sarawak energy

POWER TO GROW

ANNUAL REPORT 2012

THEME AND COVER RATIONALE

"Power to Grow" embodies our commitment to making an enduring and sustainable contribution to the economic advancement of both Sarawak as a whole and its people.

Sarawak Energy believes that sustainability is integral to all levels of development and we believe in leading by example. Our new headquarters, Menara Sarawak Energy at The Isthmus in Kuching is designed as an energy efficient building, covering aspects from orientation to the maximum use of natural light.

Occupying nine storeys and able to accommodate 1,500 people, Menara Sarawak Energy draws on open space and natural sunlight and makes extensive use of split windows, passive solar shading, double glazing, a photovoltaic system and a lighting and energy management system to reduce power consumption. The building also incorporates rain water harvesting and has dedicated parking bays for green vehicles. We expect our new headquarters to save 13,000 MWh of energy each year.

The spacious design layout, together with a state-of-the-art indoor air quality monitoring system, provides our employees with an environment conducive to productivity.

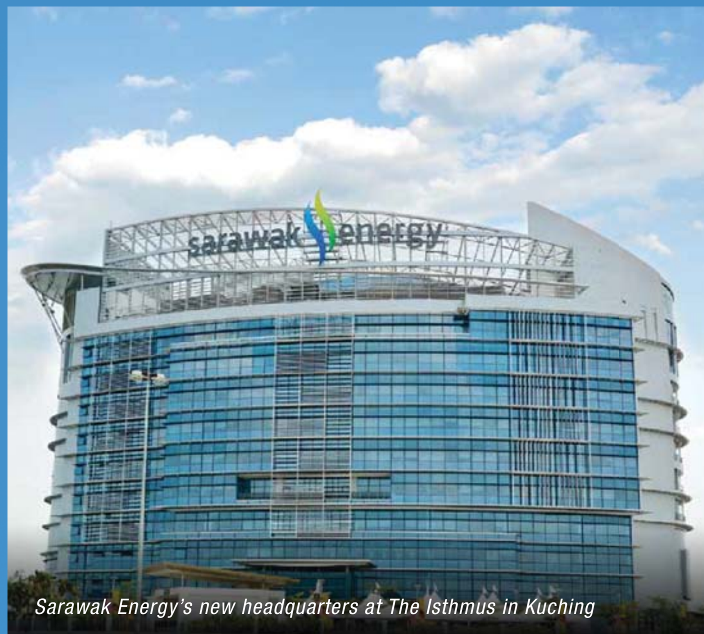
We look forward to Menara Sarawak Energy receiving the Green Building Index rating next year and we hope that this will encourage the construction of more green buildings in the State.

POWER
TO GROW

Sarawak Energy's new headquarters -
Menara Sarawak Energy, The Isthmus, Kuching

KEY HIGHLIGHTS 2012

Sarawak Energy's new logo



Sarawak Energy's new headquarters at The Isthmus in Kuching

POWER TO GROW

A new brand to reflect a modern and agile corporation

MENARA SARAWAK ENERGY

A greener place to work

ADVANCING SCORE

- PPA with three SCORE investors brings total committed demand to above 1,800 MW
- Hydropower generation exceeds thermal for the first time (53%: 47%)

SUCCESSFULLY REDUCING ELECTRICITY THEFT

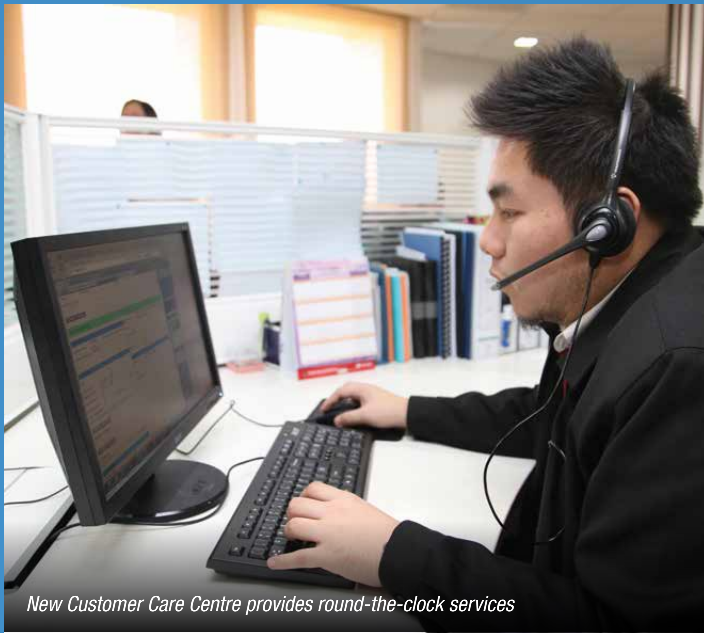
Champion in Chief Minister's Key Focus Activity award for electricity theft initiative

TOWARDS BECOMING A REGIONAL POWERHOUSE

Power Exchange Agreement with Indonesia's PLN to export electricity to West Kalimantan

IMPROVING LIVES

- Literacy Programme aims to improve literacy rate in Murum communities
- Assisting 839 Murum folk with birth certificates and identity cards


New Customer Care Centre provides round-the-clock services

24/7 CUSTOMER FOCUS

Customer Care Centre opens in Kuching

ELECTRIFYING SARAWAK

- 7,936 more rural homes provided with 24-hour electricity
- Close to 550,000 customers across the State

STAFF STRENGTH

3,804 employees

FINANCIAL HIGHLIGHTS

REVENUE
(RM' MILLION)
1,873

PROFIT NET OF TAX
(RM' MILLION)
244

TOTAL ASSETS
(RM' MILLION)
13,415

NET EARNINGS PER SHARE
(SEN)
15.2

Our New Brand Identity

sarawak energy

The blue wave represents the mighty rivers of Sarawak – the source of hydropower.

The green wave symbolises the forest and the natural environment, drawing energy from the sun. Together the waves represent clean and renewable energy, sustaining life and growth for Sarawak and its people.

The use of lower case letters in our name signals our openness and humility towards our customers and our community.

Power to Grow

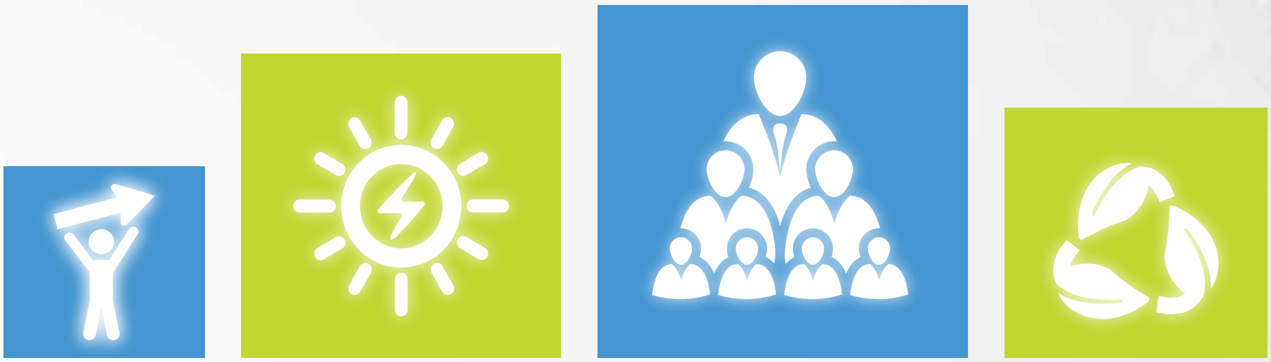
Our long and distinguished history has enabled us to be the progressive force we are today. Powering Sarawak is something we do. Yet we are now moving beyond just being a provider of cleaner and more efficient energy.

As the new Sarawak Energy, we are committed to the growth of the State and of its people. So it is with a new-found resolve that we work towards a brighter future for everyone. Because we believe that when our community grows, we do too.

CONTENTS

ABOUT SARAWAK ENERGY

Sarawak Energy seeks to become a leader and regional hub for the provision of clean, affordable and renewable energy. We generate energy to power the State into future growth in a sustainable manner, catalysing and opening doors to meet people's needs and aspirations and improving and modernising everyday life and industry.



SARAWAK ENERGY AS THE CATALYST OF SCORE

We are transforming from being a local supplier of traditional power to a regional supplier of reliable, clean, competitively priced and renewable energy to support the agenda of the Sarawak Corridor of Renewable Energy (SCORE), a powerful strategy of the government to lift development to the next level. We are rebuilding the energy infrastructure in the State from a mix generated predominantly by fossil fuel to one derived mainly from Sarawak's rich indigenous coal resources and hydro potential. By the end of the decade, our generation mix will comprise 60-70% hydropower.

As we embark on new energy generation projects, we will attract many energy-intensive industries as well as stimulate and facilitate a host of commercial activities even in areas beyond the present mainstream of development. Many more jobs will be created, many new skills will be developed and higher income and improvements in health, education and lifestyle will be experienced by many more people.

In performing our core businesses, we are deeply conscious of our responsibilities vis-à-vis society, the environment and the economy. Our human resources are our most valuable assets - their ideas, their passion, their industry and their spirit often give us the ability to turn threats into opportunities.

OUR COMMITMENT TO TRANSPARENCY

Although Sarawak Energy 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 2012 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.

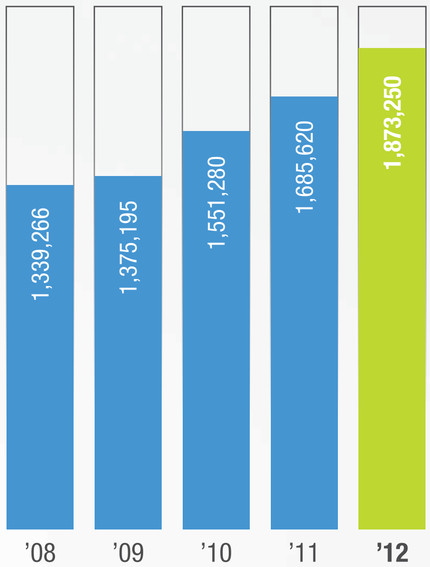
COURAGE
We respect and support each other to do what is right, and in the best interests of our company and the community, even when it is not easy to do so.

FIVE-YEAR GROUP FINANCIAL HIGHLIGHTS

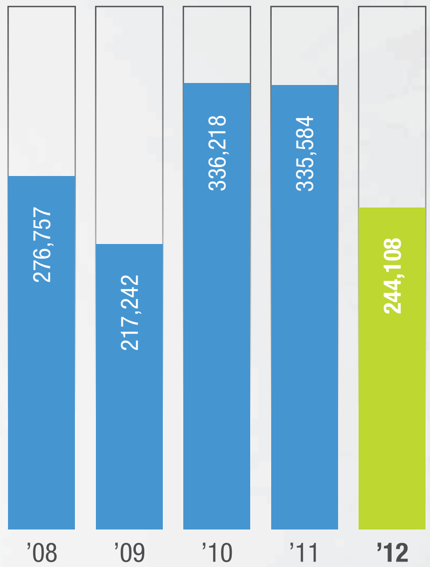
FINANCIAL YEAR ENDED 31 DECEMBER	2012	2011	2010	2009	2008
PERFORMANCE (RM'000)					
Revenue	**1,873,250**	1,685,620	1,551,280	1,375,195	1,339,266
Profit before tax	**320,007**	284,010	386,939	277,274	293,731
Profit net of tax	**244,108**	335,584	336,218	217,242	276,757
Net profit attributable to owners of the Company	**244,422**	335,363	341,309	216,145	275,647
Net dividends	**66,436**	66,436	66,436	66,436	63,009
KEY FINANCIAL POSITION DATA (RM'000)					
Property, plant and equipment	**10,269,333**	9,120,254	7,593,227	6,443,215	5,001,301
Cash and bank balances	**2,112,334**	591,660	465,298	642,577	766,392
Total assets	**13,414,830**	10,627,609	8,783,858	7,821,348	6,531,008
Loans and borrowings	**6,278,486**	3,954,027	2,509,159	1,938,327	1,185,749
Total liabilities	**9,473,940**	6,859,216	5,279,570	4,588,363	3,648,323
Share capital	**1,610,569**	1,610,569	1,610,569	1,610,267	1,527,427
Equity attributable to owners of the Company	**3,931,312**	3,758,501	3,491,025	3,214,631	2,865,428
SHARE INFORMATION					
Net asset per share attributable to owners of the Company (RM)	**2.44**	2.33	2.17	2.00	1.88
Net earnings per share (Sen)	**15.2**	20.8	21.2	14.1	18.1
Gross dividend per share (Sen)	**5.5**	5.5	5.5	5.5	5.5

FIVE-YEAR GROUP FINANCIAL HIGHLIGHTS

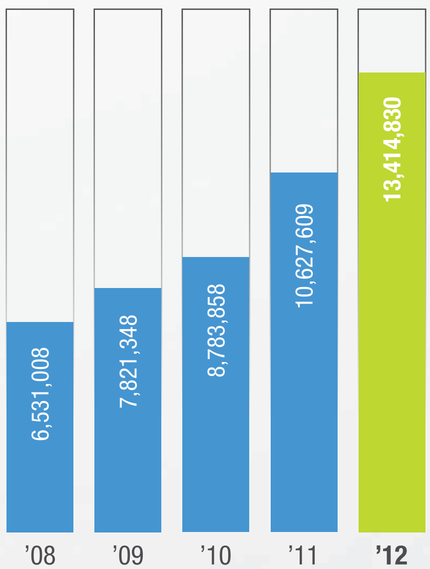
REVENUE
(RM'000)



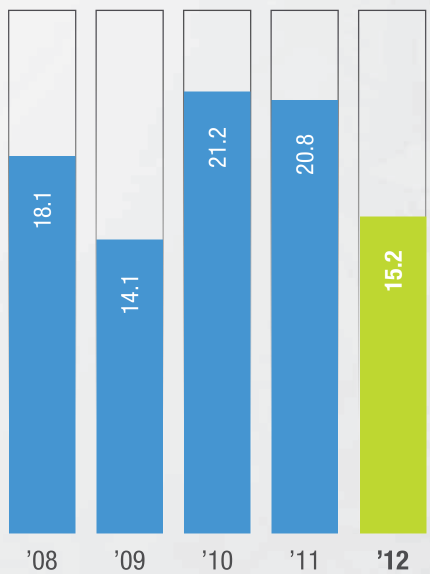
PROFIT NET OF TAX
(RM'000)



TOTAL ASSETS
(RM'000)



NET EARNINGS PER SHARE
(SEN)



CORPORATE INFORMATION

Menara Sarawak Energy, our new headquarters, makes extensive use of space and natural light, power monitoring systems and environmentally-friendly equipment to promote energy efficiency

DIRECTORS

YBhg Datuk Amar Abdul Hamed Sepawi
Chairman

YB Tan Sri 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

YBhg 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 Tan Sri Datuk Amar Haji Mohamad Morshidi Bin Haji Abdul Ghani

YBhg Dato' Haji Idris Bin Haji Buang

GOVERNANCE, NOMINATION AND REMUNERATION COMMITTEE

YB Tan Sri Datuk Amar Haji Mohamad Morshidi Bin Haji Abdul Ghani – *Chairman*

YBhg Tan Sri Dato Sri Mohd Hassan Bin Marican

YBhg Datuk Fong Joo Chung

YBhg Dato' Haji Idris Bin Haji Buang

COMPANY NUMBER

007199-D

COMPANY SECRETARY

Lim Li Na
(MAICSA 7053678)

REGISTERED OFFICE / HEAD OFFICE

9th Floor, Menara Sarawak Energy
No. 1, The Isthmus
93050 Kuching, Sarawak
Tel : +6 082-388 388
Fax : +6 082-341 063
Email : corpcomm@sarawakenergy.com.my

AUDITORS

Ernst & Young

PRINCIPAL FINANCIAL INSTITUTIONS

RHB Bank Berhad
AmInvestment Bank Berhad

BOARD OF DIRECTORS

Chairman

YBhg DATUK AMAR ABDUL HAMED SEPAWI

YBhg Datuk Amar Abdul Hamed Sepawi joined the Board of Sarawak Energy and was appointed Chairman on 27 June 2005. He is a Non-Independent Non-Executive Director and has attended all Board meetings held in 2012.

Datuk Amar 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 Amar 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.

BOARD OF DIRECTORS

Non-Independent Non-Executive Director

YB TAN SRI DATUK AMAR HAJI MOHAMAD MORSHIDI BIN HAJI ABDUL GHANI

YB Tan Sri Datuk Amar Haji Mohamad Morshidi Bin Haji Abdul Ghani joined the Board of Sarawak Energy on 26 May 2010. He is a Non-Independent Non-Executive Director and has attended seven out of the nine Board meetings held in 2012.

Tan Sri 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.

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

BOARD OF DIRECTORS

Independent Non-Executive Director

YBhg TAN SRI DATO SRI MOHD HASSAN BIN MARICAN

YBhg Tan Sri Dato Sri Mohd Hassan Bin Marican joined the Board of Sarawak Energy on 9 June 2011. He is an Independent Non-Executive Director and has attended six out of the nine Board Meetings held in 2012.

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.

BOARD OF DIRECTORS

Non-Independent Non-Executive Director

YBhg DATUK FONG JOO CHUNG

YBhg Datuk Fong Joo Chung joined the Board of Sarawak Energy on 31 January 1996. He is a Non-Independent Non-Executive Director and has attended all Board meetings held in 2012.

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.

BOARD OF DIRECTORS

Non-Independent Non-Executive Director

YBhg DATO' HAJI IDRIS BIN HAJI BUANG

YBhg Dato' Haji Idris Bin Haji Buang joined the Board of Sarawak Energy on 24 June 2000. He is a Non-Independent Non-Executive Director and has attended all Board meetings held in 2012.

