.0
Dividend income	**(21.2)**	(10.8)	**(35.3)**	(45.5)
Interest income	**(47.7)**	(82.6)	**(300.1)**	(280.4)
Interest on borrowings	**1,230.0**	1,062.7	**1,133.5**	1,030.7
Property, plant and equipment written off	**2.5**	0.8	**2.5**	0.4
Release of government development grants	**(41.8)**	(42.8)	**0**	0
Allowance for diminution in value of a subsidiary	**0**	0	**0**	500.2
Write back of diminution in value of marketable securities	**(1.5)**	(37.5)	**(1.5)**	(37.5)
Inventories written off	**3.5**	4.4	**0**	0
	5,014.4	4,424.4	**4,531.7**	4,232.0
Inventories	**(337.8)**	(234.3)	**(722.8)**	(90.4)
Receivables	**(247.9)**	516.9	**(46.1)**	639.0
Payables	**(410.1)**	5.6	**(162.8)**	(13.4)
Amount owing from/to subsidiaries	**0**	0	**33.1**	(990.9)
Amount owing from/to associates	**(221.4)**	7.6	**(216.9)**	3.8
Cash generated from operations	**3,797.2**	4,720.2	**3,416.2**	3,780.1
Retirement benefits paid	**(31.9)**	(25.1)	**(30.6)**	(24.0)
Consumer contributions received	**334.9**	339.2	**286.0**	291.9
Consumer deposits received	**143.0**	130.1	**135.0**	124.7
Taxation paid	**(109.0)**	(132.1)	**(39.1)**	(46.8)
Net cash inflow from operating activities	**4,134.2**	5,032.3	**3,767.5**	4,125.9

The notes set out on pages 17 to 75 form an integral part of these financial statements.

CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2003 (continued)

	Group		Company	
	2003 RM'million	2002 RM'million	**2003 RM'million**	2002 RM'million
CASH FLOWS FROM INVESTING ACTIVITIES				
Additional investment in a subsidiary	**0**	0	**0**	(50.0)
Additional investment in associates	**(52.4)**	(78.4)	**(52.4)**	(69.8)
Proceeds from disposal of an associate	**240.0**	0	**240.0**	0
Proceeds from disposal of long term investments	**1.1**	0.9	**1.1**	0
Proceeds from redemption of unsecured loan notes in an associate	**13.1**	11.2	**13.1**	11.2
Purchase of long term investments	**(73.4)**	0	**0**	0
Purchase of short term investments	**(1,007.0)**	0	**0**	0
Net proceeds from sale of marketable securities	**0**	40.0	**0**	40.0
Investment income received	**27.2**	43.9	**27.2**	32.5
Interest income received	**57.8**	101.7	**50.9**	91.1
Purchase of property, plant and equipment	**(3,066.4)**	(4,081.3)	**(2,455.1)**	(3,252.6)
Proceeds from disposal of property, plant and equipment	**10.3**	8.6	**0**	8.1
Net cash outflow from investing activities	**(3,849.7)**	(3,953.4)	**(2,175.2)**	(3,189.5)
CASH FLOWS FROM FINANCING ACTIVITIES				
Government development grants received	**87.3**	0.6	**0**	0
Proceeds from issuance of shares	**0**	43.3	**0**	43.3
Proceeds from long term borrowings	**2,977.7**	4,341.4	**1,079.7**	4,209.9
Repayment of long term borrowings	**(1,727.2)**	(3,540.2)	**(1,433.1)**	(3,250.6)
Interest paid	**(1,501.8)**	(1,276.3)	**(1,406.6)**	(1,239.0)
Dividends paid	**(227.8)**	(227.0)	**(227.8)**	(227.0)
Proceeds from short term borrowings	**6,678.7**	4,283.2	**6,138.7**	3,788.8
Repayment of short term borrowings	**(6,290.3)**	(4,439.6)	**(5,662.8)**	(3,945.3)
Issue of shares to minority interests	**0**	12.1	**0**	0
Net cash outflow from financing activities	**(3.4)**	(802.5)	**(1,511.9)**	(619.9)

The notes set out on pages 17 to 75 form an integral part of these financial statements.

CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2003 (continued)

	Group		Company	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
NET INCREASE IN CASH AND CASH EQUIVALENTS	**281.1**	276.4	**80.4**	316.5
EFFECT OF CHANGES IN FOREIGN CURRENCY	**1.7**	3.0	**0**	0
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR	**1,147.6**	868.2	**765.5**	449.0
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	**1,430.4**	1,147.6	**845.9**	765.5

Cash and cash equivalents at end of the financial year comprise:

Cash in hand and at bank	**622.1**	284.1	**196.2**	128.9
Deposits with licensed banks	**795.6**	832.7	**647.7**	630.9
Deposits with finance companies	**17.2**	37.2	**2.0**	5.7
Bank overdrafts	**(4.5)**	(6.4)	**0**	0
	1,430.4	1,147.6	**845.9**	765.5

Included in cash and cash equivalents are deposits amounting to RM50.6 million (2002: RM111.6 million) and cash at bank amounting to RM7.8 million (2002: RM0.1 million), which are held in trust by a subsidiary in respect of a grant given by the Malaysian Government for a designated capital project.

The notes set out on pages 17 to 75 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 AUGUST 2003

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 Kuala Lumpur Stock Exchange.

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 standards adopted in these financial statements are as follows:

- Malaysian Accounting Standards Board ('MASB') Standard No. 23 "Impairment of Assets"
- MASB Standard No. 24 "Financial Instruments: Disclosure and Presentation"
- MASB Standard No. 25 "Income Taxes"
- MASB Standard No. 27 "Borrowing Costs"

With the exception of MASB Standard No. 25, and a change in accounting policy in relation to derivative financial instruments, 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 38 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 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 have been 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 (continued)

(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	**2003** **RM**	2002 RM
1 USD	**3.8000**	3.8000
100 JPY	**3.2466**	3.2182
1 GBP	**6.0107**	5.9022
100 PKR	**6.5824**	6.4054
1 EURO	**4.1456**	3.7448

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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(s) for accounting policy on impairment of assets.

(g) 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.

(h) 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.

(i) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Retirement benefits

Defined contribution plan

The Group's contributions to a defined contribution plan are charged to the income statement in the financial year to which they relate.

Defined benefit plan

The Group makes contributions to the Company's Retirement Benefit Scheme, a defined benefit scheme and approved fund independent of the Company's finances. The cost of retirement benefits under this Scheme is determined based on actuarial valuation using the Projected Unit Credit Method. Provision is made in the financial statements for the balance of the Scheme that is not externally funded.

Under the Projected Unit Credit Method, the Current Service Cost is calculated as the present value of benefits which will accrue in the next twelve months following the valuation date (by reference to the number of employees providing the service in that year and projected final salaries). This is in accordance with the advice of qualified actuaries who carry out a full valuation of the plan every three years.

The pension obligation is measured at the present value of the estimated future cash outflows using the interest rates of government securities and a risk premium for additional risk on investment in corporate debt.

All actuarial gains and losses are recognised in the income statement in the year subsequent to the full valuation of the plan.

(k) 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.

(l) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) 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 is 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.

(t) 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.

(u) Revenue recognition

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

Other operating income earned by the Group and Company are recognised on the following bases:

Interest and leasing income:
As it accrues, unless collectibility is in doubt.

Dividend income:
When the shareholders' right to receive payment is established.

(v) 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.

(w) 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.

<u>Foreign currency forward contracts</u>

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Financial instruments (continued)

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.

In previous financial years, hedge accounting principles were applied in accounting for the underlying exposures and their hedge instruments. Balances of original loans were offset against derivative financial instruments balances with different counterparties and only the net exposure was reflected in the balance sheet.

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.

