TRANSFORMATION POWERING THE FUTURE OF SARAWAK

THEME AND COVER RATIONALE

Our transformation embodies our drive to enrich the present and sustain the future for Sarawak, by generating energy to power development, enabling people to benefit from the convenience and possibilities that electricity brings.

Our impact is nowhere more evident than in Kuching, Sarawak's thriving capital city with the New State Legislative Assembly building its most iconic modern landmark.

With a population of 650,000, Kuching is one of the most liveable cities in Southeast Asia, known for its high quality of life and business-friendly environment. By day or by night, this city thrives on the energy we provide.

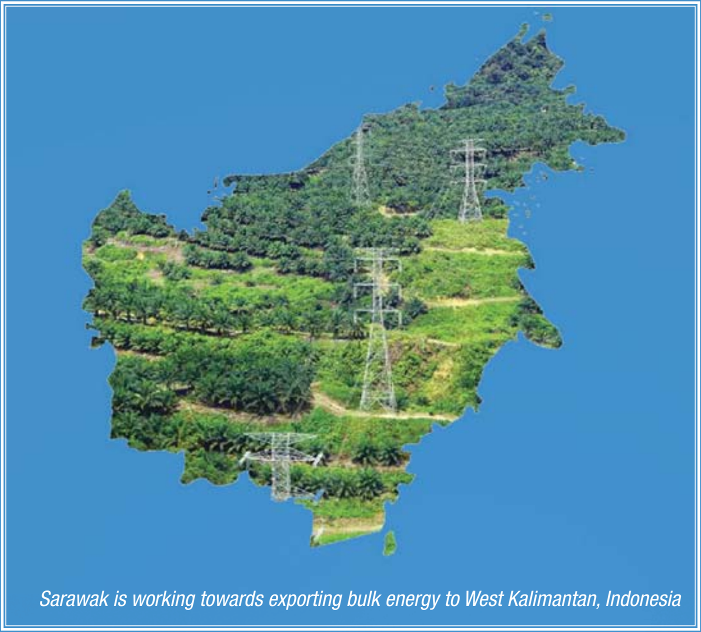
As Sarawak continues to develop all levels of its social and economic fabric, we look forward to powering its future.

TRANSFORMATION
POWERING THE FUTURE OF SARAWAK

Powered by SEB, a view of Kuching City by night with the iconic New Sarawak State Legislative Assembly Building

KEY HIGHLIGHTS 2011

*At the **Power Purchase Agreement Signing Ceremony for Bakun HEP** in Putrajaya on 2 June 2011, Sarawak Energy Chairman Datuk Abdul Hamed Sepawi (right) exchanging documents with Sarawak Hidro Chairman Tan Sri Izzuddin Bin Dali as the Prime Minister looks on*



Sarawak is working towards exporting bulk energy to West Kalimantan, Indonesia

ADVANCING SCORE

Transforming the generation mix

- Bakun HEP output secured through PPA with Sarawak Hidro Sdn Bhd

Signing up bulk customers

- 4 term sheets signed

FINANCING GROWTH

RM3 billion Sukuk issuance

TOWARDS BECOMING A REGIONAL POWERHOUSE

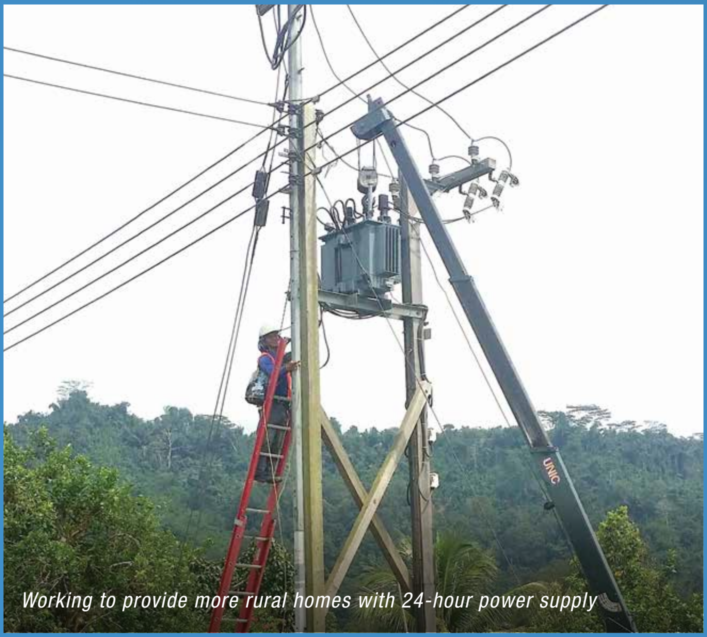
Power Exchange Agreement Term Sheet with Indonesia's PLN for 230 MW

EMPOWERING GROWTH

Introducing a new corporate vision, mission and values

CHARTING FUTURE SUCCESS

The SEB Way



Working to provide more rural homes with 24-hour power supply

ELECTRIFYING SARAWAK

- 17,388 more rural homes provided with 24-hour power supply
- More than 520,000 customers across the State

ADDRESSING ELECTRICITY THEFT

RM30 million saved by reducing power theft

STAFF STRENGTH

3,529 employees

FINANCIAL HIGHLIGHTS

REVENUE
(RM' MILLION)

1,686

PROFIT NET OF TAX
(RM' MILLION)

336

TOTAL ASSETS
(RM' MILLION)

10,628

NET EARNINGS PER SHARE
(SEN)

20.8

CONTENTS

ABOUT THE SEB GROUP

Sarawak Energy Berhad (SEB) is built on a strong foundation of almost 100 years of service to Sarawak in the supply of electricity. We have progressed and evolved since 1921, into a utility with more than 520,000 customers today. As the primary catalyst for the Sarawak Corridor of Renewable Energy (SCORE), we are positioning ourselves to become the regional supplier of reliable, competitively priced and renewable energy.

SEB AS THE CATALYST OF SCORE

Today a wholly State-government owned company, SEB is rebuilding the energy infrastructure in Sarawak from a predominantly fossil-fuel-generated mix to one mainly derived from harnessing the rich hydropower potential in the State. By the end of the decade, our generation mix will grow to 60-70% hydropower from the existing 10%. As we expand our generation capacity, Sarawak will become the natural destination of energy-intensive industries, creating more jobs with better incomes and enabling the development of new skills for young Sarawakians.

In conducting our core businesses, we strive to fulfil our responsibilities vis-à-vis the community, the environment and the economy.

OUR COMMITMENT TO TRANSPARENCY

Although SEB is currently a non-listed public entity and therefore not subject to regulated disclosure requirements of the Securities Commission, we voluntarily publish our annual reports in the interest of transparency to our shareholders, investors, the people of Sarawak and other stakeholders.

In this year's report, you will find our 2011 performance on operations, projects, people, health, safety and environment and corporate social responsibility initiatives as well as our corporate governance and financial statements.

OUR VISION

Sustainable growth and prosperity for Sarawak by meeting the region's need for reliable, renewable energy

OUR MISSION

To realise our vision, we will:

- Pursue opportunities for growth by fully developing the Sarawak Government's SCORE agenda
- Ensure our own safety and the safety of others, with a commitment to do 'no harm to anyone at any time'
- Provide a reliable supply of clean, competitively priced energy to support the economic and social development of Sarawak and our partners in the region
- Operate as a business based on principles that reward our owners and employees, and delight our customers
- Honour the trust placed in us by the people of Sarawak, by acknowledging and respecting them and contributing to their well-being
- Set and achieve high ethical and corporate standards that are a source of pride for our employees, customers and owners
- Develop our people, leadership and teamwork to build an agile, open, corporate and customer-focused culture that responds to challenges and the need for change with innovation and cooperation
- Harness and utilise natural resources in a sustainable and responsible way
- Achieve operational excellence through a commitment to continual improvement and best practice

The Sarawak Energy Leadership Conference, held twice a year, is a platform for the conference delegates, including executives, managers and senior management, to be updated by the Chief Executive Officer in person on the latest corporate happenings and to ask him questions directly

OUR VALUES

INTEGRITY
We do what is right in every aspect of our business, and in every contact with our people, customers, contractors and the community

UNITY
We are one business, working together and sharing information and expertise to achieve our common vision for the future

RESPECT
We value our diversity, listen well and involve others to use our best judgment in all situations and actively care for our relationships

ACCOUNTABILITY
We work hard, take responsibility for our performance and deliver on our commitments

COURAGE
We respect and support each other to do what is right, and in the best interests of our company and the community, even when it is not easy to do so

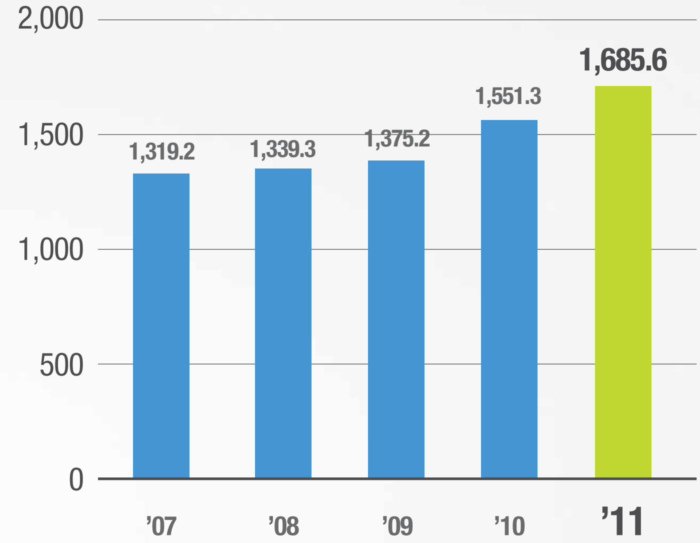
FIVE-YEAR GROUP FINANCIAL HIGHLIGHTS

FINANCIAL YEAR ENDED 31 DECEMBER	2011	2010	2009	2008	2007
PERFORMANCE (RM'000)					
Revenue	**1,685,620**	1,551,280*	1,375,195	1,339,266	1,319,208
Profit before tax	**284,010**	386,939	277,274	293,731	400,727
Profit net of tax	**335,584**	336,218	217,242	276,757	337,411
Net profit attributable to owners of the Company	**335,363**	341,309	216,145	275,647	335,462
Net dividends	**66,436**	66,436	66,436	63,009	56,379
KEY FINANCIAL POSITION DATA (RM'000)					
Property, plant and equipment	**9,120,254**	7,593,227	6,443,215	5,001,301	4,471,783
Cash and bank balances	**591,660**	465,298	642,577	766,392	909,515
Total assets	**10,627,609**	8,783,858	7,821,348	6,531,008	6,040,800
Loans and borrowings	**3,954,027**	2,509,159	1,938,327	1,185,749	1,104,984
Total liabilities	**6,859,216**	5,279,570	4,588,363	3,648,323	3,428,659
Share capital	**1,610,569**	1,610,569	1,610,267	1,527,427	1,518,949
Equity attributable to owners of the Company	**3,758,501**	3,491,025	3,214,631	2,865,428	2,595,994
SHARE INFORMATION					
Net asset per share attributable to owners of the Company (RM)	**2.33**	2.17	2.00	1.88	1.70
Net earnings per share (Sen)	**20.8**	21.2	14.1	18.1	22.1
Gross dividend per share (Sen)	**5.5**	5.5	5.5	5.5	5.0

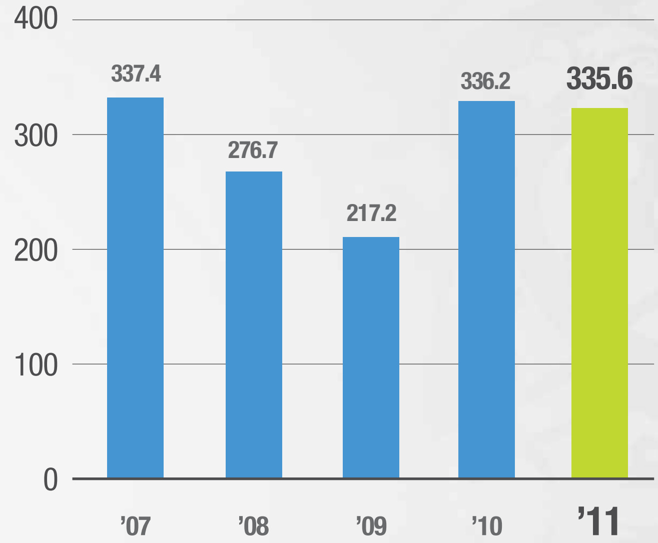
Note:
* Reclassification

FIVE-YEAR GROUP FINANCIAL HIGHLIGHTS

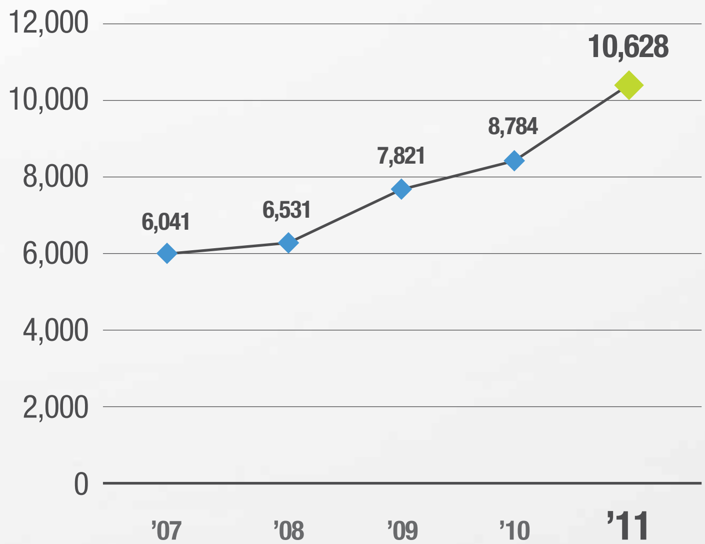
REVENUE
(RM' MILLION)



PROFIT NET OF TAX
(RM' MILLION)



TOTAL ASSETS
(RM' MILLION)



NET EARNINGS PER SHARE
(SEN)

CORPORATE INFORMATION

DIRECTORS

YBhg Datuk Abdul Hamed Sepawi
Chairman

YB Datuk Amar Haji Mohamad Morshidi Bin Haji Abdul Ghani
Non-Independent Non-Executive Director

YBhg Tan Sri Dato' Sri Mohd Hassan Bin Marican
Independent Non-Executive Director

YBhg Datuk Fong Joo Chung
Non-Independent Non-Executive Director

YB Senator Dato' Haji Idris Bin Haji Buang
Non-Independent Non-Executive Director

BOARD AUDIT COMMITTEE

YBhg Tan Sri Dato Sri Mohd Hassan Bin Marican
Chairman

YB Senator Dato' Haji Idris Bin Haji Buang

YB Datuk Amar Haji Mohamad Morshidi Bin Haji Abdul Ghani

NOMINATION AND REMUNERATION COMMITTEE

YBhg Datuk Abdul Hamed Sepawi
Chairman

YB Senator Dato' Haji Idris Bin Haji Buang

Mr. Torstein Dale Sjøtveit

CHIEF EXECUTIVE OFFICER

Mr. Torstein Dale Sjøtveit

COMPANY NUMBER

007199-D

COMPANY SECRETARY

Voon Jan Moi
(MAICSA 7021367)

REGISTERED OFFICE/HEAD OFFICE

4th Floor, Wisma SESCO
Petra Jaya 93673
Kuching, Sarawak
Tel : +6 082-441 188
Fax : +6 082-313 588
Email : info@sarawakenergy.com.my

AUDITORS

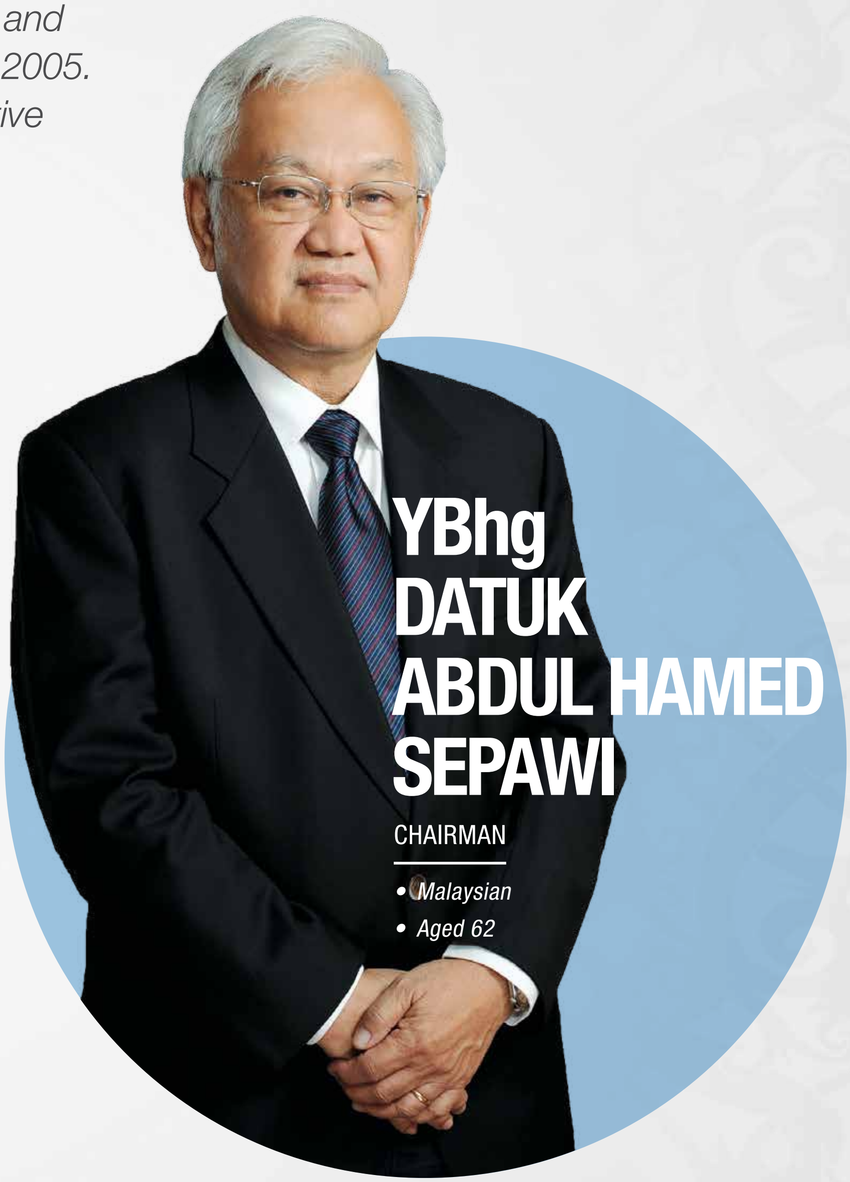
Ernst & Young

PRINCIPAL FINANCIAL INSTITUTIONS

RHB Bank Berhad
EON Bank Berhad
AmInvestment Bank Berhad

BOARD OF DIRECTORS

YBhg Datuk Abdul Hamed Sepawi joined the Board of Sarawak Energy Berhad and was appointed Chairman on 27 June 2005. He is a Non-Independent Non-Executive Director and has attended all Board meetings held in 2011.



YBhg DATUK ABDUL HAMED SEPAWI

CHAIRMAN

- *Malaysian*
- *Aged 62*

Datuk Abdul Hamed Sepawi graduated with a Bachelor of Science degree from University of Malaya in 1971 and pursued his undergraduate studies in Forestry at the Australian National University from 1974 to 1975. He also holds a Master's degree in Forest Products Utilisation from Oregon State University, USA. He was conferred the Panglima Gemilang Bintang Kenyalang in 1999. He also received the Sarawak Entrepreneur of the Year 2004.

Datuk Abdul Hamed Sepawi also serves as Chairman of Syarikat SESCO Berhad and Naim Cendera Holdings Berhad, Executive Chairman of Ta Ann Holdings Berhad, Director of Sarawak Plantation Berhad and Smartag Solutions Berhad, and sits on the boards of several other private limited companies.

YB Datuk Amar Haji Mohamad Morshidi Bin Haji Abdul Ghani joined the Board of Sarawak Energy Berhad on 26 May 2010. He is a Non-Independent Non-Executive Director and has attended eight out of the nine Board meetings held in 2011.

YB DATUK AMAR HAJI MOHAMAD MORSHIDI BIN HAJI ABDUL GHANI

NON-INDEPENDENT
NON-EXECUTIVE DIRECTOR

- *Malaysian*
- *Aged 55*

Datuk Amar Haji Mohamad Morshidi graduated with a Bachelor of Economics degree from Universiti Kebangsaan Malaysia as well as a Master of Science in Human Resource Administration from University of Scranton, Pennsylvania, USA. He was a Management Executive with PETRONAS from 1980 to 1988, and Director of Kuching North City Hall from 1989 to 1998. He held a number of senior positions in the Chief Minister's Department before being appointed as a Permanent Secretary in the Ministry of Social Development and Urbanisation in 2001. He was Director of the State Planning Unit in the Chief Minister's Department prior to his appointment as the Deputy State Secretary of Sarawak in 2006 and later, the State Secretary of Sarawak in August 2009.

Datuk Amar Haji Mohamad Morshidi sits on the boards of Syarikat SESCO Berhad and several other private limited companies.

YBhg Tan Sri Dato Sri Mohd Hassan Bin Marican joined the Board of Sarawak Energy Berhad on 9 June 2010. He is an Independent Non-Executive Director and has attended eight out of the nine Board Meetings held in 2011.

YBhg TAN SRI DATO SRI MOHD HASSAN BIN MARICAN

INDEPENDENT NON-EXECUTIVE DIRECTOR

- *Malaysian*
- *Aged 59*

Tan Sri Dato Sri Mohd Hassan is a Fellow of The Institute of Chartered Accountants in England and Wales (ICAEW), and a member of the Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Certified Public Accountants (MICPA). He began his professional career in 1972 at Touche Ross & Co., London, and subsequently became a Partner at Hanafiah Raslan & Mohamad/Touche Ross & Co. in 1981. He was appointed PETRONAS Senior Vice President of Finance in February 1989, its President and Chief Executive Officer from February 1995 to February 2010, and the Acting Chairman from July 2004 to February 2010.

Tan Sri Dato Sri Mohd Hassan also serves as a board member on several other private limited companies.

YBhg Datuk Fong Joo Chung joined the Board of Sarawak Energy Berhad on 31 January 1996. He is a Non-Independent Non-Executive Director and has attended eight out of the nine Board Meetings held in 2011.

YBhg DATUK FONG JOO CHUNG

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

- *Malaysian*
- *Aged 62*

Datuk Fong received his LLB (Hons) from the University of Bristol, UK, in June 1971. He was subsequently called to the Bar at Lincoln's Inn, London, in November of the same year. In 1972, he began his professional career at Reddi & Co. Advocates in Kuching. He was appointed the State Attorney-General, Sarawak in August 1992. He officially retired on 31 December 2007, but was retained by the Sarawak Government as the State Legal Counsel. He also served as Councillor with the Kuching Municipal Council and Council of Kuching City South. He is a founding member and past President of the Advocates' Association of Sarawak. Datuk Fong was conferred the award of Panglima Jasa Negara (PJN) by the Yang di-Pertuan Agong, Malaysia in 1999 and Panglima Gemilang Bintang Kenyalang (PGBK) by the Yang di-Pertua Negeri, Sarawak in 1994.

Datuk Fong sits on the boards of several other subsidiaries of the Sarawak Energy Group besides holding directorships in Encorp Berhad, Bintulu Port Holdings Berhad, Sarawak Cable Berhad, and Lingui Development Berhad.

YB Senator Dato' Haji Idris Bin Haji Buang joined the Board of Sarawak Energy Berhad on 24 June 2000. He is a Non-Independent Non-Executive Director and has attended seven out of the nine Board Meetings held in 2011.

YB SENATOR DATO' HAJI IDRIS BIN HAJI BUANG

NON-INDEPENDENT
NON-EXECUTIVE DIRECTOR

- *Malaysian*
- *Aged 57*

Dato' Haji Idris graduated with a LLB (Hons) from the University of Buckingham and was subsequently called to the Bar and qualified as a Barrister at Lincoln's Inn, London, UK. He is the proprietor of Idris-Buang & Associates (since 1985), a legal firm located in Kuching, Sarawak. He was formerly the Chief Political Secretary to the Chief Minister of Sarawak, a position held from August 2000 to August 2006. He was appointed Senator of the Dewan Negara on 28 November 2005, and was reappointed to another three-year term on 29 November 2008.

Dato' Haji Idris also sits on the boards of several other subsidiaries of the Sarawak Energy Group besides holding directorships in Hock Seng Lee Berhad and Amanah Saham Sarawak Berhad, as well as other private limited companies.

EXECUTIVE MANAGEMENT COMMITTEE

TORSTEIN DALE SJØTVEIT
Chief Executive Officer

LU YEW HUNG
Senior Vice President, Distribution

AISAH BINTI EDEN
Senior Vice President, Retail

VICTOR WONG
Senior Vice President,Transmission

JAMES UNG
Senior Vice President, Thermal

STELL SINDAU
Senior Vice President, Hydro

EINAR KILDE
Head of Project Execution

HAJI SULAIMAN BIN ABDUL HAMID
Head of Finance

MILES SMITH
Head of Planning and Strategy

EXECUTIVE MANAGEMENT COMMITTEE

ALVIN LIM

Head of Key Accounts (SCORE Customers)

ZURAIMY BIN KUSHAILI

Head of CEO Office

HAJI WAN MAHMUD BIN WAN ABDULLAH

Head of Internal Audit

NICK WRIGHT

Vice President, Strategic Communications and Corporate Social Responsibility

DR. CHEN SHIUN

General Manager, Research and Development

HAJAH SITI AISAH ADENAN

General Manager, People and Leadership Development

POLYCARP WONG

General Manager, Corporate Shared Services

MARCONI MADAI

General Manager, Corporate Risk and HSE

LIM LI NA

Company Secretary

CHAIRMAN'S MESSAGE

"By blending the relatively low-cost power secured from Bakun into SEB's generation portfolio, the Company now has the capacity to deliver the full range of new power projects identified in the Sarawak Government's SCORE initiatives over the remainder of this decade."