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 YAB 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

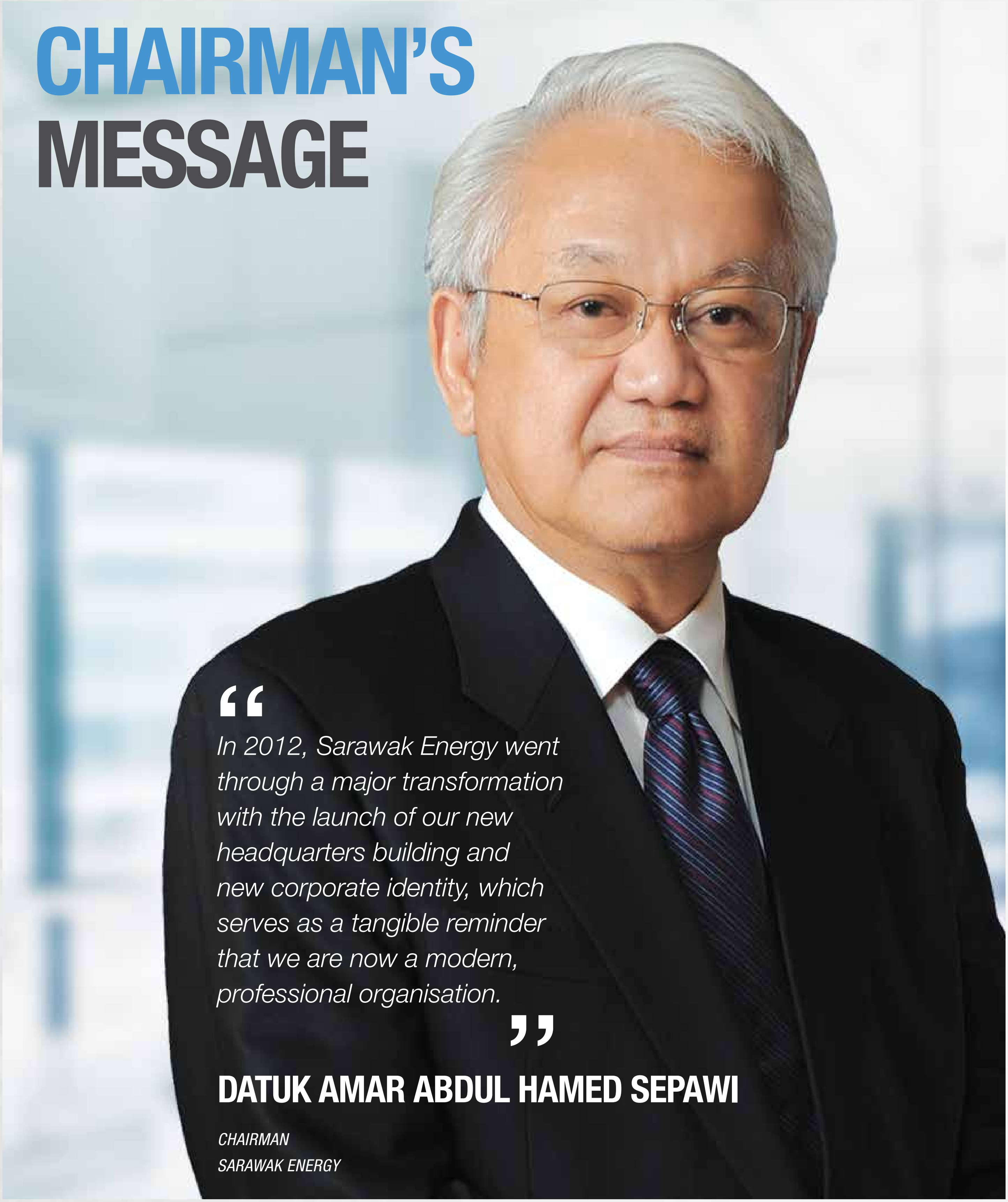
From left to right
LU YEW HUNG // Senior Vice President, Distribution • **AISAH BINTI EDEN** // Senior Vice President, Retail
VICTOR WONG // Senior Vice President, Transmission • **JAMES UNG** // Senior Vice President, Thermal
STELL SINDAU // Senior Vice President, Hydro • **EINAR KILDE** // Head of Project Execution

EXECUTIVE MANAGEMENT COMMITTEE

From left to right
HAJI SULAIMAN BIN ABDUL HAMID // Head of Finance • **MILES SMITH //** Head of Planning and Strategy
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

From left to right
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
STEPHANIE GAE CHIN // General Manager, Legal • **LIM LI NA //** Company Secretary

CHAIRMAN'S MESSAGE



"In 2012, Sarawak Energy went through a major transformation with the launch of our new headquarters building and new corporate identity, which serves as a tangible reminder that we are now a modern, professional organisation."

DATUK AMAR ABDUL HAMED SEPAWI

CHAIRMAN
SARAWAK ENERGY

CHAIRMAN'S MESSAGE

On behalf of the Board of Directors, I am pleased to present Sarawak Energy's highlights and significant milestones of 2012. These include a new brand identity and new headquarters designed as an energy efficient building, and the progress of the Sarawak Corridor of Renewable Energy or SCORE, with generation projects on track and more bulk power and export customers signed up.

SCORE CUSTOMER AGREEMENTS

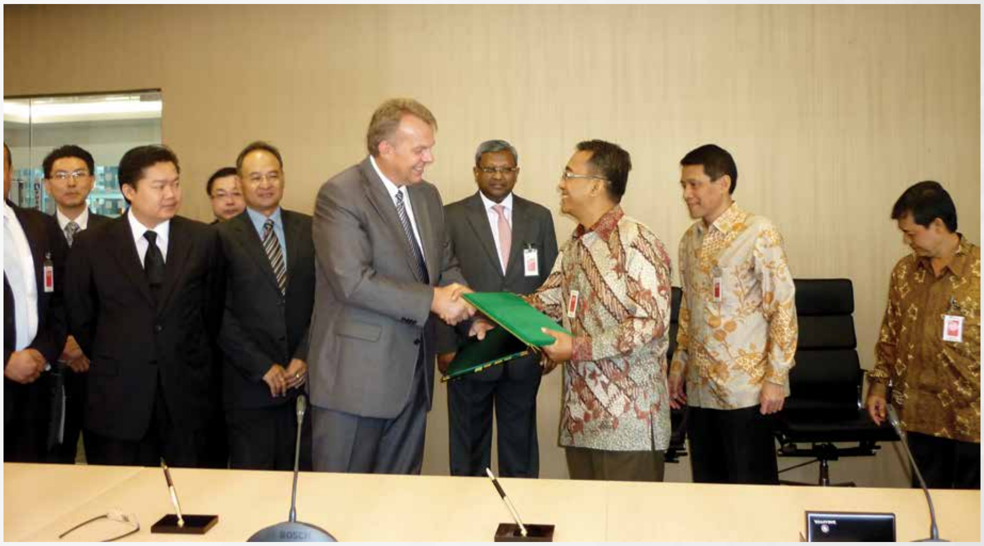
I am pleased to report that in September 2012, Sarawak Energy signed Power Purchase Agreements (PPA) with three SCORE investors: Tokuyama Malaysia Sdn Bhd; Asia Minerals Limited and OM Materials (Sarawak) Sdn Bhd. These SCORE customers are scheduled to commence operations from 2012 to 2015 and the PPAs will result in a significant increase in the total committed demand to slightly above 1,800 MW.

In addition to these three customers, we have signed term sheets with four more SCORE investors, namely: Sakura Ferroalloys Sdn Bhd, Cosmos Petroleum and Mining Sdn Bhd, Asia Advanced Materials Sdn Bhd and Iwatani-SIG Industrial Gases Sdn Bhd. We are also progressing advanced negotiations with more SCORE customers and expect to sign further agreements.

To meet the rise in demand for competitively priced energy, Sarawak Energy signed a PPA with Sarawak Hidro Sdn Bhd in 2011 to secure the entire output of the 2,400 MW Bakun Hydroelectric Project (HEP). This is ramping up this year at 1,200 MW.

Altogether, it is anticipated that around 130,000 permanent (direct and indirect) jobs will be created in Sarawak by these SCORE customers. This will create spin-off economic activities that will help stimulate the socio-economic growth in the State, benefiting the people of Sarawak at all levels.

EXPORT CUSTOMER NEGOTIATIONS



*The **Power Exchange Agreement Signing Ceremony for Power Export from Sarawak to West Kalimantan** at Menara Sarawak Energy on 5 September 2012. Sarawak Energy Chief Executive Officer Torstein Dale Sjøtveit exchanging documents with PLN President Director Nur Pamudji*

Our ambition to become a regional provider of clean and renewable energy is progressing. In September 2012, Sarawak Energy signed a Power Exchange Agreement (PEA) with PT PLN Persero (PLN) for the export of bulk electricity from Sarawak to West Kalimantan, following a term sheet signed in 2011. Under the PEA, Sarawak Energy 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.

CHAIRMAN'S MESSAGE

*At the **Launching Ceremony of Menara Sarawak Energy** on 17 September 2012 with Chief Minister of Sarawak YAB Pehin Sri Haji Abdul Taib Mahmud officiating witnessed by distinguished guests*

Sarawak Energy's new headquarters is designed as an energy efficient building

NEW BEGINNING

Sarawak Energy's transformation journey took a major leap forward with the launch of our new headquarters at The Isthmus and a new corporate identity, to serve as a tangible reminder that we are now a modern, professional organisation.

The new headquarters is designed as an energy efficient building, making use of double glazing, careful shading and energy efficient compressors to reduce energy consumption. The most striking feature is the abundance of natural light and open space making it a pleasure to be in.

Sarawak Energy's new logo represents the Company's drive to power growth in Sarawak through clean and green energy. The two parallel 's' symbolise Sarawak's rivers as the source of hydropower, while the blue, green and yellow reference water, the forest and the natural environment as well as solar energy.

SUSTAINABILITY

In pursuing sustainability, Sarawak Energy is working with like-minded organisations on projects that aim to deliver economic and social development, conservation of natural resources, along with the empowerment of communities, especially in the areas in which we operate.

We are adopting modern technologies related to power generation, which require much less resources for plant operations, helping conserve natural resources and contributing to a greener and healthier environment.

As part of our efforts to reduce the emission of greenhouse gases into the environment, we are adopting state-of-the-art super critical technology for our hydroelectric and thermal power plants, minimising their environmental impacts.

BOARD MATTERS

There have been no changes to the composition of the Board of Directors in 2012. I am privileged to work with this Board that have presented a diversity and balance of skills and points of view that have both supported and challenged Sarawak Energy's management team towards greater heights.

CORPORATE GOVERNANCE

We remain committed to maintaining the highest standards of corporate governance and will continue to work in a transparent and professional manner to create value for all our stakeholders. Their trust is of paramount importance to us and we are committed to preserving and protecting this trust.

CHAIRMAN'S MESSAGE

Sarawak Energy is committed to providing a reliable, 24/7 supply of electricity to our customers and to the people of Sarawak

ACKNOWLEDGEMENT

Our company takes pride in benchmarking ourselves against global standards. The power sector is the flag-bearer of development in any economy, and the state of the power sector is often an accurate reflection of the state of the economy.

We thank the Government of Sarawak for their support and confidence in honouring Sarawak Energy with this important social and economic responsibility, as the sole provider of electricity in the State and as the catalyst for socio-economic growth and development in Sarawak.

On behalf of Sarawak Energy, I would like to congratulate our Director, YB Tan Sri Datuk Amar Haji Mohamad Morshidi Bin Haji Abdul Ghani for being bestowed the Darjah Panglima Setia Mahkota (PSM), which carries the title "Tan Sri", by the Yang di-Pertuan Agong on 2 June 2012 in conjunction with His Majesty's 84th Birthday.

The financial year was a great and transformative year for Sarawak Energy. All our achievements would not have been possible without the support of our stakeholders:

Our customers, communities and business partners, who depend on us 24/7 for a vital service, constructive partnership and responsible stewardship; and our dedicated management and employees, who seek to make a difference in a mission that matters, while advancing in a performance-driven culture guided by the right values.

Thank you once again and as ever, I seek your continued whole-hearted support on this exciting journey as we move forward to record even greater achievements.

DATUK AMAR ABDUL HAMED SEPAWI
CHAIRMAN

NEW BEGINNING

Menara Sarawak Energy

A greener place to work

Towards becoming a regional powerhouse

Power Exchange Agreement with Indonesia's PLN to export electricity to West Kalimantan

CEO'S MESSAGE

"We foresee strong growth in sales of electricity, largely driven by demand from SCORE customers, and rising profitability due to a larger proportion of hydropower in our future generation mix."

TORSTEIN DALE SJØTVEIT

CHIEF EXECUTIVE OFFICER
SARAWAK ENERGY

CEO'S MESSAGE

Sarawak Energy has big ambitions – we are growing the organisation from a traditional utility to become the primary catalyst for the Sarawak Corridor of Renewable Energy to support the State's development agenda; build up our energy infrastructure to supply secure, reliable and affordable energy for Sarawak and progress towards becoming the regional energy provider.

I am grateful for our employees' resilience in the face of our expanded role – many quickly coming on board and adopting this new and more urgent way of working. As you will read in this report, 2012 was still a year of great accomplishments despite the organisational changes.

A POWERFUL TRANSFORMATION

Sarawak Energy achieved a major milestone when we moved into our new headquarters Menara Sarawak Energy which proudly displays our new logo to reflect our new corporate identity.

YAB Pehin Sri Haji Abdul Taib Mahmud, the Chief Minister of Sarawak, officiated at the building's launching ceremony on 18 September 2012. It is the first building in East Malaysia to be designated as an energy efficient building and it is a point of pride for many of us.

I am also very proud of Sarawak Energy's new corporate logo which symbolises our rivers, forests and the sun as sources of sustainable energy to show who we are and what we aspire to be.

These are very exciting times for us. In reflecting on the year behind us and our readiness for the road ahead, I am proud of the way we have pulled together as a team through the many challenges of our journey towards becoming a modern and agile corporation.

We are also successfully attracting the next generation of talented, dedicated employees to help us improve, adapt and innovate for current and future challenges.

Menara Sarawak Energy, a symbol of the Company's transformation

> *"Sarawak Energy's new corporate logo which symbolises our rivers, forests and the sun as sources of sustainable energy to show who we are and what we aspire to be."*

FINANCIAL PERFORMANCE

Sarawak Energy recorded RM1.873 billion in revenue for the year, representing an increase of RM187.6 million or 11.1% compared to 2011. The higher revenue was mainly attributable to growth in sales to our SCORE and organic customers.

The higher demand from SCORE customers was largely due to the commencement of their commercial operations and eventual ramping up of productions coupled with an increase in revenue from organic customers by 7.1% compared to 2011.

CEO'S MESSAGE

The Group's profit before tax was RM320.0 million, an increase of RM36.0 million or 12.7% when compared to 2011. This was mainly due to lower generation costs arising from an increase of hydropower from 10% to 53% in the generation mix with the commencement of operation of the Bakun HEP.

The Group recorded a profit after tax of RM244.1 million for the year, a decrease of RM91.5 million compared to the previous year. The higher profit after tax in the preceding year was due to the recognition of deferred tax assets arising from the investment allowance granted to Mukah Coal-fired Power Plant.

Moving forward, we foresee strong growth in revenue largely driven by demand from SCORE customers and increase in profitability due to the higher proportion of hydropower in our generation mix.

RAISING THE FINANCE THROUGH SUKUK MUSYARAKAH PROGRAMME

On 19 January 2012, the Group raised RM2.5 billion from our second issuance of the RM15 billion Sukuk Musyarakah Programme to support the Group's capital expenditure requirements.

The issuance included two tranches carrying maturities of ten and 15 years with profit rates of 4.5% and 4.85% respectively. With this issuance, Sarawak Energy has raised a total of RM5.5 billion from the programme.

The Principal Adviser and Lead Arranger of this programme was RHB Investment Bank Berhad, with AmInvestment Bank Berhad, RHB Investment Bank Berhad and Kenanga Investment Bank Berhad as Joint Lead Managers.

On 6 August 2012, RAM Ratings reaffirmed the AA1 rating (with a stable outlook) for the Sukuk Musyarakah Programme.

SENIOR APPOINTMENT

We welcome Stephanie Gae Chin as the new General Manager and Head of Department for Legal.

ADDRESSING ELECTRICITY THEFT

At the start of 2012, Sarawak Energy's non-technical losses (NTL) stood at 5.71%, the equivalent of about RM103 million of annual revenue loss. Sarawak Energy intensified our drive to curb power theft by conducting more meter inspections throughout the State.

The operation teams consisted of 18 teams which included Sarawak Energy's meter inspection technicians and auxiliary police supported by the State's mobile police patrol unit for extra safety.

The operation, named ET Ops, targeted high risk areas and customers who consistently tamper with their power supply - ranging from domestic, commercial to industrial customers.

The results of the 2012 ET Ops initiative are shown in the table below:

Tariff	No. of Inspections	Tampering Cases Detected	Percentage (%) of Tampering Cases Detected
Domestic	19,498	2,464	12.64%
Commercial	15,965	1,918	12.01%
Industrial	1,798	62	3.45%

In 2012, Sarawak Energy also started introducing electricity meters with modems to enable remote monitoring of customers' power consumption and more quickly detect compromised meters and wirings.

At the end of 2012, Sarawak Energy's NTL fell to 3.60% or about RM74 million, a saving of approximately RM30 million for the year. In recognition of this achievement, Sarawak Energy was named Champion in the Chief Minister's Key Focus Activity (KFA) award initiative. In 2012, we also stepped up our efforts to recover arrears payments from customers who had tampered with their meters and by the end of 2012, Sarawak Energy had managed to collect a total of RM5,870,009.