(x) Rural electrification and 7th Malaysia Plan Projects

Rural electrification projects are capitalised as property, plant and equipment. The costs of 7th Malaysia Plan Projects 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	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
Sales - electricity	**15,973.9**	14,932.5	**15,065.5**	14,099.0
- goods and services	**217.3**	185.5	**0**	0
Release of deferred income (Note 28)	**266.6**	257.1	**241.4**	234.5
	16,457.8	15,375.1	**15,306.9**	14,333.5

4. OPERATING EXPENSES

	Group		Company	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
Energy cost	**9,213.1**	9,011.5	**8,545.1**	9,621.1
Transmission cost	**828.5**	665.6	**823.3**	641.6
Distribution cost	**2,415.2**	2,183.4	**2,349.3**	2,132.7
Administrative expenses	**710.7**	765.1	**419.8**	425.1
Other operating expenses	**626.7**	483.1	**407.4**	299.7
	13,794.2	13,108.7	**12,544.9**	13,120.2

	Group		Company	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
Operating expenses include the following items:				
Directors' remuneration				
- fees	**0.8**	0.6	**0.5**	0.5
- other emoluments	**0.5**	0.3	**0.5**	0.3
Auditors' remuneration	**0.8**	0.7	**0.4**	0.3
Allowance for doubtful debts	**194.1**	117.1	**193.3**	86.9
Depreciation	**2,422.1**	2,242.7	**2,176.0**	2,036.6
Retirement benefits expenses	**99.4**	83.1	**99.1**	79.8
Rental of land and buildings	**56.5**	24.2	**80.1**	31.4
Rental of plant and machinery	**31.9**	10.4	**24.7**	10.4
Research and development expenses	**24.9**	11.1	**24.9**	10.3
Property, plant and equipment written off	**2.5**	0.8	**2.5**	0.4
Inventories written off	**3.5**	4.4	**0**	0
Loss on disposal of long term investments	**0.9**	0	**0.9**	0
Write back of diminution in value of marketable securities	**(1.5)**	(37.5)	**(1.5)**	(37.5)
Write back of allowance for doubtful debts	**(137.5)**	(153.0)	**(86.1)**	(150.0)
Staff costs	**1,314.5**	1,251.4	**1,077.0**	938.5

The number of persons employed at the end of the financial year was 26,220 (2002: 25,686) for the Group and 23,131 (2002: 19,088) for the Company.

The estimated money value of benefits-in-kind received by the Directors was RM70,160 (2002: RM143,504) for the Group and Company.

5. OTHER OPERATING INCOME

	Group		Company	
	2003 **RM'million**	2002 RM'million	**2003** **RM'million**	2002 RM'million
Dividend income on investments from				
- quoted shares	**21.2**	10.8	**21.2**	10.8
- unquoted shares	**0**	0	**14.1**	34.7
Leasing income from subsidiaries	**16.9**	0	**17.9**	1,244.3
Interest income	**47.7**	82.6	**300.1**	280.4
Rental income	**4.2**	6.5	**30.2**	30.8
Release of government development grants (Note 29)	**41.8**	42.8	**0**	0
Government subsidies	**28.2**	25.7	**0**	0
Loss on disposal of marketable securities	**(0.9)**	(36.0)	**(0.9)**	(36.0)
Gain on disposal of property, plant and equipment	**0.1**	1.1	**0**	5.4
(Loss)/gain on disposal of an associate	**(29.9)**	0	**236.0**	0
Interest on late payments receivable	**43.9**	49.4	**40.3**	44.4
Minimum make up charges	**24.6**	22.2	**24.6**	22.2
Other income	**71.9**	65.9	**52.3**	39.3
	269.7	271.0	**735.8**	1,676.3

6. EXCEPTIONAL ITEMS

	Group		Company	
	2003 **RM'million**	2002 RM'million	**2003** **RM'million**	2002 RM'million
Allowance for advances and diminution in value of investment in a subsidiary (Note (a))	**0**	0	**(335.5)**	(660.2)
Write back of allowance for diminution in value of property, plant and equipment in a subsidiary (Note (b))	**0**	16.0	**0**	0
	0	16.0	**(335.5)**	(660.2)

(a) The impairment charge was made against the advances given to a subsidiary, Sabah Electricity Sdn Bhd. ('SESB') During the financial year ended 31 August 2002, the impairment charge was made against the Company's equity investment in and advances given to the same subsidiary.

(b) The Group's subsidiary, TNB Liberty Power Limited ('TLPL') has a power plant in Pakistan and is involved in the generation and sale of electricity to the Water & Power Development Authority of Pakistan. In the prior financial years, an impairment charge was made in respect of the property, plant and equipment of TLPL due to the uncertainties relating to the extension of the Gas Supply Agreement and finalisation of the Power Purchase Agreement. On 10 September 2002, TLPL's power plant achieved commercial operation and since then has been operating satisfactorily. During the financial year ended 31 August 2002, a writeback of impairment of RM16.0 million was made.

The total cumulative impairment loss as at 31 August 2003 was RM566.4 million (2002: RM566.4 million) (Note 12).

7. FOREIGN EXCHANGE (LOSS)/GAIN

	Group		Company	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
Foreign exchange (loss)/gain comprises:				
Translation (loss)/gain - foreign term loans	**(43.6)**	(124.7)	**20.1**	(17.0)
Translation gain – others	**15.0**	29.3	**15.3**	13.8
Transaction gain	**12.0**	39.8	**15.7**	39.5
	(16.6)	(55.6)	**51.1**	36.3
The translation (loss)/gain is in respect of term loans denominated in foreign currencies which are repayable over the following periods:				
Within one year	**46.9**	39.9	**45.9**	39.9
After one and up to two years	**(20.3)**	(16.0)	**(4.4)**	(9.3)
After two and up to five years	**(20.6)**	(16.6)	**(7.8)**	(18.8)
After five and up to ten years	**(39.2)**	(61.3)	**(8.0)**	(21.1)
After ten and up to twenty years	**(10.4)**	(70.7)	**(5.6)**	(7.7)
	(43.6)	(124.7)	**20.1**	(17.0)

8. FINANCE COST

	Group		Company	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
Interest on borrowings	**1,498.6**	1,578.1	**1,402.1**	1,291.7
Less: Amount capitalised into property, plant and equipment	**(268.6)**	(515.4)	**(268.6)**	(261.0)
Interest on consumer deposits	**70.0**	64.5	**70.0**	64.5
	1,300.0	1,127.2	**1,203.5**	1,095.2

9. TAXATION

	Group 2003 RM'million	Group 2002 RM'million	Company 2003 RM'million	Company 2002 RM'million
Arising in Malaysia:				
Current tax	**42.9**	48.3	**38.7**	37.6
In respect of prior financial years:				
(Over)/under provision	**(5.1)**	0.1	**(7.5)**	0
Deferred tax	**535.5**	487.2	**514.5**	482.0
	573.3	535.6	**545.7**	519.6

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

	Group 2003 RM'million	Group 2002 RM'million	Company 2003 RM'million	Company 2002 RM'million
Profit before tax	**1,719.1**	1,513.5	**2,009.9**	1,170.5
Tax calculated at the Malaysian tax rate of 28% (31.8.2002: 28%)	**481.3**	423.8	**562.8**	327.7
Tax effect of:				
- income not subject to tax	**(119.4)**	(115.1)	**(159.5)**	(98.7)
- expenses not deductible for tax purposes	**140.9**	186.0	**151.4**	291.2
- current year's tax loss not recognised	**70.0**	41.3	**0**	0
- temporary differences not recognised	**35.5**	37.4	**0**	0
- expenses qualifying for double deduction	**(1.7)**	(0.6)	**(1.5)**	(0.6)
(Over)/under provision in prior year	**(5.1)**	0.1	**(7.5)**	0
Tax charge	**601.5**	572.9	**545.7**	519.6
Average effective tax rate (%)	**35**	38	**27**	44

10. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share of the Group 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.

	2003	2002
Net profit for the financial year (RM'million)	**1,114.9**	955.5
Weighted average number of ordinary shares in issue ('000)	**3,111,825**	3,108,797
Basic earnings per share (sen)	**35.8**	30.7

(b) Diluted earnings per share

As at 31 August 2003, the Group has RM1,520.0 million Guaranteed Exchangeable Bonds ('GEB') whose terms of conversion are set out in Note 25(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. In addition, the ESOS II are not exercisable as at the financial year end.

(c) Net assets per share

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

11. DIVIDENDS

	Company	
	2003	2002
	RM'million	RM'million
Interim:		
- 3.0 sen per ordinary share, tax exempt		
(2002: 3.0 sen per ordinary share, tax exempt)	**93.4**	93.4
Proposed:		
- 7.8 sen gross per ordinary share, less income tax at 28%		
(2002: 6.0 sen gross per ordinary share, less income tax at 28%)	**174.8**	134.4
	268.2	227.8

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

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 August 2003 of 7.8 sen gross per ordinary share, less income tax at 28%, amounting to RM174.8 million will be proposed for shareholders' approval. This final dividend will be accrued as a liability in the financial year ending 31 August 2004 when approved by shareholders.

In respect of the financial year ended 31 August 2002, a final dividend of 6.0 sen gross per ordinary share, less income tax at 28% amounted to RM134.4 million was declared.

