

Title	Tenaga Nasional Berhad Illuminating LIFE
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performance **highlights**

	2004	2003	2002	2001	2000
GROUP					
FINANCE (RM' million)					
Total Revenue	17,712.1	16,457.8	15,375.1	14,362.6	13,719.1
Profit Before Tax [#]	1,482.7	1,648.5	1,513.5	2,193.0	1,523.8
Property, Plant and Equipment	53,443.7	51,768.4	50,710.7	48,270.3	45,709.6
GENERATION					
Group Installed Capacity (MW)	11,137.5	10,854.5	9,383.2	9,148.2	7,624.7
SALES OF ELECTRICITY					
Total Units Sold (GWh)	72,921.4	68,254.3	63,533.6	59,417.4	56,210.1
Sales Revenue (RM' million)	17,219.4	15,973.9	14,932.5	13,951.8	13,220.0
CUSTOMERS					
Total Number of Customers	6,323,719	6,069,561	5,789,181	5,522,325	5,311,098
EMPLOYEES (GROUP)					
Total Number of Employees	26,989	27,238	25,686	25,125	24,334
SHAREHOLDERS					
Total Number of Bumiputera Shareholders	6,526	6,778	7,118	7,631	8,182
Total Number of Non-Bumiputera Shareholders	15,726	16,471	16,669	17,277	18,792
Total Number of Institutional Shareholders	497	612	580	553	668
Total Number of Foreign Shareholders	715	702	883	1,325	2,761
Total Number of Government Agency Shareholders	42	43	54	50	45
Total Number of Nominee Company Shareholders	4,717	2,499	2,684	2,851	3,479
DIVIDENDS (GROSS)					
	18.2 sen	12.0 sen	10.2 sen	10.0 sen	10.0 sen
FINANCIAL RATIOS[#]					
Debt-Equity (Net of Cash) Ratio	1.94	2.11	1.98	1.66	1.85
Earnings Per Share (sen)	26.1	34.1	30.7	67.8	42.9
Net Tangible Assets Per Share (sen)	460	449	455	531	467

[#] The financials for 2000-2002 have not been adjusted for the provisions of MASB 29-Employee Benefits.

illuminating LIFE

a b o u t t h e c o v e r

ILLUMINATING LIFE

The essentials in life are expressed in the children's innocence as they gently protect the glowing fireflies. Their action depicts the fundamental and core values of honesty, trust and care.

The natural illumination of the fireflies shines brightly even in the darkness of night, their guiding light ever so reliable and steadfast. Their existence must not be taken for granted just as we should not take electricity's power for granted.

Electricity touches our lives in a multitude of ways that we fail to comprehend or realise. A simple change to that constant can result in a drastic change to life. At TNB, we always strive to give our very best in everything we do because of our values of integrity, customer first, caring and business excellence.

We believe in a simple philosophy – that we are here to illuminate life for everyone, everywhere, at all times.



THERE ARE PLACES WE WOULD NEVER LIGHT, EVEN THOUGH WE COULD.

HAVING LIT MORE THAN 99% OF THE LAND, WE HOPE WE WILL ALWAYS HAVE THE POWER TO BE PRESENT WHEREVER WE'RE NEEDED, AND THE WISDOM TO BE ABSENT WHEREVER WE'RE NOT.

fourteenth annual general meeting

Dewan Serbaguna, Kompleks Sukan TNB, Jalan Pantai Baru,
59200 Kuala Lumpur on Thursday,

23 December 2004, at 10.00 am

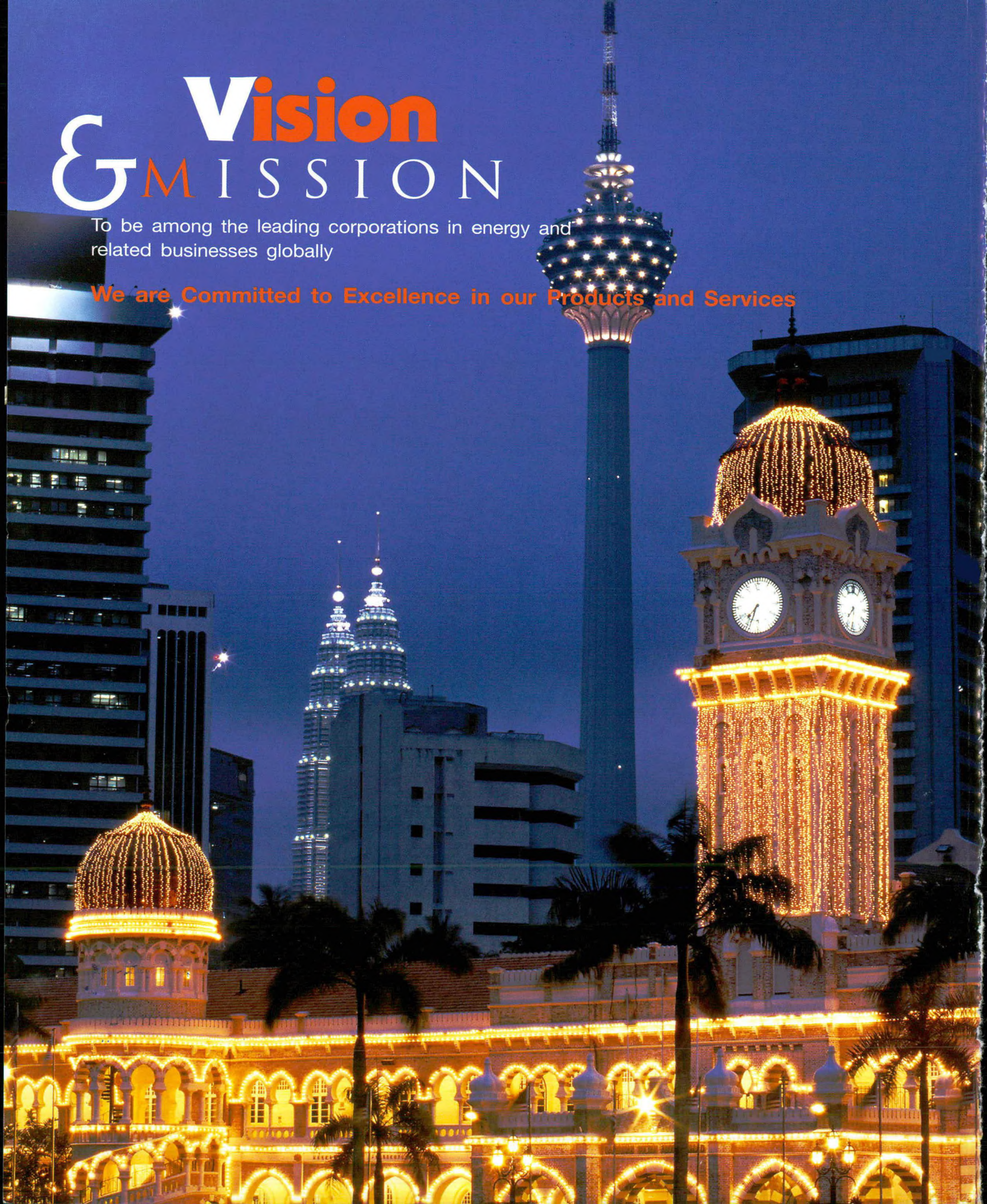
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Vision & MISSION

To be among the leading corporations in energy and related businesses globally

We are Committed to Excellence in our Products and Services



corporateprofile

Tenaga Nasional Berhad (TNB) Group is the largest electricity utility company in Malaysia with assets worth more than RM60 billion serving over six million customers throughout Peninsular Malaysia and Sabah.

TNB's core activities are in the generation, transmission, and distribution of electricity. To date, TNB remains a major player in electricity generation which forms a significant part of the Group's diversified range of business activities. The TNB Group has the largest generation capacity of 11,137.5 MW.

Currently, the TNB Group has a complete power system, including the National Grid, Customer Service Centres, Call Management Centres, and administration offices throughout Peninsular Malaysia and Sabah.

TNB, through its subsidiaries, is also involved in the manufacturing of transformers, high voltage switchgears and cables; the provider of professional consultancy services, architectural, civil and electrical engineering works and services, repair and maintenance services and fuel; undertakes research and development, property development, and project management services. TNB also offers higher education through its university – Universiti Tenaga Nasional.

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DATE RECEIVED : 27 JAN 2005

ACCESSION NO : 118763

notice of **fourteenth**

ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Fourteenth Annual General Meeting of Tenaga Nasional Berhad will be held at Dewan Serbaguna, Kompleks Sukan TNB, Jalan Pantai Baru, 59200 Kuala Lumpur on Thursday, 23 December 2004, at 10.00 am for the following purposes:

AS ORDINARY BUSINESSES:-

1. To receive the Directors' Report and Audited Financial Statements for the Financial Year ended 31 August 2004 and the Auditors Report thereon.

Resolution 1

2. To approve the declaration of a final gross dividend of 10.0 sen per share and special gross dividend of 4.0 sen per share less income tax of 28% in respect of the Financial Year ended 31 August 2004.

Resolution 2

3. To approve the Directors' fees for the Financial Year ended 31 August 2004.

Resolution 3

4. To re-elect as Director, Tan Sri Dato' Hari Narayanan a/l Govindasamy, who retires in accordance with Article 135 of the Company's Articles of Association and being eligible, offers himself for re-election.

Resolution 4

5. To re-elect as Directors, the following Directors who retire in accordance with Article 133 of the Company's Articles of Association and being eligible, offer themselves for re-election:-

(i) Datuk Amar Leo Moggie;

Resolution 5

(ii) Dato' Azman bin Mokhtar;

Resolution 6

(iii) Datuk Mohd Zaid bin Ibrahim;

Resolution 7

(iv) Dato' Che Khalib bin Mohamad Noh;

Resolution 8

(v) Dato' Abdul Rahim bin Mokti;

Resolution 9

6. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration.

Resolution 10

AS SPECIAL BUSINESSES:-

7. To consider and if thought fit, to pass the following Ordinary Resolutions on issuance of shares, with or without any modification:-

i. **Specific Authority for the Directors to issue Shares pursuant to the Employees' Share Option Scheme**

Resolution 11

"THAT pursuant to the Tenaga Nasional Berhad Employees' Share Option Scheme II (ESOS II) as approved at the Extraordinary General Meeting (EGM) of the Company held on 29 May 2003, approval be and is hereby given to the Directors pursuant to Section 132D of the Companies Act, 1965, to issue shares in the Company at any time and in accordance with the terms and conditions of the said scheme."

ii. **General Authority for the Directors to issue shares pursuant to Section 132D, Companies Act, 1965**

Resolution 12

"THAT pursuant to Section 132D of the Companies Act, 1965, full authority is hereby given to the Directors to issue shares in the capital of the Company at any time until the conclusion of the next Annual General Meeting (AGM) and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued pursuant to this Resolution does not exceed 10 per cent (%) of the issued share capital of the Company for the time being, subject to the provision of the Companies Act, 1965, Articles of Association of the Company and approval from Bursa Malaysia Securities Berhad and all the relevant regulatory bodies where such approval is necessary."

8. To consider and if thought fit, to pass the following Ordinary Resolutions:-

Proposed Renewal Of Shareholders' Mandate And Proposed Shareholders' Mandate For Recurrent Related Party Transaction (RRPT) Of A Revenue Or Trading Nature Which Are In The Ordinary Course Of Business Involving The Following Parties:-

i. **YTL POWER INTERNATIONAL BERHAD;**

Resolution 13

ii. **RANHILL POWER BERHAD;**

(formerly known as EPE Power Corporation Berhad)

Resolution 14

iii. **EDARAN OTOMOBIL NASIONAL BERHAD;**

Resolution 15

iv. **PETRONAS GAS BERHAD;**

Resolution 16

v. **PETRONAS DAGANGAN BERHAD;**

Resolution 17

vi. **MALAYSIA INTERNATIONAL SHIPPING CORPORATION BERHAD;**

Resolution 18

vii. **PETRONAS CARIGALI SDN BHD;**

Resolution 19

viii. **MISC TRUCKING & WAREHOUSING SDN BHD;**

Resolution 20

ix. **GAS DISTRICT COOLING SDN BHD;**

Resolution 21

x. **POLYETHYLENE MALAYSIA SDN BHD**

Resolution 22

THAT pursuant to paragraph 10.09 of the Bursa Malaysia Securities Berhad Listing Requirements:-

- (a) the mandate granted by the shareholders of the Company at the AGM of the Company held on 23 December 2003 be and is hereby renewed; and
- (b) the proposed shareholders' mandate be and is hereby given;

to authorise the Company and its subsidiaries (the Group) to enter into the specified recurrent transactions with the specified classes of the related parties aforementioned, which are necessary for the Group's day to day operations as set out in Appendix A of the Circular to Shareholders dated 1 December 2004, subject to the following terms:-

- i. the transaction are in the ordinary course of business and are on terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders; and
- ii. disclosure of the aggregate value of transactions pursuant to the Proposed Renewal of Shareholders Mandate for RRPT conducted during a Financial Year will be made in the annual report for the said Financial Year.

AND THAT such authority conferred by the above mandate and the renewed mandate shall continue to be in force until:-

- i. the conclusion of the Fifteenth AGM of the Company following the forthcoming Fourteenth AGM at which the Proposed Renewal of Shareholders Mandate for RRPT is approved, at which time it will lapse, unless by a resolution passed at the Fifteenth AGM the mandate is renewed; or
- ii. the expiration of the period within which the Fifteenth AGM after that date is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- iii. revoked or varied by resolution passed by the shareholders in the general meeting whichever is the earlier.

AND THAT the Directors of the Company be and is hereby authorised to complete and do all such acts and things as they may consider expedient or necessary to give effect to the Proposed Renewal of Shareholders' Mandate and Proposed Shareholders' Mandate."

- 9. To transact any other business of which due notice shall have been given in accordance with the Companies Act, 1965.

NOTICE OF BOOK CLOSURE AND DIVIDEND PAYMENT

NOTICE IS HEREBY GIVEN THAT the Register of Members of the Company will be closed from 29 December 2004 to 2 January 2005 (both dates inclusive) for the purpose of determining shareholders' entitlement to the dividend. The dividend, if approved by Members at the Fourteenth AGM, will be paid on 24 January 2005.

A Depositor with Bursa Malaysia Depository Sdn Bhd shall qualify for entitlement to the dividend only in respect of:

- Shares deposited into the Depositor's securities account before 12.30 pm on 24 December 2004 in respect of shares which are exempted from mandatory deposit;
- Shares transferred into the Depositor's securities account before 4.00 pm on 28 December 2004 in respect of ordinary transfers; and
- Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD,

ZAINAL ABIDIN BIN YUNUS (LS 0003333)

NOR ZAKIAH BINTI ABDUL GHANI (LS 0003795)

Company Secretaries

Kuala Lumpur, Malaysia

1 December 2004

Notes:-

Registration of Members/Proxies

Registration of Members/Proxies attending the Meeting will commence from 8.00 am on the day of the Meeting. Members/Proxies are required to produce identification documents for registration.

Proxy

Any Member entitled to attend and vote at this Meeting is entitled to appoint another person or persons (whether a Member or not) as his proxy, or by a duly authorised representative for the particular case to attend and vote in his stead. A proxy need not be a Member of the Company. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his corporation, either under its common seal or under the hand of an officer or attorney duly appointed under a power of attorney. ~~The Form of Proxy must be deposited at the Registered Office, First Floor, Headquarters Tenaga Nasional Berhad, 129 Jalan Bangsar, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time fixed for holding the Meeting and any adjournment thereof.~~

Additional Information on Resolutions 4 to 9

Additional Information on the Particulars of the retiring Directors, as required under Appendix 3A of the Bursa Malaysia Listing Requirements detailed out in the Annual Report.

EXPLANATORY NOTES ON SPECIAL BUSINESSES

- Resolution 11: The Proposed Ordinary Resolution, if passed, will empower the Directors to issue shares in the Company pursuant to the terms and conditions of the ESOS II which was approved at the EGM of the Company held on 29 May 2003.
- Resolution 12: Power to issue shares pursuant to Section 132D, Companies Act, 1965.

The proposed Ordinary Resolution, if passed, is to give the Directors of the Company flexibility to issue and allot shares for such purposes as the Directors in their absolute discretion consider to be in the interest of the Company, without having to convene a general meeting. This authority will expire at the next AGM of the Company.
- Resolutions 13 to 22: Details on the Proposed Renewal Of Shareholders' Mandate and Proposed Shareholders' Mandate For RRPT Of A Revenue Or Trading Nature Which Are In The Ordinary Course Of Business as mentioned above are set out in the Circular to Shareholders dated 1 December 2004.

statement accompanying

NOTICE OF ANNUAL GENERAL MEETING

PURSUANT TO PARAGRAPH 8.28(2) OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

1. THE DIRECTORS WHO ARE STANDING FOR RE-ELECTION AT THE 14TH ANNUAL GENERAL MEETING OF THE COMPANY

- (a) Director retiring pursuant to Article 135 of the Articles of Association:-
- Tan Sri Dato' Hari Narayanan a/l Govindasamy
- (b) Directors retiring pursuant to Article 133 of the Articles of Association:-
- Datuk Amar Leo Moggie
 - Dato' Azman bin Mokhtar
 - Datuk Mohd Zaid bin Ibrahim
 - Dato' Che Khalib bin Mohamad Noh
 - Dato' Abdul Rahim bin Mokti

Further details of the six (6) Directors seeking re-election are set out in their respective profile which appear in the Directors' profiles on pages 32 to 42 of this Annual Report.

2. BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 AUGUST 2004

- (a) A total of nineteen (19) Board meetings were held in the financial year ended 31 August 2004 as follows:-

No. Meeting	Date of Board Meetings	Time
1.	4 September 2003	2.30 pm
2.	22 September 2003	2.30 pm
3.	28 October 2003	11.00 am
4.	13 November 2003	3.00 pm
5.	23 December 2003	9.00 am
6.	20 January 2004	10.30 am
7.	27 January 2004	10.00 am
8.	25 February 2004	10.30 am
9.	8 March 2004	2.30 pm
10.	30 March 2004	11.00 am
11.	14 April 2004	9.30 am
12.	27 April 2004	11.00 am
13.	29 May 2004	8.45 am
14.	14 June 2004	11.00 am
15.	28 June 2004	11.30 am
16.	7 July 2004	10.00 am
17.	27 July 2004	12.30 pm
18.	5 August 2004	10.30 am
19.	27 August 2004	9.00 am

Except for Board Meeting no. 9 which was held at Bilik Mesyuarat, Aras 9, Wisma TNB, Jalan Tok Hakim, 15000 Kota Bharu, Kelantan Darul Naim, all the other Board Meetings were held at Bilik Kapar, 11th Floor, Tenaga Nasional Berhad Headquarters, 129, Jalan Bangsar, 59200 Kuala Lumpur.

- (b) Details of attendance of Directors at the said Board Meetings are featured in the Statement of Corporate Governance set out in page 12.

STATEMENT OF corporategovernance

Tenaga Nasional Berhad (TNB or the Company) conforms to the underlying principles and best practices of good corporate governance as embodied in the Malaysian Code on Corporate Governance, whilst continuously observes other global best practices notably the Combined Code of United Kingdom. TNB recognises the value of corporate governance as an organisational competitive advantage which goes beyond regulatory compliance.

TNB has a long established set of structures, systems and processes which provide a conducive setting for the cultivation of good corporate governance culture. In upholding good corporate governance practices which include periodic assessment and refinement of policies, frameworks, procedures and controls in TNB, the financial year under review saw the refinement and institutionalisation of the following systems, policies and procedures:-

- (a) Enterprise Wide Risk Management Policy covering Enterprise Wide Risk Management System (see page 110 for details);
- (b) Enterprise Human Resource Management System (see page 117 for details);
- (c) Enterprise Resource Management System (see page 114 for details);
- (d) Performance Management System (see page 117 for details);
- (e) Group Procurement Policy and Procedures (see page 114 for details);
- (f) Specialist Career Path Scheme (see page 117 for details).

Such initiatives ensure that business processes and systems in TNB are geared towards transparency, integrity, accountability and efficiency in business practices. These initiatives complement the Shared Values on Integrity, Customer Focus, Business Excellence and Caring which provide strong foundation towards organisational excellence.

The Board of Directors of TNB is pleased to report to shareholders on the manner the Company has applied the Principles and adopted the best practices provisions laid down in the Code. These ensure that the highest standards of corporate governance are practiced throughout the Group along the benchmark of Best Practices in Corporate Governance as set out in Part 2 of the Code and other recognised global standards.

(A) THE BOARD OF DIRECTORS

At the pinnacle of corporate governance is the Board of Directors with its collective responsibility in leading and directing the company's affairs, as an effective decision-making body. The Board is accountable to shareholders for the performance and activities of the Company so that such are undertaken in the best interest of shareholders. The Board operates within a robust set of governance as set out below:-

Composition of the Board

The Board of Directors of TNB consists of eight (8) members comprising One (1) Non Executive Chairman, One (1) Executive Director and Six (6) Non-Executive Directors. The strength of TNB Board lies in the wide range of expertise and experience brought to the Board by members of diverse background in business, financial, legal and technical as well as management, public administration and policy making. A brief profile of each Director is set out on pages 32 to 42 of this Annual Report.

Appointment to the Board

Board Nomination and Remuneration Committee selects and proposes to the Board suitable candidate for appointment as Director in TNB and its subsidiary companies. Appointment to the Board of TNB is made either by the Special Shareholder pursuant to Article 5(2) of the Company's Memorandum and Articles of Association or by the Board of Directors pursuant to Article 133 of the Company's Memorandum and Articles of Association.

Board Balance and Independence

The Board is assured of a balanced and independent view at all Board deliberations largely due to the presence of its non-executive directors who form a majority of the Board.

The requirement of the Code for a Board balance is fulfilled with the Independent Directors forming one third of the Board. The classification for independence is in accordance with paragraph 1.01 (Definition and Interpretations) of the Bursa Malaysia Listing Requirements.

The Independent Non-Executive Directors are independent of Management and free from any business relationship which could materially interfere with the exercise of their independent judgement. The presence of three (3) Independent Directors confer a strong independent element on the Board. The Board has identified and appointed Dato' Lau Yik Pin as the Senior Independent Non-Executive Director of the Board to whom any concerns on the Company may be conveyed.

Roles and Responsibilities

The Board provides direction and effective control of the Company. The Board has adopted the six primary responsibilities outlined in the Code namely:-

- (a) Determining the strategic plan for the Company;
- (b) Overseeing the conduct of the Company's businesses;
- (c) Identifying and managing risks affecting the Company;
- (d) Reviewing adequacy and integrity of the Company's internal control systems;
- (e) Implementing succession planning for timely succession of management within the Company;
- (f) Maintaining effective communication with shareholders and investors.

There is a clear division of responsibility between the Board and the Management thus promoting a balance of power and authority. The roles of Chairman of the Board and the President/Chief Executive Officer are therefore separate and distinct.

The Chairman provides coherent leadership and assumes responsibility for the effective running of the Board as well as represents the Board to the Shareholders.

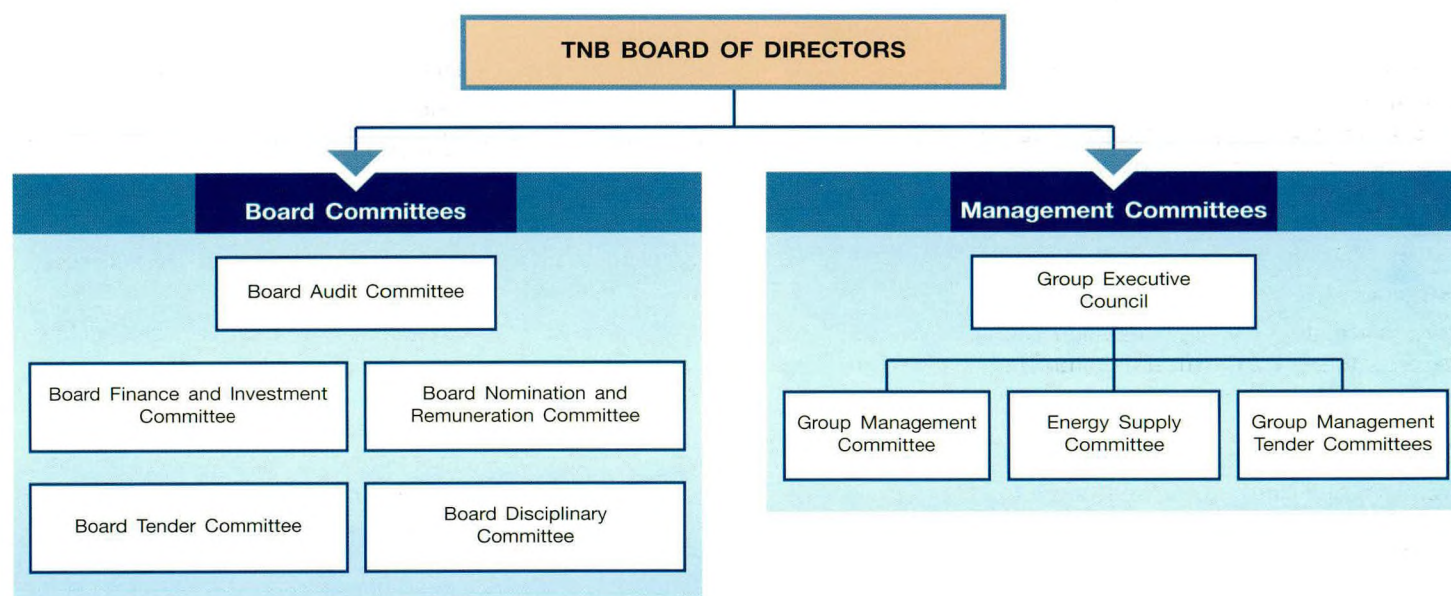
The President/Chief Executive Officer, supported by his team of management through the Group Executive Council, Group Management Committee, Group Management Tender Committee and Energy Supply Committee are responsible for the running of the business as a whole.

Board effectiveness is further enhanced by the strength of relationship between the Board and the Management. The Board has initiated a formal platform outside the boardroom so as to provide the Management with further guidance on the effective implementation and execution of board decisions.

Operation of the Board

The Board has delegated certain responsibilities to Board Committees which operate within clearly defined Terms of References. There are five (5) Board Committees to assist the Board on which the Committees deliberate the issues on a broad and in depth basis before putting up any recommendation to the Board.

A diagram outlining the main Committees involved in the decision making process is set out below:-



The Board Meetings

During the financial year ended 31 August 2004, nineteen (19) Board meetings were convened to deliberate and consider a variety of significant matters including review on quarterly financial statements, overall performance of the Company and the subsidiary companies, budget, risk assessment, debt restructuring and other corporate proposals such as divestment exercise as well as other related business matters that require their deliberation and due approval.

The proceedings and resolutions passed at each Board meeting are minuted and kept in the statutory register at the registered office of the Company.

Attendance Details of Board Members

Dedication and high degree of commitment given by all members of the Board are evident from the attendance record which well surpassed the 50% attendance requirement of the Bursa Malaysia Securities Berhad.

Directors	Meeting Attendance
Datuk Amar Leo Moggie (<i>Chairman</i>) (<i>Appointed w.e.f. 12 April 2004</i>)	9/9
Dato' Lau Yin Pin @ Lau Yen Beng	16/19
Tan Sri Dato' Hari Narayanan a/l Govindasamy	14/19
Dato' Zainal Abidin bin Putih	16/19
Dato' Che Khalib bin Mohamad Noh (<i>Appointed w.e.f. 1 July 2004</i>)	4/4
Datuk Mohd Zaid bin Ibrahim (<i>Appointed w.e.f. 15 June 2004</i>)	3/5
Dato' Azman bin Mokhtar (<i>Appointed w.e.f. 15 June 2004</i>)	4/5
Dato' Abdul Rahim bin Mokti (<i>Appointed w.e.f. 4 November 2004</i>) Zalekha binti Hassan (Alternate Director to Dato' Abdul Rahim bin Mokti) (<i>Appointed w.e.f. 4 November 2004</i>)	Not Applicable
Dato' Dr. Awang Adek bin Hussin (<i>Resigned w.e.f. 31 March 2004</i>)	10/10
Datuk Dr. Halim bin Shafie (<i>Resigned w.e.f. 7 June 2004</i>) Dato' Syed Hamzah bin Syed Othman (Alternate Director to Datuk Dr. Halim bin Shafie attended 2 Board Meetings) (<i>Resigned w.e.f. 7 June 2004</i>)	11/13
Raja Dato' Zaharaton binti Raja Zainal Abidin (<i>Appointed w.e.f. 8 March 2004 and Resigned w.e.f. 7 June 2004</i>)	3/5
Datuk Zainun Aishah binti Ahmad (<i>Resigned w.e.f. 7 June 2004</i>)	13/13
Dato' Shaziman bin Abu Mansor (<i>Resigned w.e.f. 31 March 2004</i>)	7/10
Dato' Pian bin Sukro (<i>Resigned w.e.f. 1 July 2004</i>)	13/15
Datin Paduka Hajjah Seripah Noli binti Syed Hussin (<i>Resigned w.e.f. 31 March 2004</i>)	7/10
Ng Lip Yong @ Ng Lip Sat (<i>Resigned w.e.f. 31 March 2004</i>)	9/10
Datuk Iskandar Dzakurnain bin Badarudin (<i>Resigned w.e.f. 21 December 2003</i>) Raja Dato' Zaharaton binti Raja Zainal Abidin (Alternate Director to Datuk Iskandar Dzakurnain bin Badarudin) (<i>Resigned w.e.f. 21 December 2003</i>)	3/4
Datin Husniarti binti Tamin (<i>Resigned w.e.f. 31 October 2004</i>) Dato' Kamariah binti Hussain (Alternate Director to Datin Husniarti binti Tamin) (<i>Resigned w.e.f. 31 October 2004</i>)	19/19

Supply of Information to the Board

The Board has full and unrestricted access to all information pertaining to the Group's business and affairs.

Prior to each Board meeting, papers on specific subjects are sent to the Directors in advance so that time at Board Meetings can be utilised for focused discussion. Management is responsible to provide the Board with all the relevant information to facilitate informed decision-making process.

All Directors have the right and duty to make further enquiries where they consider necessary. In most instances, senior management of the Company as well as professionals and external advisors are invited to be in attendance at Board meetings to furnish clarification on issues that may be raised by the Board. Directors are at liberty to take independent advice on any matter connected with the discharge of their responsibilities.

In addition, the Board invites senior Management to brief the Board from time to time on matters being deliberated as they are able to help bring insight into these matters. Directors have full and unrestricted access to the advice and services of the Company Secretary who is responsible for ensuring that Board meeting procedures are followed and that applicable rules and regulations are complied with.

Re-election

All Directors are required to retire from office at least once in every three years in accordance with Article 135 and newly appointed Directors are subject to re-election by shareholders at the first opportunity after their appointment, in accordance with Article 133 of the Company's Articles of Association. Retiring Directors may offer themselves for re-election by the shareholders.

Continuing Professional Development

All Directors are provided with appropriate professional development training to enhance their business acumen and professionalism in discharging their fiduciary duties to the Company. Apart from attending Mandatory Accreditation Programme and Continuing Educational Programme accredited by Bursa Malaysia to keep abreast with corporate regulatory affairs, the Directors are also equipped with technical exposure on operational side of the business through technical visits to power plants.

In line with the recent amendment to Practice Note No. 15/2003 which prescribed that the Board of Directors of all Public Listed Companies shall be responsible for determining the training needs of the Directors with effect from 1 January 2005, TNB has initiated its own comprehensive and formal training programme tailored to the needs of the Board of Directors.

Directors' Remuneration Procedure

The Board Nomination and Remuneration Committee recommends to the Board the framework and the remuneration package for the Executive Director and Senior Management. In determining the framework, the Committee has access to professional advice from both internal and external sources.

The Level and Make-Up of Remuneration

- (a) The remuneration package of the Executive Director comprises of the following:-
 - (i) *Basic salary*
The basic salary (inclusive of statutory employer contributions to the Employee Provident Fund) for Executive Director is recommended by the Board Nomination and Remuneration Committee, taking into account the individual performance and information from independent sources on the rates of salary for similar position in a selected group of comparable companies.

(ii) *Reward Scheme*

The Group operates a bonus scheme for all employees, including the Executive Director. The criteria for the scheme is the level of profit achieved from the Group's business activities against targets, together with an assessment of each individual's performance. Bonus payable to the Executive Director is reviewed by the Board Nomination and Remuneration Committee and approved by the Board.

(iii) *Directors' share options*

The Executive Director's share options during the year ended 31 August 2004 is set out on page 162 of the Director's Report and Financial Statements.

(b) The remuneration package of Non-Executive Directors comprises of the following:

(i) *Fees*

Fees payable to Directors are determined by the Board after considering rates comparable to other Government-Link Companies and the level of responsibilities undertaken by the Directors. Such fees are tabled to the shareholders of the Company for approval.

(ii) *Benefits in kind*

Other benefits in the form of coverage on electricity bills and reimbursement are made available as appropriate.

Disclosure on Directors' Remuneration

The details on the aggregate remuneration of directors for the financial year ended 31 August 2004 are as follows:-

	Executive Directors (RM)	Non-Executive Directors (RM)	Total (RM)
Directors' Fees	5,000.00	*404,830.00	409,830.00
Meeting Allowances	2,000.00	*277,900.00	279,900.00
Salaries, Bonus & Allowances	811,261.08	—	811,261.08
Employees Provident Fund	102,406.00	—	102,406.00
Benefits-in-kind	—	81,846.03	81,846.03
Total	920,667.08	764,576.03	1,685,243.11

**Inclusive of RM5,300 and RM3,300 paid to Khazanah Nasional Berhad, in respect of Directors' Fee and Meeting Allowance provided for Dato' Azman bin Mokhtar.*

The number of Directors whose total remuneration falls within the following bands during the financial year ended 31 August 2004 is as follows:-

Directors' Remuneration	Executive Directors	Non-Executive Directors	Total
0 – RM50,000	—	11	11
RM50,001 – RM100,000	—	5	5
RM100,001 – RM150,000	1	—	1
RM150,001 – RM200,000	—	1	1
RM750,001 – RM800,000	1	—	1
TOTAL	2	17	19

(B) SHAREHOLDERS

The Board recognises its principal responsibility towards protecting and enhancing long term shareholders' value and that in order to prosper and achieve growth, it must (amongst other things) earn the trust of shareholders and the stakeholders ranging from regulators, customers, employees, bankers and creditors.

Relations between the Company and Investors

TNB maintains an interactive relationship with the shareholders with a view to promote transparency and to build shareholder confidence. The company has set up a dedicated department called the Investor Relations Department (IRD) since 1992 to attend to all queries raised by shareholders and investors. IRD sets annual programmes to meet both domestic and international investment communities (both equity and fixed income) on a monthly basis. In addition, the Company holds briefing with fund managers and analysts after each quarter's announcements of financial results to Bursa Malaysia.

During the year under review, TNB conducted four (4) non deal road shows throughout Europe, Middle East and Japan as well as participating in five (5) Investors Conferences in London, United Kingdom, Hong Kong and Singapore. IRD also held eighty-five (85) networking meetings with foreign investors and analysts.

Shareholders also have access to information about TNB and its subsidiaries (the Group) through the website at www.tnb.com.my. The website maintained by TNB website Management and Co-ordination Work Group feature an information which is up to date and up to disclosure expectations of the shareholders and stakeholders at large.

Constructive Use of the Annual General Meeting

TNB encourages the exercise of voting rights and constructive dialogue between the Board and the shareholders at the Annual General Meeting, whereby shareholders are given opportunity to pose their questions on proposed resolutions and the Group's operations.

Each item of ordinary and special business in the notice of the General Meeting would be accompanied by a full explanation of the effects of any proposed resolution. Separate resolutions are proposed for separate issues at the meeting and the Chairman declares the outcome of each resolution.

As a matter of providing all stakeholders with the latest update on the Company, a press conference and analyst briefing are held immediately after the general meeting where the Chairman and the President/Chief Executive Officer will address all the issues raised by the press and analyst.

Continuing Disclosure of Material Information

TNB has long observed the continuing disclosure obligation imposed upon a listed issuer by Bursa Malaysia. The Company has in place Corporate Disclosure Policy and Procedures since 1994 which provides for adoption of Best Practices in Corporate Disclosure laid down by the Bursa Malaysia in July 2004.

As required under the said Best Practice, the Company Secretaries are identified as "Corporate Disclosure Managers" within the context of the aforementioned Best Practice.

The following material information and the material development thereof have been released to shareholders via Bursa Malaysia Link on a timely basis:-

- (i) divestment of stake in Kapar Energy Ventures, Port Dickson Power Bhd and Janaurus PDP Sdn Bhd;
- (ii) execution of HVDC System Interconnection Agreement with Electricity Generating Authority of Thailand;
- (iii) proposed subscription of equity in Jimah Energy Ventures Sdn Bhd;
- (iv) execution of Power Purchase Agreement with Jimah Energy Ventures Sdn Bhd.

Confidentiality of Information

In the conduct of briefings or presentations, the Company takes care to ensure that any information regarded as undisclosed material information about the company and its operations will not be given to any single shareholder or shareholder group.

(C) ACCOUNTABILITY AND AUDIT

Relationship with the Auditors

Through the Board Audit Committee, the Group has established a transparent and appropriate relationship with the Group's Auditors, both external and internal. The Board Audit Committee meets with the External Auditors without the presence of management at least once a year. A report by the Board Audit Committee is provided in page 46 and its Terms of Reference is provided on pages 51 to 55.

Internal Control

The Code requires the Board to maintain a sound system of internal controls to safeguard shareholders' investment and the company's assets. TNB adheres to Bursa Malaysia's Statement on Internal Control: Guidance for Directors of Public Listed Companies, as a guidance for compliance with these requirements.

The Group's Statement of Internal Controls, pursuant to paragraph 15.27(b) is set out on page 56.

RESPONSIBILITY STATEMENT IN RESPECT OF THE FINANCIAL YEAR UNDER REVIEW

(Pursuant to paragraph 15.27(a) of the Bursa Malaysia Listing Requirements)

The Board is accountable to ensure that the Financial Statements are prepared in accordance with the Companies Act 1965 and the applicable approved accounting standards set by Malaysian Accounting Standards Board so as to present a balanced and understandable assessment of the Group's financial position and prospects. In this Annual Report, an assessment is provided in the Directors' Report of the Audited Financial Statements.

Board Audit Committee reviews the statutory compliance and scrutinises the financial aspects of the Audited Financial Statements prior to full deliberation at the Board level.

ADDITIONAL COMPLIANCE STATEMENT

Apart from providing the shareholders and the stakeholders with an overview of the state of corporate governance in the Company, TNB is also pleased to disclose the following information:

(1) Utilisation of Proceeds Raised from any Corporate Proposal

The proceeds from the issuance of RM3,402 million of non-recourse Al-Bai Bithaman Ajil (BaIDS) securing RM200 million Murabahah working capital facility by Kapar Energy Ventures Sdn Bhd will be utilised in the following manner:-

- (i) to finance capital expenditure for the financial year 2004-2005; and
- (ii) to prepay high interest rate loans.

(2) Share Buy-Backs for the Financial Year

There was no share buy-back exercise carried out by the Company for the financial year ended 31 August 2004.

(3) Options, Warrants or Convertible Securities Exercised

The status on Options, Warrants or Convertible Securities exercised by the Company are as follows:-

- (a) The Company launched the second Employees Share Options Scheme (ESOS II) in July 2003 and as at October 2004, two (2) offers have been made to eligible employees whereas:-
- (i) under the First Offer, options representing 199,994,000 shares were offered at an exercise price of RM8.39 (being the 5 day weighted average price from 1 July 2003 to 7 July 2003, net of 10% discount) to 22,215 eligible employees. A total options representing 199,347,000 shares were taken up by the grantees and the options exercised until October 2004 represented 62,311,900 shares;
 - (ii) under the Second Offer, options representing a total of 16,872,000 shares were offered at an option price of RM8.74 (being the 5 day weighted average price from 17 February 2004 to 24 February 2004, net of 10% discount) to 2,927 eligible employees. Options representing a total of 16,833,000 shares were taken up and until October 2004, options representing 2,664,400 shares were exercised.
- (b) The Company has not issued any warrants for the financial year ended 31 August 2004.
- (c) As at May 2003, TNB has issued RM200.0 million nominal value Convertible Redeemable Income Securities (CRIS) at an issue price of RM1.00 per unit. The CRIS are convertible into ordinary shares at a conversion priced of RM11.47, subject to certain adjustments at any time commencing from 9 June 2004 and ending on 9 April 2009. The said CRIS will mature on 3 May 2009.