DATUK ABDUL HAMED SEPAWI

CHAIRMAN
SARAWAK ENERGY BERHAD

CHAIRMAN'S MESSAGE

On behalf of the Board of Directors of Sarawak Energy Berhad (SEB), I am delighted to present the Annual Report and Audited Financial Statements of the Company for the financial year ended 2011.

The high level of activity that is now underway in and around the Samalaju Industrial Park confirms our impact on the development of Sarawak through the Sarawak Corridor of Renewable Energy or SCORE. Having signed term sheets and Power Purchase Agreements (PPA) with us, our SCORE customers are now investing billions of Ringgit in Sarawak.

Thousands of young Sarawakians are preparing to seize new opportunities for semi-skilled and skilled employment. Many more will be able to return to Sarawak from Peninsular Malaysia, or further afield, as a result of new career opportunities presented by the SCORE agenda.

This report sets out some of the main areas of SEB's progress in our key role in supporting the transformation of Sarawak into a modern, high income economy and SEB's own transformation into a modern and agile corporation.

IMPLEMENTING THE SCORE AGENDA

The Bakun Hydroelectric Facility

Our most important achievement in 2011 was signing the PPA with Sarawak Hidro Sdn Bhd (Sarawak Hidro). The PPA secures the entire output of the 2,400 megawatt Bakun Hydroelectric Plant (HEP) for the benefit of Sarawak. The initial tariff rate fixed for the sale of electricity generated from Bakun, with an annual increase, has proven to be sufficiently competitive to attract investors to SCORE.

*At the **Power Purchase Agreement Signing Ceremony for Bakun HEP** in Putrajaya on 2 June 2011*

By blending the relatively low-cost power secured from Bakun into SEB's generation portfolio, the Company now has the capacity to deliver the full range of new power projects identified in the Sarawak Government's SCORE initiatives over the remainder of this decade.

The Bakun PPA would not have been possible without full cooperation between the Federal Government and its officials, and the Sarawak Government.

SEB therefore wishes to formally record its deep gratitude to the Prime Minister of Malaysia, YAB Dato' Sri Mohd Najib Bin Tun Abdul Razak, and the Chief Minister of Sarawak, YAB Pehin Sri Haji Abdul Taib Mahmud for their leadership in securing this historic agreement.

SCORE CUSTOMER AGREEMENTS

I am pleased to report that in April 2011, SEB signed term sheets with four SCORE investors, namely; Asia Minerals Limited, OM Materials (Sarawak) Sdn Bhd, Press Metal Berhad and Tokuyama Malaysia Sdn Bhd. In addition to these four customers, we are now progressing advanced negotiations with several SCORE customers.

These SCORE customers are scheduled to commence operations from 2012 to 2015 and will offer around 130,000 permanent (direct and indirect) jobs to the people of Sarawak. This will create spin-off economic activities that will help to stimulate the socio-economic growth in the State, benefiting the people of Sarawak at all levels.

EXPORT CUSTOMER NEGOTIATIONS

In July 2011, YB Datuk Amar Haji Awang Tengah bin Ali Hasan, Minister of Resource Planning and Environment (II), Minister of Public Utilities and Minister of Industrial Development, witnessed the signing of a term sheet for a Power Exchange Agreement (PEA) between SEB and PT PLN Persero (PLN) for the export of bulk electricity from Sarawak to West Kalimantan.

Under the PEA, SEB will sell PLN up to 230 MW of power, using a new 275 kV transmission line to connect Mambong in Sarawak to Bengkayang in West Kalimantan.

The potential to export bulk power through a transmission line connecting Sarawak and West Kalimantan has been explored for many years, with an initial feasibility study undertaken in 1994. The deal provides a strong commercial incentive while still allowing Indonesia to capture significant financial and greenhouse gas savings by reducing its reliance on expensive oil-fired generation.

BOARD MATTERS

There have been no changes to the composition of the Board of Directors in 2011. This stability and camaraderie has been vital to our ability to manage the surge in activity, reflected in a significant increase in the number of meetings and papers considered, compared to previous years. The Board is a united team, energised by the opportunity to guide the Corporation for the benefit of the State. I am deeply grateful to my esteemed fellow Directors for their collective wisdom and strong efforts. In closing, I would like to thank our shareholders, management and staff as well as the Sarawak Government for their trust and their ongoing support.

DATUK ABDUL HAMED SEPAWI
CHAIRMAN

CEO'S MESSAGE

In February 2011, after months of preparation, we announced a new vision, mission and values for SEB. The new framework accurately captures the essence of SEB and provides clear and powerful guidance to our people in terms of not only what we do, but how we do it.

TORSTEIN DALE SJØTVEIT

CHIEF EXECUTIVE OFFICER
SARAWAK ENERGY BERHAD

CEO'S MESSAGE

NEW VISION, MISSION AND VALUES

In February 2011, after months of preparation, we announced a new vision, mission and values for SEB. The new framework accurately captures the essence of SEB and provides clear and powerful guidance to our people in terms of not only what we do, but how we do it.

This is an important milestone in the transformation of SEB into a modern corporation and I have been pleased to learn of the enthusiastic discussion of these issues at the "SEB Way" sessions outlined further in this report.

STRENGTHENING THE LEADERSHIP TEAM

This time last year, I foreshadowed the adoption of a more contemporary and focused organisational structure. This was achieved in February 2011, when we introduced a revised structure for our Executive Management Committee (EMC).

The main objectives of this process were to ensure appropriately focused leadership across the key functions of the organisation and to recognise that the new operational departments, namely Thermal, Hydro, Transmission, Distribution, Retail and Project Execution, are where SEB creates value for the State. In addition to a number of old hands taking on new responsibilities, the new structure included three additions to the leadership team at SEB, specifically:

- Polycarp Wong Heang Fui - General Manager, Corporate Shared Services;
- Hajah Siti Aisah Bt Adenan - General Manager, People and Leadership Development; and
- Alvin Lim Khiok Leong - Head of Key Accounts, SCORE Customers.

The team has made significant progress in the way we work together and in the leadership of the specific departments for which the respective head is responsible.

SEB WAY

In April 2011, we commenced the roll out of the SEB Way programme, in which we discussed the vision, mission, values and key focus areas across the whole organisation. Since then, we have used our internal resources to develop a programme that has ensured that 90 per cent of our 3,500 staff have participated in day-long workshops, led by our EMC team. This programme also provides our leaders with the opportunity to understand what our employees consider to be the most important issues affecting the future of SEB.

SEB's success is, in large part, due to the loyalty and dedication of its staff

2011 PROGRESS

- Secured the entire electricity output from the Bakun HEP for the benefit of Sarawak, at a very competitive price
- Signed four term sheets and made progress in advanced negotiations with SCORE customers, to the extent that combined output of Bakun and Murum is now close to 'sold out'
- Achieved a significant increase in the electricity rates sold to SCORE customers
- Made progress in the negotiation of export contracts to Indonesia (West Kalimantan) and Brunei
- Locked in corporate finance required for SEB to deliver the SCORE agenda, on attractive terms
- Made further progress in the transformation of SEB to become a modern and agile corporation
- Saved RM30 million by reducing power theft

CEO'S MESSAGE

FINANCIAL PERFORMANCE

SEB recorded a profit after tax for the financial year ended 31 December 2011 of RM335.6 million, compared to the 2010 result of RM336.2 million. Of this amount (RM335.6 million), RM107.7 million was due to the recognition of deferred tax assets arising from the investment allowance granted to Mukah Coal Fire Plant.

The Group recorded a lower profit before tax for the financial year ended 31 December 2011 of RM284 million, compared to the 2010 figure of RM387 million. This reduction occurred mainly due to higher fuel costs - reflecting both the higher price of diesoline (2011: RM2.44/litre vs 2010: RM1.96/litre) and the higher consumption of diesoline during the year despite the strong growth in revenue, supported by 5.9% year on year growth in organic sales and the ramp up of Press Metal's production.

The Group continues to rely on expensive diesel generation to maintain the total grid demand and power security requirement due to:

- the delay in the commissioning of Bakun HEP;
- lower hydrology inflows into the Batang Ai Power Station; and
- ongoing transmission constraints.

The year 2012 is set to be more challenging financially, as a result of heavy investments in new transmission and generation projects. Looking further ahead, the combination of strong demand from SCORE and export customers as well as higher selling rates forebode well for the Group's financial performance into the medium term and beyond.

RAISING THE FINANCE THROUGH SUKUK MUSYARAKAH PROGRAMME

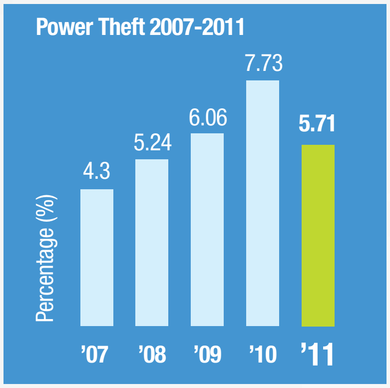
In June 2011, SEB successfully issued its Sukuk totalling RM3.0 billion, the first step of our RM15.0 billion Sukuk Musyarakah Programme.

The programme included tranches carrying maturities of between five to 15 years with profit rates ranging from 4.40% to 5.65% per annum.

The proceeds from the Sukuk will be utilised by SEB to finance the Group's capital expenditure requirements as well as to refinance certain existing borrowings. The Sukuk Musyarakah Programme has been accorded a rating of AA1 by RAM Rating Services Berhad.

We are very grateful to RHB Investment Bank Berhad as the sole Principal Adviser and Lead Arranger alongside joint Lead Managers AmInvestment Bank Berhad for facilitating the issuance.

ADDRESSING ELECTRICITY THEFT



Throughout the year, our Retail Department took decisive action to address the rapid escalation of electricity theft in Sarawak - an activity which continues to have a significant impact on our revenue. Since November 2010, SEB deployed 216 technicians and 104 auxiliary police to carry out daily checks on meters across the state. By November 2011, 23,000 meters had been checked with 13% found to have been tampered with.

The rate of electricity theft had peaked in December 2010 when (on an annualised basis) around 450 gigawatt-hours (GWh) were stolen at a cost of approximately RM140 million to the Company. The stealing of electric cables and components has also resulted in monetary losses as well as unnecessary interruption to customers' electricity supply.

This year, we mounted a sustained enforcement campaign, with strong support from the Police, the State and Federal Attorney General, the Ministry of Public Utilities and private security consultants. We took action against the offenders and continued to work diligently to detect offenders, including SEB staff who had abetted them. By the end of the year, we had reduced the losses by about 100 GWh, translating to about RM30 million in savings.

Contrary to our earlier assumption that organised crime was the major driver of electricity theft, our detailed analysis identified three underlying causal factors, namely the promotion of tampering by contractors or individual 'businessmen'; the involvement of SEB/SESCO staff and a lack of understanding within the community that power theft is a crime.

CEO'S MESSAGE

INFORMATION GOVERNANCE PROJECT

In line with SEB's emphasis on corporate governance, the Corporate Administration and Medical Division embarked on an Information Governance Project supported by the IT Services, and Risk Management and Integrated Quality Management System Divisions.

The objective of the project is to plan and design an enterprise-wide Information Governance framework for SEB, as well as to improve the management and use of information assets, and to eventually implement an automated Enterprise Content Management technology solution.

PROGRESS OF NEW SEB HEADQUARTERS

The new SEB headquarters located at The Isthmus is under construction and almost ready for our planned move scheduled for March 2012.

The building is designed as an energy efficient building. The Green Building Index (GBI) certifier carried out a design assessment of the building and the SEB headquarters is now certified under the GBI rating. A provisional GBI certificate was subsequently issued to SEB on 23 June 2011. The actual certificate will be issued after the building has been occupied for six consecutive months, and the design parameters further corroborated by the GBI certifier.

In the GBI assessment, the building scored the most points under the Energy Efficiency category. The building's energy consumption, measured through Building Energy Intensity, was at 112 kWh/m^2 per year, which is well below the limit set for low-energy buildings under the Malaysian Standards. This also represents a significant reduction from the energy consumption of 400 kWh/m^2 per year at our current headquarters Wisma SESCO.

The installation capacity of photovoltaic panels on the building and car park roofs is 94.14 kilowatt peak, covering an area of 1347.5 m^2, generating about 121 MWh per year and contributing to energy conservation in the building. Other energy-saving features used in the building include the extensive use of daylight, control of artificial lighting by presence sensors and installation of low-energy equipment.

BUMIPUTERA VENDOR DEVELOPMENT PROGRAMME

In 2011, SEB conceptualised the Bumiputera Vendor Development Programme (BVDP) in its procurement and contract process.

The initiative aims to increase the amount of tender works (measured by value and including capital works) in any given year to Bumiputera companies.

The concept was approved by the SEB Board of Directors and YBhg Dato' Haji Idris bin Haji Buang was appointed as the Chairman of the BVDP taskforce.

The programme supports the Sarawak State Government's overall initiative to develop Bumiputera entrepreneurs.

CONCLUSION

WIth our significant achievements in 2011, SEB can now implement the SCORE agenda, and lift Sarawak's profile and contribution as a driver of prosperity on a regional scale.

In conclusion, I formally acknowledge my deep appreciation for the outstanding support that we have received from the Chief Minister of Sarawak, YAB Pehin Sri Haji Abdul Taib Mahmud and the State Government. I am likewise grateful to SEB's Chairman, Board of Directors, management and staff whose dedication and resilience in the face of massive change have been vital to the success of the Company's transformation journey.

TORSTEIN DALE SJØTVEIT
CHIEF EXECUTIVE OFFICER

OUR BUSINESS & OUR STORIES

OUR OPERATIONS

Sarawak Energy as a vertically integrated holding company is principally involved in the power and electricity sector through its wholly-owned subsidiaries which own coal, gas and hydropower generation assets, and has the sole right to transmit, distribute and supply electricity throughout Sarawak through Syarikat SESCO Berhad.

THERMAL GENERATION

SEB conducts thermal power generation through its wholly owned subsidiary companies, Syarikat SESCO Berhad (SESCO), Sarawak Power Generation Sdn Bhd (SPG), Sejingkat Power Corporation Sdn Bhd (SPC), PPLS Power Generation (PPLS) and Mukah Power Generation Sdn Bhd (MPG).

As of 2011, the total installed capacity within the Thermal Department is approximately 1,200 MW, with five major power stations connected to the Sarawak State Grid (the network of extra high-voltage transmission lines and substations that connect generating power plants to the distribution networks that serve the towns and cities of Sarawak) and 19 isolated rural diesel and mini-hydro power stations.

The Bintulu Combined Cycle Plant project, with a combined capacity of 317 MW, was successfully commissioned in the first quarter of 2010. The Bintulu plant was registered with the United Nations under the Clean Development Management (CDM) scheme on 18 September 2010. The CDM scheme is part of the Kyoto Protocol environmental agreement and aims to encourage sustainable development and reduce greenhouse gas emissions. The Bintulu facility is the largest CDM plant in Malaysia.

HYDRO GENERATION

The Hydro Department operates and maintains hydro assets. The department takes the lead in the planning, initiation and concept phases of all big hydro projects before passing them over to the Project Execution Department to execute all the phases until commissioning and finally handing over the assets. The department also identifies small hydropower potential that could be developed, in particular to support rural electrification in nearby areas.

As of 2011, the total installed capacity within the Thermal Department is approximately

1,200
MW

Batang Ai Hydroelectric Plant recorded an average availability of

96.8%

and total energy generation of

406.83
GWH

Bintulu Combined Cycle Plant

At the moment, only Batang Ai is in operation. Designed to have a maximum power output of 108 MW, it was commissioned in 1985. Batang Ai recorded an average availability of 96.8 per cent and total energy generation of 406.83 GWh in 2011. Murum HEP is still under construction.

TRANSMISSION

The Transmission Department is the Transmission Network Service Provider. The department is responsible for the development, maintenance and operation of the network to ensure reliable electricity supply throughout the State.

GRID SYSTEM OPERATOR

Under the Electricity Ordinance (State Grid Code 2003), the Transmission Department is the appointed Grid System Operator (GSO). The GSO is responsible for the generation scheduling and dispatch, and monitoring and control of the grid system to ensure it is operated reliably, securely, safely and economically.

OUR OPERATIONS

DISTRIBUTION

The Distribution Department ensures that power is distributed efficiently throughout the State.

The distribution network is divided into regions, namely Western Region, Central Region and Northern Region. Each region is responsible for developing, operating and maintaining its own distribution network to ensure reliable supply to our customers. One of the main tasks of the regions is to connect new customers in a timely manner.

The department maintains and ensures the efficient operation of the distribution network's database systems, and other assets and processes. This includes overseeing data collection by regional Global Information System (GIS), providing policy and technical specifications, undertaking maintenance and installation planning, and managing the inventory of all electrical equipment stocks.

The GIS application software used to identify customer source supply was upgraded for enhanced search function.

To optimise land use and space allocation, low-height pad-mounted substations were introduced that have the advantage of blending into the surrounding.

RETAIL

The Retail Department was established to manage the sale of electricity to customers, manage customers' concerns and collect payment from electricity sales. The department comprises three distinct areas: Customer Management, Meters, and Revenue Management.

In ongoing efforts to deliver quality service to customers, a Customer Care Centre will be established. The call centre will operate 24 hours a day, seven days a week, to handle enquiries on technical and customer services.

The system will be equipped with state-of-the-art technology to handle the expected influx of calls especially during outages, will have an intelligent queue call back feature, a broadcast announcement facility and a monitoring system to keep track of the transactions for continuous improvement of its services.

The department also spearheads an enforcement campaign to address the major challenge of electricity theft in Sarawak.

A common framework creates a transparent process from evaluation of business opportunities through to project development, execution and handover to operations.

The call centre will operate

24 HOURS

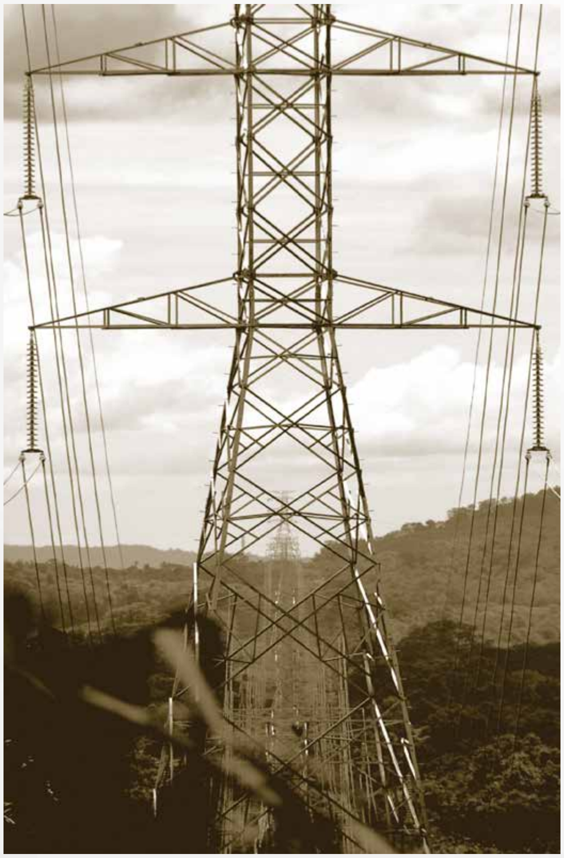
a day, seven days a week, to handle enquiries on technical and customer services.

PROJECT EXECUTION

A dedicated Project Execution Department ensures that SEB can successfully complete its investment projects in line with its business goals and strategies.

Within the department are the support functions of Project Controls, Contracts and Procurement and Project Management. This department establishes a common methodology, terminology and documentation framework for SEB's project work across all departments. This creates a transparent process from evaluation of business opportunities through to project development, execution and handover to operations.

In 2011, the Project Execution Department was focused on delivering critical projects already in the execution stage, and preparing for new major hydro and thermal generation projects planned for the near term.



Transmission lines in Sarawak's central region

TRANSFORMATION: A JOURNEY OF POWER

In 2010, SEB started a journey to transform itself from a local supplier of electricity to a regional provider of clean, affordable and renewable power by harnessing the abundant energy resources of the State.

SEB has supported the State Government in stimulating socio-economic development and growth, working to achieve the following important milestones by the end of the decade:

- To make available new power to meet the needs of more domestic consumers (both urban and rural) and industries (including energy intensive industries);
- To transform energy supply from a fossil-fuel dominated mix with only 10% clean hydropower to one with 60-70% hydropower;
- To work with the Government, non governmental organisations (NGOs) and people affected by the projects to minimise any disruptive effects and tap opportunities for new growth from hydropower development; and
- To establish regional partnerships to export energy.

Over the years, the progress achieved by SEB and SCORE has attracted keen interest from both local and foreign investors, leading to investment in a number of projects in the State.

The projects targeted by investors are predominantly in energy intensive industries, such as aluminium smelter (Press Metal Berhad), polycrystalline silicon (Tokuyama Malaysia Sdn Bhd), ferroalloys (Asia Minerals Limited) and metallic silicon (OM Materials (Sarawak) Sdn Bhd).

The primary source of power supply for the first phase of SCORE will come from the Bakun HEP, the Murum HEP and the Balingian Coal-fired Power Plant (CFPP). The Bakun HEP is operated and managed by Sarawak Hidro Sdn Bhd, a wholly-owned subsidiary of the Minister of Finance Incorporated Malaysia. It is expected to have a total installed capacity of 2,400 MW, of which three out of eight units (900 MW) have been commissioned during the year. The signing of the Power Purchase Agreement with Sarawak Hidro in June 2011 secures the entire output from the Bakun HEP.

The Murum HEP, which is wholly owned by the SEB Group, is currently under construction and is expected to deliver its first power in 2014. It is expected to have a total installed capacity of 944 MW. The 600 MW Balingian Coal-fired Power Plant project, also to be owned by the SEB Group, has completed the Concept Engineering Phase and is now progressing to the next stage of the project implementation.

Bakun HEP (2,400 MW)
- three out of eight units have been commissioned during the year

ADVANCING SCORE

Transforming the generation mix

Bakun HEP output secured through PPA with Sarawak Hidro Sdn Bhd

Signing up bulk customers

4 term sheets signed

TRANSFORMATION: A JOURNEY OF POWER

CLEANER THERMAL GENERATION

The recently-commissioned 317 MW Bintulu Combined Cycle Plant is the largest Clean Development Management facility in Malaysia. It is registered with the United Nations under the Kyoto Protocol environmental agreement aimed at sustainable development and reduction of greenhouse gas emissions.

POWER FROM INDIGENOUS RESOURCES

The 2 x 300 MW Balingian Coal-fired Power Plant Project is one of Sarawak Energy's new generation projects. The priorities in planning this project are to utilise rich local resources of coal as the energy source, ensuring a good generation mix in the grid system, and to achieve sustainable development and operation.

The project is located near the Balingian River, 25 km southeast of the existing Mukah 2 x 135 MW Power Station, and about 60 km from Mukah Town. The first unit is expected to be launched for commercial operation by the end of 2017. The project is a mine-mouth plant built at a strategic location to reduce logistics for coal transportation. As a result, this reduces the environmental footprint associated with transportation.

Considering the quality of coal for the Balingian Project and its potential variability in properties, circulating fluidised bed (CFB) has been chosen as the most appropriate technology for the boilers due to the high moisture content of the coal from the Balingian area.

CFB has a high flexibility in accepting a wide range of design coals with high moisture and variable ash characteristics and it ensures complete utilisation of the coal resource from the Balingian area.

Its lower combustion temperature (800 to 950°C) means the nitrogen oxide (NO_x) formation is minimised and the sulphur dioxide (SO_2) emission is maintained below permissible levels by adding limestone to the bed to remove the sulphur content.

GREEN ENERGY FROM BATANG AI

The Batang Ai Hydroelectric Plant (HEP) continues to generate and deliver clean and renewable energy smoothly and reliably.

Batang Ai HEP's operation performance for the year is summarised below:

Aspect	2011 Achievement
Total Unit Generated	406.83 GWh
Availability (Average)	96.3%
Forced Outage Rate	0.00%

2011 Batang Ai HEP Operation Performance

Plant maintenance for the year was carried out smoothly, efficiently and on schedule.

Batang Ai HEP continues to generate and deliver clean and renewable energy

The 2 x 300 MW Balingian Coal-fired Power Plant Project is 25 km southeast of the existing Mukah 2 x 135 MW Power Station

TRANSFORMATION: A JOURNEY OF POWER

HYDROPOWER RISING

Energy generation from hydropower is set to grow strongly over the next few years, with the development of hydropower projects to meet rising demand from both domestic and SCORE customers.

The next major hydropower development to be commissioned is the 944 MW Murum Hydropower Project in 2014. Construction of Murum advanced considerably during the year with dam construction, tunnelling, intake and power station works all progressing well.

In preparation for the taking over of Murum HEP, 16 new operations and maintenance engineers and 21 mechanical and electrical technicians were engaged and trained locally at Kuching Training Centre and Batang Ai HEP as well as overseas in China at Yichang and Shandong, and Australia at Entura, Hydro Tasmania.

After training, these new personnel were assigned to the Batang Ai HEP operations team and the Murum project team. Preparations were also made for more experienced personnel including the Senior Power Plant Operator of Batang Ai HEP to be included in the Murum team for the final stage of installation, as well as testing and commissioning works.

As the SEB project development model requires projects to pass through three formal decision gates, namely decision to start Initiation phase, Concept phase and Pre-Engineering phase before a final investment decision is taken, this year saw the Baram 1 (1,200 MW), Belepeh (146 MW), Baram 3 (300 MW), Limbang 1 (54 MW) and Baleh (1,250 MW) hydropower projects taken to Concept phase.

Looking ahead to 2012, it is expected that the Baram 1 and Baleh projects will advance to Pre-Engineering phase. Moreover, several new projects, including Pelagus (465 MW) and Trusan 2 (240 MW), will be taken to Concept phase.

Artist's impression of the Baleh HEP (1,250 MW)

EXPANDING THE NETWORK

A main 500 kV transmission system is being planned to be developed in stages synchronising with the hydropower projects development. The current 275 kV network will be expanded to tap the 500 kV backbone and to connect the hydroelectric dams into the State Grid System.

Aerial view of Samalaju Industrial Park (Photo credit: RECODA)

DEVELOPING OUR PEOPLE, LEADERSHIP AND TEAMWORK

UPGRADE AND UPSCALE

Moving in tandem with the establishment of SCORE, SEB has advanced in the enhancement standards of proficiency for its employees at all levels of the organisation.