12. PROPERTY, PLANT AND EQUIPMENT

	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
Group						
2003						
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**

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	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
Group				
2003				
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

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	As at 1.9.2001 RM'million	Exchange rate adjustment RM'million	Additions RM'million	Disposals RM'million	Transfers/ reclassifications RM'million	As at 31.8.2002 RM'million
Group						
2002						
Cost/Valuation						
At 1984 and earlier valuations:						
Long leasehold land	8.4	0	0	0	0	8.4
Buildings and civil works	6.5	0	0	(0.9)	0	5.6
At 1994 valuation:						
Freehold land	689.5	0	0	(2.0)	0	687.5
Long leasehold land	602.4	0	0	0	0.3	602.7
Short leasehold land	3.4	0	0	0	(0.3)	3.1
Buildings and civil works	440.4	0	0	(0.3)	0	440.1
	1,750.6	0	0	(3.2)	0	1,747.4
At cost:						
Freehold land	230.3	0	61.2	0	(25.2)	266.3
Long leasehold land	104.8	0	28.6	0	25.2	158.6
Short leasehold land	38.2	0	0.3	0	0	38.5
Buildings and civil works	8,912.8	0	685.2	0	12.4	9,610.4
	11,036.7	0	775.3	(3.2)	12.4	11,821.2
Plant and machinery	22,292.6	0	2,781.7	(32.9)	2.3	25,043.7
Lines and distribution mains	15,365.2	0	1,048.9	0	31.1	16,445.2
Distribution services	1,544.1	0	197.2	0	(30.5)	1,710.8
Meters	616.9	0	128.7	0	(0.5)	745.1
Public lighting	213.4	0	28.4	0	(12.0)	229.8
Furniture, fittings and office equipment	586.1	0	104.7	(0.6)	1.7	691.9
Motor vehicles	273.6	0	13.9	(1.3)	0.3	286.5
	51,928.6	0	5,078.8	(38.0)	4.8	56,974.2
Capital project-in-progress	11,501.3	78.7	4,519.9	0	(4,920.7)	11,179.2
	63,429.9	78.7	9,598.7	(38.0)	(4,915.9)	68,153.4

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	As at 1.9.2001 RM'million	Charge for the financial year RM'million	Released on disposals/ transfers RM'million	As at 31.8.2002 RM'million
Group				
2002				
Accumulated depreciation				
At 1984 and earlier valuations:				
Long leasehold land	1.5	0	0	1.5
Buildings and civil works	3.2	0.5	0.9	4.6
At 1994 valuation:				
Freehold land	0	0	0	0
Long leasehold land	48.4	12.0	0	60.4
Short leasehold land	0.3	0.1	0	0.4
Buildings and civil works	91.6	17.5	0	109.1
	145.0	30.1	0.9	176.0
At cost:				
Freehold land	0	0	0	0
Long leasehold land	8.6	3.0	0.1	11.7
Short leasehold land	4.8	0.5	0	5.3
Buildings and civil works	1,716.1	232.8	0.7	1,949.6
	1,874.5	266.4	1.7	2,142.6
Plant and machinery	6,985.8	1,085.1	76.9	8,147.8
Lines and distribution mains	4,182.6	634.9	(5.1)	4,812.4
Distribution services	623.5	93.4	0	716.9
Meters	292.1	41.8	0	333.9
Public lighting	74.3	11.0	0.3	85.6
Furniture, fittings and office equipment	345.6	82.2	(15.5)	412.3
Motor vehicles	198.8	27.9	(1.9)	224.8
	14,577.2	2,242.7	56.4	16,876.3

	As at 1.9.2001 RM'million	Write-back RM'million	Transfer RM'million	As at 31.8.2002 RM'million
Accumulated impairment losses				
Plant and machinery	0	0	566.4	566.4
Capital project-in-progress	582.4	(16.0)	(566.4)	0
	582.4	(16.0)	0	566.4

The impairment loss charged during the previous financial years relates to an allowance in respect of property, plant and equipment of TLPL (Note 6 (b)). During the previous financial year, the construction of the power plant was completed and capitalised into appropriate categories within property, plant and equipment.

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	As at 1.9.2002 RM'million	Additions RM'million	Disposals RM'million	Transfers/ reclassifications RM'million	As at 31.8.2003 RM'million
Company					
2003					
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**

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	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
Company				
2003				
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**

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	As at 1.9.2001 RM'million	Additions RM'million	Disposals RM'million	Transfers/ reclassifications RM'million	As at 31.8.2002 RM'million
Company					
2002					
Cost/Valuation					
At 1994 valuation:					
Freehold land	689.5	0	(2.0)	0	687.5
Long leasehold land	602.4	0	0	0.3	602.7
Short leasehold land	3.4	0	0	(0.3)	3.1
Buildings and civil works	440.4	0	(0.3)	0	440.1
	1,735.7	0	(2.3)	0	1,733.4
At cost:					
Freehold land	214.5	57.2	0	(25.2)	246.5
Long leasehold land	113.9	1.3	0	25.2	140.4
Short leasehold land	23.2	0.3	0	0	23.5
Buildings and civil works	8,527.1	702.9	0	12.4	9,242.4
	10,614.4	761.7	(2.3)	12.4	11,386.2
Plant and machinery	21,829.0	1,392.3	(27.9)	0.1	23,193.5
Lines and distribution mains	14,742.9	1,310.9	0	31.1	16,084.9
Distribution services	1,480.1	178.6	0	(30.5)	1,628.2
Meters	616.7	118.2	0	(0.5)	734.4
Public lighting	202.9	38.9	0	(12.0)	229.8
Furniture, fittings and office equipment	491.0	87.0	0	(0.7)	577.3
Motor vehicles	241.5	2.1	(0.6)	(0.3)	242.7
	50,218.5	3,889.7	(30.8)	(0.4)	54,077.0
Capital project-in-progress	6,849.6	3,513.6	0	(3,889.7)	6,473.5
	57,068.1	7,403.3	(30.8)	(3,890.1)	60,550.5

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	As at 1.9.2001 RM'million	Charge for the financial year RM'million	Released on disposals/ transfers RM'million	As at 31.8.2002 RM'million
Company				
2002				
Accumulated depreciation				
At 1994 valuation:				
Freehold land	0	0	0	0
Long leasehold land	48.4	12.0	0	60.4
Short leasehold land	0.3	0.1	0	0.4
Buildings and civil works	91.6	17.5	0	109.1
	140.3	29.6	0	169.9
At cost:				
Freehold land	0	0	0	0
Long leasehold land	8.2	2.4	0	10.6
Short leasehold land	3.8	0.3	0	4.1
Buildings and civil works	1,680.9	219.7	(0.2)	1,900.4
	1,833.2	252.0	(0.2)	2,085.0
Plant and machinery	6,848.1	963.5	(27.5)	7,784.1
Lines and distribution mains	4,120.2	607.6	0	4,727.8
Distribution services	608.4	72.9	0	681.3
Meters	289.4	41.0	0	330.4
Public lighting	74.6	11.0	0	85.6
Furniture, fittings and office equipment	284.7	68.0	0	352.7
Motor vehicles	182.5	20.6	(0.4)	202.7
	14,241.1	2,036.6	(28.1)	16,249.6

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Group		Company	
	2003 RM'million	2002 RM'million	**2003 RM'million**	2002 RM'million
Net book value				
At 1984 and earlier valuations:				
Long leasehold land	**6.8**	6.9	**0**	0
Buildings and civil works	**2.5**	1.0	**0**	0
At 1994 valuation:				
Freehold land	**687.5**	687.5	**687.5**	687.5
Long leasehold land	**530.3**	542.3	**530.3**	542.3
Short leasehold land	**2.6**	2.7	**2.6**	2.7
Buildings and civil works	**316.0**	331.0	**316.0**	331.0
	1,545.7	1,571.4	**1,536.4**	1,563.5
At cost:				
Freehold land	**436.8**	266.3	**253.0**	246.5
Long leasehold land	**159.0**	146.9	**140.8**	129.8
Short leasehold land	**32.7**	33.2	**18.9**	19.4
Buildings and civil works	**8,228.7**	7,660.8	**7,298.0**	7,342.0
	10,402.9	9,678.6	**9,247.1**	9,301.2
Plant and machinery	**18,940.0**	16,329.5	**15,043.2**	15,409.4
Lines and distribution mains	**11,688.1**	11,632.8	**11,424.5**	11,357.1
Distribution services	**1,167.2**	993.9	**1,122.8**	946.9
Meters	**482.9**	411.2	**474.4**	404.0
Public lighting	**158.2**	144.2	**158.2**	144.2
Furniture, fittings and office equipment	**243.0**	279.6	**182.0**	224.6
Motor vehicles	**42.5**	61.7	**22.9**	40.0
	43,124.8	39,531.5	**37,675.1**	37,827.4
Capital project-in-progress	**8,643.6**	11,179.2	**7,171.8**	6,473.5
	51,768.4	50,710.7	**44,846.9**	44,300.9

12. PROPERTY, PLANT AND EQUIPMENT (continued)

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	
	2003 RM'million	2002 RM'million	**2003 RM'million**	2002 RM'million
Freehold land	**51.7**	51.7	**44.8**	44.8
Leasehold land	**68.8**	72.4	**68.0**	69.9
Buildings and civil works	**140.9**	148.4	**140.9**	148.4
	261.4	272.5	**253.7**	263.1

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.