(4) American Depositary Receipts (ADR)

In January 1994, TNB launched its Level 1 (ADR) in New York, United States of America. Each ADR carries an equivalent of four underlying TNB shares. The only custodian bank for TNB's ADR programme is Malayan Banking Berhad. The Bank of New York in the US is the depository bank and the ADRs are traded over the counter. As at 30 October 2004, a total of 272,952 ADRs were issued. Therefore, the total number of ordinary shares held through these ADRs is 1,091,808. This represents less than five per cent of the ordinary share capital of 3,143,303,900 shares in TNB as at 31 August 2004.

(5) Sanctions/Penalties

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies during the financial year ended 31 August 2004.

(6) Non Audit Fees

The amount of non audit fees paid to the external auditors and their affiliated companies by the Group for the financial year ended 31 August 2004 is as follows:-

External Auditor	Amount RM
PricewaterhouseCoopers	418,038.50
KPMG	517,098.93
Total	935,132.43

(7) Variation in Results

The Company did not issue any profit forecast for the financial year ended 31 August 2004. As such, no commentary is made on variation in results.

(8) Profit Guarantee

The Company did not issue any profit guarantee for the financial year ended 31 August 2004.

(9) Material Contracts

Save as disclosed below, there is no other contracts which may be material (not being contracts entered into in the ordinary course of business) that have been entered into by TIB or its subsidiary in the financial year under review, apart from the power Purchase Agreement between Tenaga Nasional Berhad and Jimah Energy Ventures Sdn Bhd.

Briefly, Jimah Energy Ventures Sdn Bhd proposes to design, construct, own, operate and maintain a coal-fired electricity generating Facility with a nominal capacity of 1,400 Megawatts proposed to be located at Multim Jimah, Sepang, Negeri Sembilan to generate and deliver electrical energy and make generating capacity available to TNB.

This Agreement governs the obligations of the Parties to sell and purchase the Daily Available Capacity and to the extent dispatched, the Net Electrical Output generated by the Facility for a term of 25 years in accordance with the agreed terms and conditions.

The Facility comprises two (2) generating units with total capacity of 1,400MW. The First Unit is expected to be on commercial operations on 1st January 2009 while the Second Unit is expected to be on commercial operations on 1 July 2009. The existence of this Facility will assist in meeting the power demand from the year 2009 onwards.

(10) Revaluation Policy

The revaluation policy of the Company in relation to its' landed properties is set out in Note 13 of the Notes to the Financial Statements set out on page 195 of this Annual Report.

(11) Recurrent Related Party Transactions of a Revenue Nature

At the Thirteenth Annual General Meeting of the Company held on 23 December 2003, the shareholders of TNB had approved and ratified all recurrent transactions of a revenue or trading nature, which are necessary for the day-to-day operations of the Group, entered into by the Company and/or its subsidiaries with certain classes of related parties from 23 December 2003 until the forth coming Annual General Meeting. Such approval will expire at the conclusion of the forthcoming Fourteenth Annual General Meeting thus compelling the Board to propose to seek the shareholders' mandate for the renewal of the same, together with new mandate on recurrent transactions of a revenue or trading nature with the new related parties.

Pursuant to paragraph 4.1.5 of Practice Note 12/2001 of the Bursa Malaysia Listing Requirements, a breakdown of the aggregate value of the Recurrent Transactions together with the type of the Recurrent Transactions, the related parties involved and the nature of their relationship with TNB in each type of the Recurrent Transaction made during the financial year are tabulated below:-

(1) RENEWAL OF SHAREHOLDERS' MANDATE FOR RRPT OF A REVENUE OR TRADING NATURE

Interested Major Shareholders	Persons Connected to Major Shareholders/ Related Parties Involved	Nature of Relationship	Nature of Recurrent Transaction	Transaction/ Actual Value (RM) from 1 September 2003 until 31 August 2004	Transacting Company in TNB Group
Khazanah Nasional Berhad	YTL Power International Berhad	Khazanah Nasional Berhad being Major shareholder in TNB has 3.48% shareholding in YTL Power International Berhad, making the latter person connected to the Major Shareholder.	Purchase of power	1,121,953,633.59	Tenaga Nasional Berhad

(2) RATIFICATION AND SHAREHOLDERS' MANDATE FOR RRPT OF A REVENUE OR TRADING NATURE

Interested Major Shareholders	Persons Connected to Major Shareholders/ Related Parties Involved	Nature of Relationship	Nature of Recurrent Transaction	Transaction/ Actual Value (RM) from 1 September 2003 until 31 August 2004	Transacting Company in TNB Group
Minister Of Finance (Incorporated)	B & Z Plastic Industries Sdn Bhd*	Minister Of Finance (Incorporated) being Major Shareholder in TNB has indirect interest in B & Z Plastics Industries vide Yayasan Pelaburan Bumiputra (YPB) stake in Perbadanan Usahawan Nasional Berhad (PUNB) YPB was chaired by the then Finance Minister of Minister of Finance (Incorporated). PUNB which is wholly owned by YPB holds 34% shareholding in B & Z Plastics Industries, making the latter person connected to the Major Shareholder.	Purchase of Cable Slab	17,000,000.00	TNB Distribution Sdn Bhd
Minister Of Finance (Incorporated)	Hyrax Oil Sdn Bhd*	Minister Of Finance (Incorporated) being Major Shareholder in TNB has indirect interest in Hyrax Oil Sdn Bhd vide YPB stake in PUNB. YPB was chaired by the then Finance Minister of Minister of Finance (Incorporated). PUNB which is wholly owned by YPB holds 30% shareholding in Hyrax Oil Sdn Bhd, making the latter person connected to the Major Shareholder.	Purchase of Transformer Oil	6,300,000.00	1) TNB Generation Sdn Bhd 2) TNB Distribution Sdn Bhd 3) TNB Transmission Network Sdn Bhd

Interested Major Shareholders	Persons Connected to Major Shareholders/ Related Parties Involved	Nature of Relationship	Nature of Recurrent Transaction	Transaction/ Actual Value (RM) from 1 September 2003 until 31 August 2004	Transacting Company in TNB Group
Minister Of Finance (Incorporated)	Opcom Cable Sdn Bhd*	Mukhriz bin Mahathir who is in the Board of Directors of Opcom Cables Sdn Bhd is the son of the then Finance Minister of the Minister of Finance making the latter person connected to the Major Shareholder.	Purchase of Fibre Optic Cables	1,000,000.00	1) TNB Transmission Network Sdn Bhd 2) TNB Distribution Sdn Bhd
Minister Of Finance (Incorporated)	Federal Power Sdn Bhd*	Minister Of Finance being major shareholder in TNB has one golden share in Permodalan Nasional Berhad which has 50.5% shareholding in Federal Power Sdn Bhd making the latter person connected to the major shareholder.	Provisions of Cables	28,817,151.47	TNB Distribution Sdn Bhd
AGGREGATE VALUE OF THE TRANSACTIONS				1,175,070,785.06	—

Note: * Minister Of Finance (Incorporated) ceased to become interested major shareholder with effect from 15 December 2003. Therefore, recurrent transactions with persons connected to Minister Of Finance (Incorporated) are no longer regarded as recurrent related party transactions.

STATEMENT ON COMPLIANCE WITH THE REQUIREMENT OF BURSA MALAYSIA IN RELATION TO APPLICATION OF PRINCIPLES AND ADOPTION OF BEST PRACTICES LAID DOWN IN THE MALAYSIAN CODE OF CORPORATE GOVERNANCE (Pursuant to paragraph 15.26 of the Bursa Malaysia Listing Requirements)

The Board is pleased to state that the Company has applied the principles of corporate governance in its entirety thus in full compliance with Part 1 of the Code. Further to that, the Board remains committed to attain highest possible standard of corporate governance through continuous adoption of best practices recommended in Part 2 of the Code and other globally recognised best practice.

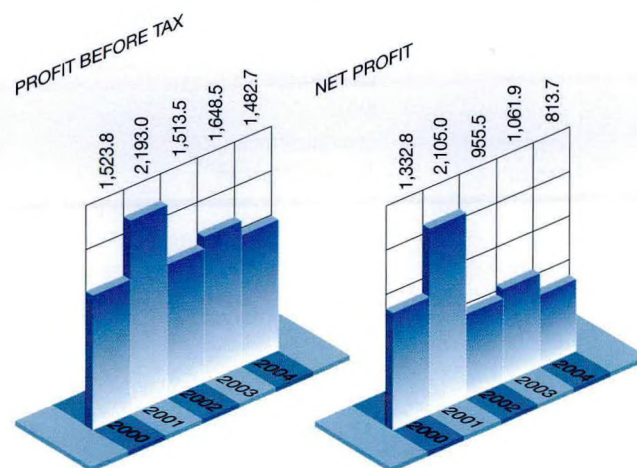
Signed on behalf of the Board of Directors in accordance with their resolution dated 4 November 2004.



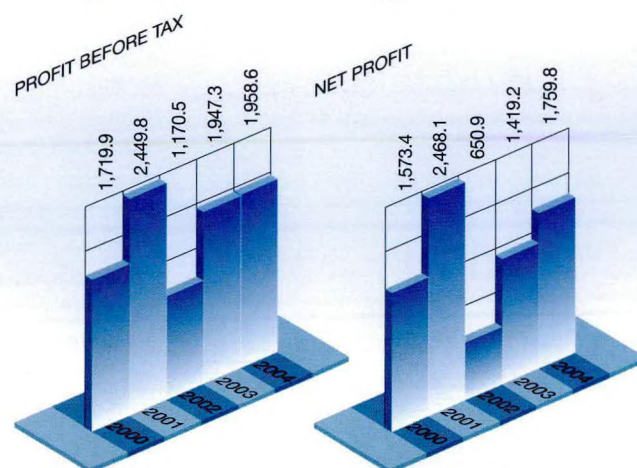
Dato' Lau Yin Pin @ Lau Yen Beng
Senior Independent Non-Executive Director

performancecharts

PROFIT BEFORE TAX AND NET PROFIT
(GROUP)#



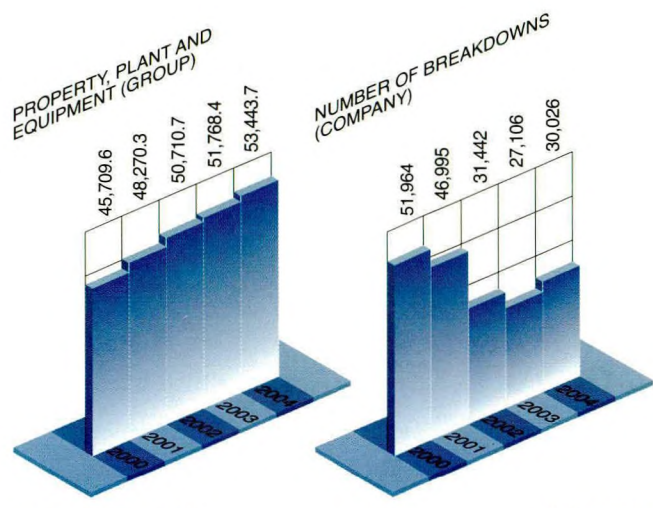
PROFIT BEFORE TAX AND NET PROFIT
(COMPANY)#



PRODUCTIVITY (GROUP)



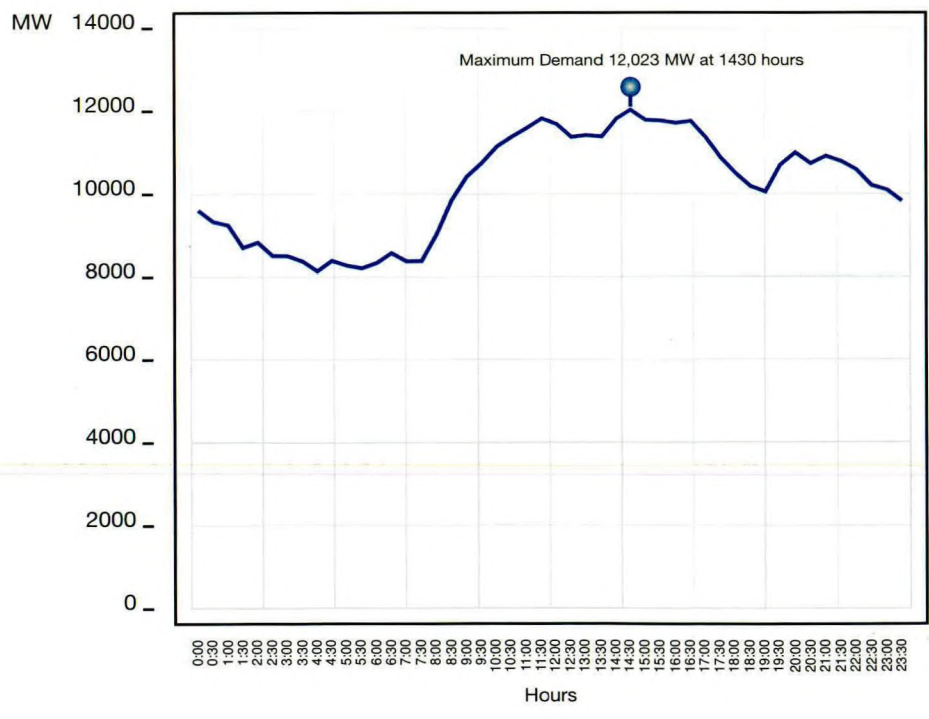
The financials for 2000-2002 have not been adjusted for the provisions of MASB 29-Employee Benefits.



PROPERTY, PLANT AND EQUIPMENT (GROUP)

NUMBER OF BREAKDOWNS (COMPANY)

DAILY LOAD CURVE FOR 13 MAY 2004



group corporate structure



Associate/Investment Companies

- SEPANG POWER SDN. BHD.* (30%)
- TEKNOLOGI TENAGA PERLIS CONSORTIUM SDN. BHD. (20%)
- SEGARI ENERGY VENTURES SDN. BHD. (20%)
- PERUSAHAAN OTOMOBIL ELEKTRIK (MALAYSIA) SDN. BHD. (20%)
- GB3 SDN. BHD. (20%)
- LABUAN REINSURANCE (L) LTD. (10%)
- FEDERAL POWER SDN. BHD. (8.91%)
- BAKUN HYDRO-ELECTRIC CORPORATION SDN. BHD. (6.67%)
- ELECTROSTORM INC. (1.58%)
- KRA ISTHMUS DEVELOPMENT COMPANY LTD. (1%)

Trust Foundation

- YAYASAN TENAGA NASIONAL
- RETIREMENT BENEFIT TRUST FUND

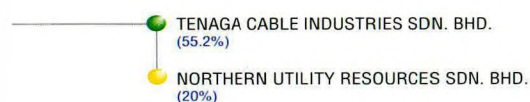
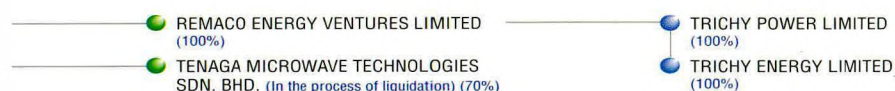
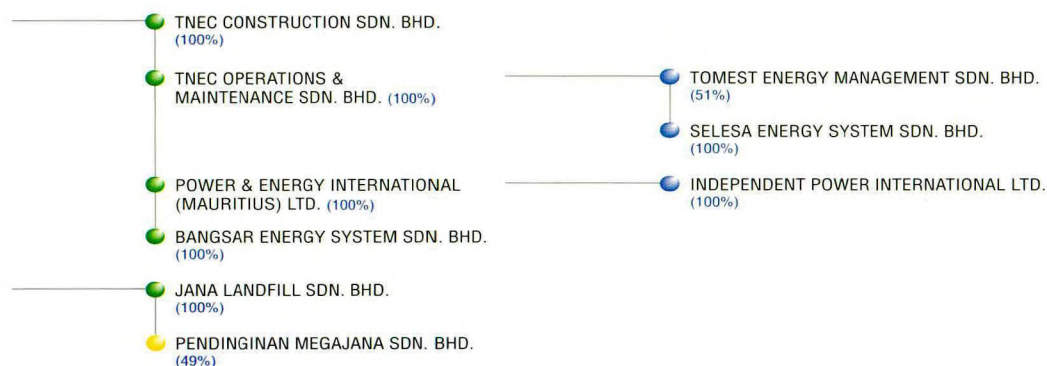
Subsidiaries

- TNB ENGINEERING CORP. SDN. BHD. (100%)
- TNB ENGINEERS SDN. BHD. (100%)
- TNB ENERGY SERVICES SDN. BHD. (100%)
- TNB FUEL SERVICES SDN. BHD. (100%)
- TNB JANAMANJUNG SDN. BHD. (100%)
- TNB POWER DAHARKI LTD. (100%)
- TNB PROPERTIES SDN. BHD. (100%)

DORMANT SUBSIDIARIES:

- TNB DISTRIBUTION SDN. BHD. (100%)
- SUMBER HIDRO MANAGEMENT SDN. BHD. (100%)
- TNB GENERATION SDN. BHD. (100%)
 - TNBG Power Services Sdn. Bhd. (100%)
- TNB HIDRO SDN. BHD. (100%)
- TNB-IT SDN. BHD. (100%)
- TNB KAPAR SDN. BHD. (100%)
- TNB KEKAL SDN. BHD. (100%)
- TNB LOGISTICS SDN. BHD. (100%)
- TNB PAKA SDN. BHD. (100%)
- TNB METERING SERVICES SDN. BHD. (100%)
- TNB RISK MANAGEMENT SDN. BHD. (100%)
- TNB PRAI SDN. BHD. (100%)
- TNB WORKSHOP SERVICES SDN. BHD. (100%)
- TNB TRANSMISSION NETWORK SDN. BHD. (100%)

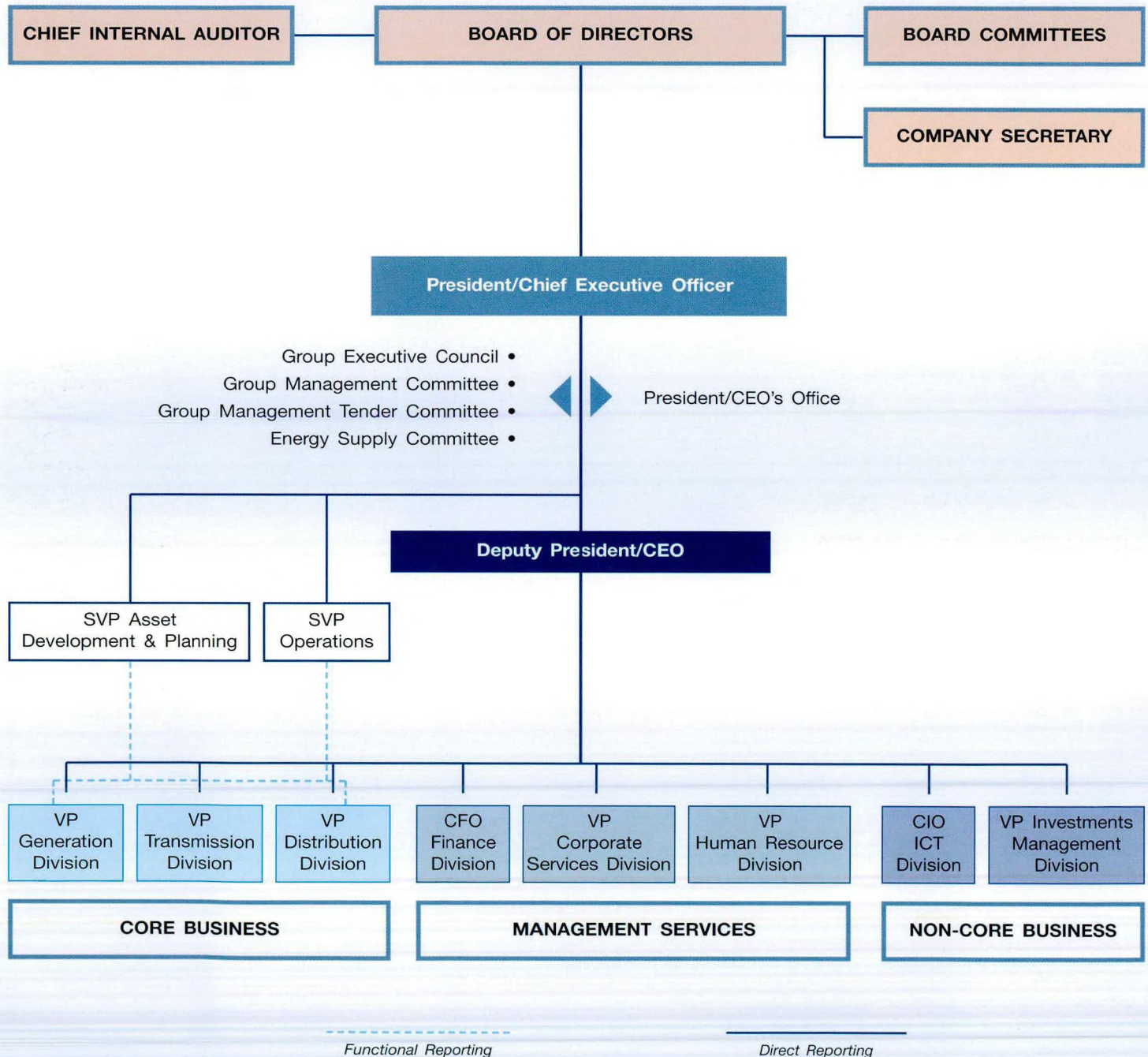
- TNB REPAIR & MAINTENANCE SDN. BHD. (100%)
- TNB RESEARCH SDN. BHD. (100%)
- UNIVERSITI TENAGA NASIONAL SDN. BHD. (100%)
- TNB CAPITAL (L) LTD. (100%)
- TNB VENTURES SDN. BHD. (100%)
- SABAH ELECTRICITY SDN. BHD. (80%)
- MALAYSIA TRANSFORMER MANUFACTURING SDN. BHD. (73%)
- TNB COAL INTERNATIONAL LIMITED (70%)
- TENAGA SWITCHGEAR SDN. BHD. (60%)
- KAPAR ENERGY VENTURES SDN. BHD. (60%)
- FIBRECOMM NETWORK (M) SDN. BHD. (59%)

**LEGEND:**

- SUBSIDIARY
- SUB-SUBSIDIARY
- SUBSIDIARY OF SUB-SUBSIDIARY
- ASSOCIATE COMPANY OF SUBSIDIARY
- ASSOCIATE COMPANY
- INVESTMENT COMPANY
- TRUST FOUNDATION

Note:-
 (*) Pursuant to the Share Sale Agreement, 40% of the interest in Sepang Power Sdn. Bhd. (SPSB) will be disposed to Mastika Legenda Sdn. Bhd. Accordingly, SPSB has been treated as an Associate Company on the basis of TNB's 30% equity interest in the Company.

organisationalstructure



financialcalendar

FINANCIAL CALENDAR FROM 1 SEPTEMBER 2003 TO 31 AUGUST 2004

RESULTS

First Quarter ended 30 November 2003	Announced on	27 January 2004
Second Quarter ended 29 February 2004	Announced on	27 April 2004
Third Quarter ended 31 May 2004	Announced on	27 July 2004
Fourth Quarter ended 31 August 2004	Announced on	27 October 2004

DIVIDEND

Interim	Announced on	27 April 2004
	Entitlement Date	15 June 2004
	Paid On	7 July 2004
Final & Special	Announced on	27 October 2004
	Entitlement Date	28 December 2004
	Payable On	24 January 2005

DISTRIEUTION OF ANNUAL REPORT	1 December 2004
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FOURTEENTH ANNUAL GENERAL MEETING	23 December 2004
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CLOSURE OF SHARE REGISTER	29 December 2004
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corporateinformation

BOARD OF DIRECTORS

Datuk Amar Leo Moggie

(Non-Independent Non-Executive Chairman)
(Appointed w.e.f. 12.4.2004)

Dato' Che Khalib bin Mohamad Noh

(President/Chief Executive Officer)
(Non-Independent Executive Director)
(Appointed w.e.f. 1.7.2004)

Dato' Lau Yin Pin @ Lau Yen Beng

(Senior Independent Non-Executive Director)

Tan Sri Dato' Hari Narayanan a/l Govindasamy

(Independent Non-Executive Director)

Dato' Zainal Abidin bin Putih

(Independent Non-Executive Director)

Dato' Azman bin Mokhtar

(Non-Independent Non-Executive Director)
(Appointed w.e.f. 15.6.2004)

Datuk Mohd Zaid bin Ibrahim

(Non-Independent Non-Executive Director)
(Appointed w.e.f. 15.6.2004)

Dato' Abdul Rahim bin Mokti

(Non-Independent Non-Executive Director)
(Appointed w.e.f. 4.11.2004)

Puan Zalekha binti Hassan

(Non-Independent Non-Executive Director)
(Alternate Director to Dato' Abdul Rahim bin Mokti)
(Appointed w.e.f. 4.11.2004)

Datin Husniarti binti Tamin

(Non-Independent Non-Executive Director)
(Resigned w.e.f. 31.10.2004)

Dato' Kamariah binti Hussain

(Non-Independent Non-Executive Director)
(Alternate Director to Datin Husniarti binti Tamin)
(Resigned w.e.f. 31.10.2004)

Dato' Pian bin Sukro

(President/Chief Executive Officer)
(Non-Independent Executive Director)
(Resigned w.e.f. 1.7.2004)

Datuk Zainun Aishah binti Ahmad

(Independent Non-Executive Director)
(Resigned w.e.f. 7.6.2004)

Datuk Dr. Halim bin Shafie

(Non-Independent Non-Executive Director)
(Resigned w.e.f. 7.6.2004)

Dato' Syed Hamzah bin Syed Othman

(Non-Independent Non-Executive Director)
(Alternate Director to Datuk Dr. Halim bin Shafie)
(Resigned w.e.f. 7.6.2004)

Raja Dato' Zaharaton binti Raja Zainal Abidin

(Non-Independent Non-Executive Director)
(Resigned as Alternate Director to Datuk Iskandar Dzakurnain bin Badarudin w.e.f. 21.12.2003)
(Appointed and resigned as Non-Independent Non-Executive Director w.e.f. 8.3.2004 and 7.6.2004 respectively)

Dato' Dr. Awang Adek bin Hussin

(Non-Independent Non-Executive Chairman)
(Resigned w.e.f. 31.3.2004)

Dato' Shaziman bin Abu Mansor

(Independent Non-Executive Director)
(Resigned w.e.f. 31.3.2004)

Datin Paduka Hajjah Seripah Noli binti Syed Hussin

(Independent Non-Executive Director)
(Resigned w.e.f. 31.3.2004)

Ng Lip Yong @ Ng Lip Sat

(Independent Non-Executive Director)
(Resigned w.e.f. 31.3.2004)

Datuk Iskandar Dzakurnain bin Badarudin

(Non-Independent Non-Executive Director)
(Resigned w.e.f. 21.12.2003)

BOARD AUDIT COMMITTEE**Dato' Lau Yin Pin @ Lau Yen Beng****Tan Sri Dato' Hari Narayanan a/l Govindasamy****Dato' Zainal Abidin bin Putih****Dato' Che Khalib bin Mohamad Noh****BOARD NOMINATION & REMUNERATION COMMITTEE****Datuk Amar Leo Moggie****Tan Sri Dato' Hari Narayanan a/l Govindasamy****Dato' Azman bin Mokhtar****COMPANY SECRETARIES****Zainal Abidin bin Yunus** (LS 0008338)**Nor Zakiah binti Abdul Ghani**

(LS 0008795)

(Appointed w.e.f. 14.4.2004)

SHARE REGISTRAR**Bina Management (M) Sdn Bhd**

Lot 10, The Highway Centre

Jalan 51/205, 46050 Petaling Jaya

Selangor Darul Ehsan, Malaysia

Telephone : 603-7784 3922

Facsimile : 603-7784 1988

PRINCIPAL BANKERS**Malayan Banking Berhad**

Level 1, Tower A, Dataran Maybank

No. 1, Jalan Maarof

59000 Kuala Lumpur, Malaysia

Bumiputra-Commerce Bank Berhad

Ground & 1st Floor

No. 21 & 23, Lorong Ara Kiri 1

Lucky Garden, Bangsar

59100 Kuala Lumpur, Malaysia

Bank Islam Malaysia Berhad

Tingkat Bawah, No. CS/3B/G

Block 3B, Plaza Sentral

KL Sentral

50734 Kuala Lumpur, Malaysia

AUDITORS**Messrs PricewaterhouseCoopers**

11th Floor, Wisma Sime Darby

Jalan Raja Laut

50350 Kuala Lumpur, Malaysia

REGISTERED OFFICE & HEADQUARTERS**Tenaga Nasional Berhad**

129, Jalan Bangsar

59200 Kuala Lumpur, Malaysia

Telephone : 603-2296 5566

Facsimile : 603-2283 3686

Website : www.tnb.com.my

E-mail : CoSec@tnb.com.my

RATINGS

Baa2 (Moody's)

BBB (Standard & Poor's)

AA1 (Rating Agency Malaysia Berhad)

AA+ (Malaysian Rating Corporation Berhad)

STOCK EXCHANGE LISTING**Main Board**

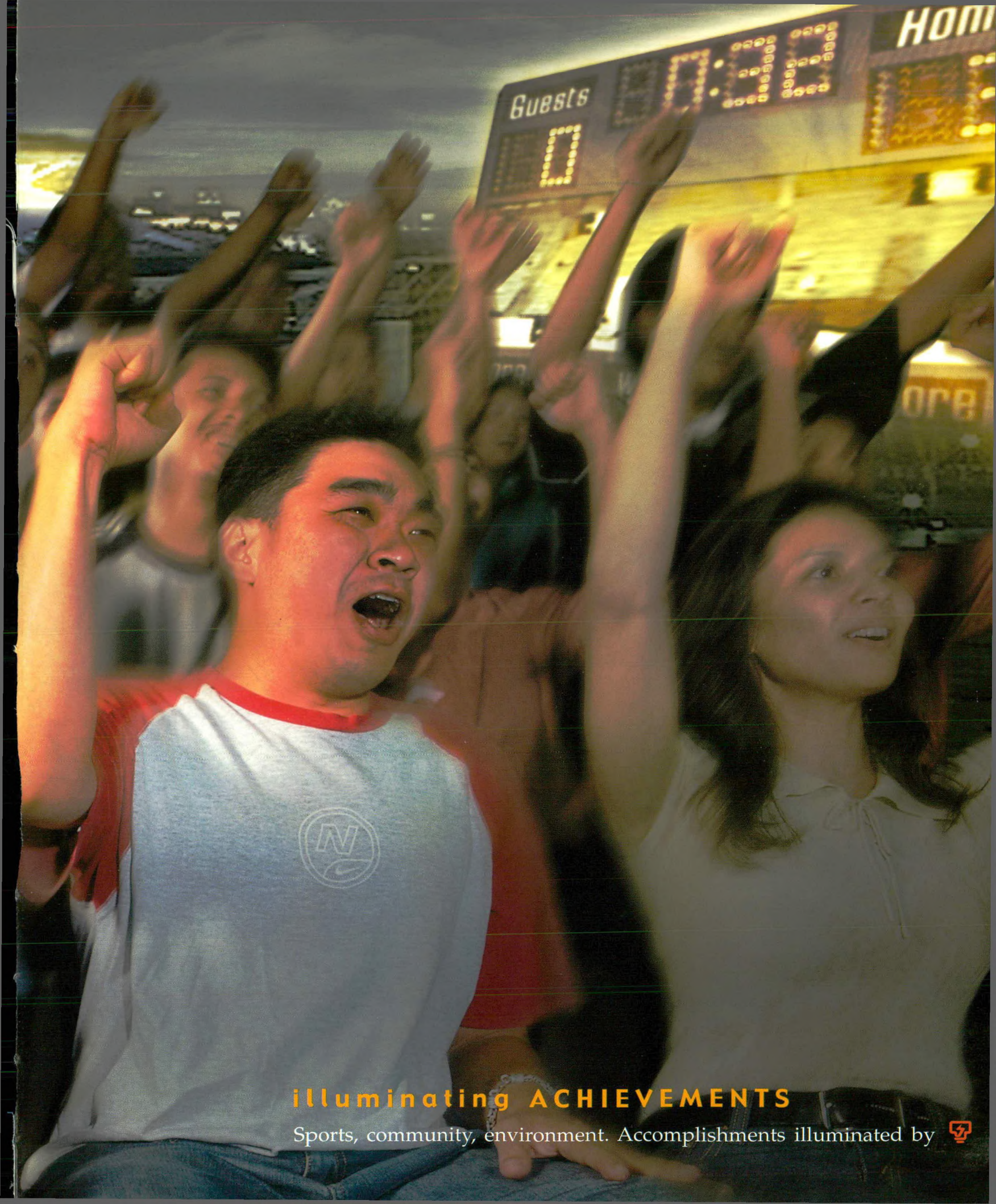
Bursa Malaysia Securities Berhad

Malaysia

AMERICAN DEPOSITORY RECEIPTS PROGRAMME (ADR)

ADR Level 1





illuminating ACHIEVEMENTS

Sports, community, environment. Accomplishments illuminated by 

PROFILE OF board of directors



DATUK AMAR LEO MOGGIE

Chairman

Non-Independent Non-Executive Director

Datuk Amar Leo Moggie, 63 years of age and a Malaysian, was appointed as Non-Independent Non-Executive Director of TNB on 12 April 2004. He is currently Chairman of both the Board Finance & Investment Committee and the Board Nomination & Remuneration Committee.

Datuk Amar Leo Moggie holds a Master of Arts in History from University of Otago, New Zealand and a Masters in Business Administration from Pennsylvania State University, USA.

He held several senior ministerial posts at both the federal and state levels prior to his appointment as Chairman of TNB. Datuk Amar Leo Moggie was formerly Minister of Energy, Communications and Multimedia (1998-2004), Minister of Energy, Telecommunications and Posts (1995-1998), Minister of Works (1989-1995) and Minister of Energy, Telecommunications and Posts (1978-1989) in the Federal Cabinet and Minister of Local Government (1977-1978) and Minister of Welfare Services (1976-1977) in the State Government of Sarawak.

He began his career as a Civil Servant and held various positions in the Sarawak State Civil Service from 1966 to 1974. He was a member of the Sarawak Legislative Assembly from 1974-1978.

Datuk Amar Leo Moggie attended all the 9 Board Meetings held since his appointment.

DATO' CHE KHALIB BIN MOHAMAD NOH

President/Chief Executive Officer

Non-Independent Executive Director

Dato' Che Khalib bin Mohamad Noh, 39 years of age and a Malaysian, was appointed as a Non-Independent Executive Director of TNB on 1 July 2004. He sits on the Board of Finance & Investment Committee, Board Tender Committee, Board Audit Committee and Board Disciplinary Committee.

He is a Fellow of the Association of Chartered Certified Accountants and a member of the Malaysian Institute of Accountants.

Dato' Che Khalib has held several key positions in the private sector. He started his career with Messrs Ernst & Young and later joined Bumiputra Merchant Bankers Berhad. Between 1992 and 1999, he served in several companies within the Renong Group, including Projek Lebuhraya Utara-Selatan, Renong Overseas Corporation Sdn Bhd and Marak Unggul Sdn Bhd, the consortium company responsible for the management of Keretapi Tanah Melayu Berhad. In June 1999, he joined Ranhill Utilities Berhad as the Chief Executive Officer. He was the Managing Director and Chief Executive of KUB Malaysia Berhad (KUB) prior to his appointment as President/Chief Executive Officer of TNB.

He also sits on the Board of Bank Industri & Teknologi Malaysia Berhad.

He attended all the 4 Board Meetings held since his appointment.



DATIN HUSNIARTI BINTI TAMIN

Non-Independent Non-Executive Director

Resigned w.e.f. 31 October 2004

Datin Husniarti binti Tamin, 56 years of age and a Malaysian. She was appointed as Non-Independent Non-Executive Director to the Board of TNB on 4 August 2000. She was Chairman of Board Tender Committee and a member of Board Finance & Investment Committee, Board Nomination & Remuneration Committee and Board Disciplinary Committee.

She holds an Honours Degree in Economics (Applied Economics) from University of Malaya, Malaysia and a Masters in Business Administration from University of Oregon, USA.

She has held several key positions in the civil service, among others Director of Energy Section, Economic Planning Unit; Deputy Secretary General (Energy), Ministry of Energy, Communication & Multimedia and Deputy Secretary General (Systems and Controls), Ministry of Finance.

She attended all 19 Board Meetings held in the Financial Year.





DATO' ABDUL RAHIM BIN MOKTI
Non-Independent Non-Executive Director

Dato' Abdul Rahim bin Mokti, 54 years of age and a Malaysian. He was appointed as a Non-Independent Non-Executive Director to the Board of TNB on 4 November 2004. He is Chairman of Board Tender Committee and a member of Board Finance & Investment Committee, Board Nomination & Remuneration Committee and Board Disciplinary Committee.

He holds a Bachelor of Economics (Statistics) from University of Malaya, Malaysia.

He joined the Civil Service as an Assistant Secretary (Finance Division) of the Treasury, and later became an Assistant Director of the International Trade Division, Ministry of Trade and Industry in 1976. He also served as Malaysian Trade Commissioner in Paris, Milan and Jeddah. In 1986, he was promoted to Principal Assistant Secretary of the Finance Division before being appointed as Deputy Under Secretary of the Finance Division in 1998. In September 2000, he assumed the position of Under Secretary, MoF Coordination, Privatisation and Public Enterprise Division. He is currently the Deputy Secretary General (Systems & Controls), Ministry of Finance.

His directorship in other public companies are Padiberas Nasional Berhad, Bintulu Port Holdings Berhad, Syarikat Prasarana Negara Berhad and Penerbangan Malaysia Berhad.

He has not attended any Board Meeting during the Financial Year ended 31 August 2004 as his appointment took effect after the Financial Year close.



DATO' AZMAN BIN MOKHTAR

Non-Independent Non-Executive Director

Dato' Azman bin Mokhtar, 43 years of age and a Malaysian, was appointed as Non-Independent Non-Executive Director to the Board of TNB on 15 June 2004. He sits on the Board Finance & Investment Committee and Board Nomination & Remuneration Committee.

Currently he is the Managing Director of Khazanah Nasional Berhad. His previous appointments include as Managing Director of Bina Fikir Sdn Bhd; Director and Head of Research at Solomon Smith Barney and Union Bank of Switzerland and Finance Manager, Lembaga Elektrik Negara/Tenaga Nasional Berhad.

He holds a Masters of Philosophy in Development Studies from Darwin College, Cambridge University, UK and a Diploma in Islamic Studies from International Islamic University, Malaysia.

He is also a Fellow of the Association of Chartered Certified Accountants (ACCA) and a Chartered Financial Analyst (CFA).

He sits on the boards of Telekom Malaysia Berhad, United Engineers (Malaysia) Berhad and UEM World Berhad.

He attended 4 out of 5 Board Meetings held since his appointment.

DATO' LAU YIN PIN @ LAU YEN BENG

Senior Independent Non-Executive Director

Dato' Lau Yin Pin @ Lau Yen Beng, 55 years of age and a Malaysian, is the Senior Independent Non-Executive Director of TNB. He chairs the Board Audit Committee and sits on the Board Tender Committee.

He is a Chartered Accountant of the Malaysian Institute of Accountants (MIA) since 1979, a Fellow Member of the Chartered Association of Certified Accountants (ACCA), UK since 1981 and also a graduate of the Institute of Chartered Secretaries and Administrators (ICSA), UK. He obtained his Diploma in Commerce (with Distinction), from the then Kolej Tunku Abdul Rahman.

He sits on the Board of YTL Power International Berhad.

He attended 16 out of 19 Board Meetings held in the Financial Year.



TAN SRI DATO' HARI NARAYANAN A/L GOVINDASAMY
Independent Non-Executive Director

Tan Sri Dato' Hari Narayanan, 54 years of age and a Malaysian, is an Independent Non-Executive Director of TNB. He is a member of the Board Audit Committee and Board Nomination & Remuneration Committee.

Tan Sri Dato' Hari Narayanan, a Businessman is also a Director of SP Setia Berhad and Puncak Niaga Holdings Berhad.

He holds a Bachelor of Electrical and Electronics Engineering from University of Northumbria, England.

He has extensive experience in electrical and electronics engineering and has held various positions such as Electrical Engineer, Inchcap Berhad; Project Manager of Tamco Cutler-Hammer Sdn Bhd; Chairman of Noblemax Resources Sdn Bhd and Deputy Chairman of Emrail Sdn Bhd.

He has attended 14 out of 19 Board Meetings held in the Financial Year.



**DATO' ZAINAL ABIDIN BIN PUTIH**

Independent Non-Executive Director

Dato' Zainal Abidin bin Putih, 58 years of age and a Malaysian, was appointed as Independent Non-Executive Director of TNB on 1 May 2003. He sits on the Board Finance & Investment Committee as well as the Board Audit Committee.

He is presently an Advisor to Ernst & Young Malaysia and Chairman of the Malaysian Accounting Standard Board (MASB).