Around 40 SEB employees attended a five-day 'Train the Trainer' course organised by external consultants.

The objective is to ensure that the participants of the 'Train the Trainer' programme can develop sufficient knowledge to groom a skilful workforce. The participants of the course included electricians and wiremen.

The 'Train the Trainer' programme is meant to equip and enhance the skills of trainers to be more proficient in training needs analysis, techniques to identify competency skills analysis and how to prepare the workforce for the challenges ahead. This programme is an added advantage as it also fulfils the requirements of the Electrical Inspectorate Unit, which monitors the technical performance of the electricity industry to ensure technical compliance and public safety.

In 2011, the Human Resource Services Division implemented a new online assessment for confirmation in service for new employees. Confirmation in service would be based on periodic assessments by line managers on the 6th, 9th and 11th month of the probation period of one year.

The Human Resource Services Division participated in the Joint Council Meetings and Collective Bargaining for the Collective Agreement with Syarikat SESCO Berhad Employees Union. At the same time, the existing terms and conditions of service of employees were reviewed and new terms and conditions of service of employees are expected to be implemented in 2012.

CLOSING THE COMPETENCY GAP

The Corporate Shared Services Department's 2011 Corporate KPIs on competency was to reduce SEB's existing competency gap for technicians by 50%. At the beginning of 2011, out of 834 technicians who require competencies, only 313 technicians had managed to acquire the required competency.

SEB has a range of training initiatives in place to enhance the skills of its employees

The objective is to ensure that the participants of the 'Train the Trainer' programme can develop sufficient knowledge to groom a skilful workforce.

Overall, the number of participants involved in competency training is as shown below:

Activities	2010 (Jan - Dec)	2011 (Jan - Dec)
Number of participants trained in competency courses (External and SEB)	1,553	1,857
Number of participants who sat for competency examinations (External and SEB)	480	1,021

DEVELOPING OUR PEOPLE, LEADERSHIP AND TEAMWORK

Human capital is SEB's most crucial resource

GROWING A COHESIVE TEAM

Human capital is SEB's most crucial resource. Within a short period of time, SEB has recruited and developed a sizeable population of employees for deployment over the length and breadth of the State to harness Sarawak's abundant sustainable hydropower and rich coal resources. Apart from harnessing a vast amount of technical, management and administrative skills and knowledge, SEB is developing a new organisational culture to encourage synergy in performance by prioritising:

- engaging the broader SEB team in the meaning of its new corporate vision, mission and values, and how they guide and unify SEB in action, and
- building a style of leadership and a culture that inspires optimism, enthusiasm, hard work and open communication.

SEB continued to attract more people on board - the total number of employees increased by 593 from 2,936 in 2010 to 3,529 in 2011.

SEB WAY

The SEB Way is a major organisational development plan to build a new culture to strengthen SEB's performance.

The SEB Way was launched on 20 February 2011, and is designed to achieve awareness, internalisation and sustainability in stages by employees across the organisation, both horizontally and vertically.

To achieve the first milestone, namely awareness, workshops were conducted for the existing staff, while staff recruited from 1 January 2012 onwards will attend similar workshops in their respective orientation programmes.

New programmes will be implemented until 2013 to achieve the final stage - sustainability.

PEOPLE

Employees increased from 2,936 in 2010 to 3,529 in 2011

Charting future success

The SEB Way

HEALTH, SAFETY AND ENVIRONMENT

SAFETY AND HEALTH AT WORK

In line with SEB's rapid growth powered by the SCORE agenda, staff strength has grown tremendously in tandem with the number of projects. Despite the expansion in the workforce, SEB will not compromise on its commitment to health, safety and environment.

The HSE Department formulates and implements policies and procedures to ensure good working conditions and safety of the employees. To encourage employees to embrace the safety culture, SEB has introduced programmes such as induction training, a Safety Week initiative and a mandatory HSE orientation programme for all staff, which comes with a series of refresher training every two years.

SEB has introduced programmes such as induction training, a Safety Week initiative and a mandatory HSE orientation programme for all staff.

Safety and healthy at work with personal protective equipment

A BUSINESS ADVANTAGE: SAFETY AND HEALTH ISSUES AT THE WORKPLACE

SEB threw its full support behind the 2nd Borneo Conference and Exhibition on Occupational Safety and Health (BOSH) which was held on 5 December 2011 at the Pullman Hotel in Kuching.

Organised by the National Institute of Occupational Safety and Health (NIOSH), BOSH is the ideal convergence point for Occupational Safety and Health (OSH) professionals and experts to discuss current issues and challenges, as well as share OSH knowledge and skills to meet the dynamic changes in the working environment and move towards a common aspiration, which is to achieve a safer and healthier workplace for all. The latest updates were also presented on the status of implementation of the Malaysian OSH Master Plan and the positive impacts of good OSH practices on businesses.

Themed 'A Business Advantage; Safety and Health Issues at the Workplace', the two-day conference was attended by 443 participants and was declared open by Yang Berbahagia Tan Sri Datuk Seri Lee Lam Thye, Chairman of NIOSH. A total of 22 exhibition booths were set up by various safety products and services companies, as well as government agencies, to showcase their latest offerings in OSH management.

This conference is one of the continuous education programmes organised by NIOSH, supported by DOSH and SOCSO, for safety practitioners in the country.

SEB staff at BOSH 2011 in Kuching, Sarawak

HEALTH, SAFETY AND ENVIRONMENT

Boundary noise monitoring at the perimeter fencing. The allowable noise level for most power stations is 65 dBA at all times

ENVIRONMENTAL PROTECTION

In striving to be a responsible corporate citizen, SEB has a legal and moral duty to comply with Malaysia's environmental laws and regulations.

Through the Environmental and Occupational Safety and Health Policy, SEB is committed to comply with the environmental legislations and requirements, a framework for the protection of the environment from observable harm.

In compliance with these national environmental acts and regulations, the Environment Division at SEB conducts regular boundary noise monitoring, dark smoke observations, stack emission monitoring, and scheduled waste disposal programme at all rural and urban power stations. The division also coordinates documentation, maintenance and assessment.

Boundary Noise Monitoring

The allowable boundary noise level set by the Department of Environment (DOE) for most power stations is 65 dBA at all times. Hence, the Environment Division conducts boundary noise monitoring along the perimeter fencing of the power station on a yearly basis. In 2011, the noise levels recorded for Kuching and Miri Power Stations slightly exceeded the approved limit largely due to thunderstorms and other contributing noises, while the noise level recorded for Bintulu Power Station was within limit.

Dark smoke observation using the Ringelmann Chart. Smoke must not be darker than shade No. 120

Dark Smoke Observation

Dark smoke observation at rural and urban power stations was initiated by the Environment Division in 2011. It is a requirement by law that the smoke emission shall not be darker than shade No. 120 on the Ringelmann Chart.

Dark smoke observation generator sets at rural and urban power stations is carried out on a quarterly basis. In major stations, like Bintulu and Kuching Power Stations, this procedure is carried out on a quarterly basis. This is conducted together with stack emission monitoring.

Stack Emission Monitoring

The main objectives of stack emission monitoring are to determine emissions compliance with the statutory requirements, to check the effectiveness of emission control technology and to evaluate the effects of process variables in the emission rates. The parameters monitored at the mentioned stations included dust particulates, gas emissions of O_2, CO_2, CO, NO_x, SO_2, SO_3, hydrocarbons and dark smoke observations.

Scheduled Waste Disposal Programme

The Environment Division coordinates with the scheduled waste contractor for periodic collection of the scheduled waste generated by the stations throughout the State. It is an offence under the Environmental Quality (Scheduled Waste) Regulations 2005 for a waste generator to store scheduled waste for more than 180 days, or exceeding 20 tonnes, whichever comes first.

Environmental Management System Documentation and Maintenance

The Environmental Management System (EMS) is a set of processes and practices that enables an organisation to reduce its environmental impact and increase its operating efficiency.

Although not certified with the ISO 14001 EMS, the rural and urban power stations implemented the EMS as an initiative to systematically manage the possible environmental impact arising from power generation activities.

During the annual environmental assessment, the Environment Division monitors and provides assistance to ensure that the EMS is properly implemented and that all the power stations in Sarawak are environmentally compliant.

Environmental Assessment

The environmental assessment covers the operation, maintenance and general environmental conditions of the station. The assessment team will conduct inspections on the drainage system, fuel farm yard, fuel loading area, waste storage area and the chemical storage area. The assessments at the rural and urban power stations are carried out together with dark smoke observation, boundary noise monitoring and the EMS documentation and maintenance.

HEALTH, SAFETY AND ENVIRONMENT

Review meeting in progress

Community engagement at Rumah Jilom during ground truthing

Environmental Impact Assessment

SEB undertakes Environmental Impact Assessment (EIA) for all its major projects. There are two EIA procedures adopted in Malaysia, namely the Preliminary EIA (PEIA) and the Detailed EIA (DEIA).

The PEIA is an assessment of impact due to activities that are proposed. PEIA is reviewed by a technical committee from DOE and other relevant government agencies.The DEIA is a standard procedure for projects with substantial impact on the environment. Under Section 34A of the Environmental Quality Act 1974, DEIA is required for the construction of SEB's upcoming 2 x 300 MW coal-fired power plant in Balingian.

Review Meeting and Ground Truthing are two significant processes leading to the finalisation of the DEIA report. Prior to starting the Ground Truthing exercise, there is normally a data Review Meeting. After the Ground Truthing survey, the findings shall be compiled and the DEIA report shall be made available to interested parties for viewing. During this period of display, they are allowed to comment on the findings for consideration.

The objective of the Review Meeting and Ground Truthing is to assist the DOE and SEB to understand the potentially critical or sensitive issues that may arise from these projects. This is the main focus in the DEIA study.

Social and Environmental Impact Assessment

In compliance with Sarawak environmental laws and the requirements of the Natural Resources and Environment Board (NREB), SEB undertakes Social and Environmental Impact Assessment (SEIA) for all of its major projects and submits SEIA reports to NREB for approval prior to implementation.

SEIA is a formal, comprehensive study designed to properly understand and mitigate the impact of projects. All SEIA studies consist of focus areas as follows:

- Project Description
- Contemporary Ethnography Study
- Social Impact Assessment (SIA)
- Environmental Impact Assessment (EIA)

If the SEIA identifies that the planned projects are feasible, then SEB will work with the local communities to ensure the projects meet with the community's expectations.

Following the PEA signed with PLN on the proposed development of the 275 kV Mambong-West Kalimantan transmission line, this year, SEB embarked on a SIA for the cross boundary project to establish detailed socio-economic baseline and to mitigate potential impacts.

CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

Managing the business to minimise any negative impact of its operations and maximise the positive impact of what it does for the community.

The Murum Penans live a very traditional semi-nomadic life deep in the Sarawakian interior

DEFINITION OF SOCIAL RESPONSIBILITY

SEB is run as a business, but profit is not its only goal. Its mission captures broader objectives and responsibilities, and commits it to:

- honouring the trust placed in it by the people of Sarawak, by acknowledging and respecting them and contributing to their well-being; and
- harnessing and utilising natural resources in a sustainable and responsible way.

SEB has a special responsibility towards the communities that are directly affected by its development projects. For SEB, the term Corporate Social Responsibility (CSR) means:

Managing the business to minimise any negative impact of its operations and maximise the positive impact of what it does for the community.

Some of SEB's CSR initiatives include:

- collaborating with the National Registration Department for the registration of birth certificates and identity cards for the rural communities in Murum;
- providing relief to ease the burden of victims in the event of fire, flood and other natural disasters; and
- supporting the needy and less privileged in the community, including poverty stricken communities, through donations, sponsorships and hands-on assistance in charitable events and local community projects.

CORPORATE SOCIAL RESPONSIBILITY

Kindergarten at Long Wat, Murum - built by SEB

STRATEGY TO ACHIEVE SOCIAL RESPONSIBILITY

SEB meets its social responsibility by:

- Creating economic opportunities for Sarawakians;
- Supporting partners in community investment;
- Demonstrating high standards of transparency and community engagement; and
- Undertaking projects in a sustainable way.

CREATING ECONOMIC OPPORTUNITIES

By developing Sarawak's abundant energy resources, SEB contributes towards the creation of new and better economic opportunities for current and future generations.

The full implementation of SCORE will offer around 130,000 permanent (direct and indirect) jobs* to the people of Sarawak; and SCORE customers purchase billions of ringgit in goods and services from local companies.

SEB itself provides secure employment for over 3,500 full time staff.

PARTNERSHIPS FOR COMMUNITY INVESTMENT

SEB recently defined its CSR strategy and plan, and identified several priorities, projects and partners. This is to ensure the positive impact on local communities. SEB has identified four areas in developing long-term, sustainable partnerships that meet real community needs, specifically:

- education and young people;
- environmental management and conservation;
- culture and heritage; and
- community development and entrepreneurship.

* *The figure of job creation in SCORE is taken from the Strategic Manpower Study for SCORE carried out by Unimas in 2009*

COMMUNITY INVESTMENT

SEB has identified four areas in developing long-term, sustainable partnerships that meet real community needs, specifically:

- education and young people;
- environmental management and conservation;
- culture and heritage; and
- community development and entrepreneurship.

SEB donates uniforms and stationery to Murum Penan schoolchildren of SK Batu Keling, Belaga

Education and Young People

Education plays a pivotal role in the economic development of the nation as it empowers people and helps eradicate poverty. Investment in education is a CSR priority to improve the level of education and skills, particularly in the rural communities.

SEB offers educational assistance to the Murum project-affected by its projects by building kindergartens, and providing school uniforms and stationery sets. SEB also contributes to students' academic awards and sponsorship for school facilities, as well as donating computers to the communities in the areas in which it operates.

The Murum Penan Literacy Programme is a collaborative endeavour between SEB and the Society for the Advancement of Women and the Family, Sarawak (SAWF) for the communities to be resettled under the Murum HEP.

The objective of the programme is to promote literacy in the selected communities, and help them prepare for challenges arising from the anticipated resettlement. Under this programme, participants who have received basic education are trained as facilitators. With the assistance of SAWF, these participants will eventually set up classes in their respective longhouses to teach other members of the community to read, write and compute basic arithmetic.

Environmental Management and Conservation

SEB has identified a number of project partnerships to support the management and conservation of the natural environment, including the preservation of native plants and wildlife, and incorporating conservation measures and sustainable management of natural resources.

CORPORATE SOCIAL RESPONSIBILITY

To preserve the Batu Tungun rock formation (right of picture), SEB redesigned the dam crest of Murum HEP

Culture and Heritage

SEB believes it has a role to play in preserving the unique cultural heritage of the different indigenous groups in Sarawak. In Murum, SEB has sponsored festival celebrations and supported ritual ceremonies, such as the Pela Daleh at the Penan's sacred rock Batu Tungun. Throughout the State, SEB organised various activities in conjunction with multicultural festivals and celebrations. To empower local communities, SEB is studying a number of suitable strategic programmes for the community's development and growth.

Community Development and Entrepreneurship

Hydropower development contributes significantly to economic development by opening up business and employment opportunities. To empower the local community, SEB is studying a number of suitable strategic programmes for the community's development and growth.

TRANSPARENCY AND COMMUNITY ENGAGEMENT

SEB has an obligation to make sure that people understand what it does in implementing its projects. When SEB develops new projects, it goes through a robust process to make sure that the affected communities are involved throughout the process.

SEB continues to organise dialogues with affected communities to ensure that its projects and their potential impact are communicated and understood, so that problems can be mitigated and greater benefits can be created for the communities. SEB works closely with identified communities on social investment programmes.

SUSTAINABILITY

Sustainability is about meeting the needs of the present and future generations as well as balancing the need for development with environmental protection. It has a unique role in SEB's business operations, encompassing environmental, economic and social dimensions under the overall framework of sustainable development.

The core of SEB's approach to sustainability is to create the knowledge required to understand and properly manage economic, social and environmental issues.

In doing so, it ensures that decision-makers and affected communities have access to full information about the impact of SEB's projects on people and the environment.

This is why SEB has become a Sustainability Partner of the International Hydropower Association (IHA) and uses the IHA's Sustainability Assessment Protocol to measure and report against a full range of indicators of sustainability.

SEB is also planning to embark on sustainability efforts in selected priority areas. The selection of priority areas was based on a mapping exercise conducted by the CSR Team and most of the identified areas are beyond the requirements of law, regulation or normal operations.

Some sustainability priority areas identified are as the following:

- Embedding the IHA Sustainability Assessment Protocol into SEB's business processes
- Greenhouse Gas Management
- Environmental Conservation Efforts
- Environmental Awareness Programmes

CORPORATE SOCIAL RESPONSIBILITY

The Murum HEP under construction

The International Hydropower Association

The IHA is a not-for-profit, international organisation representing the hydropower sector, established to further knowledge on all aspects of hydropower. The IHA was founded in 1995 under the auspices of UNESCO. Today, it has members in more than 80 countries drawn from organisations and individuals in industry, international organisations, non-governmental organisations (NGOs) and governments, as well as scientific and academic institutions.

The IHA's primary objective is to advance the role of sustainable hydropower in meeting the world's growing water and energy requirements as a clean, renewable and sustainable system. The mission of IHA is achieved by advocating continuous advancement and sustainable practices; building unanimity through strong alliances with every stakeholder; powering initiatives to increase the contribution of renewables, especially hydropower; and emphasising the role hydropower can play in sustainable development as a valuable supply of renewable energy.

Hydropower Sustainability Assessment Protocol

In March 2011, the IHA, in close collaboration with a range of partners, launched the Hydropower Sustainability Assessment Protocol (HSAP) with the aim of developing and enhancing sustainability assessment tools to measure and guide performance in the hydropower sector.

The protocol, which consists of four stand-alone assessment tools, enables the production of a sustainability profile for a project through the assessment of its performance, incorporating sustainability topics. It is invaluable in helping SEB take its policy and determination to the next level and implement all its projects in a more sustainable manner.

The IHA is a not-for-profit, international organisation representing the hydropower sector, established to further knowledge on all aspects of hydropower.

The HSAP, a wide-ranging assessment used to appraise the sustainability of hydropower projects globally, was launched in June 2011 at the IHA World Congress on Advancing Sustainable Hydropower in Brazil.

HSAP assessment meeting in progress

SEB has adopted the HSAP and associated assessment tools as a guide through each phase of the development of ongoing and planned hydropower projects.

SEB has a project development model in place that tackles elements of sustainability, including Environmental and Social Impact Assessments, Compensation and Resettlement Plans and it serves as a guide for asset owners when developing any new hydroelectric projects. The sustainability efforts will not end here. In the drive to contribute beyond statutory requirements, SEB will systematically continue to incorporate other elements of sustainability into plans as projects develop.

The main benefit of integrating and incorporating HSAP into its project development model is that it will help in meeting the requirements and obligations of international stakeholders, including lending institutions, governments, customers, media and genuine NGOs. It will also help SEB raise its standards and be recognised as a best-in-class power developer in the region.

HSAP Training

Employees of SEB have completed the world's first HSAP training session for hydropower stakeholders, organised by the IHA. Participants in the training comprise delegates from the State Planning Unit, the Natural Resources and Environment Board, and the Ministry of Public Utilities. The HSAP embraces three pillars of sustainability: social, economic, and environmental, including issues pertinent to downstream flow regimes, indigenous peoples, biodiversity, infrastructure safety, resettlement, water quality, and erosion and sedimentation.

According to Cameron Ironside, Programme Director of IHA, SEB is the first of the IHA Sustainability Partners to receive training on the HSAP, representing a key milestone in the development of the Protocol as a tool to guide sustainability in the sector.

SEB is proud to be the first of the IHA Sustainability Partners to receive training on the Protocol. More importantly, the awareness gained will help SEB introduce optimal levels of international sustainability practices to all its hydropower projects.

SEB is the first of the IHA Sustainability Partners to receive training on the HSAP, representing a key milestone in the development of the Protocol as a tool to guide sustainability in the sector.

CORPORATE SOCIAL RESPONSIBILITY

Designed to have a maximum power output of 108 MW, Batang Ai HEP was commissioned in 1985

SEB collaborated with the IHA, SINTEF and Environnement Illimité Inc. from Canada to help develop methods of measurement and analysis. These multi-national specialists were closely involved in developing the UNESCO and IHA measurement guidelines.

Leading the Research for Tropical Hydropower Impact on Climate Change

Hydropower is a renewable resource, but its 'green status' is being challenged as a result of the potential increase in Greenhouse Gas (GHG) emissions from the altered ecosystems. With a hydropower development agenda and a firm commitment to achieving environmental sustainability, SEB embarked on a research project in 2010 to study the level of GHG emissions from hydropower.

The research project aims at measuring the net contribution of carbon dioxide (CO_2) and methane (CH_4) emissions from reservoirs created by hydropower projects. Every natural ecosystem exhibits a natural cycle of CO_2 and CH_4 emissions or absorptions. The study aims to establish whether hydropower contributes to a net increase or decrease in these emissions or absorptions. So far, most of the published results are derived from reservoirs in boreal climates. SEB is among the few pioneers focusing on reservoirs in the tropics.

SEB collaborated with the IHA, SINTEF (a Scandinavian research organisation) and Environnement Illimité Inc. from Canada to help develop methods of measurement and analysis. These multi-national specialists were closely involved in developing the UNESCO and IHA measurement guidelines. An advisory panel coordinated by IHA helped SEB to develop a GHG Monitoring Programme for three different reservoir sites in Sarawak. Their participation ensures that the measurement campaigns are conducted in accordance with internationally recognised scientific methodologies.

THE RURAL ELECTRIFICATION AGENDA

SEB oversees the delivery of power to Sarawak's rural population to ensure that rural communities have access to electricity, working closely with the State and Federal Governments to achieve this.

SEB is also supporting the National Key Result Area (NKRA) Rural Basic Infrastructure initiative, which commits to providing rural basic infrastructure to the public, to ensure an improved quality of life is attained and enjoyed by all Malaysians regardless of age, race and where they reside.

Rural electrification is about providing 24-hour electricity to communities in remote areas that have typically been relying on expensive and noisy diesel power generators. Together with the governments, SEB's approach is to extend the grid to reachable areas, while off-grid hybrid systems employing renewable solar energy will be considered for regions deemed too remote for grid connection.

Sarawak covers an area almost the size of Peninsular Malaysia with a widely scattered population, and the interior is accessible only via logging roads, river or by air. Transportation can also be difficult or impossible for extended periods due to adverse weather conditions, low water levels, landslides and damage to bridges.

Despite these challenges, an additional 17,388 rural homes throughout Sarawak were provided with 24-hour electricity supply in 2011. With this achievement, Sarawak's rural electricity coverage was raised to 72.4%. More rural homes are expected to be connected in 2012.

17,388 rural homes throughout Sarawak were provided with 24-hour electricity supply in 2011

Renewable Systems

Renewable energy is the energy tapped from continually replenished sources - typically solar, biomass, wind, tidal, and hydro. The potential of large hydropower in Sarawak is largely known with several studies undertaken by government bodies, consulting firms and utility companies. However, the potential of small renewable energy sources comprising solar, biomass, wind, tidal and small hydro is largely unknown and these resources are largely untapped.

Recognising the importance and potential of utilising these sources in the State to supply electricity to the rural areas located far from the grid, SEB embarked on the Small Renewable Energy Master Plan in early 2009. This encompasses a spectrum of comprehensive studies to determine the theoretical and economic potentials of these resources. The master plan is overseen by a steering committee comprising representatives from SEB, the Ministry of Public Utilities, the Ministry of Rural and Regional Development, the Public Works Department and Universiti Malaysia Sarawak.

Site survey for the Long Banga micro hydro project, Ulu Baram

Construction work for solar hybrid system in progress at Long Sukang, Lawas

Micro Hydro

Micro hydro facilities are suited mostly for small scale rural supply. Under the Small Renewable Energy Master Plan, a pre-feasibility study was carried out in 2011 on potential micro hydro sites in Sarawak. The focus was on rural villages not connected to the State Grid or to any local suburban power network.

The outcomes were later presented to the Ministry of Rural and Regional Development for consideration and implementation under the Rural Electrification Scheme - Alternative Systems. One of the proposed sites is Long Banga, situated near the Indonesian border, in the Baram region. With installed capacity of 2 x 160 kW, the Long Banga micro hydro project is expected to provide 24-hour electricity supply to the village.

Solar Hybrid

The solar hybrid system is an alternative power system for areas where connecting to the electricity grid is not feasible. Typically, this system is used for islands, mountainous landscapes or areas in the deep interior of Sarawak.

Sarawak has considerable solar potential but it is not competitive for utility scale grid generation when compared to large hydropower. Nevertheless, solar photo voltaic applications are practical in the remote rural areas where connection to the electricity grid is challenging.

Between 2010 and 2011, a total of 21 villages were selected for the installation of solar hybrid power stations under the Rural Electrification Scheme - Alternative Systems. When completed, approximately 700 households in the remote areas of Sarawak will be connected with round-the-clock electricity supply.