Champion in the Chief Minister's Key Focus Activity award

INFORMATION GOVERNANCE AND INFORMATION SECURITY

A modern and agile corporation must have an Information and Operation Technology system that is up to mark. Sarawak Energy achieved major milestones in progressing information or cyber security when we successfully implemented and obtained certification from Standards and Industrial Research Institute of Malaysia (SIRIM) for the IT data centre at our headquarters in May 2012 and at our subsidiary Sejingkat Power Corporation's control rooms in August 2012.

This supports the Federal Government's directive in 2011 for Critical National Information Infrastructure agencies, of which the energy sector is one, to be Information Security Management System or ISO/IEC 27001 certified by February 2013.

Significant management emphasis was given to the governance of physical and electronic information and records. This culminated in the development of a corporate-wide information governance strategy and roadmap approved for implementation in August 2012.

BUMIPUTERA VENDOR DEVELOPMENT PROGRAMME

In 2011, Sarawak Energy conceptualised and introduced the Bumiputera Vendor Development Programme (BVDP) into 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.

Progress was made with the incorporation of the BVDP into the procurement policy - General Instructions on Purchasing and Contracts.

ACKNOWLEDGEMENTS

On behalf of the management team, I would like to congratulate our Chairman, YBhg Datuk Amar Abdul Hamed Sepawi for being conferred the Datuk Amar Bintang Kenyalang on 8 September 2012 and our Director, YB Tan Sri Datuk Amar Haji Mohamad Morshidi Bin Haji Abdul Ghani for being bestowed the Darjah Panglima Setia Mahkota (PSM) which carries the title "Tan Sri" on 2 June 2012.

CONCLUSION

I believe we are well-positioned to adapt to a changing energy landscape. Despite our challenges, we are on our way to realising the tremendous potential of Sarawak Energy. Our core mission is to provide affordable, reliable and increasingly clean energy - in safe and sustainable ways - to our customers 24 hours daily for every day of the week. And we are committed to do so.

A decade from now, we will look back on 2012 as a new beginning for Sarawak Energy, and the people who count on us. Thank you to all our stakeholders for your continued support in our journey of growth.

TORSTEIN DALE SJØTVEIT
CHIEF EXECUTIVE OFFICER

POWER TO GROW

Brand

Power to Grow

A new brand to reflect a modern and agile corporation

Advancing SCORE

Hydropower generation exceeds thermal for the first time (53%: 47%)

Successfully reducing electricity theft

Champion in Chief Minister's Key Focus Activity award for electricity theft initiative

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

Sarawak Energy carries out 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 2012, 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 hydropower 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.

Limbang Power Station awarded Gold by Malaysian Society for Occupational Safety and Health

Sarawak Energy's Thermal Department achieved an important milestone in 2012. The Limbang Power Station was awarded Gold (Class II) by the Malaysian Society for Occupational Safety and Health. This is a national level achievement.

At state level, the Tanjung Kidurong Power Station was the winner of the Chief Minister Environmental Award and Sejingkat Power Corporation received the Gold Award for Large Enterprise Industries.

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.

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 95.99 per cent and total energy generation of 416.84 GWh in 2012. Murum HEP in still under construction.

However, as all of Bakun HEP output is secured through a Power Purchase Agreement (PPA) signed with Sarawak Hidro in June 2011, Sarawak Energy's generation mix is now 53% hydropower.

Generation	Percentage
Hydropower	53%
Thermal	47%

Sarawak's Generation Mix in 2012

In 2012, hydropower generation exceeded thermal power generation for the first time for Sarawak Energy.

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.

Ensuring the reliability of Sarawak's transmission network

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, providing policy and technical specifications, undertaking maintenance and installation planning, and managing the inventory of all electrical equipment stocks.

The department maintains and ensures the efficient operation of the distribution network's database systems, and other assets and processes.

As part of Sarawak Energy's efforts to enhance reliability of supply to customers, in 2012 it introduced new technology from Sweden called Ground Fault Neutraliser. This is part of a pilot project initiative by its Research and Development Department.

In line with rising safety concerns over the use of oil based equipment, Sarawak Energy also started using sulfur hexafluoride (SF6) insulated equipment, which is safer for the operator and for the public.

Other distribution initiatives include improving the processes and procedures for the proper management of SF6 gases in order to reduce their impact on the environment.

Sarawak Energy's Customer Care Centre operates 24 hours a day, seven days a week and 365 days a year

RETAIL

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

In 2012, Sarawak Energy's first Customer Care Centre was opened as part of its ongoing effort to deliver quality service to customers. Customer Care Executives went through two months of intensive training in soft skills, software and hardware handling and processes.

The Centre enables Sarawak Energy to offer sophisticated customer service and a platform for customers to ask any questions about their accounts. The Centre is equipped with state-of-the-art technology to handle the high level of calls it receives, including an Intelligent Call Queue system and a Broadcast Announcement facility which is used to keep customers informed during power outages. The Centre also has a facility to monitor the standard of the service provided by its agents.

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

PROJECT EXECUTION

A dedicated Project Execution Department ensures that Sarawak Energy 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 Sarawak Energy's project work across all departments. This creates a transparent process from the evaluation of business opportunities through to project development, execution and handover to operations.

In 2012, the Project Execution Department remained 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.

TOWARDS OPERATIONAL EXCELLENCE

24/7 Customer focus

Customer Care Centre opens in Kuching

State and national awards for:

- Limbang Power Station
- Tanjung Kidurong Power Station
- Sejingkat Power Corporation

TRANSFORMATION: A JOURNEY OF POWER

In 2010, Sarawak Energy started the transformation journey from a traditional local utility into a regional provider of clean, affordable and renewable power.

In its role as catalyst for SCORE, Sarawak Energy supports the State Government in stimulating socio-economic development and growth. Sarawak Energy aims to achieve the following by the end of the decade:

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

The progress achieved by Sarawak Energy and SCORE has attracted keen interest from both local and foreign investors.

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. The signing of the Power Purchase Agreement with Sarawak Hidro in June 2011 secured the entire output from the Bakun HEP.

Bakun HEP (2,400 MW)
four out of eight units have been commissioned

The 944 MW Murum HEP, being constructed by Sarawak Energy, is expected to deliver its first power in 2014. The 600 MW Balingian CFPP project has completed the Concept Engineering Phase and is now progressing to the next stage of the project implementation.

SARAWAK ENERGY POWERS SCORE

Throughout 2012, Sarawak Energy continued to close commercial deals with SCORE investors and all three term sheets customers (Tokuyama Malaysia Sdn Bhd, Asia Minerals Limited and OM Materials (Sarawak) Sdn Bhd) progressed with the signing of Power Purchase Agreements. This has resulted in a significant increase in the total committed demand for power to above 1,800 MW. These SCORE customers are scheduled to commence operations between 2012 and 2015.

During the year, term sheets were also signed with several potential SCORE investors:- Sakura Ferroalloys Sdn Bhd, Cosmos Petroleum and Mining Sdn Bhd, Asia Advanced Materials Sdn Bhd and Iwatani-SIG Industrial Gases Sdn Bhd.

Samalaju Substation
Commencing operations on 26 June 2012, the substation supplies electricity to SCORE customers located in the Samalaju Industrial Park, the centrepiece of SCORE

PPA Signing Ceremony
Sarawak Energy and Asia Minerals Limited on 20 January 2012

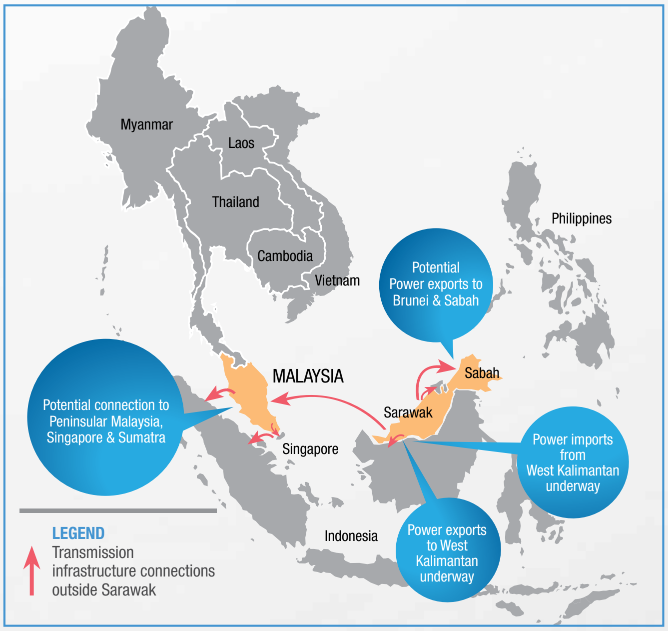
Aerial view of Samalaju Industrial Park
(Photo credit: RECODA)

TRANSFORMATION: A JOURNEY OF POWER

Samalaju-Tokuyama 132 kV Transmission Line (Phase 1)
Commencing operations on 26 June 2012, the transmission line supplies electricity to Tokuyama's factories

Samalaju-Press Metal Berhad 275 kV Transmission Line (Phase 1)
Commencing operations on 29 March 2012, the transmission line supplies electricity to Press Metal's aluminium smelting plant

TOWARDS BECOMING A REGIONAL POWERHOUSE IN ASEAN



On 5 September 2012, Sarawak Energy signed a Power Exchange Agreement with PT PLN (Persero) to export up to 230 MW of electricity from Sarawak to West Kalimantan. This marked a significant milestone in Sarawak Energy's drive to become a potential regional powerhouse in ASEAN. Sarawak Energy is also involved in discussions with Brunei and Sabah on opportunities for exporting power.

POWER FROM INDIGENOUS RESOURCES

With much of Asia being reliant upon coal as a key power generation feedstock, and the pressure to support clean air solutions due to pollution and climate change, reducing carbon and other emissions has become a critical aspect of the power generation industry.

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 and to achieve sustainable development and operation.

This project is located near to the Balingian River about 60 km from Mukah Town. 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.

Due to the high moisture content of coal from the area, the Balingian Project will adopt the circulating fluidised bed which 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 900°C) means the NO_x formation is minimised and the SO_2 emissions are 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) has been generating and delivering clean and renewable energy smoothly and reliably through the year.

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

Aspect	2012 Achievement
Total Unit Generated	416.84 GWh
Availability (Average)	95.99%
Forced Outage Rate (Average)	0.22%

2012 Batang Ai HEP Operation Performance

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

TRANSFORMATION: A JOURNEY OF POWER

Grid connection to Kapit
On 7 March 2012, Kapit was connected to the State grid via the 150 km long 132 kV transmission line which runs to Kapit via Kemantan in Sarikei

THE HYDROPOWER EVOLUTION

As people around the world become more knowledgeable about ways to reduce their carbon footprint to combat greenhouse gas emissions, there are greater efforts to promote the use of renewable energy and generate a more sustainable power supply which is readily available, economical to produce and non-polluting. In Malaysia, the Government approved the National Renewable Energy Policy and Action Plan on 2 April 2010.

Sarawak's recognition of the potential of hydropower to generate reliable and clean energy goes back more than 50 years. the State's first foray into hydropower began in 1962 when a pre-feasibility study was conducted at Batang Ai. Follow-up studies were conducted in the 1970s and construction commenced in 1981. The Batang Ai HEP, with installed capacity of 108 MW, was completed in 1985.

The next major hydropower development to be commissioned is the 944 MW Murum HEP and construction advanced significantly in 2012 with dam construction, tunnelling, intake and power station works all progressing well.

The Sarawak Energy 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, the Baram 1 (1,200 MW) and Baleh (1,250 MW) hydropower projects advanced to Pre-Engineering phase. Several new projects, including the Pelagus (465 MW) and Trusan 2 (240 MW) projects, were taken to Concept phase.

Looking ahead to 2013, it is expected that a new project, Kota 2 (10.5 MW) will be taken to Concept phase.

EXPANDING THE NETWORK

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

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

DEVELOPING OUR PEOPLE, LEADERSHIP AND TEAMWORK

POWER IN UNITY

Human capital is Sarawak Energy's most crucial asset. The Company recruits and develops people for deployment over the entire length and breadth of the State. Sarawak Energy's workforce continues to grow each year and in 2012, the number of employees rose to 3,804.

SEB Way Workshop at Menara Sarawak Energy on 25 September 2012

SEB WAY

As well as developing staff proficient in a broad range of technical, managerial and administrative skills, Sarawak Energy believes the promotion of a new, company-wide organisational culture will help to unleash synergy in performance. The priorities are:

- to engage the broader Sarawak Energy team in the meaning of the Company's new corporate vision, mission and values, and show how they guide and unify the Company in action, and
- to build a style of leadership and a culture that inspires optimism, enthusiasm, hard work and open communication.

This strategy is known as the SEB Way. Launched on 20 February 2011, it is designed to achieve awareness, internalisation and sustainability in stages by employees across the organisation, both horizontally and vertically.

In 2012, Sarawak Energy introduced the Internalisation of Core Values Programme to inculcate its corporate values in staff. The Company held workshops throughout the year to give staff a thorough grounding in its corporate values and explain how these values can be applied to their everyday working life.

In the coming years, Sarawak Energy will incorporate additional programmes to further strengthen corporate behaviour. By 2016, Sarawak Energy intends to have completed a range of programmes which will cement a strong workforce able to sustain and build on the success of the Company.

CLOSING THE COMPETENCY GAP

Sarawak Energy places strong emphasis on the importance of training and assessment as a way to reduce the competency gap and meet the requirements of statutory bodies, namely the Electrical Inspectorate Unit (EIU) and the Department of Occupational Safety and Health.

In 2012, the aim was to reduce the competency gap for technicians by 50%. Sarawak Energy exceeded this target by 3.8%. The number of technicians with the required competencies grew to 762 or 53.8%.

Sarawak Energy also develops tutorial sessions before EIU examinations to better prepare its candidates; assists the EIU in proposing and designing new policies for oral examinations for older members of staff and works closely with the EIU and the National Institute for Occupational Safety and Health to reduce the processing time for attaining competency certification.

The training programmes also enable Sarawak Energy to offer a defined career progression framework, with performance-linked incentives.

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

	2012 (Jan-Dec)
Number of participants trained in competency courses (external and internal)	1,229
Number of participants who sat for competency examinations (external and internal)	979

Each year, between 300 and 400 external contractors take part in its competency programmes. This enables Sarawak Energy to further contribute to the overall development of the State.

SARAWAK ENERGY HAS 3,804 EMPLOYEES IN 2012

DEVELOPING OUR PEOPLE, LEADERSHIP AND TEAMWORK

Across all operational departments, Sarawak Energy emphasises team spirit - a quality that underpins the Company's success

Competency training programmes develop highly skilled electricians

TRAINING AND DEVELOPMENT

For the improvement of overall performance, the people of an organisation must be trained and experienced. Training is a way to create confidence among employees, so that they can carry out the tasks effectively and efficiently. Sarawak Energy understands the need for effective and quality training to develop its valuable human resources. Therefore, Sarawak Energy has focused on the training needs and closely competency gaps of its employees.

Type of Training	Participants
In-House (External instructors at Sarawak Energy premises)	4,362
External	882
Internal (Sarawak Energy instructors)	2,157
Orientation	981
Total	8,382

SARAWAK ENERGY ELECTRICIAN PROGRAMME

The Sarawak Energy Training Centre runs the Sarawak Energy Electrician Technical Programme (SETP) and the Sarawak Energy Mechanical Technician Programme (SMTP). In 2012, Sarawak Energy trained a total of 25 electrical technicians. The objective of this programme is to train new electrical technicians for the Company as well as to supply qualified manpower to the electrical industry in Sarawak to support the SCORE agenda. This is a nine-month training programme and upon completion, the trainees will possess the competencies required to carry out their duties.

DEVELOPMENT: 53.8% OF TECHNICIANS REDUCED COMPETENCY GAP

DEVELOPING OUR PEOPLE, LEADERSHIP AND TEAMWORK

Our people are Sarawak Energy's mainstay and our priority

A total of 109 students were attached to Sarawak Energy for industrial training and internships.

INDUSTRIAL TRAINING AND INTERNSHIPS FOR TERTIARY STUDENTS

As a socially responsible corporate citizen, Sarawak Energy provides the opportunity for tertiary students to carry out industrial training and internships with the Company. The objective of this initiative is to provide an avenue for tertiary students to experience and learn in a working environment related to their studies.

Through industrial training, the students can learn how an organisation works in terms of human relations and teamwork, in addition to being able to practice in a more 'hands on' environment.

In 2012, a total of 109 students were attached to Sarawak Energy for industrial training and internships. This gives students an opportunity to apply the academic knowledge and skills they have learnt at university to a real life working environment.

LONG SERVICE AWARDS

Sarawak Energy's Loyalty Service Award is one of the highlights of the corporate year. The awards are given to employees after ten years of service and every five years after that until the employee reaches the retirement age. In November, Sarawak Energy recognised 342 staff members from all over Sarawak.

HEALTH, SAFETY AND ENVIRONMENT

Sarawak Energy holds its Occupational Safety and Health Coordination Meeting at the Hotel Grand Continental in Kuching on 11 January 2012

Sarawak Energy takes safety very seriously. Electricity and electrical products play fundamental roles in people's daily lives. However, if they are not used or maintained appropriately, they can pose serious safety risks.

While electrical hazards are not the leading cause of on-the-job injuries and accidents, they are disproportionately fatal and costly. These injuries not only disrupt the lives of the workers and their families, but also impact the productivity of employers. The good news is that most on-the-job electrocutions and electrical injuries could have been be prevented by following a few basic steps.