He qualified as a Chartered Accountant from the England and Wales Institute. He has extensive experience in Public Accounting Practice and has held various positions such as Partner, Executive Director, Country Managing Partner and Chairman in the firm of Hanafiah Raslan & Mohamad, which merged with Ernst & Young in 2002.

He was also the past Chairman of Mentakab Rubber Company Berhad, a Past President of Malaysian Institute of Certified Public Accountant (MICPA), a past member of Multimedia & Communication Commission of Malaysia and a Trustee of IJN Foundation.

His directorship in other public companies are Commerce International Merchant Banker Berhad, CIMB Berhad, ESSO Malaysia Berhad and also the Chairman of Pengurusan Danaharta Nasional Berhad.

He attended 16 out of 19 Board Meetings held during the Financial Year.



DATUK MOHD ZAID BIN IBRAHIM
Non-Independent Non-Executive Director

Datuk Mohd Zaid bin Ibrahim, 53 years of age and a Malaysian, was appointed as a Non-Independent Non-Executive Director to the Board of TNB on 15 June 2004. He is Chairman of the Board Disciplinary Committee.

Datuk Mohd Zaid has extensive experience in advising on a broad spectrum of legal matters encompassing corporate, administrative, constitutional, construction, financing and commercial law. He has served as an advocate and solicitor of the High Court of Malaysia and as a Notary Public. Currently Datuk Mohd Zaid is Chairman of Zaid Ibrahim & Co.

He qualified as a Barrister-at-Law from the Inner Temple, UK and holds a Bachelor of Laws (Honours) from University of London, UK.

He attended 3 out of 5 Board Meetings held since his appointment.

DATO' KAMARIAH BINTI HUSSAIN

Non-Independent Non-Executive Director
(Alternate Director to Datin Husniarti binti Tamin)
Resigned w.e.f. 31 October 2004

Dato' Kamariah binti Hussain, 56 years of age and a Malaysian, was appointed as Alternate Director to Datin Husniarti binti Tamin on 4 August 2000. She sat on the Board Finance & Investment Committee, Board Nomination & Remuneration Committee and Board Disciplinary Committee.

She has spent most of her civil service career at the Ministry of Finance holding various positions such as Assistant Secretary, Principal Assistant Secretary and Deputy Secretary of the Ministry. Currently she is the Tax Advisor, Tax Analysis Division, Treasury, Ministry of Finance.

She holds an Honours Degree in Economics from University of Malaya, Malaysia and a Masters in Public Administration from Pennsylvania State University, USA.





ZALEKHA BINTI HASSAN

Non-Independent Non-Executive Director
(Alternate Director to Dato' Abdul Rahim bin Mokti)

Zalekha binti Hassan, 51 years of age and a Malaysian. She was appointed as Alternate Director to Dato' Abdul Rahim bin Mokti on 4 November 2004. She sits on the Board Finance & Investment Committee, Board Nomination & Remuneration Committee and Board Disciplinary Committee.

She holds a Bachelor of Arts (Honours) from University of Malaya, Malaysia.

She has held various key positions in the civil service among others, Deputy Secretary, Government Procurement, Management Division of the Ministry of Finance; Senior Assistant Director, Budget Division of the Ministry of Finance; Secretary, Ministry of National Unity and the Community Development; Principal Assistant Secretary, Ministry of Welfare; Principal Assistant Director, Public Services Department; and Assistant Secretary, Ministry of Health. She is currently the Secretary, Government Procurement Management Division, Ministry of Finance.

She has not attended any Board Meeting during the Financial Year ended 31 August 2004 as her appointment took effect after the Financial Year close.

**ZAINAL ABIDIN BIN YUNUS**

Company Secretary

Zainal Abidin bin Yunus, 55 years of age and a Malaysian, began his career as an Assistant Secretary with Lembaga Letrik Negara in September 1973. He served in the Secretary Department until August 1991, after which he was transferred to Corporate Services Division of TNB to take up the post as Senior Manager (Procurement). Later, in January 1995 he was appointed as Assistant General Manager (Procurement Services). In August 2001, he was transferred to the Company Secretary's Office to take up the post of Deputy Secretary and was subsequently appointed as Company Secretary in April 2002.

He holds a Bachelor of Arts Degree (Honours) from University Malaya, Malaysia.

NOR ZAKIAH BINTI ABDUL GHANI

Joint Company Secretary

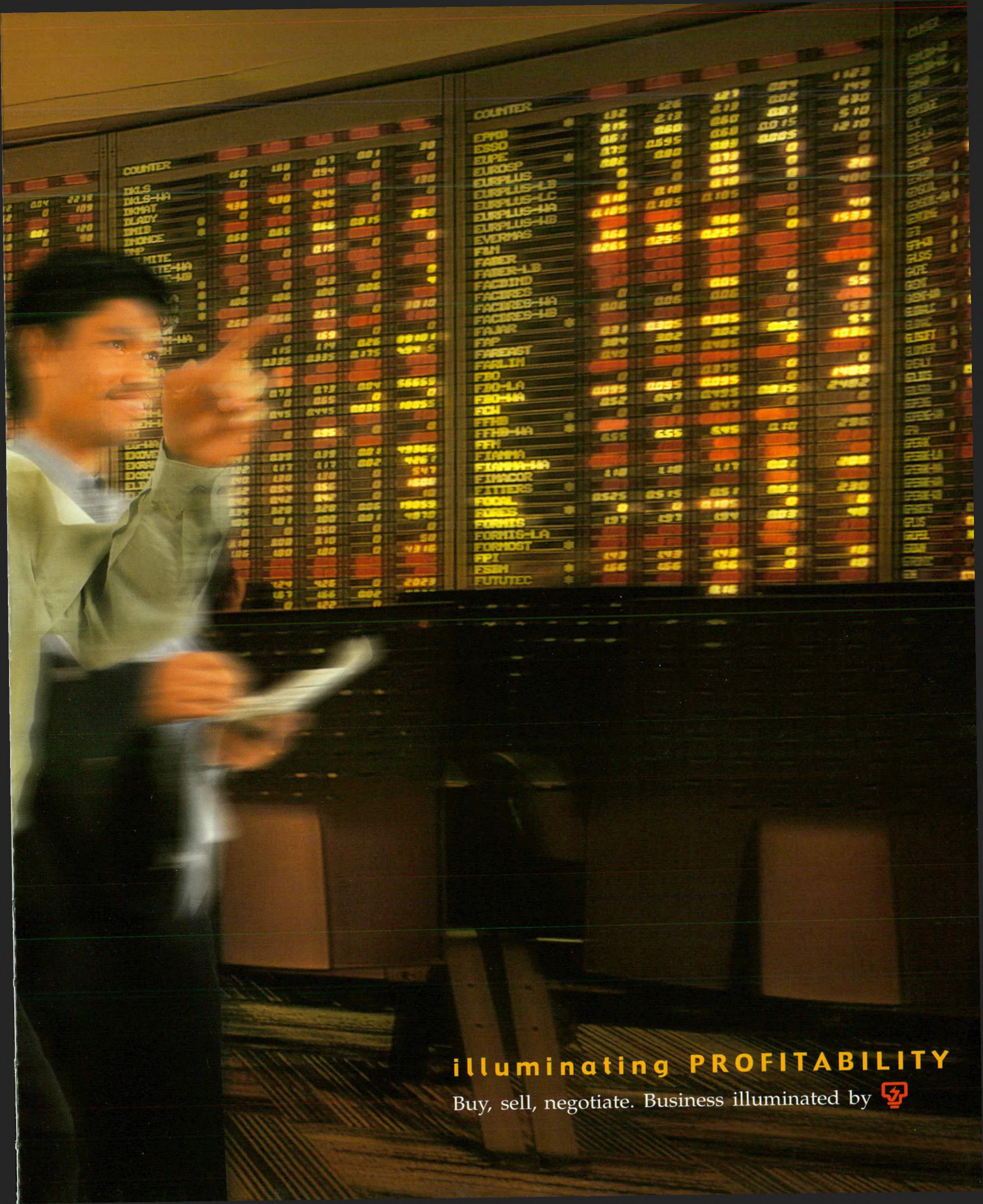
Nor Zakiah binti Abdul Ghani, 43 years of age and a Malaysian, is currently the Joint Company Secretary of TNB being appointed to this post in April 2004 and assuming the post of Deputy Company Secretary.

She holds a Bachelor of Law Degree from University Technology Mara (UiTM), Malaysia. She was admitted and enrolled as an Advocate and Solicitor of the High Court of Malaya in 1990.

Her previous appointments have been General Manager (Legal and Commercial) in TNB Generation Sdn Bhd, Senior Manager (Contract Management) in the Procurement Department and Executive Legal Assistant in the Company Secretary's Department, Lembaga Letrik Negara.







COUNTER	150	150	151	151	151
DKS	0	0	0	0	0
DKS-1A	0	0	0	0	0
DKS-1B	0	0	0	0	0
DKS-1C	0	0	0	0	0
DKS-1D	0	0	0	0	0
DKS-1E	0	0	0	0	0
DKS-1F	0	0	0	0	0
DKS-1G	0	0	0	0	0
DKS-1H	0	0	0	0	0
DKS-1I	0	0	0	0	0
DKS-1J	0	0	0	0	0
DKS-1K	0	0	0	0	0
DKS-1L	0	0	0	0	0
DKS-1M	0	0	0	0	0
DKS-1N	0	0	0	0	0
DKS-1O	0	0	0	0	0
DKS-1P	0	0	0	0	0
DKS-1Q	0	0	0	0	0
DKS-1R	0	0	0	0	0
DKS-1S	0	0	0	0	0
DKS-1T	0	0	0	0	0
DKS-1U	0	0	0	0	0
DKS-1V	0	0	0	0	0
DKS-1W	0	0	0	0	0
DKS-1X	0	0	0	0	0
DKS-1Y	0	0	0	0	0
DKS-1Z	0	0	0	0	0

COUNTER	152	152	153	153	153
EPMB	0	0	0	0	0
ESSO	0	0	0	0	0
EUPE	0	0	0	0	0
EUROSP	0	0	0	0	0
EURPLUS	0	0	0	0	0
EURPLUS-LB	0	0	0	0	0
EURPLUS-LC	0	0	0	0	0
EURPLUS-1A	0	0	0	0	0
EURPLUS-1B	0	0	0	0	0
EVERMS	0	0	0	0	0
FBN	0	0	0	0	0
FABER	0	0	0	0	0
FABER-LB	0	0	0	0	0
FACIND	0	0	0	0	0
FACINDS	0	0	0	0	0
FACINDS-1A	0	0	0	0	0
FACINDS-1B	0	0	0	0	0
FAMAR	0	0	0	0	0
FAP	0	0	0	0	0
FAREAST	0	0	0	0	0
FARLIN	0	0	0	0	0
FBO	0	0	0	0	0
FBO-1A	0	0	0	0	0
FBO-1B	0	0	0	0	0
FBN	0	0	0	0	0
FFHB	0	0	0	0	0
FFHB-1A	0	0	0	0	0
FFH	0	0	0	0	0
FIAMPA	0	0	0	0	0
FIAMPA-1A	0	0	0	0	0
FIAMCOR	0	0	0	0	0
FITTERS	0	0	0	0	0
FOOL	0	0	0	0	0
FORES	0	0	0	0	0
FORNIS	0	0	0	0	0
FORNIS-1A	0	0	0	0	0
FORMOST	0	0	0	0	0
FPI	0	0	0	0	0
ESBH	0	0	0	0	0
FUTUTEC	0	0	0	0	0

COUNTER	154	154	155	155	155
SKOP-1	0	0	0	0	0
SKOP-1A	0	0	0	0	0
SKOP-1B	0	0	0	0	0
SKOP-1C	0	0	0	0	0
SKOP-1D	0	0	0	0	0
SKOP-1E	0	0	0	0	0
SKOP-1F	0	0	0	0	0
SKOP-1G	0	0	0	0	0
SKOP-1H	0	0	0	0	0
SKOP-1I	0	0	0	0	0
SKOP-1J	0	0	0	0	0
SKOP-1K	0	0	0	0	0
SKOP-1L	0	0	0	0	0
SKOP-1M	0	0	0	0	0
SKOP-1N	0	0	0	0	0
SKOP-1O	0	0	0	0	0
SKOP-1P	0	0	0	0	0
SKOP-1Q	0	0	0	0	0
SKOP-1R	0	0	0	0	0
SKOP-1S	0	0	0	0	0
SKOP-1T	0	0	0	0	0
SKOP-1U	0	0	0	0	0
SKOP-1V	0	0	0	0	0
SKOP-1W	0	0	0	0	0
SKOP-1X	0	0	0	0	0
SKOP-1Y	0	0	0	0	0
SKOP-1Z	0	0	0	0	0

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REPORT OF THE boardauditcommittee

The Board Audit Committee (BAC) of Tenaga Nasional Berhad (TNB) is pleased to present its report for the year ended 31 August 2004.

The BAC was established by the Board of Directors on 9 December 1990 to assist the Board of Directors in fulfilling its responsibilities in respect of:-

- Overseeing the Group's financial reporting process, including internal control structure and procedures for financial reporting and monitoring the integrity and appropriateness of the Group's financial statements
- The manner in which the Group's management ensures and monitors the adequacy of internal control systems to enhance risk management processes designed to manage significant risk exposure
- Selection and compensation of Group External Auditor
- Independence and performance of Group Internal Audit and External Auditor

MEMBERSHIP

The BAC currently comprises of four (4) directors as follows:

1. **Dato' Lau Yin Pin @ Lau Yen Beng** – Chairman
Senior (Independent Non-Executive Director)
 2. **Tan Sri Dato' Hari Narayanan a/l Govindasamy**
(Independent Non-Executive Director)
 3. **Dato' Zainal Abidin bin Putih** (appointed w.e.f. 28.10.2003)
(Independent Non-Executive Director)
 4. **Dato' Che Khalib bin Mohamad Noh** (appointed w.e.f. 15.7.2004) – President/CEO
Non-Independent Executive Director
- YB Ng Lip Yong @ Ng Lip Sat** (resigned w.e.f. 31.3.2004)
(Independent Non-Executive Director)
- Datin Paduka Hajjah Seripah Noli binti Syed Hussin** (resigned w.e.f. 31.3.2004)
(Independent Non-Executive Director)

The BAC is governed by its Terms of Reference as stipulated in pages 51 to 55. Dato' Lau Yin Pin @ Lau Yen Beng and Dato' Zainal Abidin bin Putih, both Independent Non-Executive Directors, are also members of the Malaysian Institute of Accountants.



■ **Dato' Lau Yin Pin @ Lau Yen Beng**
Chairman – Senior Independent Non-Executive Director



from left to right

- **Tan Sri Dato' Hari Narayanan a/l Govindasamy**
Independent Non-Executive Director
- **Dato' Zainal Abidin bin Putih**
Independent Non-Executive Director
- **Dato' Che Khalib bin Mohamad Noh**
Non-Independent Executive Director

MEETINGS

During the financial year under review, the committee met fourteen (14) times. The attendance of each committee member is as follows:-

Name of Director	Attendance
Dato' Lau Yien Fin @ Lau Yien Beng (Chairman)	14/14
Tan Sri Dato' Hari Narayanan a/l Govindasamy	12/14
Dato' Zainal Abidin bin Putih (appointed w.e.f. 29.10.2003)	9/11
Dato' Che Khalib bin Mohamad Noh (appointed w.e.f. 15.7.2004)	4/4
Datin Paduka Hajjah Seripah Noli binti Syed Hussin (resigned w.e.f. 31.3.2004)	4/7
YE Ng Lip Yong @ Ng Lip Sat (resigned w.e.f. 31.3.2004)	7/7

In addition to Group Internal Audit, officers of the company, and the Group External Auditor were also invited to attend BAC meetings to brief or provide input during deliberations on the issues raised in Audit reports.

To ensure that prompt attention is given by local management to take corrective action, BAC meetings were also held at regional offices to provide Committee Members the opportunity to meet management and understand local issues and concerns. This is to demonstrate to local management the importance placed by the Board on issues and concerns raised by the audit.

SUMMARY OF ACTIVITIES OF BOARD AUDIT COMMITTEE

In summary, the activities of the Board Audit Committee during the financial year 2003/04 were as follows:-

Risk Management

- Review adequacy, effectiveness and integrity of risk management, internal control and corporate governance systems.

Internal Audit

- Approve the audit plan, scope and budget for the Group Internal Audit.
- Assess the performance of Group Internal Audit.

External Audit

- Make recommendations to the Board of Directors on the appointment and remuneration of the Group External Auditor.
- Approve the External Audit plan and scope for the financial year
- Assess the performance of Group External Auditor.

Audit Reports

- Deliberate on Internal Audit and External Audit reports on the effectiveness of the Group's financial and operational systems, and monitor implementation of corrective actions by management.

Financial Reporting

- Deliberate on Quarterly Financial Announcements and Annual Financial Statements to Bursa Malaysia and recommend for approval by the Board of Directors.

Related Party Transactions

- Ensure disclosure of all related party transactions that may arise within TNB and its subsidiary companies.

GROUP INTERNAL AUDIT

TNB has an established Group Internal Audit (GIA) department that reports directly to and assists the BAC in monitoring the integrity of the Group's internal controls and mitigating risk exposures. The key objectives of GIA, as approved by the BAC, are to:-

- Assess the design and operating effectiveness of the systems of internal control governing key business processes throughout the Group
- Assess the effectiveness of risk management practices in the Group
- Assess utilisation of resources in ensuring effectiveness, efficiency and economy of Group's business processes
- Assist the Board in meeting its corporate governance and regulatory responsibilities

To fulfill these objectives, GIA has formulated a two-year rolling Internal Audit Plan that focuses on areas that have significant and material impact on the Group.

During the Financial Year under review, GIA conducted 63 audits including 4 non-core subsidiary audits that were outsourced to professional audit firms, covering the following:-

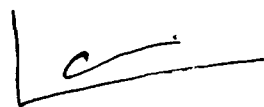
Functions	Areas of Focus
Core Business Functions (covering Generation, Transmission and Distribution of electricity throughout Peninsular Malaysia)	<ul style="list-style-type: none"> • Operational efficiency and plant reliability • System reliability • Metering, billing and revenue collection • Implementation of major projects • Human Resources Management • Materials Management • Financial Management • Safety and environmental management

Functions	Areas of Focus
Corporate Functions	<ul style="list-style-type: none"> • Corporate Planning, Development and Services • Compensation and Benefits • Procurement and award of contracts • Property Maintenance Management • IT System (Customer Information and Billing System)
Non-Core Subsidiaries	<ul style="list-style-type: none"> • Financial, management and operations

The resulting reports from the audits undertaken are forwarded to management for their comments and proposed remedial actions before tabling to the EAC.

To ensure that GIA keeps abreast with internal audit best practices, emphasis is placed on formal staff development and on-the-job training including co-sourcing arrangements with a firm of qualified accountants.

In addition, with Enterprise-Wide Risk Management System in place for the Group, GIA is able to efficiently allocate resources towards enhancing effectiveness of risk management, governance and internal control systems.



Dato' Lau Yin Pin @ Lau Yen Beng
Chairman
Board Audit Committee
Tenaga Nasional Berhad
(Senior Independent Non-Executive Director)

terms of reference

OF THE BOARD AUDIT COMMITTEE

1. CONSTITUTION

- 1.1 The Board of Directors of Tenaga Nasional Berhad (TNB), in accordance with Article 146 of the Memorandum and Articles of Association of TNB, has established a Committee of the Board, known as the Board Audit Committee (BAC), vide Minute No. 39/90 on 9 October 1990.
- 1.2 The function and authority of the BAC extends to TNB and all its subsidiaries, joint ventures and associates where management responsibility is vested to TNB or subsidiaries of TNB (Collectively referred to as the "Group").

2. COMPOSITION OF THE COMMITTEE

- 2.1 The members of the BAC shall be appointed by the Board of Directors of TNB and shall consist of not less than three (3) members. The majority of whom shall be independent in accordance with the definition in Bursa Malaysia Listing Requirements.
- 2.2 Where the members for any reason are reduced to less than three (3), that Board shall within one (1) month of the event, appoint such number of new members as may be required to make up the minimum number of three (3) members.
- 2.3 At least one (1) member of the Committee must meet the criteria set by the Bursa Malaysia Listing Requirements, i.e.:
 - i) must be a member of the Malaysian Institute of Accountants or
 - ii) if he/she is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience, and:-
 - a) he/she must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act 1967; or
 - b) he/she must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

- 2.4 The Board shall elect a Chairman from the Committee who shall be an independent director as set out in the Bursa Malaysia Listing Requirements.
- 2.5 All members shall hold office only for as long as they serve as directors of TNB.
- 2.6 No alternate Directors shall be appointed to the BAC.

3. CHAIRMAN OF THE COMMITTEE

- 3.1 The following are the main duties and responsibilities of the Chairman of the Committee:-
 - 3.1.1 to steer the Committee to achieve its objectives;
 - 3.1.2 to provide leadership to the Committee and ensure proper flow of information to the Committee, review adequacy and timing of documentation;
 - 3.1.3 to provide a reasonable time for discussion at the Committee meetings. Organise and present the agenda for Committee meetings based on input from Members and ensure that all relevant issues are on the agenda. In addition, the Chairman should encourage a healthy level of skepticism and independence;
 - 3.1.4 to ensure that consensus is reached on every Committee resolution and where considered necessary, call for a vote and the decision will be made by simple majority. Dissenting opinions should be captured;
 - 3.1.5 to manage the process and working of the Committee and ensure that the Committee discharges its responsibilities;
 - 3.1.6 to ensure that all members participate in the discussion to enable effective decisions to be made; and
 - 3.1.7 the Chairman of the BAC shall be available to answer questions about the Committee's work at the Annual General Meeting of the Company.

4. COMMITTEE MEMBERS

4.1 Each Committee Member is expected to:-

- 4.1.1 provide independent opinions to the fact-finding, analysis and decision making process of the Committee, based on their experience and knowledge;
- 4.1.2 consider viewpoints of the other committee members; and make decisions and recommendations for the best interest of the Group;
- 4.1.3 keep abreast of the latest corporate governance guidelines in relation to the Committee and the Board as a whole; and
- 4.1.4 continuously seek out best practices in terms of the processes utilised by the Committee, following which these should be discussed with the rest of the Committee for possible adoption.

5. OBJECTIVES OF THE COMMITTEE

The objectives of the Committee are:

- 5.1 to ensure transparency, integrity and accountability in the Group's activities so as to safeguard the rights and interests of the shareholders;
- 5.2 to provide assistance to the Board in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices;
- 5.3 to improve the Group's business efficiency, the quality of the accounting and audit function and strengthening public confidence in the Group's reported financial results;
- 5.4 to maintain, through regularly scheduled meetings, a direct line of communication between the Board and the External and Internal Auditors;
- 5.5 to ensure the independence of the external and internal audit functions; and

- 5.6 to create a climate of discipline and control which will reduce the opportunity for fraud.

6. AUTHORITY OF THE COMMITTEE

The Committee is authorised by the Board to:

- 6.1 investigate any activity within its Terms of Reference; or as directed by the Board of Directors;
- 6.2 determine and obtain the resources required to perform its duties, including approving the budget for the external and internal audit functions;
- 6.3 have full and unrestricted access to all employees, the Group's properties and works, to all books, accounts, records and other information of the Group in whatever form;
- 6.4 have direct communication channels with external auditors and person(s) carrying out the internal audit function or activity for the Group;
- 6.5 direct the Internal Audit Function in the Group;
- 6.6 approve the appointment of the Head of Internal Audit;
- 6.7 engage independent advisers and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and
- 6.8 to review the adequacy of the structure and Terms of Reference of the Board Committees, including the BAC.

7. FUNCTIONS OF THE COMMITTEE

The functions and responsibilities are as follows:

- 7.1 Corporate Financial Reporting
 - 7.1.1 To review and recommend acceptance or otherwise of accounting policies, principles and practices.

7.1.2 To review the quarterly results and annual financial statements of the Company and Group before submission to the Board. The review should focus primarily on:

- i. any changes in existing or implementation of new accounting policies;
- ii. major judgement areas, significant and unusual events;
- iii. significant adjustments resulting from audit;
- iv. the going concern assumptions;
- v. compliance with accounting standards; and
- vi. compliance with Bursa Malaysia Listing Requirements and other legal and statutory requirements.

7.1.3 To review with management and the external auditors the results of the audit, including any difficulties encountered.

7.2 Enterprise-Wide Risk Management

7.2.1 To review the adequacy of and to provide independent assurance to the Board of the effectiveness of risk management functions in the TNB Group.

7.2.2 To ensure that the principles and requirements of managing risk are consistently adopted throughout the TNB Group.

7.2.3 To deliberate on the key risk issues highlighted by Group Risk Management Committee in their reports to BAC.

7.3 Internal Control

7.3.1 To assess the quality and effectiveness of the systems of internal control and the efficiency of the Group's operations.

7.3.2 To review the findings on internal control in the Group by internal and external auditors.

7.3.3 To review and approve the Statement on Internal Control for the Annual Report as required under Bursa Malaysia Listing Requirements.

7.4 Internal Audit

7.4.1 To approve the Corporate Audit Charters of internal audit functions in the Group.

7.4.2 To ensure that the internal audit functions have appropriate standing in the Group and have the necessary authority and resources to carry out their work. This includes a review of the organisational structure, resources, budgets and qualifications of the internal audit personnel.

7.4.3 To review internal audit reports and management's response and actions taken in respect of these. Where actions are not taken within an adequate time frame by management, the BAC will report the matter to the Board.

7.4.4 To review the adequacy of internal audit plans and the scope of audits, and ensure that the internal audit functions are carried out without any hindrance.

7.4.5 To appraise the performance of Head of Internal Audit.

7.4.6 To be informed of resignations and transfers of senior internal audit staff and provide resigning/transferred staff an opportunity to express their views.

7.4.7 To direct any special investigation to be carried out by Internal Audit.

7.5 External Audit

- 7.5.1 To nominate the External Auditors together with such other functions as may be agreed to by the Board and recommend for approval of the Board the external audit fee, and consider any questions of resignation or termination.
- 7.5.2 To review external audit reports and management's response and actions taken in respect of these. Where actions are not taken within an adequate timeframe by management, the EAC will report the matter to the Board.
- 7.5.3 To review external audit plans and scope of work.
- 7.5.4 The EAC shall meet the external auditors at least twice a year to discuss problems and reservations arising out of external audits and any matters the auditors may wish to discuss, in the absence of management, Executive Directors or non-independent Directors where necessary.

7.6 Corporate Governance

- 7.6.1 To review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow up (including disciplinary action) of any instances of non-compliance.
- 7.6.2 To review the findings of any examinations by regulatory authorities.
- 7.6.3 To review any related party transaction and conflict of interest situation that may arise within the Group including any transaction, procedure or course of conduct that raises questions of integrity.
- 7.6.4 To review and approve the Statement of Corporate Governance for the Annual Report as required under Bursa Malaysia Listing Requirements.

7.6.5 To review the investor relations programme and shareholder communications policy for the company.

7.6.6 To examine instances and matters that may have compromised the principles of corporate governance and report back to the Board.

7.6.7 To develop and regularly review TNB's Code of Corporate Governance and Business Ethics.

7.6.8 Where the BAC is of the view that a matter reported by it to the Board has not been satisfactorily resolved, resulting in a breach of Bursa Malaysia Listing Requirements, the BAC must promptly report such matters to Bursa Malaysia.

8. COMMITTEE MEETINGS

- 8.1 The Committee shall convene meetings as and when required, and at least six (6) times during the financial year of TNB.
- 8.2 The number of Committee meetings held a year and the details of attendance of each individual member in respect of meetings held should be disclosed in the annual report.
- 8.3 The Chairman of the Committee, or the Secretary on the requisition of any member, the Head of Internal Audit or the External Auditors, shall at any time summon a meeting of the Committee by giving reasonable notice. It shall not be necessary to give notice of a Committee meeting to any member for the time being absent from Malaysia.
- 8.4 No business shall be transacted at any meeting of the Committee unless a quorum is present. The quorum for each meeting shall be three (3) members.

8.5 The Chairman of the Committee shall chair the Committee meetings and in his absence, the members present shall elect one amongst themselves to be the Chairman of the meeting.

8.6 In appropriate circumstances, the Committee may deal with matters by way of circular reports and resolution in lieu of convening a formal meeting.

8.7 Officers of the Group or others as necessary may be invited to attend meetings where the Committee considers their presence necessary.

8.8 All recommendations of the Committee shall be submitted to the Board for approval.

8.9 A Committee member shall excuse himself/herself from the meeting during discussions or deliberations of any matter which gives rise to an actual or perceived conflict of interest situation for the member. Where this causes insufficient Directors to make up a quorum, the Committee has the right to appoint another Director(s), which meets the membership criteria.

8.10 The Committee, through its Chairman, shall report to the Board after each meeting.

8.11 Subject to the provisions of this Terms of Reference and Memorandum and Articles of Association of TNB, the Committee shall establish its own procedures for meetings.

9. SECRETARY OF THE COMMITTEE

9.1 The Secretary of the Committee shall be the Company Secretary.

9.2 The Secretary shall draw up an agenda for each meeting, in consultation with the Chairman of the Committee. The Agenda shall be sent to all members of the Committee and the Head of Internal Audit at least three (3) working days before each meeting together with the relevant papers.

9.3 The Secretary shall promptly prepare the written minutes of the meeting and distribute it to each member. The minutes of the Committee meeting shall be confirmed and signed by the Chairman of the meeting at the next succeeding meeting.

9.4 The minutes of each meeting shall be entered into the minutes book kept at the registered office of the Company under the custody of the Company Secretary. The minutes shall be available for inspection by the members of the Board, external auditors, internal auditors, and other persons deemed appropriate by the Company Secretary.

10. DISCLOSURE

10.1 The Committee shall assist the Board in making disclosures concerning the activities of the Committee, in the Report of the Board Audit Committee, to be issued in the Annual Report.

10.2 The Board requires all Directors to submit a Disclosure of Interest to avoid any conflict between their personal interests and the interests of the Company. In the event of a conflict, either perceived or actual, this Disclosure of Interest shall be submitted to the Chairman of the Committee with a copy to the Company Secretary.

11. REVISION OF THE TERMS OF REFERENCE

11.1 Any revision or amendment to the Terms of Reference, as proposed by the Committee or any third party, shall be presented to the Board for its approval.

11.2 Upon the Board's approval, the said revision or amendment shall form part of this Terms of Reference and this Terms of Reference shall be considered duly revised or amended.

STATEMENT OF internal control

In compliance with Paragraph 15.24 and 15.27(b) of the Listing Requirements of Bursa Malaysia and Statement on Internal Control: Guidance for Directors of Public Listed Companies (Internal Control Guidance), the Board is pleased to provide the following disclosures on the state of internal control in Tenaga Nasional Berhad as a Group.

BOARD RESPONSIBILITY

The Board of Directors (Board) is responsible for the Group's system of internal controls and for regularly reviewing its effectiveness. The principal objective of the system of internal control is to effectively manage business risks to enhance the value of shareholder's investments and safeguard all assets.

In view of the limitations that are inherent in any system of internal control, this system is designed to mitigate, rather than eliminate, the risk of failure in achieving corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

ENTERPRISE WIDE RISK MANAGEMENT FRAMEWORK

The Board acknowledges that the identification and the management of principal risks play an important and integral part in achieving the Group's business objectives and the management of its daily operations.

Enterprise Wide Risk Management (EWRM) Department was established to coordinate the efforts to build a structured risk management framework for TNB divisions and subsidiaries. The structured risk management framework enables the divisions and subsidiaries to identify, analyse and mitigate the business risks within the TNB Group, both at divisional and subsidiary levels.

The TNB EWRM Policy and Guidelines were approved by the TNB Board and launched in March 2004. It defines the objectives, applicability, roles, responsibilities and accountabilities for managing risks in TNB. Each operating division or subsidiary is responsible for the management and half-yearly reporting of risks and controls to the EWRM Department.

The risk reports are reviewed by the Group Risk Management Committee (GRMC) before being presented to the Board Audit Committee (BAC) and the Board for deliberations and endorsement. This process ensures that the risks are adequately mitigated and independently reviewed. The GRMC sat twice in the year under review.

A detailed implementation of the EWRM framework has been carried out throughout TNB from June 2003, whereby a standardised group-wide risk assessment process was used. For the year under review, more than thirty (30) workshops were organised and risk registers and risk profiles for each TNB division and subsidiary were developed. Subsequently, risk mitigation plans were produced to address key risks which include strategic risks at the Group level.

With the EWRM framework in place, the Board is able to ensure that risk management activities are continuously practised throughout the Group and that the principal risks are adequately addressed and mitigated.

CONTROL STRUCTURE

The Board is fully committed to ensuring that a proper control environment is maintained within the Group. The key elements of the Group control structure are listed below.

Board and Management Committees

Specific Board responsibilities have been delegated to committees established with formalised and specific terms of reference, to assist the Board in the execution of its responsibilities.

The following are the committees established:

Board Committees:

- Audit Committee
- Tender Committee
- Disciplinary Committee
- Finance and Investment Committee
- Nomination and Remuneration Committee

Management Committees:

- Group Executive Committee
- Group Management Committee
- Energy Supply Committee
- Tender Committee

These committees have the authority to examine all matters within their scope and terms of reference and report back to the Board on a periodic basis with their recommendations for review or approval by the Board, where appropriate.

Organisational Structure

The Board has put in place a well-defined organisational structure that is directly aligned to the strategic and operational demand of the business. Each operational unit is headed by reliable and responsible personnel who are fully accountable to ensure that the business activities are implemented with full compliance with the Group's objectives, policies and procedures.

Management Systems

Two major management systems were completed and implemented for the year under review:

- **Enterprise Resource Management System (ERMS)**

The objectives of ERMS are:

- to integrate all the Group's business and administration applications and,
- to provide a standard application across the Group with the objectives of improving, among others, project planning and delivery, capital budgeting, materials, financial and asset management, and maintenance planning.

- **Performance Management System (PMS)**

The objectives of PMS are:-

- to cascade down the Group's objectives including its key performance indicators and strategic plans to all its business units and employees;
- to reward annually to employees based on their individual achievement captured in the PMS; and,
- to ensure that employees' competency are enhanced through training and continued education.

- **Enterprise Resource Management System (ERMS)**

The Group has successfully implemented the first phase of Enterprise Human Resource Management System (E-HRMS) in July 2004. The modules implemented under the first phase among others will control the payroll, loans, retirement benefits and time management.

Group Policies and Procedures

Internal policies and procedures are set out in a series of clearly-documented standard practice manuals and circulars covering the financial and operational areas within the Group where delegated authority limits are clearly defined and operational framework provided for the management to deal with significant risks.

The Group has already put in place various policies and procedures, among others:

- Financial Policies and Procedures
- Safety and Health Policy
- Environmental Policy
- Investment Policy
- Procurement Policy
- Disciplinary Policy

For the year under review, the Group has launched the revised Group Procurement Policy and Procedures to provide broad guidelines for the procurement of equipment, materials, works and services through a consistent procurement system across all divisions and wholly-owned subsidiaries of the Group. This is aimed at ensuring effectiveness and efficiency in the system of internal control embedded in the procurement process.

In addition, the Board placed a very high emphasis on integrity and transparency in its business dealings and activities. As such, the Group Disciplinary Policies and Procedures promotes good business ethics which will then ensure that the business is managed to the highest professional standards.

Non-Technical Losses of Electricity

The Group has set up a special team called the Special Engagement Against Losses (SEAL) Team for the purpose of reducing non-technical losses. The SEAL Team's activities include improving metering and billing processes, ensuring metering is accurate, and reducing theft of electricity. In the year under review, the Group successfully reduced distribution losses by about one per cent mainly through the efforts of the SEAL Team.

MONITORING AND REVIEW

Financial and Operational Review

The Board Finance and Investment Committee and the Board Audit Committee together with the respective business units review the quarterly financial statements and performance of the Group in detail before they are tabled to the Board for their review, consideration, and approval.

Monthly performance reports produced by core business divisions are compared against the approved performance budget. In addition, detailed monthly management reports containing key financial results and operational performance indicators are prepared and compared with the approved operating plan. The Group Executive Committee (GEC) monitors the performance of all business units on a regular basis and a consolidated reporting of the Group's performance is carried out by the GEC and submitted to the Board on a periodic basis for deliberation.

The Board, through the Board Audit Committee, regularly reviews reports from internal audit reports on internal control, to help ensure effectiveness, adequacy and integrity of internal control system of the Group.

Business Planning & Budgeting Review

The Group undertakes a detailed business planning and budgeting process each year, to establish plans and targets against which performance is monitored on an ongoing basis. Key business risks identified during the business planning process are reviewed periodically during the year.

The Business Planning & Budgeting Processes are documented in the Group's Business Planning Process Manual. The process comprises five (5) stages:

- Strategy review and update
- Plan development
- Plan challenge and finalisation
- Budget plan development
- Budget plan approval process.

The Board and the senior management play a significant role in the stages of strategy review and update, which include, among others reviewing the plan before its finalisation, and the budget approval process to ensure that the plan developed reflects the corporate intent of the Group and that resource allocation is strategically aligned.

Further, the business plan and the budget undergo a mid-term review to ensure that they correspond to the business needs due to any changes in the business environment.

ASSURANCE

The Group Internal Audit conducts reviews of the system of controls and the effectiveness of the processes that are in place and reports the results of these reviews to the Board Audit Committee. The following are the functions of the two entities:

The Board Audit Committee (BAC)

Majority of the members of BAC are Independent Non-Executive Directors all of whom have diverse qualifications and experience. The Board Audit Committee has full and unimpeded access to both the Internal and External Auditors.

The Board Audit Committee plays an active oversight role in maintaining the system of internal controls at both subsidiary and divisional levels. The Board Audit Committee and the Group Internal Audit Function perform their duties to uphold a constant level of integrity and competency in operational, financial, and business functions and to assure that the applicable laws, regulations, rules, directives and guidelines are complied with.

The BAC regularly reviews the internal audit reports on internal controls, to ensure effectiveness, adequacy and integrity of the internal control system of the Group. With the implementation of the EWRM, the BAC was given the mandate to oversee the risks management review function in their Terms of Reference. This is to ensure the adequacy and effectiveness of the risk management system in the Group, and that appropriate policy, organisation and reporting structure are in place to support the management of risks. Details of the BAC report are on pages 46 to 50.

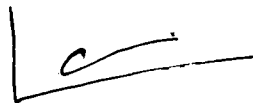
Group Internal Audit (GIA)

The GIA's primary responsibility is to provide independent assurance to BAC on adequacy and effectiveness of internal control systems in place to manage risks across the Group. In providing this assurance, the GIA has formulated a rolling two-year audit plan that focuses on key auditable areas to be covered within a two-year cycle. To ensure that the planned coverage is met, several internal audit engagements have been outsourced to firms of professional accountants. In addition to the operational, compliance and investigative reviews conducted, the GIA assisted in the co-ordination of the Management and Engineering Audit by an independent party as required under the licence requirements once every four years.

CONCLUSION

The Board is of the view that the system of internal controls being instituted throughout the Group is sound and effective. Notwithstanding this, reviews of all control procedures will be continuously carried out to ensure the ongoing effectiveness and adequacy of the systems of internal control, so as to safeguard shareholders' investment and the Group's assets.

Signed on behalf of the Board of Directors in accordance with their resolution dated 4 November 2004.



Dato' Lau Yin Pin @ Lau Yen Beng

Chairman

The Board Audit Committee

Tenaga Nasional Berhad

(Senior Independent Non-Executive Director)

group executive council



Dato' Che Khalib bin Mohamad Noh
President/Chief Executive Officer

Below from left to right

Datuk Abdul Hadi bin Mohd Deros
Deputy President/CEO

Datuk Md. Sidek bin Ahmad
Senior Vice President, Operations

Izzaddin Idris
Chief Financial Officer



Group Executive Committee

This committee is established for the purpose of reviewing the Group's strategies and policies, overall performance of the Group as well as promotions of executives for E16 and below. It is also responsible to coordinate business planning strategies and Group wide policies. The Committee monitors and oversees the activities and performance of other Group Management Committees which covers the appointments of Members of the respective committees.

energy supply committee

Energy Supply Committee

The Committee is in charge of planning across TNB's value chain in areas involving the development of the electricity business. The Committee is also the authority to deliberate and recommend power system development and approving reports on transmission projects. It is also responsible for endorsing reports for approval by Government Agencies on national demand forecast, generation development plan, major transmission development plan and evaluation reports on Request For Proposal (RFP). In addition to advising on generation and transmission expansion plans to Government Agencies, it is also responsible for formulating recommendations to be approved by the Group Executive Council.