ELECTRIFYING SARAWAK

17,388 more rural homes provided with 24-hour electricity

More than 520,000 customers across the State

EVENT HIGHLIGHTS 2011

CORPORATE ENGAGEMENTS

Brunei Energy Expo in February

At the World Hydropower Congress, Brazil in June

Invest Malaysia, Abu Dhabi in October

EVENT HIGHLIGHTS 2011

A HEALTHY WORKFORCE

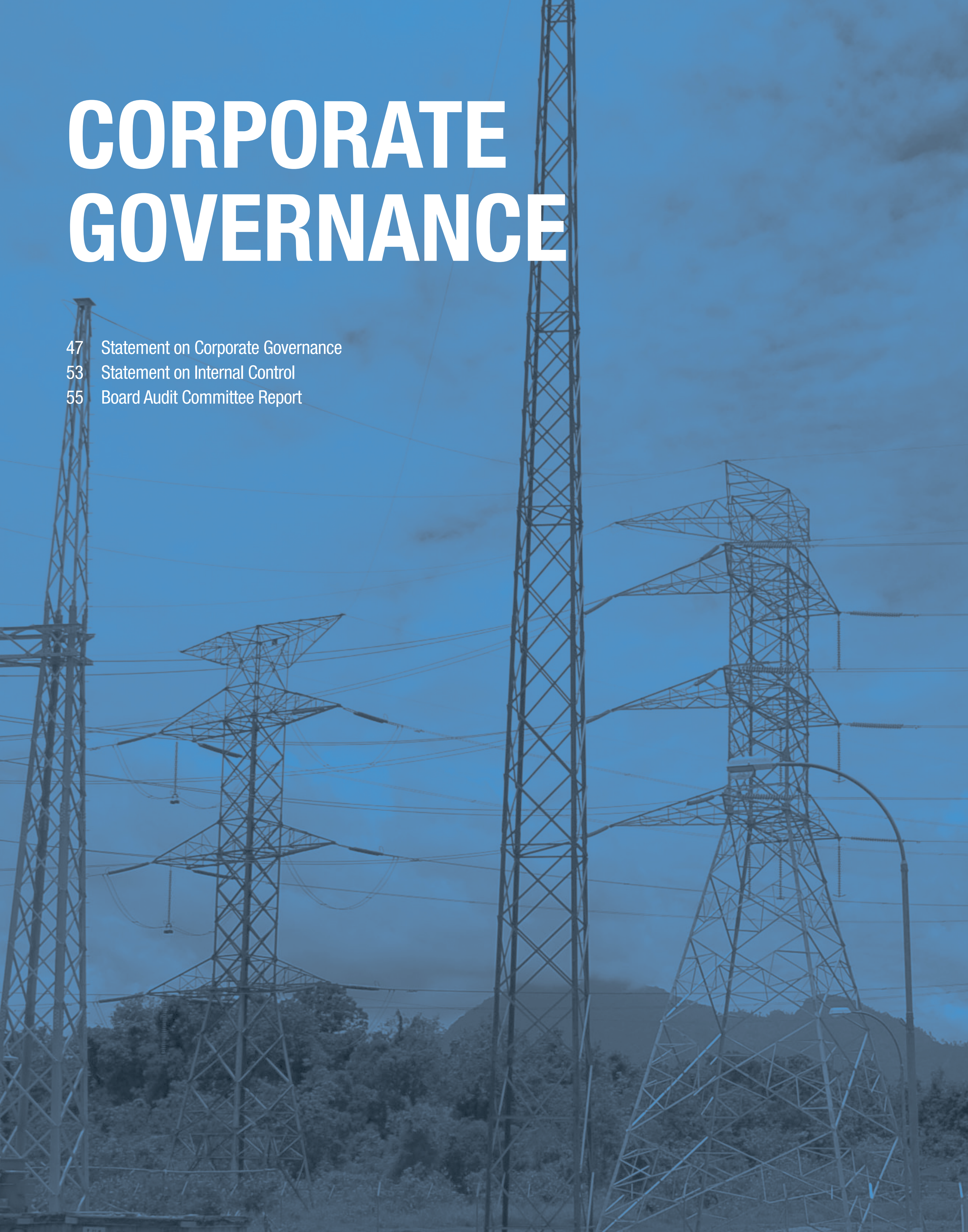
Auxiliary Police Parade in November

Badminton Games co-organised with Sarawak Badminton Association in November

Chief Executive Officer Mr. Torstein Dale Sjøtveit with YB Datuk Peter Nansian Ngusie (left) and YB Datuk Francis Harden Hollis (right) at the Corporate Golf in November

DIVERSITY AND INCLUSION

At the closing of Gawai celebration in July



CORPORATE GOVERNANCE

STATEMENT ON CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS

The Board's principal responsibilities for corporate governance is to set out the strategic direction of the Group, establishing the objectives and achievement of objectives and goals.

The current Board comprises five (5) members, where all Directors are Non-Executive directors. One (1) of the Non-Executive directors is an Independent Director, and four (4) are Non-Independent Non-Executive Directors. The Directors collectively have wide range of experience and expertise drawn from the area of business, accounting, law and economics, as well as public administration. Their expertise, experience and background are vital for the strategic direction of the Group. The profiles of the Directors are set out on pages 9 to 13.

The Chairman's responsibility is to ensure the effectiveness of the Board and its conduct. The Independent Non-Executive Director plays an important role to ensure the views provided are professional and independent and that the advice and judgment made on issues and decisions are to the best interest of the stakeholders and the Group.

From the beginning of this year, the Board had decided to meet at least six (6) times a year, with additional meetings are held as and when required. There were nine (9) Board meetings held during the financial year ended 31 December 2011. A summary of the attendance of each Director of the Company at the Board meetings held during the financial year ended 31 December 2011 is as follows:-

Directors	Position	Meetings Attended	% of Attendance
YBhg Datuk Abdul Hamed bin Sepawi	Non-Independent Non-Executive Chairman	9/9	100
YB Tan Sri Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani	Non-Independent Non-Executive Director	8/9	89
YB Senator Dato' Haji Idris bin Haji Buang	Non-Independent Non-Executive Director	7/9	78
YBhg Tan Sri Dato Sri Mohd Hassan bin Marican	Independent Non-Executive Director	8/9	89
YBhg Datuk Fong Joo Chung	Non-Independent Non-Executive Director	8/9	89

STATEMENT ON CORPORATE GOVERNANCE

SUPPLY OF INFORMATION

The Board and its Committees have full and unrestricted access to all information within SEB pertaining to the Group's business and affairs.

All the Directors are notified of the Board meetings within stipulated time prior to the meeting date. Directors are provided with an agenda and a set of Board papers prior to each Board Meeting. These are issued in sufficient time to enable them to obtain further information and explanation, where and when necessary, in order to be properly briefed before the meeting.

In most instances, the Senior Management of the Group as well as external advisors may be invited to attend Board Meetings, to provide insights and to furnish clarification on issues that may be raised by the Board.

Board members have access to the Company Secretary for further information required. Directors may also seek independent professional advice on any matter connected with the discharge of their responsibilities deemed necessary and appropriate, whether as a full board or in their individual capacities, at the Company's expense.

BOARD COMMITTEES

The following Committees have been established to assist the Board in the execution of its responsibilities. These Committees have written terms of reference that have been approved by the Board and set out their authority and duties.

1. Board Audit Committee ("BAC")

The BAC continued to play an important role in reviewing the Group's financial management and reporting, and to assess the integrity of the Group's accounting procedures and financial control. The BAC is responsible for the review of accounting policy and presentation of external financial reporting including the Group's interim results and its disclosures, monitoring the work of the internal audit function and ensuring an objective and professional relationship is maintained with the external auditors, and that conflicts of interest, if any, are avoided. The BAC has full access to both internal and external auditors, who in turn, have access at all times, to the Chairman of the BAC.

The BAC strives to ensure that it keeps abreast of all material developments in regulations and best practices in its area of responsibility.

The report of the BAC, including its attendance at the Committee Meetings is set out on page 55 of this Annual Report.

As at 31 December 2011, the BAC members comprised of the following:-

i. **YBhg Tan Sri Dato Sri Mohd Hassan bin Marican**
(Non-Executive Director) – Chairman

ii. **YB Datuk Amar Haji Mohamad Morshidi bin Haji Abdul Ghani**
(Non-Executive Director)

iii. **YB Senator Dato' Haji Idris bin Haji Buang**
(Non-Executive Director)

2. Nomination & Remuneration Committee ("NRC")

The NRC consists of two (2) Non-Executive Directors and the Chief Executive Officer. The members of the NRC for the financial year ended 31 December 2011 were as follows:-

i. **YBhg Datuk Abdul Hamed bin Sepawi**
(Non-Executive Director) – Chairman

ii. **YB Senator Dato' Haji Idris bin Haji Buang**
(Non-Executive Director)

iii. **YBhg Encik Torstein Dale Sjøtveit**
Chief Executive Officer

The duties and responsibilities of the NRC are to:-

(a) identify and recommend to the Board candidates for directorships to the Board;
(b) make recommendations to the Board on all new or re-appointments of members of the Board;
(c) evaluate the effectiveness of the Board as a whole and the Committees of the Board;
(d) make recommendations to the Board on the Company's framework of remuneration and its cost and to determine on behalf of the Board specific remuneration packages and terms and conditions of employment for the Group's employees;
(e) provide remuneration input on any contract of employment with Executive Directors and determine the terms of any compensation in the event of early termination of the employment contracts thereon; and
(f) make recommendations to the Board on the remuneration of Non-Executive Directors, which shall be a decision of the Board as a whole.

The NRC had not held any meeting during the financial year ended 31 December 2011.

STATEMENT ON CORPORATE GOVERNANCE

3. Group Board Tenders Committee ("GBTC")

The GBTC was previously established by the Syarikat SESCO Berhad's Board to assist the Board on the award of tenders with the value of RM5 million to RM20 million. It was escalated to the Group Level of the Company on 19 June 2009 in view of the rationalisation of the Company.

As at 31 December 2011, the GBTC members comprise of the following:-

i. **YBhg Dato Sri Ahmad Tarmizi bin Haji Sulaiman**
(Director of Syarikat SESCO Berhad) – Chairman

ii. **YBhg Tuan Haji Ubaidillah bin Haji Abdul Latip**
(Director of Syarikat SESCO Berhad) – Alternate Chairman/Member

iii. **YB Encik Joseph Mauh ak. Ikeh**
(Director of Syarikat SESCO Berhad) – Member

iv. **YBhg Dato' Ir. Wahab bin Suhaili**
(Director of Syarikat SESCO Berhad) – Member

v. **YB Senator Dato' Haji Idris bin Haji Buang**
(Director of SEB) – Member

The GBTC has not held any meetings during the financial year ended 31 December 2011.

RE-ELECTION OF DIRECTORS

In accordance with the Company's Articles of Association, all Directors appointed by the Board are subject to election by shareholders at the first Annual General Meeting after their appointment. One-third of the remaining Directors are required to submit themselves for re-election by rotation at each annual general meeting. All Directors must submit themselves for re-election at least once in every three years. Directors over 70 years of age are required to submit themselves for reappointment annually in accordance with Section 129(6) of the Companies Act 1965.

DIRECTORS' TRAINING

The Company will regularly arrange for the training for the Directors to update and enhance their skills and knowledge, which are important for undertaking their role effectively as Directors.

STATEMENT ON CORPORATE GOVERNANCE

MANAGEMENT COMMITTEES

The following Committees have been established to assist the Board in the execution of its responsibilities. These Committees have written terms of reference that have been approved by the Board and set out their authority and duties.

1. Executive Management Committee ("EMC")

The EMC was established to ensure that adoption of corporate-level policies are well developed before adoption, and to award tenders within the approving limits as prescribed by the prevailing terms of reference provided in the General Instructions on Purchasing and Contracts (GIPC) of the Company.

The Terms of Reference (ToR) and guidelines of the EMC are as follows:-

(a) to interpret define and/or implement Corporate/Group policies and decisions.
(b) to formulate and/or approve the general management operating policies, procedures and guidelines.
(c) to decide and/or approve operational matters requiring management decisions or approval by EMC. In the event of uncertainty, the CEO shall have the mandate to decide on the subject matters or issue to be referred to EMC.
(d) to review and/or decide on proposals, plans, projects, budgets and policies prior to submission to the Board.
(e) to implement management leadership change and continuous improvement programs and initiatives for the Group.
(f) to endorse and/or review decisions of the disciplinary committees appointed to conduct disciplinary inquiry into disciplinary cases involving support group.
(g) to discuss and/or review progress reports on projects and decide on issues requiring management input or decisions.
(h) to appoint consultants subject to the limits of EMC defined in the GIPC.
(i) such other matters not mentioned above provided approval of the CEO has been obtained to refer the matter to EMC and such matters are within the scope or general authority of EMC to decide and approve.

As at 31 December 2011, the EMC members comprises as follows:-

i. **Torstein Dale Sjøtveit**
(Chief Executive Officer) – Chairman

ii. **Haji Wan Mahmud bin Wan Abdullah**
(Head of Internal Audit)

iii. **Haji Sulaiman bin Abdul Hamid**
(Head of Finance)

iv. **Miles Smith**
(Head of Planning & Strategy)

v. **Einar Kilde**
(Head of Project Execution)

vi. **Dr Chen Shiun**
(Head of Research & Development)

vii. **Alvin Lim**
(Head of Key Account [SCORE Customers])

viii. **Zuraimy bin Kushaili**
(Head of CEO Office)

ix. **James Ung**
(Senior Vice President, Thermal)

x. **Stell Sindau**
(Senior Vice President, Hydro)

xi. **Victor Wong**
(Senior Vice President, Transmission)

xii. **Lu Yew Hung**
(Senior Vice President, Distribution)

xiii. **Aisah Binti Eden**
(Senior Vice President, Retail)

xiv. **Nick Wright**
(Vice President, External Relations & Strategic Communications)

xv. **Polycarp Wong**
(General Manager, Shared Services)

xvi. **Siti Aisah Adenan**
(General Manager, People & Leadership Development)

xvii. **Marconi Madai**
(General Manager, Corporate Risk & HSE)

xviii. **Julia Shim**
(Chief Information Office) – Secretary

There were 28 EMC meetings held in 2011, as well as Extraordinary EMC Meetings held during the financial year ended 31 December 2011, which totals 33 meetings altogether in the Year 2011.

STATEMENT ON CORPORATE GOVERNANCE

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors are responsible in ensuring that the annual financial statements of the Company and the Group are drawn up in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

The Board aims to provide and present a balanced and meaningful assessment performance and prospects, primarily through the annual financial statements and quarterly financial results. The Board is assisted by BAC to oversee the Group's financial reporting processes and the quality of its financial reporting.

Relationship with Auditors

The Board has, through the BAC, established a formal, transparent and appropriate relationship with the Group's Auditors, both external and internal. The BAC meets regularly with external and internal auditors to discuss and review the audit plan, quarterly financial results, annual financial statements, internal audit reports. At every Board meeting, the Chairman of the BAC briefed the Board on significant matters discussed and deliberated at each meeting and makes recommendations for the Board's approval and endorsement as the case may be.

Internal Controls

Information on the Group's internal controls system is presented in the Statement on Internal Control as set out on pages 53 and 54 of this Annual Report.

DIRECTORS' RESPONSIBILITY STATEMENT

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

The BAC reviews the statutory compliance and scrutinises the financial aspects of the Audited Accounts prior to deliberation at the Board level.

ADDITIONAL COMPLIANCE INFORMATION

- **Material Contracts**
  Neither the Company nor its Subsidiaries had entered into any material contracts not in the ordinary course of business during the Financial Year ended 31 December 2011.

- **Sanctions/Penalties**
  There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by any relevant regulatory authorities during the Financial Year ended 31 December 2011.

- **Non-Audit Fees**
  Non-audit fees of RM588,000 were paid to the External Auditors for the Financial Year ended 31 December 2011.

- **Revaluation Policy on Landed Properties**
  The Group does not adopt any revaluation policy on landed properties during the Financial Year ended 31 December 2011.

STATEMENT ON INTERNAL CONTROL

INTRODUCTION

The Board is committed to its responsibility of maintaining a sound system of internal control, covering financial and operating activities to safeguard shareholders' investment, the Group's assets and customers' interests. This Statement on Internal Control outlines processes that have been implemented to ensure the adequacy and integrity of the system of internal control of the Group during the financial year.

The Group's system of internal control applies to SEB and its subsidiaries. Associated companies are excluded because the Group does not have full management and control over them.

BOARD RESPONSIBILITY

The Board has an overall responsibility for the Group's system of internal control to provide reasonable assurance of efficient operations, effective internal checks and compliance with laws and regulations. The on-going process for identifying, evaluating, monitoring and managing the significant risks faced by the Group is periodically reviewed by the Board during the financial year under review. However, the Board recognises that the Group's system of internal controls is designed to manage rather than eliminate the risk of failure to achieve the Group's objectives. Hence it can only provide reasonable but not absolute assurance against material mis-statement, fraud or loss.

The Board is assisted by the Management in the implementation of approved policies and procedures on risks and controls, in which the Management identifies and assesses risks faced, as well as implements and monitors appropriate control measures to mitigate and control these risks.

Further, the Board is assisted by the BAC to review the adequacy and integrity of the system of internal controls in the Group as part of the internal and risk management processes.

CONTROL ENVIRONMENT

The key elements of the Group's control environment are summarised as follows:

Organisational Structure and Accountability Levels

The Board has implemented a clearly defined structure that is aligned to the Group's strategic and operational requirements. Key responsibilities and lines of accountability within the Group are defined, with clear reporting lines to the Senior Management and to the Board. The Group's delegation of authority sets out the appropriate authority levels of Management, including matters that require Board approval.

Strategic Business Planning Process

Business planning and budgeting is undertaken annually and reviewed bi-annually to establish plans and targets against which performance is measured.

Reporting and Review

The Group's management team carries out monthly monitoring and review of financial results and forecasts for major activities within the Group, including monitoring and reporting thereon of performance against the operating plans and annual budgets. Action plans were developed to address any areas of concern.

Control Procedures

The Group maintains clearly documented policies and procedures to establish accountability and standard controls procedures. These policies and procedures are revised as needed to meet changing business needs.

STATEMENT ON INTERNAL CONTROL

INTERNAL AUDIT FUNCTION

The BAC, assisted by the Group Internal Audit Department (GIAD), provides the Board with the assurance it requires on the adequacy and integrity of the system of internal controls. The BAC has an oversight function of all activities carried out by the GIAD.

The GIAD adopts a risk-based approach in preparing its audit strategy and plan. The GIAD independently reviews the risk exposures and control processes implemented by the Management and conducts assignments which encompass auditing and review of critical areas within the Group, including operations, projects and IT/information systems. The internal audit activities are guided by an annual audit plan, which is approved by the BAC and the internal audit reports are tabled at the BAC meetings for review. Further, the GIAD engages in regular communication with the Senior Management team and various departments within the Group related to internal audit activities and efforts for continuous improvement in operations and systems. External Auditors' recommendations for improvements noted during their audit, if any, are also closely monitored and followed up to ensure that they are promptly implemented.

ENTERPRISE WIDE RISK MANAGEMENT ("EWRM")

The Board also acknowledges that effective risk management is part of good business practice and recognises the need for a sound system of internal control capable of managing the principal risks of the Group.

As part of its effort to discharge its duties and responsibilities of maintaining a robust and sound system of internal control and ensuring their continuing adequacy and integrity, the Board has implemented a formalised EWRM framework for the Group. The Group's risk management framework ensures that significant risks are continuously identified and that instituted controls are appropriate and effectively applied by the Management to achieve acceptable exposure consistent with the Group's risk management practices.

BOARD AUDIT COMMITTEE REPORT

MEMBERSHIP AND MEETING

The BAC members are appointed by the Board from amongst its non-executive members. The BAC comprises two Independent Non-Executive Directors and one Non-Independent Non-Executive Director of the Board as set out in the table below.

YBhg Tan Sri Dato Sri Mohd Hassan bin Marican is a Fellow of the Institute of Chartered Accountants in England and Wales, a Member of the Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountants.

During the financial year under review, the BAC convened three meetings. The attendance record is as follows:

No.	Member	Meetings Attended
1.	YBhg Tan Sri Dato Sri Mohd Hassan bin Marican	3/3
2.	YB Datuk Amar Haji Mohamad Morshidi bin Haji Abdul Ghani	3/3
3.	YB Senator Dato' Haji Idris bin Haji Buang	3/3

The Vice President/Head of Internal Audit and the Group Company Secretary, being Secretary of the BAC were present at all meetings. Upon invitation, representatives from the External Auditors, Messrs Ernst & Young, the Group Chief Executive Officer, Chief Financial Officer/Head of Finance and other members of senior management and external parties also attended specific meetings whenever required.

SUMMARY OF ACTIVITIES OF BAC

During the financial year, the BAC carried out the following main activities as set out in its terms of reference.

- Reviewed and recommended the Quarterly Group Management Reports and the annual audited financial statements of the SEB Group to the Board for consideration and approval.
- Reviewed and endorsed the Quarterly Enterprise Risk Management Report on Risk Profiles, Key Strategic and High Risks; and Key Mitigation Actions taken by Management to address the risks.
- Reviewed with the external auditors the scope of work, audit plan and their professional fees and thereafter recommended the same to the Board for approval.
- Reviewed and approved the Group Internal Audit Annual Plan to ensure the adequacy of resources and coverage for identified auditable areas with significant and high risks, KPIs Achievement and Internal Audit Update Reports.
- Reviewed and deliberated with the external auditors and management the impact of the implementation of new/revised Financial Reporting Standards (FRS).
- Reviewed and deliberated reports issued by External Auditors, Consultants (on specific assignment) and GIAD on significant findings and remedial actions taken and to be taken by Management to address the issues raised.
- Discussed and recommended to the Board for approval, the Statement of Internal Control, the BAC Report and the Corporate Governance Statement for inclusion in the annual report.
- Reported to the Board on its activities and any significant issues and remedial actions taken arising from the audits undertaken by the external and internal auditors.

BOARD AUDIT COMMITTEE REPORT

INTERNAL AUDIT FUNCTION

The internal audit function of the Group is carried out by the GIAD, which is independent and reports directly to the BAC.

GIAD was established by the Board to provide independent assurance on the adequacy of SEB's risk management, internal control and governance systems. Regular reviews are carried out to monitor compliance of business processes with the Group's procedures, to assess the effectiveness of internal controls, and to highlight any significant risks impacting the Group.

Most of the audits/reviews as per the Internal Audit Plans are performed internally, while some are outsourced or co-sourced. Audits are outsourced to ensure they provide adequate coverage, and that the assignments involve specific areas of expertise and skill. Co-sourced audits enable transfer of knowledge from external consultants. During the year, GIAD had successfully coordinated and participated in a Review of SEB's Financial Authority Limits, Special review on Compliance to the General Instructions on Purchasing Contracts (GIPC) and IT Network Security Review with Ernst & Young Advisory Services.

All reports arising from the assignments were issued to management for comments and corrective actions with specific deadlines to complete the relevant preventive and remedial actions. The reports were subsequently tabled to the BAC for deliberation. Follow-up reviews were carried out by internal auditors, and the status of such action plans was reported to the BAC.

The BAC has full access to both internal and external auditors and receives reports on all audits performed.

TERMS OF REFERENCE

1.0 CONSTITUTION

- The Board of Directors ("Board") of Sarawak Energy Berhad ("SEB") has established a Committee of the Board, known as the Board Audit Committee ("BAC"), vides a resolution of the Board on 30 July 1994.
- The function and authority of the BAC extends to SEB and all its subsidiaries (collectively referred to as the "Group").

2.0 COMPOSITION OF THE COMMITTEE

- The members of the BAC shall be appointed by the Board and shall consist of not less than three members, the majority of whom shall be independent directors of SEB.
- Where the members for any reason are reduced to less than three, the Board shall, within one month of the event, appoint such number of new members as may be required to make up the minimum number of three members.
- The Board shall elect a Chairman from among the members of the BAC who shall be an independent director.
- All members shall hold office only for as long as they serve as directors of SEB.
- No alternate directors shall be appointed to the BAC.

3.0 CHAIRMAN OF THE COMMITTEE

The following are the main duties and responsibilities of the Chairman of the BAC:

- to steer the BAC to achieve its objectives;
- to provide leadership and ensure the proper flow of information to the BAC, while reviewing the adequacy and timing of documentation;
- to provide a reasonable amount of time for discussion at the BAC meetings, organise and present the agenda for BAC meetings based on input from members, ensure that all relevant issues are on the agenda, and encourage a healthy level of skepticism and independence;
- to manage the process and workings of the BAC, and ensure that the BAC discharges its responsibilities; and
- to ensure that all members participate in the discussion to enable effective decisions to be made.

4.0 COMMITTEE MEMBERS

Each BAC member is expected to:

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

5.0 OBJECTIVES OF THE COMMITTEE

The objectives of the BAC are as follows:

- to ensure transparency, integrity and accountability in the Group's activities so as to safeguard the rights and interests of the shareholders;
- to provide assistance to the Board in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices;
- to improve the Group's business efficiency, and the quality of the accounting and audit function, and to strengthen public confidence in the Group's reported financial results;
- to maintain, through regularly scheduled meetings, a direct line of communication between the Board and the external and internal auditors;
- to ensure the independence of the external and internal audit functions; and
- to create a climate of discipline and control within the Group so as to reduce the opportunities for fraud.

6.0 AUTHORITY OF THE COMMITTEE

The BAC is authorised by the Board to:

- investigate any activity within its terms of reference or as directed by the Board;
- have full and unrestricted access to all employees, the Group's properties and works, and all books, accounts, records and other information of the Group in whatever form;
- have direct communication channels with external auditors and person(s) carrying out the internal audit function or activity for the Group;
- direct the internal audit function in the Group;
- engage independent advisors, and secure the attendance of outsiders with relevant experience and expertise if deemed necessary; and
- review the adequacy of the structure and terms of reference of other Board committees, as well as the BAC itself.

7.0 FUNCTIONS OF THE COMMITTEE

The functions and responsibilities of the BAC are as follows:

Corporate Financial Reporting

- To review and recommend acceptance or otherwise of accounting policies, principles and practices.
- To review the quarterly results and annual financial statements of the Company and Group before submission to the Board.

7.0 FUNCTIONS OF THE COMMITTEE (CONT'D)

The review should focus primarily on:

i. any changes in existing accounting policies or implementation of new ones;
ii. major judgment 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 other legal and statutory requirements.

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

Enterprise Wide Risk Management

- To review the adequacy of risk management functions in the SEB Group, and to provide independent assurances to the Board as to their effectiveness.
- To ensure that the principles and requirements of managing risk are adopted consistently throughout the SEB Group.
- To deliberate on the key risk issues highlighted by the Risk Management Division in their reports to the BAC.

Internal Control

- To assess the quality and effectiveness of the internal control systems and the efficiency of the Group's operations.
- To review the findings on internal control in the Group by internal and external auditors.
- To review, and recommend for Board approval, the Statement of Internal Control BAC Report for inclusion in the Company's Annual Report.

Internal Audit

- To approve the Audit Charters of internal audit functions in the Group.
- 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.
- To review internal 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 BAC will report the matter to the Board.
- To review the adequacy of internal audit plans and the scope of audits, and to ensure that the internal audit functions are carried out without any hindrance.
- To appraise the performance of the Head of Internal Audit.
- To review any appraisal or assessment of the performance of members of the internal audit function.
- To be informed of resignations of internal audit members, and to provide the resigning staff member an opportunity to submit his/her reasons for resigning.
- To direct any special investigation and review to be carried out by the internal audit function and/or external parties.