The Health, Safety and Environment Department is responsible for ensuring electrical safety in the workplace. The department recognises that each work environment presents different hazards. The department's workplace safety materials provide valuable information to help employees make safe choices every day and tips for creating a safer work environment, whether work takes place in the office, on a job site, or in a manufacturing setting.

Most on-the-job electrocutions and electrical injuries could have been be prevented.

SAFETY INITIATIVES FOR THE YEAR

Sarawak Energy Safety and Health Committee

The Occupational Safety and Health (OSH) Coordination Meeting was held on 11 January 2012 and was attended by all the OSH Coordination chairmen and representatives. The meeting was conducted to discuss safety issues and to plan the safety programme for the year.

All participants were advised to take full responsibility in safety implementation and compliance in their respective plants and stations. They were also urged to participate actively in the discussion and raise safety issues for discussion and share their experiences.

HEALTH, SAFETY AND ENVIRONMENT

Sarawak Energy's Chief Executive Officer, Torstein Dale Sjøtveit, launches the Corporate EOSH Week Campaign on 18 June 2012

Corporate Environmental, Occupational Safety and Health Week Campaign

The annual OSH Week Campaign is a staple feature in Sarawak Energy's safety programme. Its key objective is to raise the awareness of employees, contractors and the general public on electrical safety issues.

At this year's event which was held from 18 to 22 June, Sarawak Energy incorporated an environmental aspect, transforming the event into the EOSH Week Campaign.

The campaign was officially launched in Miri and was held at all Sarawak Energy's branches throughout the State.

The 'Spot My Car' contest was launched during EOSH Week. Over 16,000 stickers were printed. The contest was launched on 18 June 2012 at the Miri Regional Office payment counter and was part of the corporate Environmental and Occupational Safety and Health Week Campaign 2012.

Electrical Safety Communication

In July, Sarawak Energy began the production of safety videos entitled 'Electricity and You' designed to educate the public on electrical safety, particularly when work is being carried out near overhead and underground power lines. The first preview of the safety video was presented on 11 December 2012.

Other Safety Activities

Throughout 2012, Sarawak Energy held a range of activities to promote safety awareness.

These included electrical safety talks at 62 schools throughout Sarawak and a range of safety audits, including 12 on distribution work implementation, 19 on contractors for distribution work and 21 audits on power plants.

Sarawak Energy also worked with the Environmental Impact Unit to develop a module on 'Work Safety around Electrical Installations'. The module was accepted by Construction Industry Development Board Malaysia to be included in their Green Card programme. Sarawak Energy hopes this module will help to raise public awareness about how to avoid electrical incidents.

TM's employees demonstrating proper safety equipment and attire at the Company's Safety and Health Campaign

A delegation from Sarawak Energy visits TNB in Kuala Lumpur on 18 July 2012

Sarawak Energy took part in Telekom Malaysia (TM) Berhad's Safety and Health Campaign, which took place on 4 and 5 April at TM Sarawak. The two-day event was themed *'Budaya Kerja Selamat Amalan Kita'* which translates to 'Safe Working Culture, Our Practice'. It featured health talks by medical experts, safety demonstrations, exhibitions and health checks. Sarawak Energy's booth was very popular, attracting visitors with its electrical accident and safety displays, and games and prizes.

Sarawak Energy organised technical visits to TNB and Singapore Power on 18 July 2012 and 21 November 2012 respectively. These visits were designed to examine OSH practices at other power utilities.

Sarawak Energy delegates visit Singapore Power on 21 November 2012

ENVIRONMENTAL PROTECTION

Complying with Environmental Legislation and Requirements

Sarawak Energy has committed, through the formulation of the Environment, Occupational Safety and Health (EOSH) Policy, to mitigate the impact of its activities on the environment and comply with the environmental legislations and requirements, provide a basis for the protection of the environment.

Sarawak Energy must comply with the Environmental Quality Act 1974 which comprises the following environmental laws and regulations:

- Environmental Quality (Clean Air) Regulations 1978
- Environmental Quality (Scheduled Waste) Regulations 2005
- Environmental Quality (Industrial Effluent) Regulations 2009
- Environmental Quality (Sewage) Regulations 2009

Boundary Noise Monitoring

The Environmental Quality Act 1974 (Section 23) stipulates that "no person shall, unless licensed, emit or cause or permit to be emitted any noise greater in volume, intensity or quality in contravention of the acceptable conditions".

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

The allowable boundary noise level established by the Department of Environment (DOE) for most power stations is 65 dBA at all times. In compliance with this regulation, the Environment Division conducts boundary noise monitoring along the perimeter fencing of the power station at four points on a yearly basis.

In 2012, 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 limit 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 also carried out on a quarterly basis and at Miri Power Station on a yearly basis, together with stack emission monitoring.

Stack Emission Monitoring

The main objective of stack emission monitoring is to assess whether the emission meets 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 power stations include 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 the periodic collection of the scheduled waste generated by the power stations throughout the State. It is an offence under the Environmental Quality (Scheduled Wastes) Regulations 2005 for a waste generator to store scheduled waste for more than 180 days, or waste exceeding 20 tonnes, whichever comes first.

Sarawak Energy monitors water quality at Batang Ai HEP reservoir

Water Quality Monitoring

Sarawak Energy conducts water quality monitoring at the Batang Ai HEP reservoir. Unlike natural lakes, man-made reservoirs may have an environmental impact. Water quality monitoring and assessment is therefore important to study the changes in water quality and to mitigate potential problems related to the quality of the reservoir water.

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, Sarawak Energy's rural and urban power stations implement EMS to systematically manage the possible environmental impact arising from the Company's 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 power station. The environmental assessment team conducts 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.

Environmental Impact Assessment

Sarawak Energy 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 the environmental impact of the proposed activities. The PEIA is reviewed by a technical committee from the DOE and other relevant government agencies.

The DEIA is a standard procedure for projects which will have a substantial impact on the environment. Under Section 34A of the Environmental Quality Act 1974, DEIA is required for the construction of Sarawak Energy's 2 x 300 MW coal-fired power plant in Balingian.

In July 2012, Sarawak Energy received DEIA approval for the project. This approval has allowed Sarawak Energy to commence project implementation and serves as a guideline for the Company to comply in the mitigation of potential environmental impacts.

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 are compiled and the DEIA report is made available to interested parties for viewing and to invite comment.

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

Social and Environmental Impact Assessment

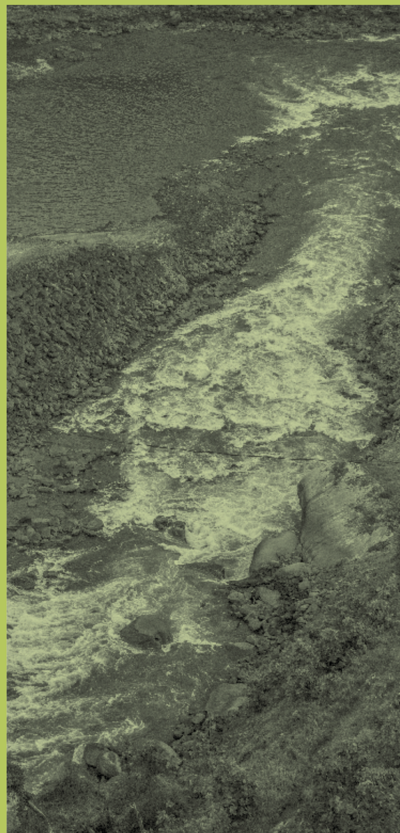
In compliance with Sarawak environmental laws and the requirements of the Natural Resources and Environment Board (NREB), Sarawak Energy undertakes Social and Environmental Impact Assessment (SEIA) for all of its major projects and submits SEIA reports to NREB for approval prior to the implementation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

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 concludes that the planned projects are feasible, Sarawak Energy works with the local communities to ensure the projects meet the community's expectations.

The SEIA for Baleh HEP commenced in August 2012.



CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

Sarawak Energy is committed to enhance the livelihood of communities directly affected by its development projects

DEFINITION OF SOCIAL RESPONSIBILITY

Sarawak Energy is run as a business, but profit is not its only goal. Its mission captures some of these broader objectives and responsibilities, and commits the Company 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.

Sarawak Energy has a special responsibility towards the communities that are directly affected by its development projects.

Sarawak Energy has a special responsibility towards the communities that are directly affected by its development projects.

This year, some of Sarawak Energy's CSR initiatives also included:

- collaborating with the National Registration Department for the registration of birth certificates and identity cards for the rural communities in Murum; as of December 2012, Sarawak Energy helped register 839 Penans and Kenyahs in Murum (434 birth certificates and 405 identity cards).
- providing relief to ease the burden of victims in the event of fire, flood and other natural disasters. In November, Sarawak Energy provided food relief and basic necessities such as rice, canned food, sundries, clothes, mattresses, pillows and cooking utensils to support some 120 people rendered homeless when four longhouses in Long Wat burnt down. Sarawak Energy also worked with the District Office on a plan to provide temporary shelter for the affected families ahead of their move to the new housing at Murum early next year; 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

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

STRATEGY TO ACHIEVE SOCIAL RESPONSIBILITY

Sarawak Energy meets its social responsibilities by:

- creating economic opportunities for Sarawakians;
- supporting partners in community investment;
- demonstrating high standards of transparency and community engagement; and
- undertaking its projects in a sustainable way.

CREATING ECONOMIC OPPORTUNITIES

By developing Sarawak's abundant energy resources, Sarawak Energy is creating new and better economic opportunities for current and future generations.

The full implementation 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 firms.

Sarawak Energy itself provides secure employment for over 3,800 full time staff.

PARTNERSHIPS FOR COMMUNITY INVESTMENT

Sarawak Energy acknowledges a special responsibility towards the communities which are directly affected by its development projects. Sarawak Energy has identified four areas in which it is 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.

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.

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

The Murum Penan Literacy Programme

The Murum Hydroelectric Project (HEP), when completed, will have an installed capacity of 944 MW to power the energy-intensive industries under SCORE which aims to propel Sarawak to a high income state.

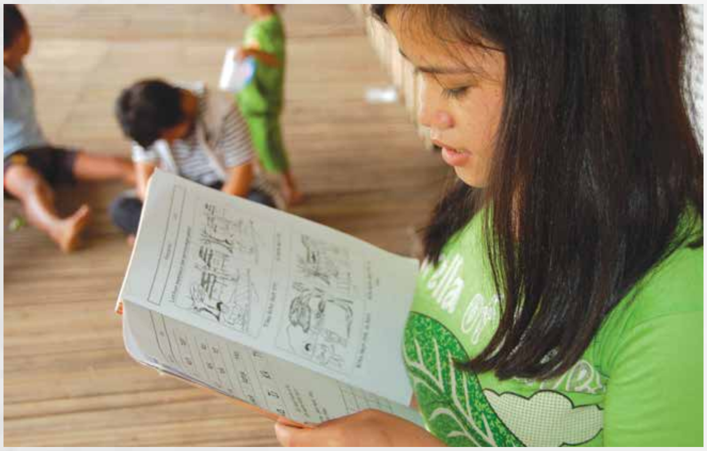
This economic growth will help stimulate job opportunities, which means that Sarawakians can enjoy a better living standard, and acquire new skills to generate a highly trained and capable workforce.

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

The people most in need of assistance are an indigenous group, the Penans, who still live a very traditional semi-nomadic life deep in the Sarawakian interior, causing interruption of schooling opportunities.

The Murum Penan Literacy Programme was introduced by Sarawak Energy in partnership with the Society for the Advancement of Women and the Family Sarawak in 2012 to help the Penans. The specially tailored programme is designed to improve the literacy rate amongst women, men and young people and its early success is very encouraging. In the coming years, Sarawak Energy intends to expand the programme to embrace other educational strands such as personal hygiene, nutrition and health and well being.

The programme offers Murum Penans the opportunity to receive the education they deserve and realise the future they dream of for themselves.



The Murum Penan Literacy Programme

Environmental Management and Conservation

Sarawak Energy identified a number of project partnerships to support the management and conservation of the natural environment, including the preservation of native plants and wildlife, as well as conservation measures and sustainable management of natural resources. Some of these projects are currently being planned for implementation next year.

Culture and Heritage

As part of the community, Sarawak Energy believes it has a role to play in preserving the unique cultural heritage of the different indigenous groups in Sarawak. In Murum, Sarawak Energy has sponsored festival celebrations and supported ritual ceremonies at the Penan's sacred rock Batu Tungun. Throughout the State, Sarawak Energy organised various activities in conjunction with multicultural festivals and celebrations.

The Inaugural Pesta Penan Murum Carnival

In December, in line with Sarawak Energy's on-going initiatives to preserve culture and heritage, the Company organised and sponsored the inaugural Pesta Penan Murum, a unique two-day sports carnival in the remote Long Singu village in Murum. The carnival, which was set up together with the Penans from Long Singu, was well received by the community, with more than 1,000 Penans taking part.

Payu (wrestling) was among the crowd favourites at the inaugural Pesta Penan Murum sports carnival

CORPORATE SOCIAL RESPONSIBILITY

Community Development and Entrepreneurship

Hydropower projects can contribute significantly to economic development by opening up businesses and employment opportunities. To empower the local community, Sarawak Energy studies a number of suitable strategic programmes for the community's development and growth, and partners with the people for community development.

Cooperation with Murum Penan Development Committee

Sarawak Energy continued to boost its close relationship with the Penan community. In December, the Company congratulated the seven newly elected members of the Murum Penan Development Committee (MPDC) in Sungai Asap, Belaga. The MPDC is recognised by the State Government as the authorised representative body for the Murum communities affected by the Murum HEP. The MPDC provides a platform for communication between the communities and other agencies including the Government.

Sarawak Energy congratulates the newly elected members of the Murum Penan Development Committee (MPDC) in Sungai Asap, Belaga

TRANSPARENCY AND COMMUNITY ENGAGEMENT

Sarawak Energy acknowledges that it has an obligation to make sure that people understand what it does in implementing its projects. When Sarawak Energy develops new projects, it goes through a disciplined process to make sure that affected communities are involved with the Company every step of the way.

SUSTAINABILITY

Sustainability plays a unique role in Sarawak Energy's business operations and covers many different aspects. Environmental, economic and social dimensions are all part of its overall framework of sustainable development and Sarawak Energy's priority is to fully understand these elements and implement them in its operations and projects.

Sarawak Energy therefore makes sure that decision-makers and affected communities have access to full information about the impact of its projects on people and the environment.

Sustainability plays a unique role in Sarawak Energy's business operations and covers many different aspects.

IMPROVING LIVES

Literacy Programme aims to improve literacy rate in Murum communities

Assisting 839 Murum folk with birth certificates and identity cards

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

In October, Sarawak Energy became the first Sarawak-based company to be a strategic partner of CSR Asia. The agreement further strengthens Sarawak Energy's commitment to sustainability in its operations and to its CSR programmes. As part of the partnership, CSR Asia will provide guidance in sustainability reporting and stakeholder management.

Since 2011, Sarawak Energy has ramped up its internal capabilities by setting up a dedicated CSR division. The new team works closely with the different project and operation departments to ensure the social aspects of projects are properly understood and risks managed.

Sarawak Energy also plans to embark on sustainability efforts in selected priority areas. The selection of priority areas, or focus areas, was based on the mapping exercise conducted by its CSR team and most of the identified areas are beyond the requirements of law, regulation or normal operation.

Some sustainability priority areas identified are as the following:

- Embedding the IHA's HSAP into Sarawak Energy's business processes
- Greenhouse Gas Management
- Environmental Conservation Efforts
- Environmental Awareness Programmes

Clean Power Asia Conference and EXPO 2012

A 17-member delegation from Sarawak Energy attended the Clean Power Asia Conference and Expo 2012 in Bali, Indonesia from 14 to 16 May 2012.

The event is Asia's premier conference and exhibition on renewable and cleaner fossil power. It provides a platform for showcasing new approaches and achievements in renewable energy and cleaner fossil power, providing participants with opportunities to exchange information and network with the key stakeholders involved in shaping the Asian clean power industry.

It also provides an opportunity for participants to explore new clean power industry products and technologies.

Energy generation from renewable sources

The three-day conference included sessions on:

- Clean power policy, strategy and finance
- Renewable power (solar, wind, bio and geothermal)
- Next generation fossil power

The conference was attended by more than 400 delegates and speakers from around the world. Sarawak Energy was one of 25 exhibitors at the event.

CORPORATE SOCIAL RESPONSIBILITY

RURAL ELECTRIFICATION IN SARAWAK

Sarawak Energy oversees the delivery of power to Sarawak's rural population to ensure that rural communities have access to electricity, a key priority. In the 2010 census, Sarawak's population stood at 2.47 million people. Kuching has a population of 618,000 and major urban centres such as Miri, Sibu and Bintulu have populations of 300,000, 248,000 and 190,000 respectively. The State population density is around 20 people per square kilometre. Approximately 52% of Sarawak's population, or about 1.28 million people, live in rural areas, in over 6,200 small villages and longhouses.

Currently, the main 275 kV power grid, spreading along 700 km, interconnects all the major cities. The 33 and 11 kV lines of about 100 to 200 km supply power to most rural towns and remote villages. There are also off-grid diesel power stations located in the suburban towns and larger villages. Throughout the State, diesel generation sets are generally popular and commonly used in remote rural areas. For Sarawak Energy, rural electrification is about providing 24-hour electricity to communities in remote areas that have been relying on expensive and noisy diesel power generators.

Sarawak Energy works closely with the State and Federal Governments, and supports the National Key Result Area (NKRA) Rural Basic Infrastructure initiative, which commits to providing rural basic infrastructure to the public, to ensure that all Malaysians, regardless of their age, race and where they live, can enjoy a high quality of life. Sarawak Energy's approach is to extend the grid to reachable areas, while off-grid hybrid systems employing renewable solar energy are considered for regions deemed too remote for grid connection.