The generation power plants of the Company were leased to certain wholly owned subsidiaries. The lease was an operating lease and the terms were subject to review between the parties. The lease was terminated on 1 September 2002 due to the transfer of the generation activities back to the Company.

	Freehold land RM'million	Leasehold land RM'million	Buildings and civil works RM'million	Plant and machinery RM'million	Total RM'million
2002					
Cost/revalued amount	215.5	262.9	5,009.1	12,254.0	17,741.5
Less: Accumulated depreciation	0	(22.3)	(1,425.4)	(4,866.1)	(6,313.8)
Net book value	215.5	240.6	3,583.7	7,387.9	11,427.7
Depreciation charged for the financial year	0	4.9	113.2	489.9	608.0

Net book value of plant and machinery in respect of closed power stations held for disposal amounted to RM0.9 million (2002: RM3.4 million).

Interest capitalised during the financial year in capital project-in-progress amounted to RM268.6 million (2002: RM515.4 million) for the Group and RM268.6 million (2002: RM261.0 million) for the Company.

The capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation is 5.49% (2002: 5.35%) for the Group and Company.

13. SUBSIDIARIES

	Company 2003 RM'million	2002 RM'million
Unquoted ordinary shares, at cost	**195.4**	144.1
Redeemable preference shares, at cost	**500.2**	500.2
	695.6	644.3
Less: Allowance for diminution in value	**(500.2)**	(500.2)
	195.4	144.1

Name of subsidiary	Group's interest 2003	2002	Principal activities	Country of incorporation
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 (formerly known as Tenaga SPL 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 (formerly known as TNB Engineering and Consultancy 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

13. SUBSIDIARIES (continued)

Name of subsidiary	Group's interest **2003**	2002	Principal activities	Country of incorporation
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
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 activity 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

13. SUBSIDIARIES (continued)

Name of subsidiary	Group's interest 2003	2002	Principal activities	Country of incorporation
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%**	n/a	Investment holding	Mauritius
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
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

13. SUBSIDIARIES (continued)

Name of subsidiary	Group's interest **2003**	2002	Principal activities	Country of incorporation
Subsidiary of TNB Generation Sdn Bhd				
TNBG Power Services Sdn Bhd	**100%**	100%	Dormant	Malaysia
Subsidiary of TNB Power Daharki Ltd				
TNB Liberty Power Limited (formerly known as Liberty Power Limited)	**100%**	100%	Operation of power plant and generation of electricity	Pakistan
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

13. SUBSIDIARIES (continued)

* Not audited by PricewaterhouseCoopers.

+ Fibrecomm Network (M) Sdn Bhd ('FNMSB') was an associate as at 31 August 2002. During the financial year, the Group achieved control over the financial and operating policies of FNMSB. Accordingly FNMSB has been treated as a subsidiary as at 31 August 2003. The consolidation of FNMSB has no material impact to the Group's current financial statements as there is no change in equity interest held by the Company.

^ 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.

On 25 October 2002, TNB Coal International Limited was incorporated as a joint venture company to acquire Dynamic Acres Sdn Bhd.

****** On 1 September 2002, the power generation business of these subsidiaries was transferred to the Company. The relevant assets and liabilities relating to the power generation business were transferred to the Company at net book values, which approximated their fair values on the date of transfer.

14. ASSOCIATES

	Group	
	2003	2002
	RM'million	RM'million
Share of net assets other than goodwill of associates	**601.4**	806.9

	Company	
	2003	2002
	RM'million	RM'million
Unquoted shares, at cost	**131.3**	184.9
Less: Allowance for diminution in value	**(9.6)**	(9.6)
	121.7	175.3
Redeemable preference shares, at cost	**93.2**	93.2
Unsecured loan notes	**165.0**	125.9
	379.9	394.4

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

	Company	
	2003	2002
	RM'million	RM'million
Unquoted ordinary shares, at cost	**38.1**	38.1
Unsecured loan notes	**82.9**	96.0
	121.0	134.1

14. ASSOCIATES (continued)

Name of associate	Group's interest 2003	2002	Principal activities	Country of incorporation
Port Dickson Power Berhad	**20%**	20%	Independent Power Producer licensed by the government to supply electricity exclusively to TNB	Malaysia
Segari Energy Ventures Sdn Bhd	**20%**	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	**20%**	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
Genting Sanyen Power Sdn Bhd^^	n/a	20%	Independent Power Producer licensed by the government to supply electricity exclusively to TNB	Malaysia
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

14. ASSOCIATES (continued)

Name of associate	Group's interest 2003	2002	Principal activities	Country of incorporation
Associate of TNB Ventures Sdn Bhd				
Northern Utility Resources Sdn Bhd	**20%**	20%	Operation of power plant, generation and supply of electricity	Malaysia
GB3 Sdn Bhd^^^	**20%**	n/a	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

^ Pursuant to the Share Sale Agreement, 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.

^^ On 24 March 2003, all conditions precedent to the disposal of 20% equity interest in Genting Sanyen Power Sdn Bhd have been fulfilled. The disposal resulted in a gain of RM236.0 million to the Company and a loss of RM29.9 million to the Group.

^^^ On 26 August 2003, the Company purchased 20% equity interest in GB3 Sdn Bhd ('GB3') and also subscribed for 20% of Redeemable Unsecured Loan Stocks in GB3. Acquisition of the equity interest gave rise to a negative goodwill of RM9.5 million which has been recognised as reserve on consolidation (Note 32).

15. INVESTMENTS

	Group 2003 RM'million	Group 2002 RM'million	Company 2003 RM'million	Company 2002 RM'million
Quoted shares, at cost	**0**	335.6	**0**	335.6
Quoted warrants, at cost	**0**	12.6	**0**	12.6
Unquoted shares, at cost	**76.4**	85.5	**76.4**	85.2
Unquoted unsecured loan stocks, at cost	**48.8**	3.8	**48.8**	3.8
Bonds	**73.4**	0	**0**	0
	198.6	437.5	**125.2**	437.2
Allowance for diminution in value:				
- unquoted shares	**(36.7)**	(43.6)	**(36.7)**	(43.6)
- unquoted unsecured loan stocks	**(3.8)**	(3.8)	**(3.8)**	(3.8)
	158.1	390.1	**84.7**	389.8
Market value:				
- quoted shares	**0**	270.8	**0**	270.8
- quoted warrants	**0**	17.5	**0**	17.5
	0	288.3	**0**	288.3

16. LONG TERM RECEIVABLES

	Company	
	2003	2002
	RM'million	RM'million
Amounts owing from subsidiaries	937.5	3,659.6

The amounts owing from subsidiaries comprise advances and other receivables from TLPL and TNB Power Daharki Ltd ('TPD') amounting to RM73.9 million (2002: RM80.4 million) and RM863.6 million (2002: RM1,284.7 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 7.6% (2002: 3.7% to 7.5%) per annum.

17. INVENTORIES

	Group		Company	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
At cost				
Raw materials, fuel and consumables	**1,351.2**	1,126.1	**1,051.1**	328.3
Work-in-progress	**109.3**	74.7	**0**	0
Finished goods	**91.5**	15.4	**0**	0
	1,552.0	1,216.2	**1,051.1**	328.3

18. RECEIVABLES, DEPOSITS AND PREPAYMENTS

Trade receivables	**2,235.1**	1,915.9	**1,891.4**	1,510.1
Less: Allowance for doubtful debts	**(417.5)**	(387.1)	**(341.0)**	(272.4)
	1,817.6	1,528.8	**1,550.4**	1,237.7
Rechargeable debtors	**177.0**	141.5	**170.7**	139.7
Less: Allowance for doubtful debts	**(109.4)**	(70.8)	**(109.4)**	(70.8)
	67.6	70.7	**61.3**	68.9
Staff advance/loans	**729.0**	727.8	**724.1**	724.1
Advance to contractors	**64.3**	57.0	**9.9**	9.9
Deposits and prepayments	**115.4**	88.6	**33.0**	47.3
Other receivables	**203.6**	299.3	**114.0**	149.0
	1,112.3	1,172.7	**881.0**	930.3
	2,997.5	2,772.2	**2,492.7**	2,236.9

The Group's and Company's credit policy provides trade receivables with 30 days credit period. The Group and 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 Company are staff housing and car loans amounting to RM593.7 million (2002: RM611.5 million) which are not realisable within one financial year.