Dato' Che Khalib bin Mohamad Noh
President/Chief Executive Officer



from left to right

Abdul Razak bin Abdul Majid
Vice President, Generation

Dato' Mohd Zainal bin Azirun
Vice President, Transmission

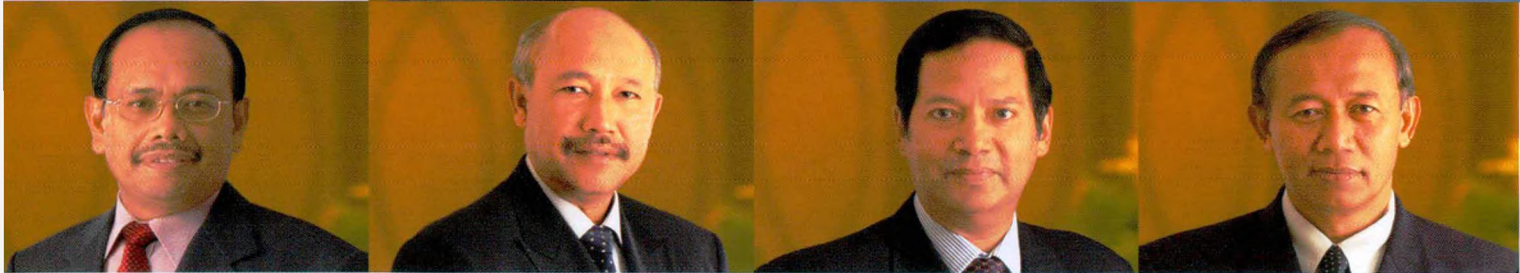
Ir. Aishah binti Dato' Haji Abdul Rauf
Vice President, Distribution

Abu Safian bin Talib
Managing Director,
Sabah Electricity Sdn Bhd

groupmanagementcommittee



■ **Dato' Che Khalib bin Mohamad Noh**
President/Chief Executive Officer



from left to right

- **Datuk Abdul Hadi bin Mohd Deros**
Deputy President/CEO
- **Datuk Md. Sidek bin Ahmad**
Senior Vice President, Operations
- **Abdul Razak bin Majid**
Vice President, Generation
- **Dato' Mohd Zainal bin Azirun**
Vice President, Transmission

Group Management Committee

The Group Management Committee is responsible for reviewing the Operational Policies and Procedures as well as determining the budget for the annual staff increment and bonus for the Group as a whole. It is also responsible for screening and recommending investments proposals for submission to the Board.

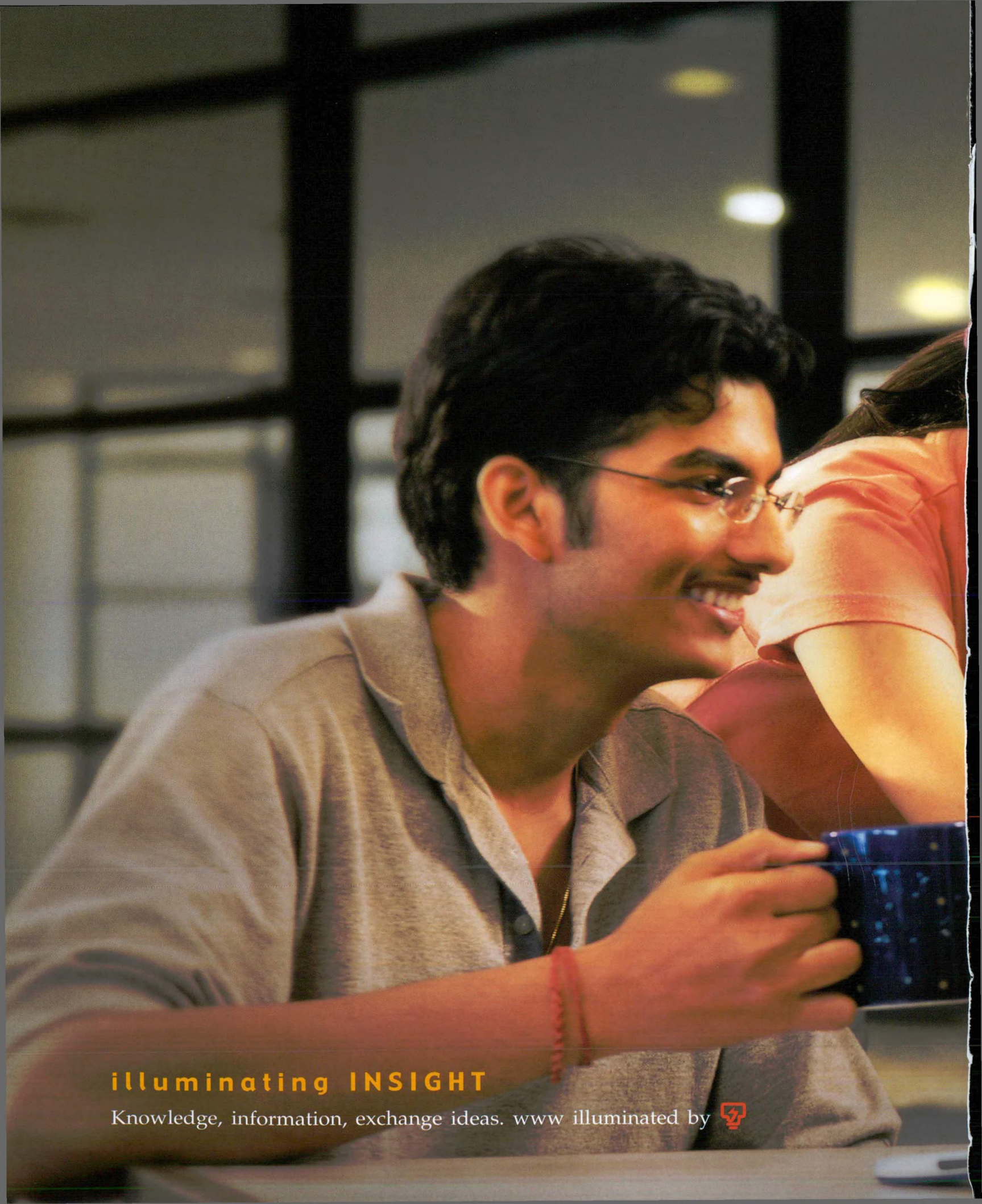
from left to right

- **Ir. Aishah binti Dato' Haji Abdul Rauf**
Vice President, Distribution
- **Izzaddin Idris**
Chief Financial Officer
- **Che Zurina binti Zainul Abidin**
Vice President, Corporate Services




from left to right

- **Datuk Azizah binti Osman**
Vice President, Human Resource
- **Dato' Sabariah binti Sabtu**
Chief Information Officer
- **Nik Ibrahim bin Nik Mohamed**
Vice President, Investments Management



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letter to shareholders

Dear Shareholders,

On behalf of the Board of Directors and the management of Tenaga Nasional Berhad (TNB), it gives me great pleasure to present the Annual Report and Accounts for the Financial Year ended 31 August 2004.

The year 2004 marks an important milestone for the country as we celebrate the first year under the leadership of Prime Minister Datuk Seri Abdullah Ahmad Badawi. Similarly, 2004 proves to be a significant year for TNB as the Company moves forward towards a more focused management structure under a new leadership and management team that combines the strength and expertise of the old and new.

As Chairman of the Board of TNB, I am indeed proud to be part of the team, having joined TNB effective 12 April 2004. I would like to thank the Government for its trust and confidence in me. I am honoured to take up this challenge to exercise the mandate entrusted upon me to ensure that TNB remains an efficient and competitive powerhouse and that as a Government-linked company (GLC), it is able to stimulate domestic private investments and help strengthen the country's economy. There are many challenges and expectations placed on TNB as a responsible corporate citizen and one of the largest companies in Malaysia in terms of market capitalisation and financial performance.

In moving forward, TNB will certainly benefit and be further strengthened by the strong corporate finance background and successful track record of the new team of Dato' Che Khalib Mohamad Noh and Encik Izzaddin bin Idris as the new President/CEO and Chief Financial Officer respectively.

DATUK AMAR LEO MOGGIE
Chairman



Letter to Shareholders

At the same time, we have to make sure that we are always in line with the overall Government policy. In my capacity as Chairman, I consider it my duty and the duty of the Board to ensure that TNB complies with the given guidelines and at the same time able to function as an operating company.

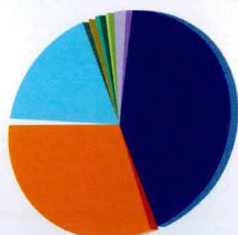
I am confident that with the injection of new leadership, a more focused managerial structure and the strong support of our motivated and experienced personnel, TNB will be able to focus on efforts to further strengthen our core business and fulfill its commitments to providing excellent products and services to support and facilitate economic growth in the country.

Towards this end, TNB's priority remains that of avoiding power disruptions by delivering reliable, quality and affordable electricity while ensuring reasonable returns on shareholders' investments and enhancing our role as a socially responsible corporate citizen.

At the same time, I believe TNB should continue to be guided by policies and practices such as good corporate governance, transparency and prudence that are already in place, as well as others that will add value to the organisation, stakeholders and customers. It is also important to ensure that a high level of professionalism continues to be advocated and implemented at all levels of TNB.

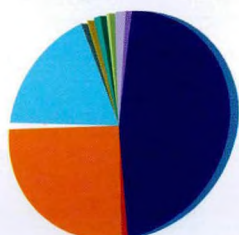
The Financial Year ended 31 August 2004 represented my first year as Chairman of the TNB Group. In dispensing my duties, I believe I am at an advantage in being able to fall back on my experiences as a former Minister responsible for Energy which had allowed me to follow and monitor TNB's development and progress over the years.

This year TNB celebrates its 55th Anniversary – a history that began in 1949 with the establishment of the Central Electricity Board to 1965 when it became National Electricity Board and subsequently as Tenaga



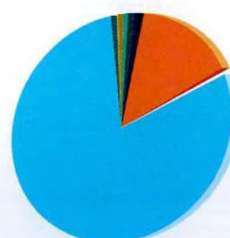
**SALES OF ELECTRICITY
(RM' MILLION) (GROUP)**

INDUSTRIAL	45.67%	- RM7,863.9 million
COMMERCIAL	33.47%	- RM5,762.9 million
DOMESTIC	17.97%	- RM3,093.9 million
MINING	0.04%	- RM7.7 million
PUBLIC LIGHTING	0.68%	- RM117.2 million
EXPORT	0.36%	- RM62.3 million
OTHERS (TNB LPL)	1.81%	- RM311.5 million



**SALES OF ELECTRICITY
(GWh) (GROUP)**

INDUSTRIAL	50.02%	- 36,479.3 GWh
COMMERCIAL	28.64%	- 20,882.6 GWh
DOMESTIC	18.23%	- 13,290.6 GWh
MINING	0.07%	- 54.3 GWh
PUBLIC LIGHTING	0.99%	- 719.5 GWh
EXPORT	0.43%	- 311.6 GWh
OTHERS (TNB LPL)	1.62%	- 1,183.5 GWh



**NUMBER OF CUSTOMERS
BY CLASSIFICATION (GROUP)**

INDUSTRIAL	0.378%	- 23,877
COMMERCIAL	15.679%	- 991,495
DOMESTIC	83.280%	- 5,266,419
MINING	0.001%	- 31
PUBLIC LIGHTING	0.662%	- 41,897

Nasional Berhad in 1990. Today, 15 years after it was incorporated, TNB remains as Malaysia's leading power supplier with assets worth more than RM60 billion dedicated to providing quality service to more than six million customers nationwide.

As part of the new management, I came in at a time when TNB's foundation as the leading corporate organisation in the power generation and distribution business in the country is strong and intact. Under the leadership of my predecessor YB Dato' Dr. Awang Adali bin Hussin and President/CEO Dato' Puan bin Sulro, they were able to give renewed emphasis and focus on efforts to turn TNB into a more agile and competitive company by further enhancing the Company's efficiency, consolidating its financial strength and improving on its work culture in order to reinvent itself and better serve the customers. This strive towards efficiency remains a major challenge facing the current management of TNB in line with the Government's call for GLCs to take the lead in stimulating private investment and in enhancing the role of the private sector in the economy.

Increasing Efficiency

In the course of the year, our immediate priority has been on managing operating costs and increasing operational efficiency. These would translate to better customer service as well as the generation of positive free cash flow.

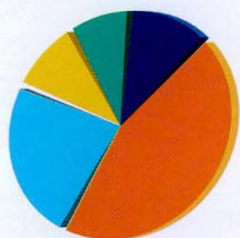
We have achieved some success in managing costs in the last few years. Operating costs per unit sold have reduced further despite an increase in IPP cost, which accounts for approximately 42 per cent of the Company's operating costs.

Even though IPP costs have been increasing in absolute amount over the years, in Financial Year 2004 cost per unit purchased from IPPs has reduced from 14.9 sen/l:Wh in 2003 to 14.7 sen/l:Wh. The lower IPP cost per unit was a result of the commissioning of IPP plants under Second Generation PPAs, which have lower tariff rates. Meanwhile, under the Third Generation PPAs, demand risk sharing has been introduced to allow for sharing of electricity demand risk. In previous PPAs, this was totally borne by TNB alone.

Efficiency continued to improve as evidenced by the 6.2 per cent increase in operating expenses against a 7.6 per cent growth in revenue. Cost per unit sold of 19.8 sen/l:Wh declined from 20.2 sen/l:Wh of the previous Financial Year. In pushing for efficiency, TNB has also been addressing the issue of loss of electrical energy, both in the transmission and distribution systems which amounted to about 12.1 per cent of generated energy. There are also non-technical losses as a result of theft of electricity, billing errors or faulty metering systems, among others which constituted about half the distribution losses and the loss of revenue of as much as RM800 million a year.

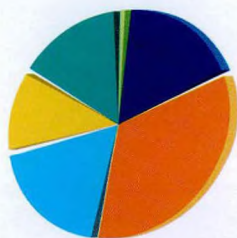
TNB has been focusing on the reduction of these non-technical losses and actions have been taken which include the formation of a special task force to handle this issue, apart from strengthening processes and controls and conducting checks on metering systems and on customers suspected of theft of electricity. Over the past year, distribution losses have been reduced by about one per cent, resulting in substantive savings for the Company.

Letter to Shareholders



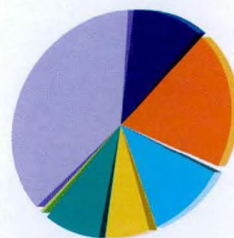
TNB GENERATION MIX

■ HYDRO	11.6% - 4,710.0 GWh
■ CONVENTIONAL THERMAL (COAL)	46.6% - 18,965.6 GWh
■ COMBINED CYCLE	24.0% - 9,746.5 GWh
■ CONVENTIONAL THERMAL (OIL/GAS)	9.4% - 3,837.6 GWh
■ GAS TURBINE	8.4% - 3,404.1 GWh



**TNB INSTALLED CAPACITY
- AS AT 31 AUGUST 2004**

■ HYDRO	18.2% - 1,911.0 MW
■ CONVENTIONAL THERMAL (COAL)	35.0% - 3,670.0 MW
■ COMBINED CYCLE	19.6% - 2,050.0 MW
■ CONVENTIONAL THERMAL (OIL/GAS)	11.4% - 1,197.0 MW
■ GAS TURBINE	15.1% - 1,585.0 MW
■ DIESEL	0.7% - 68.0 MW



**TOTAL INSTALLED CAPACITY
INCLUDING IPPS**

■ HYDRO	11.0% - 1,911.0 MW
■ CONVENTIONAL THERMAL (COAL)	21.2% - 3,670.0 MW
■ COMBINED CYCLE	11.8% - 2,050.0 MW
■ CONVENTIONAL THERMAL (OIL/GAS)	6.9% - 1,197.0 MW
■ GAS TURBINE	9.2% - 1,585.0 MW
■ DIESEL	0.4% - 68.0 MW
■ IPPs	39.5% - 6,845.4 MW

Efforts to improve collections and the settlement of bills have also been successful. During the course of the year, we have made public our concern about major customers with outstanding bills. I am happy to say that this has had positive results with the defaulters having agreed to scheduled programmes for repayments which have already started as of August 2004. We believe that this cooperation will continue in the future.

Another challenge for TNB will be to review our level of borrowings. Heavy borrowing, as we know, is not unusual in a big utility such as TNB. Having said that however, we need to benchmark ourselves to similar utilities elsewhere.

From as early as 1998, TNB has effectively lowered its cost of funds from 6.9 per cent per annum to the current level of approximately 5.3 per cent per annum – an impressive feat considering the size of the Company's total long term debt. Management has also become more critical on the need to control and prioritise capital expenditure.

Since the Asian financial crisis, TNB has also taken active steps to manage our foreign currency debt exposure. With the active development of our domestic capital market, a significant portion of new borrowings will continue to be tapped in Ringgit Malaysia from our domestic market. We are also considering more equity-linked financing structures in order to reduce our current gearing levels.

In moving forward, our key initiatives would be to build momentum aimed at improving working capital, improving profitability, achieving higher generation market share, managing fuel cost, improving gearing and lowering forex exposure, improving operations and reducing power theft.

I am confident that TNB as a company has great potential to show better performance and to forge to greater heights.

Electricity Supply Industry

Malaysia's approach to the development of the power sector has been a pragmatic and prudent one which gives priority to meeting demand and ensuring security of supply through the adoption of the managed electricity market approach.

The current structure has served us well. It provides for system security. At the same time, it has also allowed for private sector participation and investment. Within this structure, Malaysia has also been able to achieve the tangible benefits like stable, competitive and affordable electricity prices and maintain a secure, reliable and quality supply that is comparable to that of many developed countries in the world.

Our overall average selling price is among the lowest in the ASEAN region for our domestic and industrial tariffs, and is second lowest for commercial customers. Our System Average Interruption Duration Index (SAIDI) is also at par with developed countries such as the United States and Australia.

These indicators are proof of the success that the country has achieved as a result of steps taken both at the policy and operating levels. For example, the policy to introduce extensive use of natural gas in the power sector in the 1990s has made it possible for us to maintain electricity tariff at the present levels. We have also adopted a fuel diversification policy to reduce total dependence on any single source of fuel.

TNB, on its part, has embarked on coal as part of ensuring our sustainable energy in the future. We have also continued to invest in transmission and distribution networks.

As the national utility provider, TNB will continue to play its role.

As we know, power demand is keeping abreast with economic demand. In our push for efficiency TNB has ensured a healthy reserve of electricity supply margins. We are also continuously upgrading the quality of supply. At the same time, there is no immediate need for additional capacity building due to our strong reserve in generation capacity compared with the 1990s.

Meanwhile, in support of the Government's efforts to promote the development of Renewable Energy (RE), TNB continues to be one of the first movers in the field of Renewable Energy. The use of RE such as co-generation, solar and biomass for power generation is being encouraged to achieve a diversified fuel mix.

Our researchers and scientists are also continuing to work on RE in order to meet the Government's target of five per cent use of RE for generating electricity by year 2005. This includes working in close cooperation with other private sector corporations on research projects for biomass, biogas, municipal waste, solar and mini hydro.

Apart from RE, we have also stepped up efforts to develop expertise on other energy resources and technology related to integrated energy supply, co-generation and energy efficiency. Through our subsidiary TNB Energy Services, TNB also offers various energy efficiency services to help customers translate energy efficiency into energy cost savings.

To date, TNB has signed five renewable-energy power purchase agreements (REPPAs) with Small Renewable Energy Programme developers in Peninsular Malaysia, with a total export capacity of 26.2 MW.

Meanwhile, during the year, the Jana Landfill Small Renewable Energy Programme (SREP) Project which uses landfill gas at the Puchong Landfill site in Selangor and developed by a subsidiary of TNB, commenced commercial operations, beginning April 2004.

Letter to Shareholders

Economic Environment

Over the last couple of decades, Malaysia has transformed tremendously and made significant progress in terms of development and economic growth. The nation's readiness and ability to adapt to challenges has been fundamental to the success in the overall development of the country, as it is to the electricity supply sector. We believe the challenges facing the sector in the future will be more demanding for Malaysia. The economy has returned to growth after the economic downturn of 1998. Consequently, energy demand has also risen.

The emergence of China as an economic power will also mean increased demand by China for energy reserves, putting pressure on global supply and pricing. Indeed we are already seeing that in the rising trend in the prices of coal.

For the full Financial Year 2004, electricity consumption has risen to 69,275.1 GWh, an increase of 7.6 per cent as compared to the same corresponding period last Financial Year for Peninsular Malaysia. It is well to remember that historically electricity has always grown higher than GDP growth.

Electricity demand growth for Peninsular Malaysia in the next few years is expected to grow in tandem with the country's buoyant economic growth projection. Current projection till 2010 indicates that system peak demand is expected to increase at seven to eight per cent annually. However, there are global forces beyond our control that could impact operating costs and pose a challenge to our performance.

Financial Performance

Revenue

For the year ended 31 August 2004, the Group's total revenue increased to RM17,712.1 million against RM16,457.8 million recorded in 2003, reflecting an increase of 7.6 per cent as a result of stronger demand for electricity.

Revenue from sales of electricity contributed to 97.2 per cent of the Group's total revenue, an increase of 7.6 per cent to 17,219.4 million from RM15,973.9 million registered in 2003. Total units sold amounted to 72,921.4 GWh in 2004 compared to 68,254.2 GWh in 2003, reflecting an increase of 6.8 per cent. Included in the Group's total sales of electricity is revenue from export sales to Electricity Generating Authority of Thailand (EGAT) which recorded a 294 per cent increase from sales recorded in 2003. This substantial increase was attributable to the power shortage situation in Southern Thailand.

In 2004, the Group recorded a foreign exchange translation loss with the strengthening of the Yen against the Malaysian Ringgit. The weakening of Malaysian Ringgit against other currencies over the 12-month period under review further contributed to the foreign exchange translation loss of RM361.9 million compared to RM28.6 million in the previous year.

Operating Profits

With the higher volume of unit sales and as a result of management's efforts to reduce costs and increase efficiency, operating profits increased by 16.2 per cent.

Pre Tax Profit

However, despite higher sales and higher operating profit, the Group recorded a pre-tax profit of RM1,482.7 million, representing a 10.1 per cent decline over the performance of RM1,648.5 million in 2003. This was mainly attributable to higher financing cost as a result of the strengthening of the Yen and UK Sterling.

Dividend

The Board of Directors is pleased to recommend a final gross dividend of 10.0 sen per share and a special gross dividend of 4.0 sen per share making a gross total of 14.0 sen per share in respect of the Financial Year ended 31 August 2004 subject to shareholders' approval at the forthcoming Fourteenth Annual General Meeting of the Company.

Together with the interim tax-exempt dividend of 3.0 sen per share (equivalent to a gross dividend of 4.2 sen per share) paid on 7 July 2004, the total equivalent gross dividend for the year amounts to 18.2 sen per share.

Earnings Per Share

For the year under review, the Group registered earnings per share of 26.08 sen compared to 34.12 sen per share in 2003, reflecting a reduction of 23.6 per cent.

Group Assets

During the year under review, the Group's assets expanded to RM63,381.6 million compared to RM59,956.5 million in 2003.



Financial Briefing to Analysts in Progress.

Corporate Governance

The Company and Group have formulated a code of corporate governance which is based on the principles and best practices set out in the Malaysian Code on Corporate Governance.

To protect and enhance shareholders' value, the Board of Directors remains committed to ensuring that the highest standards of corporate governance are observed throughout the Group as an imperative part of discharging its responsibilities.

The appointment of Board members and a non-executive Chairman with separate regulatory and operating functions demonstrated this. There is also a heightened awareness of audit functions while strong support to the various audit committees minimises risks of conflict of interest. These committees and the ensuing system of check and balance stand testimony to the Board's commitment to ensuring fair corporate governance in place.

At the same time, under the new system of Key Performance Indicators (KPIs) all staff performance from senior management right down to rank and file will be audited.

In a separate section of this annual report, a comprehensive disclosure of TNB's Corporate Governance is presented.

Letter to Shareholders

Customer Focus

In upholding our responsibility and accountability toward our shareholders and customers, TNB is fully committed to better utilisation of its assets. These efforts however, will not be at the expense of quality, reliability and security of supply. To us in TNB, Customer is King.

TNB has invested in various initiatives and cutting-edge technology to continuously improve the Company's performance to benefit our customers. These include reliability condition monitoring, installation of Supervisory Control and Data Acquisition system (SCADA), Energy Management System, Enterprise Resource Management System (ERMS), Enhanced Customer Information Billing System (ECIBS), Remote Metering and Customer Services.

Over the last 13 years, TNB has invested more than RM50 billion to improve its service level. It plans to further improve its service via system reinforcement, rehabilitation projects and improving monitoring and failure analysis of our system.

The Company will be spending as much as RM1 billion a year to upgrade the transmission grid and about RM1.9 billion a year to expand and strengthen the distribution network to provide supply to new customers, as well as cater for the additional demand of existing customers.

Meanwhile, one of the immediate challenges facing TNB is correcting public perception about the Company. Our objective is to continuously enhance customer relations management through various channels of communication and technology deployment.

TNB has continued to demonstrate its corporate social responsibility commitment by supporting various causes including subsidy on cost of electricity supply to customers, discount and subsidy for learning institutions and places of worship, development of intellectual capital through Universiti Tenaga Nasional (UNITEN), scholarships and study loans, welfare and charity programmes amounting to RM1.2 billion a year. TNB has also committed a total of RM33 million for rural electrification projects to be completed by the end of 2005.

Prospects and Challenges

Global developments will continue to have pronounced implications on the political, economic and financial environment we operate in.

A major challenge is rising fuel costs which will have an impact on the operating costs of most power generators globally. In view of the volatility of fuel costs, an important concern will be the ability of utility companies to sustain their viability for future investments. While increased operating efficiency continues to afford opportunities for further costs reduction, fuel costs are by and large outside management control.

The implication is that we need to ensure that the electricity supply industry is able to earn sufficient revenue in order to invest in generation, transmission and distribution networks to meet future requirement for the country. In this regard, policy makers, the regulating agency, operating companies, financial institutions and the customers need to share this common undertaking.

From TNB's perspective, the likelihood of continuing increases in fuel costs would be a major challenge to fulfilling its obligation to provide adequate power for national needs, unless TNB can recover such increased costs from customers.

However, as a result of the multi-fuel strategy adopted by TNB, we have been more fortunate than some other utilities in that we have some flexibility to realign and optimise on the fuel mix, whilst ensuring the security and reliability of energy supply.

Nevertheless, with the strong outlook for the economy next year, TNB may face challenges in the fuel mix in the next financial-year due to their rising prices that could impact operating costs.

Tenaga Nasional Berhad however is a very solid company with a thriving business. It has a lot of core strengths, the necessary technical skills and expertise and a good combination of capable people. We will continue with our pledge and are resolute in our determination to undertake the best efforts to ensure that TNB achieve its goals and become a formidable and reputable company in the country.

Appreciation

I am extremely grateful to our loyal and valued customers for their support, cooperation and valuable interaction that have helped the Company and Group to better serve our customers. TNB's success for the year 2004 is attributed to their continued confidence in the Company and Group. For this, I wish to thank all of them.

I would also like to offer my gratitude to the Ministry of Finance, Ministry of Energy, Water and Communications and the Economic Planning Unit for their guidance, understanding and assistance throughout the year.

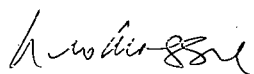
To the Government, shareholders, investors, suppliers, contractors, the media and all parties who have contributed and given their support to the Company, I would like to express my appreciation and gratitude for making it another good year for TNB.

I would also like to thank former Chairman Dato' Dr. Awang Adak bin Hussin who resigned with effect from 31 March 2004, and Dato' Pian bin Sulro, President/Chief Executive Officer/Non-Independent Executive Director who resigned with effect from 1 July 2004. My appreciation also goes to other Directors and Alternates who have resigned during the year for their valuable contribution to the Company. At the same time, I wish to welcome all new Directors to the Board, namely Dato' Che' I'halib bin Mohamad Noh, Datuk Mohd Zaid bin Ibrahim, Dato' Azman bin Mohdhar and Dato' Abdul Rahim bin Mohd.

Finally, I would like to convey my gratitude and appreciation to all Board members, the management and employees for their commitment and contribution to the continued strength of the Group.

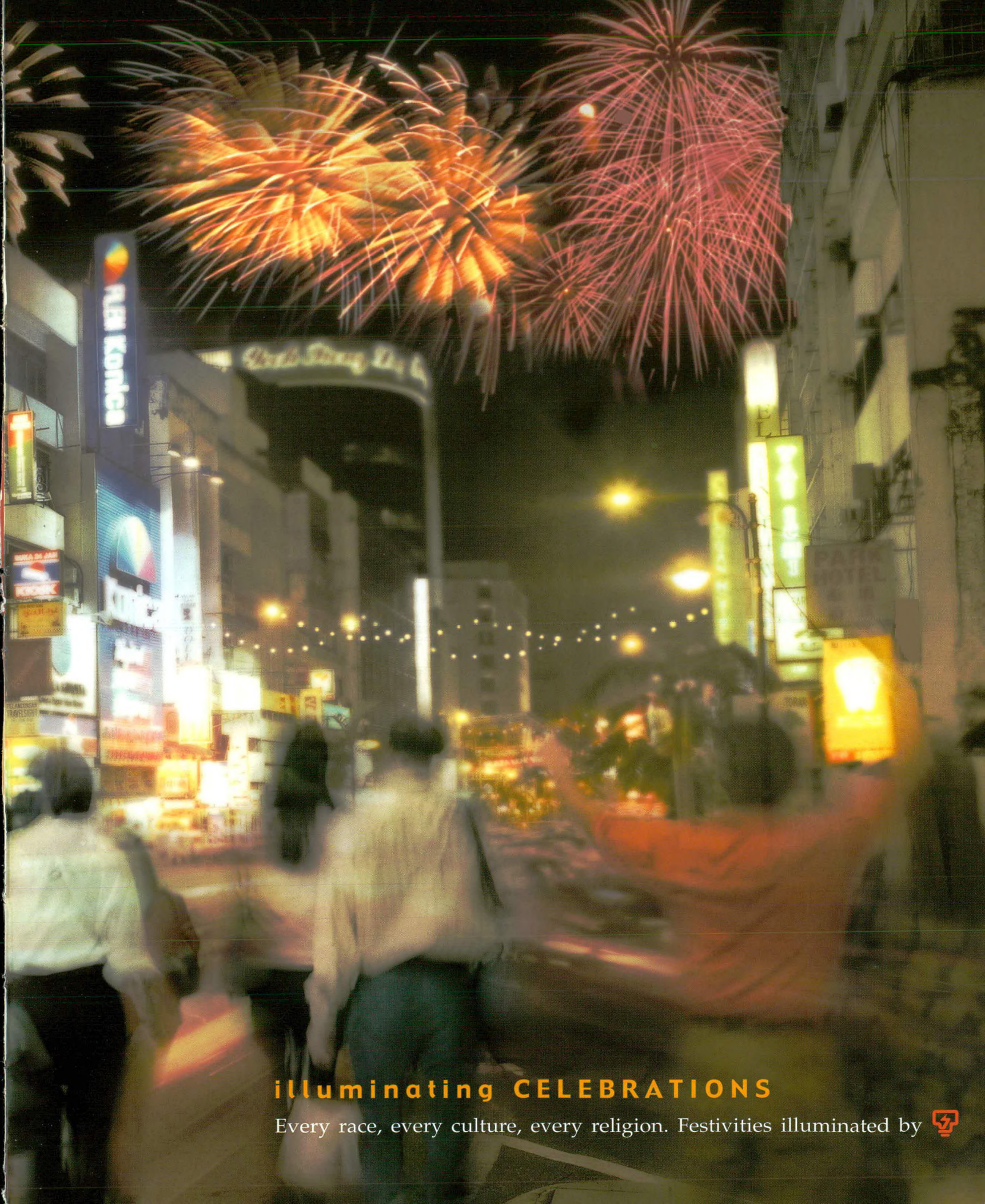
Let us continue to power the nation with our commitment to deliver the best in our products and services and illuminate the lives of the people of Malaysia.

"POWERING THE NATION'S PROGRESS"



Datuk Amar Leo Moggie
Chairman





illuminating CELEBRATIONS

Every race, every culture, every religion. Festivities illuminated by 

A professional portrait of Dato' Che Khalib Bin Mohamad Noh, President/Chief Executive Officer. He is a middle-aged man with short dark hair, a mustache, and glasses. He is wearing a dark brown suit, a light blue shirt, and a yellow tie with small dark spots. He is standing on a modern staircase with a wooden handrail and glass balustrade. The background is a bright, out-of-focus interior space with large windows. The entire image is framed by a thin blue border.

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

President/CEO's

REVIEW

INTRODUCTION

GLC reform was a major corporate theme in 2004. As the primary GLC in the strategic power sector, Tenaga Nasional Berhad (TNB) too received the mandate to restructure and instill a performance-driven culture.

Increasing efficiency and competitiveness and stimulating growth are central to achieving a paradigm shift at TNB. During the year under review, TNB renewed its focus on mission-critical areas, which include formulating and executing relevant leadership, financial and operational strategies, working towards improvements in key systems, processes and controls, and ensuring values-driven management through the upgrading and empowerment of people.

As the incoming President/Chief Executive Officer of TNB, I am honoured to be entrusted with the challenging task of reinventing one of Malaysia's most historic corporations and guiding it to greater heights. Nonetheless, the mission is a communal one, and I wish to record my gratitude to the Board of Directors, management and all the employees for their overwhelming support and commitment.

For the Financial Year 2004, the Group recorded encouraging results. Turnover increased by 7.6 per cent to RM17.7 billion from RM16.5 billion in the previous year.

President/CEO's

REVIEW



CEO meeting the staff.

Setting Priorities

TNB has set an ambitious goal of becoming the best corporation in Malaysia by August 2007, and we aim to achieve this target via our focus on the T7 strategy and the implementation of an aggressive performance-driven culture.

The success of several fundamental T7 initiatives has significantly raised the effectiveness and efficiency of our business processes. Key to T7 are the Seven Building Blocks for Transformation as well as the three strategic objectives of 'Defending the Core Business, Getting the House in Order and Positioning for Growth', which provide the foundation for TNB's Vision and Mission. Currently, there are 38 initiatives under the T7 strategy, pared down from the original 46 initiatives which were proposed in 2002.

Performance management and measurement systems that feature well-defined measures and demonstrated values are fundamental in moving towards a performance-driven culture. TNB has implemented a new performance management system and set stringent Key Performance Indicators (KPIs) for all senior managers in order to improve organisational efficiencies and enhance accountability. Notably, this performance-oriented system has raised the level of employee commitment to TNB's corporate and business goals and has challenged each person to go the extra mile to fulfil our universal mission.

To complement TNB's current shared values of Integrity, Business Excellence, Customer Focus and Caring, I have encouraged our people to adopt my personal values of Dedication, Integrity and Discipline (DID) which I hope will further reinvigorate our work culture and create an open management style based on trust and transparency.

Putting Customers First

As a service organisation, customers come first. Part of our T7 strategy is to focus on delivering value and satisfaction to our six million customers by improving our revenue collection efforts and simplifying and facilitating the supply connection process.

Improving our revenue collection will reduce overall losses, particularly non-technical losses arising from billing errors, while facilitating supply connection entails anticipating and fulfilling customers' expectations.

Customer feedback is vital to improving service. We gather feedback through surveys, interviews, print and direct interface with customers via our Customer Outreach Programmes (CROP), Mesra Rakyat and Jawatankuasa Kerja Kampung (JKKK) Dialogues. TNB also conducts an Annual Survey to determine customer satisfaction and future customer requirements. These expectations are quantified as indices in the Customer Service Index (CSI) to track TNB's performance among satisfied customers. Our aim is to take customer satisfaction to the next level by raising the index from the current 6.7 to about 7.0 to 8.0 within the next few years.

We have also established our Customer Charter which outlines customer and regulator requirements and service expectations. Performance compliance with the charter is tracked monthly by all operating areas, states and headquarters and these monthly reports are submitted to the regulators.

In terms of quality of service, our customer response times have improved. Total disruptions have been substantially reduced to 106 minutes per customer as shown in the System Average Interruption Duration Index (SAIDI) results. Our customer enquiry and complaints-handling procedures at the Company's 24-hour Call Management Centre (CMC) are smoother. Meanwhile, the implementation of Program Aduan Pelanggan System (PAP) Version II, a superior user-friendly in-house software system, is in the pipeline and will enhance Customer Complaint Management. Customers may also lodge service complaints via the TNB Feedback Form on our website.

Furthermore, we try to anticipate stakeholder demands by conducting regular dialogues with captains of industries, investors, the general public and other stakeholders. We hold on-going discussions with relevant regulators and government bodies such as



Our Kedai Tenaga at Putrajaya.

the Ministry of Energy, Water and Communications, the Ministry of International Trade and Industry, and the Energy Commission to seek advice and guidance on how best to further improve our services and at the same time adhere to prevalent industry policies, rules and regulations.

Efficiency Measures

Apart from topline growth, management, operational, financial and service efficiency are key factors for long-term sustainability. We have reorganised the Company into three major areas in order to create a more focused and streamlined organisation.

President/CEO's

REVIEW



UNITEN Campus in Bangi.

The first is the Company's foundation and core business of Generation, Transmission and Distribution. The second incorporates all our non-core functions such as Information Technology (IT) and Investments Management, while the third incorporates Management Support Services which covers Finance, Corporate Services and Human Resources. This restructuring of our core and non-core businesses and support services will streamline the reporting structure and facilitate a faster decision-making process.

Meanwhile, the management of Productivity and Quality – which are integral elements of global competitiveness, has been placed directly under the CEO's office. Our first step will be to embark on the review and

documentation of day-to-day processes and procedures beginning with the Distribution Division. Processes will be standardised with the aim of achieving ISO 9000 in all business units, reducing losses and optimising performance.

Importantly, capability building will be our strategy for the next twelve to eighteen months. We will create opportunities for middle management to acquire new management skills and groom them for larger challenges, intensify human resource development and improve our internal control systems.

Moving forward, financial house-cleaning will be key, and we will focus on debt reduction and improving cashflows through efficient billing and collections. We are in the process of developing a superior financial model that illustrates our 20-year cashflow trends and will enable better management of funds and debt. By matching capital expenditure with income flows, we aim to reduce the current gearing level from two to a more comfortable 1.5 times over the next five years. Meanwhile, future Capex is being revised to a level that will not burden the Company with high debt.

Strategic initiatives to improve service efficiency include the installation of a RM35 million Supervisory Control and Distribution Automation System (SCADA) in the Klang Valley to track breakdowns and minimise supply downtime. The system will be extended to most other parts of the country within three to five years.

The Company is also focused on creating a culture of regular maintenance, which would not only reduce the incidence of blackouts but will ensure better operational performance. Overall, our operational efficiency has improved tremendously with fewer power interruptions, resulting in greater economic benefits to the country.

Improving supply connectivity is another important service measure which will generate added revenue in the long run. We are also working to improve our other operational efficiencies such as reducing non-technical losses and power thefts, improving procurement systems and increasing staff productivity. Central to our operational strategy is the challenge of reducing our reserve margin from 46 per cent to an efficient 30 per cent in the next two to three years.

However, efficiency is a moving target; we pledge to strive unceasingly towards providing better quality of service and a more reliable supply of electricity to all our customers.

Capability Building

A competent and professional workforce is an important prerequisite to achieving the Company's objectives. Thus, TNB's Human Resource Division has accelerated education, training and development programmes for its staff. Training is designed to develop both core and leadership competencies and technical/functional competencies. Skills levels are enhanced in addition to increasing the knowledge and intellectual capacity of employees. Qualified non-executives also receive training to prepare them for promotion to executive positions. We encourage career advancement in order to ensure sustainability and long-term career satisfaction.

To fulfil our human resource goals, the Institut Latihan Sultan Ahmad Shah (ILSAS) is being upgraded to provide better facilities to carry out more training and multi-skilling programmes. ILSAS also collaborates with other technical and management institutes to enhance its training and education programmes using the latest state-of-the-art tools, equipment and technologies.

Universiti Tenaga Nasional (UNITEN) deserves special mention for its strengths. TNB is committed to raising UNITEN's quality, and the university has successfully obtained regional recognition and accolades for its first-class teaching programmes as well as its research and development and training programmes. UNITEN's mission is two-fold; it contributes to the nation's and TNB's manpower needs and it is the hothouse for the development of new technologies that sustains industry and business.

Apart from funding its own institutes, TNB invests tremendously in human capital by sponsoring students and employees for further studies, many of whom have attained first class degrees from both home and overseas universities. It is estimated that the cost of sponsoring the higher education of a TNB executive from first degree to PhD level ranges between RM800,000 to RM1.5 million. The monetary cost might be substantial, but we are proud to support the Government's efforts to create the deep talent pool that is necessary to succour the country's economy.