Despite the challenges of a widely scattered population and mountainous landscapes which make it difficult to access communities, Sarawak Energy provided an additional 7,936 rural homes throughout Sarawak with 24-hour electricity supply in 2012. With this achievement, Sarawak's electricity coverage was raised to 85% and more rural homes are expected to be connected in 2013.

Despite the challenges of a widely scattered population and mountainous landscapes which make it difficult to access communities, in 2012, Sarawak Energy provided an additional 7,936 rural homes throughout Sarawak with 24-hour electricity supply.

Small Renewables

Whilst large hydropower facilities can generate sufficient energy to meet rising demand and drive development, Sarawak Energy continues to explore small renewables to power the remote interiors of Sarawak. Small renewables such as solar, wind, biomass, and micro hydro cannot compete with large hydropower in cost, reliability and generation capacity, but they form niche applications in powering the remote interiors in the State.

Sarawak Energy has commissioned ten mini hydroelectric plants over the past 20 years. Many of the earlier mini hydroelectric plants were developed to enhance rural electrification in Sarawak.

In 2012, Sarawak Energy made preparations for the construction of the Long Banga micro hydro facility, situated near the Indonesian border, in the Baram region. With installed capacity of 2 x 160 kW, the facility is expected to provide 24 hours/day electricity to the village.

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

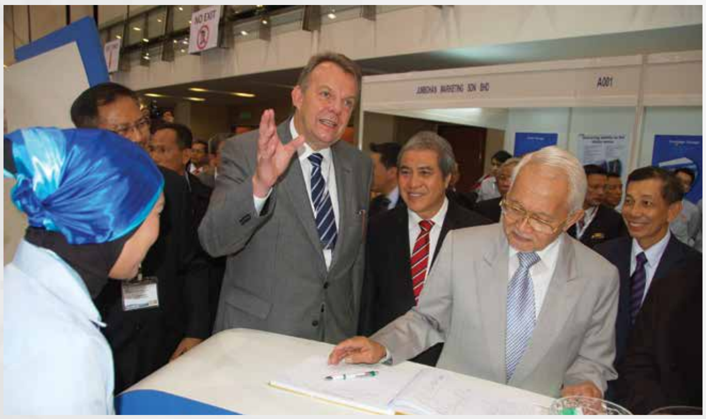
EVENT HIGHLIGHTS 2012

CORPORATE ENGAGEMENTS

Regional Hydropower Business Forum at Menara Sarawak Energy in May

Sukuk Investors visit Murum HEP in April

Sarawak Hidro visits Batang Ai HEP in July



Sarawak Energy's Booth at the International Energy Week in October

Meeting of Statutory Bodies and Government Linked Companies held at Menara Sarawak Energy in December

EVENT HIGHLIGHTS 2012

Media Luncheon and Briefing in conjunction with Chinese New Year in January

Creating Informed Stakeholders - Dinner with Government Agencies in December

Friendly football match with Land and Survey Department at Sarawak State Stadium in November

DIVERSITY AND INCLUSION

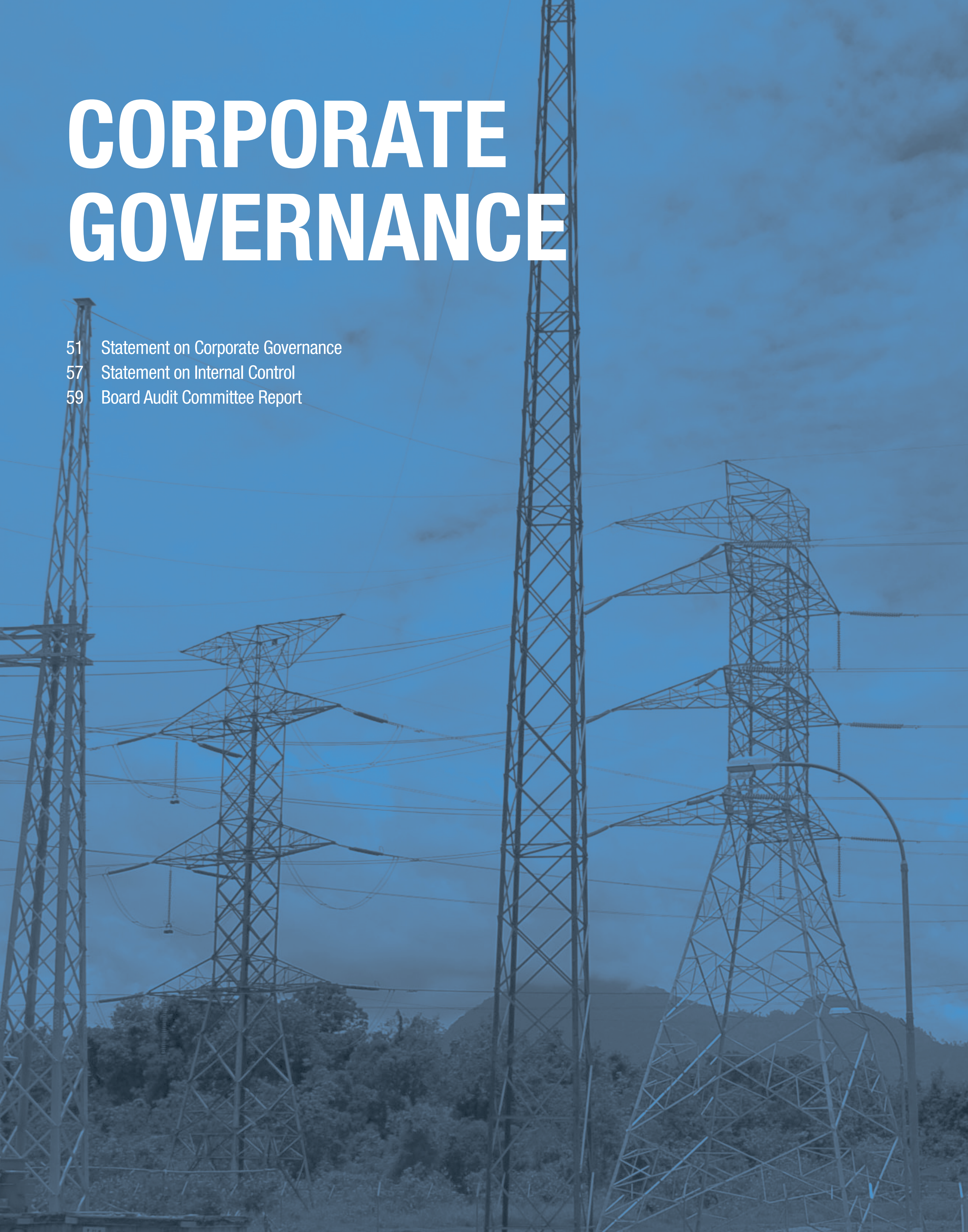
Chief Executive Officer Mr. Torstein Dale Sjøtveit joins the dancers for a traditional bamboo dance at the 'Ngiling Bidai' or closing of Gawai celebration in July

A HEALTHY WORKFORCE

Corporate Golf at Kota Samarahan in March

Sarawak Energy runners at the KuchingNITES Run in October

CORPORATE GOVERNANCE



STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors of Sarawak Energy Berhad ("SEB") is committed to ensure that the highest standard of Corporate Governance is practiced throughout the Group with the objective of strengthening the Group's growth, corporate accountability and safeguarding the interests of the shareholders.

The Board of Directors is pleased to present a statement to the shareholders on how the Group has applied the principles of good governance and compliance of the best practices set out in the Malaysian Code of 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 11 to 15.

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 held as and when required. There were nine (9) Board meetings held during the financial year ended 31 December 2012. A summary of the attendance of each Director of the Company at the Board meetings held during the financial year ended 31 December 2012 are as follows:-

Directors	Position	Meetings Attended	% of Attendance
YBhg Datuk Amar Abdul Hamed bin Sepawi	Non-Independent Non-Executive Chairman	9/9	100
YB Tan Sri Datuk Amar Haji Mohamad Morshidi bin Haji Abdul Ghani	Non-Independent Non-Executive Director	7/9	78
YBhg Tan Sri Dato Sri Mohd Hassan bin Marican	Independent Non-Executive Director	6/9	67
YBhg Datuk Fong Joo Chung	Non-Independent Non-Executive Director	9/9	100
YBhg Dato' Haji Idris bin Haji Buang	Non-Independent Non-Executive Director	9/9	100

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 meetings 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 any further information required. Directors may also seek independent professional advice on any matter connected with the discharge of their responsibilities deems 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 which 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 their attendance at the Committee Meetings is set out on page 59 of this Annual Report.

2. Governance, Nomination & Remuneration Committee ("GNRC") (previously known as Nomination & Remuneration Committee)

At the Company's Board Meeting in March 2012, the Board had decided to revive and renamed the Nomination & Remuneration Committee to GNRC with immediate effect. The new composition of the GNRC members for the financial year ended 31 December 2012 consist as follows:

i. **YB Tan Sri Datuk Amar Haji Mohamad Morshidi bin Haji Abdul Ghani**
(Non-Executive Director) – Chairman

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

iii. **YBhg Datuk Fong Joo Chung**
(Non-Executive Director)

iv. **YBhg Dato' Haji Idris bin Haji Buang**
(Non-Executive Director)

The duties and responsibilities of the GNRC 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) 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;
(d) 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;
(e) make recommendations for Human Resource policies from time to time;
(f) discuss and approve the revision of Company's organisation structure, should there need be; and
(g) act as Disciplinary Committee to decide and recommend punishments for staff misconduct to the Board for approval.

The GNRC had held three (3) meetings during the financial year ended 31 December 2012.

STATEMENT ON CORPORATE GOVERNANCE

MANAGEMENT/ESTABLISHMENT COMMITTEES

The following Committees have been established to assist the Board in the execution of its responsibilities. These Committees have written terms of reference which 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 is 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 or matters requiring management decisions or approval by EMC. In the event of uncertainties the CEO shall have the mandate to decide on the subject matters or issued 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 improvements 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 any 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 is within the scope or general authority of EMC to decide/approve.

As at 31 December 2012, the EMC members were:-

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

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

iii. **Aisah Eden**
(Senior Vice President, Retail)

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

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

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

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

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

ix. **Alvin Lim**
(Head of Planning & Strategy & Head, Key Accounts [SCORE Customers])

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

xi. **Nick James Arnett Wright**
(Vice President, Strategic Communications & Corporate Social Responsibility)

xii. **Polycarp Wong**
(General Manager, Corporate Shared Services)

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

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

xv. **Dr. Chen Shiun**
(General Manager, Research & Development)

xvi. **Stephanie Gae Chin**
(General Manager, Legal)

xvii. **Julia Shim – EMC Secretary**
(from 01.01.2012 – 31.05.2012)
(Chief Information Officer)

xviii. **Iskandar Mohamad Sarkawi – EMC Secretary**
(from 01.06.2012 – 31.12.2012)
(Senior Executive, CEO's Office)

There were 40 EMC meetings held in the Year 2012, as well as additional four (4) Extraordinary EMC Meetings held during the financial year ended 31 December 2012, which totals up to 44 meetings altogether in the Year 2012.

2. **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 has been brought up to the Group Level of the Company on 19 June 2009 in view of the rationalisation of the Company.

As at 31 December 2012, 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. **YBhg Dato' Haji Idris bin Haji Buang**
(Director of SEB) – Member

The GBTC has not held any meeting during the financial year ended 31 December 2012.

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 seventy years of age are required to submit themselves for reappointment annually in accordance with Section 129(6) of the Companies Act 1965.

DIRECTORS' TRAINING

Various accredited programs have been attended by the directors of the Company. Among them are programs related to the Continuing Education Program ("CEP") conducted by various course leaders. The Company will regularly arrange for further training of the directors as part of the directors obligation to update and enhance their skills and knowledge which are important for their carrying out an effective role as directors.

NUMBER OF DIRECTORSHIPS IN OTHER COMPANIES

None of the directors of the Company hold more than ten (10) directorships in public listed companies or more than fifteen (15) in non-public listed companies.

CONFIDENTIALITY OF INFORMATION

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

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 of the Group's financial performance and prospects, primarily through the annual financial statements and quarterly financial results as well as the Chairman's statement and review of operations in the Annual report. The Board is assisted by the Audit Committee to oversee the Group's financial reporting processes and the quality of its financial reporting.

Relationship with Auditors

The Board has, through the Board Audit Committee, established a formal, transparent and appropriate relationship with the Group's Auditors, both external and internal. The Board Audit Committee meets regularly with external and internal auditors to discuss and review the audit plan, quarterly financial results, annual financial statements, internal audit reports etc and at every Board meeting, the Chairman of the Board Audit Committee 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 57 and 58 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 Board Audit Committee 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 2012.

- **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 2012.

- **Non-Audit Fees**
  Non-audit fees of RM315,000 were paid to the External Auditors for the Financial Year ended 31 December 2012.

- **Revaluation Policy on Landed Properties**
  The Group does not adopt any revaluation policy on landed properties during the Financial Year ended 31 December 2012.

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 Tan Sri Datuk Amar Haji Mohamad Morshidi bin Haji Abdul Ghani	3/3
3.	YBhg 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 and discussed Group Revenue and Capital Budget Year End Estimates for 2012 as well as Group Capital and Revenue Budget for 2013 and recommended the same for submission to the Board.
- 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 Malaysian Financial Reporting Standards (MFRS).
- 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.
- 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 the Review of Capital Works Planning and Procurement Process 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.

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.

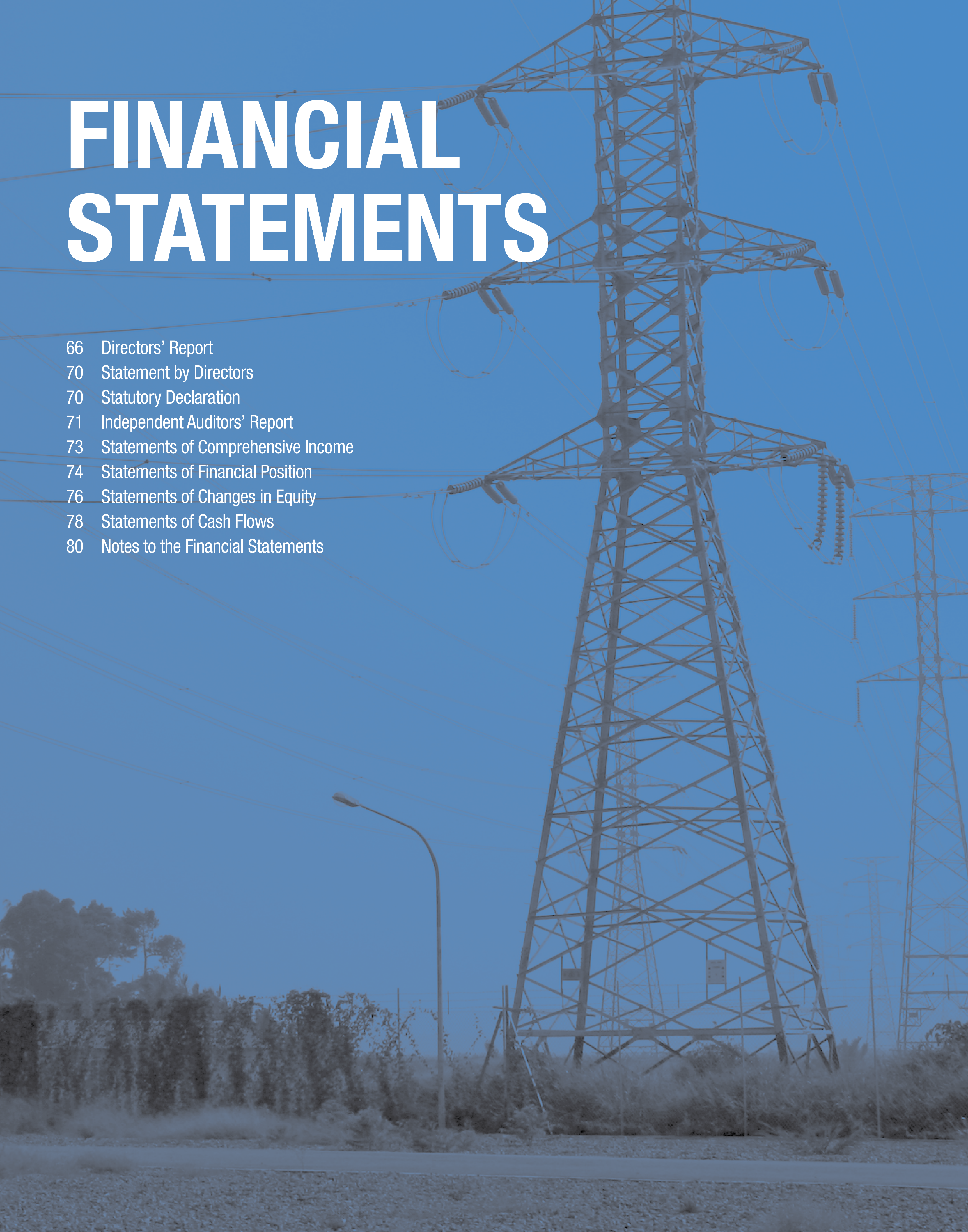
10.0 DISCLOSURE

- 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 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are disclosed in Note 14 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	244,108	83,977
Profit attributable to:		
Owners of the Company	244,422	83,977
Non-controlling interests	(314)	-
	244,108	83,977

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.

DIVIDENDS

The amount of dividends paid by the Company since 31 December 2011 was as follows:

In respect of the financial year ended 31 December 2011 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	66,436

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2012, 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 2013.

DIRECTORS' REPORT

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

In accordance with Article 82 of the Company's Articles of Association, YBhg Datuk Abdul Hamed Bin Sepawi and YBhg Datuk Fong Joo Chung 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 31 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 which they might be expected so to realise.