BOARD AUDIT COMMITTEE REPORT

7.0 FUNCTIONS OF THE COMMITTEE (CONT'D)

External Audit

- To nominate the external auditors, together with such other functions as may be agreed to by the Board, recommend for approval of the Board the external audit fee, and consider any questions of resignation or termination.
- 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 BAC will report the matter to the Board.
- To review external audit plans and the scope of work.
- The BAC shall meet the external auditors at least twice a year to discuss problems and reservations arising out of external audits and any other matters the auditors may wish to discuss, in the absence of management, Executive Directors and Non-Independent Directors where necessary.

Corporate Governance

- 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.
- To review the findings of any examinations by regulatory authorities.
- 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.
- To review and recommend the Corporate Governance Statement for Board approval for inclusion in the Company's Annual Report.
- To review the investor relations program and shareholder communications policy for the company.
- To examine instances and matters that may have compromised the principles of corporate governance and report back to the Board.

8.0 COMMITTEE MEETINGS

- The BAC shall convene meetings as and when required, and at least four times during the financial year.
- The number of BAC 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.
- The Chairman of the BAC, or the Company 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 BAC by giving reasonable notice.
- No business shall be transacted at any meeting of the BAC unless a quorum is present. The quorum for each meeting shall be two members comprising all independent directors.
- The Chairman of the BAC shall chair the committee meetings; in his absence, the members present shall elect one from among themselves to be the Chairman of the meeting.
- In appropriate circumstances, the BAC may deal with matters by way of circular reports and resolutions in lieu of convening a formal meeting.
- Officers of the Group, or others as required, may be invited to attend meetings where the BAC considers their presence necessary.
- A committee member shall excuse himself/herself from the meeting during discussions or deliberations of any matter that 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 BAC has the right to appoint another director(s) to meet the membership criteria.
- The BAC, through its Chairman, shall report to the Board after each meeting.
- Subject to the provisions of this Terms of Reference and Memorandum and Articles of Association of SEB, the BAC shall establish its own procedures for meetings.

BOARD AUDIT COMMITTEE REPORT

9.0 SECRETARY OF THE COMMITTEE

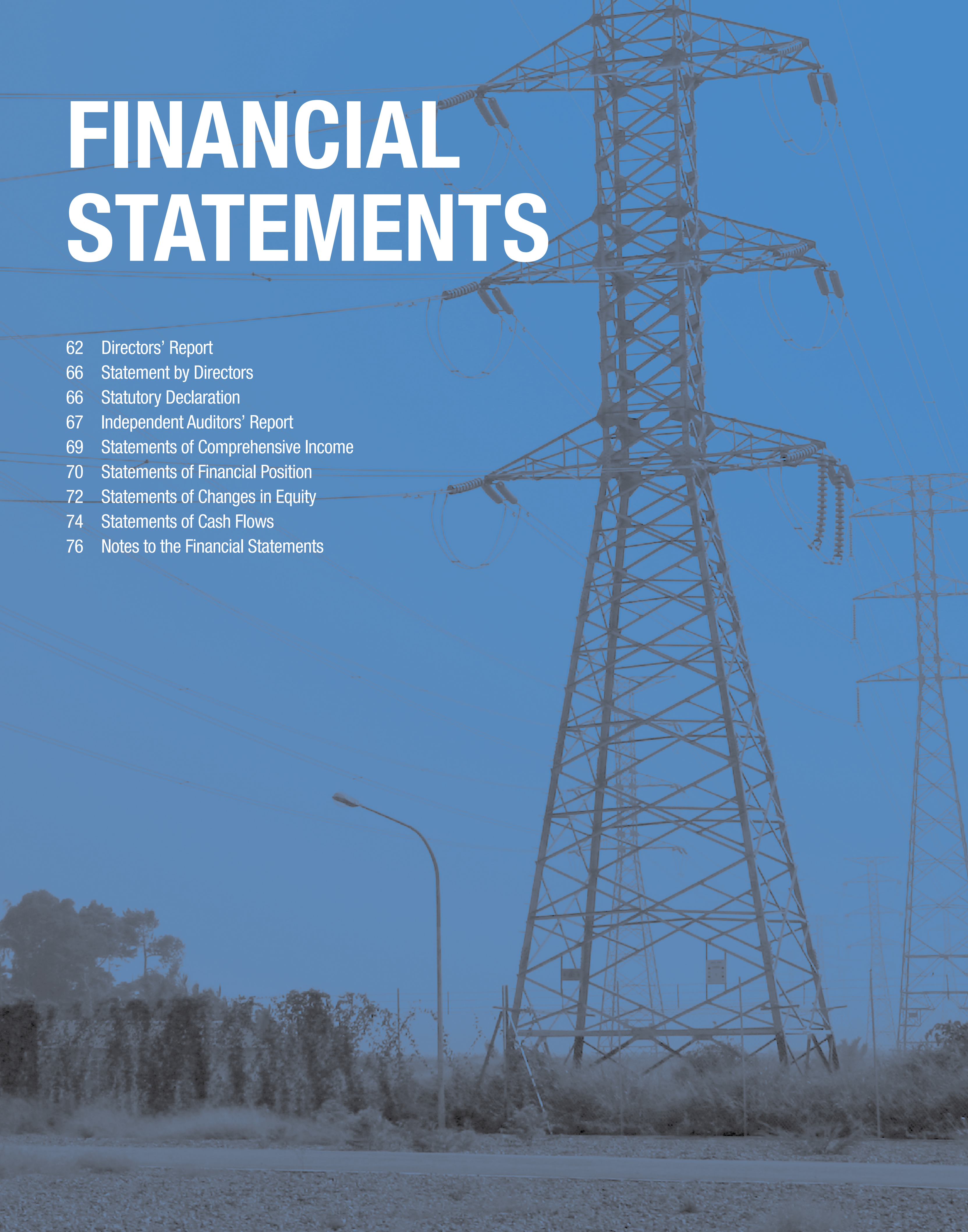
- The Secretary of the BAC shall be the Company Secretary.
- The Secretary shall draw up an agenda for each meeting, in consultation with the Chairman of the BAC. The agenda shall be sent to all members of the BAC and the Head of Internal Audit at least three business days before each meeting, together with any relevant papers.
- The Secretary shall promptly prepare the written minutes of the meeting and distribute it to each member. The minutes of the BAC meeting shall be confirmed and signed by the Chairman of the meeting at the next meeting.
- 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.

10.0 DISCLOSURE

- The BAC shall assist the Board in making disclosures concerning the activities of the BAC, in the Report of the BAC, to be issued in the Annual Report.
- The Board requires all directors to submit a Disclosure of Interest statement to avoid any conflict between their personal interests and those of the Company. In the event of a conflict, either perceived or actual, this Disclosure of Interest statement shall be submitted to the Chairman of the BAC with a copy to the Company Secretary.

11.0 REVISION OF THE TERMS OF REFERENCE

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



FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries and associates are disclosed in Note 14 and Note 15 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	Group RM'000	Company RM'000
Profit net of tax	335,584	71,828
Profit attributable to:		
Owners of the Company	335,363	71,828
Non-controlling interests	221	-
	335,584	71,828

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the effects arising from changes in accounting policies as disclosed in Note 2.2 to the financial statements.

DIVIDENDS

The amount of dividends paid by the Company since 31 December 2010 was as follows:

In respect of the financial year ended 31 December 2010 as reported in the Directors' report of that year:

	RM'000
Final dividend of 5.5 sen less 25% taxation on 1,610,568,979 ordinary shares of RM1.00 each declared on 1 July 2011 and paid on 25 November 2011	66,436

DIVIDENDS (CONT'D)

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2011, of 5.5 sen less 25% taxation on 1,610,568,979 ordinary shares, amounting to a dividend payable of RM66,435,970, will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2012.

DIRECTORS

The names of the Directors of the Company in office since the date of the last report and at the date of this report are:

YBhg Datuk Haji Abdul Hamed Bin Sepawi – Chairman
YB Datuk Amar Haji Mohamad Morshidi Bin Haji Abdul Ghani
YBhg Tan Sri Dato Sri Mohd Hassan Bin Marican
YB Senator Dato' Haji Idris Bin Haji Buang
YBhg Datuk Fong Joo Chung

In accordance with Article 82 of the Company's Articles of Association, YB Datuk Amar Haji Mohamad Morshidi Bin Haji Abdul Ghani and YBhg Tan Sri Dato Sri Mohd Hassan Bin Marican retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the financial statements or the fixed salary of a full-time employee of the Company as shown in Note 10 to the financial statements) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 32 to the financial statements.

DIRECTORS' INTERESTS

None of the Directors in office at the end of financial year had any interest in shares in the Company or its related corporations during the financial year.

OTHER STATUTORY INFORMATION

(a) Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the Directors took reasonable steps:

   (i) to ascertain that proper action had been taken in relation to the writing-off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
   (ii) to ensure that current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount at which they might be expected so to realise.

OTHER STATUTORY INFORMATION (CONT'D)

(b) At the date of this report, the Directors are not aware of any circumstances that would render:

(i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
(ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

(c) At the date of this report, the Directors are not aware of any circumstances that have arisen that would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company that would render any amount stated in the financial statements misleading.

(e) As at the date of this report, there does not exist:

(i) any charge on the assets of the Group and of the Company that has arisen since the end of the financial year that secures the liabilities of any other person; or
(ii) any contingent liability of the Group and of the Company that has arisen since the end of the financial year.

(f) In the opinion of the Directors:

(i) 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 that will or may affect the ability of the Group and of the Company to meet their obligations when they fall due; and
(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

SIGNIFICANT EVENTS

Details of significant events are disclosed in Note 39 to the financial statements.

SUBSEQUENT EVENTS

Details of subsequent events are disclosed in Note 40 to the financial statements.

CONTROLLING SHAREHOLDER

The Directors regard State Financial Secretary, Sarawak, a statutory corporation established under the State Financial Secretary (Incorporation) Ordinance of Sarawak, as the controlling shareholder of the Company.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 29 May 2012.

Datuk Haji Abdul Hamed Bin Sepawi

Senator Dato' Haji Idris Bin Haji Buang

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

We, **Datuk Haji Abdul Hamed Bin Sepawi** and **Senator Dato' Haji Idris Bin Haji Buang**, being two of the Directors of **Sarawak Energy Berhad**, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 69 to 148 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2011 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 29 May 2012.

Datuk Haji Abdul Hamed Bin Sepawi

Senator Dato' Haji Idris Bin Haji Buang

STATUTORY DECLARATION
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, **Haji Sulaiman Bin Haji Abdul Hamid**, being the person primarily responsible for the financial management of **Sarawak Energy Berhad**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 69 to 148 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.

Subscribed and solemnly declared by the
abovenamed **Haji Sulaiman Bin Haji Abdul Hamid**
at Kuching in the State of Sarawak
on 29 May 2012

Haji Sulaiman Bin Haji Abdul Hamid

Before me,

Alamat tempat perniagaan:
1st Fl., Block B,
Lot 7898, Queen's Court,
Jalan Wan Alwi,
93350 Kuching, Sarawak.

PESURUHJAYA SUMPAH
NO. Q 118
YONG NAM HUA
MALAYSIA

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SARAWAK ENERGY BERHAD (INCORPORATED IN MALAYSIA)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of **Sarawak Energy Berhad**, which comprise the statements of financial position as at 31 December 2011 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 69 to 148.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2011 and of their financial performance and cash flows of the Group and of the Company for the year then ended.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF SARAWAK ENERGY BERHAD (INCORPORATED IN MALAYSIA)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the financial statements of the Company 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.

(c) The auditors' reports on the accounts of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

ERNST & YOUNG
AF: 0039
Chartered Accountants

YONG VOON KAR
1769/04/14 (J/PH)
Chartered Accountant

Kuching, Malaysia
Date: 29 May 2012

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Group		Company	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Revenue	4	1,685,620	1,551,280	117,101	116,144
Cost of sales		(1,389,888)	(1,147,738)	-	-
Gross profit		295,732	403,542	117,101	116,144
Other items of income					
Interest income	5	25,731	11,006	15,961	8,867
Other income	6	173,375	150,919	564	5,031
Other items of expense					
Administrative and other expenses		(94,710)	(96,339)	(14,315)	(34,611)
Finance costs	7	(121,189)	(82,662)	(23,746)	(1,899)
Share of results of associates		5,071	473	-	-
Profit before tax	8	284,010	386,939	95,565	93,532
Income tax expense	11	51,574	(50,721)	(23,737)	(26,412)
Profit net of tax		335,584	336,218	71,828	67,120
Other comprehensive income					
Effective portion of changes in fair value of cash flow hedges, net of tax		(1,451)	-	(1,451)	-
Other comprehensive income for the year, net of tax		(1,451)	-	(1,451)	-
Total comprehensive income for the year		334,133	336,218	70,377	67,120
Profit attributable to:					
Owners of the Company		335,363	341,309	70,377	67,120
Non-controlling interests		221	(5,091)	-	-
		335,584	336,218	70,377	67,120
Total comprehensive income attributable to:					
Owners of the Company		333,912	341,309	70,377	67,120
Non-controlling interests		221	(5,091)	-	-
		334,133	336,218	70,377	67,120
Basic earnings per share attributable to owners of the Company (sen)	12	20.8	21.2		

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	Group		Company	
		2011	2010	2011	2010
		RM'000	RM'000	RM'000	RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	13	**9,120,254**	7,593,227	**18,171**	17,799
Investment in subsidiaries	14	**-**	-	**1,617,610**	1,617,610
Investment in associates	15	**45,712**	42,241	**35,693**	35,693
Deferred tax assets	16	**181,075**	78,730	**-**	206
Other receivables	19	**-**	-	**3,213,341**	-
		9,347,041	7,714,198	**4,884,815**	1,671,308
Current assets					
Property development costs	17	**90,679**	100,679	**-**	-
Inventories	18	**351,456**	298,626	**-**	-
Trade and other receivables	19	**200,404**	185,531	**103,455**	1,915,863
Other current assets	20	**40,971**	11,724	**3,196**	2,039
Amount due from customers on contract works	21	**-**	7,802	**-**	-
Derivative assets	27	**5,398**	-	**5,398**	-
Cash and bank balances	22	**591,660**	465,298	**248,247**	41,234
		1,280,568	1,069,660	**360,296**	1,959,136
TOTAL ASSETS		**10,627,609**	8,783,858	**5,245,111**	3,630,444

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	Group		Company	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
EQUITY AND LIABILITIES					
Current liabilities					
Amount due to customers on contract works	21	-	36,589	-	-
Trade and other payables	23	680,704	614,769	104,612	16,719
Loans and borrowings	24	175,966	650,000	35,000	530,000
Income tax payable		3,633	14,280	-	-
Derivative liabilities	27	1,967	-	1,967	-
		862,270	1,315,638	141,579	546,719
Net current assets/(liabilities)		418,298	(245,978)	218,717	1,412,417
Non-current liabilities					
Deferred tax liabilities	16	440,616	396,222	-	-
Loans and borrowings	24	3,778,061	1,859,159	3,000,000	989,159
Deferred income	25	1,636,642	1,589,197	-	-
Retirement benefit obligations	26	136,745	119,354	963	820
Derivative liabilities	27	4,882	-	4,882	-
		5,996,946	3,963,932	3,005,845	989,979
Total liabilities		6,859,216	5,279,570	3,147,424	1,536,698
Net assets		3,768,393	3,504,288	2,097,687	2,093,746
Equity attributable to owners of the parent					
Share capital	28	1,610,569	1,610,569	1,610,569	1,610,569
Share premium	28	149,644	149,644	149,644	149,644
Reserves	29	1,998,288	1,730,812	337,474	333,533
		3,758,501	3,491,025	2,097,687	2,093,746
Non-controlling interests		9,892	13,263	-	-
Total equity		3,768,393	3,504,288	2,097,687	2,093,746
TOTAL EQUITY AND LIABILITIES		10,627,609	8,783,858	5,245,111	3,630,444

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

Group 2011	Note	Share capital RM'000	Share premium RM'000	Capital reserves RM'000	Capital redemption reserves RM'000	Share option reserves RM'000	Hedging reserves RM'000	General reserves RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
		Equity attributable to owners of the parent										
			Non-Distributable					Distributable				
Opening balance at 1 January 2011		**1,610,569**	**149,644**	**85,355**	**73,128**	**-**	**-**	**94,147**	**1,478,182**	**3,491,025**	**13,263**	**3,504,288**
Total comprehensive income		-	-	-	-	-	(1,451)	-	335,363	333,912	221	334,133
Transactions with owners												
Dividends on ordinary shares	33	-	-	-	-	-	-	-	(66,436)	(66,436)	-	(66,436)
Disposal of subsidiary	14	-	-	-	-	-	-	-	-	-	(3,592)	(3,592)
Total transactions with owners		-	-	-	-	-	-	-	(66,436)	(66,436)	(3,592)	(70,028)
Closing balance at 31 December 2011		**1,610,569**	**149,644**	**85,355**	**73,128**	**-**	**(1,451)**	**94,147**	**1,747,109**	**3,758,501**	**9,892**	**3,768,393**

2010	Note	Share capital RM'000	Share premium RM'000	Capital reserves RM'000	Capital redemption reserves RM'000	Share option reserves RM'000	General reserves RM'000	Retained earnings RM'000	Total RM'000	Minority interests RM'000	Total equity RM'000
		Equity attributable to owners of the parent									
			Non-Distributable				Distributable				
Opening balance at 1 January 2010		1,610,267	149,146	85,355	73,128	311	94,147	1,203,149	3,215,503	18,354	3,233,857
Total comprehensive income		-	-	-	-	-	-	341,309	341,309	(5,091)	336,218
Transactions with owners											
Issue of ordinary shares pursuant to ESOS		302	498	-	-	(151)	-	-	649	-	649
Dividends on ordinary shares	33	-	-	-	-	-	-	(66,436)	(66,436)	-	(66,436)
Share options forfeited under ESOS		-	-	-	-	(160)	-	160	-	-	-
Total transactions with owners		302	498	-	-	(311)	-	(66,276)	(65,787)	-	(65,787)
Closing balance at 31 December 2010		1,610,569	149,644	85,355	73,128	-	94,147	1,478,182	3,491,025	13,263	3,504,288

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

Company 2011	Note	Share capital RM'000	Share premium RM'000	Capital redemption reserves RM'000	Hedging reserves RM'000	General reserves RM'000	Retained earnings RM'000	Total RM'000
		← Non-Distributable			→	← Distributable	→	
Opening balance at 1 January 2011		**1,610,569**	**149,644**	**73,128**	**-**	**5,000**	**255,405**	**2,093,746**
Total comprehensive income		**-**	**-**	**-**	**(1,451)**	**-**	**71,828**	**70,377**
Transaction with owner								
Dividend on ordinary shares	33	**-**	**-**	**-**	**-**	**-**	**(66,436)**	**(66,436)**
Closing balance at 31 December 2011		**1,610,569**	**149,644**	**73,128**	**(1,451)**	**5,000**	**260,797**	**2,097,687**
2010								
Opening balance at 1 January 2010		1,610,267	149,146	73,128	311	5,000	254,561	2,092,413
Total comprehensive income		-	-	-	-	-	67,120	67,120
Transactions with owners								
Issue of ordinary shares pursuant to ESOS		302	498	-	(151)	-	-	649
Dividend on ordinary shares	33	-	-	-	-	-	(66,436)	(66,436)
Share options forfeited under ESOS		-	-	-	(160)	-	160	-
Total transactions with owners		302	498	-	(311)	-	(66,276)	(65,787)
Closing balance at 31 December 2010		1,610,569	149,644	73,128	-	5,000	255,405	2,093,746

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Operating activities					
Profit before tax		284,010	386,939	95,565	93,532
Adjustments for:					
Bad debts written off	8	286	453	-	-
Depreciation of property, plant and equipment	8	320,493	290,338	934	887
Dividend income from related companies	4	-	-	(117,101)	(116,144)
Gain on disposal of investment in a subsidiary	6	(3,619)	(28)	-	(3,618)
Impairment in value of investment in an associate	8	-	7,591	-	7,878
Interest expenses on loans and borrowings	7	14,414	7,716	145	1,899
Interest income from loans and receivables	5	(25,731)	(11,006)	(15,961)	(8,867)
Inventories written off	8	6,136	188	-	-
Loss/(gain) on partial disposal of shares in an associate	6, 8	-	426	-	(1,330)
Net impairment on receivables	6, 8	11,967	12,168	(560)	11,458
Net loss/(gain) on disposal of property, plant and equipment	6, 8	2,191	2,816	-	(38)
Profit payments on Islamic debt securities	7	106,775	74,895	23,601	-
Property development costs written down	8	10,000	-	-	-
Property, plant and equipment written off	8	14	9	-	-
Release of deferred income	6	(127,440)	(109,463)	-	-
Retirement benefit obligations	9	21,258	21,244	146	144
Share of results of associates		(5,071)	(473)	-	-
Unrealised gain on foreign exchange	6	(857)	-	-	-
Operating cash flows before changes in working capital		614,826	683,813	(13,231)	(14,199)
Changes in working capital:					
Inventories		(58,983)	12,298	-	-
Receivables		(54,571)	(72,068)	(1,399,644)	(676,953)
Other current assets		(1,756)	59,006	-	(306)
Payables		101,219	(104,159)	87,893	6,034
Total changes in working capital		(14,091)	(104,923)	(1,311,751)	(671,225)
Cash flows from/(used in) operations		600,735	578,890	(1,324,982)	(685,424)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Group		Company	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Interest paid		(14,414)	(7,716)	(145)	(1,899)
Taxes paid, net of refund		(44,375)	(70,894)	311	(1,753)
Retirement benefit paid	26(a)	(3,867)	(3,559)	(3)	(2)
Net cash flows from/(used in) operating activities		538,079	496,721	(1,324,819)	(689,078)
Investing activities					
Grants and capital contributions received	25	174,885	315,227	-	-
Purchase of property, plant and equipment		(1,853,390)	(1,465,271)	(1,306)	(100,737)
Proceeds from disposal of property, plant and equipment		2,582	1,205	-	173
Proceeds from partial disposal of investment in an associate		-	4,655	-	4,655
Net cash outflow on disposal of a subsidiary	14(a)	(33,863)	-	-	-
Net cash inflow on disposal of subsidiaries	14(b)	-	24,960	-	17,880
Interest received		25,731	11,006	15,961	8,867
Dividends received		873	644	91,373	96,104
Net cash flows (used in)/from investing activities		(1,683,182)	(1,107,574)	106,028	26,942
Financing activities					
Proceeds from issuance of ordinary shares		-	649	-	649
Profit payments on Islamic debt securities		(106,829)	(74,934)	(23,601)	-
Net drawn down and repayment of Islamic debt securities		2,880,000	(90,000)	3,000,000	-
Net drawn down and repayment of other loans and borrowings		(1,435,270)	664,295	(1,484,159)	612,832
Dividend paid		(66,436)	(66,436)	(66,436)	(66,436)
Net cash flows from financing activities		1,271,465	433,574	1,425,804	547,045
Net increase/(decrease) in cash and cash equivalents		126,362	(177,279)	207,013	(115,091)
Cash and cash equivalents at 1 January		465,298	642,577	41,234	156,325
Cash and cash equivalents at 31 December	22	591,660	465,298	248,247	41,234

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The controlling shareholder of the Company is the State Financial Secretary, Sarawak, a statutory corporation established under the State Financial Secretary (Incorporation) Ordinance of Sarawak. The registered office of the Company is located at 4th Floor, Wisma SESCO, Petra Jaya, 93673 Kuching, Sarawak.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company are described in Note 14 to the financial statements. There have been no significant changes in the nature of these principal activities during the financial year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia. At the beginning of the current financial year, the Group and the Company adopted new and revised FRS that are mandatory for financial periods beginning on or after 1 January 2011 as described fully in Note 2.2.

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2011, the Group and the Company adopted the following new and amended FRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2011.

- Amendments to FRS 132: Classification of Rights Issues
- FRS 1: First-time Adoption of Financial Reporting Standards
- FRS 3: Business Combinations (revised)
- Amendments to FRS 2: Share-based Payment
- Amendments to FRS 5: Non-current Assets Held for Sale and Discontinued Operations
- Amendments to FRS 127: Consolidated and Separate Financial Statements
- Amendments to FRS 138: Intangible Assets
- Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives
- IC Interpretation 12: Service Concession Arrangements
- IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation
- IC Interpretation 17: Distributions of Non-cash Assets to Owners
- Amendments to FRS 1: Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
- Amendments to FRS 1: Additional Exemptions for First-time Adopters

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Changes in accounting policies (cont'd)

- Amendments to FRS 2: Group Cash-settled Share-Based Payment Transactions
- Amendments to FRS 7: Improving Disclosures about Financial Instruments
- Amendments to FRS 'Improvements to FRS (2010)'
- IC Interpretation 4: Determining Whether An Arrangement Contains a Lease
- IC Interpretation 18: Transfers of Assets from Customers
- TR i-4: Shariah Compliant Sale Contracts

Adoption of the above FRS and IC Interpretations did not have any effect on the financial performance or position of the Group and of the Company except for those discussed below:

Amendments to FRS 7: Improving Disclosures about Financial Instruments

The amended standard requires enhanced disclosure about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy (Level 1, Level 2 and Level 3), by class, for all financial instruments recognised at fair value. A reconciliation between the beginning and ending balance for Level 3 fair value measurements is required. Any significant transfers between levels of fair value hierarchy and the reasons for those transfers need to be disclosed. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity managements. The fair value measurement disclosures are presented in Note 36. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 37(b).

IC Interpretation 4: Determining whether an Arrangement contains a Lease

This interpretation requires an entity to determine whether certain arrangements are, or contain, leases that should be accounted for in accordance with FRS 117 Leases; it does not provide guidance whether such a lease should be classified as a finance lease or an operating lease. It clarifies that an arrangement, although does not take the legal form of a lease, is a lease when the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset. This is the case if the purchaser has the right to operate or direct others to operate or control physical access to the asset. Another condition is that it is remote parties other than the purchaser will take more than an insignificant amount of the asset's output and the price is neither fixed nor at current market price.