Engineering and Technology

An independent study conducted by the Energy Commission has demonstrated the robustness of our electricity infrastructure and show that Malaysia has built a world-class system.

However, modernising our electricity delivery infrastructure using the appropriate technologies is critical if TNB is to keep producing and delivering a secure, efficient and reliable supply of electricity. To that end, we have developed a comprehensive Electricity Technology Roadmap, which identifies routes and timelines for the application of new technologies that will eventually fulfill our vision of an efficient, reliable and robust electricity production and delivery system.



Liberty Power Plant in Pakistan.

We are currently embarking on a more effective method of analysing technologies, encompassing assessment, adoption and standardisation decisions. Currently, the market offers a wealth of technologies and TNB needs to proactively seek out the most cost-effective solutions, which are relevant to its technical and business issues, objectives and priorities. Any future decision to adopt or integrate a certain technology will require a detailed study of the product's overall system design, operation ability and performance within the TNB system.

Upgrading human capital ranks on par with technology deployment in a service entity, and building intellectual capacity will enhance our delivery of robust and economical electricity products and

services to our customers in the long run. As TNB is largely an engineering organisation, our staff is encouraged to pursue professional development and participate in professional bodies in technical fields such as mechanical and electrical engineering. As an award-winning employer, TNB provides a wealth of incentives and support for the further development of our engineers and technical employees.

Share Performance

TNB's share price increased by 11.1 per cent during the year under review and peaked above the RM11.00, before stabilising at this level. The stock's upward spike has been attributed to a positive rerating by the domestic and international investment community following the restructuring of GLCs, including TNB. In addition, investors are bullish on TNB in light of positive economic growth projections which should buoy top-line growth, as well as its ongoing commitment to reduce costs. Notably, TNB received encouraging feedback after unveiling its restructuring initiatives and financial projections to international analysts, fund managers and investors at a recent investment conference in Hong Kong.

We are pleased to note that our foreign shareholdings increased from just under three per cent to approximately 4.8 per cent recently.

Illuminating Lives

Electricity is a necessity for every individual, business and community. As a socially responsible company, TNB makes the effort to deliver electricity to even the most remote regions of the country. Our aim is to improve the quality of life for every Malaysian; therefore, our rural electrification programmes cover many areas regarded as non-viable by other businesses.

We also supply public lighting and electricity to schools, mosques and temples at special tariff rates. Subsidies provided by TNB amounted to about RM32.6 million for the year under review.

The Way Forward

The economic outlook for the 2005 Financial Year is promising. Based on projected economic growth rate of 6.0 per cent as published in the Malaysian Economic Report 2004/2005, projected demand for electricity should remain buoyant.

This positive scenario provides room for TNB to explore new sources of sustainable revenue and earnings growth, and carve out added efficiencies. Human capital will be a vital source of competitiveness. Our new performance-driven culture has stimulated our people to work harder and smarter to achieve our goal of transforming our Company into a more agile, responsive and efficient entity.

Nonetheless, challenges remain, primarily in the area of fuel and commodity prices. Escalating fuel prices will impact upon TNB's performance. Fortunately, TNB is shielded against gas price increases for the present as the price of gas has been fixed by the Government until December 2005. Although coal prices have increased substantially and at unprecedented rates, prices are stabilising. Similarly, the rising price of steel and other metals will have an inflationary effect on TNB's future CAPEX.

Eventually, our aim is to be a leading regional industry player. Opportunities in developing economies with high potential could be an avenue for sustainable growth. Currently, TNB already has a presence in Pakistan through its wholly-owned stake in TNB Liberty Power Limited, which operates a 235 MW plant there. TNB is also open to forming joint ventures with local companies in foreign destinations.

Energy sales abroad could also mitigate the impact of the industry's current high reserve margin, which has been a perennial trial throughout previous years. TNB has concluded an agreement to sell a maximum of 300 MW of power to Thailand and is currently looking for options to increase energy sales. Apart from energy sales, TNB's expertise and technical assistance could also be saleable to other countries in the region.

These innovative measures suit the challenging times we live in, and are a reflection of TNB's paradigm shift. We hope that every stakeholder takes pride in TNB's evolution. Similarly, we hope that all TNB employees throw their full weight and commitment behind TNB's transformation. I wish to stress that all of you have played an important role in this dynamic shift, which will hopefully enable us to illuminate even more lives in a meaningful fashion in future.

As we continue on this challenging journey, I want to take this opportunity to express my deepest appreciation to all employees as well as the management and Board of Directors for their solid support. I trust that all stakeholders will continue to give us their backing as we grapple with new tests and record fresh successes.

"POWERING THE NATION'S PROGRESS"



Dato' Che Khalib Mohamad Noh

President/Chief Executive Officer





illuminating HARMONY

Peace, calm and serenity. Tranquility illuminated by 

GENERATION BUSINESS OVERVIEW

The Generation Division aims to create better value in the core business chain with emphasis on the various business groups, making TNB a stronger, sharper focused and more successful electric utility in Malaysia.

The Division headed by Vice President (Generation), is responsible for the operations, maintenance and development of all generation assets of TNB in Peninsular Malaysia. It also manages TNB power producing subsidiaries in Peninsular Malaysia and overseas.

generationdivision

POWER PLANT OPERATIONS

TNB Thermal Plant

TNB's thermal plants produce power using conventional steam turbine generators principally fired by coal, oil or natural gas (steam power plant), gas-fired or diesel-fired open cycle gas turbine generators, and gas-fired or diesel-fired combined cycle turbine generators.

TNB Janamanjung Sdn Bhd

TNB Janamanjung Sdn Bhd is a wholly owned subsidiary of TNB responsible for the development and operation of the 2100 MW (3 X 700) coal-fired power station in Manjung, Perak.

All the three units are currently within a two-year warranty period as provided in the EPC contract. The warranty period for the last unit will end in September 2005.

The Manjung Power Plant has been operating successfully, supplying power to the National Grid under the direction of the National Load Dispatch Centre.

Kapar Energy Venture

Kapar Energy Ventures Sdn Bhd (KEV) is a special purpose company that was incorporated in 2000 with TNB holding a 60 per cent share and 40 per cent owned by Malakoff Berhad. The Kapar power station is the largest, and the country's only, multi-fuel generating power plant with a 2,420 MW capacity. The power station divestment to KEV in July 2004 was a strategy adopted by TNB in order to improve asset performance and efficiency.



A scenic view of Manjung Power Plant.

THERMAL POWER PLANT

Station	Capacity	Plant Type
Sultan Ismail, Paka	1,139 MW	3 X 290 MW Combined Cycle 1 X 269 MW Combined Cycle
Sultan Iskandar, Pasir Gudang	729 MW	2 X 110 MW Open Cycle Gas Turbine 1 X 269 MW Combined Cycle Plant 2 X 120 MW Conventional Thermal (Oil/Gas)
Tuanku Jaafar, Port Dickson	360 MW	3 X 120 MW Conventional Thermal (Oil/Gas)
Serdang	625 MW	2 X 110 MW Open Cycle Gas Turbine 3 X 135 MW Open Cycle Gas Turbine
Connaught Bridge	832 MW	1 X 312 MW Combined Cycle 4 X 130 MW Open Cycle Gas Turbine
Gelugor	758 MW	3 X 120 MW Conventional Thermal (Oil/Gas) 3 X 110 MW Combined Cycle 2 X 34 MW Open Cycle Gas Turbine (Diesel)
Kapar Energy Ventures (KEV)	2,420 MW	2 X 300 MW Conventional Thermal (Oil/Gas) 2 X 300 MW Conventional Thermal (Oil/Gas/Coal) 2 X 500 MW Conventional Thermal (Oil/Gas) 2 X 110 MW Open Cycle Gas Turbine
Manjung (TNB Janamanjung Sdn Bhd)	2,070 MW	3 x 690 MW Conventional Thermal (Coal)
Total	8,933 MW	

Hydro Plant Capacity

Hydro-Electric Scheme		Total Installed Capacity (MW)
1	Sg. Perak including Pergau and Chenderoh	1,248.0
2	Cameron Highlands	262.5
3	Sultan Mahmud, Kenyir	400.0
	Total	1,910.5

Hydro Plants

TNB's hydro stations consist of both run-of-the-river and pondage stations. In addition to producing power from its own generating facilities and purchasing power from the IPPs, TNB also purchases small amounts of electricity from the Electricity Generating Authority of Thailand and Singapore Power to satisfy peak demand.

Liberty Power Limited

Liberty Power Limited (LPL) is a subsidiary operating in Pakistan and is involved in the generation and sale of electricity to the Water and Power Development Authority of Pakistan (WAPDA). It operates a 235 MW combined cycle natural gas power plant located at Mirpur Mathelo in the province of Sindh since its commencement on 10 September 2001.

LPL has been operating satisfactorily and returned a profit of RM21 million during the year under review. With the continued good performance of the plant, the company is expected to maintain this profitability.

SERVICES**Generation Asset Development & Hydro Department (GADH)**

New power stations are commissioned from time to time to meet the increasing national demand for electricity. Currently, the sources of energy for TNB's power stations are gas, coal, oil and hydro power, consistent with TNB's Four Fuel Policy which is aimed at utilising the four indigenous sources of energy to provide a more diversified electricity generation mix. This ensures the reliability and security of the nation's power supply.

GADH is responsible for developing TNB's new power stations and re-powering or rehabilitating existing power stations. GADH also provides project management and engineering services for the implementation of all TNB's generation projects.

In addition GADH strives to improve the technical specifications, streamline work processes, automate communication links and update conditions of contract for the implementation of power stations. The department continuously reviews and re-engineers its internal processes to improve operating efficiencies and enhance engineering excellence in order to ensure the smooth implementation and timely completion of projects. In order to promote professionalism and effective management principles, the department also attaches priority to human resource training and development.

The generation asset development projects under tendering or construction stage during the year under review were:-

Project Name	Description
Port Dickson Phase 1	To build a 750 MW combined cycle plant to replace the old 4 x 60 MW conventional thermal plants at Port Dickson, Negeri Sembilan
Port Dickson Phase II	To build a 750 MW combined cycle plant to replace the old 3 x 120 MW conventional thermal plants at Port Dickson, Negeri Sembilan
Kedah Project	To build a 220 MW open cycle turbine in Kedah
Cameron Highlands & Batang Padang Life Extension Project	To rehabilitate the Cameron Highlands & Batang Padang Hydro electric Schemes in Pahang and Perak respectively and consisting of seven power stations which were constructed between 1959 and 1968

A REMACO staff at work.



TNB Repair and Maintenance Sdn Bhd

As a wholly owned subsidiary established in 1995, TNB Repair and Maintenance Sdn Bhd (REMACO) primarily focuses on all TNB power plants and energy industries within Malaysia and also in the ASEAN region, particularly Myanmar.

Among the services offered by REMACO are:-

- Repair and scheduled maintenance of gas turbines, steam turbines, hydro turbines, generators, boilers and other power plant auxiliaries
- Refurbishment of gas turbine components and Ebara rotating equipment
- Test services for plant performance, generator performance, availability, dependable capacity, protection and calibration of electrical meters and instrumentation equipment.

Other services provided include NDT, vibration, borescope inspection, thermography, technical audit and power plant due diligence. To date, REMACO has secured works with several IPPs and is actively pursuing strategic partnerships with Original Equipment Manufacturers (OEMs) to expand its capabilities.

REMACO has been accredited with an ISO 9001:2000 certification and has participated in quality related programmes such as Quality Customer Service-Improvement Team (QCS-IT), "5S", the TNB President's Quality Award (PQA) and Safety Excellence Management System (SEMS).

During the period under review, REMACO realigned its strategies to contribute towards achieving T7 goals by:-

- Increasing service and product offerings to TNB's core Divisions
- Optimising plant outage durations and minimising maintenance costs for TNB's power plants
- Increasing sales to non-TNB markets within ASEAN and the Middle East region.

To maintain a competitive advantage in facing global challenges, REMACO provides opportunities for workforce development to enhance the competencies and skills of its human capital.

OperationsReview

DELIVERING T7 OBJECTIVES

Driving towards Excellence

The Generation Division continues its emphasis on improvements towards efficiency and excellence with respect to the key initiatives expounded in the T7 strategies. These initiatives are to

1. Reduce unplanned outages
2. Complete projects on time and within budget
3. Improve plant efficiency
4. Optimise management of maintenance and planned outages
5. Develop technical competency of employees
6. Improve engineering and technical support
7. Improve procurement.

Several activities have been carried out to ensure that unplanned outage reduction can work effectively. Attention has been focused on the root causes of unplanned outage incidents and planned outage overruns through the Unplanned Outage Review and Planned Outage Review Committees. Supporting these committees is the Major Incident Investigative Panel bringing expert scrutiny to major power unavailability incidents at the various station sites.

The Division considers the experience gained from each individual incident to be highly valuable. Twice yearly, forums are organised for operations and maintenance representatives to disseminate and share information, experiences and knowledge amongst all stations. The resolutions from these forums are tracked and brought to divisional management's attention for endorsement and implementation.

While Unplanned Outage reduction remains the main focus of the Division, other initiatives to support the overall objectives are as follows:-

- a) In recognising the importance of delivering projects according to schedule and the premium placed on skills, a mentoring program has been developed and implemented in the Generation Asset Development and Hydro Department to ensure that skills and experience gained in project development are perpetuated.

Practice guidelines have been created to encourage the sharing of information, experiences and knowledge among power station personnel and these have recently been expanded to include all project development personnel to further widen the knowledge base of these communities.

- b) Emergency procurement processes have been designed and tested to avoid procedural delays in cases of long unplanned outages and are currently being monitored on a case-by-case basis.
- c) Uplifting human resource skills in the Division is being undertaken.

For the year under review the Division undertook several major initiatives to enhance the technical competencies of its staff. Some of the more significant efforts undertaken were:-

1. Implementation of a Human Resource Development System (HRDS) for technical competency management in all TNB power stations. Software known as HRD Power was installed at each power station by January 2004 to enable baseline assessments and periodic competency evaluations to be carried out;
2. Implementation of the "Programme Peralihan Juruteknik" commenced on 31 May 2004 whereby 434 staff holding technician's positions but without the required academic qualifications were involved. The duration of this one-off programme is 15 months and will be completed by end-September 2005;
3. Implementation of mandatory training programmes for all non-executives in line with TNB's HR Development Policy started in January 2004;
4. Other intervention programmes were identified and implemented from time to time to support the business of electricity generation. Examples of such programmes are:-
 - Mentoring services to production staff at Gelugor Power Station (March – June 2004)
 - PC-based simulator training for Kapar and Manjung Power Station (May 2004)
 - Simulator training for plant operators at Bang Pakong, Thailand
5. The 300 MW Coal-fired Simulator at ILSAS was rehabilitated in March 2004. Simulator training for production staff from Kapar Power Station commenced in April 2004. Similar simulator training will be extended to production staff from the other thermal power stations beginning in September 2004 to continuously enhance their skills and operation techniques in thermal power plant operations;
6. The 300 MW Combined-Cycle Simulator sited at UNITEN will also be repaired by January 2005 to provide quality training for staff from the combined-cycle power stations.

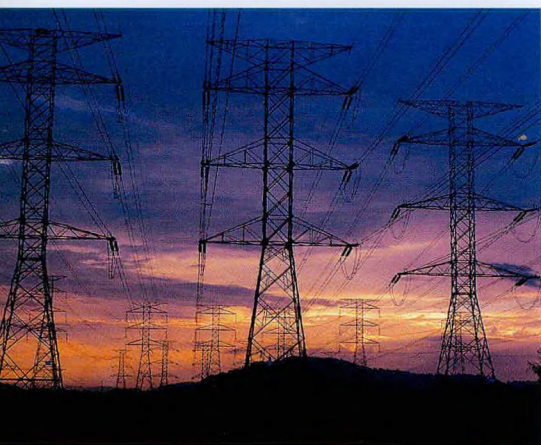
nationalgridchart





The Transmission Division is responsible for the entire spectrum of transmission activities within TNB ranging across planning, engineering, project management, implementation and maintenance of its transmission assets. As one of the core divisions of TNB, the Division also manages and operates the transmission system forming the integrated backbone network known as the National Grid. In the Northern part of the Peninsula, TNB's National Grid is interconnected with Thailand's transmission system operated by the Electricity Generating Authority of Thailand (EGAT) with a 300 MW capacity via the HVDC Gurun-Khlong Ngae interconnection and also a 132kV Chuping-Sadao overhead line with 80 MW capacity.

transmissiondivision



We transmit power continuously and efficiently.

Transmission Division's key focus is to ensure the safe, adequate, reliable and economical operation of the grid system in conformity with the Malaysia Grid Code. The power generated by TNB and Independent Power Producers' (IPPs) power stations is transmitted at 132kV, 275kV and 500kV to the main intake substations for subsequent supply to customers via TNB's distribution network. In the South, TNB's transmission system at Plentong substation is interconnected with Singapore Power transmission system at Upper Jurong via two 230kV submarine cables with a total capacity of 500 MW.

The incorporation of TNB Fuel Services Sdn. Bhd. in 1998 has successfully ensured the reliability and secured supplies of coal commodity to TNB power-stations. By having a single purchaser for coal in the electricity sector as requested by the Governments, effective management of coal supplies to the Company is thus ensured and sustained in the long run.

Strategic Directions

In striving for business excellence and improving its efficiency, the Transmission Division remains committed to its three focus areas established in line with the T7 strategies in reaching the "Tiger" status by the year 2007. These are a Safe, Reliable and Economic Grid System, Prudent CAPEX Management and A Good Place to Work. These focus areas have been integrated into the Transmission Division's Business Plan for 2004 to 2008 and were based on the strategic direction of TNB's Vision and Mission. This is to ensure consistency and clear focus for the various departments and subsidiaries within the Division.

The Balanced Scorecard methodology is used as a tool in communicating the strategies of the Division, translating the strategies into meaningful objectives and monitoring the progress of these initiatives.

The first focus area, a Safe, Reliable and Economic Grid System covers the bread-and-butter issues of the Division which is in line with the T7 Strategy of "Defending Our Core Business". As such, activities are designed to ensure high system reliability, high security of supply, high system availability, improvement of restoration time and high quality of supply. A Condition-based Maintenance Management System (CMMS) Project was implemented by the Transmission Division.

Efforts to strengthen the security of the power system are focused on reducing voltage violations, conducting dynamic system security assessments, optimal hydro management and reviewing the spinning reserve policy to ensure system security. Planning activities also complement efforts to enhance system reliability by balancing customer demands with effective cost and a reliable network.

During the year, the priority was on maintenance whereby concerns relating to the availability, reliability and efficiency of the transmission assets were placed at the forefront. Data obtained from analyses conducted was used as a basis for improvement, whilst new and innovative engineering solutions towards enhancing the performance of the transmission assets were developed.

In this regard, effective maintenance policies and practices play an important role in ensuring that the performance of the transmission assets is in accordance with their specifications.

The Division also placed emphasis on Vegetation Management to reduce trippings caused by vegetation to the minimum. Techniques include the use of laser scanning technology by helicopter to monitor rentice conditions.



Live-line maintenance work in progress.

Risk management is accorded high emphasis and risk mitigation activities incorporated into its annual business plan through the T7 initiatives.

The second focus area, Prudent CAPEX Management, is in line with TNB's Vision towards being efficient and having effective financial management. Initiatives that have been identified are focused on an integrated planning process whereby the planning activities of both core divisions, Transmission and Distribution are synchronised to prevent inefficiencies and to ensure that installed facilities operate in accordance with design.

Additionally, three strategic imperatives under the T7 initiatives have been identified, namely, Improved Asset Utilisation, Optimum Substation Design and Timely Completion of Projects within Budget.



View of a main intake substation.

In order to improve asset utilisation, strategies to improve cross-divisional planning amongst the core divisions were put in place to increase net efficiency and thus utilising existing facilities in an efficient manner. These include deferring the installation of non-critical transformers, reinforcement of the distribution system and increasing transformer loading capacity. Improvement in asset utilisation would help in reducing the capital expenditure incurred by TNB as well as ensuring that TNB's assets are utilised efficiently.

Strategic initiatives have been put in place to achieve optimum substation design. These include reviewing Substation Control System (SCS) projects and increasing the implementation of Remote Terminal Units (RTU), giving preference to Air Insulated Switchgears (AIS) as opposed to Gas Insulated Switchgears (GIS), optimising conventional substation design and introducing design guidelines for substations.

Focus shall be given to ensure that the management of projects from wayleave management, project identification, tendering and project implementation are completed on time, within budget and satisfying all the quality standards set by the Group.

The third focus area emphasises the importance of human capital to the Division. It focuses on having a conducive environment to excel in work, motivating the staff to work and remain committed in carrying out the objectives and goals of the Division and the Group. During the year under review, the Transmission Division introduced the concept of "Gung Ho" to set the foundation for teamwork to realise these objectives. This concept emphasises the importance of shared goals and values, achievement of stretched targets and goals and the power of encouragement. It was chosen to highlight the importance of teamwork and esprit-de-corps in the Division. This spirit of teamwork will help position the Division towards realising improved efficiency and business excellence.

OperationsReview

Distribution Division, which deals extensively with TNB's external customers is the largest Division in TNB in terms of human resource. Its role is to deliver adequate, reliable and quality supply of electricity together with excellent customer services. Providing distribution engineering services and solutions to customers, effective revenue collection and actively participating in the socio-economic development of Peninsular Malaysia are also fundamental roles of the Division.

distributiondivision



Wisma TNB Perda in Bukit Mertajam.

Strategic Initiatives

To satisfy and balance the needs and requirements of the various stakeholders, the Division uses the Balanced Scorecard to map its strategies. Eight initiatives are being undertaken to improve its internal processes under the T7 strategy:-

1. Reduce losses
2. Improve supply reliability and quality
3. Consolidate relationships with Government
4. Strengthen customer relationships
5. Improve material availability and quality
6. Improve operation and maintenance of assets
7. Connect supply on time
8. Improve employee competency

Some of these initiatives have already yielded significant benefits to TNB, such as the loss reduction initiative which has contributed RM106 million of revenue recovery. The other initiatives are progressing in accordance with the various stages of implementation.

Quality of Supply

Despite further network expansion and complexity in meeting continuously growing demand and customers' needs, the performance of the distribution system as measured in terms of SAIDI – System Average Interruption Duration Index, was maintained at 2002/2003 levels.

Two significant efforts which have contributed to SAIDI performance are:-

1. System-wide programme for the detection and replacement of faulty cable joints through special very low frequency (VLF) testing.
2. Implementation of condition assessment techniques on all major equipment for early detection of possible malfunction.

The SCADA/DA project will bring about further marked improvement in SAIDI. On-going efforts aimed at improving underground cable system performance through the introduction of new joint technologies is expected to improve overall system reliability in the medium to long-term. The Phase 1 project for the Klang Valley will be commissioned in early 2005 and Phase 2 project for other cities will be commissioned by 2007.



24-hour CMC staff at work.

Power quality (PQ) variations is another critical parameter of supply quality especially for most industrial and commercial customers. During the year under review TNB embarked on extensive programmes encompassing PQ awareness programmes for customers and enhanced PQ investigation and advisory services. The PQ awareness programme explains the sources of power quality variations, joint responsibilities of TNB and customers in addressing PQ issues and possible solutions of respective economic value.

In an effort to proactively manage and improve power quality performance, a major move forward is the on-going implementation of the on-line Power Quality Monitoring System (PQMS). This capability would facilitate TNB accessing the status of PQ performance across its systems on a continuous basis and assess their possible impact on critically sensitive existing and prospective customers.

TNB is also gearing itself towards providing more professional and comprehensive PQ services ranging from PQ auditing and PQ monitoring of customer installations, load-side solutions and maintenance.

SUMMARY OF DISTRIBUTION SYSTEM RELIABILITY PERFORMANCE

Reliability Performance Indicator	FY 2000/2001	FY 2001/2002	FY 2002/2003	FY 2003/2004
SAIDI contribution due to faults	197.00	116.00	96.43	100.00
SAIDI contribution due to scheduled outage (maintenance)	60.06	13.72	5.09	5.60
Distribution SAIDI	257.06	129.81	101.53	106.00

The pattern of electricity consumption was seen to be steadily increasing during the year under review as compared with previous years.

ELECTRICITY SALES AND REVENUE Sales and Revenue for FY 2003/2004

	Units (KWh) 2003/04	Units (KWh) 2002/03	%	Value (RM) 2003/04	Value (RM) 2002/03	%
Domestic	12,529,777	11,764,503	6.50	2,923,777	2,742,978	6.59
Commercial	19,966,553	18,367,206	8.71	5,497,719	5,095,045	7.90
Industrial	35,731,517	33,440,146	6.85	7,688,481	7,100,195	8.29
Mining	54,255	56,426	-4.00	7,696	8,034	-4.21
Public Lighting	681,455	663,483	2.71	106,183	103,473	2.62
Total	68,963,557	64,291,764	7.27	16,223,856	15,049,725	7.80

Number of Customers

Total registered customers as at 31 August 2004 was 6,010,087, reflecting an increase of four per cent over the previous year's figure of 5,750,976.

NUMBER OF CUSTOMERS		
	FY 2003	FY 2004
Domestic	4,788,255	5,009,377
Commercial	903,981	940,359
Industrial	21,317	21,249
Mining	32	31
Public Lighting	37,391	39,071
Total	5,750,976	6,010,087

The Sunday Tariff Rider (STR) and Off Peak Tariff Rider (OPTR) introduced in February 2002 expired on 31 May 2004. In view of its effectiveness to stimulate growth and improve the energy efficiency of industrial and commercial customers, both the STR and OPTR were extended until 31 May 2005.

The 'Sinaran Merdeka 2004' incentive scheme was once again offered by TNB to all its commercial customers in conjunction with the Merdeka Day Celebrations and also to support the government's aspirations to brighten and illuminate buildings in city centres. The incentive was offered from 1 August 2004 until 30 September 2004.

Government and Customer Services

During the year, various commercial activities were introduced and implemented. These included dialogues and meetings with industry leaders and large power customers (LPC), to improve relations, sharing information on latest developments within the electricity industry and also to obtain feedback. This helps TNB understand the needs of the business environment and facilitates the improvement of its services to its valuable customers.

TNB also organised Customer Relations Outreach Programmes (CROP) to foster goodwill with society at large, held in selected areas, with the intention of creating an everlasting impression of TNB as a caring corporate entity. Activities included 'gotong-royong', sports, exhibitions, motivational courses and tuition classes for local students.

For the convenience of customers, to date Distribution has 13 offices at state level, 36 area offices, 53 branches, 27 small branches, 13 call management centres and 145 Kedai Tenaga throughout Peninsular Malaysia to provide better facilities, convenience and more efficient customer service.

Rural Electrification Programme

Rural electrification is one of the Government's strategies to improve and uplift the socio-economic standing of the rural population. During the year, a total of 62 projects were completed benefiting 3,792 households at a cost of RM10,705,774. This effort has improved the quality of supply so these customers can enjoy the same comfort and reliability that in urban areas enjoy.

Bill Settlement Facilities

Currently, there are numerous facilities provided for customers to settle their electricity bills; such as the following:-

- a) TNE counters
- b) One-Stop Collection Centres (Telekom, Pos Malaysia, Local Councils)
- c) Direct debit through savings/current accounts (participating banks are Maybank, Public Bank, Bank Pertanian Malaysia, Bank Simpanan Nasional and HSBC)
- d) Maybank, Citibank, AMEX and MBF Auto Debit Payment via Credit Card
- e) Payment online via websites of Citibank, HSEC, Bank Islam, Maybank and MBF
- f) Over-the-counter payment at Public Bank, Public Finance, Bank Islam, Bank Pertanian and Bank Simpanan Nasional
- g) Payment via ATM at UOB, Public Bank, Maybank, Bank Rakyat, ECOB, RHB, BSN, Bank Islam and all MEPS automated teller machines
- h) Payment via phone banking for MBF credit card and Maybank savings/current accounts
- i) Mobile collection through Bank Pertanian vans (rural areas).

During the year under review TNE widened the coverage of its direct debit scheme through an additional participating bank (Bank Islam), whilst HSEC opened up a direct debit scheme for its corporate customers. The direct debit scheme will be extended further to include Alliance Bank and EON Bank in the near future.

eCIBS

The existing system in use for maintenance of customers' information, billing and collection is currently being upgraded under the eCIBS project. The eCIBS will centralise and modernise the existing software providing TNE with a more reliable and flexible platform for continued use and future enhancements.

The upgrade will also provide significant new functions such as comprehensive Large Power Customers' meter maintenance, customers' load profiles, online real time bill payment updating, online nationwide customers' enquiries, and streamlined business processes that will all provide immediate benefits.

The new system will leverage on current systems and new technology in TNE such as internet bill payments web-enabled for customer interaction and self-service, interface with Remote Meter Reading systems for efficient billing processes, and utilising existing ERMS and EHRMS.

Support For Renewable Energy Development

The signing of three new Renewable-Energy Power Purchase Agreements (REPPAs) totalling 19 MW this year with Haluri Ventures Sdn Bhd, Sunquest Sdn Bhd and Recycle Energy Sdn Bhd underlines TNE's continuous support for the Government's Small Renewable-Energy Power (SREP) Programme. This brings the total number of REPPAs signed by TNE in Peninsular Malaysia since the launching of the SREP Program to five, with a combined capacity of 26.2 MW. TNE also commenced importing electricity in April 2004 from the Jana Landfill SREP project in Selangor, the first project to be commissioned under the Government SREP Program.

Operations Review

Two of the three new SREP projects utilise oil palm waste as the renewable energy (RE) fuel while the remaining project produces gas from municipal solid waste as input fuel for electricity generation. TNB is also actively negotiating REPPAs with other developers of mini hydro, landfill gas and biomass (oil palm waste, wood waste, rice husk etc) SREP projects. These three RE fuels currently represent the best potential for commercial exploitation in Malaysia.

TNB Energy Services Sdn Bhd

TNB Energy Services Sdn Bhd (TNB-ES) specialises in providing quality and reliable energy solutions to TNB customers. TNB-ES offers a complete package to undertake and develop Renewable Energy, Power Quality, Energy Efficiency, District Cooling System and Thermal Energy Storage projects.

During the year, the Power Quality Unit of TNB-ES completed four supply side studies namely at Nippon Electric Glass and Southern Wire, six customer side studies/tests at Kamaya and Kanela, 2 PQ mitigation equipment trial-runs at Southern Wire and Carsem, and one special project on Power Quality Monitoring System (PQMS).

Jana Landfill Sdn Bhd (JLSB), a subsidiary of TNB-ES, has successfully completed a premier showcase 2.0 MW Renewable Energy Power Plant project using landfill gas at Puchong, Selangor. The plant is currently supplying electricity to the distribution network in Puchong commencing in April 2004, based on a Renewable Energy Power Purchase Agreement (REPPA) signed in Oct 2001.

In addition, TNB-ES is currently installing a remote 24-hours Solar Hybrid Power Supply system to four islands off Mersing, Pahang for Ministry of Rural and Regional Development and Wilayah and Ministry of Energy, Water and Communications through TNB and this is scheduled for completion by the end of 2004.

TNB-ES completed the Thermal Energy Storage projects for both Sg. Buloh and Serdang Hospitals and in addition, UNITEN has also appointed TNB-ES to undertake the maintenance of the District Cooling Plant. TNB-ES through Pendinginan Megajana Sdn Bhd, a joint venture District Cooling company, is currently selling chilled water for air conditioning to 16 buildings such as Setia Haruman, DHL, Shell, Ericsson, NTT, MDC and Telekom in Cyberjaya.





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The Finance Division of TNB has overall responsibility over the financial management of the Group covering Budgeting, Financial and Management Reporting, Treasury Management, Funding and Investor Relations. The Division is also responsible for Strategic & Financial Planning, Business Development as well as Enterprise Wide Risk Management.

finance division

The Division maintained the four main strategic imperatives as its key focus areas in line with the Group-wide transformation initiatives. These are to:-

- Achieve operational excellence;
- Improve human resource competency and motivational levels;
- Review and upgrade financial information systems and processes; and
- Enhance financial risk management.

In addition, the Division strived to achieve a more efficient debt liability management programme by the effective and dynamic administration of debt obligations and cash balances.

The Finance Division, as one of the main users of the Enterprise Resource Management System (ERMS), led a comprehensive review exercise to fine-tune and enhance the various finance-based applications of the System. The approved Group financial policies and procedures were also reviewed together with the corresponding financial operating procedures in line with other systems being implemented, in particular the ERMS. The Division reviews and maintains the Enterprise-Wide Risk Management (EWRM) framework for the Group to ensure that the business risks are identified, analysed and mitigated adequately and effectively.

In the area of Strategic and Financial Planning, the Division played a key role in the Company's strategy formulation, business planning, performance management, benchmarking, as well as preparation of the Group's financial projections and a simulation exercise thereof assuming different business environments. The latter analysis provides Management with guidance and direction as to optimal alternatives and strategies to adopt to ensure sustainable earnings growth. The emphasis therefore was to:-

- i. analyse various alternatives to internal housekeeping and their contribution towards the Company's profitability;
- ii. establish the debt liability management programme for TNB to effectively manage the Company's total borrowings;
- iii. assess TNB's long-term financial obligation for capital expenditure and debt servicing of both principal and interest; and
- iv. analyse TNB's long-term financial risk and exposure.

These initiatives were aimed at delivering enhanced accounting and financial support to improve TNB's competitive position and added value whilst providing tools for better financial controls and corporate governance.



Signing of Corporate Bonds agreement for Kapar Energy Ventures.

Funding & Debt Liability Management Activities

During the year under review, the Ringgit short-term interest rate environment continued to be accommodating, as it was in the year before. TNB took advantage of the scenario by utilising short-term facilities such as Bankers Acceptances (BA), Revolving Credits (RC) and Commercial Papers (CP) substantially to meet its funding and working capital requirements. The total amount of BA, RC and CP facilities utilised on an average three month tenure was RM5,225 million.

The year under review also saw the completion of the Private Placement of a 30-year ¥26.0 billion loan facility with the American Family Life Assurance Company of Columbus, USA (AFLAC Facility). The transaction was structured as a "Reverse Dual" arrangement where the principal obligation is denominated and payable in Japanese Yen whilst interest is to be serviced in US Dollars.

TNB had also completed the issuance of 5-year RM200 million Convertible Redeemable Income Securities (CRIS) in May 2004. The CRIS as structured will enable TNB to enjoy the benefits of a low coupon rate and upon conversion into ordinary shares, raise the equity component of the balance sheet whilst eliminating the obligation of principal repayment. This is consistent with the main objectives of the debt liability management program, more specifically to manage and attain an acceptable level of debt and gearing position.

On 8 July 2004, Kapar Energy Ventures Sdn Bhd (KEV), a 60 per cent subsidiary company of TNB issued RM3,402 million non-recourse Al-Bai Bithaman Ajil debt securities as well as a RM200 million Murabahah working capital facility. This marked the completion of the long-drawn divestment exercise of Kapar Power Station to KEV. As a result of this sale, TNB received RM3.4 billion cash after deducting

TNB's equity contribution in KEV and the deposit paid by Malakoff Berhad, the 40 per cent shareholder of KEV. The net proceeds will be utilised to finance capital expenditure and to repay short-term facilities such as BAs, RCs and CPs on maturity.

As part of its financial risk management strategy, TNB manages its exposure to market rate movements of its financial liabilities through the use of derivative financial instruments.

During the year under review, TNB entered into forward and currency option agreements with banks to minimise the exposure to currency volatility. Typically, these agreements are for a period of less than one year.

As an example, TNB entered into several long-dated currency option agreements with a notional amount of ¥26.0 billion to hedge its AFLAC Facility. This arrangement enables TNB to minimise its exposure to foreign exchange losses that may arise from adverse fluctuations in foreign currency exchange rates relative to the AFLAC Facility.

As a matter of policy, TNB enters into derivative transactions with counter parties (i.e. financial institutions) that are creditworthy largely based on their respective financial standing. Accordingly, the Directors of TNB are of the view that counter-party risk that is the threat of non-performance by these institutions is unlikely if not remote, based on their respective financial position.

Notwithstanding, an independent and comprehensive review is being undertaken of the derivative position of TNB with the main purpose of clearly identifying potential exposures both inherent in the transaction as well as forthcoming changes in accounting standards.

Financial Ratios

It should be noted that the targeted results of the debt liability management programme will only be apparent and translated into stronger financial position in years to come. Coupled with internal efforts to improve the level of operational efficiency, optimal operating cost structure as well as close monitoring over capital expenditure, TNB is determined to improve its financial position which could be benchmarked as reflected by the following financial ratios:-

Financial Ratios	Financial Year				
	2000	2001	2002	2003	2004
Self-Financing Ratio	46:54	-5:105	19:81	40:60	25:75
Effective Weighted Average Cost of Funds*	5.9%	5.3%	5.3%	4.9%	5.3%
Currency Mix (RM: Foreign)*	47:53	46:54	48:52	49:51	51:49
Debt Service Cover Ratio	1.6x	0.8x	1.5x	2.0x	1.6x
Debt-Equity (Net of Cash) Ratio	1.85	1.66	1.98	2.11#	1.94#

* reflective of RM equivalent of currency exposure

after MASB 25 – Income Taxes and MASB 29 – Employee Benefits

Strategic and Financial Planning

TNB is determined to transform itself into a “value-driven” organisation providing the appropriate returns to its stakeholders. An integral component of this initiative is for the Strategic and Financial Planning team to formulate and formalise the overall strategic plan of TNB moving forward. This team encompasses what was previously the Corporate Planning function together with the Financial Planning activities of the Finance Division.

A central element of the “value-driven” initiative as well as the comprehensive tariff review process is the engagement of a firm of external consultants to undertake among others the benchmarking exercise to provide TNB the “point of reference” vis-à-vis utilities worldwide. Strategic Planning is the designated project owner to among others institutionalise the benchmarking methodology within TNB as well as continuously update the database to the extent possible.

The Financial Planning team led the comprehensive tariff study coordinating the inputs from the entire organisation and simulating the future financial implications to TNB given differing circumstances. More recently, TNB engaged a firm of external consultants to develop a cashflow-based dynamic strategic planning model as an additional management tool to formulate policies and strategies. This model will encapsulate all aspects of the business and operations with sufficient granularity and adequate flexibility with “menu-driven” features to simulate numerous “what if” scenarios and generating various financial indicators. As the project owner, Financial Planning will be the custodian of the planning model that will be the “nervous system” of TNB.

As part of the Strategic and Financial Planning function, a Strategic Unit is responsible to facilitate and support the Division’s T7 initiatives with the main objective of preparing the Division’s business plan and monitor, update and avail the KPI data of the Division at all times.



Launching of the EWRM Policy and Guidelines by our former President/Chief Executive Officer.

Business Development

The Business Development team is responsible for implementing the Group strategic investment policy and decisions, providing support, advice and leadership of new business ventures, collaborations and projects. The team is the focal point for all new business/project ventures working closely with members of the core divisions and subsidiaries of TNB co-opted to specific proposals.

During the year under review, the team played a key role in the major divestment activities of TNB, a function that is now assigned to the Investments Management Division. Specifically:-

- (a) On 26 September 2003, TNB concluded the acquisition of 70 per cent of Dynamic Acres Sdn Bhd, the company with the concession rights over a coal mine in Kalimantan, Indonesia. The acquisition exercise was financed through an offshore non-recourse financing totaling 80 per cent of the purchase price of USD85.0 million.
- (b) On 25 February 2004, TNB entered into a Share Sale Agreement with Sime Darby Berhad and Hypergantic Sdn Bhd for the full divestment of TNB's interest in Port Dickson Power Sdn Bhd. The transaction was completed on 9 August 2004.
- (c) On 11 June 2004, TNB entered into a Share Sale Agreement with Malakoff Berhad and the Employee Provident Fund Board for the disposal of TNB's 20 per cent equity interest in Segari Energy Ventures Sdn Bhd. The completion of this transaction is pending the fulfillment of certain condition precedents of the said agreement.

Notwithstanding, given the immediate need to streamline the core businesses and activities of TNB and its group of companies, the Company has consciously embarked on a strategy to develop its internal resources and formalise a competent and proficient O&M (operations and maintenance) capability. The investment strategy henceforth will be focused on this O&M capability minimising significant equity involvement in core projects or businesses.

The Overseas Ventures unit of Business Development is focused on coordinating activities in international cooperation and networking, and conducting policy research on international cooperation such as the World Trade Organisation and GATS. Key achievements include the management of TNB activities in several forums including Head of Asean Power Utilities and Authorities (HAPUA), The Association of The Electricity Supply Industry of East Asia and Western Pacific (AESIEAP) and developing and maintaining relationships with utility companies worldwide from Japan, China, Tanzania, Bosnia, Kingdom of Saudi Arabia, Thailand, Yemen, Indonesia, Vietnam and the government of Syria.