DIRECTORS' REPORT

OTHER STATUTORY INFORMATION (CONT'D)

(b) At the date of this report, the Directors are not aware of any circumstances which 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 which have arisen which 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 which 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 which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability of the Group and of the Company which 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 which 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

In addition to the significant events disclosed elsewhere in this report, other significant event is disclosed in Note 38 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.

DIRECTORS' REPORT

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 18 May 2013.

Datuk Amar Abdul Hamed Bin Sepawi

Dato' Haji Idris Bin Haji Buang

STATEMENT BY DIRECTORS

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

We, **Datuk Amar Abdul Hamed Bin Sepawi** and **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 73 to 150 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of 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 2012 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 18 May 2013.

Datuk Amar Abdul Hamed Bin Sepawi

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 73 to 150 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
above named **Haji Sulaiman Bin Haji Abdul Hamid**
at Kuching in the State of Sarawak
on 18 May 2013

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 2012 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 73 to 150.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is 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 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 give a true and fair view of the financial position of the Group and of the Company as at 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

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 financial statements of the subsidiaries that have been consolidated with the financial statements of the Group and 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 financial statements 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

(1) As stated in Note 2.1 to the financial statements, Sarawak Energy Berhad adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These standards were applied retrospectively by Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2011 and related disclosures. We were not engaged to report on the comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Group and of the Company for the year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

(2) 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: 18 May 2013

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Revenue	4	1,873,250	1,685,620	118,088	117,101
Cost of sales		(1,513,516)	(1,389,888)	-	-
Gross profit		359,734	295,732	118,088	117,101
Other items of income					
Interest income	5	81,220	25,731	69,671	15,961
Other income	6	166,956	173,375	19,743	564
Other items of expense					
Administrative and other expenses		(84,041)	(94,710)	(9,483)	(14,315)
Finance costs	7	(200,796)	(121,189)	(89,042)	(23,746)
Share of results of associates		(3,066)	5,071	-	-
Profit before tax	8	320,007	284,010	108,977	95,565
Income tax expense	11	(75,899)	51,574	(25,000)	(23,737)
Profit net of tax		244,108	335,584	83,977	71,828
Other comprehensive income					
Net movement on cash flow hedges		(5,175)	(1,451)	(5,175)	(1,451)
Total comprehensive income for the year		238,933	334,133	78,802	70,377
Profit attributable to:					
Owners of the Company		244,422	335,363	83,977	71,828
Non-controlling interests		(314)	221	-	-
		244,108	335,584	83,977	71,828
Total comprehensive income attributable to:					
Owners of the Company		239,247	333,912	78,802	70,377
Non-controlling interests		(314)	221	-	-
		238,933	334,133	78,802	70,377
Basic earnings per share attributable to owners of the Company (sen)	12	15.2	20.8		

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Note	Group			Company		
		2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
ASSETS							
Non-current assets							
Property, plant and equipment	13	10,269,333	9,120,254	7,593,227	19,326	18,171	17,799
Investment in subsidiaries	14	-	-	-	1,617,610	1,617,610	1,617,610
Investment in associates	15	12,688	45,712	42,241	14,100	35,693	35,693
Other investment	16	41,336	-	-	41,336	-	-
Deferred tax assets	17	174,064	181,075	78,730	-	-	206
Other receivables	20	-	-	-	4,067,871	3,213,341	-
		10,497,421	9,347,041	7,714,198	5,760,243	4,884,815	1,671,308
Current assets							
Property development costs	18	90,679	90,679	100,679	-	-	-
Inventories	19	389,671	351,456	298,626	-	-	-
Trade and other receivables	20	313,025	200,404	185,531	290,573	103,455	1,915,863
Other current assets	21	11,700	40,971	11,724	182	3,196	2,039
Amount due from customers on contract works		-	-	7,802	-	-	-
Derivative assets	27	-	5,398	-	-	5,398	-
Cash and bank balances	22	2,112,334	591,660	465,298	1,695,707	248,247	41,234
		2,917,409	1,280,568	1,069,660	1,986,462	360,296	1,959,136
TOTAL ASSETS		13,414,830	10,627,609	8,783,858	7,746,705	5,245,111	3,630,444

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	Group			Company		
		2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000	2012 RM'000	2011 RM'000	As at 1.1.2011 RM'000
EQUITY AND LIABILITIES							
Current liabilities							
Amount due to customers on contract works		-	-	36,589	-	-	-
Trade and other payables	23	840,011	680,704	614,769	128,926	104,612	16,719
Loans and borrowings	24	82,306	175,966	650,000	-	35,000	530,000
Income tax payable		697	3,633	14,280	-	-	-
Derivative liabilities	27	6,626	1,967	-	6,626	1,967	-
		929,640	862,270	1,315,638	135,552	141,579	546,719
Net current assets/(liabilities)		1,987,769	418,298	(245,978)	1,850,910	218,717	1,412,417
Non-current liabilities							
Deferred tax liabilities	17	503,586	440,616	396,222	-	-	-
Loans and borrowings	24	6,196,180	3,778,061	1,859,159	5,500,000	3,000,000	989,159
Deferred income	25	1,691,089	1,636,642	1,589,197	-	-	-
Retirement benefit obligations	26	153,445	136,745	119,354	1,100	963	820
Derivative liabilities	27	-	4,882	-	-	4,882	-
		8,544,300	5,996,946	3,963,932	5,501,100	3,005,845	989,979
Total liabilities		9,473,940	6,859,216	5,279,570	5,636,652	3,147,424	1,536,698
Net assets		3,940,890	3,768,393	3,504,288	2,110,053	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	1,610,569	1,610,569
Share premium	28	149,644	149,644	149,644	149,644	149,644	149,644
Reserves	29	2,171,099	1,998,288	1,730,812	349,840	337,474	333,533
		3,931,312	3,758,501	3,491,025	2,110,053	2,097,687	2,093,746
Non-controlling interests		9,578	9,892	13,263	-	-	-
Total equity		3,940,890	3,768,393	3,504,288	2,110,053	2,097,687	2,093,746
TOTAL EQUITY AND LIABILITIES		13,414,830	10,627,609	8,783,858	7,746,705	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 2012

Group 2012	Note	Share capital RM'000	Share premium RM'000	Capital reserves RM'000	Capital redemption 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 2012		**1,610,569**	**149,644**	**85,355**	**73,128**	**(1,451)**	**94,147**	**1,747,109**	**3,758,501**	**9,892**	**3,768,393**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**244,422**	**244,422**	**(314)**	**244,108**
Other comprehensive income		**-**	**-**	**-**	**-**	**(5,175)**	**-**	**-**	**(5,175)**	**-**	**(5,175)**
Total comprehensive income		**-**	**-**	**-**	**-**	**(5,175)**	**-**	**244,422**	**239,247**	**(314)**	**238,933**
Transactions with owners											
Dividends on ordinary shares	32	**-**	**-**	**-**	**-**	**-**	**-**	**(66,436)**	**(66,436)**	**-**	**(66,436)**
Closing balance at 31 December 2012		**1,610,569**	**149,644**	**85,355**	**73,128**	**(6,626)**	**94,147**	**1,925,095**	**3,931,312**	**9,578**	**3,940,890**
2011											
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
Profit for the year		-	-	-	-	-	-	335,363	335,363	221	335,584
Other comprehensive income		-	-	-	-	(1,451)	-	-	(1,451)	-	(1,451)
Total comprehensive income		-	-	-	-	(1,451)	-	335,363	333,912	221	334,133
Transactions with owners											
Dividends on ordinary shares	32	-	-	-	-	-	-	(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

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 2012

Company 2012	Note	Share capital RM'000	*Non-Distributable* Share premium RM'000	Capital redemption reserves RM'000	Hedging reserves RM'000	*Distributable* General reserves RM'000	Retained earnings RM'000	Total RM'000
Opening balance at 1 January 2012		**1,610,569**	**149,644**	**73,128**	**(1,451)**	**5,000**	**260,797**	**2,097,687**
Profit for the year		-	-	-	-	-	83,977	83,977
Other comprehensive income		-	-	-	(5,175)	-	-	(5,175)
Total comprehensive income		-	-	-	(5,175)	-	83,977	78,802
Transaction with owners								
Dividend on ordinary shares	32	-	-	-	-	-	(66,436)	(66,436)
Closing balance at 31 December 2012		**1,610,569**	**149,644**	**73,128**	**(6,626)**	**5,000**	**278,338**	**2,110,053**
2011								
Opening balance at 1 January 2011		1,610,569	149,644	73,128	-	5,000	255,405	2,093,746
Profit for the year		-	-	-	-	-	71,828	71,828
Other comprehensive income		-	-	-	(1,451)	-	-	(1,451)
Total comprehensive income		-	-	-	(1,451)	-	71,828	70,377
Transaction with owners								
Dividend on ordinary shares	32	-	-	-	-	-	(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

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 2012

	Note	Group		Company	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Operating activities					
Profit before tax		320,007	284,010	108,977	95,565
Adjustments for:					
Amortisation of deferred income	6	(108,336)	(111,922)	-	-
Bad debts written off	8	34	286	-	-
Depreciation of property, plant and equipment	8	351,709	320,493	855	934
Dividend income from related companies	4	-	-	(118,088)	(117,101)
Fair value gain on initial recognition of other investment	6	(12,107)	-	(19,743)	-
Gain on disposal of investment in a subsidiary	6	-	(3,619)	-	-
Interest expenses on loans and borrowings	7	3,816	14,414	3	145
Interest income from loans and receivables	5	(81,220)	(25,731)	(69,671)	(15,961)
Inventories (written back)/written off	8	(339)	6,136	-	-
Net impairment on receivables	6, 8	4,229	11,967	-	(560)
Net loss on disposal of property, plant and equipment	6, 8	2,156	2,191	-	-
Profit payments on Islamic debt securities	7	196,980	106,775	89,039	23,601
Property development costs written down	8	-	10,000	-	-
Property, plant and equipment written off	8	6	14	-	-
Retirement benefit obligations	9	21,253	21,258	146	146
Share of results of associates		3,066	(5,071)	-	-
Unrealised loss/(gain) on foreign exchange	6,8	479	(857)	-	-
Operating cash flows before changes in working capital		701,733	630,344	(8,482)	(13,231)
Changes in working capital:					
Inventories		(37,876)	(58,983)	-	-
Receivables		(125,341)	(54,571)	(867,089)	(1,399,644)
Other current assets		2,892	(1,756)	29	-
Payables		242,485	101,219	(28,217)	87,893
Total changes in working capital		82,160	(14,091)	(895,277)	(1,311,751)
Cash flows from/(used in) operations		783,893	616,253	(903,759)	(1,324,982)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Group		Company	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Interest paid		(5,582)	(14,414)	(1,003)	(145)
Taxes paid, net of refund		17,525	(44,375)	2,985	311
Retirement benefit paid	26	(4,553)	(3,867)	(9)	(3)
Net cash flows from/(used in) operating activities		791,283	553,597	(901,786)	(1,324,819)
Investing activities					
Capital contributions received	25	162,783	159,367	-	-
Purchase of property, plant and equipment		(1,503,730)	(1,853,390)	(2,010)	(1,306)
Proceeds from disposal of property, plant and equipment		780	2,582	-	-
Net cash outflow on disposal of a subsidiary	14	-	(33,863)	-	-
Interest received		81,294	25,731	69,671	15,961
Dividends received		1,456	873	93,816	91,373
Net cash flows (used in)/from investing activities		(1,257,417)	(1,698,700)	161,477	106,028
Financing activities					
Profit payments on Islamic debt securities		(270,967)	(106,829)	(210,795)	(23,601)
Net drawndown and repayment of Islamic debt securities		2,390,000	2,880,000	2,500,000	3,000,000
Net drawdown and repayment of other loans and borrowings		(65,541)	(1,435,270)	(35,000)	(1,484,159)
Dividend paid		(66,436)	(66,436)	(66,436)	(66,436)
Net cash flows from financing activities		1,987,056	1,271,465	2,187,769	1,425,804
Net increase in cash and cash equivalents		1,520,922	126,362	1,447,460	207,013
Effect of exchange rate changes on cash and cash equivalents		(248)	-	-	-
Cash and cash equivalents at 1 January		591,660	465,298	248,247	41,234
Cash and cash equivalents at 31 December	22	2,112,334	591,660	1,695,707	248,247

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 9th Floor, Menara Sarawak Energy, No. 1, The Isthmus, 93050 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 Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. These are the Group and the Company's first financial statements prepared in accordance with MFRS and MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards, has been applied. In the previous years, the financial statements of the Group and the Company were prepared in accordance with Financial Reporting Standards (FRS).

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

Except for certain differences, the requirements under FRS and MFRS are similar. The significant accounting policies adopted in preparing these consolidated financial statements are consistent with those of the audited financial statements for the year ended 31 December 2011 except as discussed below:

(a) Business combinations

MFRS 1 provides the option to apply MFRS 3, Business Combinations, prospectively from the date of transition or from a specific date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would require restatement of all business combinations prior to the date of transition.

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

2.2 Changes in accounting policies (cont'd)

(a) Business combinations (cont'd)

Acquisitions before date of transition

The Group has elected to apply MFRS 3 prospectively from 1 January 2011. In respect of acquisitions prior to the date of transition,

(i) The classification of former business combinations under FRS is maintained;

(ii) There is no re-measurement of original fair values determined at the time of business combination (date of acquisition); and

(iii) The carrying amount of goodwill recognised under FRS is not adjusted.

(b) Property, plant and equipment

The Group has previously adopted the transitional provisions available on the first application of the MASB Approved Accounting Standard IAS 16 (Revised) Property, Plant and Equipment which was effective for periods ending on or after 1 September 1998. By virtue of this transitional provision, the Group had recorded leasehold land and certain buildings at revalued amounts but had not adopted a policy of revaluation and continued to carry those land and buildings on the basis of their previous revaluations subject to continuity in its depreciation policy and requirement to write down the assets to their recoverable amounts for impairment adjustments.

Upon transition to MFRS, the Group has elected to measure all its property, plant and equipment using the cost model under MFRS 116 Property, Plant and Equipment. At the date of transition to MFRS, the Group elected to regard the revalued amounts of land and buildings during the year 1993 as deemed cost at the date of the revaluation as these amounts were broadly comparable to fair value at that date. The revaluation surplus for the Group had been fully utilised pursuant to a corporate exercise undertaken by the Group in earlier years.

(c) Defined benefit plans

The Group provides post-retirement medical benefit plan ("the Plan") for employees and their eligible family members as disclosed in Note 2.20 (c) and Note 26. MFRS 119 Employee Benefits requires cumulative actuarial gains and losses from the inception until date of transition of the Plan to be split into a recognised and an unrecognised portion.

Upon transition to MFRS, the Group has elected to apply the optional exemption provides in MFRS 1 to recognise all cumulative actuarial gains and losses at date of transition. The Group has no actuarial gains and losses arising from the Plan.

Accordingly, there are no adjustments arising from the transition to MFRS and the notes to the financial statements of the Group and of the Company as at date of transition to MFRS remain unchanged from that previously reported.

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

2.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
MFRS 101: Presentation of Items of Other Comprehensive Income (Amendments to MFRS 101)	1 July 2012
Amendments to MFRS 101: Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)	1 January 2013
MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)	1 January 2013
MFRS 10: Consolidated Financial Statements	1 January 2013
MFRS 11: Joint Arrangements	1 January 2013
MFRS 12: Disclosure of interests in Other Entities	1 January 2013
MFRS 13: Fair Value Measurement	1 January 2013
MFRS 119: Employee Benefits	1 January 2013
MFRS 127: Separate Financial Statements	1 January 2013
MFRS 128: Investment in Associate and Joint Ventures	1 January 2013
MFRS 127: Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)	1 January 2013
Amendment to IC Interpretation 2: Members' Shares in Co-operative Entities and Similar Instruments (Annual Improvements 2009-2011 Cycle)	1 January 2013
IC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards – Government Loans	1 January 2013
Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 116: Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 132: Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 134: Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 10: Consolidated Financial Statements: Transition Guidance	1 January 2013
Amendments to MFRS 11: Joint Arrangements: Transition Guidance	1 January 2013
Amendments to MFRS 12: Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities	1 January 2014
MFRS 9: Financial Instruments	1 January 2015

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

2.3 Standards issued but not yet effective (cont'd)

The Directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application. The relevant standards are discussed below:

Amendments to MFRS 101: Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)

The amendments to MFRS 101 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position and performance.

MFRS 3: Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004) and MFRS 127: Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)

An entity shall apply these earlier versions of MFRS 3 and MFRS 127 only if the entity has elected to do so as allowed in MFRS 10: Consolidated Financial Statements. The adoptions of these standards are not expected to have any significant impact to the Group.

MFRS 10: Consolidated Financial Statements

MFRS 10 replaces part of MFRS 127 Consolidated and Separate Financial Statements that deals with consolidated financial statements and IC Interpretation 112: Consolidation – Special Purpose Entities.

Under MFRS 10, an investor controls an investee when (a) the investor has power over an investee, (b) the investor has exposure, or rights, to variable returns from its involvement with the investee, and (c) the investor has ability to use its power over the investee to affect the amount of the investor's returns. Under MFRS 127: Consolidated and Separate Financial Statements, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

MFRS 10 includes detailed guidance to explain when an investor has control over the investee. MFRS 10 requires the investor to take into account all relevant facts and circumstances. The Group is in the process of assessing the effect of the new requirements.

MFRS 12: Disclosures of Interests in Other Entities

MFRS 12 includes all disclosure requirements for interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are required. This standard affects disclosures only and has no impact on the Group's financial position or performance.