The Group has performed assessment and reassessment on its power purchase arrangements and has concluded that the Interpretation has no impact on the financial performance or position of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Changes in accounting policies (cont'd)

IC Interpretation 18: Transfers of Assets from Customers

This interpretation clarifies the accounting for agreements where an entity receives an item of property, plant and equipment (or cash to construct such an item) from a customer and this item of property, plant and equipment in turn is used to connect a customer to the network or to provide ongoing access to supply of goods or services or both. This interpretation became effective for assets transferred from customers on or after 1 January 2011.

The Group has considered the circumstances and nature of the transferred assets, including the relevant rate-regulated framework governing those assets, and concluded that revenues earned from customer contributions are in exchange for connection to network as well as to provide ongoing access to supply of electricity. The fair value of the total consideration received or receivable for the agreement is therefore allocated to each service and the recognition criteria of FRS118 are then applied accordingly. The adoption of the Interpretation is made on a prospective basis and the impact to the current year's financial statements is an increase of RM15.5 million to the Group's profit net of tax.

Prior to the adoption of this interpretation, the accounting treatment is as disclosed in Note 2.19.

2.3 Malaysian Financial Reporting Standards

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework).

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer.

The Group will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2012. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained profits. Accordingly, the financial performance and financial position as disclosed in these financial statements for the year ended 31 December 2011 could be different if prepared under the MFRS Framework.

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Acquisitions of subsidiaries are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Basis of consolidation (cont'd)

In business combinations achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree net identifiable assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the statements of financial position. In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.5 Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and is presented separately in the Group's statement of comprehensive income and within equity in the Group's statement of financial position, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

2.6 Foreign currency

(a) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

(b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.6 Foreign currency (cont'd)

(b) Foreign currency transactions (cont'd)

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

2.7 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Certain items of property, plant and equipment of the Group have not been revalued since 1993. The Directors have not adopted a policy of regular revaluations of such assets and no later valuation has been recorded. As permitted under the transitional provisions of IAS 16 (Revised): Property, Plant and Equipment, these assets continue to be stated at their valuation less accumulated depreciation. The above transitional provisions are available only on the first application of the MASB Approved Accounting Standard IAS 16 (Revised): Property, Plant and Equipment which is effective for periods ending on or after 1 September 1998. By virtue of this transitional provision, an entity that had recorded its property, plant and equipment at revalued amounts but had not adopted a policy of revaluation has been allowed to continue carrying those assets on the basis of their previous revaluations subject to continuity in its depreciation policy and the requirement to write down the assets to their recoverable amounts for impairment adjustments. The transitional provisions will remain in force until and unless the entity chooses to adopt a revaluation policy in place of a cost policy. When that happens, FRS 116 (which supersedes IAS 16) would require revaluations to be carried out at regular intervals.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset carried in the asset revaluation reserve.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.7 Property, plant and equipment (cont'd)

Freehold land has unlimited useful life and therefore is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold land	- over period of the lease
Buildings	- 2% to 5%
Structures and improvements	- 1% to 10%
Plant and machinery	- 2.86% to 20%
Lines and distribution mains	- 3.33% to 4%
Distribution services	- 4%
Meters	- 6.67%
Public Lighting	- 4%
Furniture, fittings, equipment and others	- 6.67% to 50%
Motor vehicles	- 10% to 20%

Capital work-in-progress are not depreciated as these assets are not available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

2.8 Intangible assets

(a) Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired, by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.8 Intangible assets (cont'd)

(a) Goodwill (cont'd)

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposedof is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash generating unit retained.

(b) Research and development costs

All research costs are recognised in the profit or loss as incurred. Preliminary engineering, investigation and survey costs incurred on projects before authorisation for their construction are charged to operating expenditure. The cost of research and development related to alternative energy sources or those not related to a specific project, is also charged to operations.

2.9 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units (CGU)).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated, first, to reduce the carrying amount of any goodwill allocated to those units or groups of units and second, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

2.11 Associates

An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in associates is measured in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to associates is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss for the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

The financial statements of the associates are prepared as of the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

In the Company's separate financial statements, investments in associates are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

2.12 Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Company determine the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.12 Financial assets (cont'd)

(a) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

Financial assets at fair value through profit or loss could be presented as current or non current. Financial assets that are held primarily for trading purposes are presented as current whereas financial assets that are not held primarily for trading purposes are presented as current or non-current based on the settlement date.

(b) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date, which are classified as non-current.

(c) Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturity are classified as held to-maturity when the Group has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

Held-to-maturity investments are classified as non-current assets, except for those having maturity within 12 months after the reporting date which are classified as current.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.12 Financial assets (cont'd)

(d) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available for sale or are not classified in any of the three preceding categories.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for- sale equity instrument are recognised in profit or loss when the Group's right to receive payment is established.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within 12 months after the reporting date.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group and the Company commit to purchase or sell the asset.

2.13 Impairment of financial assets

The Group and the Company assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

Trade and other receivables and other financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.13 Impairment of financial assets (cont'd)

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

2.15 Construction contracts

Where the outcome of a construction contract can be reliably estimated, contract revenue and contract costs are recognised as revenue and expenses, respectively, by using the stage of completion method. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable. Contract costs are recognised as expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

When the total of costs incurred on construction contracts plus recognised profits (less recognised losses) exceeds progress billings, the balance is classified as amount due from customers for contract work. When progress billings exceed costs incurred plus, recognised profits (less recognised losses), the balance is classified as amount due to customers for contract work.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.16 Property development costs

Property development costs comprise all costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities.

When the financial outcome of a development activity can be reliably estimated, property development revenue and expenses are recognised in the income statement by using the stage of completion method. The stage of completion is determined by the proportion that property development costs incurred for work performed to date bear to the estimated total property development costs.

Where the financial outcome of a development activity cannot be reliably estimated, property development revenue is recognised only to the extent of property development costs incurred that is probable will be recoverable, and property development costs on properties sold are recognised as expense in the period in which they are incurred.

Any expected loss on a development project, including costs to be incurred over the defects liability period, is recognised as an expense immediately.

Property development costs not recognised as an expense are recognised as an asset, which is measured at the lower of cost and net realisable value.

The excess of revenue recognised in the income statement over billings to purchasers is classified as accrued billings within trade receivables and the excess of billings to purchasers over revenue recognised in the income statement is classified as progress billings within trade payables.

2.17 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Raw materials: purchase costs on a weighted average cost basis.
- Finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average cost basis.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

2.18 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event. It is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.19 Deferred income

Certain consumers are required to contribute towards the cost of revenue earning capital projects. These contributions, together with government grants in respect of capital expenditure received prior to 1 January 2011, are credited to the deferred income account and released to the income statement on a straight line basis over the estimated useful lives of the related property, plant and equipment except for those relating to projects not yet completed.

Effective 1 January 2011, in compliance with IC Interpretation 18, all contributions received from customers from that date onwards, when that amount of contributions must be used only to construct or acquire an item of property, plant and equipment, and the item of property, plant and equipment is used to either connect the customers to a network or to provide the customer with ongoing access to supply of goods and services, or to do both, the contributions received are recognised as revenue. Revenue arising from assets received from customers are recognised in the income statement when the performance obligations associated with receiving those customer contributions are met.

2.20 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of FRS 139, are recognised in the statement of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Group and the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

The Group and the Company have not designated any financial liabilities as at fair value through profit or loss.

(b) Other financial liabilities

The Group's and the Company's other financial liabilities include trade payables, other payables, amount due to related companies and loans and borrowings.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.20 Financial liabilities (cont'd)

(b) Other financial liabilities (cont'd)

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group and the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.21 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs when the likelihood of default by the debtors is more than probable. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee. If the debtor fails to make payment relating to financial guarantee contract when it is due and the Group, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

2.22 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.23 Employee benefits

(a) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and the Company. Short-term accumulating compensated absences, such as paid annual leave, are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short-term non-accumulating compensated absences, such as sick leave, are recognised when the absences occur.

(b) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Malaysian companies in the Group make contributions to the Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

(c) Defined benefit plans

The Group operates an unfunded, post-retirement medical benefit plan ("the Plan") for its eligible employees and their eligible family members. The Group's obligation under the Plan, calculated using the Projected Unit Credit Method, is determined based on actuarial computations by independent actuaries, through which the amount of benefit that employees have earned in return for their service in the current and prior years is estimated. That benefit is discounted in order to determine its present value. Actuarial gains and losses are recognised as income or expense over the expected average remaining working lives of the participating employees when the cumulative unrecognised actuarial gains or losses for the Scheme exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets. Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise are amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligations adjusted for unrecognised actuarial gains and losses and unrecognised past service costs.

(d) Employee share option plans

The Company's Employee Share Options Scheme (ESOS), an equity settled, share-based compensation plan, allows the Company and its subsidiaries to acquire ordinary shares of the Company. The total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share option reserve within equity over the vesting period and taking into account the probability that the options will vest. The fair value of share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable on vesting date. It recognises the impact of the revision of original estimates, if any, in the profit or loss, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the share option reserve until the option is exercised, upon which it will be transferred to share premium, or until the option expires, upon which it will be transferred directly to retained earnings.

The proceeds received net of any directly attributable transaction costs are credited to equity when the options are exercised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.24 Leases

(a) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(b) As lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(c) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.25 Hedge accounting

The Group uses derivatives to manage its exposure to foreign currency risk. The Group applies hedge accounting for certain hedging relationships that qualify for hedge accounting.

For the purpose of hedge accounting, hedging relationships are classified as:

- Fair value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- Cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

(a) Fair value hedges

The change in the fair value of an interest rate hedging derivative is recognised in the profit or loss as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in profit or loss as finance costs.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term to maturity. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

Fair value hedge accounting is discontinued if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.25 Hedge accounting (cont'd)

(b) Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income into cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss as other operating expenses.

Amounts recognised in other comprehensive income previously are reclassified from equity to profit or loss when the hedged transaction affects profit or loss, such as when the hedged interest income or interest expense is recognised or when a forecast sale occurs. Where the hedged item is a non-financial asset or a non-financial liability, the amounts recognised previously in other comprehensive income are removed and included in the initial carrying amount of the non-financial asset or liability. The Group has elected not to apply basis adjustments to hedges of forecast transactions that result in the recognition of a non- financial asset or a non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remain in equity until the forecast transaction or firm commitment affects profit or loss.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in contract payments. Refer to Note 27 for more details.

(c) Derivatives that are not designated or do not qualify for hedge accounting

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are directly recognised in profit or loss.

2.26 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

(a) Sale of electricity

Sale of electricity is recognised upon invoiced value of services rendered.

(b) Sale of goods

Revenue is recognised net of sales taxes and upon transfer of significant risks and rewards of ownership to the buyer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.26 Revenue (cont'd)

(c) Transfers of assets from customers

Revenue arising from assets transferred from customers are recognised in profit or loss when the performance obligations associated with receiving those customer contributions are met. In determining the amount of revenue to be recognised, the fair value of the assets is required to be estimated and the circumstances and nature of the transferred assets, including the relevant rate-regulated framework governing those assets, are taken into account.

(d) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(e) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(f) Construction contracts

Revenue from construction contracts is accounted for by the stage of completion method as described in Note 2.15.

(g) Revenue from parking and maintenance fees and rental income

Revenue from maintenance charges and rental income is recognised on an accrual basis.

(h) Development properties

Revenue from sale of development properties is accounted for by the stage of completion method as described in Note 2.16.

2.27 Income taxes

(a) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.27 Income taxes (cont'd)

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.28 Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

2.29 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

3.1 Critical judgement in applying accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy could materially affect the reported results and financial position of the Company. The accounting policy for revenue recognition on transfer of assets from customers requires subjective judgements, often as a result of the need to assess all conditions and circumstances surrounding the use of the assets, including the relevant rate-regulated framework governing those assets.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D)

3.2 Key sources of estimation uncertainty (cont'd)

(a) Depreciation of property, plant and equipment and amortisation of deferred income

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Deferred income (ie. capital contributions received from consumers prior to 1 January 2011 and grants received from government) was transferred to the income statement based on the estimated useful lives of the related property, plant and equipment. Management estimates the useful lives of the property, plant and equipment to be within two to 100 years. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets. Therefore future depreciation charges and amortisation of deferred income could be revised.

(b) Construction contracts

The Group recognises contract revenue based on percentage of completion method. The stage of completion is measured by reference to either the costs incurred to date to the estimated total cost or the completion of a physical proportion of work to date. Significant judgment is required in determining the stage of completion, the extent of the costs incurred and the estimated total revenue (for contracts other than fixed contracts) and costs. Total contract revenue also includes an estimation of the variation works that are recoverable from the customers. In making the judgment, the Group relies on past experience and work of specialists.

(c) Deferred tax assets

Deferred tax assets are recognised for all unutilised tax losses, unabsorbed capital allowances, unutilised investment allowances and provisions to the extent it is probable that taxable profit will be available against which the tax losses, capital allowances, investment allowances and provisions can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The total carrying value of recognised tax losses, capital allowances, investment allowances and provisions of the Group was RM1,078,784,000 (2010: RM608,516,000) and the unrecognised investment allowances of the Group was RM Nil (2010: RM430,001,000).

(d) Impairment of loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivables at the reporting date is disclosed in Note 19 and Note 22.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D)

3.2 Key sources of estimation uncertainty (cont'd)

(e) Defined benefit plan

The cost of post-retirement medical benefit plan ("the Plan") as well as the present value of the obligation under the Plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, medical cost inflation rate and mortality rates. All assumptions are reviewed at each reporting date. The net employee liability as at 31 December 2011 is RM136,745,000 (2010: RM119,354,000). Further details are given in Note 26(a).

In determining the appropriate discount rate, management has derived the applicable interest rates from long term corporate bonds in the country. The bonds have been selected based on the expected duration of the defined benefit obligation and taking into consideration the yield curve, respectively.

Medical cost inflation rate is based on the country market practice of 11% in year 2008 and reduced by 2% annually from year 2008 until year 2011 while the mortality rate is based on publicly available mortality tables for the country.

Further details about the assumptions used are given in Note 26(a).

(f) Fair values of assets transferred from customers and revenue recognition

The fair values of assets transferred from customers are estimated by the Company's in house professionals and expertise and the corresponding fair values related to the services identified for revenue recognition are based on certain assumptions and valuation techniques, after taken into account the relevant rate-regulated framework governing those assets.

4. REVENUE

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Dividend income from related companies	-	-	117,101	116,144
Sales of electricity	1,673,175	1,514,450	-	-
Manufacturing, fabrication, galvanising and sale of steel structures	1,718	9,230	-	-
Construction contracts	2,570	21,001	-	-
Others	8,157	6,599	-	-
	1,685,620	1,551,280	117,101	116,144

5. INTEREST INCOME

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Interest income from loans and receivables:				
- Short-term deposits	25,454	10,705	15,957	2,454
- Subsidiaries	-	-	-	6,411
- Others	277	301	4	2
	25,731	11,006	15,961	8,867

6. OTHER INCOME

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Gain on disposal of investment in an associate	-	-	-	1,330
Gain on disposal of property, plant and equipment	22	56	-	38
Gain on disposal of investment in subsidiaries	3,619	28	-	3,618
Gain on foreign exchange				
- realised	1,841	2,435	-	-
- unrealised	857	-	-	-
Miscellaneous	34,869	34,564	4	17
Release of deferred income (Note 25)				
- Amortisation of grant and capital contribution	111,922	109,463	-	-
- Customers' contribution for connection charges	15,518	-	-	-
Rental income from land and building	4,167	4,373	-	-
Reversal of allowance for impairment loss on loans and receivables - related companies	560	-	560	28
	173,375	150,919	564	5,031

7. FINANCE COSTS

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Interest expenses/profit payments on:				
- Bankers acceptance and trust receipts	-	9	-	-
- Finance lease	6	-	-	-
- Islamic debt securities	147,691	74,895	79,746	-
- Syndicated borrowings	23,087	36,535	23,087	36,535
- Revolving credits	17,373	13,502	17,373	13,489
- Term loan	4,230	411	-	-
Bank charges and commission	-	51	-	-
	192,387	125,403	120,206	50,024
Amount recharged to subsidiaries (Note 24)	-	-	(96,460)	(48,125)
Amount capitalised in capital work-in-progress (Note 13)				
- Profit payments on Islamic debt securities	(40,916)	-	-	-
- Interest expenses on revolving credit	(2,965)	(5,795)	-	-
- Interest expenses/profit payments on syndicated borrowings	(23,087)	(36,535)	-	-
- Interest expense on term loan	(4,230)	(411)	-	-
	(71,198)	(42,741)	-	-
	121,189	82,662	23,746	1,899

8. PROFIT BEFORE TAX

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
The following amounts have been included in arriving at profit before tax:				
Auditors' remuneration				
- statutory audits				
current year	309	301	70	70
underprovision in prior years	10	42	5	10
- other services	588	661	419	661
Bad debts written off	286	453	-	-
Depreciation of property, plant and equipment (Note 13)	320,493	290,338	934	887
Directors' remuneration (Note 10)	938	1,306	358	383
Employee benefits expense (Note 9)	237,637	204,783	2,580	5,727
Finance costs (Note 7)	121,189	82,662	23,746	1,899
Impairment in value of investment in an associate	-	7,591	-	7,878
Inventories written off	6,136	188	-	-
Impairment loss on loans and receivables				
- trade receivables	12,527	692	-	-
- related companies	-	11,476	-	11,486
Loss on partial disposal of investment in an associate	-	426	-	-
Loss on disposal of property, plant and equipment	2,213	2,872	-	-
Loss on foreign exchange				
- realised	213	17	-	-
Operating lease	7,425	5,431	38	12
Property development costs written down (Note 17)	10,000	-	-	-
Property, plant and equipment written off	14	9	-	-
Power purchase	47,383	-	-	-

9. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Salaries, wages, overtime and bonus	176,457	146,754	21,516	11,917
Social security contributions	1,521	1,348	58	36
Contributions to defined contribution plan	21,053	18,785	1,034	799
Other benefits	21,706	16,699	1,187	910
Retirement benefit obligations (Note 26(a))	21,258	21,244	146	144
	241,995	204,830	23,941	13,806
Less: Amount capitalised in capital work-in-progress (Note 13)	(4,358)	(47)	-	-
Less: Amount charged to subsidiaries	-	-	(21,361)	(8,079)
	237,637	204,783	2,580	5,727

Included in employee benefits expense of the Group are Executive Directors' remuneration amounting to RM264,957 (2010: RM528,494).

10. DIRECTORS' REMUNERATION

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Directors of the Company				
Emoluments	30	105	28	102
Fees	432	496	330	281
	462	601	358	383
Other Directors				
Emoluments	272	432	-	-
Fees	204	273	-	-
	476	705	-	-
Total Directors' remuneration (Note 32)	938	1,306	358	383

10. DIRECTORS' REMUNERATION (CONT'D)

The number of Directors of the Company whose total remuneration falls within the following bands is analysed below:

	Number of Directors	
	2011	2010
Non-Executive Directors		
RM20,001 - RM50,000	-	3
RM50,001 - RM100,000	3	3
RM100,001 - RM150,000	2	2

11. INCOME TAX EXPENSE

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2011 and 2010 are:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Statements of comprehensive income:				
Current income tax:				
- Malaysian income tax	8,707	65,826	25,000	26,753
- (Over)/under provision in respect of previous years	(2,413)	11,378	(1,469)	(305)
	6,294	77,204	23,531	26,448
Deferred tax (Note 16):				
- Origination and reversal of temporary differences	43,184	29,480	206	(36)
- Under/(over) provision in respect of previous years	6,648	(341)	-	-
- Deferred tax assets recognised on investment allowance	(107,700)	(55,622)	-	-
	(57,868)	(26,483)	206	(36)
Income tax expense recognised in profit or loss	(51,574)	50,721	23,737	26,412

11. INCOME TAX EXPENSE (CONT'D)

Reconciliation between tax expense and accounting profit

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2011 and 2010 are as follows:

	Group	
	2011 RM'000	2010 RM'000
Accounting profit before tax	284,010	386,939
Tax at Malaysian statutory tax rate of 25% (2010: 25%)	71,003	96,735
Adjustments:		
Non-deductible expenses	19,493	35,513
Income not subject to tax	(37,337)	(30,012)
Benefits from previously unrecognised deferred tax assets	-	(6,812)
Deferred tax assets recognised	(107,700)	(55,622)
Share of results of associates	(1,268)	(118)
(Over)/under provision of income tax expense in respect of previous years	(2,413)	11,378
Under/(over) provision of deferred tax in respect of previous years	6,648	(341)
Income tax expense recognised in profit or loss	(51,574)	50,721

	Company	
	2011 RM'000	2010 RM'000
Accounting profit before tax	95,565	93,532
Tax at Malaysian statutory tax rate of 25% (2010: 25%)	23,891	23,383
Adjustments:		
Non-deductible expenses	5,734	8,614
Income not subject to tax	(4,419)	(5,280)
Over provision of tax expense in respect of previous years	(1,469)	(305)
Income tax expense recognised in profit or loss	23,737	26,412

Current income tax is calculated at the Malaysian statutory tax rate of 25% (2010: 25%) of the estimated assessable profit for the year.

12. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

The following table reflects the profit and share data used in the computation of basic earnings per share for the years ended 31 December:

	Group	
	2011 RM'000	2010 RM'000
Profit net of tax attributable to owners of the Company used in the computation of basic earnings per shares	**335,363**	341,309
Weighted average number of ordinary shares for basic earnings per share computation	**1,610,569**	1,610,552
Basic earnings per share (sen)	**20.8**	21.2

There is no dilution in the earnings per share for the current and previous year end as there are no dilutive potential ordinary shares outstanding at the end of the reporting period.

13. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Structures and improvements RM'000	Plant and machinery RM'000	Lines and distribution mains RM'000	Distribution services RM'000	Meters RM'000	Public lighting RM'000	Motor vehicle, furniture, fittings, equipment and others RM'000	Capital work-in-progress RM'000	Total RM'000
Cost/surrogated cost												
At 1 January 2010	1,180	164,607	545,611	438,913	3,840,317	1,463,941	561,049	73,770	96,553	288,520	2,192,517	9,666,978
Additions	-	-	775	-	14,547	-	-	-	-	1,566	1,448,383	1,465,271
Disposals/written off	-	-	(6,749)	-	(7,343)	(3,320)	(4,491)	(374)	(221)	(16,558)	-	(39,056)
Disposal of subsidiary	-	(4,020)	(17,818)	-	(21,370)	-	-	-	-	(2,463)	(539)	(46,210)
Reclassification/transfer	-	359	75,467	-	505,740	165,918	97,378	2,427	10,712	24,010	(882,011)	-
At 31 December 2010 and 1 January 2011	**1,180**	**160,946**	**597,286**	**438,913**	**4,331,891**	**1,626,539**	**653,936**	**75,823**	**107,044**	**295,075**	**2,758,350**	**11,046,983**
Additions	**-**	**27**	**921**	**-**	**4,360**	**-**	**-**	**-**	**-**	**1,901**	**1,846,319**	**1,853,528**
Disposals/written off	**-**	**-**	**-**	**-**	**(11,841)**	**(1,718)**	**(1,826)**	**(338)**	**(195)**	**(4,345)**	**-**	**(20,263)**
Disposals of subsidiary	**-**	**-**	**-**	**-**	**(2,516)**	**-**	**-**	**-**	**-**	**(1,234)**	**-**	**(3,750)**
Reclassification/transfer	**-**	**-**	**25,551**	**-**	**175,149**	**513,420**	**58,326**	**1,189**	**8,717**	**25,389**	**(807,741)**	**-**
At 31 December 2011	**1,180**	**160,973**	**623,758**	**438,913**	**4,497,043**	**2,138,241**	**710,436**	**76,674**	**115,566**	**316,786**	**3,796,928**	**12,876,498**
Accumulated depreciation												
At 1 January 2010	-	40,990	180,006	153,989	1,583,051	693,707	263,179	45,004	42,232	221,605	-	3,223,763
Depreciation charge for the year (Note 8)	-	3,046	13,270	4,863	170,920	54,420	20,274	3,869	3,874	15,802	-	290,338
Disposals/written off	-	-	(5,729)	-	(5,173)	(2,978)	(4,220)	(374)	(221)	(16,331)	-	(35,026)
Disposal of subsidiary	-	(103)	(4,727)	-	(18,084)	-	-	-	-	(2,405)	-	(25,319)
Reclassification	-	-	-	-	(10)	-	-	-	-	10	-	-
At 31 December 2010 and 1 January 2011	**-**	**43,933**	**182,820**	**158,852**	**1,730,704**	**745,149**	**279,233**	**48,499**	**45,885**	**218,681**	**-**	**3,453,756**
Depreciation charge for the year (Note 8)	**-**	**3,068**	**13,905**	**4,864**	**186,753**	**62,118**	**23,688**	**3,980**	**4,274**	**17,843**	**-**	**320,493**
Disposals/written off	**-**	**-**	**-**	**-**	**(8,200)**	**(1,164)**	**(1,389)**	**(337)**	**(159)**	**(4,227)**	**-**	**(15,476)**
Disposals of subsidiary	**-**	**-**	**-**	**-**	**(1,914)**	**-**	**-**	**-**	**-**	**(615)**	**-**	**(2,529)**
At 31 December 2011	**-**	**47,001**	**196,725**	**163,716**	**1,907,343**	**806,103**	**301,532**	**52,142**	**50,000**	**231,682**	**-**	**3,756,244**
Net carrying amount												
At 31 December 2010	1,180	117,013	414,466	280,061	2,601,187	881,390	374,703	27,324	61,159	76,394	2,758,350	7,593,227
At 31 December 2011	**1,180**	**113,972**	**427,033**	**275,197**	**2,589,700**	**1,332,138**	**408,904**	**24,532**	**65,566**	**85,104**	**3,796,928**	**9,120,254**

13. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Company	Leasehold hold RM'000	Motor vehicle, furniture, fittings, equipment and others RM'000	Capital work-in-progress RM'000	Total RM'000
Cost				
At 1 January 2010	14,657	5,722	69,596	89,975
Additions	-	481	100,256	100,737
Disposals	-	(300)	-	(300)
Transfer to subsidiary	-	-	(167,853)	(167,853)
At 31 December 2010	14,657	5,903	1,999	22,559
At 1 January 2011	**14,657**	**5,903**	**1,999**	**22,559**
Additions	**-**	**19**	**1,287**	**1,306**
Reclassification	**-**	**743**	**(743)**	**-**
At 31 December 2011	**14,657**	**6,665**	**2,543**	**23,865**
Accumulated depreciation				
At 1 January 2010	1,042	2,996	-	4,038
Depreciation charge for the year (Note 8)	261	626	-	887
Disposals	-	(165)	-	(165)
At 31 December 2010	1,303	3,457	-	4,760
At 1 January 2011	**1,303**	**3,457**	**-**	**4,760**
Depreciation charge for the year (Note 8)	**261**	**673**	**-**	**934**
At 31 December 2011	**1,564**	**4,130**	**-**	**5,694**
Net carrying amount				
At 31 December 2010	13,354	2,446	1,999	17,799
At 31 December 2011	**13,093**	**2,535**	**2,543**	**18,171**

13. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Assets under construction

Included in the capital work-in-progress of the Group are projects completed as at 31 December 2011 but not capitalised amounted to RM9,837,223 (2010: RM16,410,453). The Group is taking concerted action to identify the total cost of these completed projects and take them to the respective assets accounts.