Investor Relations

The Investor Relations Unit (IRU) played an integral role in disseminating corporate developments by providing the platform for regular inter-active communication between TNB and its existing and potential investors as well as research analysts.

During the year under review, alongside leading investment banks IRU coordinated several investor conferences with the participation of the leadership management team of TNB. The Company participated in several "Malaysia Corporate Day" Conferences both in Asia and Europe. A total of three (3) non-deal roadshows were arranged covering major cities in Europe including Stockholm and Copenhagen where Asian corporates rarely visit as well as the Middle East and subsequently Tokyo.

As part of the investor relations program, TNE maintains an active dialogue with the credit rating agencies to ensure that information is continuously updated hence providing fixed income investors with a credible information base.

As part of the human capital development efforts of TNE, two (2) executives participated in the Investor Relations Society (IRS) education programme in the United Kingdom. The programme provides essential information for investor relation practitioners at every stage of their career improving the communication skills and techniques, a prerequisite for effective investor relations in an increasingly complex regulatory regime.

With the increased sophistication amongst investors, premium is typically accorded to companies that provide easy access to quality information on a timely and consistent basis. The reliability, accuracy and timeliness of information disseminated to the investors is crucial. It is for this reason that IRU implemented the Investor Information System, a fully integrated database system to centralise, manage and control information that is provided to the investment community. This complements the information and database that TNE's website www.tnb.com.my already provides.

Enterprise Wide Risk Management (EWRM)

Enterprise Wide Risk Management (EWRM) is tasked with the responsibility to integrate and formalise a risk management system and its processes for TNE and its group of companies given the Company's strategic initiative to identify, analyse and mitigate the business risks in a systematic and structured manner. These functions comprise of the implementation of an effective risk management framework and programme, the arrangement and maintenance of operational insurances for TNE assets, personnel and liabilities, and the insurance programme insurances of TNE projects.

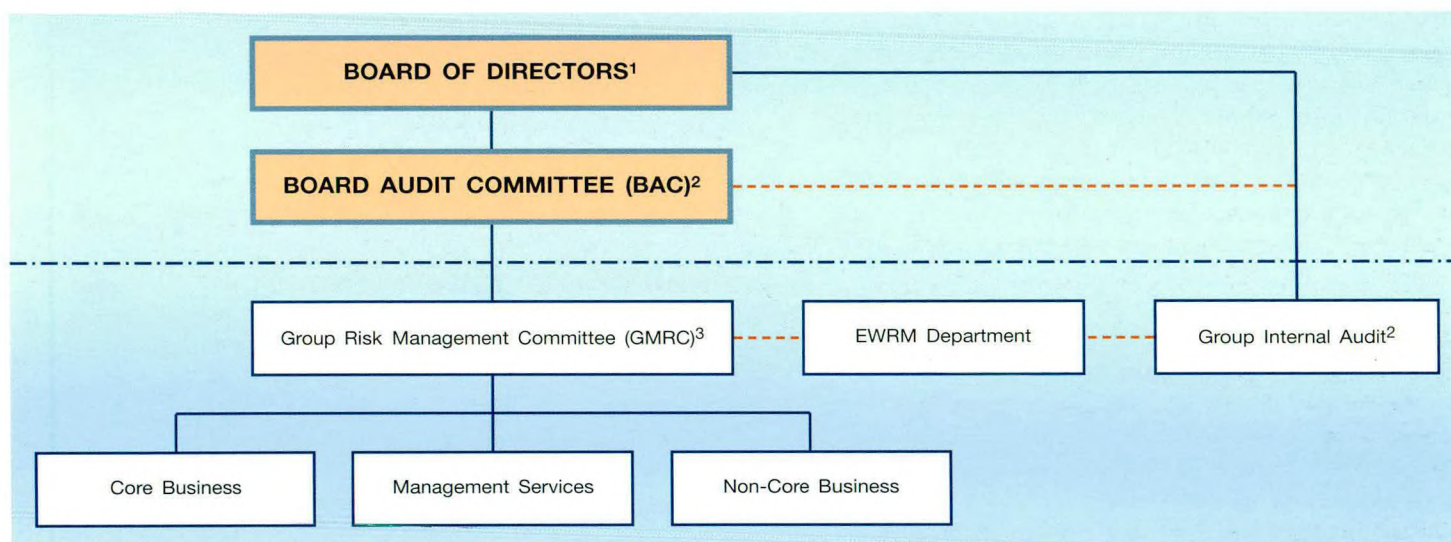
Risk Management

During the year, EWRM had successfully implemented the final phase of the risk management framework across the TNE Group and SESB. As a result, risk profiles that have been prepared by the respective department/division/subsidiary enables the management team to make conscious and visible risk management decisions by formulating necessary action plans, implementing them and monitoring its results.

The EWRM Policy and Guidelines were established to ensure that principles of the risk management framework are consistently adhered to across the Group.

OperationsReview

The EWRM Policy and Guidelines state that the operating divisions are responsible for the management of risk within their own areas of responsibilities. It also defines the roles and responsibilities of the various parties involved in the risk reporting structure as shown below:-



1. Board of Directors is responsible for risk management and internal control and communicating the requirements of the policy and guidelines. The Board must satisfy itself that significant risks are appropriately managed, the group-wide risk management system is robust to respond to changes in the business environment and the appropriate reporting structure is in place to support the delivery of the policy and guidelines on an ongoing basis.
2. Board Audit Committee (BAC) is assisted by Group Internal Audit to independently review the adequacy and effectiveness risk management at the TNB Group and its associated controls. BAC will report on its deliberations and findings to the Board based on the reports received. In addition, it

assists the Board to establish appropriate policies on risk oversight and management, to oversee the implementation of the risk management system and to review its effectiveness. It is also to keep the Board informed on risk management matters and has the authority to direct special investigations, on behalf of the Board, into significant risk management activities.

3. Group Risk Management Committee (GRMC) is responsible for the continuous development of risk management, supervision of its implementation and presentation of periodic reports to the Board via the Board Audit Committee.

Among the activities carried out were risk management awareness seminars, risk management software development and installation, and more than 30 risk assessment workshops.

With the completion of the final phase and the implementation of the policies and guidelines, a uniform application of risk management is being carried out across the Group to cultivate a comprehensive risk culture that enhances productivity and shareholders' value. Half-yearly risk reports are being submitted to EWRM from all divisions/

subsidiaries/departments to be analysed and compiled for onward reporting to the Group Risk Management Committee and the TNB Board of Directors.

Financial Control

Given the relentless efforts to institutionalise the Group Financial Control Risk Management Framework in the previous Financial Year, the focus during the year under review was to harmonise accounting practices and procedures throughout the Group to create a common pool of knowledge and reference in terms of good accounting practices and internal control systems.

This, in turn, promotes a cost effective and timely compilation and communication of accounting procedures throughout the Group by eliminating any potential duplication of efforts by the respective divisions and subsidiaries. It also creates greater mobility of the Division's accounting personnel given the commonality in accounting procedures and internal control systems practised throughout the Group.

Another impetus for cost effective harmonisation of accounting practices and procedures is risk management. With an adequate understanding especially of the financial risk profile of the Group within the context of the EWRM framework, Management will be able to formulate and enact the best accounting practices and control mechanisms that effectively mitigate such risks.

In the area of Treasury risk management, various funding and hedging proposals were reviewed and detailed reports incorporating assessment of risks and policy compliance requirements tabled. Milestones were achieved in reviewing existing treasury management policies, procedures and manuals with the goal of ensuring that these are in line with the best current market practices.

Insurance

EWRM had also successfully arranged and procured adequate annual insurances for TNB Group and its major projects during the year. EWRM ensures adequate financial protection to TNB's operating assets, personnel and liabilities due to insurable risks. This year the overall cost of insurance has been successfully reduced by nine per cent in addition to improvements in the policy coverage compared to the previous year.

In comparison to the previous year, the total number of new claims reported for this year had decreased by 25 per cent.

EWRM continues to arrange relevant insurances for TNB projects through locally based insurance companies, manage the associated claims and offer assistance and advice with regards to better risk management in project implementation. Relative to the previous year, there was a slight increase in the sum insured declared and the estimated loss amount for the year reduced by 46 per cent. The total number of claims from as early as 1995 up to 2003 had also been substantially concluded resulting in a reduction of more than 17 per cent of such claims as compared to the year before.

EWRM is also actively involved in discussions regarding insurance and risk management clauses for the implementation of the FIDIC (International Federation of Consulting Engineers) form of contracts for the standardisation of all future TNB project contracts.

The Way Forward

EWRM will continue to monitor the implementation of the risk management framework across TNB Group and to embark on continuous risk management awareness programmes and seminars.

In addition, EWRM aims to review and continue to improve on the arrangement of insurances for TNB and its group of companies and its major projects by ensuring adequate insurance cover at reasonable costs. EWRM would be expanding its functions to introduce, implement and monitor a structured and comprehensive Emergency Response Plan (ERF) within TNB Group.

INTRODUCTION

The Corporate Services Division is a new division established from the recent TNB macro restructuring. Comprising six departments, its main activities and responsibilities are to provide support services to TNB in the areas of Legal, Procurement, Property Management, Logistic, Research and Security.

corporate services division



UNITEN College of IT, Bangi

Although the division is new, the various component departments were already functioning previously. Streamlining and reprioritisation of all departmental activities to be in line with the new division strategies and overall TNB objectives will be the main focus of Corporate Services for the coming Financial Year.

1. PROCUREMENT SERVICES

The Procurement Services Department (PSD) is tasked with formulating procurement policies, provides related procurement advice and ensures policy compliance on all procurement-related activities for the Group.

The revised Procurement Policy and Procedure, launched during the year under review, was developed to enhance the effectiveness of the procurement process for TNB, incorporating best business practices and good corporate governance. A series of seminars was organised to disseminate the new policy and procedures to all TNB staff.

2. LEGAL AFFAIRS

The Legal Affairs Department (LAD) is charged with the role of providing quality and timely services in all legal and corporate matters while continuing to effectively manage litigation matters in order to protect all TNB interests.

During the year under review the Department embarked on the implementation of the Legal Management System (LMS). This web-based LMS enables all legal officers to access and update vital information on all their cases.

3. PROPERTY SERVICES

The Property Services Department (PSD) provides comprehensive property-related services such as project planning, asset procurement, property management and property maintenance to the Group.

4. LOGISTIC SERVICES

The Logistic Services Department is a new department, comprising of the Workshop and Freight Forwarding Departments. It focuses on repair and maintenance of vehicles, supply of mobile generating set for emergency power and acting as a one stop integrated center in coordinating and providing logistic services. During the year in review, the department undertook the implementation of the Enterprise Resource Management System (ERMS). With this system in place, all information may be accessed in real time from a single source that will subsequently improve business efficiencies.

The Department also implemented and practiced the quality initiative 5S (Seiri, Seiton, Seiketsu, Seiso, Shitsuke) system which leads to cleanliness and uniformity, hence increasing employee efficiency.

Men at work in the TNB workshop.





TNBR's office and research centre in Bangi.

5. TNB RESEARCH SDN BHD

TNB Research Sdn Bhd (TNBR) is the research arm of Tenaga Nasional Berhad. Its main role is to enhance the core business of TNB in the area of power Generation, Transmission and Distribution through Research and Development, Laboratory Services, Quality Assurance and Environmental Studies.

TNBR has been accorded the status of an approved R&D company by the Malaysian Industrial Development Authority (MIDA). This allows organisations that use its expertise to enjoy a double taxation exemption on their research funding.

The company obtained the MS ISO 9001: 2000 Quality System certification in Management and Implementation of R&D projects and MS ISO 17025 for Laboratory services.

TNBR's qualified researchers from various disciplines are recognised as experts in their own specialised fields. TNBR is represented in various prominent professional bodies and societies including Panel Penilai Pemantauan Projek Penyelidikan IRPA RMK8 (Kumpulan Fokus Tenaga); Technical Committee on Power Quality (Malaysian Standards); Technical Committee on Electromagnetic Compatibility (Malaysian Standards); Working Group for Utility Interfaced Solar Photovoltaic System (Malaysian Standards); Committee for Electron Microscopy Society; Organisation and Management of Energy Efficiency Award for Energy Commission and Selected External Examiner and Supervisor for postgraduate studies.

Equipped with state-of-the-art facilities to support research activities as well as to provide technical services to the Electricity Supply Industry, the Research Centre is located next to the main campus of University Tenaga Nasional. This creates good synergy on collaborative research and services.

TNBR has completed its technology roadmap which is a long-term plan in undertaking research for the Electricity Supply Industry (ESI).

Currently, 95 per cent of the research projects undertaken by TNBR cover important areas in TNB generation, transmission, distribution and the environment. Most of these projects have direct linkage to TNB T7 initiatives.

The other businesses of TNER are services Laboratory Testing, Quality Assurance and Environmental Impact Assessment (EIA) Studies. The five laboratories (Advanced Material, Transformer Oil Testing, Water and Air, HV Testing and Mechanical Engineering Design and Prototyping) currently offer their services to TNB as well as to other industries.

As the appointed quality agent for TNB, TNER has to ensure that products supplied to TNE meet relevant quality standards. These include the Factory Acceptance Test (FAT), Second Party Audit, Product Acceptance and Product Certification.

TNER is a registered EIA consultant with the Department of Environment, Malaysia and has also been engaged to carry out environmental studies mostly by TNB. These include the Emergency Response Plan as well as the Pre- and Post- Project Environmental Monitoring Plan.

TNER's contribution to these research activities has received several important recognitions such as The TNE President Quality Award for the "Most Improved Subsidiary" from our parent Company and as "Customer Of The Year" from SIRIM Berhad.

TNE has adopted TNER projects such as "Vegetation Management" to help reduce forced outage in the distribution system, and "Optimisation of Hydro Energy Utilisation" to help increase the power generation capability of the hydro system.

6. SECURITY SERVICES AND INTELLIGENCE

The Department is responsible for providing security services for the Group especially the Core Divisions of Generation, Transmission and Distribution by implementing security operations at power stations, substations and regional warehouses. The main business of the Department is to provide efficient and cost effective security services to ensure all TNE key installation operations remain secured and protected. The essential function of the Department is to prevent intrusion and protect all TNE assets to ensure uninterrupted power supply to the nation. In line with the above, the Department has embarked on a few strategies to improve its service. One is to identify and differentiate all TNE electrical installations and buildings so as to be able to focus on crucial ones where security of the installation is critical. More hi-tech monitoring systems will be installed where necessary.

With a staff strength of over 200 consisting of senior managers, executives, including State Security Officers, and other security personnel of various ranks, the Department is well placed to play its role in providing security to all TNB key installations.

In order to maintain professionalism and high standards of service, personnel are sent regularly for training. Training methods run from on-the-job to classroom training and range from motivational to technical courses.

In line with its role as an auxiliary police force, the Department also maintains a close relationship with the nation's police force. This close relationship enables the department to call for police assistance whenever necessary.

OperationsReview

In support of TNB's long-term human resources strategies and initiatives set out under the implementation of T7, the year under review saw the Group Human Resources Division focus on realising the full potential of human capital within the organisation.

group human resource division

Human Resource Planning and Development

A key planning area is the concept of Succession Management which is a deliberate and systematic effort to ensure continuity of leadership in key positions, retain and develop intellectual and knowledge capital for the future, and encourage individual advancement.

The objectives here are to identify and assess talented leaders for key positions, develop potential leaders by closing their competency gaps, retain talented leaders to serve TNB thereby ensuring continuity, and that the external recruitment for key executives is only carried out in the event that there are no suitable internal candidates to draw upon.

The implementation of Succession Management by TNB is in line with good Corporate Governance. It provides employees with continuous education and learning opportunities based upon their competency gaps. These programmes, providing training to both newly recruited as well as existing employees, also groom employees for their career development within the Group.

Training and development interventions were also made available to provide employees with the required knowledge and skills to perform their tasks.

TNB also aims to foster strong teamwork and the sharing of responsibilities when there is a lack of manpower to tackle any crisis situations that may arise.

During the year under review, the Division has embarked on a long-term plan for a Specialist Career Path Scheme. The objectives of this scheme are to develop and retain technical expertise, encourage enhancement of career interest and to promote and sustain technical excellence within the Group.

Compensation Benefits and Performance

The first phase of the Enterprise Human Resource Management System (EHRMS), was successfully implemented as scheduled on 5 July 2004 comprising six modules i.e. organisational management; personnel administration; payroll, loans, retirement benefits and time management.

All TNB's employees have been provided with training on the Performance Management System (PMS). Two main components of the system, Key Performance Indicators (KPIs) and competencies, were used to evaluate their performance during the year under review.

In line with TNB's Business Process Re-engineering the following processes were streamlined:-

- Loan Management Process (for housing, vehicle, computer, electrical appliances and club membership loans). Effective approval systems were introduced. For housing loans the approval period was reduced from two months to two weeks and for all other loans from two months to one week.



Staff striving together during TNB Family Day.

- Retirement Benefits Management Process which enable immediate payment upon retirement.
- Leave Management Process is which centralises and updates staff leave information system.
- Loans Recovery Process which has successfully recovered a sum of RM2.2 million of outstanding debts from ex-staff.

Staffing and Recruitment

One of the initiatives of the Staffing and Recruitment is to provide a career path policy for employees under the new scheme of service. This will ensure that employee productivity is continuously increased and upgraded. The objectives of these initiative are to provide a developmental career path for their promotion and upgrading, establish an integrated and meaningful career path in alignment with the training and development of employees and establish a competitive scheme of service similar to other organisations in the private sector.

A complete process mapping of all human resource work processes has been developed. This is due to the migration of the previous Human Resource Information System (HRIS) to the Enterprise Human Resource Management System (EHRMS). The objectives of this initiative are to align the human resource policies, guidelines and work processes with TNB's requirements and direction, to create and develop an efficient staffing and recruitment process and to standardise the human resource work processes throughout TNB.

Industrial Relations

There are three registered trade unions and one association representing about 83 per cent of the workforce in TNB. The Company continues to enhance employee relations and harmony by having regular discussions and meetings between the unions, associations and management.

Joint Consultative Council meetings were held regularly during the year to resolve employment and related issues amicably. TNB regards the Unions as its strategic partners and they have been very supportive.

Institut Latihan Sultan Ahmad Shah (ILSAS)

In order to achieve the vision to be the "Centre of Excellence in Power Utility Training" and to be recognised internally and internationally, ILSAS began cooperation with its technology partners, The Welding Institute of the UK (TWI) and Turboinstitut of Slovenia (TI).

To date it has become one of the Reference Centres for Nepal Electricity Authority (NEA), Vietnam Electric Company and Pusat Listrik Negara of Indonesia (PLN). Internally, ILSAS has been providing several technical courses to Sejangkat Power (an IPP in Sarawak), Sabah Electricity Sdn Bhd (SESB) and for external participants the 'Electrical Chargeman Competency Certificate' for the Energy Commission of Malaysia.

Under the umbrella of long-term strategic cooperation and transfer of knowledge between TI and TWI using their respective research and technology bases, training and services in state-of-the-art fabrication, inspection and maintenance, ILSAS, is now offering internationally recognised courses and examinations aimed at general maintenance covering thermal, hydro and CCGT power plants (Turbo-generator, Boiler and Balance of plants).

ILSAS training practices will result in an appropriate balance between education and development of a "competent workforce" and provider of Engineering Support for thermal, hydro and CCGT power plants. Engineers and students will be more motivated, finding interesting and innovative ways to employ technological solutions to Power Plant O&M challenges and other interesting ways to bring 21st century technology into the workplace.

The Information and Communication Technology (ICT) Division was formed to synergise and consolidate all TNB's Information Technology (IT) and telecommunication services.



A Royal visit to TNB booth during ACM 2004.

ICT division

In essence, the Division's responsibility is to provide a total ICT solution for the TNB Group and eventually to external customers. This would encompass serving internal customers in terms of providing both IT and communication services and the external market through TNB's, Fibrecomm Network (M) Sdn Bhd.

The Division is responsible for planning, designing and implementing IT and telecommunication projects to meet TNB Group requirements. In line with TNB's T7 objectives, the year under review saw the Division undertake several major projects, among others, the expansion of TNB's telecommunications network, implementation of the Enterprise Resource Management System (ERMS) and, trials and implementation of Digital Power Line (DPL) communication.

Power utilities worldwide build, operate and maintain their own dedicated telecommunications network to provide services for critical applications such as teleprotection, SCADA, voice, and business applications such as ERMS, e-mail and the Internet. Realising that the ICT services are critical in delivering TNB's utility business, and driven by the need to provide a highly secure, fast and reliable network which must not fail under any circumstances, the Communication Department undertook several projects to complement and enhance the present telecommunications network.

With over 8000 km of fibre optics, TNB is currently upgrading the network to meet the required bandwidth demand to cater for TNB's internal requirement for a more reliable network, and for possible commercial use in the future.



A system analysis monitoring, TNB's data network.

In 2003, the IT Department successfully rolled-out the ERMS project, based on the SAP platform. This system integrates all TNB's business and administration applications, providing a standard application across TNB. The ERMS project addresses TNB's T7 strategic objectives to improve, among others, project planning and delivery, capital budgeting, materials, financial and asset management, and maintenance planning. This system streamlines applications and assists in the decision making process by providing an all-in-one central information depository, active budget checking and better project planning, tracking and monitoring of project progress.

The Department is also on the verge of implementing the Enterprise Human Resource Management System (EHRMS) which would provide a better system in monitoring TNB's human capital. In becoming a more customer-focused organisation, the Department is upgrading the Enhanced Customer Information Billing System (e-CIBS) to cater for the diverse customer needs.

Besides fibre optics, TNB is looking for an alternative cost-effective communication medium for its last mile communication to various TNB offices peninsula-wide. The Digital Power Line (DPL) technology utilises low and medium voltage powerlines (electrical cables) as a physical medium for data transmission. The technology is expected to cater for the various internal business and operational applications. Among the applications and services identified are SCADA, remote meter reading, the provision of high-speed broadband Internet access, and video conferencing.

With the implementation of ERMS and the expansion and upgrading of TNB's fibre optic network, the ICT Division expects to accrue savings to TNB. Besides these, cost savings are also expected to be derived via various other ICT initiatives and current projects, including the setting-up of a self-sufficient internal network telephony system, and in-house Application development.

As a dynamic player in such a fast moving industry, TNB is moving towards creating a more efficient and dynamic working culture. In this light, the Division is inculcating initiatives and team based KPI's to enhance our products and services. Realising the need for a faster and more responsive customer service, the Company has planned to set up several ICT offices all over Peninsular Malaysia. The ultimate aim is to serve our customers better, and provide a quicker response, especially to the regional offices. The ICT Division is thus preparing itself to become a one-stop IT and telecommunication service provider for the TNB Group, thereby reacting directly towards customers' needs and demands.

Investments Management Division is a new division with the sole focus of ensuring all current and potential investments bring a positive value addition to the group. The objective of this division is achieved by closely monitoring all TNB investments whether in the form of subsidiaries, associates or other long-term investments. The investment equity value under its purview is worth RM1.4 billion.

investments management division

The roles and responsibilities of this Investment Division will be to oversee the performance of all long-term investments of subsidiaries as well as associates, comprising core and non-core businesses. Each of their strategic fits will be reviewed within the framework of the Group's strategy. Short and long-term business evaluations are to be carried out periodically.

The Division will recommend either to fix, sell or close actions and conduct turnaround activities as required. It will also identify and determine relevant tools for analysis, format and content of the respective business performance reports, prepare and submit monthly or quarterly management and Board reports.

Investments have been divided into four categories:

- a) Investment for immediate closure
- b) Investment for closure after clearing the accounts and/or clearing legal issues
- c) Investments requiring some fixing before possible full or partial divestment
- d) Investment requiring some fixing with potential growth and positive value addition to the Group.

The Division is also given the duty to reduce the stranded costs associated with unprofitable investments. Few of these unprofitable investments will be fixed in terms of management improvement, profitability and overall quality of profits and services. Merger exercises may also be considered with strategic partners while investments that do not fit the current Group business strategy may be closed down or divested.

The Division is in the process of reviewing suitable tools for business performance analysis and reporting. This includes initial training and continuous competency development programmes. All programmes will be driven by Investment Management Division to ensure effective investment management and to help meet TNB's strategic plans.

Investment Management Division's main responsibilities include Liberty Power Plant in Pakistan and Sabah Electricity Supply Board both of which are involved in the utility business; Malaysia Transformer Manufacturing Sdn Bhd, Tenaga Cable Industries Sdn Bhd, Tenaga SwitchGear Sdn Bhd that operate as the manufacturing arm for TIEB; Fibrecomm Network (M) Sdn Bhd which is involved in the communication and IT related business; University Tenaga Nasional (UNITEN) in the area of education and knowledge development; TIEB Properties Sdn Bhd that focuses its business in property development; and REMACO, TNEC, TNEE and TIE-ES in the engineering services and related functions. Details on some of the major investments are as follows:-

Liberty Power Plant

Liberty Power Plant is a 235MW gas-fired combined cycle power generating station located at Daharti, in the province of Sindh Pakistan. The power plant achieved commercial operations on 10 September 2001 and it is in its third year of operations. The company employs 90 per cent of the locals in various capacities at the Power Plant.

Sabah Electricity Sdn Bhd

The year under review marked the fifth anniversary of the privatisation of Sabah Electricity Sdn Bhd (SESB).

During the year under review SESB focused its activities on turning around the company through the T7 initiatives whilst improving the reliability and supply of electricity. Many projects were implemented to strengthen the supply as well as the transmission system in Sabah and the Federal Territory of Labuan.

The available generation capacity is 690 MW and the maximum demand throughout the state is 513 MW. SESE is serving about 350,000 customers for Commercial, Industrial, Domestic and Public Lighting.

The total sales of SESE in the year under review were RM566.92 million compared to RM521.30 million the year before. Total operating cost was RM247.95 million as compared to RM266.67 million in the year before. The loss before taxation in the Financial Year 2004 was RM227.36 million compared to RM301.76 million in the previous year.

With manpower strength of 2,102, SESB continues to develop its staff competency in order to enhance the productivity of the company.

SESB Generation

The average Cost Per Unit (CPU) for six major SESB plants in the year under review is 15.9 sen/kWh (all generation cost including depreciation costs). The generation cost (RM) ratio for the six major stations and 47 minor and rural stations is 1:3. Therefore the key initiative in reducing overall generation cost was to focus on the six major stations. With the completion of grid projects, most minor stations will be decommissioned. The key steps to reduce generation cost will focus on the following:-

- (a) Reduce diesel based generation,
- (b) Increase generation of hydro and gas plants and
- (c) Improve maintenance

SESB Distribution

The main focus in the year under review is the implementation of the key initiatives identified under the T7 strategy to reduce distribution system loss and to improve supply reliability and quality.

Under the key initiative to reduce system loss, 100 per cent physical checking of all low voltage Large Power Customers (LPCs) metering was carried out. A total of 1,650 customers were checked and 140 were found to have irregularities in their metering. Monitoring of unbilled accounts, meter reading and sales have all been stepped up in an effort to reduce administrative losses.

Operations Review

Towards strengthening the distribution networks and to provide new injection points, several 33/11kV substations are being implemented under the Eight Malaysia Plan (RMK8). These include Labuan, Limbawang (Beaufort), Balung (Tawau) and Sim-Sim (Sandakan) substations. The Labuan and Limbawang substations are almost completed and expected to be in use before the end of 2004. 11kV projects such as installation of auto-reclosers and changing from bare to aerial cable have also been implemented to improve the supply reliability and quality.

SESB Transmission

During the year under review, SESB continued the implementation of the Northern Transmission Grid Project, scheduled to be completed in December 2004. SESB has established a dedicated way leave team to adhere to the way leave and construction planning.

For the year under review SESB Transmission Division achieved the following:-

- (a) A reduction of SAIFI from 2.19 to 0.63 over the target of 1.97
- (b) A reduction of System Minutes from 220 to 86.31 over the target of 192
- (c) Under frequency load-shedding scheme up to 55 per cent has been completed
- (d) Saving of RM10 million per annum by implementing 50 per cent ramp up and 5 per cent ramp down spinning reserve

Prospects

A comprehensive Master Plan for SESB that covers all aspects of Generation, Transmission and Distribution. This will enable the timely identification and implementation of projects and optimisation of SESB's overall resources.

In its effort to contribute towards the social and economic development of Sabah, SESB has set a target of 90 per cent electrification by 2010 to enable more people in the state having access to electricity.

Malaysia Transformer Manufacturing Sdn Bhd

Malaysia Transformer Manufacturing Sdn Bhd (MTM) was established in 1977. As a pioneer manufacturer of transformers in Malaysia, MTM has maintained a leadership position for more than 25 years. With an annual plant capacity of up to 3000 MVA of distribution transformers, 2500 MVA of 33kV power transformers and 3000 MVA of 132 and 275kV power transformers, MTM has been able to provide its customers with various product ranges.

MTM also provide its customers with a broad range of services including retrofitting and refurbishment of power transformers. The company has steadily assisted TNB in the repairing and refurbishing of transformers in the various store yards and power stations. Utilising these services gives TNB major cost savings in not having to send transformers back to their country of origin for repair and refurbishment. In addition, MTM commitment to quality underpins its reputation and success as a reliable manufacturer.

In moving towards achieving the company's vision of being "a world class player in the transformer business by year 2008", MTM has embarked on many initiatives such as KAIZEN for continuous improvement, Safety Excellence Management System (SEMS) for safety and health, Enterprise Wide Risk Management (EWRM) to identify MTM's profile in order to mitigate risk, QCS-IT in which MTM won a silver award in the TNB Logistic Support's QCS-IT convention, and many more. With these ongoing initiatives MTM is proudly attained position 14 out of 54 in the TNB President Quality Award 2003 (AKP) in our first attempt.

In its efforts to produce high quality transformers MTM brought in new machines to upgrade existing machinery at its manufacturing plant.

Looking ahead, MTM will continue to help its customers and support them in their efforts to accomplish their objectives through MTM quality products and services.

Tenaga Cable Industries Sdn Bhd

Tenaga Cable Industries Sdn Bhd (TCI) manufactures and distributes a wide range of power cables including low to medium voltage cross linked polyethylene (XLPE) cables, low voltage general cables, aluminium rod and aluminium alloy rods.

TCI manufactures quality products that comply with various international standards such as International Electrotechnical Commission (IEC) Specifications, British Standard (BS), Japan Institute of Standards (JIS) and American Society for Testing and Materials (ASTM) Standards. TCI also provides total cabling solutions which include engineering services from the design of power cabling systems and transmission lines to the actual installation and maintenance of these systems.

Tenaga Switchgear Sdn Bhd

Tenaga Switchgear Sdn Bhd (TSG) was established to focus on three areas with a view to providing complete solutions; supply of high voltage switchgears, specialised maintenance and turnkey contracting for substations. TSG manufactures 275kV and 132kV Gas Insulated Switchgears (GIS), Gas Circuit Breakers (GCB), and Disconnectors (DS).

Quality products and services are vital to TSG in order to secure a foothold in the competitive high voltage power equipment global market. TSG's products are accredited internationally with Type Test Certificates for conformity to IEC standards and safety. TSG's commitment to quality, safety, and reliability is also demonstrated in its ISO 9001:2000 certification by Standards and Industrial Research Institute of Malaysia (SIRIM).

As part of its ongoing diversification, TSG has increased its involvement in specialised switchgear maintenance with emphasis on critical and specialised services that are currently performed by Original Equipment Manufacturers (OEMs). Through collaboration with these OEMs, TSG will help support TNB by providing services to minimise time for outages and through the application of reliability centred maintenance.

The most significant project during the year under review was the Jalan Pantai Substation 132kV GIS rehabilitation works. The scope of work was to repair 17 bays of 132kV GIS, supply a new Local Control Panel (LCP) and all associated cabling works for the substation which is a critical station in the Klang Valley Grid System. The project was successfully commissioned in March 2004 without encountering any major problems. A great deal of experience and core competency was attained from this project especially on the assembly works of the GIS parts and components. The experience and knowledge gained from this project is very beneficial to TSG for future projects especially in specialised maintenance works of different makes of GIS.

Operations Review

TSG also embarked on retrofitting the Bersia and Kenering power stations, Connaught Bridge generator circuit breaker, retrofitting of the old BBC breakers in the TNB transmission system, as well as the maintenance of disconnectors in the SESB transmission system.

Apart from updating technology on existing products to cope with current market trends, TSG also needs to be innovative in order to realise its vision to be the leader in the high voltage switchgear industry in the region. As part of TSG's reengineering efforts, it is currently working on developing its own technology and design of a 145kV Disconnector.

TSG continues to evolve from assembly activity to manufacturing to development of new design, plans are underway to develop and type test our own indigenous high voltage switchgears by 2005.

TNB Properties Sdn Bhd

TNB Properties Sdn Bhd (TNBP) is responsible for the implementation of property development projects for the Group.

During the year under review, TNBP managed 27 projects, totaling RM123.7 million. These comprised the development of UNITEN buildings (58 per cent), offices (21 per cent), renovation works and interior design (19 per cent). Efforts were made to achieve greater transparency and efficiencies through restructuring of its functions and roles in TNB, improve project delivery adhering to time and cost, and redefine financial operations as well as promoting continuous learning in its present workforce.

Fibrecomm Network (M) Sdn Bhd

Fibrecomm was established in 1997 to address opportunities within the booming Information Communication Technology (ICT) industry. TNB holds a 59 per cent stake in Fibrecomm while the remaining 41 per cent is held by Celcom Transmission (M) Sdn Bhd.

During the year under review Fibrecomm Network (M) Sdn Bhd (Fibrecomm) successfully secured several major customer projects. One such project is leasing of dark fibre to Malaysia Institute of Microelectronics System (MIMOS) and Ministry of Defence (MINDEF), thus positioning itself as the nation's leading internet service provider. This project has certainly helped in spreading awareness of Fibrecomm as a carrier's carrier.

To-date, Fibrecomm has already installed about 98,000 km of fibre optics network and has access to an additional 40,000 km of TNB fibre optics network covering the whole of Peninsular Malaysia. This forms the basis of Fibrecomm's backbone network. Utilising Synchronous Digital Hierarchy (SDH) technology, the backbone network is capable of carrying data at speeds of up to 622 Mbps. By optimising TNB's readily available electricity infrastructure to deliver telecommunication services to the service providers or carriers, Fibrecomm is able to shorten time to market and offer competitive pricing due to the significant infrastructure cost savings. This enables Fibrecomm to contribute a new revenue stream to the TNB Group.

Since its inception, Fibrecomm has progressively expanded in terms of technological and product offering, network coverage and most importantly, in terms of financial performance. Revenue for the year under review was RM44.8 million, registering a 15 per cent growth compared to the previous year.

Universiti Tenaga Nasional

Universiti Tenaga Nasional Sdn Bhd (UNITEN) is a wholly-owned subsidiary of TNE. UNITEN provides higher learning opportunities in engineering, information technology, business management and other related areas to meet TNE's skilled manpower requirement and also the human resource need of the nation.

All UNITEN programmes have been accredited and recognised by the National Accreditation Board (LAN) as well as local and international professional bodies such as the Board of Engineers of Malaysia (BEM), the Malaysian Institute of Engineers as well as the Malaysian Institute of Accountants (MIA), the Association of Certified Accountants (ACCA), Chartered Institute of Management Accountants (CIMA), and the Institute of Secretaries and Administrators (ICSA), all institutions from the United Kingdom and most recently the Chartered Public Accountants, Australia, (CPA Australia), thus enabling UNITEN graduates to follow the Australian CPA programmes.

This favourable situation attracts students from Yemen, Iran, Sudan, Pakistan, Oman, China, India, Brunei Darussalam and others to pursue first degrees and post-graduate studies in the university. Thirty-two executives of the Indonesian National Board of Electricity (*Perusahaan Listrik Nasional*) were accepted into the Masters in Engineering Management and Masters in Business Administration programmes.

UNITEN'S academic excellence is further enhanced by research projects conducted by its academic staff. Thirty-three research projects under the IRPA grant amounting to RM7.1 million were undertaken by the College of Engineering. About 150 research papers were published and 122 conference papers presented at International conferences. UNITEN also successfully organised an international conference on Non-Ionizing Radiation in 2003 with the Ministry of Health Malaysia which served as a platform for researchers and academics to share research findings.

group internal audit

The Malaysian Code of Corporate Governance states that “the Board should maintain a sound system of internal control to safeguard shareholders’ investment and the Company’s assets”. In line with this requirement, the Board has the responsibilities of:

- Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks; and
- Reviewing the adequacy and integrity of the Company’s internal control systems and management of information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

TNB Group Internal Audit (GIA) function was established to assist the Board, through the Board Audit Committee, in carrying out their fiduciary responsibilities. Thus, the core role of the GIA is to provide assurance to the TNB Board of Directors on risk management, the control environment, accountability and efficiency of business operations of TNB Group.

The GIA is divided into several units that focus on the core business, projects and contracts, non-core subsidiaries, corporate and support services as well as information systems.

These units perform audits to assess critical business and control areas in the TNB Group such as:-

- the reliability of electricity supply
- the efficiency of business operations
- the awarding of contracts and project implementation
- the technical performance of power stations
- the metering and billing process as well as revenue collection
- the security, controls and contingency plans of internal information systems
- the performance of manufacturing subsidiaries and educational institutions under the TNB Group

GIA carries out a two-year audit cycle for the entire TNB Group. Some audits of non-core subsidiaries have been outsourced to professional audit firms in order to complete the audit cycle on schedule.

During the year under review, GIA conducted 63 audits covering various activities of core business, corporate services, non-core subsidiaries, computerised billing system and human resource management.

The GIA is actively improving staff competency through seminars and on-the-job training to meet the ever-rising expectations and challenges of internal audit work. The staff of GIA were also given training on the process of Risk-based Auditing as part of the implementation phases of Enterprise-wide Risk Management.

The Company Secretary's Office (the Office) fulfills its statutory responsibility to the Company by providing corporate secretarial and corporate advisory services to the Board of Directors of TNB and its group of companies. In addition, the Office also provides secretarial services to the Group Executive Council and Group Management Committee. The main focus of the Office is to ensure effective functioning of the Board with respect to policy making and other fiduciary duties to TNB Group within the purview of Company Laws, Securities Laws, Securities Commission Guidelines and Bursa Malaysia Listing Requirements.

company secretary's office

The Office ensures that all General Meetings, Board of Directors' Meetings and various Board Committee Meetings are convened and transacted in accordance with the Company's Memorandum and Articles of Association and all the applicable laws, rules and regulations. The Office effectively conveys the resolutions of the Board to the Management and therefrom ensures effective execution by the Management. Throughout the Financial Year under review, the Office convened 19 Board Meetings, 54 Board Committee Meetings as well as 65 Board Meetings of subsidiaries and 16 Board Committee Meetings of subsidiaries.

Operations Review

The Office strives to facilitate an environment which enables the Board to focus on effective decision making. Among the continuous efforts of the Office towards creating such environment is the ongoing compilation of a set of reference documents to assist the Board. One of the documents is the Board Manual which outlines the duties and roles of a director, be it collectively or individually, as well as the established processes and best practices of the Board. The other is the Terms of Reference for each Board Committee, which sets out the decision making parameters and mechanisms to be adopted by each Committee in relation to its purview. The Office also facilitates the participation of Directors in training programs such as the Mandatory Accreditation Program and Continuing Education Program, as well as initiating a comprehensive and formal in house training program for the Board of Directors.

The Office ensures that the statutory returns and relevant documents are lodged with the Companies Commission and other regulatory bodies within the stipulated deadlines. The Company's statutory records are properly kept, maintained and regularly updated within prerequisite statutory periods by the Office and are in good order for due diligence purposes.

The Office is also responsible for share administration matters which include maintaining records of substantial shareholders, maintaining the register of depositors and its statistical report, managing dividend entitlement, administering the allotment of shares under the Employees Share Option Scheme (ESOS) for more than 20,000 eligible employees, providing advisory services to shareholders on matters pertaining to their shareholdings as well as administering the remittance of unclaimed monies in accordance with Unclaimed Monies Act, 1965.

In adopting the disclosure-based regime introduced by Bursa Malaysia, the Office upholds the Company's best corporate practices on disclosure and other compliance aspects in accordance with the guidelines laid down by the Malaysian Code on Corporate Governance. In accordance with the Code, the Office compiles information on directors' remuneration for the purpose of disclosure. The Office also plays a role in steering TNB Group of Companies to keep pace with new developments in the corporate regulatory environment.



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Tenaga Nasional Berhad recognises its responsibility to provide employees with a safe and healthy workplace and proper facilities to help employees do their jobs effectively. TNB is committed to putting in place systems and processes that identify, assess, manage or mitigate hazards or risks faced by employees and stakeholders.

statement of occupational safety & health

Our employees are our most valuable asset. We are committed to the provision and maintenance of a safe and healthy environment and to compliance with statutory requirements. It is also our aim to ensure the safety of our customers, contractors, the public and others who may be affected by our activities.