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

2.3 Standards issued but not yet effective (cont'd)

MFRS 13: Fair Value Measurement

MFRS 13 provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by MFRS. The adoption of MFRS 13 will affect some of the fair value of certain assets and liabilities and thus affecting the profit and equity of the Group.

MFRS 119: Employee Benefits

The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" as permitted under the previous version of MFRS 119 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to MFRS 119 require retrospective application with certain exceptions. The Group is currently assessing the impact that this standard will have on the financial position and performance of the Group.

MFRS 127: Separate Financial Statements

As a consequence of the new MFRS 10 and MFRS 12, MFRS 127 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements.

MFRS 128: Investments in Associates and Joint Ventures

As a consequence of the new MFRS 11 and MFRS 12, MFRS 128 is renamed as MFRS 128 Investments in Associates and Joint Ventures. This new standard describes the application of the equity method to investments in joint ventures in addition to associates.

2.4 Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Company has the ability to exercise its power to govern the financial and operating policies of and entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investment in subsidiaries is measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is held for sale or distribution. The cost of investments includes transaction costs.

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

2.4 Basis of consolidation (cont'd)

(ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

Acquisitions on or after 1 January 2011

For acquisition on or after 1 January 2011, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

If this is less than the fair value of the identifiable net assets acquired, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debts or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions before 1 January 2011

As part of its transition to MFRS, the Group elected not to restate those business combinations that occurred before the date of transition to MFRS, i.e. 1 January 2011.

(iii) Acquisitions of non-controlling interests

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(iv) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

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

2.4 Basis of consolidation (cont'd)

(v) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss the comprehensive income for the year between non-controlling interests and the owners of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(vii) Associates

Associates are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution. The cost of the investment includes transaction costs. The consolidate financial statements include the Group's share of the profit or loss and other comprehensive income of the associates, after adjustments if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associates, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

Investment in associates are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

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

2.5 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.

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.

2.6 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.

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

2.6 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 is 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.

2.7 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)

2.7 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 disposed of 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.

2.8 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 of 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 then, 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)

2.9 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.

(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.

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

2.9 Financial assets (cont'd)

(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.

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

2.10 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.

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.

2.11 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.

2.12 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.

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

2.12 Construction contracts (cont'd)

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.

2.13 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.

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

2.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and when 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.

2.16 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.

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 is recognised in the income statement when the performance obligations associated with receiving those customer contributions are met.

2.17 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 MFRS 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.

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

2.17 Financial liabilities (cont'd)

(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.

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.

2.18 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. 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.

2.19 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)

2.20 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.

2.21 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.

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

2.21 Leases (cont'd)

(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.

2.22 Hedge accounting

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

For the purpose of hedge accounting, hedging relationship is 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.

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

2.22 Hedge accounting (cont'd)

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 sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

(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.

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

2.22 Hedge accounting (cont'd)

(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.

2.23 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.

(c) Transfers of assets from customers

Revenue arising from assets transferred from customers is 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 2.12.

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

2.23 Revenue (cont'd)

(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 2.13.

2.24 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.

(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.

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

2.24 Income taxes (cont'd)

(b) Deferred tax (cont'd)

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.

2.25 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.

2.26 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 JUDGMENTS

The preparation of the Group's financial statements requires management to make judgments, 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 judgment in applying accounting policies

In determining and applying accounting policies, judgment 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 judgments, 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.

(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 (i.e. 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 2 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 that 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 RM1,057,100,000 (2011: RM1,078,784,000).

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

3.2 Key sources of estimation uncertainty (cont'd)

(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 and the Company's loans and receivables at the reporting date is disclosed in Note 20 and Note 22.

(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 of the Group and the Company as at 31 December 2012 is RM153,445,000 (2011: RM136,745,000) and RM1,100,000 (2011: RM963,000) respectively. Further details are given in Note 26.

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 4.25% from year 2012 onwards 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.

(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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Dividend income from related companies	-	-	118,088	117,101
Sales of electricity	1,862,641	1,673,175		-
Manufacture of transformers	3	1,718	-	-
Constructing electrical works	2,283	2,570	-	-
Others	8,323	8,157	-	-
	1,873,250	1,685,620	118,088	117,101

5. INTEREST INCOME

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Interest income from loans and receivables:				
- Short-term deposits	81,060	25,454	69,665	15,957
- Others	160	277	6	4
	81,220	25,731	69,671	15,961

6. OTHER INCOME

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Gain on disposal of property, plant and equipment	-	22	-	-
Gain on disposal of investment in a subsidiary	-	3,619	-	-
Gain on foreign exchange				
- realised	142	1,841	-	-
- unrealised	-	857	-	-
Sundries	26,413	18,095	-	4
Income from Certified Emission Reduction	8,910	16,774	-	-
Amortisation of deferred income (Note 25)	108,336	111,922	-	-
Customers' contribution for connection charges	6,704	15,518	-	-
Rental income from land and building	3,838	4,167	-	-
Reversal of allowance for impairment loss on loans and receivables (Note 20)	506	560	-	560
Fair value gain on initial recognition of other investment (Note 16)	12,107	-	19,743	-
	166,956	173,375	19,743	564

7. FINANCE COSTS

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Interest expenses/profit payments on:				
- Finance lease	6	6	-	-
- Islamic debt securities	323,747	147,691	263,614	79,746
- Syndicated borrowings	-	23,087	-	23,087
- Revolving credits	715	17,373	715	17,373
- Term loan	4,572	4,230	-	-
	329,040	192,387	264,329	120,206
Amount charged to subsidiaries	-	-	(174,286)	(96,460)
Amount charged to shareholders	(1,001)	-	(1,001)	-
Amount capitalised in capital work-in-progress (Note 13)				
- Profit payments on Islamic debt securities	(125,766)	(40,916)	-	-
- Interest expenses on revolving credit	(170)	(2,965)	-	-
- Interest expenses/profit payments on syndicated borrowings	-	(23,087)	-	-
- Interest expense on term loan	(1,307)	(4,230)	-	-
	(127,243)	(71,198)	-	-
	200,796	121,189	89,042	23,746

8. PROFIT BEFORE TAX

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
The following amounts have been included in arriving at profit before tax:				
Auditors' remuneration				
- statutory audits				
current year	405	309	90	70
underprovision in prior years	124	10	20	5
- other services	315	588	315	419
Bad debts written off	34	286	-	-
Depreciation of property, plant and equipment (Note 13)	351,709	320,493	855	934
Directors' remuneration (Note 10)	1,013	938	459	358
Employee benefits expense (Note 9)	264,837	237,367	3,376	2,580
Finance costs (Note 7)	200,796	121,189	89,042	23,746
Inventories (written back)/written off	(339)	6,136	-	-
Impairment loss on trade receivables (Note 20)	4,735	12,527	-	-
Loss on disposal of property, plant and equipment	2,156	2,213	-	-
Loss on foreign exchange				
- realised	1,489	213	-	-
- unrealised	479	-	-	-
Operating lease	7,455	7,425	27	38
Property development costs written down (Note 18)	-	10,000	-	-
Property, plant and equipment written off	6	14	-	-
Power purchase	164,196	47,383	-	-

9. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Salaries, wages, overtime and bonus	196,561	176,213	22,272	21,516
Social security contributions	1,868	1,521	85	58
Contributions to defined contribution plan	25,520	21,027	1,674	1,034
Other benefits	27,793	21,706	1,398	1,187
Retirement benefit obligations (Note 26)	21,253	21,258	146	146
	272,995	241,725	25,575	23,941
Less: Amount capitalised in capital work-in-progress (Note 13)	(8,158)	(4,358)	-	-
Less: Amount charged to subsidiaries	-	-	(22,199)	(21,361)
	264,837	237,367	3,376	2,580

10. DIRECTORS' REMUNERATION

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Directors of the Company				
Emoluments	66	30	63	28
Fees	498	432	396	330
	564	462	459	358
Other Directors				
Emoluments	245	272	-	-
Fees	204	204	-	-
	449	476	-	-
Total Directors' remuneration (Note 31)	1,013	938	459	358

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

	Number of Directors	
	2012	2011
Non-Executive Directors		
RM50,001 - RM100,000	2	3
RM100,001 - RM150,000	3	2

11. INCOME TAX EXPENSE

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2012 and 2011 are:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Statements of comprehensive income:				
Current income tax:				
- Malaysian income tax	7,640	8,707	25,000	25,000
- Over provision in respect of previous years	(1,722)	(2,413)	-	(1,469)
	5,918	6,294	25,000	23,531
Deferred tax (Note 17):				
- Origination and reversal of temporary differences	64,526	43,184	-	206
- Under provision in respect of previous years	5,455	6,648	-	-
- Deferred tax assets recognised on investment allowance	-	(107,700)	-	-
	69,981	(57,868)	-	206
Income tax expense recognised in profit or loss	75,899	(51,574)	25,000	23,737

Current income tax is calculated at the Malaysian statutory tax rate of 25% (2011: 25%) of the estimated assessable profit for the year.

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 2012 and 2011 are as follows:

	Group	
	2012 RM'000	2011 RM'000
Profit before tax	320,007	284,010
Tax at Malaysian statutory tax rate of 25% (2011: 25%)	80,002	71,003
Adjustments:		
Tax effect of non-deductible expenses	25,554	19,493
Tax effect of income not subject to tax	(34,157)	(37,337)
Tax effect of share of results of associates	767	(1,268)
Deferred tax assets recognised	-	(107,700)
Over provision of current income tax in respect of previous years	(1,722)	(2,413)
Under provision of deferred tax in respect of previous years	5,455	6,648
Income tax expense recognised in profit or loss	75,899	(51,574)

	Company	
	2012 RM'000	2011 RM'000
Profit before tax	108,977	95,565
Tax at Malaysian statutory tax rate of 25% (2011: 25%)	27,244	23,891
Adjustments:		
Tax effect of non-deductible expenses	7,214	5,734
Tax effect of income not subject to tax	(9,458)	(4,419)
Over provision of current income tax in respect of previous years	-	(1,469)
Income tax expense recognised in profit or loss	25,000	23,737

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	
	2012 RM'000	2011 RM'000
Profit net of tax attributable to owners of the Company used in the computation of basic earnings per shares	**244,422**	335,363
Weighted average number of ordinary shares for basic earnings per share computation	**1,610,569**	1,610,569
Basic earnings per share (sen)	**15.2**	20.8

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												
At 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 and 1 January 2012	**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**
Additions	**-**	**1,216**	**72,567**	**-**	**201,595**	**154,346**	**13,942**	**1,455**	**853**	**47,166**	**1,010,590**	**1,503,730**
Disposals/written off	**-**	**-**	**-**	**-**	**(5,496)**	**(1,090)**	**(1,049)**	**(342)**	**(67)**	**(3,129)**	**-**	**(11,173)**
Reclassification/transfer	**-**	**9,783**	**195,436**	**-**	**44,157**	**11,428**	**8,596**	**-**	**1,788**	**43,953**	**(315,141)**	**-**
At 31 December 2012	**1,180**	**171,972**	**891,761**	**438,913**	**4,737,299**	**2,302,925**	**731,925**	**77,787**	**118,140**	**404,776**	**4,492,377**	**14,369,055**

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

Group (cont'd)	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
Accumulated depreciation												
At 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 and 1 January 2012	**-**	**47,001**	**196,725**	**163,716**	**1,907,343**	**806,103**	**301,532**	**52,142**	**50,000**	**231,682**	**-**	**3,756,244**
Depreciation charge for the year (Note 8)	**-**	**3,205**	**19,320**	**4,864**	**186,042**	**77,615**	**25,127**	**3,881**	**4,499**	**27,156**	**-**	**351,709**
Disposals/written off	**-**	**-**	**-**	**-**	**(2,999)**	**(772)**	**(932)**	**(340)**	**(65)**	**(3,123)**	**-**	**(8,231)**
Reclassification/transfer	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**(1)**	**-**	**-**	**-**
At 31 December 2012	**-**	**50,206**	**216,045**	**168,580**	**2,090,386**	**882,946**	**325,728**	**55,683**	**54,433**	**255,715**	**-**	**4,099,722**
Net carrying amount												
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
At 31 December 2012	**1,180**	**121,766**	**675,716**	**270,333**	**2,646,913**	**1,419,979**	**406,197**	**22,104**	**63,707**	**149,061**	**4,492,377**	**10,269,333**

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

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

Company	Leasehold land RM'000	Motor vehicle, furniture, fittings, equipment and others RM'000	Capital work-in-progress RM'000	Total RM'000
Cost				
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 and 1 January 2012	**14,657**	**6,665**	**2,543**	**23,865**
Additions	**-**	**190**	**1,820**	**2,010**
Disposals	**-**	**(101)**	**-**	**(101)**
At 31 December 2012	**14,657**	**6,754**	**4,363**	**25,774**
Accumulated depreciation				
At 1 January 2011	1,303	3,457	-	4,760
Depreciation charge for the year (Note 8)	261	673	-	934
At 31 December 2011 and 1 January 2012	**1,564**	**4,130**	**-**	**5,694**
Depreciation charge for the year (Note 8)	**261**	**594**	**-**	**855**
Disposals	**-**	**(101)**	**-**	**(101)**
At 31 December 2012	**1,825**	**4,623**	**-**	**6,448**
Net carrying amount				
At 31 December 2011	13,093	2,535	2,543	18,171
At 31 December 2012	**12,832**	**2,131**	**4,363**	**19,326**

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 2012 but not capitalised amounted to RM4,125,665 (2011: RM9,837,223). 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	
	2012 RM'000	2011 RM'000
Employee benefits expense (Note 9)	8,158	4,358
Finance costs (Note 7)	127,243	71,198
Operating lease	154	150
Settlement of forward currency contracts (Note 27)	14,614	765

Assets held under finance lease

In 2011, the Group acquired property, plant and equipment with an aggregate cost of RM213,000 by means of finance lease. The carrying amount of property, plant and equipment held under finance lease at the reporting date was RM127,800 (2011: RM170,400).

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

14. INVESTMENT IN SUBSIDIARIES

	Company	
	2012 RM'000	2011 RM'000
Unquoted shares, at costs	1,666,383	1,666,383
Share options granted to employees of subsidiaries	46,000	46,000
	1,712,383	1,712,383
Less: Accumulated impairment losses	(94,773)	(94,773)
	1,617,610	1,617,610

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:

Name	Principal activities	Proportion (%) of ownership interest 2012	2011
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 2012	Proportion (%) of ownership interest 2011
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
PPLS Power Generation Sdn Bhd	Power generation	**100.00**	100.00
Held through Sejingkat Power Corporation Sdn Bhd:			
SE Lite Crete Sdn Bhd #	Manufacture of Light Weight Block	**50.00**	50.00
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)

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

In 2011, negotiations had been entered with SEE's other corporate shareholder, CP Power Sdn Bhd (CP Power) to dispose the Group's entire 70% equity interest in SEE. Following the negotiations, the Group had ceased control over the power to govern the financial and operating policies of SEE. SEE was deemed to be disposed in the beginning of the previous financial year.

The disposal had the following effects on the financial position of the Group as at the end of the previous 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 17)	(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	12,000

14. INVESTMENT IN SUBSIDIARIES (CONT'D)

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

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

	2011 RM'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)

15. INVESTMENT IN ASSOCIATES

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Quoted shares in Malaysia, at cost	-	12,952	-	21,593
Share of post-acquisition reserves	-	16,080	-	-
	-	29,032	-	21,593
Unquoted shares in Malaysia, at cost	37,470	37,470	30,413	30,413
Share of post-acquisition reserves	(10,414)	(6,422)	-	-
	27,056	31,048	30,413	30,413
Less: Accumulated impairment losses	(14,368)	(14,368)	(16,313)	(16,313)
	12,688	16,680	14,100	14,100
	12,688	45,712	14,100	35,693
Market value of quoted shares	-	57,347	-	57,347

15. INVESTMENT IN ASSOCIATES (CONT'D)

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

Name	Principal activities	Proportion (%) of ownership interest 2012	2011
Held by the Company:			
Dectra Sdn Bhd #	Inactive	**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
Seatrac Sdn Bhd #	Inactive	**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
Held through Dunlop Properties Sdn Bhd:			
Integrated Circuit Design Services Sdn Bhd #^	Inactive	**30.00**	30.00
Held through Syarikat SESCO Berhad:			
Sarawak Gas Distribution Sdn Bhd	Distribution of gas	**30.00**	30.00

* *On 20 November 2012, there was a dilution of equity interest held by the Company in Sarawak Cable Berhad (SCB) from 21.56% to 18.75% due to a corporate exercise undertaken by SCB. As the Company has ceased to have significant influence over SCB, consequently, the investment in SCB is accounted for as a simple investment, as disclosed in Note 16.*

^ *Integrated Circuit Design Services Sdn Bhd is in the process of striking off.*

15. INVESTMENT IN ASSOCIATES (CONT'D)

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	
	2012 RM'000	2011 RM'000
Assets and liabilities		
Current assets	78,014	290,307
Non-current assets	129,301	193,010
Total assets	207,315	483,317
Current liabilities	(120,628)	(246,121)
Non-current liabilities	(16,731)	(21,963)
Total liabilities	(137,359)	(268,084)
Results		
Revenue	438,108	593,738
(Loss)/profit for the year	(8,371)	25,072

16. OTHER INVESTMENT

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Available-for-sale financial asset				
- quoted equity instrument in Malaysia, at fair value	41,336	-	41,336	-

The above amount is stated after the fair value gain on initial recognition, consequential to the event as disclosed in Note 15, amounting to RM12,107,000 and RM19,743,000 for the Group and the Company respectively.

The fair value of quoted equity instrument is determined by reference to its quoted price on the Bursa Malaysia.