The following expenses incurred during the year have been included in capital work-in progress:

	Group	
	2011 RM'000	2010 RM'000
Employee benefits expense (Note 9)	**4,358**	47
Finance costs (Note 7)	**71,198**	42,741
Operating lease	**150**	48
Realised loss on foreign exchange - Derivatives (Note 27)	**765**	-

Assets held under finance lease

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM213,000 (2010: RM Nil) by means of finance lease. The cash outflow on acquisition of property, plant and equipment amounted to RM1,853,390,000 (2010: RM1,465,271,000).

The carrying amount of property, plant and equipment held under finance lease at the reporting date was RM170,400 (2010: RM Nil).

Leased asset is pledged as security for the related finance lease liability (Note 24).

Revaluation of land and buildings

Land and buildings of the Group have not been revalued since 1993. The Directors have not adopted a policy of regular revaluations of such assets and no later valuation has been recorded. As permitted under the transitional provisions of IAS 16 (Revised): Property, Plant and Equipment, these assets continue to be stated at their valuation less accumulated depreciation.

The above transitional provisions are available only on the first application of the MASB Approved Accounting Standard IAS 16 (Revised): Property, Plant and Equipment, which is effective for periods ending on or after 1 September 1998. By virtue of this transitional provision, an entity that had recorded its property, plant and equipment at revalued amounts but had not adopted a policy of revaluation has been allowed to continue carrying those assets on the basis of their previous revaluations subject to continuity in its depreciation policy and the requirement to write down the assets to their recoverable amounts for impairment adjustments. The transitional provisions will remain in force until and unless the entity chooses to adopt a revaluation policy in place of a cost policy. When that happens, FRS 116 (which supersedes IAS 16) would require revaluations to be carried out at regular intervals.

The title deeds of certain lands of certain subsidiaries are in the process of being registered in the name of the subsidiaries.

14. INVESTMENT IN SUBSIDIARIES

	Company 2011 RM'000	Company 2010 RM'000
Unquoted shares, at costs	**1,666,383**	1,666,383
Less: Accumulated impairment losses	**(94,773)**	(94,773)
ESOS granted to employees of subsidiaries	**46,000**	46,000
	1,617,610	1,617,610

Details of the subsidiaries, all of which are incorporated in Malaysia and audited by Ernst & Young, Malaysia, are shown below:

Name	Principal activities	Proportion (%) of ownership interest 2011	Proportion (%) of ownership interest 2010
Held by the Company:			
Syarikat SESCO Berhad	Generation, transmission, distribution and sale of electricity	**100.00**	100.00
Sarawak Power Generation Sdn Bhd	Power generation	**100.00**	100.00
Sejingkat Power Corporation Sdn Bhd *	Power generation	**100.00**	100.00
Mukah Power Generation Sdn Bhd	Power generation	**100.00**	100.00
Sarawak Hydro Power Generation Sdn Bhd #	Power generation	**100.00**	100.00
Dasar Untung Sdn Bhd	Investment holding	**100.00**	100.00
Dunlop Agro-Management Sdn Bhd	Investment holding	**100.00**	100.00
Dunlop Estates Holdings Sdn Bhd	Investment holding	**100.00**	100.00
Dunlop Properties Sdn Bhd	Investment holding	**100.00**	100.00
Naungan Pertiwi Sdn Bhd	Dormant	**100.00**	100.00

14. INVESTMENT IN SUBSIDIARIES (CONT'D)

Details of the subsidiaries, all of which are incorporated in Malaysia and audited by Ernst & Young, Malaysia, are shown below: (cont'd)

Name	Principal activities	Proportion (%) of ownership interest 2011	2010
Held through Syarikat SESCO Berhad:			
SESCO-EFACEC Sdn Bhd	Manufacturing of transformers and switch gears and contracting electrical works	**51.00**	51.00
Sarawak Energy Services Sdn Bhd	Provision of management services, operation and maintenance of power stations and contracting	**100.00**	100.00
Sarawak Energy Engineering Sdn Bhd	Mechanical, electrical and electronic engineering and contracting	**-**	70.00
PPLS Power Generation Sdn Bhd	Power generation	**100.00**	100.00
Held through Sejingkat Power Corporation Sdn Bhd:			
SE Lite Crete Sdn Bhd	Dormant	**60.00**	60.00
Held through Sarawak Hydro Power Generation Sdn Bhd:			
Murum Hydro Consortium Sdn Bhd #	Power generation	**100.00**	100.00

* Through the equity interest held by the Company and its subsidiary, Syarikat SESCO Berhad.

\# These subsidiaries have yet to commence operations during the financial year.

14. INVESTMENT IN SUBSIDIARIES (CONT'D)

(a) Deemed disposal of a subsidiary, Sarawak Energy Engineering Sdn Bhd (SEE)

Negotiations have been entered with SEE's other corporate shareholder, CP Power Sdn Bhd (CP Power) beginning of the current financial year to dispose the Group's entire 70% equity interest in SEE. Following the negotiations, the Group has ceased control over the power to govern the financial and operating policies of SEE. Accordingly, the Group has not consolidated the results of SEE for the current financial year under review.

The Group concluded the disposal of its entire equity interest in SEE to CP Power for a total cash consideration of RM12 million on 20 January 2012. SEE was deemed to be disposed in the current financial year.

The disposal had the following effects on the financial position of the Group as at the end of the financial year:

	2011 RM'000
Property, plant and equipment (Note 13)	1,221
Inventories	17
Trade and other receivables	10,129
Amount due from related companies	19,593
Amount due from customers on contract	7,802
Cash and bank balances	45,863
Trade and other payables	(35,230)
Amount due to related companies	(766)
Amount due to customers on contract	(36,516)
Current tax payable	(57)
Deferred tax liabilities (Note 16)	(83)
Net assets disposed	11,973
Less: non-controlling interest	(3,592)
	8,381
Total disposal proceeds	(12,000)
Gain on disposal to the Group	(3,619)
Disposal proceeds settled by:	
Cash (refer Note 19(d))	12,000
Cash outflow arising on disposal:	
Cash consideration receivable	12,000
Cash and cash equivalents of subsidiary disposed	(45,863)
Net cash outflow on disposal	(33,863)

14. INVESTMENT IN SUBSIDIARIES (CONT'D)

(b) Disposal of subsidiaries

The Group disposed of its 100% equity interest in Sarawaja Timur Sdn Bhd and its wholly owned subsidiary, Sarwaja Engineering & Construction Sdn Bhd to Sarawak Cable Berhad (SCB) and a third party on 30 December 2010 for a total consideration of RM38,500,000 in exchange for cash and shares in SCB.

The disposal had the following effects on the financial position of the Group as at the end of the last financial year:

	2010 RM'000
Property, plant and equipment (Note 13)	20,891
Inventories	15,989
Trade and other receivables	25,886
Amount due from a fellow subsidiary	17,719
Amount due from customers on contract	5,577
Cash and bank balances	1,502
Trade and other payables	(42,808)
Amount due to related companies	(563)
Borrowings	(3,463)
Current tax payable	(225)
Deferred tax liabilities (Note 16)	(2,033)
Net assets disposed	38,472
Disposal proceeds received by the Company	(29,918)
Disposal proceeds received by a subsidiary	(8,582)
	(38,500)
Gain on disposal to the Group	(28)
Disposal proceeds settled by:	
Cash	26,462
Allotment of 10,000,000 ordinary shares by SCB (Note 15)	12,038
	38,500
Cash inflow arising on disposal:	
Cash consideration	26,462
Cash and cash equivalents of subsidiaries disposed	(1,502)
Net cash inflow on disposal	24,960

15. INVESTMENT IN ASSOCIATES

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Quoted shares in Malaysia, at cost	12,952	12,952	21,593	21,593
Share of post-acquisition reserves	16,080	14,325	-	-
	29,032	27,277	21,593	21,593
Unquoted shares in Malaysia, at cost	37,470	37,470	30,413	30,413
Share of post-acquisition reserves	(6,422)	(8,138)	-	-
	31,048	29,332	30,413	30,413
Less: Accumulated impairment losses	(14,368)	(14,368)	(16,313)	(16,313)
	16,680	14,964	14,100	14,100
	45,712	42,241	35,693	35,693
Market value of quoted shares	57,347	35,223	57,347	35,223

Details of the associates, all of which are incorporated in Malaysia, are shown below:

Name	Principal activities	Proportion (%) of ownership interest	
		2011	2010
Held by the Company:			
Dectra Sdn Bhd #	Provision, integration and maintenance of control instrumentation and SCADA systems	26.24	26.24
Sarawak Coal Resources Sdn Bhd #	Extraction and sales of coal	30.00	30.00
Sarawak Cable Berhad *	Investment holding	21.56	21.56
Seatrac Sdn Bhd #	Development of the undersea High Votage Direct Current (HVDC) transmission cable	50.00	50.00
Held through Sejingkat Power Corporation Sdn. Bhd.:			
Gobel Industry Sdn Bhd #	Coal mining, sales of coal, and provision of transportation, manpower supply and machinery services	20.00	20.00

15. INVESTMENT IN ASSOCIATES (CONT'D)

Details of the associates, all of which are incorporated in Malaysia, are shown below: (cont'd)

Name	Principal activities	Proportion (%) of ownership interest 2011	2010
Held through Dunlop Properties Sdn Bhd:			
Integrated Circuit Design Services Sdn Bhd #	Provision of integrated circuit design services, intellectual property licensing and operation support	**30.00**	30.00
Held through Syarikat SESCO Berhad:			
Sarawak Gas Distribution Sdn Bhd	Distribution of gas	**30.00**	30.00

* On 2 June 2010, the Company had partially disposed its equity interest in Sarawak Cable Berhad (SCB) for a total cash consideration of RM4,655,000 as part of the listing exercise of SCB on the Main Board of Bursa Securities Malaysia Berhad. Consequently, the Company's equity interest in SCB was decreased from 24.07% to 15.92%. The Company's equity interest in SCB subsequently increased from 15.92% to 21.56% on 30 December 2010 as a result of the event mentioned in Note 14(b).

All the companies are audited by Ernst & Young, Malaysia except for those marked #, which are audited by other firms.

The summarised financial information of the associates, not adjusted for the proportion of ownership interest held by the Group is as follows:

	Group 2011 RM'000	Group 2010 RM'000
Assets and liabilities		
Current assets	**290,307**	243,332
Non-current assets	**193,010**	191,682
Total assets	**483,317**	435,014
Current liabilities	**(246,121)**	(219,282)
Non-current liabilities	**(21,963)**	(20,765)
Total liabilities	**(268,084)**	(240,047)

15. INVESTMENT IN ASSOCIATES (CONT'D)

The summarised financial information of the associates, not adjusted for the proportion of ownership interest held by the Group is as follows: (cont'd)

	Group	
	2011 RM'000	2010 RM'000
Results		
Revenue	593,738	299,235
Profit for the year	25,072	4,965

The details of goodwill included within the Group's carrying amount of investment in associates are as follows:

	2011 RM'000	2010 RM'000
Cost/net carrying amount		
At 1 January	7,099	1,627
Partial disposal of equity interest	-	(551)
Additional equity interest acquired	-	6,023
At 31 December	7,099	7,099

16. DEFERRED TAX

Deferred income tax as at 31 December relates to the following:

Group	As at 1 January 2010 RM'000	Recognised in statement of comprehensive income RM'000 (Note 11)	Disposal of subsidiaries RM'000 (Note 14)	As at 31 December 2010 RM'000	Recognised in statement of comprehensive income RM'000 (Note 11)	Disposal of subsidiaries RM'000 (Note 14)	As at 31 December 2011 RM'000
Deferred tax liabilities:							
Revaluation of land and building	(14,748)	564	-	(14,184)	4,826	-	**(9,358)**
Accelerated capital allowances	(401,653)	(23,795)	2,033	(423,415)	(53,419)	83	**(476,751)**
Retirement benefit obligations	24,751	4,193	-	28,944	4,116	-	**33,060**
Unutilised investment allowance and tax losses	16,073	(3,640)	-	12,433	-	-	**12,433**
	(375,577)	(22,678)	2,033	(396,222)	(44,477)	83	**(440,616)**
Deferred tax assets:							
Accelerated capital allowances	(34,190)	2,168	-	(32,022)	(11,106)	-	**(43,128)**
Property development costs	-	-	-	-	2,500	-	**2,500**
Retirement benefit obligations	640	219	-	859	25	-	**884**
Unutilised investment allowance	63,119	46,774	-	109,893	110,926	-	**220,819**
	29,569	49,161	-	78,730	102,345	-	**181,075**
	(346,008)	26,483	2,033	(317,492)	57,868	83	**(259,541)**

Company	As at 1 January 2010 RM'000	Recognised in statement of comprehensive income RM'000 (Note 11)	As at 31 December 2010 RM'000	Recognised in statement of comprehensive income RM'000 (Note 11)	As at 31 December 2011 RM'000
Deferred tax assets:					
Retirement benefit obligations	170	36	206	(206)	**-**

16. DEFERRED TAX (CONT'D)

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Presented after appropriate offsetting as follows:				
Deferred tax assets	**(181,075)**	(78,730)	**-**	(206)
Deferred tax liabilities	**440,616**	396,222	**-**	-
	259,541	317,492	**-**	(206)

	Group	
	2011 RM'000	2010 RM'000
Deferred tax assets have not been recognised in respect of the following items:		
Unutilised investment allowance	**-**	430,001

The previously unrecognised deferred tax asset of a subsidiary was recognised during the current financial year due to certainty of its recoverability. The availability of the unutilised investment allowance for offsetting against future taxable profits of the subsidiary was subject to no substantial changes in shareholdings of the subsidiary under the Income Tax Act, 1967 and guidelines issued by the tax authority.

17. PROPERTY DEVELOPMENT COSTS

	Group	
	2011 RM'000	2010 RM'000
Freehold land	**5,600**	5,600
Development cost	**85,079**	95,079
	90,679	100,679

The Directors of the Company were of the opinion that the net realisable value of the property development costs was about RM90.7 million as at current year end, and accordingly, the carrying amount was stated after a write down of RM10.0 million.

18. INVENTORIES

	Group 2011 RM'000	Group 2010 RM'000
Cost		
Finished goods	6,303	1,534
Work-in-progress	2,268	4,439
Raw materials and consumables	342,885	292,653
	351,456	298,626

19. TRADE AND OTHER RECEIVABLES

	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Current				
Trade receivables				
Third parties	172,745	133,189	-	-
Less: Allowance for impairment	(15,238)	(2,711)	-	-
Trade receivables, net (a)	157,507	130,478	-	-
Other receivables				
Amounts due from related companies				
- subsidiaries (b)	-	-	208,538	2,003,364
- associates (c)	10,975	29,420	10,924	29,363
Deposits	489	394	297	192
Dividend receivable	728	-	728	-
Sundry receivables (d)	74,640	69,734	815	1,351
	86,832	99,548	221,302	2,034,270
Less: Allowance for impairment				
- third parties	(33,011)	(33,011)	-	-
- related companies	(10,924)	(11,484)	(117,847)	(118,407)
	42,897	55,053	103,455	1,915,863
Non-current				
Other receivables				
Amounts due from related companies				
- subsidiaries (b)	-	-	3,213,341	-
Total trade and other receivables	200,404	185,531	3,316,796	1,915,863

19. TRADE AND OTHER RECEIVABLES (CONT'D)

(a) Trade receivables

Trade receivables are non interest bearing.

The Group's normal trade credit term ranges from 14 to 60 days (2010: 14 to 60 days). Other credit terms are assessed and approved on a case-by-case basis. They are recognised at their original invoice amounts, which represent their fair values on initial recognition.

Ageing analysis of trade receivables

The ageing analysis of the Group's trade receivables is as follows:

	Group	
	2011 RM'000	2010 RM'000
Current	109,941	70,415
1 to 30 days past due	14,369	11,937
31 to 60 days past due	5,201	7,100
61 to 90 days past due	6,316	6,779
More than 90 days past due	36,918	36,958
	172,745	133,189

19. TRADE AND OTHER RECEIVABLES (CONT'D)

(a) Trade receivables (cont'd)

Receivables that are past due but not impaired

The Group has trade receivables amounting to RM31.0 million (2010: RM39.8 million) that are past due at the reporting date but not impaired.

Receivables that are subject to impairment

The Group's trade receivables that are subject to impairment at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	Group					
	Subject to impairment					
	Collectively		Individually		Total	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Trade receivables						
- nominal amounts	30,737	21,934	1,044	996	31,782	22,930
Less: Allowance for impairment	(14,216)	(1,729)	(1,021)	(982)	(15,238)	(2,711)
	16,521	20,205	23	14	16,544	20,219
Movement in allowance accounts:						
At 1 January					2,711	2,067
Disposal of a subsidiary					-	(48)
Charge for the year (Note 8)					12,527	692
At 31 December					15,238	2,711

The Group's trade receivables amounting to RM47.6 million (2010: RM60.1 million) represent trade receivables that are past due and no allowance for impairment is necessary as the amount of collateral deposits from the trade receivables held by the Group stands at RM277.3 million (2010: RM256.3 million).

(b) Amounts due from subsidiaries

Amounts due from subsidiaries are unsecured and non-interest bearing except for amounts of RM3,248.6 million (2010: RM1,548.4 million) which bear interest at rates from 5.00% to 5.30% (2010: 3.50% to 4.95%) per annum. These amounts are repayable on demand except for RM3,213.3 million (2010: RM Nil) which are repayable after one year.

(c) Amounts due from associates

Amounts due from associates are unsecured, non-interest bearing and repayable on demand.

19. TRADE AND OTHER RECEIVABLES (CONT'D)

(d) Sundry receivables

Included in sundry receivables of the Group are amounts of RM32.0 million (2010: RM32.0 million) and RM16.6 million (2010: RM10.9 million) due from former associates and accrued income from Certified Emission Reduction, respectively. The amounts are non-interest bearing and are repayable on demand. The amounts due from former associates were fully impaired in prior year.

The proceeds of RM12.0 million arising from the disposal of the Group's entire 70% equity interest in Sarawak Energy Engineering Sdn Bhd was included in sundry receivables. The full proceeds have been received subsequent to the current year end.

20. OTHER CURRENT ASSETS

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Prepaid operating expenses	9,225	7,469	34	34
Tax recoverable	31,746	4,255	3,162	2,005
	40,971	11,724	3,196	2,039

21. DUE FROM/(TO) CUSTOMERS ON CONTRACT WORKS

	Group	
	2011 RM'000	2010 RM'000
Construction contract costs incurred to date	-	554,810
Attributable profits	-	11,282
	-	566,092
Less: Progress billings	-	(594,879)
	-	(28,787)
Presented as:		
Amount due from customers on contract works	-	7,802
Amount due to customers on contract works	-	(36,589)
	-	(28,787)
Retention sums on contract construction, included in trade receivables	-	3,366

22. CASH AND BANK BALANCES

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at the reporting date:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Short-term deposits with licensed banks	510,637	391,764	246,481	17,280
Cash at banks and on hand	81,023	73,534	1,766	23,954
Cash and cash equivalents	591,660	465,298	248,247	41,234

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and 365 days depending on the immediate cash requirements of the Group and the Company, and earn interest at the respective short-term deposits rates. The interest rates of deposits at statement of financial position date range from 1.00% to 3.90% (2010: 1.00% to 3.1%) per annum.

Short-term deposits with licensed banks of the Group and of the Company amounting to RM76,240,919 and RM Nil (2010: RM121,002,041 and RM17,280,000) respectively, are pledged as securities for the Group's and the Company's borrowings.

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Current				
Trade payables				
Third parties	229,934	191,219	-	-
Amount due to related company				
- associates	9,077	10,763	-	-
	239,011	201,982	-	-
Other payables				
Other payables	136,248	124,788	419	4
Accruals	28,127	31,679	9,460	13,748
Amounts due to related companies	-	-	94,733	2,967
Collateral deposits	277,318	256,320	-	-
	441,693	412,787	104,612	16,719
Total trade and other payables	680,704	614,769	104,612	16,719

23. TRADE AND OTHER PAYABLES (CONT'D)

(a) Trade payables

Trade payables are non-interest bearing. The normal trade credit term granted to the Group ranges from 14 to 120 days (2010: 14 to 120 days).

(b) Other payables

These amounts are non-interest bearing. Other payables are normally settled on credit term ranges from 14 to 120 days (2010: 14 to 120 days).

(c) Amounts due to related companies

Amounts due to related companies bear interest at 5.30% (2010: Nil) per annum. These amounts are unsecured and are repayable on demand.

24. LOANS AND BORROWINGS

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Current				
Unsecured:				
Islamic debt securities	55,000	55,000	-	-
Revolving credits	35,000	530,000	35,000	530,000
	90,000	585,000	35,000	530,000
Secured:				
Islamic debt securities	55,000	65,000	-	-
Term loan	30,953	-	-	-
Obligation under finance lease	13	-	-	-
	85,966	65,000	-	-
	175,966	650,000	35,000	530,000

24. LOANS AND BORROWINGS (CONT'D)

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Non-current				
Unsecured:				
Islamic debt securities	3,000,000	55,000	3,000,000	-
Syndicated borrowings	-	989,159	-	989,159
	3,000,000	1,044,159	3,000,000	989,159
Secured:				
Islamic debt securities	710,000	765,000	-	-
Term loan	67,947	50,000	-	-
Obligation under finance lease	114	-	-	-
	778,061	815,000	-	-
	3,778,061	1,859,159	3,000,000	989,159
Total loans and borrowings	3,954,027	2,509,159	3,035,000	1,519,159

Islamic debt securities

The details of the Islamic debt securities of the Group are as follows:

(i) 11-year RM605 million Al-Bai Bithaman Ajil Islamic Debt Securities (BaIDS)

The unsecured Islamic debt securities were issued by a subsidiary at interest rates of 3.70% to 6.55% per annum and redeemable by eleven tranches over a period of eleven years commencing 2002 till 2012.

The outstanding BaIDS bear interest rates of 6.55% (2010: 6.40% to 6.55%) per annum and are redeemable as follows:

	Group	
	2011 RM'000	2010 RM'000
Redeemable within 1 year	55,000	55,000
Redeemable after 1 year	-	55,000
	55,000	110,000

24. LOANS AND BORROWINGS (CONT'D)

Islamic debt securities (cont'd)

(ii) 15-year RM215 million Sukuk Musharakah

This represents the Serial Sukuk Musharakah of up to an aggregate nominal amount of RM215.0 million ("the Sukuk Musharakah") issued under the Islamic principle of Musharakah by a subsidiary to partly finance the development and construction of a coal-fired power plant in Mukah which is undertaken by another subsidiary of the Group.

The Sukuk Musharakah is secured by a security trust deed, the assignment of certain lease of the subsidiary, a first legal charge over designated accounts of the subsidiary and assignment of rights, titles and interests of the monies standing to the credit of these accounts, assignment of rights over specified licence, agreements and insurances, and a deed of debenture creating a fixed and floating charge over present and future assets of the subsidiary.

The subsidiary undertakes and has complied in maintaining a Service Cover Ratio of not less than 1.25:1 since the tenure of the facilities commenced.

The summary of the profit payment rates and redemption dates of the Sukuk Musharakah as at 31 December 2011 is tabulated below:

Tranche	Nominal amount RM' million	Issuance dates Year	Profit payment rates %	Redemption dates Year
1	105.0	2006	7.05 - 8.10	2016 - 2021
2	55.0	2007	6.55 - 7.05	2012 - 2016
3	10.0	2007	6.75 - 6.85	2012
	170.0			

24. LOANS AND BORROWINGS (CONT'D)

Islamic debt securities (cont'd)

(ii) 15-year RM215 million Sukuk Musharakah (cont'd)

The Sukuk Musharakah is redeemable as follows:

	Group	
	2011 RM'000	2010 RM'000
Redeemable within 1 year	15,000	15,000
Redeemable after 1 year	155,000	170,000
	170,000	185,000

(iii) 15-year RM665 million Sukuk Mudharabah

This represents the Serial Sukuk Mudharabah of up to an aggregate nominal amount of RM665.0 million ("the Sukuk Mudharabah") issued under the Islamic principle of Mudharabah by a subsidiary to partly finance its development and construction of a coal-fired power plant in Mukah.

The Sukuk Mudharabah is secured by the following:

(i) Assignment of all rights, benefits and titles of the subsidiary under its project documents and assigned property;
(ii) Assignment of all rights, benefits and titles of the subsidiary's land;
(iii) Memorandum of first legal charge over designated accounts of the subsidiary and assignment of rights, benefits and titles to the credit balances in these accounts; and
(iv) First ranking debenture creating fixed and floating charge over present and future assets of the subsidiary.

The subsidiary undertakes and has complied in maintaining a Service Cover Ratio of not less than 1.25:1 since the tenure of the facilities commenced.