In line with this policy, TNB shall:-

- Ensure Occupational Safety and Health is incorporated in design, planning, evaluation, and construction of all projects.
- Ensure safe work procedures are complied with during operations and maintenance.
- Give high priority to Occupational Safety and Health in the procurement of all services and equipment.
- Provide information and training to employees and contractors who may be exposed to hazards at work.

- Ensure all incidents, accidents, and occupational diseases are reported, investigated, and corrective measures taken to prevent reoccurrence.
- Promote Occupational Safety and Health awareness amongst employees and the public.
- Carry out regular workplace Occupational Safety and Health inspections, monitoring, and auditing.

In upholding this policy, the employee shall:-

- Work safely and maintain good housekeeping practices.
- Use and maintain all personal protective equipment.
- Report all hazardous conditions, accidents, and occupational diseases.
- Participate in and support all Occupational Safety and Health programmes.

We firmly believe that Occupational Safety and Health contributes to quality, efficiency and the success of our business.

Report On Occupational Safety & Health

TNB continued with its commitment to the 'Safety Excellence Management System (SEMS)', which is key to improving our Occupational Safety and Health (OSH) performance. Our values are focused on the concept of total OSH, through the ongoing integration of Occupational Safety and Health into all activities, with the objective of attaining industry leadership in OSH performance.

The Serdang and Sultan Mahmud Power Stations were both certified with OHSAS 18001 by SIRIM QAS Sdn Bhd.

The Malaysian Association of Occupational Safety and Health (MSOSH) awarded gold/silver awards for the year 2003 to the following stations:

- Sultan Iskandar Power Station, Pasir Gudang, Johor – Gold Award
- Sultan Mahmud Power Station, Kenyir, Terengganu – Gold Award
- Sg Perak Power Stations, Perak – Silver Award
- Connaught Bridge Power Station, Klang, Selangor – Silver Award
- Chenderoh Power Station – Bronze Award

The Sultan Mahmud Power Station, Kenyir, Terengganu was again honoured with a prestigious safety award in June 2004 – the gold medal from the Royal Society for the Prevention of Accidents (RoSPA) United Kingdom.

In July 2004, TNB launched a National Occupational Safety and Health campaign to promote OSH values and understanding. Annual OSH awards were also conferred to TNB stations with the highest SEMS achievement.

Besides the above programmes, TNB also places great emphasis on commuting safety and fire safety. The 'Ride-Safe' programme for employees, 'Bicycle Safety', and the 'Fire Kids Club' programme for children of TNB employees were organised with the cooperation of the Malaysian Volunteer Fire and Rescue Association (MVFRA). A safety programme, 'City Survival', was also introduced to show our female employees how to overcome and survive dangerous situations when commuting to and from work.

As a responsible corporate citizen TNB also embarked on a programme with the Department of Occupational Safety and Health (DOSH) to assist small and medium scale industries through the Mentor Programme. A 'Safety in School' programme, through the National Institute of Occupational Safety & Health (NIOSH) was also initiated. TNB's participation in these programmes indicates the high value the authorities have placed on our OSH management.



Launching of TNB's OSH campaign.

INTRODUCTION

Businesses and their employees are affected in many ways by what happens to the earth's environment. In the 1990's worldwide concerns were voiced over such issues as air quality, water quality, wildlife and forest preservation, toxic waste disposal, pesticides in food, recycling and land reclamation.

statement of environment

Statement of Environmental Policy

Tenaga Nasional Berhad is committed to achieving excellence in environmental management. We are committed to continuous efforts to improve our environmental performance whilst ensuring that we provide a safe, efficient and reliable supply of electricity.

In line with this commitment, TNB shall:

- Protect, conserve and improve the environment in all of its operations and decision making.
- Comply with all applicable laws and regulations, and establish standards that will lead to continuous improvement of its environmental performance.
- Implement an Environmental Management System that will ensure that all impacts to the environment from our operations are eliminated or minimised.
- Carry out Environmental Audits at required intervals to ensure compliance with Corporate Environmental commitments, and implement environmental training programmes for our employees to develop a high level of competency.
- Promote environmental awareness amongst contractors, the public and other stakeholders and to make available our Environmental Policy to them.

It is the responsibility of all TNB staff to ensure that this policy is observed in all their activities.

TNB will attach high priority to environmental performance excellence as we firmly believe that it will contribute to the quality, efficiency and success of our generation business.

Report on Environmental Management

Environmental management programmes were organised by TNB to ensure the implementation of the environment friendly concept by employees. Environmental Week or Month is an annual event in all divisions and subsidiaries to promote the awareness of our employees and the public on the need and importance of conservation of the environment.

In terms of operation, TNB has been the leader in installing the Continuous Monitoring System for its fuel-fired boilers as required by the Department of Environment, Malaysia.

TNB Power Stations and substations have been operating within the allowable noise level of 55 db (A) at the boundaries of its perimeter fencing.

The halon replacement programme with environmentally-friendly alternatives is an ongoing exercise. TNB's objective is to have halon-free installations company-wide by the year 2010. According to its new fire policy, all fire-fighting equipment must be halon-free types.



A view of Kenyir Power Station in synergy with nature.

Training on hazardous wastes has been conducted regularly by all divisions in compliance with the requirements of the Environmental Quality Act 1974 (Scheduled Wastes Regulation 1989).

The Malaysian Government has introduced a policy on waste minimisation and waste recycling. In support of this policy, TNB has formulated a series of programmes throughout the country to promote the 3 'R's – Repair, Reuse and Recycle.

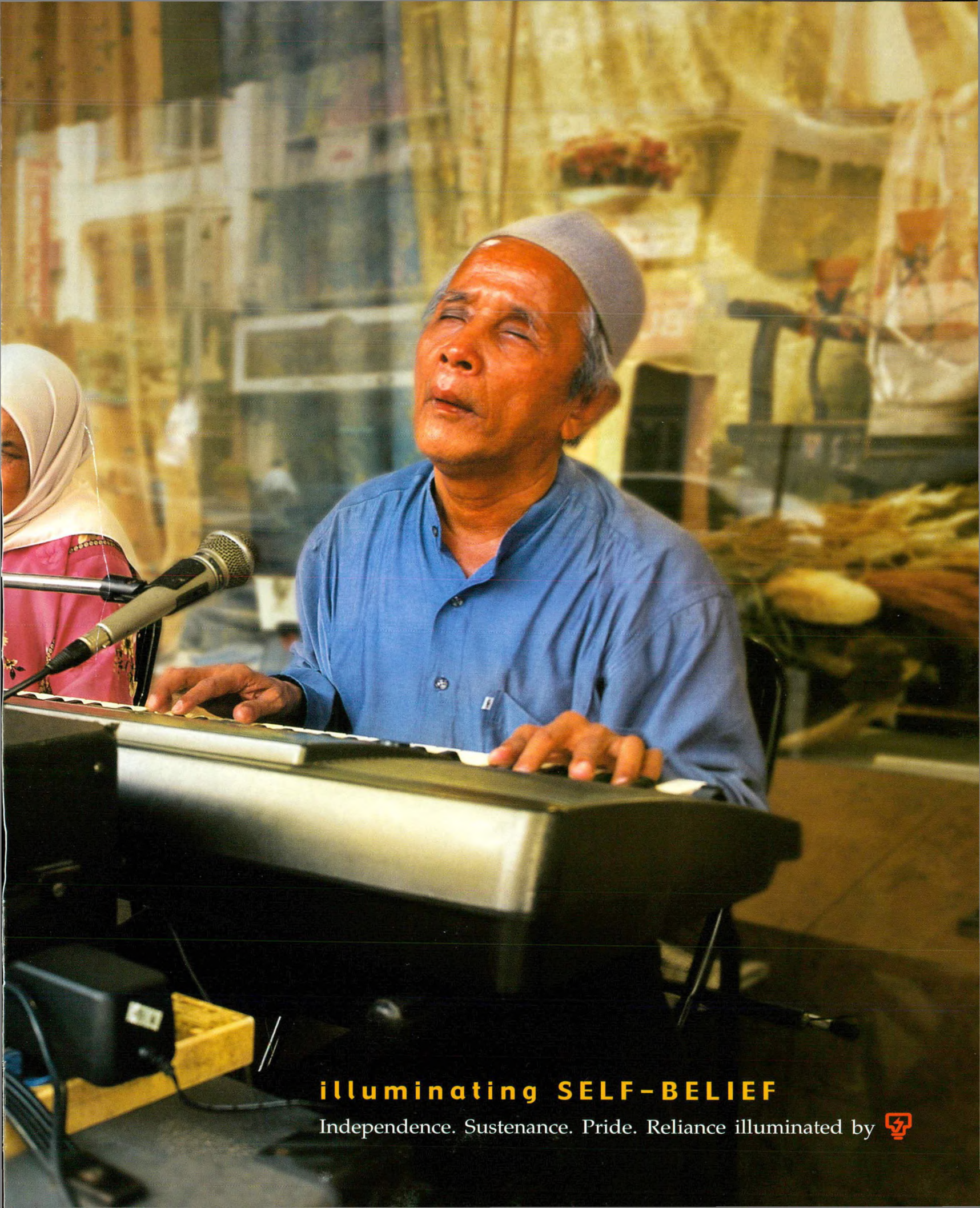
In ensuring compliance with TNB's Environmental Policy and Malaysian Legislation, Environmental Audits based on ISO 14001 are conducted annually for all TNB power stations. This system will be introduced to other divisions of TNB in the near future.

The following power stations have been awarded the ISO 14001 Certification for the year 2004:


- Serdang Power Station, Selangor
- Sultan Mahmud Power Station, Kenyir, Terengganu
- Tuanku Jaafar Power Station, Port Dickson, Negeri Sembilan
- Sultan Ismail Power Station, Paka, Terengganu
- Connaught Bridge Power Station, Klang, Selangor
- Sultan Salahuddin Abdul Aziz Power Station, Kapar, Selangor
- Chenderoh Power Station, Perak
- Prai Power Station
- Sultan Iskandar Power Station, Johor

All power stations have set up an environmental team to fight chemical and oil spillage incidents. These team members have sufficient training and are also equipped with the proper tools to handle such emergencies.





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September
2003

TNB AT ACM 2003

TNB participated in the ASEAN Communications and Multimedia Expo and Forum (ACM) held in conjunction with ICT Malaysia Week 2003 at the Mines. The four-day expo gave TNB the opportunity to demonstrate their business and ICT know how to several international agencies seeking business partnerships.



September
2003

Awards for UNITEN

Universiti Tenaga Nasional (UNITEN) won two awards at the Ministry of Education's "Malam Pendidikan Swasta" for Excellence in Research and Development and the other for the Highest Number of Courses.



September
2003

Hockey Champs

TNB made local hockey history to become the first team to emerge double champions twice in 1992 and now again in 2003. After 11 years it beat Sapura 3-2 in the Liga Hoki Malaysia 2003 at the Pantai Hockey Stadium.



October
2003

TNB'S 54th Year

To commemorate TNB's 54th year of operations, TNB President/CEO Dato' Pian Sukro addressed 2000 employees within Klang Valley calling on them to continue their service to consumers. Chairman Dato' Dr Awang Adek Hussin also spoke to the gathering to thank them for their dedication and urged them to help upkeep the TNB image.

Golf CIPTA 2003

TNB sponsored the Golf CIPTA 2003 Tournament at the Impian Golf and Country Club. CIPTA stands for Centre for Intellectual Promotion and Technology Advancement.

October
2003



Iraqi Aid

As a caring corporate citizen, TNB launched a campaign "Iraqi Humanitarian Aid Fund" to raise funds for the war-torn people of Iraq. The sum of RM45,999 collected from TNB employees was given to the fund.

October
2003



ERMS Launched

The Enterprise Resource Management System (ERMS) was launched on 3 September. The system will enable access to information in real time and will boost efficiency.

October
2003



Prestigious Horse Show

TNB was a sponsor of the prestigious KL Grand Prix International Horse Show 2003 at the Putra Stadium, Bukit Jalil.

October
2003





November
2003

Record Profits for 2003

TNB Chairman announced the financial results for Financial Year 2003.



November
2003

Malaysia-Syria MOU

Malaysia and Syria sealed a MOU for the electricity sector that enables TNB to build a transformer manufacturing plant in Syria. The Malaysian delegation was led by Minister of Energy, Communications and Multimedia Datuk Amar Leo Moggie.



December
2003

UNITEN Wins World Solar Cycle Challenge

Nineteen students from UNITEN beat 11 other teams from all over the world in the World Solar Cycle Challenge 2003 held in Australia.



January
2004

Minister of Kenya Visits

Minister of Energy Kenya Ochilo Ayacko visited TNB and was briefed on TNB operations. They were also taken on a visit to the Sultan Salahuddin Abdul Aziz Shah Power Station at Kapar, Selangor Darul Ehsan.

ICSW Charity Contribution

TNB presented a RM50,000 cheque to the Seri Paduka Baginda Yang di-Pertuan Agong Tuanku Syed Sirajudin Ibni Al-Marhum Tuanku Syed Putra Jamalullail at the "Malam Mesra Penyayang" in aid of the Welfare Council and Social National Development.

January
2004

**EVN Technical Visit to TNB**

TNB received 18 delegates from Electricity of Vietnam (EVN) on a technical visit. The delegates were taken to the Cooling System in Cyberjaya and Solar House at TNB Research Sdn Bhd.

January
2004

**First Quarter Result**

TNB announces the financial results for the the First Quarter of Financial Year 2004.

February
2004

**Bangladesh Visitors**

Bangladeshi Minister of Energy Iqbal Hassan Mahmood and 11 delegates from the Power Grid Company of Bangladesh visited TNB. Their five day visit included trips to the National Load Despatch Centre, Serdang Power Station, Putrajaya and several subsidiaries.

March
2004



	<p>March 2004</p>	<p>MERCY for Earthquake Victims</p> <p>TNB presented RM100,000 to MERCY Malaysia towards relief aid for the earthquake victims in BAM, Iran. Mercy Malaysia's Patron, the Sultan of Perak received the cheque from the President/CEO of TNB.</p>
	<p>March 2004</p>	<p>Indonesian Visitors</p> <p>TNB received 19 visitors from PT PLN PERSERO Indonesia looking to explore closer working ties with both organisations.</p>
	<p>March 2004</p>	<p>TNB-Korea Agreement</p> <p>TNB Research Sdn Bhd signed a Memorandum of Understanding with the Korea Electric Power Research Institute (KEPRI) to explore new grounds and to share research opportunities.</p>
	<p>April 2004</p>	<p>IGE 2004</p> <p>TNB participated in the Industrial Gas Exhibition 2004, held at Mines International Convention Centre, Kuala Lumpur.</p>

McCloskey Asian Coal Conference 2004

Chairman of the Energy Commission, Dato' Ir (Dr) Mohd. Annas Hj Mohd Nor officiated the McCloskey Conference 2004 together with the McCloskey Group Managing Director Gerard McCloskey.

April
2004

**AORC-CIGRE Technical Meeting**

The Asean-Oceania Regional Council of CIGRE's Technical meeting themed 'Convergence of ICT in the Power Industry' was held in Putrajaya. TNB participated in this meeting aimed at promoting the exchange of information among the AORC-CIGRE countries.

April
2004

**Visit to Korea**

Vice President Corporate Planning Development and Services makes an official visit to the Doosan Heavy Industries & Construction in Changwon, South Korea.

April
2004

**CRIS Launched**

TNB launched Convertible Redeemable Income Securities (CRIS) a RM200 million scheme which offers investors the option to convert them to regular shares.

May
2004





May
2004

Bilateral Cooperation

Nine members of the Confederation of Indian Industry (CII) visited the TNB Human Resources Department to look into enhancing productivity and bilateral ties between the two nations.



May
2004

First Half Financial Result Announcement

TNB announced the first half result for Financial Year 2004.



May
2004

Minggu Saham Amanah Malaysia

TNB participated in the 'Minggu Saham Amanah Malaysia 2004' officiated by the Prime Minister in Penang.



June
2004

Study Visit from EVN

The Electricity of Vietnam (EVN) sent 12 delegates on a study visit to TNB.

Tenaga 2004 Expo and Forum

The Tenaga 2004, Expo and Forum was held at The Mines International Convention Centre, Kuala Lumpur, from 15 to 18 June 2004.

July
2004



Corporate Bonds for KEV

Kapar Energy Ventures Sdn Bhd (KEV), owner and manager of the Kapar Generator Station in Klang, in the year 2000, signed an agreement to release the 'Islam Risalah Sukuk' bond worth RM3.602 billion, the biggest release of corporate bonds.

July
2004



SUKMA

TNB was the official sponsor of the 10th SUKMA (Sukan Malaysia) games held in Negeri Sembilan from 28 May to 6 June 2004, with 31 sporting events in competition.

July
2004



TNB/EGAT Signing Ceremony

TNB and Electricity Generating Authority of Thailand (EGAT) signed a Supplemental Agreement for the provision of electricity to provide HIGH Voltage Direct Current (HVDC) to EGAT for a period of 3 years from June 2004.

July
2004





August
2004

Third Quarter Announcement

TNB Chairman Datuk Amar Leo Moggie announced the Company's Third Quarter Result for Financial Year 2004.



August
2004

OSH Launch

TNB launched a National Occupational Safety and Health Campaign (OSH) to promote OSH values and understanding.



August
2004

MTPC Visit

Delegates of Malaysia Technical Cooperation Programme (MTPC) from the Philippines visited TNB to study organisational structure, systems and strategic planning and business operations.



August
2004

Quality Convention 2004

Quality Convention (Federal Territory Operations 2) was held at Alor Star with the theme "Kualiti Penjana Kecemerlangan Bisnes" in line with T7 initiatives.



August
2004

IPP Annual Dinner

900 guests from Independent Power Producers (IPP's) and other energy-related businesses come together in a dinner officiated by Minister Energy, Water and Communications, Datuk Seri Dr Lim Keng Yaik.

analysis of shareholdings

ANALYSIS OF SHAREHOLDINGS as at 4 November 2004

SHARE CAPITAL

Authorised Share Capital	5,000,000,000 ordinary shares of RM1.00 per share, 1 (One) Special Rights Redeemable Preference Share of RM1.00 per share, 1,000 Class A Redeemable Preference Share of RM1.00 per share, 500 Class B Redeemable Preference Share of RM1.00 per share.
Issued and Fully Paid-Up Share Capital	3,176,806,700 ordinary shares of RM1.00 per share, 1 (One) Special Rights Redeemable Preference Share of RM1.00 per share, 1,000 Class A Redeemable Preference Share of RM1.00 per share, 500 Class B Redeemable Preference Share of RM1.00 per share.
Voting Right	One voting right for one ordinary share

DISTRIBUTION OF SHAREHOLDINGS as at 4 November 2004

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Issued Share Capital
Less than 100	220	0.72	2,103	0.00
100 – 1,000	15,162	49.99	14,802,588	0.47
1,001 – 10,000	13,499	44.50	46,091,700	1.45
10,001 – 100,000	964	3.18	29,327,486	0.92
100,001 to less than 5% of issued shares	482	1.59	723,686,952	22.78
5% and above of issued shares	5	0.02	2,362,895,871	74.38
TOTAL	30,332	100.00	3,176,806,700	100.00

SUBSTANTIAL SHAREHOLDERS (five per cent and more)

Name of Shareholders	No. of Shares Held	Percentage
1 Khazanah Nasional Berhad	1,176,821,571	37.04
2 Bank Negara Malaysia	352,438,000	11.10
3 Employees Provident Fund Board	347,266,200	10.93
4 RHB Nominees (Tempatan) Sdn Bhd <i>Petroliam Nasional Berhad</i>	294,778,100	9.28
5 Amanah Raya Nominees (Tempatan) Sdn Bhd <i>Skim Amanah Saham Bumiputera</i>	191,592,000	6.03
TOTAL	2,362,895,871	74.38

LIST OF 30 LARGEST SHAREHOLDERS as at 4 November 2004

	Name of Shareholders	No. of Shares	Percentage
1	Khazanah Nasional Berhad	1,176,821,571	37.04
2	Bank Negara Malaysia	352,438,000	11.10
3	Employees Provident Fund Board	347,266,200	10.93
4	RHB Nominees (Tempatan) Sdn Bhd <i>Petrolia Nasional Berhad</i>	294,778,100	9.28
5	Amanah Raya Nominees (Tempatan) Sdn Bhd <i>Skim Amanah Saham Bumiputera</i>	191,592,000	6.03
6	Kumpulan Wang Amanah Pencen	129,287,200	4.07
7	Permodalan Nasional Berhad	39,750,000	1.25
8	CIMSEC Nominees (Tempatan) Sdn Bhd <i>Security Trustee (KCW Issue 1)</i>	31,000,000	0.98
9	Amanah Raya Nominees (Tempatan) Sdn Bhd <i>Amanah Saham Wawasan 2020</i>	24,353,000	0.77
10	Amanah Raya Nominees (Tempatan) Sdn Bhd <i>Sekim Amanah Saham Nasional</i>	19,469,000	0.61
11	Kumpulan Wang Amanah Pencen	16,355,000	0.52
12	Bank Simpanan Nasional	16,335,000	0.51
13	Amanah Raya Nominees (Tempatan) Sdn Bhd <i>Amanah Saham Malaysia</i>	16,202,700	0.51
14	Malaysia Nominees (Tempatan) Sendirian Berhad <i>Great Eastern Life Assurance (Malaysia) Berhad (PAR 1)</i>	12,905,220	0.41
15	Lembaga Tabung Haji	11,049,600	0.35
16	Kumpulan Wang Amanah Pencen	7,538,000	0.24
17	Citicorp Nominees (Asing) Sdn Bhd <i>American International Assurance Company Limited (P Core)</i>	7,504,700	0.24
18	HSBC Nominees (Asing) Sdn Bhd <i>Emerging Markets Growth Fund</i>	6,950,800	0.22
19	HSBC Nominees (Tempatan) Sdn Bhd <i>Nomura Asset Mgmt Sg For Employees Provident Fund</i>	6,421,400	0.20
20	Malaysia National Insurance Berhad	6,362,600	0.20
21	Kerajaan Negeri Pahang	6,019,029	0.19
22	Amanah Raya Nominees (Tempatan) Sdn Bhd <i>Public Growth Fund</i>	5,396,900	0.17
23	Cartaban Nominees (Tempatan) Sdn Bhd <i>Amanah SSCM Nominees (Tempatan) Sdn Bhd For Employees Provident Fund Board (JF 404)</i>	5,374,000	0.17
24	Lembaga Tabung Angkatan Tentera	4,937,000	0.16
25	Citicorp Nominees (Tempatan) Sdn Bhd <i>ING Insurance Berhad (INV - IL PAR)</i>	4,900,000	0.15
26	Bank Simpanan Nasional	4,896,000	0.15
27	Bank Simpanan Nasional	4,896,000	0.15
28	Bank Simpanan Nasional	4,896,000	0.15
29	Bank Simpanan Nasional	4,896,000	0.15
30	Kumpulan Wang Amanah Pencen	4,423,900	0.14
TOTAL		2,765,014,920	87.04

ANALYSIS OF CONVERTIBLE SECURITIES HOLDINGS as at 4 November 2004

Type of Security: 3.05% 5 year Unsecured Convertible Redeemable Income Securities 2004-2009 (CRIS) with nominal value of RM1.00 each

Voting Right : Not applicable until upon conversion into Ordinary Shares of RM1.00 each

DISTRIBUTION OF CRIS HOLDINGS as at 4 November 2004

Size Of Holdings	No. of CRIS Holders	% of CRIS Holders	No. of CRIS Held	% of CRIS Issued
Less than 100	—	0.00	-	0.00
100 - 1,000	2	0.73	1,300	0.00
1,001 - 10,000	63	22.91	354,600	0.18
10,001 - 100,000	83	30.18	4,558,700	2.28
100,001 to less than 5% of issued shares	121	44.00	112,141,700	56.07
5% and above of issued shares	6	2.18	82,943,700	41.47
TOTAL	275	100.00	200,000,000	100.00

SUBSTANTIAL CRIS HOLDERS (five per cent and more)

Name of CRIS Holders	No. of CRIS	Percentage
1 Mayban Nominees (Tempatan) Sdn Bhd <i>Mayban Trustees Berhad For Public Regular Savings Fund (N14011940100)</i>	20,000,000	10.00
2 Amanah Raya Nominees (Tempatan) Sdn Bhd <i>Public Savings Fund</i>	18,769,000	9.38
3 Amanah Raya Nominees (Tempatan) Sdn Bhd <i>Public Growth Fund</i>	14,112,500	7.06
4 Amanah Raya Nominees (Tempatan) Sdn Bhd <i>Public Equity Fund</i>	10,062,200	5.03
5 BHLB Trustee Berhad <i>Prubond Fund</i>	10,000,000	5.00
6 Malaysia National Insurance Berhad	10,000,000	5.00
TOTAL	82,943,700	41.47

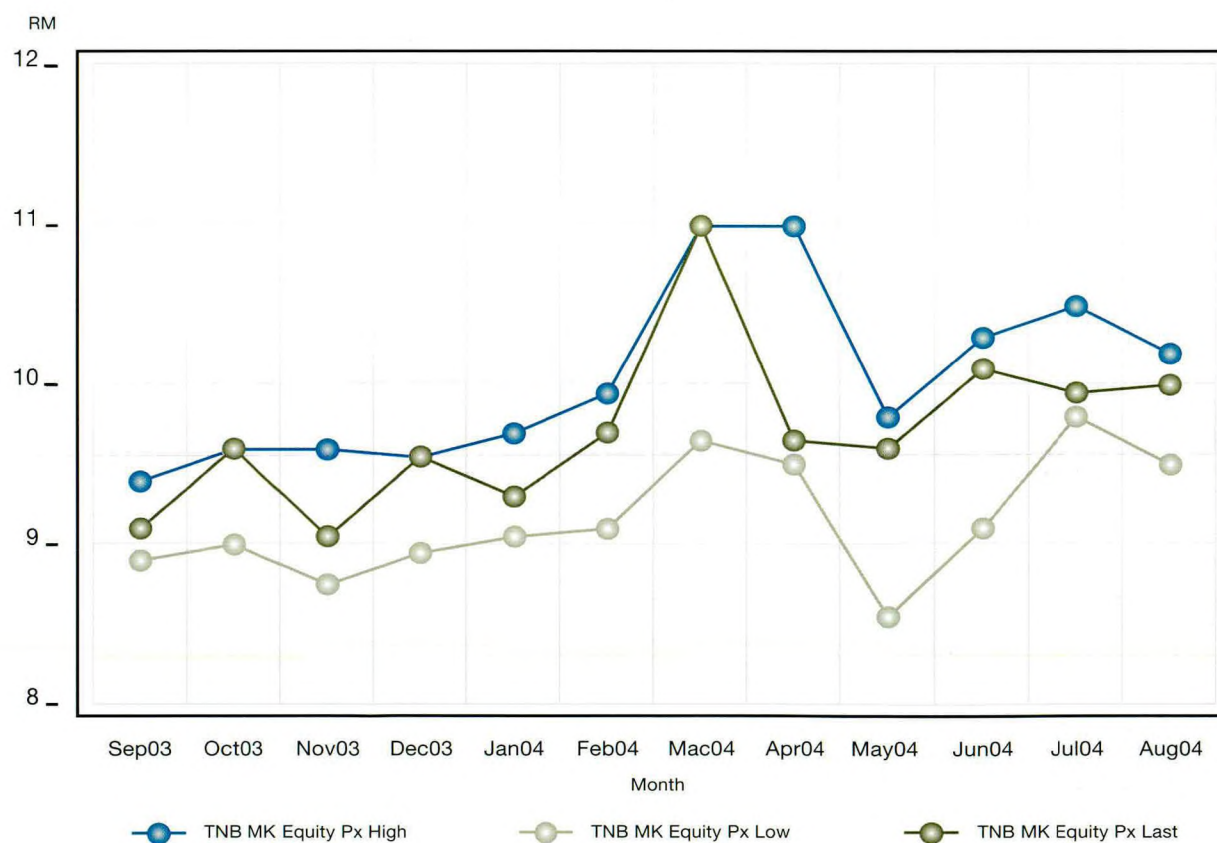
LIST OF 30 LARGEST CRIS HOLDERS as at 4 November 2004

	Name of CRIS Holders	No. of CRIS	Percentage
1	Mayban Nominees (Tempatan) Sdn Bhd <i>Mayban Trustees Berhad For Public Regular Savings Fund (N14011940100)</i>	20,000,000	10.00
2	Amanah Raya Nominees (Tempatan) Sdn Bhd <i>Public Savings Fund</i>	13,769,000	9.38
3	Amanah Raya Nominees (Tempatan) Sdn Bhd <i>Public Growth Fund</i>	14,112,500	7.06
4	Amanah Raya Nominees (Tempatan) Sdn Bhd <i>Public Equity Fund</i>	10,062,200	5.03
5	BHLB Trustee Berhad <i>Prubond Fund</i>	10,000,000	5.00
6	Malaysia National Insurance Berhad	10,000,000	5.00
7	CIME Nominees (Tempatan) Sdn Bhd <i>Commerce International Merchant Bankers Berhad (ETP)</i>	7,000,000	3.50
8	Malaysia Nominees (Tempatan) Sendirian Berhad <i>Great Eastern Life Assurance (Malaysia) Berhad (PAF 1)</i>	6,800,000	3.40
9	Citicorp Nominees (Tempatan) Sdn Bhd <i>ING Insurance Berhad (INV - IL PAF)</i>	6,666,300	3.33
10	Hong Leong Assurance Berhad <i>As Beneficial Owner (Life Par)</i>	6,500,000	3.25
11	AMMB Nominees (Tempatan) Sdn Bhd <i>AMAssurance Berhad (LF 1/143-1)</i>	5,000,000	2.50
12	Amanah Raya Berhad <i>Kumpulan Wang AM</i>	3,000,000	1.50
13	Mayban Nominees (Tempatan) Sdn Bhd <i>Mayban Trustees Berhad For Public Bond Fund (N14011960330)</i>	2,736,600	1.39
14	AMMB Nominees (Tempatan) Sdn Bhd <i>AMAssurance Berhad (GF 1/149-0)</i>	2,500,000	1.25
15	CIMSEC Nominees (Tempatan) Sdn Bhd <i>CIMB For Ku Tien Sek (PB)</i>	2,500,000	1.25
16	Hong Leong Assurance Berhad <i>As Beneficial Owner (Life Ann Par)</i>	2,500,000	1.25
17	Hong Leong Assurance Berhad <i>As Beneficial Owner (Life Non Par)</i>	2,500,000	1.25
18	Hong Leong Assurance Berhad <i>As Beneficial Owner (General NPar)</i>	2,000,000	1.00
19	Hong Leong Assurance Berhad <i>As Beneficial Owner (UnitLinked OP)</i>	2,000,000	1.00
20	HSEC Nominees (Tempatan) Sdn Bhd <i>HSEC (M) Trustee Bhd For OSK-LIFE Lidsave Trust (3621)</i>	2,000,000	1.00
21	HSEC Nominees (Tempatan) Sdn Bhd <i>HSEC (M) Trustee Bhd For OSK-LIFE Income Fund (4314)</i>	2,000,000	1.00
22	Mayban Nominees (Tempatan) Sdn Bhd <i>Mayban Life Assurance Berhad (Shareholders FD)</i>	2,000,000	1.00
23	Mayban Nominees (Tempatan) Sdn Bhd <i>Mayban Life Assurance Berhad (Par Fund)</i>	2,000,000	1.00
24	Mayban Nominees (Tempatan) Sdn Bhd <i>Mayban Life Assurance Berhad (Non-Par Fund)</i>	2,000,000	1.00

LIST OF 30 LARGEST CRIS HOLDERS as at 4 November 2004 (Cont'd)

Name of CRIS Holders		No. of CRIS	Percentage
25	CIMSEC Nominees (Tempatan) Sdn Bhd <i>CIMB For Lim Ka Kian (PB)</i>	1,800,000	0.90
26	CIMSEC Nominees (Tempatan) Sdn Bhd <i>CIMB For Kuan Hun Liang (PB)</i>	1,600,000	0.80
27	Mayban Trustees Berhad <i>Strategic Bond Fund</i>	1,510,000	0.76
28	Jerneh Insurance Bhd	1,460,000	0.73
29	HSBC Nominees (Asing) Sdn Bhd <i>RBC Asia SG For Value Partner Agents Limited</i>	1,300,000	0.65
30	CIMSEC Nominees (Tempatan) Sdn Bhd <i>CIMB For Shamsuddin Bin Abdul Kadir (PB)</i>	1,121,400	0.56
TOTAL		153,488,500	76.74

sharepricetracking



propertieslist

GENERATION GROUP YEAR 2004

Nature of Functional Activity	LAND									BUILDINGS			DESCRIPTION
	Leasehold			Freehold			Total No. of Lots	Total Area (sq M)	Total NBV (RM'000)	No.	Built-up Area (sq M)	NBV (RM'000)	
GENERATION	No. of Lots (1)	Area (sq M) (2)	NBV (RM'000) (3)	No. of Lots (4)	Area (sq M) (5)	NBV (RM'000) (6)	(1+4)	(2+5)	(3+6)	(10)	(11)	(12)	(13)
Location													
Perlis	-	-	-	2	1,499	52	2	1,499	52	-	-	-	Office Buildings, Stores, Jetties, Power Stations, Rural Power Stations, Dams & Mini Hydros
Kedah	2	1,676	31	6	22,280	6,047	8	23,956	6,078	21	2,493	6,318	
Pulau Pinang	-	16,226	12,042	2	67,726	2,136	2	83,952	14,178	10	10,258	34,211	
Perak	5	2,933,400	162,567	10	1,684,595	63,916	15	4,617,995	226,483	108	80,378	632,645	
Selangor	5	16,892,869	133,465	4	514,707	25,451	9	17,407,576	158,916	30	11,688	855,298	
W.Persekutuan	-	-	-	-	-	-	-	-	-	10	150	7,387	
N.Sembilan	4	170,812	4,419	1	13,550	1,657	5	184,362	6,076	24	3,257	13,052	
Melaka	-	-	-	-	-	-	-	-	-	-	-	-	
Johor	3	89,012	8,296	2	167,515	14,123	5	256,527	22,419	26	9,850	65,300	
Pahang	47	230,588	221	58	98,742	8,677	105	329,330	8,898	137	2,755	76,194	
Terengganu	45	239,386	17,800	48	28,817	13,938	93	268,203	31,738	91	12,316	550,439	
Kelantan	75	76,498	589	39	56,539	1,348	114	133,037	1,937	89	4,444	1,061,355	
Sabah	22	5,462,413	8,534	19	4,017,445	5,769	41	9,479,858	14,303	50	11,000	187,615	
TOTAL	208	26,112,880	347,964	191	6,673,415	143,114	399	32,786,295	491,078	596	148,589	3,489,814	

GENERATION

Electricity is produced through a process of converting other forms of energy into electrical energy. This conversion process is known as generation and is mainly carried out at power stations. In addition, a number of mini hydro stations and numerous diesel generating sets are operated by TNB.

Note: NBV – Net Book Value

TRANSMISSION GROUP YEAR 2004

Nature of Functional Activity	LAND									BUILDINGS			DESCRIPTION
	Leasehold			Freehold			Total No. of Lots	Total Area (sq M)	Total NBV (RM'000)	No.	Built-up Area (sq M)	NBV (RM'000)	
TRANSMISSION	No. of Lots (1)	Area (sq M) (2)	NBV (RM'000) (3)	No. of Lots (4)	Area (sq M) (5)	NBV (RM'000) (6)	(1+4)	(2+5)	(3+6)	(10)	(11)	(12)	(13)
Location													
Perlis	4	110,024	1,095	2	15,860	474	6	125,884	1,569	8	3,145	17,051	Main Intake Substations
Kedah	12	445,892	3,693	7	47,652	36,262	19	493,544	39,955	34	7,694	148,628	
Pulau Pinang	15	1,313,551	5,648	8	112,804	7,169	23	1,426,355	12,817	20	3,653	122,134	
Perak	10	157,193	1,592	7	26,438	10,486	17	183,631	12,078	30	8,146	208,569	
Selangor	19	257,523	24,073	24	80,952	33,448	43	338,475	57,521	68	13,673	403,874	
W.Persekutuan	10	176,794	11,684	10	79,800	12,114	20	256,594	23,798	19	7,740	287,396	
N.Sembilan	13	688,904	7,125	10	87,029	1,153	23	775,933	8,278	31	3,836	67,900	
Melaka	6	59,717	1,415	15	20,627	12,404	21	80,344	13,819	27	7,167	75,473	
Johor	30	570,739	12,479	31	48,335	14,734	61	619,074	27,213	60	9,027	599,283	
Pahang	8	86,487	979	16	155,835	4,056	24	242,322	5,035	23	2,934	110,794	
Terengganu	4	170,622	3,405	—	—	—	4	170,622	3,405	20	3,544	44,097	
Kelantan	3	95,628	1,953	5	176,029	2,453	8	271,657	4,406	20	5,551	48,400	
Sabah	3	30,904	1,855	1	14,165	134	4	45,069	1,989	8	3,600	3,775	
TOTAL	137	4,163,978	76,996	136	865,526	134,887	273	5,029,504	211,883	368	79,710	2,137,374	

TRANSMISSION

Transmission activity relates to the process of transmitting electricity generated at power stations to the load centres where it is required, eg. townships, industrial growth centres and major Customers. A network of transmission lines, forming the National Grid is required for this purpose. At appropriate sites, transmission substation are constructed to channel electricity from the National Grid to the numerous load centres. The transmission system operates at voltage levels of 500 kV, 275 kV, 132 kV and 66 kV.

Note: NBV – Net Book Value

DISTRIBUTION GROUP YEAR 2004

Nature of Functional Activity	LAND									BUILDINGS			DESCRIPTION
	Leasehold			Freehold			Total No. of Lots	Total Area (sq M)	Total NBV (RM'000)	No.	Built-up Area (sq M)	NBV (RM'000)	(13)
DISTRIBUTION	No. of Lots (1)	Area (sq M) (2)	NBV (RM'000) (3)	No. of Lots (4)	Area (sq M) (5)	NBV (RM'000) (6)	(1+4)	(2+5)	(3+6)	(10)	(11)	(12)	
Location													
Perlis	35	16,378	481	44	71,776	1,351	79	88,154	1,832	52	1,200	3,151	Distribution Substations
Kedah	167	296,580	5,358	311	510,601	32,511	478	807,181	37,869	208	46,250	35,711	
Pulau Pinang	106	71,696	8,243	361	130,629	20,741	467	202,325	28,984	173	10,209	19,797	
Perak	530	563,012	9,832	228	528,161	4,261	758	1,091,173	14,093	272	12,617	43,726	
Selangor	420	203,512	40,497	530	482,718	69,355	950	686,230	109,852	676	121,313	137,769	
W.Persekutuan	169	122,882	41,665	132	130,868	46,598	301	253,750	88,263	238	17,473	50,765	
Putrajaya	-	-	-	-	-	-	-	-	-	6	-	2,243	
N.Sembilan	234	108,319	3,040	146	40,826	2,821	380	149,145	5,861	120	6,872	6,425	
Melaka	207	80,682	6,257	231	67,897	20,300	438	148,579	26,557	154	6,136	6,301	
Johor	637	464,188	26,822	633	391,769	35,119	1,270	855,957	61,941	452	19,774	37,945	
Pahang	198	157,772	6,321	181	94,830	2,480	379	252,602	8,801	143	9,957	30,836	
Terengganu	173	639,299	5,015	86	41,979	1,035	259	681,278	6,050	118	4,508	17,019	
Kelantan	165	492,502	4,671	186	233,238	5,602	351	725,740	10,273	137	67,062	9,753	
Sabah	51	637,841	4,094	37	173,243	1,881	88	811,084	5,975	299	84,500	34,159	
TOTAL	3,092	3,854,663	162,296	3,106	2,898,535	244,055	6,198	6,753,198	406,351	3,048	407,871	435,600	

DISTRIBUTION

The distribution process begins at the termination of the transmission line where distribution substations step down voltage to enable electricity to be distributed to TNB's Customers. The distribution system consists of distribution, overhead lines and underground cables operating at voltage levels of 33 kV and below.