Included in other receivables of the Group and Company as at 31 August 2003 is RM59.1 million in respect of the amount outstanding from the sale of 40% equity interest in Sepang Power Sdn Bhd (Note 14).

19. 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 7.6% (2002: 3.7% to 7.5%) per annum and 9.5% (2002: 9.5%) per annum respectively. Amount owing from Sabah Electricity Sdn Bhd is subject to an interest rate of 6.0% (2002: 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.

20. SHORT TERM INVESTMENTS

	Group		Company	
	2003 RM'million	2002 RM'million	**2003 RM'million**	2002 RM'million
Quoted shares, at cost	**335.6**	0	**335.6**	0
Quoted warrants, at cost	**12.6**	0	**12.6**	0
Investment in bonds	**1,007.0**	0	**0**	0
	1,355.2	0	**348.2**	0
Market value:				
- quoted shares	**334.7**	0	**334.7**	0
- quoted warrants	**21.1**	0	**21.1**	0
	355.8	0	**355.8**	0

21. MARKETABLE SECURITIES

	Group		Company	
	2003 RM'million	2002 RM'million	**2003 RM'million**	2002 RM'million
Cost - Quoted in Malaysia: Shares	**30.6**	31.2	**30.6**	31.2
Less: Allowance for diminution in value	**(18.9)**	(20.5)	**(18.9)**	(20.5)
	11.7	10.7	**11.7**	10.7
Market value	**11.7**	10.7	**11.7**	10.7

22. DEPOSITS, BANK AND CASH BALANCES

	Group		Company	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
Deposits with finance companies	**17.2**	37.2	**2.0**	5.7
Deposits with licensed banks	**795.6**	832.7	**647.7**	630.9
Cash in hand and at bank	**622.1**	284.1	**196.2**	128.9
	1,434.9	1,154.0	**845.9**	765.5

Deposits with licensed banks are held in short term money market. Deposits have maturity ranged from 6 to 34 days and 31 to 34 days for the Group and Company respectively.

Deposits of the Group and of the Company at the year end have an average maturity of 19.6 days.

23. PAYABLES

	Group		Company	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
Trade payables	**1,721.7**	2,029.5	**1,375.3**	1,321.9
Accrued interest on borrowings	**364.0**	374.2	**353.0**	357.1
Payroll liabilities	**142.0**	139.9	**140.5**	127.9
Deposits	**258.8**	280.4	**253.2**	277.6
Other payables and accruals	**651.3**	654.2	**239.5**	455.2
	3,137.8	3,478.2	**2,361.5**	2,539.7

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

24. SHORT TERM BORROWINGS

		Group		Company	
		2003	2002	**2003**	2002
		RM'million	RM'million	**RM'million**	RM'million
Portion of borrowings due within one financial year (Note 25)					
- unsecured		**2,827.3**	1,244.9	**2,658.8**	1,037.8
- secured		**95.8**	6.7	**0**	0
		2,923.1	1,251.6	**2,658.8**	1,037.8
Short term loans	- unsecured	**13.1**	42.4	**0.2**	0
	- secured	**10.0**	0	**0**	0
Bank overdrafts	- unsecured	**4.5**	5.6	**0**	0
	- secured	**0**	0.8	**0**	0
Bankers' acceptances		**1,558.0**	1,154.3	**1,499.0**	1,023.2
		4,508.7	2,454.7	**4,158.0**	2,061.0

Comparative amount of short term loans of RM1,023.2 million for the Group and Company has been reclassified to bankers' acceptance in accordance with their nature.

The short term loans carry interest at rates ranging from 0.71% to 10.25% (2002: 2.44% to 10.25%) per annum.

The bank overdraft of a certain subsidiary was secured by the corporate guarantee and bears interest at 1.5% per annum above lenders' prevailing base lending rates as at 31 August 2002.

25. BORROWINGS

	Note	Group 2003 RM'million	Group 2002 RM'million	Company 2003 RM'million	Company 2002 RM'million
Unsecured					
- Term loans	(a)	**11,567.5**	12,632.0	**8,685.0**	9,531.7
- Notes	(b)	**2,050.0**	1,600.0	**2,050.0**	1,600.0
- Bonds	(c)	**13,443.1**	12,004.8	**11,923.1**	12,004.8
- Fixed Income Securities	(d)	**1,500.0**	1,500.0	**1,500.0**	1,500.0
- Amount due to Cagamas Berhad		**334.5**	229.6	**334.5**	229.6
		28,895.1	27,966.4	**24,492.6**	24,866.1
Secured					
- Term loans	(a)	**432.4**	58.4	**0**	0
		29,327.5	28,024.8	**24,492.6**	24,866.1
Payable within one year included under short term borrowings (Note 24)		**2,923.1**	1,251.6	**2,658.8**	1,037.8
Repayable after one year:					
After one and up to two years		**1,592.7**	2,863.6	**1,278.0**	2,698.9
After two and up to five years		**9,806.7**	8,597.5	**7,510.3**	7,668.4
After five and up to ten years		**7,241.0**	7,442.3	**5,743.9**	6,065.4
After ten and up to twenty years		**5,809.4**	5,969.8	**5,401.6**	5,495.6
After twenty and up to thirty years		**1,384.6**	1,330.0	**1,330.0**	1,330.0
After ninety years		**570.0**	570.0	**570.0**	570.0
		26,404.4	26,773.2	**21,833.8**	23,828.3
		29,327.5	28,024.8	**24,492.6**	24,866.1

	Group 2003 RM'million	Group 2002 RM'million
Net book values of property, plant and equipment pledged as security for term loans:		
(i) Machinery and equipment	**46.4**	50.2
(ii) Building	**21.5**	22.2
	67.9	72.4

Unsecured term loans include RM20.7 million (2002: RM21.7 million) due to the Government of Malaysia and RM2,472.4 million (2002: RM2,601.6 million) guaranteed by the Government of Malaysia.

25. BORROWINGS (continued)

(a) Term loans

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

(i) 10-YEAR JPY37 BILLION TERM LOAN

In 1997, the Company entered into a 10-year JPY37 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 2003 as per the Company's accounting policy is RM480.5 million (2002: RM595.4 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.

Interest rate collar and forward interest rate swap

On the remaining tranches of the loan, the Company has entered into interest rate collar, for the period from 30 June 1998 to 30 June 2002, with initial notional principals totalling JPY25.8 billion. The effect of these interest rate 'collar' arrangements is to limit interest rate payable to a maximum rate but is subject to a minimum rate. There is also a 'knock out' arrangement whereby if interest rates were to set above a certain 'knock-out' level (which is above the maximum rate), then the maximum rate is 'knocked-out' and that actual interest rate becomes due.

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 2003 is JPY2.8 billion (2002: JPY3.9 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 2003 is USD25.4 million (2002: USD35.6 million). The translated RM balance of this exposure as at this date, as per the Company's accounting policy is RM96.5 million (2002: RM135.1 million).

(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 GBP264.1 million, Euro161.1 million and USD97.1 million as at 31 August 2003. The loan is repayable in equal semi-annual instalments commencing August 2003. The translated outstanding balance as per the Group's accounting policy as at 31 August 2003 is RM2,108.6 million (2002: RM1,677.5 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.

25. BORROWINGS (continued)

(b) Notes

Details of notes with designated derivative financial instruments are as follows:

(i) 10-YEAR RM600 MILLION ISLAMIC REVOLVING UNDERWRITTEN FACILITY

On 19 August 1996, the Company entered into a RM600 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 2003 is RM300.0 million (2002: RM600.0 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 million. The effect of this transaction is to fix the interest rate payable on the Commercial Paper Program.

(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 2003 as per the Company's accounting policy is RM1.9 billion (2002: 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 cross-currency swap ('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 terminate 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 in the range of 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 terminate on 28 April 2007.

25. BORROWINGS (continued)

(c) Bonds (continued)

(i) 10-YEAR USD500.0 MILLION NOTES (continued)

<u>USD-JPY Cross-currency swap and JPY interest rate collar</u> (continued)

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.

(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 2003 as per the Company's accounting policy is RM1,048.4 million (2002: RM1,130.2 million). The Notes are redeemable 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 bought back USD21.5 million of this tranche during this financial year. In the previous financial year, the Company redeemed USD302.6 million of this tranche of the 10-year USD600.0 million.