The summary of the profit payment rates and redemption dates of the Sukuk Mudharabah as at 31 December 2011 is tabulated below:

Tranche	Nominal amount RM' million	Issuance dates Year	Profit payment rates %	Redemption dates Year
1	195.0	2006	8.10 - 8.60	2019 - 2021
2	325.0	2007	7.15 - 8.25	2013 - 2019
3	30.0	2007	7.40 - 7.50	2013
4	45.0	2008	6.70 - 6.90	2012 - 2013
	595.0			

24. LOANS AND BORROWINGS (CONT'D)

Islamic debt securities (cont'd)

(iii) 15-year RM665 million Sukuk Mudharabah (cont'd)

The Sukuk Mudharabah is redeemable as follows:

	Group	
	2011 RM'000	2010 RM'000
Redeemable within 1 year	40,000	50,000
Redeemable after 1 year	555,000	595,000
	595,000	645,000

(iv) 25-year RM15 billion Sukuk Musyarakah

This represents the serial Sukuk Musyarakah of up to an aggregate nominal amount of RM15.0 billion ("Sukuk Musyarakah") issued under the Islamic principle of Musyarakah obtained by the Company during the financial year. The proceeds from the issuance under the Sukuk Musyarakah shall be utilised by the Company and its subsidiaries to meet the following purposes, which are Shariah-Compliant:

(i) To part finance the acquisition of the Bakun Dam from Sarawak Hidro Sdn Bhd;
(ii) To finance the Group's capital expenditure requirement;
(iii) To refinance/redeem the Group's relevant existing borrowings;
(iv) To fund the fees and expenses related to the programme; and
(v) To fund the Company's general corporate purposes.

The Sukuk Musyarakah is unsecured and shall have a tenor of up to 25 years from the date of first issuance. On 23 June 2011, the Company has issued its first issuance amounting to a total nominal amount of RM3.0 billion.

24. LOANS AND BORROWINGS (CONT'D)

Islamic debt securities (cont'd)

(iv) 25-year RM15 billion Sukuk Musyarakah (cont'd)

The summary of the profit payment rates and redemption dates of the Sukuk Programme as at 31 December 2011 is tabulated below:

Tranche	Nominal amount RM' million	Issuance dates Year	Profit payment rates %	Redemption dates Year
1	500.0	2011	4.40	2016
2	700.0	2011	4.70	2018
3	1,000.0	2011	5.15	2021
4	800.0	2011	5.65	2026
	3,000.0			

The Sukuk Musyarakah is redeemable as follows:

	Group/Company	
	2011 RM'000	2010 RM'000
Redeemable After 1 Year	3,000,000	-

Revolving credits

The unsecured revolving credits of the Group and the Company bear interest rates of 4.43% to 5.00% (2010: 3.50% to 4.82%) per annum.

Syndicated borrowings

On 16 July 2009, the Company had executed an agreement to raise a total of RM1,900 million syndicated borrowings via Syndicated Murabahah Tawarruq Facility of RM1,600 million and Syndicated Term Loan Facility of RM300 million to partly finance the development and construction of a hydroelectric power plant in Murum which is undertaken by a subsidiary. The syndicated borrowings were jointly financed by a group of licensed Islamic Financiers and a licensed bank.

The facilities were secured by charge over the Finance Service Reserve Accounts (FSRA) each held under the Syndicated Facilities and both operated solely by the respective Security Agent. The Company should ensure that funds were deposited into the FSRAs until balance held in the FSRA was at least equivalent to the Minimum Required Balance which represented one profit/interest payment under the Syndicated Facilities.

During the financial year, the Company had drawdown additional RM77.68 million and subsequently redeemed the entire syndicated borrowings amounting to RM1,066.8 million via the proceeds from the issuance of Sukuk Musyarakah.

24. LOANS AND BORROWINGS (CONT'D)

Syndicated borrowings (cont'd)

The details of the syndicated borrowings as at 2010 were as follows:

	Group/Company 2010 RM'000
Syndicated Murabahah Tawarruq	832,976
Syndicated term loan	156,183
Redeemable after 1 year	989,159

The syndicated borrowings outstanding as at 2010 bore profit payments/interest rates of 3.85% to 4.95% per annum.

Term Loan - secured

The Musharakah Mutanaqisah Term Financing - I is redeemable as follows:

	Group	
	2011 RM'000	2010 RM'000
Redeemable within 1 year	**30,953**	-
Redeemable after 1 year	**67,947**	50,000
	98,900	50,000

This represents the Musharakah Mutanaqisah Term Financing - I of up to an aggregate nominal amount of RM232.0 million ("the MMTF-i") issued under the Shariah principle of Musharakah by a subsidiary to partly finance the construction of the Proposed Headquarters Building. A nominal amount of RM48.9 million has been released during the year.

This borrowing is secured by Musharakah Mutanaqisah Co-ownership Agreement, specific negative pledge over all assets related to Proposed Headquarters Building and a corporate guarantee of RM232.0 million from the Company.

This borrowing bears profit payment rate at 5.30% (2010: 5.19%) per annum and is for a period of 8 years plus 18 months grace period from 29 July 2010. The borrowing is repayable in 96 monthly equal instalments, with first instalment due on January 2012.

24. LOANS AND BORROWINGS (CONT'D)

Obligation under finance lease

The obligation under finance lease is secured by a charge over the leased asset (Note 13). The average discount rate implicit in the leases is 5.03% per annum.

The remaining maturities of the obligation under finance lease as at 31 December 2011 are as follows:

	Group	
	2011 RM'000	2010 RM'000
Within one year	13	-
After one year	114	-
	127	-

25. DEFERRED INCOME

Deferred income represents government grants and capital contributions by consumers towards the cost of capital projects and is analysed as follows:

	Group	
	2011 RM'000	2010 RM'000
At 1 January	1,589,197	1,383,433
Received during the year	174,885	315,227
Release to the income statement (Note 6)		
- Amortisation of grant and capital contribution	(111,922)	(109,463)
- Customers' contribution for connection charges	(15,518)	-
	(127,440)	(109,463)
At 31 December	1,636,642	1,589,197

Capital contributions and grants received from consumers and the Government during the year amounted to RM174,884,695 (2010: RM315,227,149) and an amount of RM127,439,518 (2010: RM109,462,849) was transferred to the income statement based on accounting policy as stated in Note 2.19.

26. EMPLOYEE BENEFITS

(a) Retirement benefit obligations

The Group operates an unfunded post-retirement medical benefit plan ("the Plan") for its eligible employees and their eligible family members upon attainment of the retirement age of 56 by the eligible employees.

Movements in the net liability in the current year were as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At 1 January	**119,354**	101,669	**820**	678
Recognised in income statement	**21,258**	21,244	**146**	144
Benefits paid	**(3,867)**	(3,559)	**(3)**	(2)
At 31 December	**136,745**	119,354	**963**	820

The amounts recognised in the balance sheet are determined as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Present value of unfunded defined benefit obligations	**157,765**	144,767	**993**	853
Unrecognised past service costs	**(21,020)**	(25,413)	**(30)**	(33)
Net liability	**136,745**	119,354	**963**	820

26. EMPLOYEE BENEFITS

The amounts recognised in the income statement are as follows:

(a) Retirement benefit obligations (cont'd)

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Current service cost	7,455	8,912	88	97
Interest cost	9,410	7,939	55	44
Past service costs	4,393	4,393	3	3
Total, included in employee benefits expense (Note 9)	21,258	21,244	146	144

Principal actuarial assumptions used:

	Group		Company	
	2011 %	2010 %	2011 %	2010 %
Discount rate	6.5	6.5	6.5	6.5
Medical cost inflation rate	5.0	7.0	5.0	7.0

The average life expectancy of an individual retiring at age 56 is 20 years.

(b) Employee Share Options Scheme

The SEB Employee Share Options Scheme (ESOS) was governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 19 December 2007. The ESOS was implemented on 21 December 2007 and was initially in force for a period of 10 years from the date of implementation.

The ESOS was dissolved on 22 March 2010 following the de-listing of the entire issue and paid-up share capital of the Company in January 2010.

26. EMPLOYEE BENEFITS

(b) Employee Share Options Scheme (cont'd)

Movement of share options during the last financial year

The following table illustrated the number and weighted average exercise price (WAEP) of, and movements in, share during the last financial year:

	2010 '000
2007 option (WAEP @ RM2.15)	
Outstanding as at 1 January	620
- Exercised	(302)
- Forfeited	(318)
Outstanding as at 31 December	-

As disclosed in Note 28, options exercised during the last financial year resulted in the issuance of 301,900 ordinary shares at an exercise price of RM2.15. The related weighted average share price at the date of exercise was RM2.65.

Fair value of share options granted

The fair value of share options granted in 2007 was determined using the Binomial model, taking into account the terms and conditions upon which the options were granted. The fair value of share options measured at grant date and the assumptions were as follows:

Fair value of share options at the grant date (RM)	0.83
Share price at grant date (RM)	2.39
Exercise price (RM)	2.15
Expected volatility (%)	23.13
Option life (years)	10.00
Risk free interest rate (%)	3.88
Expected dividend yield (%)	1.71

Consequential to the corporate exercise undertaken by SEB as mentioned above, the fair value and the assumptions as stated above had been revised accordingly based on an intrinsic value of RM0.50 per option.

27. DERIVATIVE ASSETS/(LIABILITIES)

	Contract/ Notional Amount	2011 Fair value	
		Assets	Liabilities
	RM'000	RM'000	RM'000
Group/Company			
Cash flow hedges			
- Forward currency contracts	682,672	5,398	(6,849)
Analysed as:			
Current		5,398	(1,967)
Non-current		-	(4,882)
		5,398	(6,849)

Foreign currency risk

At 31 December 2011, the Group held forward currency contracts designated as hedges of expected monthly contract payments in Chinese Yuan (CNY) for Murum HEP project up to September 2013. As part of risk management strategy, the purpose of these forward currency contracts were to mitigate the upside risk arising from adverse CNY foreign exchange movements. The outstanding forward currency contracts at the balance sheet date have a notional value that hedges 100% of the contract payments expected in the following 21 months. The fair value of the hedging instruments at the balance sheet date is a loss of RM1.45 million and is deferred in a hegde reserve.

During the financial year, a loss associated with the settlement of forward currency contracts amounting to RM765,372 was included in the carrying amount of capital work-in-progress as disclosed in Note 13.

28. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares '000	Par value RM	Amount: Share capital RM'000	Amount: Share premium RM'000	Amount: Total share capital and share premium RM'000
Group and Company					
Issued and fully paid					
At 1 January 2010	1,610,267	1.00	1,610,267	149,146	1,759,413
Exercise of employee share options (Note 26(b))	302	1.00	302	347	649
Transferred from share option reserve	-	-	-	151	151
At 31 December 2010 and 31 December 2011	**1,610,569**	**1.00**	**1,610,569**	**149,644**	**1,760,213**

	Number of ordinary shares of RM1 each		Amount	
	2011 '000	2010 '000	2011 RM'000	2010 RM'000
Authorised share capital				
At 1 January/31 December:				
Ordinary shares of RM1 each	**2,900,000**	2,900,000	**2,900,000**	2,900,000
5-year 5% RCPS of RM0.10 each	**1,000,000**	1,000,000	**100,000**	100,000
	3,900,000	3,900,000	**3,000,000**	3,000,000

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company's residual assets.

During the last financial year, the Company increased its issued and paid-up ordinary share capital from RM1,610,267,079 to RM1,610,568,979 by way of the issuance of 301,900 ordinary shares of RM1 each for cash, pursuant to the Company's Employees' Share Options Scheme at an exercise price of RM2.15 per ordinary share.

The new ordinary shares issued during the last financial year ranked pari passu in all respects with the existing ordinary shares of the Company.

29. RESERVES

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Non-distributable:				
Capital reserves (a)	85,355	85,355	-	-
Capital redemption reserve (b)	73,128	73,128	73,128	73,128
Hedging reserve (c)	(1,451)	-	(1,451)	-
	157,032	158,483	71,677	73,128
Distributable:				
General reserves (a)	94,147	94,147	5,000	5,000
Retained earnings (d)	1,747,109	1,478,182	260,797	255,405
	1,841,256	1,572,329	265,797	260,405
	1,998,288	1,730,812	337,474	333,533

Movements in reserves are shown in the Statements of Changes in Equity.

The nature and purpose of each category of the reserves are as follows:

(a) Capital reserves and general reserves

These reserves include reserves created in accordance with Section 21(2)(a) of the SESCO Ordinance, 1962 which had since been repealed in year 2005.

(b) Capital redemption reserve

This reserve represents cancellation of nominal value of ordinary shares arising from purchase of own shares and cancellation of nominal value of Redeemable Convertible Preference Shares (RCPS) redeemed in prior years.

(c) Hedging reserve

This reserve represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred.

29. RESERVES (CONT'D)

The nature and purpose of each category of the reserves are as follows: (cont'd)

(d) Retained earnings

Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

The Company did not elect for the irrevocable option to disregard the 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the 108 balance as at 31 December 2011 and 2010 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007.

As at 31 December 2011, the Company has sufficient credit in the 108 balance to pay franked dividends amounting to RM74 million out of its retained earnings (2010: RM140 million out of its retained earnings). If the balance of the retained earnings of RM187 million (2010: RM115 million) were to be distributed as dividends, the Company may distribute such dividends under the single tier system. In addition, the Company has tax exempt profits available for distribution of approximately at RM102 million (2010: RM102 million) which is available for distribution as tax exempt dividends, subject to agreement by the Inland Revenue Board.

30. FUTURE CAPITAL COMMITMENTS

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Capital expenditure:				
Approved and contracted for	2,853,649	3,967,621	-	-
Approved and not contracted for	4,367,504	1,896,681	-	-
	7,221,153	5,864,302	-	-

31. CONTINGENCIES

The Company has given a corporate guarantee of RM232.0 million to Maybank Islamic Berhad in favour of its wholly-owned subsidiary, Naungan Pertiwi Sdn Bhd (NPSB) for the Musharakah Mutanaqisah Term Financing - I facility of up to RM232.0 million granted by the bank to NPSB during the last financial year as mentioned in Note 24. The Directors of the Company are of the view that the likelihood of default in payments by NPSB is not probable and accordingly, no provision for liability has been made in these financial statements.

32. RELATED PARTY DISCLOSURES

(a) During the financial year, the Group and the Company entered into the following significant related party transactions:

	Company	
	2011 RM'000	2010 RM'000
(i) Transactions with subsidiaries:		
Income		
Interest charged to Syarikat SESCO Berhad	-	6,411

	Group	
	2011 RM'000	2010 RM'000
(ii) Transactions with associates:		
Income		
Sales		
Universal Cable (Sarawak) Sdn Bhd	10	17
Expenditure		
Purchases		
Sarawak Coal Resources Sdn Bhd	194,345	161,208
Gobel Industry Sdn Bhd	1,625	1,579
Universal Cable (Sarawak) Sdn Bhd	12,748	21,623
Rental paid to Gobel Industry Sdn Bhd	26	26
(iii) Transactions with a company in which a subsidiary has significant influence:		
Income		
Interest charged to Genesis Force Sdn Bhd	90	90
Expenditure		
Purchases of coal from Genesis Force Sdn Bhd	277	3,982

32. RELATED PARTY DISCLOSURES (CONT'D)

(a) During the financial year, the Group and the Company entered into the following significant related party transactions: (cont'd)

	Group	
	2011 RM'000	2010 RM'000
(iv) Transaction with a company in which a Director has influence:		
Expenditure		
Rental of premises charged by Custodev Dua Sdn Bhd	375	231

The Directors are of the opinion that the above transactions were entered into in the normal course of business and were transacted on normal commercial terms.

(b) Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Short-term employee benefits	13,316	8,889	10,271	5,741
Post-employment benefits				
- defined contribution plan	673	513	275	102
- defined benefit plan	71	77	27	27
Other benefits	1,118	858	1,081	666
	15,178	10,337	11,654	6,536
Included in the total key management personnel are:				
Directors' remuneration (Note 10)	938	1,306	358	383

32. RELATED PARTY DISCLOSURES (CONT'D)

(b) Compensation of key management personnel (cont'd)

The Directors of the Group and other members of key management have been granted the following number of options under the Employee Share Options Scheme (ESOS):

	Group		Company	
	2011 '000	2010 '000	2011 '000	2010 '000
At 1 January	-	280	-	-
Exercised	-	(280)	-	-
At 31 December	-	-	-	-

The share options were granted on the same terms and conditions as those offered to other employees of the Group.

33. DIVIDENDS

	Dividends in respect of year		Dividends recognised in year	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Final dividend for 2009: 5.5 sen less 25% taxation on 1,610,568,979 ordinary shares	-	-	-	66,436
Final dividend for 2010: 5.5 sen less 25% taxation on 1,610,568,979 ordinary shares	-	66,436	66,436	-
Proposed for approval at forthcoming AGM				
Final dividend for 2011: 5.5 sen less 25% taxation on 1,610,568,979 ordinary shares	66,436	-	-	-
	66,436	66,436	66,436	66,436

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2011, of 5.5 sen less 25% taxation on 1,610,568,979 ordinary shares, amounting to a dividend payable of RM66,435,970 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2012.

34. CONTROLLING SHAREHOLDER

The Directors regard State Financial Secretary, Sarawak, a statutory corporation established under the State Financial Secretary (Incorporation) Ordinance of Sarawak, as the controlling shareholder of the Company.

35. SEGMENTAL INFORMATION

The Group principally involves in the generation, transmission, distribution and sale of electricity within the same geographical region. Accordingly, no segmental information is presented.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Determination of fair value

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

(i) Cash and bank balances, other receivables and other payables

The carrying amounts of these balances approximate fair value due to their short term nature.

(ii) Trade receivables and trade payables

The carrying amounts of trade receivables and trade payables approximate fair value because they are subject to normal trade credit terms.

(iii) Amounts due from/to related companies

The carrying values of amounts due from/to related companies in current assets and current liabilities approximate fair value due to their short term nature. No disclosure of fair value is made for non-current amounts due from/to related companies as it is not practicable to determine their fair value with sufficient reliability since these balances have no fixed terms of repayment.

(iv) Loans and borrowings

The carrying values of loans and borrowings approximate their fair values as they bear interest rates which approximate the current incremental borrowing rates for similar types of lending and borrowing arrangements.

(v) Derivative financial instruments

Forward currency contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing, using present value calculations. The model incorporates various inputs including the credit quality of counterparties and foreign exchange spot and forward rates.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

(b) Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments carried at fair values by level of fair value hierarchy:

Group and Company 2011	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Derivative assets	-	5,398	-	5,398
Financial liabilities				
Derivative liabilities	-	1,967	-	1,967

Comparative figures have not been presented for 31 December 2010 by virtue of paragraph 44G of FRS 7.

There have been no transfers between Level 1, 2 and 3 during the financial year.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Company are exposed to financial risks arising from their operations and the use of financial instruments. The Group's and the Company's principal financial instruments comprise loans and borrowings, cash and short-term deposits. The main purpose of these financial instruments is to manage the Group's funding and liquidity requirements. The Group and the Company have other financial assets and liabilities such as trade receivables and trade payables, which arise directly from their operations.

Financial risk management policies are periodically reviewed and approved by the Board and executed by risk management committees. The Group Risk Management Committee provides independent oversight to the effectiveness of the risk management process.

It is, and has been throughout the current and previous financial year, the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost efficient. The Group and the Company has applied hedge accounting and hold or issue derivative financial instruments for capital expenditure purpose during the current financial year.

The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objective, policies and processes for the management of these risks.

(a) Credit risk

Credit risks, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limit and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via the Group's management reporting procedures.

At the reporting date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position. As at 31 December 2011, approximately 30% (2010: 10%) of the Group's trade receivables were due from 5 major customers. In addition to customers' deposits, the Group holds guarantees from creditworthy financial institutions to secure the obligations of these customers.

Information regarding financial assets that are either past due or impaired and aging analysis is disclosed in Note 19. Management believes that no additional credit risk beyond that provided for is inherent in the Group's trade and other receivables.

(b) Liquidity risk

The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities at a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from both capital markets and financial institutions and balances its portfolio with some short-term funding so as to achieve overall cost effectiveness.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(b) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities

The following are the expected contractual undiscounted cash flows of financial liabilities, including interest payments:

Group	Carrying Amount RM'000	Total contracted cash flow RM'000	Within 1 year RM'000	Within 1-5 years RM'000	More than 5 years RM'000
2011					
Non-derivative financial liabilities					
Trade and other payables	680,704	680,704	680,704	-	-
Loans and borrowings	3,954,027	5,778,958	392,734	1,620,003	3,766,221
Derivative liabilities					
Forward currency contracts	6,849	6,849	1,967	4,882	-
	4,641,580	6,466,511	1,075,405	1,624,885	3,766,221
2010					
Non-derivative financial liabilities					
Trade and other payables	614,769	614,769	614,769	-	-
Loans and borrowings	2,509,159	2,955,703	725,936	1,564,064	665,703
	3,123,928	3,570,472	1,340,705	1,564,064	665,703

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(b) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities

The following are the expected contractual undiscounted cash flows of financial liabilities, including interest payments: (cont'd)

Group	Carrying Amount RM'000	Total contracted cash flow RM'000	Within 1 year RM'000	Within 1-5 years RM'000	More than 5 years RM'000
2011					
Non-derivative financial liabilities					
Trade and other payables	104,612	104,612	104,612	-	-
Loans and borrowings	3,035,000	4,493,928	187,432	1,095,785	3,210,711
Derivative liabilities					
Forward currency contracts	6,849	6,849	1,967	4,882	-
	3,146,461	4,605,389	294,011	1,100,667	3,210,711
2010					
Non-derivative financial liabilities					
Trade and other payables	16,719	16,719	16,719	-	-
Loans and borrowings	1,519,159	1,536,491	535,392	1,001,099	-
	1,535,878	1,553,210	552,111	1,001,099	-

(c) Interest rate risk

The Group's primary interest rate risk arises primarily from interest-bearing assets and debts. The investment in financial assets are not held for speculative purposes but have been mostly placed in fixed deposits or occasionally, in loan stocks which yield better returns than cash at bank.

The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group actively reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

The information on maturity dates and effective interest rates of financial assets and liabilities are disclosed in their respective notes.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(d) Foreign currency risk

The Group is exposed to transactional currency risk primarily through purchases that are denominated in currency other than Malaysian Ringgit. Foreign exchange exposures in transactional currencies other than the entity's functional currency are kept to an acceptable level.

The Group uses forward currency contracts to hedge foreign currency risk attributable to contract payments. The maturities of the forward currency contracts are intended to match the expected monthly contract payments.

As at 31 December 2011, the Group has outstanding forward currency contracts with notional amounts of approximately RM682.67 million (2010: RM Nil). The net fair value of forward currency contractsfor the Group as at 31 December 2011 was valued at a loss of RM1.45 million comprising assets of RM5.40 million and liabilities of RM6.85 million. These amounts are recognised as derivative assets and liabilities in statements of financial position.

38. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity. The Group includes within net debt, loans and borrowings less cash and bank balances. Total equity comprises equity attributable to the owners of the Company and noncontrolling interests.

		Group		Company	
	Note	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Loans and borrowings	24	**3,954,027**	2,509,159	**3,035,000**	1,519,159
Less: Cash and bank balances	22	**(591,660)**	(465,298)	**(248,247)**	(41,234)
Net debt		**3,362,367**	2,043,861	**2,786,753**	1,477,925
Total equity		**3,768,393**	3,504,288	**2,097,687**	2,093,746
Gearing ratio (times)		**0.89**	0.58	**1.33**	0.71

39. SIGNIFICANT EVENTS

(a) Sukuk Musyarakah Programme of up to RM15 billion

In May 2011, the Company had established the above mentioned programme for a tenor of up to 25 years from the date of first issuance. RAM Rating Services Berhad has assigned a long term rating of AA1 to the above mentioned programme. On 23 June 2011, the Company has issued its first issuance amounting to a total nominal value of RM3 billion.

(b) Signing of Term Sheets with key Customers

On 12 April 2011, the Company had signed term sheets with key customers, namely Press Metal Berhad, OM Holdings, Asia Mineral Ltd and Tokuyama Corp. Together these companies plan to invest around RM9.5 billion to build plants at the Samalaju Industrial Park. These companies will require a combined total of around 1,200MW to power their plants.

The proposed plants of the four companies, which are the first wave of investors in Samalaju, are expected to start commercial production in 2012 and 2013.

(c) Signing of Power Purchase Agreement with Sarawak Hidro Sdn Bhd

On 1 June 2011, Syarikat SESCO Berhad, a wholly-owned subsidiary of the Company has signed the Power Purchase Agreement (PPA) with Sarawak Hidro Sdn Bhd, the owner and developer of the 2,400MW Bakun Dam for the purchase of power arrangement relating to the 2,400MW of electricity to be generated by the Bakun Dam. The Bakun Dam, situated at the Balui River in Sarawak, comprised eight turbines of 300MW each of which the first turbine has started its commercial operation in August 2011.

(d) Disposal of a subsidiary, Sarawak Energy Engineering Sdn Bhd (SEE)

Negotiations have been entered with SEE's other corporate shareholder, CP Power Sdn Bhd (CP Power) beginning of the current financial year to dispose the Group's entire 70% equity interest in SEE. Following the negotiations, the Group has ceased control over the power to govern the financial and operating policies of SEE. Accordingly, the Group has not consolidated the results of SEE for the current financial year under review. The Group concluded the disposal of its entire equity interest in SEE to CP Power for a total cash consideration of RM12 million on 20 January 2012. SEE was deemed to be disposed in the current financial year.

40. SUBSEQUENT EVENTS

Second Issuance of Sukuk Musyarakah Programme

On 19 January 2012, the Company has issued its second issuance amounting to a total nominal value of RM2.5 billion from the Sukuk Musyarakah Programme of up to RM15 billion.

41. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation:

	As previously stated RM'000	Reclassification RM'000	As restated RM'000
Group			
Revenue	1,553,734	(2,454)	1,551,280
Interest income	8,552	2,454	11,006
Company			
Revenue	125,009	(8,865)	116,144
Interest income	2	8,865	8,867

42. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 December 2011 were authorised for issued in accordance with a resolution of the Directors on 29 May 2012.

Menara Sarawak Energy,
No. 1, The Isthmus,
93050 Kuching,
Sarawak, Malaysia.
General Line: +6 082-388 388
Fax: +6 082-341 063
Email: corpcomm@sarawakenergy.com.my

Follow us on @1SarawakEnergy