Note: NBV – Net Book Value

RESIDENTIAL GROUP YEAR 2004

Nature of Functional Activity	LAND									BUILDINGS			DESCRIPTION
	Leasehold			Freehold			Total No. of Lots	Total Area (sq M)	Total NBV (RM'000)	No.	Built-up Area (sq M)	NBV (RM'000)	
RESIDENTIAL AND OTHERS	No. of Lots (1)	Area (sq M) (2)	NBV (RM'000) (3)	No. of Lots (4)	Area (sq M) (5)	NBV (RM'000) (6)	(1+4)	(2+5)	(3+6)	(10)	(11)	(12)	(13)
Location													
Perlis	1	1,037	350	6	50,816	1,987	7	51,853	2,337	13	6,151	6,792	Residential Houses, Apartments, Holiday Bungalows, Office Buildings, Main Store & Warehouse
Kedah	5	43,983	2,702	29	259,202	22,711	34	303,185	25,413	42	39,168	27,307	
Pulau Pinang	8	26,829	5,743	26	373,623	36,854	34	400,452	42,597	54	13,628	167,649	
Perak	37	78,110	3,319	53	1,074,710	28,544	90	1,152,820	31,863	115	134,749	70,580	
Selangor	39	33,192,127	222,423	46	597,190	68,623	85	33,789,317	291,046	322	79,942	938,961	
W.Persekutuan	3	18,757	7,639	13	82,126	136,851	16	100,883	144,490	108	136,326	170,217	
N.Sembilan	10	113,329	1,812	28	359,906	29,514	38	473,235	31,326	71	132,894	65,758	
Melaka	4	99,097	9,083	20	142,288	9,582	24	241,385	18,665	30	28,635	10,960	
Johor	23	384,439	39,163	49	773,793	22,953	72	1,158,232	62,116	119	76,373	72,963	
Pahang	21	634,237	8,272	24	67,598	8,419	45	701,835	16,691	88	76,515	40,973	
Terengganu	25	3,306,420	31,902	4	1,922	2,362	29	3,308,342	34,264	52	47,304	72,817	
Kelantan	11	229,863	7,929	22	87,845	5,822	33	317,708	13,751	55	322,814	65,071	
United Kingdom*	-	-	-	-	-	-	-	-	-	2	444	788	
Sabah	5	122,369	3,470	2	59,490	10,043	7	181,859	13,513	12	33,500	21,508	
Pakistan	-	-	-	1	856,206	3,296	1	856,206	3,296	3	12,713	4,087	
TOTAL	192	38,250,597	343,807	323	4,786,715	387,561	515	43,037,312	731,368	1,086	1,141,156	1,736,431	

RESIDENTIAL AND OTHERS

'Residential Property' includes staff quarters, holiday bungalows and apartments. "Others" include office buildings and main store/warehouse. *Comprises 2 units of apartment.

Note: NBV – Net Book Value



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directors' report

The Directors have pleasure in submitting their Report with the audited financial statements of the Group and of the Company for the financial year ended 31 August 2004.

PRINCIPAL ACTIVITIES

The principal activities of the Group and of the Company are the generation, transmission, distribution and sale of electricity.

There have been no significant changes in these activities during the financial year under review.

FINANCIAL RESULTS

	Group RM'million	Company RM'million
Profit after taxation	807.5	1,759.8
Minority interests	6.2	0
Net profit for the financial year	813.7	1,759.8

DIVIDENDS

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

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

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

Directors' Report

RESERVES AND PROVISIONS

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

ISSUE OF SHARES

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

EMPLOYEE SHARE OPTION SCHEME

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

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

The main features and movement during the financial year in the number of options over the shares of the Company is set out in Note 32 to the financial statements.

The Company has been granted an exemption by the Companies Commission of Malaysia from having to disclose in this Report the names of the persons to whom options have been granted during the period and details of their holdings pursuant to Section 169 (11) of the Companies Act, 1965 except for information of employees who were granted options representing 400,000 shares and above.

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

Name	Designation	No. of shares granted under the options	No. of shares exercised under the options
Datuk Abdul Hadi Mohd. Deros	Deputy President/Deputy Chief Executive Officer	400,000	Nil
Datuk Md. Sidek Ahmad	Senior Vice President, Operation	400,000	Nil
Dato' Haji Ir. Shafie Mat Zain	Vice President, Corporate Services	400,000	40,000
Dato' Mohd Zainal Abidin	Vice President, Transmission	400,000	Nil
Datuk Azizah Osman	Vice President, Human Resource	400,000	150,000

DIRECTORS

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

Datuk Amar Leo Moggie	(Appointed on 12.4.2004)
Dato' Azman bin Mokhtar	(Appointed on 15.6.2004)
Dato' Che Khalib bin Mohamad Noh	(Appointed on 1.7.2004)
Dato' Lau Yin Pin @ Lau Yen Beng	
Tan Sri Dato' Hari Narayanan a/l Govindasamy	
Dato' Zainal Abidin bin Putih	
Datuk Mohd Zaid bin Ibrahim	(Appointed on 15.6.2004)
Dato' Abdul Rahim bin Mokti	(Appointed on 4.11.2004)
Puan Zaleha binti Hassan	(Alternate Director to Dato' Abdul Rahim bin Mokti) (Appointed on 4.11.2004)
Datin Hueniarti binti Tamin	(Resigned on 31.10.2004)
Dato' Kamariah binti Hussain	(Alternate Director to Datin Hueniarti binti Tamin) (Resigned on 31.10.2004)
Dato' Dr Awang Adek bin Hussin	(Resigned on 31.3.2004)
Dato' Pian bin Sukro	(Resigned on 1.7.2004)
Raja Dato' Zaharaton binti Raja Zainal Abidin	(Appointed on 8.3.2004) (Resigned on 7.6.2004)
Datuk Dr Halim bin Shafie	(Resigned on 7.6.2004)
Dato' Syed Hamzah bin Syed عثمان	(Alternate Director to Datuk Dr Halim bin Shafie) (Resigned on 7.6.2004)
Datuk Iskandar Dzahurnain bin Badarudin	(Resigned on 21.12.2003)
Raja Dato' Zaharaton binti Raja Zainal Abidin	(Alternate Director to Datuk Iskandar Dzahurnain bin Badarudin) (Resigned on 21.12.2003)
Datuk Zainun Aishah binti Ahmad	(Resigned on 7.6.2004)
Dato' Shaziman bin Abu Mansor	(Resigned on 31.3.2004)
Datin Paduka Hajjah Seripah Holi binti Syed Hussin	(Resigned on 31.3.2004)
Ng Lip Hong @ Ng Lip Sai	(Resigned on 31.3.2004)

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, except for the options granted to Executive Directors pursuant to the ESOS II.

~~Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits disclosed as Directors' remuneration and benefits in Note 4 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.~~

Directors' Report

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

According to the Register of Directors' shareholdings, particulars of the interests of Directors who held office as at the end of the financial year in shares and options over shares in the Company are as follows:

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

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

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the income statements and balance sheets of the Group and of the Company were made out, the Directors took reasonable steps:

- to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and of the Company had been written down to an amount which they might be expected so to realise.

At the date of this Report, the Directors are not aware of any circumstances:

- which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
- which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

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

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

- any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

OTHER STATUTORY INFORMATION

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

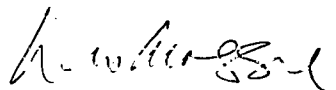
In the opinion of the Directors:

- (a) except as disclosed in Note 7 to the financial statements, the results of the Group's and of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this Report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this Report is made.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors, in accordance with their resolution dated 4 November 2004.



DATUK AMAR LEO MOGGIE

Chairman



DATO' CHE KHALIB BIN MOHAMAD NOH

President/Chief Executive Officer

income statements

FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2004

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

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

balancesheets

AS AT 31 AUGUST 2004

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

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

Balance Sheets

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

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

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

consolidated statement OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2004

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

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

company statement OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2004

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

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

cashflow

STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2004

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

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

CashFlow

STATEMENTS

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

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

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

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

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THE FINANCIAL STATEMENTS

31 AUGUST 2004

1 GENERAL INFORMATION

The principal activities of the Group and of the Company are the generation, transmission, distribution and sale of electricity.

There have been no significant changes in these activities during the financial year.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of accounting

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

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

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

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

(b) Basis of consolidation

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

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

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

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

(c) Associates

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

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

(d) Goodwill

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

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

(e) Foreign currency

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

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

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

Foreign currency	2004 RM	2003 RM
1 USD	3.8000	3.8000
100 JPY	3.4522	3.2466
1 GBP	6.8041	6.0107
100 PKR	6.4741	6.5324
1 EURO	4.5701	4.1456

Notes To

THE FINANCIAL STATEMENTS

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

(f) Property, plant and equipment and depreciation

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

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

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

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

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

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

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

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

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

(g) Intangible assets

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

(h) Capitalisation of interest

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

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

(i) Inventories

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

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

(j) Marketable securities

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

(k) Employee benefits

(i) Short term employee benefits

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

(ii) Post-employment benefits

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

Defined contribution plans

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

Defined benefit plans

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

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

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

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

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

NotesTo

THE FINANCIAL STATEMENTS

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

(l) Income taxes

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

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

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

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

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

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

(m) Investments

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

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

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

(n) Deferred income

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

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

(o) Operating leases

A group company is the lessee

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

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

A group company is the lessor

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

(p) Trade receivables

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

(q) Trade payables

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

(r) Contingent liabilities

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

(s) Borrowings

Classification

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

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

(t) Impairment of assets

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

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

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THE FINANCIAL STATEMENTS

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

(u) Cash and cash equivalents

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

(v) Revenue recognition

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

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

(w) Government development grants

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

(x) Financial instruments

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

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

Foreign currency forward contracts

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

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

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

Cross currency swap contracts

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

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

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

(x) Financial instruments (Cont'd.)

Interest rate swap contracts

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

Fair value estimation for disclosure purposes

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

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

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

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

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

3 REVENUE

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

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4 OPERATING EXPENSES

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

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

5 STAFF COSTS

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

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

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

6 OTHER OPERATING INCOME

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

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7 EXCEPTIONAL ITEMS

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

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

8 FOREIGN EXCHANGE (LOSS)/GAIN

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

9 FINANCE COST

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

10 TAXATION

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

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10 TAXATION (Cont'd.)

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

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

11 EARNINGS PER SHARE

(a) Basic earnings per share

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

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

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

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

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

12 DIVIDENDS

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

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

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12 DIVIDENDS (Cont'd.)

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

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

13 PROPERTY, PLANT AND EQUIPMENT

Group 2004	As at 1.9.2003 RM'million	Exchange rate adjustment RM'million	Additions RM'million	Disposals RM'million	Transfers/ reclassi- fications RM'million	As at 31.8.2004 RM'million
Cost/valuation						
At 1994 and earlier valuations:						
Long leasehold land	8.4	0	0	0	0	8.4
Buildings and civil works	5.6	0	0	0	0	5.6
At 1994 valuation:						
Freehold land	687.5	0	0	(0.3)	0	687.2
Long leasehold land	602.7	0	0	(0.3)	0	602.4
Short leasehold land	3.1	0	0	0	0	3.1
Buildings and civil works	440.1	0	0	0	0	440.1
	1,747.4	0	0	(0.6)	0	1,746.8
At cost:						
Freehold land	439.2	(0.1)	2.2	0	(218.9)	222.4
Long leasehold land	174.5	0	2.8	0	218.9	396.2
Short leasehold land	38.5	0	0	0	0	38.5
Buildings and civil works	10,384.4	0	66.9	(16.5)	(450.9)	9,983.9
	12,784.0	(0.1)	71.9	(17.1)	(450.9)	12,387.8
Plant and machinery	28,934.5	(16.2)	315.3	(368.5)	389.4	29,754.5
Lines and distribution mains	17,170.5	0	727.4	(0.5)	(91.3)	17,806.1
Distribution services	1,960.0	0	31.1	0	(128.5)	1,962.6
Meters	365.3	0	35.3	0	(42.4)	358.2
Public lighting	257.0	0	6.5	0	(17.8)	245.7
Furniture, fittings and office equipment	665.5	0	53.6	(16.3)	(4.9)	702.4
Motor vehicles	178.7	0	14.3	(4.2)	(2.5)	186.3
	62,835.5	(16.3)	1,810.9	(407.1)	(348.9)	63,874.1
Capital project-in-progress	8,643.6	0	4,520.4	0	(3,445.2)	9,718.8
	71,479.1	(16.3)	6,331.3	(407.1)	(3,797.1)	73,589.9

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

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

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

Group 2003	As at 1.9.2002 RM'million	Exchange rate adjustment RM'million	Additions RM'million	Disposals RM'million	Transfers/ reclassi- fications RM'million	As at 31.8.2003 RM'million
Cost/valuation						
At 1984 and earlier valuations:						
Long leasehold land	8.4	0	0	0	0	8.4
Buildings and civil works	5.6	0	0	0	0	5.6
At 1994 valuation:						
Freehold land	687.5	0	0	0	0	687.5
Long leasehold land	602.7	0	0	0	0	602.7
Short leasehold land	3.1	0	0	0	0	3.1
Buildings and civil works	440.1	0	0	0	0	440.1
	1,747.4	0	0	0	0	1,747.4
At cost:						
Freehold land	266.3	0.1	166.5	0	6.3	439.2
Long leasehold land	153.6	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	1,710.3	0	269.2	0	0	1,980.0
Meters	745.1	0	120.2	0	0	865.3
Public lighting	229.3	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	3,321.5	0	(5,917.1)	8,643.6
	68,153.4	27.4	9,421.3	(205.9)	(5,917.1)	71,479.1

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

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

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

Company 2004	As at 1.9.2003 RM'million	Additions RM'million	Disposals RM'million	Transfers/ reclassi- fications RM'million	As at 31.8.2004 RM'million
Cost/valuation					
At 1994 valuation:					
Freehold land	687.5	0	(0.3)	0	687.2
Long leasehold land	602.7	0	(0.3)	0	602.4
Short leasehold land	3.1	0	0	0	3.1
Buildings and civil works	440.1	0	0	0	440.1
	1,733.4	0	(0.6)	0	1,732.8
At cost:					
Freehold land	253.0	2.2	0	(53.9)	201.3
Long leasehold land	154.2	0	0	59.3	213.6
Short leasehold land	23.5	0	0	0	23.5
Buildings and civil works	9,363.1	111.9	(1,253.9)	19.6	8,260.7
	11,547.3	114.1	(1,254.5)	25.0	10,431.9
Plant and machinery	23,913.4	643.8	(4,534.4)	(27.1)	20,195.7
Lines and distribution mains	16,792.1	696.6	(0.5)	(91.3)	17,396.9
Distribution services	1,388.6	75.3	0	(128.5)	1,335.9
Meters	562.3	33.2	0	(42.2)	543.2
Public lighting	257.0	6.5	0	(17.8)	245.7
Furniture, fittings and office equipment	542.9	42.2	(16.7)	37.6	606.0
Motor vehicles	135.7	10.9	(3.4)	4.4	147.6
	55,929.3	1,323.1	(5,809.5)	(240.0)	51,702.9
Capital project-in-progress	7,171.3	3,330.9	0	(1,323.1)	9,179.6
	63,101.1	5,654.0	(5,809.5)	(2,063.1)	60,882.5

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

Company 2004	As at 1.9.2003 RM'million	Charge for the financial year RM'million	Released on disposals/ transfers RM'million	As at 31.8.2004 RM'million
Accumulated depreciation				
At 1994 valuation:				
Freehold land	0	0	0	0
Long leasehold land	72.4	11.9	(0.1)	84.2
Short leasehold land	0.5	0	0	0.5
Buildings and civil works	124.1	16.6	0	140.7
	197.0	28.5	(0.1)	225.4
At cost:				
Freehold land	0	0	0	0
Long leasehold land	13.5	4.5	0.4	18.4
Short leasehold land	4.6	0.4	0	5.0
Buildings and civil works	2,035.1	231.4	(382.1)	1,984.4
	2,300.2	264.8	(381.8)	2,183.2
Plant and machinery	3,370.2	1,025.7	(1,791.2)	3,104.7
Lines and distribution mains	5,367.6	715.4	(7.4)	6,075.6
Distribution services	765.8	85.7	(11.2)	840.3
Meters	377.9	49.8	(4.8)	422.9
Public lighting	93.8	13.1	(2.1)	109.8
Furniture, fittings and office equipment	360.9	78.6	13.5	453.0
Motor vehicles	112.8	13.3	0.5	126.6
	12,254.2	2,246.4	(2,124.5)	12,376.1

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

Company 2003	As at 1.9.2002 RM'million	Additions RM'million	Disposals RM'million	Transfers/ reclassi- fications RM'million	As at 31.8.2003 RM'million
Cost/valuation					
At 1994 valuation:					
Freehold land	687.5	0	0	0	687.5
Long leasehold land	602.7	0	0	0	602.7
Short leasehold land	3.1	0	0	0	3.1
Buildings and civil works	440.1	0	0	0	440.1
	1,733.4	0	0	0	1,733.4
At cost:					
Freehold land	246.5	0.2	0	6.3	253.0
Long leasehold land	140.4	12.7	0	(4.2)	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
	11,336.2	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	16,064.9	339.1	0	(131.9)	16,792.1
Distribution services	1,623.2	260.4	0	0	1,883.6
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)	7,171.9
	60,550.5	4,750.7	(193.7)	(2,006.4)	63,101.1

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

Company 2003	As at 1.9.2002 RM'million	Charge for the financial year RM'million	Released on disposals/ transfers RM'million	As at 31.3.2003 RM'million
Accumulated depreciation				
At 1994 valuation:				
Freehold land	0	0	0	0
Long leasehold land	60.4	12.0	0	72.4
Short leasehold land	0.4	0.1	0	0.5
Buildings and civil works	109.1	15.0	0	124.1
	169.9	27.1	0	197.0
At cost:				
Freehold land	0	0	0	0
Long leasehold land	10.6	1.7	1.2	13.5
Short leasehold land	4.1	0.3	0.2	4.6
Buildings and civil works	1,900.4	225.7	(41.0)	2,085.1
	2,035.0	254.3	(39.6)	2,300.2
Plant and machinery	7,734.1	1,003.2	32.9	8,770.2
Lines and distribution mains	4,727.3	679.4	(39.6)	5,367.6
Distribution services	631.3	34.5	0	765.3
Meters	330.4	47.5	0	377.9
Public lighting	35.6	13.2	0	48.8
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

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

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

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

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

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

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

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

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

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

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

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

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14 COAL MINING RIGHTS

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

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

15 SUBSIDIARIES

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

15 SUBSIDIARIES (Cont'd.)

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

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15 SUBSIDIARIES (Cont'd.)

Name of subsidiary	Group's interest		Principal activities	Country of incorporation
	2004	2003		
TNE Transmission Network Sdn Bhd	100%	100%	Provision of services related to the electrical transmission network system	Malaysia
TNE Distribution Sdn Bhd	100%	100%	Provision of management services to the ultimate holding company in relation to the distribution of electricity	Malaysia
TNE Risk Management Sdn Bhd	100%	100%	Risk management services, risk surveys and insurance activities	Malaysia
TNE Logistics Sdn Bhd	100%	100%	Freight forwarding	Malaysia
TNE-IT Sdn Bhd	100%	100%	Supply of information and multimedia services and works	Malaysia
TNE Workshop Services Sdn Bhd	100%	100%	Repair and maintenance of motor vehicles	Malaysia
TNE Metal Sdn Bhd	100%	100%	Provision of property management services on behalf of its ultimate holding company, TNB	Malaysia
TNE Metering Services Sdn Bhd	100%	100%	Sales of meters and related services	Malaysia
TNE Hidro Sdn Bhd	100%	100%	Dormant	Malaysia
Sumber Hidro Management Sdn Bhd	100%	100%	Dormant	Malaysia
TNE Kapar Sdn Bhd	100%	100%	Dormant	Malaysia
TNE Prai Sdn Bhd	100%	100%	Dormant	Malaysia
TNE Paka Sdn Bhd	100%	100%	Dormant	Malaysia
Sabah Electricity Sdn Bhd	80%	90%	Generation, transmission, distribution and sale of electricity	Malaysia
Malaysia Transformer Manufacturing Sdn Bhd	73%	73%	Manufacturing, selling and repairing transformers	Malaysia
TNE Coal International Limited*	70%	70%	Investment holding	Mauritius

15 SUBSIDIARIES (Cont'd.)

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

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15 SUBSIDIARIES (Cont'd.)

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

* Not audited by PricewaterhouseCoopers.

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

16 ASSOCIATES

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

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

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

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16 ASSOCIATES (Cont'd.)

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

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

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

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

17 INVESTMENTS

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

18 LONG TERM RECEIVABLES

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

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

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

19 INVENTORIES

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

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THE FINANCIAL STATEMENTS

20 RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

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

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

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

21 AMOUNTS OWING FROM/TO SUBSIDIARIES

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

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

22 SHORT TERM INVESTMENTS

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

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

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

23 MARKETABLE SECURITIES

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

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THE FINANCIAL STATEMENTS

24 DEPOSITS, BANK AND CASH BALANCES

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

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

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

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

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

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

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

25 PAYABLES

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

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

26 SHORT TERM BORROWINGS

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

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

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

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THE FINANCIAL STATEMENTS

27 BORROWINGS

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

27 BORROWINGS (Cont'd.)

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

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

(a) Term loans

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

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

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

Interest rate swap ('IRS')

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

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

(ii) JAPANESE YEN LOANS FOR SPECIFIC PROJECTS

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

JPY/USD Cross-currency interest rate swap

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

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27 BORROWINGS (Cont'd.)

(a) Term loans (Cont'd.)

(iii) *TNE JANAMANJUNG SDN BHD ('TNEJ') 12-YEAR AMORTISING LOAN*

TNEJ, a wholly owned subsidiary of the Company, had in 1999 entered into a 12-year amortising loan facility with floating interest rates to part finance the construction of a power plant. The loan is guaranteed by the Company and is denominated in three major currencies amounting to GBP207.9 million (2003: GBP264.1 million), Euro129.2 million (2003: Euro161.1 million) and USD69.6 million (2003: USD97.1 million) as at 31 August 2004. The loan is repayable in equal semi-annual instalments commencing August 2003. The translated outstanding balance in accordance with the Group's accounting policy as at 31 August 2004 is RM2,269.6 million (2003: RM2,103.6 million).

Forward interest rate swap

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

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

On 30 March 2004, THE Capital (L) Ltd ('THBCL') a wholly owned subsidiary of THE entered into a 30-year JPY26.0 billion unsecured loan, paying interests at USD fixed rates. The loan will mature on 13 April 2034. The loan is an amortising loan whose principal is payable in 20 equal annual instalments. The first repayment shall be due on 13 April 2015. The interest is paid semi-annually on 13 April and 13 October each year commencing 13 October 2004. The balance as at 31 August 2004 is RM397.6 million.

USD-JPY Option on the principal repayment

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

(b) Notes

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

10-YEAR RM600.0 MILLION ISLAMIC REVOLVING UNDERWRITTEN FACILITY

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

Interest rate swap on Commercial Paper Program

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

27 BORROWINGS (Cont'd.)

(c) Bonds

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

(i) 10-YEAR USD500.0 MILLION NOTES

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

Tranche 1: USD250.0 million

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

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

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

Forward interest rate swap

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

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

Tranche 2: USD250.0 million

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

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

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

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

NotesTo

THE FINANCIAL STATEMENTS

27 BORROWINGS (Cont'd.)

(c) Bonds (Cont'd.)

(ii) 10-YEAR USD600.0 MILLION NOTES

In 1994, the Company had issued USD600.0 million 10-year 7.375% redeemable unsecured Notes. The translated balance of the Notes as at 31 August 2004 as per the Company's accounting policy is nil (2003: RM1,048.4 million). The Notes were redeemed in full on 15 June 2004. For purposes of hedging the Notes, the Company has adopted two strategies, one for the USD500.0 million tranche and another for the other USD100.0 million tranche.

Tranche 1: USD500.0 million (unswapped)

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

Tranche 2: USD100.0 million

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

On the second USD100.0 million tranche, the Company entered into CCZS arrangements with several financial institutions, for the period 15 June 1993 to 14 June 2004, to convert the USD100.0 million bonds to a 6-year JPM zero-coupon bond. The CCZS matured on 15 June 2004.

(iii) 10-YEAR USD570.0 MILLION NOTES

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

USD interest rate swap with collar

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

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

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

The holders of the GEB are entitled to exchange, at par, the GEB for TUE'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 TUECL for redemption on 20 November 2005. The translated RM balance of the bond as at 31 August 2004 in accordance with the Group's accounting policy is RM1,520.0 million (2003: RM1,520.0 million).

Interest rate swap

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

27 BORROWINGS (Cont'd.)

(c) Bonds (Cont'd.)

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

On 28 June 2004, Kapar Energy Ventures Sdn Bhd (“KEV”), a subsidiary of TNB obtained RM3,402.0 million BaIDS to finance the acquisition of Stesen Janaelektrik Sultan Salahuddin Abdul Aziz. The tenure of the BaIDS Facility ranges from 1 to 15 years with a profit of 3.65% to 3.70% per annum.

The BaIDS are secured by the followings:

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

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

(d) Income Securities

Fixed Income Securities (“FIS”)

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

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

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THE FINANCIAL STATEMENTS

28 EMPLOYEE BENEFITS

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

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

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

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

28 EMPLOYEE BENEFITS (Cont'd.)

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

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

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

NotesTo

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28 EMPLOYEE BENEFITS (Cont'd.)

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

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

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

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

28 EMPLOYEE BENEFITS (Cont'd.)

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

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

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

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

NotesTo

THE FINANCIAL STATEMENTS

28 EMPLOYEE BENEFITS (Cont'd.)

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

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

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

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

29 DEFERRED TAXATION

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

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

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

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

NotesTo

THE FINANCIAL STATEMENTS

29 DEFERRED TAXATION (Cont'd.)

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

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

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

30 DEFERRED INCOME

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

31 GOVERNMENT DEVELOPMENT GRANTS

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

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

32 SHARE CAPITAL

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

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32 SHARE CAPITAL (Cont'd.)

Employee Share Option Scheme ('ESOS')

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

The main features of ESOS II are as follows:

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

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

No. of options over ordinary shares of RM1.00 each							
Grant date	Option price RM per share	As at 1.9.2003 '000	Granted '000	Exercised '000	Expired '000	As at 31.8.2004 '000	Expiry date
8 July 2003	8.89	199,347	0	(36,163)	(509)	162,670	7 July 2013
25 February 2004	3.74	0	16,372	(311)	(46)	16,515	7 July 2013
		199,347	16,372	(36,479)	(555)	179,135	—

32 SHARE CAPITAL (Cont'd.)

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

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

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32 SHARE CAPITAL (Cont'd.)

Special Rights Redeemable Preference Share ("Special Share")

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

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

- (b) Certain matters, in particular the alteration of the Articles of Association of the Company relating to the rights of the Special Shareholder, creation and issue of additional shares which carry different voting rights, the dissolution of the Company, substantial disposal of assets, amalgamations, merger and takeover, require the prior consent of the Special Shareholder.

- (c) The Special Shareholder does not have any right to participate in the capital or profits of the Company.

- (d) The Special Shareholder has the right to require the Company to redeem the Special Share, at par, at any time.

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

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

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

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

33 SHARE PREMIUM

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

34 REVALUATION AND OTHER RESERVES

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

The movements in each category of reserves were as follows:

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

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35 RETAINED PROFITS

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

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

36 COMMITMENTS

(a) Capital and other commitments

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

(b) Non-cancellable operating lease commitments

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

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

37 CONTINGENT LIABILITIES (UNSECURED)

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

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

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

38 SIGNIFICANT RELATED PARTY DISCLOSURES

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

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

NotesTo

THE FINANCIAL STATEMENTS

41 FINANCIAL RISK MANAGEMENT

(a) Financial risk management objectives and policies

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

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

- **Foreign currency exchange risk**

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

- **Interest rate risk**

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

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

- **Credit risk**

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

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

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

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

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

• Liquidity and cash flow risks

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

(b) Interest rate risk

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

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

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41 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group	Total interest sensitive RM'million	Non interest sensitive RM'million	Balances under Islamic principles RM'million	Total RM'million
2004				
Financial assets				
Investments	60.8	399.9	0	460.7
Trade and other receivables	53.6	2,572.5	365.3	2,991.4
Amount owing from associates	74.0	0	0	74.0
Marketable securities	0	10.3	0	10.3
Deposits and bank balances	3,406.1	354.6	89.1	3,849.8
Other assets (amount receivable from swap counterparties)	0	66.5	0	66.5
	3,594.5	3,403.8	454.4	7,452.7
2003				
Financial assets				
Investments	1,030.4	452.8	0	1,513.2
Trade and other receivables	368.4	2,154.5	292.6	2,815.5
Amount owing from associates	77.3	0	0	77.3
Marketable securities	0	11.7	0	11.7
Deposits and bank balances	1,102.8	632.1	0	1,434.9
Other assets (amount receivable from swap counterparties)	0	57.2	0	57.2
	2,628.9	2,988.3	292.6	5,909.8

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

NotesTo

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41 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Company	Total interest sensitive RM'million	Non interest sensitive RM'million	Balances under Islamic principles RM'million	Total RM'million
2004				
Financial assets				
Investments	0	211.0	0	211.0
Trade and other receivables	0	2,497.2	365.3	2,862.5
Amount owing from subsidiaries	3,689.7	1,269.8	0	4,959.5
Amount owing from associates	68.0	0	0	68.0
Marketable securities	0	10.3	0	10.3
Deposits and bank balances	2,807.3	73.4	89.1	2,969.8
Other assets (amount receivable from swap counterparties)	0	54.9	0	54.9
	6,565.0	4,116.6	454.4	11,136.0
2003				
Financial assets				
Investments	0	432.3	0	432.3
Trade and other receivables	343.1	1,519.1	292.6	2,454.8
Amount owing from subsidiaries	3,437.3	1,041.3	0	4,523.6
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	56.3	0	56.3
	4,550.7	3,557.6	292.6	8,400.9

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

NotesTo

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41 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

Company	Total interest sensitive RM'million	Non interest sensitive RM'million	Balances under Islamic principles RM'million	Total RM'million
2004				
Financial liabilities				
Trade and other payables	0	1,743.2	0	1,743.2
Borrowings	16,915.1	268.1	5,918.4	23,101.6
Amount owing to subsidiaries	2,556.1	0	0	2,556.1
Amount owing to associates	300.0	0	0	300.0
Other liabilities (amount payable to swap counterparties)	0	26.5	0	26.5
	19,771.2	2,037.8	5,918.4	27,727.4
On-balance sheet interest sensitivity gap	(13,206.2)	2,078.8	(5,464.0)	(16,591.4)
Off-balance sheet interest sensitivity gap	(275.5)	0	0	(275.5)
Total interest sensitivity gap	(13,481.7)	2,078.8	(5,464.0)	(16,866.9)

NotesTo

THE FINANCIAL STATEMENTS

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

Company	Total interest sensitive RM'million	Non interest sensitive RM'million	Balances under Islamic principles RM'million	Total RM'million
2003				
Financial liabilities				
Trade and other payables	0	1,680.5	0	1,680.5
Borrowings	19,821.7	297.1	6,265.4	26,384.2
Amount owing to subsidiaries	866.4	0	0	866.4
Amount owing to associates	209.7	0	0	209.7
Other liabilities (amount payable to swap counterparties)	0	20.0	0	20.0
	20,897.8	1,997.6	6,265.4	29,160.8
On-balance sheet interest sensitivity gap	(16,347.1)	1,560.0	(5,972.8)	(20,759.9)
Off-balance sheet interest sensitivity gap	(268.1)	0	0	(268.1)
Total interest sensitivity gap	(16,615.2)	1,560.0	(5,972.8)	(21,028.0)

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

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

NotesTo

THE FINANCIAL STATEMENTS

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) Credit risk

(i) On balance sheet, commitment and contingencies

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

Group	Deposits and bank balances (excl. cash) RM'million	Investment in unquoted instruments# RM'million	Trade receivables and other assets RM'million	Interest receivable from swap counter- parties RM'million	Total on-balance sheet RM'million	Commitment and contingencies RM'million
2004						
Government	0	0	100.6	0	100.6	0
Financial institutions	3,294.3	38.0	22.2	66.5	3,421.0	0.2
Business	2.0	46.6	1,660.5	0	1,709.1	0
Individuals	0	0	1,047.8	0	1,047.8	0
Others	0	0	195.4	0	195.4	0
	3,296.3	84.6	3,026.5	66.5	6,473.9	0.2
2003						
Government	0	0	126.1	0	126.1	0
Financial institutions	931.7	1,045.0	27.6	56.8	2,061.1	0
Business	4.0	120.0	1,439.0	0	1,613.0	0
Individuals	0	0	1,034.7	0	1,034.7	0
Others	0	0	138.0	0	138.0	0
	935.7	1,165.0	2,815.4	56.8	4,972.9	0

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

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) Credit risk (Cont'd.)

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

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

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

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

NotesTo

THE FINANCIAL STATEMENTS

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) Fair value

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

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

(i) On balance sheet

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

	Group		Company	
	Carrying amount RM'million	Fair value RM'million	Carrying amount RM'million	Fair value RM'million
2004				
Financial assets				
Long term receivables	0	0	922.7	921.3
Receivables, deposits and prepayments	7.3	6.9	0	0
Financial liabilities				
Payables	8.5	7.3	0	0
Borrowings (exclude Islamic instruments and include short term portion of borrowings)	23,162.7	24,358.5	17,183.2	18,255.2
2003				
Financial assets				
Long term receivables	0	0	937.5	935.1
Receivables, deposits and prepayments	0	0	0	0
Financial liabilities				
Payables	0	0	0	0
Borrowings (exclude Islamic instruments and include short term portion of borrowings)	24,960.8	25,030.9	20,118.8	20,406.7

NotesTo

THE FINANCIAL STATEMENTS

41 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) Fair value

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

Financial assets

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

Financial liabilities

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

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

(ii) Off balance sheet

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

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

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

41 FINANCIAL RISK MANAGEMENT (Cont'd.)**(e) Fair value***(ii) Off balance sheet (Cont'd.)*

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

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

42 APPROVAL OF FINANCIAL STATEMENTS

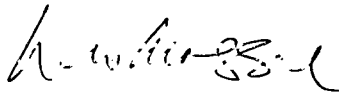
The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 4 November 2004.

statement by directors

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

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

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



DATUK AMAR LEO MOGGIE
Chairman



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

statutory declaration

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



DATO' CHE KHALIB BIN MOHAMAD NOH

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



No: 06, Tingkat Dawah
Jalan Putra
50350 KUALA LUMPUR

MOHD RADZI BIN YASIN
Commissioner For Oaths

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
www.pwc.com/my

auditors' report

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

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

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

In our opinion:

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

and

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

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

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

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



PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants



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

4 November 2004

proxyform

Number of Share(s) held	
-------------------------	--

I/We, _____ IC No./Passport No./Co.No. _____
(FULL NAME IN CAPITAL)

of _____
(ADDRESS)

being a Member/Members of Tenaga Nasional Berhad, hereby appoint _____
(FULL NAME IN CAPITAL)

of _____
(ADDRESS)

or failing him/her, _____
(FULL NAME IN CAPITAL)

of _____
(ADDRESS)

Or failing him/her, the Chairman of the Meeting, as my/our proxy, to vote for me/us, and on my/our behalf at THE FOURTEENTH ANNUAL GENERAL MEETING of TENAGA NASIONAL BERHAD to be held at Dewan Serbaguna, Kompleks Sukan TNB, Jalan Pantai Baru, 59200 Kuala Lumpur on Thursday, 23 December 2004, at 10.00 am and/or at any adjournment thereof.

My/Our proxy is to vote as indicate below:

			FOR	AGAINST
1.	RESOLUTION 1	Receive the Directors' Report and Audited Financial Statements for the Financial Year ended 31 August 2004		
2.	RESOLUTION 2	Declaration of Dividend		
3.	RESOLUTION 3	Payment of Directors' fees		
4.	RESOLUTION 4	Re-election of Tan Sri Dato' Hari Narayanan a/l Govindasamy		
5.	RESOLUTION 5	Re-election of Datuk Amar Leo Moggie		
6.	RESOLUTION 6	Re-election of Dato' Azman bin Mokhtar		
7.	RESOLUTION 7	Re-election of Datuk Mohd Zaid bin Ibrahim		
8.	RESOLUTION 8	Re-election of Dato' Che Khalib bin Mohamad Noh		
9.	RESOLUTION 9	Re-election of Dato' Abdul Rahim bin Mokti		
10.	RESOLUTION 10	Re-appointment of Messrs PricewaterhouseCoopers as the Company's Auditors		

SPECIAL BUSINESSES

11.	RESOLUTION 11	Issuance of Shares Pursuant to Employees' Share Option Scheme II		
12.	RESOLUTION 12	Issuance of New Shares Pursuant to Section 132D, Companies Act, 1965		
13.	RESOLUTION 13	Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transaction (RRPT) Of A Revenue Or Trading Nature Which Are In The Ordinary Course Of Business Involving YTL Power International Berhad		
14.	RESOLUTION 14	Proposed Shareholders' Mandate For Recurrent Related Party Transaction (RRPT) Of A Revenue Or Trading Nature Which Are In The Ordinary Course Of Business Involving Ranhill Power Berhad		
15.	RESOLUTION 15	Proposed Shareholders' Mandate For Recurrent Related Party Transaction (RRPT) Of A Revenue Or Trading Nature Which Are In The Ordinary Course Of Business Involving Edaran Otomobil Nasional Berhad		
16.	RESOLUTION 16	Proposed Shareholders' Mandate For Recurrent Related Party Transaction (RRPT) Of A Revenue Or Trading Nature Which Are In The Ordinary Course Of Business Involving Petronas Gas Berhad		
17.	RESOLUTION 17	Proposed Shareholders' Mandate For Recurrent Related Party Transaction (RRPT) Of A Revenue Or Trading Nature Which Are In The Ordinary Course Of Business Involving Petronas Dagangan Berhad		
18.	RESOLUTION 18	Proposed Shareholders' Mandate For Recurrent Related Party Transaction (RRPT) Of A Revenue Or Trading Nature Which Are In The Ordinary Course Of Business Involving Malaysia International Shipping Corporation Berhad		
19.	RESOLUTION 19	Proposed Shareholders' Mandate For Recurrent Related Party Transaction (RRPT) Of A Revenue Or Trading Nature Which Are In The Ordinary Course Of Business Involving Petronas Carigali Sdn Bhd		
20.	RESOLUTION 20	Proposed Shareholders' Mandate For Recurrent Related Party Transaction (RRPT) Of A Revenue Or Trading Nature Which Are In The Ordinary Course Of Business Involving MISC Trucking & Warehousing Sdn Bhd		
21.	RESOLUTION 21	Proposed Shareholders' Mandate For Recurrent Related Party Transaction (RRPT) Of A Revenue Or Trading Nature Which Are In The Ordinary Course Of Business Involving Gas District Cooling Sdn Bhd		
22.	RESOLUTION 22	Proposed Shareholders' Mandate For Recurrent Related Party Transaction (RRPT) Of A Revenue Or Trading Nature Which Are In The Ordinary Course Of Business Involving Polyethylene Malaysia Sdn Bhd		

(Please indicate "X" in the appropriate box against each Resolution as to how you wish your proxy/proxies to vote. If no voting instruction is given, this form will be taken as to authorise the proxy/proxies to vote at his/her discretion).

Dated: _____ December 2004

Signature of Shareholder(s) or Common Seal

NOTES:-

1. Any member entitled to attend and vote at this Meeting of the Company is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly appointed under a power of attorney. Where the instrument appointing a proxy/proxies is executed by a corporation, it shall be executed either under its common seal or under the hand of any officer or attorney duly appointed under a power of attorney.
3. Where a member appoints two proxies, the appointment shall be invalid unless the percentage of the holding to be represented by each proxy is specified.
4. A corporation which is a member, may by resolution of its Directors or other governing body authorise such person as it thinks fit to act as its representative at the Meeting, in accordance with Article 107(6) of the Company's Articles of Association.
5. The instrument appointing a proxy/proxies must be deposited at the Company's Registered Office, Tenaga Nasional Berhad Headquarters, 129 Jalan Bangsar, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time set for the Meeting.

Stamp

The Company Secretary
Tenaga Nasional Berhad
First Floor, Headquarters
129 Jalan Bangsar
59200 Kuala Lumpur
Malaysia

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The **Photinus Pyralis**, more commonly known as the "firefly", belongs to the Lampyridae family of beetles. This nickname is derived from them having the ability to produce their own "light". This "light" or bioluminescence is emitted from the end of their abdominal segment and glows bright yellow-green.

It is created when oxygen and luciferin, an organic compound found in fireflies, reacts together. Most fireflies emit short, rhythmic flashes, which are purported to be both a mating ritual and a defence against predators. One can even determine the sex of a particular firefly by the way they emit light.

Male fireflies emit light every 5 seconds and females every 2. In fact they are the only insect to be able to have this ability. To date, there are approximately 136 species of fireflies that roam the warm, humid areas of the world.

A complete Bahasa Malaysia version equivalent of this annual report is available upon request to:-

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



TENAGA NASIONAL BERHAD (200866-W)

129 Jalan Bangsar 59200 Kuala Lumpur • Tel : 603 2296 5640 • Fax : 603 2283 5494

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