Tranche 2: USD100.0 million

<u>Cross-currency zero-coupon swap</u>

On the second USD100.0 million tranche, the Company entered into CCS arrangements with several financial institutions, for the period 15 June 1998 to 14 June 2004, to convert the USD100.0 million bond to a 6-year JPY zero coupon bond. The amount repayable on the JPY zero coupon swap is dependent on the USD/JPY exchange rate at the date of maturity but the final amount payable is limited to a minimum amount of JPY13,570.0 million and a maximum amount of JPY18,200.0 million. The Company has recognised interest arising on the foreign exchange difference on the zero coupon swap based on the year end closing rate against the book rate but only to the extent of the strengthening of the JPY against the USD but not otherwise. However, should the final redemption amount be less than the carrying amount, there would be a write back of the over-accrued interest.

(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.

<u>USD interest rate swap with collar</u>

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.

25. BORROWINGS (continued)

(c) Bonds (continued)

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

On 20 November 2002, TNB Capital (L) Ltd ('TNBCL') a wholly owned subsidiary of TNB issued USD400.0 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 2003 as per the Group's accounting policy is RM1,520.0 million.

<u>Interest rate swap</u>

In February 2003, TNBCL entered into IRS agreements that entitles 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 transac tion is to convert the GEB coupon into floating interest rates.

(v) 5-YEAR USD90 MILLION NOTES

In 1998, the Company entered into a 5-year USD90.0 million unsecured loan, paying interest at floating rates. The loan is an amortising loan, whose principal amount is payable in equal semi-annual instalments commencing in May 2000 and has matured on 12 May 2003. It was however, prepaid in full on 19 December 2001 and the amount prepaid was USD38.6 million.

<u>Cross-currency swap</u>

The Company entered into IRS agreements, for the period 28 May 1998 to 12 May 2003, that entitle it to receive floating interest rates at a higher margin than the floating interest rates that it is obliged to pay. The initial notional principals amount to USD90.0 million. In May and August 1999, the counterparties of the swaps had the option to convert the USD floating rate payments into JPY floating rate payments and the option was duly exercised. As such, there would be a series of principal exchanges where the Company pays JPY principal amounts and receives USD principal amounts over the course of the amortisation schedule of the USD loan.

The objective of these transactions was to convert the USD floating rate liability into a JPY floating rate liability. However, with the prepayment of the remaining principal amount, the receipt of USD principal amounts under the CCS will not be offset by amortising USD principal repayments that the Company would otherwise had made.

(vi) 5-YEAR USD300.0 MILLION NOTES

In 1998, the Company entered into a 5-year USD300.0 million unsecured loan, paying interest at floating rates, to mature on 29 June 2003. The loan was prepaid in full on 29 November 2001 and the prepaid amount was USD171.4 million.

<u>Currency swap and interest rate swaption</u>

The Company has entered into several IRS agreements with effective periods ranging from 20 July 1998 to 30 June 2003, with various financial institutions. The contracts entitle it to receive floating interest rates at a higher margin than the floating interest rates that it is obliged to pay. The initial principals amount to USD300.0 million. There is also a series of principal exchanges where the Company pays JPY principal amounts and receives USD principal amounts.

On the date of every interest payment period, the counterparties of the swaps have the option to choose the currency of the interest payments made by the Company, to remain in USD or convert it to JPY, at floating rates.

The objective of these transactions was to convert the USD loan exposure into a JPY exposure, and reduce the margin payable on the Company's floating rate liability. However, with the prepayment of the remaining principal amount, the receipts of USD amounts under the currency swap will not be offset by the amortising USD repayments the Company would otherwise had made. Nevertheless, the interest payment of the exposure can be either in USD based on USD floating rates or JPY based on JPY floating rates, albeit both will be at lower margin than hiterto.

25. BORROWINGS (continued)

(d) 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 aggregate nominal value of RM999 million issued at 100% of nominal value (in denominations of RM999,000 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 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 RM999.00 per share and 500 Class B RPS of RM1.00 each, issued at a premium of RM999.00 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.

26. RETIREMENT BENEFITS

Group companies incorporated in Malaysia contribute to the Employees Provident Fund, a defined contribution plan.

In addition, contributions for retirement benefits in respect of eligible employees are paid into the Company's Retirement Benefit Scheme, a defined benefit scheme and an approved fund independent of the Company's finances. The provision made in the financial statements for unfunded amounts as determined by actuarial valuation is as follows:

	Group RM'million	Company RM'million
At 1 September 2002	487.4	482.2
Charged to income statement	58.2	57.7
Utilised during the period	(31.9)	(30.6)
At 31 August 2003	513.7	509.3

The principal assumptions used in the actuarial valuation are:

(i) salary increase rate of 6% per annum;
(ii) investment yields of 9% per annum;
(iii) discount rate of 8%;
(iv) staff turnover rates based on the Company's recent experience; and
(v) mortality and ill health retirement rates based on the experience of other schemes.

27. 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	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
Deferred tax liabilities:				
- Subject to income tax	**(5,254.8)**	(4,719.3)	**(5,238.3)**	(4,745.1)
- Subject to capital gains tax	**(31.0)**	(31.0)	**(31.0)**	(31.0)
	(5,285.8)	(4,750.3)	**(5,269.3)**	(4,776.1)

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

	Group		Company	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
As at the beginning of the financial year	**(4,750.3)**	(4,263.1)	**(4,776.1)**	(4,294.1)
(Charged)/ credited to income statement:				
- property, plant and equipment	**(568.6)**	(464.1)	**(549.3)**	(464.8)
- provision and allowances	**33.1**	(23.1)	**34.8**	(17.2)
	(535.5)	(487.2)	**(514.5)**	(482.0)
Adjustment as a result of transfer of assets and liabilities from subsidiaries	**0**	0	**21.3**	0
As at the end of the financial year	**(5,285.8)**	(4,750.3)	**(5,269.3)**	(4,776.1)
<u>Subject to income tax</u>				
Deferred tax asset (before offsetting)				
Provision and allowances	**288.2**	255.1	**286.9**	230.8
Property, plant and equipment	**1.9**	3.8	0	0
Offsetting	**(290.1)**	(258.9)	**(286.9)**	(230.8)
Deferred tax assets (after offsetting)	**0**	0	**0**	0
Deferred tax liabilities (before offsetting)				
Property, plant and equipment	**(5,544.9)**	(4,978.2)	**(5,525.2)**	(4,975.9)
Offsetting	**290.1**	258.9	**286.9**	230.8
Deferred tax liabilities (after offsetting)	**(5,254.8)**	(4,719.3)	**(5,238.3)**	(4,745.1)
<u>Subject to capital gain tax</u>				
Deferred tax liabilities				
Property, plant and equipment	**(31.0)**	(31.0)	**(31.0)**	(31.0)

27. DEFERRED TAXATION (continued)

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

	Group		Company	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
Deductible temporary differences	**552.5**	425.7	**0**	0
Tax losses	**799.9**	550.0	**0**	0

As at 31 August 2003, the temporary differences associated with unremitted earnings of subsidiaries for which deferred tax liabilities have not been recognised amounted to RM90.8 million (2002: RM142.2 million).

28. DEFERRED INCOME

	Group		Company	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
Movement of deferred income, comprising contributions by customers, is as follows:				
As at the beginning of the financial year	**2,231.6**	2,149.5	**2,040.3**	1,982.9
Received during the financial year	**334.9**	339.2	**286.0**	291.9
Released to the income statement (Note 3)	**(266.6)**	(257.1)	**(241.4)**	(234.5)
As at the end of the financial year	**2,299.9**	2,231.6	**2,084.9**	2,040.3

29. GOVERNMENT DEVELOPMENT GRANTS

	Group	
	2003	2002
	RM'million	RM'million
Movement of government development grants is as follows:		
As at the beginning of the financial year	474.4	516.6
Received during the financial year	87.3	0.6
Released to the income statement (Note 5)	(41.8)	(42.8)
As at the end of the financial year	519.9	474.4

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

30. SHARE CAPITAL

	Company 2003 RM	Company 2002 RM
Authorised:		
Ordinary shares of RM1.00 each	3,500,000,000	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 and end of the financial year	1,000	1,000
Class B Redeemable Preference Shares of RM1.00 each		
As at the beginning and end of the financial year	500	500
Issued and fully paid:		
Ordinary shares of RM1.00 each	3,111,825,300	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	3,111,825,301	3,111,825,301
Movements on issued ordinary shares of RM1.00 each		
As at the beginning of the financial year	3,111,825,300	3,106,775,300
Issuance of ordinary shares of RM1.00 each under the ESOS	0	5,050,000
As at the end of the financial year	3,111,825,300	3,111,825,300

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 summarised in the Directors' Report.

Special Rights Redeemable Preference Share

(a) The Special Rights Redeemable Preference Share ('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 Government 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.

30. SHARE CAPITAL (continued)

Class A and Class B Redeemable Preference Shares

The main features of the Company's Class A and Class B Redeemable Preference Shares ('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 25 to the financial statements, these RPS form part of the Company's Fixed Income Securities.

31. SHARE PREMIUM

	Company	
	2003	2002
	RM'million	RM'million
As at the beginning of the financial year	**3,181.7**	3,143.4
Arising in respect of ordinary shares issued under the ESOS	**0**	38.3
As at the end of the financial year	**3,181.7**	3,181.7

32. REVALUATION AND OTHER RESERVES

	Group		Company	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
Non-distributable				
Revaluation reserve	**1,034.9**	1,034.9	**1,029.0**	1,029.0
Foreign currency translation reserve	**3.7**	(25.8)	**0**	0
Reserve on consolidation	**9.5**	0	**0**	0
	1,048.1	1,009.1	**1,029.0**	1,029.0

32. REVALUATION AND OTHER RESERVES (continued)

The movements in each category of reserves were as follows:

	Group		Company	
	2003 RM'million	2002 RM'million	**2003 RM'million**	2002 RM'million
Revaluation reserve				
As at the beginning and end of the financial year	**1,034.9**	1,034.9	**1,029.0**	1,029.0
Foreign currency translation reserve				
As at the beginning of the financial year	**(25.8)**	(79.9)	**0**	0
Arising in the financial year	**29.5**	54.1	**0**	0
As at the end of the financial year	**3.7**	(25.8)	**0**	0
Reserve on consolidation				
As at the beginning of the financial year	**0**	0	**0**	0
Arising in the financial year (Note 14)	**9.5**	0	**0**	0
As at the end of the financial year	**9.5**	0	**0**	0
Total revaluation and other reserves				
As at the beginning of the financial year	**1,009.1**	955.0	**1,029.0**	1,029.0
Arising in the financial year	**39.0**	54.1	**0**	0
As at the end of the financial year	**1,048.1**	1,009.1	**1,029.0**	1,029.0

33. 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 RM1,318.5 million (2002: RM1,509.3 million) of its retained profits as at 31 August 2003, if paid out as dividends.

In addition, the Company has tax exempt income as at 31 August 2003 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 RM303.1 million (2002: RM388.5 million) available for distribution as tax exempt dividends to shareholders. This tax exempt income is subject to agreement by the Inland Revenue Board.

34. COMMITMENTS

(a) Capital and other commitments

	Group		Company	
	2003 RM'million	2002 RM'million	**2003 RM'million**	2002 RM'million
Authorised capital expenditure not provided for in the financial statements:				
Contracted for: Capital expenditure	**4,155.1**	4,271.5	**3,752.7**	3,782.8
Investment in other company	**19.0**	19.0	**19.0**	19.0
Not contracted for:				
Capital expenditure	**15,684.5**	20,986.5	**15,399.8**	20,767.5
Equity participation in other company	**203.5**	203.5	**203.5**	203.5
	20,062.1	25,480.5	**19,375.0**	24,772.8

(b) Non-cancellable operating lease commitments

	Group and Company	
	2003 Future minimum lease payments RM'million	2002 Future minimum lease payments RM'million
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	**24.3**	37.6
	90.7	104.0

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

35. CONTINGENT LIABILITIES (UNSECURED)

	Group		Company	
	2003	2002	**2003**	2002
	RM'million	RM'million	**RM'million**	RM'million
Claims by third parties	**576.6**	1,010.0	**504.7**	938.6
Trade guarantees and performance bonds	**5.5**	10.2	**0**	0
Corporate guarantees given to financial institutions in respect of facilities granted to subsidiaries	**0**	0	**3,952.3**	2,418.0
Stamp duties on transfer of assets to a subsidiary [1]	**108.0**	108.0	**0**	0
Other contingent liabilities	**56.6**	61.7	**0**	0
	746.7	1,189.9	**4,457.0**	3,356.6

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 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.

36. 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	
		2003	2002
		RM'million	RM'million
(a)	Sales of electricity to associates	**25.1**	24.7
(b)	Purchases of electricity from associates	**2,523.4**	2,527.1
	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		
(c)	Interest income received from associates:		
	- Port Dickson Power Berhad	**3.6**	3.6
	- Segari Energy Ventures Sdn Bhd	**9.1**	10.5

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.

37. 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.

38. PRIOR YEAR ADJUSTMENTS

During the financial year, the Group and Company changed its accounting policies to comply with the new MASB Standard No. 25. In addition, the Group and Company also changed its accounting policy in relation to derivative financial instruments. The details are set out below.

(a) Deferred tax

In previous financial years, deferred taxation was recognised for timing differences except when there was reasonable evidence that such timing differences would not reverse in foreseeable future. The tax effect of timing differences that resulted in debit balance or a debit to the deferred tax balance was not carried forward unless there was a reasonable expectation of its realisation.

During the financial year, the Group and Company changed its accounting policy with respect to the recognition of deferred tax assets and liabilities in compliance with MASB Standard No. 25. This change in accounting policy has been accounted for retrospectively and has the effect of decreasing retained earnings of the Group and Company as at 31 August 2002 by RM3,567.2 million and RM3,573.9 million respectively. The change of accounting policy also resulted in decrease of revaluation reserve as at 31 August 2002 by RM202.2 million for the Group and Company.

(b) Derivative financial instruments

In previous financial years, the Group and Company recognised the principal exchange amounts relating to all cross currency swaps as financial assets and liabilities and had offset the relative financial assets against the underlying borrowings.

Under MASB Standard No. 24, the offsetting of financial assets and liabilities is not allowed except under certain circumstances, which are not applicable to the Group and Company. The Group and Company now record borrowings based on the exchange rate between the original currency of the loans and Ringgit Malaysia, rather than the currency of the instruments used to hedge the exposure. The Group and Company have retrospectively derecognised the principal exchange amounts of all cross currency swaps resulting in the underlying borrowings being carried at their original amounts.

This change in accounting policy has the effect of increasing retained earnings of the Group and Company as at 31 August 2002 by RM188.9 million

38. PRIOR YEAR ADJUSTMENTS (continued)

The effects of the change in accounting policies on the Group's and Company's financial statements are as follows:

	As previously reported RM'million	Effect of change in policies RM'million	At restated RM'million
<u>Group</u>			
At 31 August 2001:			
- retained profits	9,104.5	(2,933.0)	6,171.5
- revaluation and other reserves	1,157.2	(202.2)	955.0
- deferred tax liabilities	975.8	3,287.3	4,263.1
- borrowings	26,962.3	(152.1)	26,810.2
At 31 August 2002:			
- retained profits	10,223.3	(3,378.3)	6,845.0
- revaluation and other reserves	1,211.3	(202.2)	1,009.1
- deferred tax liabilities	980.9	3,769.4	4,750.3
- borrowings	28,213.7	(188.9)	28,024.8
Financial year ended 31 August 2002:			
- taxation - Company and subsidiaries	53.6	482.0	535.6
- foreign exchange loss	92.3	(36.7)	55.6
- net profit for the financial year	1,400.8	(445.3)	955.5
<u>Company</u>			
At 31 August 2001:			
- retained profits	9,662.5	(2,939.7)	6,722.8
- revaluation and other reserves	1,231.2	(202.2)	1,029.0
- deferred tax liabilities	1,000.0	3,294.1	4,294.1
- borrowings	24,042.0	(152.2)	23,889.8
At 31 August 2002:			
- retained profits	10,531.7	(3,385.0)	7,146.7
- revaluation and other reserves	1,231.2	(202.2)	1,029.0
- deferred tax liabilities	1,000.0	3,776.1	4,776.1
- borrowings	25,055.0	(188.9)	24,866.1
Financial year ended 31 August 2002			
- taxation	37.6	482.0	519.6
- foreign exchange loss/(gain)	0.4	(36.7)	(36.3)
- net profit for the financial year	1,096.2	(445.3)	650.9

39. 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 United States Dollars 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 Dollars.

- 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.

- 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.

39. FINANCIAL RISK MANAGEMENT (continued)

(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.

	Floating rate RM'million	Fixed rate instruments maturing or repriced in <1 year RM'million	1-5 years RM'million	>5 years RM'million	Total interest sensitive RM'million
Group					
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
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
Total	112.5	2,365.7	73.4	0	2,551.6

	Total interest sensitive RM'million	Non interest sensitive RM'million	Balances under Islamic principles RM'million	Total RM'million
Group				
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
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
Total	2,551.6	2,988.3	292.6	5,832.5

39. FINANCIAL RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

	Floating rate RM'million	Fixed rate instruments maturing or repriced in <1 year RM'million	1-5 years RM'million	>5 years RM'million	Total interest sensitive RM'million
Company					
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
Total	863.6	3,613.2	73.9	0	4,550.7

	Total interest sensitive RM'million	Non interest sensitive RM'million	Balances under Islamic principles RM'million	Total RM'million
Company				
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
Total	4,550.7	3,557.6	292.6	8,400.9

39. FINANCIAL RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

	Floating rate RM'million	Fixed rate instruments maturing or repriced in <1 year RM'million	1-5 years RM'million	>5 years RM'million	Total interest sensitive RM'million
Group					
Financial liabilities					
Trade and other payables	0	221.2	0	0	221.2
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
Total	5,924.3	2,063.5	5,036.2	11,904.0	24,928.0
On-balance sheet interest sensitivity gap	(5,811.8)	302.2	(4,962.8)	(11,904.0)	(22,376.4)
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)	186.3	(2,230.1)	(13,406.7)	(22,644.5)

	Total interest sensitive RM'million	Non interest sensitive RM'million	Balances under Islamic principles RM'million	Total RM'million
Group				
Financial liabilities				
Trade and other payables	221.2	2,106.6	0	2,327.8
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
Total	24,928.0	2,486.9	6,282.2	33,697.1
On-balance sheet interest sensitivity gap	(22,376.4)	501.4	(5,989.6)	(27,864.6)
Off-balance sheet interest sensitivity gap	(268.1)	0	0	(268.1)
Total interest sensitivity gap	(22,644.5)	501.4	(5,989.6)	(28,132.7)

39. FINANCIAL RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

	Floating rate RM'million	Fixed rate instruments maturing or repriced in <1 year RM'million	1-5 years RM'million	>5 years RM'million	Total interest sensitive RM'million
Company					
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
Total	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)

	Total interest sensitive RM'million	Non interest sensitive RM'million	Balances under Islamic principles RM'million	Total RM'million
Company				
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
Total	20,897.8	1,997.6	6,265.4	29,160.8
On-balance sheet interest sensitivity gap	(16,347.1)	1,559.9	(5,972.5)	(20,759.7)
Off-balance sheet interest sensitivity gap	(268.1)	0	0	(268.1)
Total interest sensitivity gap	(16,615.2)	1,559.9	(5,972.5)	(21,027.8)

39. FINANCIAL RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

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

	USD %	JPY %	RM %	Others %
Group				
Financial assets				
Receivables	0	0	4.00	0
Deposits and bank balances	1.10	0.05	0.81	0.06
Financial liabilities				
Borrowings	6.07	2.90	5.72	3.74
Company				
Financial assets				
Amount owing from subsidiaries	2.70	0	9.50	0
Trade and other receivables	0	0	4.00	0
Deposits and bank balances	1.10	0.05	0	0
Financial liabilities				
Borrowings	6.88	2.89	6.40	1.73

39. FINANCIAL RISK MANAGEMENT (continued)

(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.

	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 contingencies RM'million
Group						
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
Total	935.7	1,165.0	2,815.4	56.8	4,972.9	0

This amount excludes equity instruments amounting to RM359.9 million, net of allowance.

	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 contingencies RM'million
Company							
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	2,385.8*
Others	0	0	80.2	0	0	80.2	0
Total	649.6	84.6	2,454.8	4,599.2	56.8	7,845.0	2,385.8

This amount excludes equity instruments amounting to RM359.9 million, net of allowance.

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

39. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

(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
Interest rate swap	3,703.2	2.5	680.5	2.5
Cross currency zero coupon swap	380.0	0	380.0	0
Cross currency interest rate swap with collars	950.0	26.1	950.0	26.1
Cross currency interest rate swap without interest rate collars	89.7	3.5	89.7	3.5
Currency swaption and interest rate collar	950.0	57.2	950.0	57.2
Total	6,072.9	89.3	3,050.2	89.3

(d) Foreign exchange risk

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

	USD RM'million	JPY RM'million	Others RM'million
Group			
Financial assets			
Investments	1,080.4	0	0
Receivables, deposits and prepayments	10.2	0	0
Deposits and bank balances	625.4	157.0	2.6
Other assets	56.4	0.4	0
	1,772.4	157.4	2.6
Financial liabilities			
Payables	35.7	0	104.0
Borrowings	11,212.2	3,165.0	1,988.1
Other liabilities	0.8	19.2	0
	11,248.7	3,184.2	2,092.1

39. FINANCIAL RISK MANAGEMENT (continued)

(d) Foreign exchange risk (continued)

	USD RM'million	JPY RM'million	Others RM'million
Company			
Financial assets			
Amount owing from subsidiaries	863.6	0	0
Deposits and bank balances	532.2	157.5	2.6
Other assets (interest receivable from swap counterparties)	56.4	0.4	0
	1,452.2	157.9	2.6
Financial liabilities			
Borrowings	8,675.6	3,109.9	79.0
Other liabilities (interest payable to swap counterparties)	0.8	19.2	0
	8,676.4	3,129.1	79.0

(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 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 Company at the balance sheet date approximated their fair value except as set out below.

	Group		Company	
	Carrying amount RM'million	Fair value RM'million	Carrying amount RM'million	Fair value RM'million
Financial assets				
Long term receivables	0	0	937.5	935.1
Financial liabilities				
Borrowings (excludes Islamic instruments and include short term portion of borrowings)	24,960.8	25,030.9	20,118.8	20,406.7

39. FINANCIAL RISK MANAGEMENT (continued)

(e) Fair value (continued)

(i) On balance sheet (continued)

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 2003 or vice versa.

	Contract or notional principal amount RM'million	Favourable net fair value RM'million	Unfavourable net fair value RM'million
Group			
Interest rate swap	3,703.2	2.5	(109.7)
Cross currency zero coupon swap	495.9	0	(85.7)
Cross currency interest rate swap with collars *	1,025.9	43.4	(76.3)
Cross currency interest rate swap without interest rate collars	96.5	0	(8.5)
Currency swaption and interest rate collar	1,019.4	57.2	0
Total	6,340.9	103.1	(280.2)

39. FINANCIAL RISK MANAGEMENT (continued)

(e) Fair value (continued)

	Contract or notional principal amount RM'million	Favourable net fair value RM'million	Unfavourable net fair value RM'million
Company			
Interest rate swap	680.5	2.5	(21.1)
Cross currency zero coupon swap	495.9	0	(85.7)
Cross currency interest rate swap with collars *	1,025.9	43.4	(76.3)
Cross currency interest rate swap without interest rate collars	96.5	0	(8.5)
Currency swaption and interest rate collar	1,019.4	57.2	0
Total	3,318.2	103.1	(191.6)

* This swap includes the forward start interest rate swap with notional amount of RM820.0 million which has become effective as at 31 August 2003.

40. SUBSEQUENT EVENTS

On 26 September 2003, TNB Coal International Limited, a subsidiary of the Company acquired 100% equity interest in Dynamic Acres Sdn Bhd for a total consideration of USD85.0 million (RM323.0 million).

41. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 13 November 2003.

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

We, Dato' Dr Awang Adek Bin Hussin and Dato' Pian bin Sukro, 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 10 to 75 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 2003 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.

Signed on behalf of the Board of Directors, in accordance with their resolution dated 13 November 2003.

DATO' DR AWANG ADEK BIN HUSSIN
Chairman

DATO' PIAN BIN SUKRO
President/Chief Executive Officer

STATUTORY DECLARATION

I, Nik Ibrahim bin Nik Mohamed, the person primarily responsible for the financial management of Tenaga Nasional Berhad, do solemnly and sincerely declare that the financial statements set out on pages 10 to 75 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.

NIK IBRAHIM BIN NIK MOHAMED

Subscribed and solemnly declared by the abovenamed Nik Ibrahim bin Nik Mohamed at Kuala Lumpur, Malaysia on 13 November 2003, before me.

COMMISSIONER FOR OATHS
No: W 327
Mohd Radzi
Bin Yasin
MALAYSIA
No: 86, Tingkat Bawah
Jalan Putra
50350 KUALA LUMPUR

MOHD RADZI BIN YASIN
Commissioner For Oaths

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
(AF 1146)
Chartered Accountants
11th Floor Wisma Sime Darby
Jalan Raja Laut
P O Box 10192
50706 Kuala Lumpur, Malaysia
Telephone +60 3 2693 1077
Facsimile +60 3 2693 0997

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 10 to 75. 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 2003 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 13 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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

Uthaya Kumar

UTHAYA KUMAR S/O K. VIVEKANANDA
(No. 1455/06/04 (J))
Partner of the firm

13 November 2003

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