17. DEFERRED TAX

	Company 2012 RM'000	Company 2011 RM'000
As at 1 January	-	206
Recognised in statement of comprehensive income (Note 11)	-	(206)
As at 31 December	-	-

The component of the Company's deferred tax assets was in respect of retirement benefit obligations.

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

Group	As at 1 January 2011 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	Recognised in statement of comprehensive income RM'000 (Note 11)	As at 31 December 2012 RM'000
Deferred tax liabilities:						
Revaluation of land and building	(14,184)	4,826	-	(9,358)	290	(9,068)
Accelerated capital allowances	(456,437)	(64,525)	83	(519,879)	(59,655)	(579,534)
Others	-	-	-	-	(5,407)	(5,407)
	(470,621)	(59,699)	83	(529,237)	(64,772)	(594,009)
Deferred tax assets:						
Property development costs	-	2,500	-	2,500	-	2,500
Retirement benefit obligations	29,803	4,141	-	33,944	4,140	38,084
Unutilised investment allowance and tax losses	122,326	110,926	-	233,252	(9,349)	223,903
	152,129	117,567	-	269,696	(5,209)	264,487
	(317,492)	57,868	83	(259,541)	(69,981)	(329,522)
Presented after appropriate offsetting as follow:						
Deferred tax liabilities				(440,616)		(503,586)
Deferred tax assets				181,075		174,064
				(259,541)		(329,522)

18. PROPERTY DEVELOPMENT COSTS

	Group	
	2012 RM'000	2011 RM'000
Freehold land	5,600	5,600
Development cost	85,079	85,079
	90,679	90,679

The carrying amount of the property development costs was stated after a write down of RM10.0 million.

19. INVENTORIES

	Group	
	2012 RM'000	2011 RM'000
Cost		
Finished goods	3,492	6,303
Work-in-progress	3,987	2,268
Raw materials and consumables	382,192	342,885
	389,671	351,456

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current				
(a) **Trade receivables**				
Third parties	221,167	172,745	-	-
Less: Allowance for impairment	(19,467)	(15,238)	-	-
Trade receivables, net (i)	201,700	157,507	-	-

20. TRADE AND OTHER RECEIVABLES (CONT'D)

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current (cont'd)				
(b) Other receivables				
Amounts due from related companies				
- subsidiaries (ii)	-	-	312,081	208,538
- associates (iii)	10,975	10,975	10,924	10,924
Amount due from shareholders (iv)	73,592	170	73,592	170
Deposits	490	489	228	297
Dividend receivable	-	728	-	728
Sundry receivables (v)	45,203	74,470	11,595	645
	130,260	86,832	408,420	221,302
Less: Allowance for impairment				
- related companies				
- subsidiaries	-	-	(106,923)	(106,923)
- associate	(10,924)	(10,924)	(10,924)	(10,924)
- third parties	(8,011)	(33,011)	-	-
	111,325	42,897	290,573	103,455
	313,025	200,404	290,573	103,455
Non-current				
Other receivables				
Amounts due from subsidiaries (ii)	-	-	4,067,871	3,213,341
Total trade and other receivables	313,025	200,404	4,358,444	3,316,796

(i) Trade receivables

Trade receivables are non interest bearing.

The Group's normal trade credit term ranges from 14 to 60 days (2011: 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.

20. TRADE AND OTHER RECEIVABLES (CONT'D)

(i) Trade receivables (cont'd)

Ageing analysis of trade receivables

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

	Group	
	2012 RM'000	2011 RM'000
Current	**140,696**	109,941
1 to 30 days past due	**26,255**	14,369
31 to 60 days past due	**12,962**	5,201
61 to 90 days past due	**7,211**	6,316
More than 90 days past due	**34,043**	36,918
	221,167	172,745

Receivables that are past due but not subject to impairment

The Group has trade receivables amounting to RM50.5 million (2011: RM31.0 million) that are past due at the reporting date but not impaired.

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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Trade receivables						
- nominal amounts	**29,371**	30,737	**544**	1,044	**29,915**	31,782
Less: Allowance for impairment	**(18,938)**	(14,216)	**(529)**	(1,021)	**(19,467)**	(15,238)
	10,433	16,521	**15**	23	**10,448**	16,544

20. TRADE AND OTHER RECEIVABLES (CONT'D)

(i) Trade receivables (cont'd)

Receivables that are subject to impairment (cont'd)

	Group	
	2012 RM'000	2011 RM'000
Movement in allowance accounts:		
At 1 January	15,238	2,711
Impairment during the year (Note 8)	4,735	12,527
Reversal of impairment loss (Note 6)	(506)	-
At 31 December	19,467	15,238

The Group's trade receivables amounting to RM61.0 million (2011: RM47.6 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 RM297.6 million (2011: RM277.3 million).

(ii) Amounts due from subsidiaries

Amounts due from subsidiaries are unsecured and non-interest bearing except for amounts of RM4,200.5 million (2011: RM3,248.6 million) which bear interest at rates from 4.68% to 5.01% (2011: 5.00% to 5.30%) per annum. These amounts are repayable on demand except for RM4,067.9 million (2011: RM3,213.3 million) which are repayable after one year.

(iii) Amounts due from associates

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

(iv) Amounts due from shareholders

Amounts due from shareholders represents the advance or payment on behalf of the controlling shareholder of the Company for the Murum Hydroelectric Project's resettlement cost. The Company charged interest at 4.68% per annum on the amount outstanding.

(v) Sundry receivables

Included in sundry receivables of the Group are the following amounts:

- Due from former associates of RM7.0 million (2011: RM32.0 million). During the year, an amount of RM25.0 million due from a former associate which was fully impaired in prior year was novated to the controlling shareholder of the Company.
- Accrued income from Certified Emission Reduction of RM13.3 million (2011: RM16.6 million).

21. OTHER CURRENT ASSETS

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Prepaid operating expenses	6,333	9,225	5	34
Tax recoverable	5,367	31,746	177	3,162
	11,700	40,971	182	3,196

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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Short-term deposits with licensed banks	1,859,102	510,637	1,633,378	246,481
Cash at banks and on hand	253,232	81,023	62,329	1,766
Cash and cash equivalents	2,112,334	591,660	1,695,707	248,247

Short-term deposits are made for varying periods of between one day and 351 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 short-term deposits at balance sheet date range from 1.00% to 3.90% (2011: 1.00% to 3.90%) per annum.

Short-term deposits with licensed banks of the Group amounting to RM58,543,133 (2011: RM76,240,919) are pledged as securities for the Group's borrowings.

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current				
Trade payables				
Third parties	201,332	229,934	-	-
Amount due to associates	19,698	9,077	-	-
	221,030	239,011	-	-
Other payables				
Other payables	60,167	50,324	919	419
Accruals	174,079	28,127	62,713	9,460
Amounts due to subsidiaries	-	-	64,104	94,733
Collateral deposits	297,581	277,318	-	-
Deposit payable	2,710	1,483	1,000	-
Retention money	84,444	84,441	190	-
	618,981	441,693	128,926	104,612
Total trade and other payables	840,011	680,704	128,926	104,612

(a) Trade payables

Trade payables are non-interest bearing. The normal trade credit term granted to the Group ranges from 14 to 120 days (2011: 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 (2011: 14 to 120 days).

(c) Amounts due to subsidiaries

Included in amounts due to subsidiaries is an amount of RM63,577,000 (2011: RM94,733,000), which bears interest at 5.55% (2011: 5.30%) per annum. These amounts are unsecured and are repayable on demand.

24. LOANS AND BORROWINGS

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current				
Unsecured:				
Islamic debt securities	-	55,000	-	-
Revolving credits	-	35,000	-	35,000
	-	90,000	-	35,000
Secured:				
Islamic debt securities	50,000	55,000	-	-
Term loan	32,292	30,953	-	-
Obligation under finance lease	14	13	-	-
	82,306	85,966	-	-
	82,306	175,966	-	35,000
Non-current				
Unsecured:				
Islamic debt securities	5,500,000	3,000,000	5,500,000	3,000,000
	5,500,000	3,000,000	5,500,000	3,000,000
Secured:				
Islamic debt securities	660,000	710,000	-	-
Term loan	36,080	67,947	-	-
Obligation under finance lease	100	114	-	-
	696,180	778,061	-	-
	6,196,180	3,778,061	5,500,000	3,000,000
Total loans and borrowings	6,278,486	3,954,027	5,500,000	3,035,000

24. LOANS AND BORROWINGS (CONT'D)

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 as at 2011 bore interest rates of 6.55% per annum and was redeemed during the financial year.

(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 2012 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	50.0	2007	6.60 - 7.05	2013 - 2016
	155.0			

The Sukuk Musharakah is redeemable as follows:

	Group	
	2012 RM'000	2011 RM'000
Redeemable within one year	10,000	15,000
Redeemable after one year	145,000	155,000
	155,000	170,000

24. LOANS AND BORROWINGS (CONT'D)

Islamic debt securities (cont'd)

(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 2012 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	5.0	2008	6.90	2013
	555.0			

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	
	2012 RM'000	2011 RM'000
Redeemable within one year	**40,000**	40,000
Redeemable after one year	**515,000**	555,000
	555,000	595,000

(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 previous 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 19 January 2012, the Company has raised a total amount of RM2.5 billion from its second issuance during the current financial year.

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 Musyarakah is tabulated below:

Year of Issuance	Nominal amount RM' million	Profit payment rates %	Tenures Years	Redemption dates Year
2011	3,000	4.40 - 5.65	5 - 15	2016 - 2026
2012	2,500	4.50 - 4.85	10 - 15	2022 - 2027
	5,500			

The Sukuk Musyarakah is redeemable as follows:

	Group/Company	
	2012 RM'000	2011 RM'000
Redeemable after one year	**5,500,000**	3,000,000

Revolving credits

The unsecured revolving credits of the Group and the Company bore interest rates of 4.43% to 5.00% per annum in the previous financial year. The unsecured revolving credits were fully repaid during the current financial year.

Term Loan - secured

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 Headquarters Building. A total of RM98.9 million has been drawndown.

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

This borrowing bears profit payment rate at 5.55% (2011: 5.30%) per annum and is repayable in 37 monthly equal instalments, with first instalment commenced on January 2012.

24. LOANS AND BORROWINGS (CONT'D)

Term Loan - secured (cont'd)

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

	Group	
	2012 RM'000	2011 RM'000
Redeemable within one year	32,292	30,953
Redeemable after one year	36,080	67,947
	68,372	98,900

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 balance sheet date are as follows:

	Group	
	2012 RM'000	2011 RM'000
Within one year	14	13
After one year	100	114
	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	
	2012 RM'000	2011 RM'000
At 1 January	**1,636,642**	1,589,197
Received during the year	**162,783**	159,367
Amortisation during the year (Note 6)	**(108,336)**	(111,922)
At 31 December	**1,691,089**	1,636,642

Capital contributions and grants received from consumers and the Government during the year amounted to RM162,782,717 (2011: RM159,366,977) and an amount of RM108,335,939 (2011: RM111,921,800) was transferred to the income statement based on accounting policy as stated in Note 2.16.

26. EMPLOYEE BENEFITS

Retirement benefit obligations

The Group provides post-retirement medical benefit plan ("the Plan") for certain 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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At 1 January	**136,745**	119,354	**963**	820
Recognised in income statement	**21,253**	21,258	**146**	146
Benefits paid	**(4,553)**	(3,867)	**(9)**	(3)
At 31 December	**153,445**	136,745	**1,100**	963

26. EMPLOYEE BENEFITS (CONT'D)

Retirement benefit obligations (cont'd)

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

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Present value of unfunded defined benefit obligations	**170,072**	157,765	**1,127**	993
Unrecognised past service costs	**(16,627)**	(21,020)	**(27)**	(30)
Net liability	**153,445**	136,745	**1,100**	963

The amounts recognised in the income statement are as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current service cost	**6,605**	7,455	**79**	88
Interest cost	**10,255**	9,410	**64**	55
Past service costs	**4,393**	4,393	**3**	3
Total, included in employee benefits expense (Note 9)	**21,253**	21,258	**146**	146

Principal actuarial assumptions used:

	Group		Company	
	2012 %	2011 %	2012 %	2011 %
Discount rate	**6.50**	6.50	**6.50**	6.50
Medical cost inflation rate	**4.25**	5.00	**4.25**	5.00

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

27. DERIVATIVE ASSETS/(LIABILITIES)

	2012			2011		
	Contract/ Notional Amount RM'000	Fair value Assets RM'000	Fair value Liabilities RM'000	Contract/ Notional Amount RM'000	Fair value Assets RM'000	Fair value Liabilities RM'000
Group/Company						
Cash flow hedges						
- Forward currency contracts	161,186	-	(6,626)	682,672	5,398	(6,849)
Analysed as:						
Current		-	(6,626)		5,398	(1,967)
Non-current		-	-		-	(4,882)
		-	(6,626)		5,398	(6,849)

Foreign currency risk

At 31 December 2012, the Group held forward currency contracts designated as hedges of expected monthly contract payments in Chinese Renminbi for the Murum HEP project up to September 2013. As part of risk management strategy, the purpose of these forward currency contracts was to mitigate the risk arising from adverse Chinese Renminbi 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 nine (2011: 21) months. The fair value of the hedging instruments at the balance sheet date is a loss of RM6.63 million (2011: RM1.45 million) and is deferred in a hedge reserve.

During the financial year, an amount associated with the settlement of forward currency contracts amounting to RM14,614,622 (2011: 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	Share capital RM'000 (Amount)	Share premium RM'000 (Amount)	Total share capital and share premium RM'000 (Amount)
Group and Company					
Issued and fully paid					
At 31 December 2011 and 31 December 2012	1,610,569	1.00	1,610,569	149,644	1,760,213

	Number of ordinary shares of RM1 each		Amount	
	2012 '000	2011 '000	2012 RM'000	2011 RM'000
Authorised share capital				
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
At 1 January/31 December	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.

29. RESERVES

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 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)	**(6,626)**	(1,451)	**(6,626)**	(1,451)
	151,857	157,032	**66,502**	71,677
Distributable:				
General reserves (a)	**94,147**	94,147	**5,000**	5,000
Retained earnings (d)	**1,925,095**	1,747,109	**278,338**	260,797
	2,019,242	1,841,256	**283,338**	265,797
	2,171,099	1,998,288	**349,840**	337,474

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)

(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 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007.

As at 31 December 2012, the Company has sufficient credit in the 108 balance to pay franked dividends amounting to RM7 million (2011: RM74 million) out of its retained earnings. In addition, the Company has tax exempt profits available for distribution of approximately at RM102 million (2011: RM102 million) which is available for distribution as tax exempt dividends, subject to agreement by the Inland Revenue Board. If the balance of the retained earnings of RM169 million (2011: RM85 million) were to be distributed as dividends, the Company may distribute such dividends under the single tier system.

30. FUTURE CAPITAL COMMITMENTS

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Capital expenditure:				
Approved and contracted for	3,582,474	2,853,649	-	-
Approved and not contracted for	7,650,277	4,367,504	-	-
	11,232,751	7,221,153	-	-

31. RELATED PARTY DISCLOSURES

(a) During the financial year, the Group and the Company entered into the following significant related party transactions:

	Group	
	2012 RM'000	2011 RM'000
(i) Transactions with associates:		
Income		
Sales		
Universal Cable (Sarawak) Sdn Bhd	8	10
Expenditure		
Purchases		
Sarawak Coal Resources Sdn Bhd	181,450	194,345
Gobel Industry Sdn Bhd	1,411	1,625
Universal Cable (Sarawak) Sdn Bhd	42,621	12,748
Sarwaja Timur Sdn Bhd	38,596	-
Rental paid to Gobel Industry Sdn Bhd	26	26
(ii) Transactions with a company in which a subsidiary has significant influence:		
Income		
Interest charged to Genesis Force Sdn Bhd	-	90
Expenditure		
Purchases of coal from Genesis Force Sdn Bhd	-	277

	Group/Company	
	2012 RM'000	2011 RM'000
(iii) Transaction with a company in which a Director has influence:		
Expenditure		
Rental of premises charged by Custodev Dua Sdn Bhd	55	375

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.

31. RELATED PARTY DISCLOSURES (CONT'D)

(b) Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Directors' remuneration (Note 10)	1,013	938	459	358
Short-term employee benefits	15,345	12,408	12,567	9,941
Post-employment benefits				
- defined contribution plan	811	673	366	275
- defined benefit plan	76	71	27	27
Other benefits	783	1,118	767	1,081
	18,028	15,208	14,186	11,682

32. DIVIDENDS

	Dividends in respect of year		Dividends recognised in year	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Final dividend for 2010: 5.5 sen less 25% taxation on 1,610,568,979 ordinary shares	-	-	-	66,436
Final dividend for 2011: 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 2012: 5.5 sen less 25% taxation on 1,610,568,979 ordinary shares	66,436	-	-	-
	66,436	66,436	66,436	66,436

32. DIVIDENDS (CONT'D)

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2012, 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 2013.

33. 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.

34. 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.

35. 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.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

(a) Determination of fair value (cont'd)

(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.

(vi) Other investment

The fair value of available-for-sale financial asset is determined by reference to its quoted price on the Bursa Malaysia.

(vii) Financial guarantee contracts

Fair value is determined based on the probability weighted discounted cash flow method. The probability has been estimated and assigned for the following key assumptions:

- The likelihood of the guaranteed party defaulting within the guaranteed period;
- The exposure on the portion that is not expected to be recovered due to the guaranteed party's default; and
- The estimated loss exposure if the party guaranteed were to default.

The Company has given a corporate guarantee of RM232.0 million in favour of its wholly-owned subsidiary as mentioned in Note 24 for the secured term loan. The Directors of the Company are of the view that the likelihood of default in payments by the subsidiary is not probable and accordingly, no provision of liabilities has been made.

35. 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	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2012				
Financial assets				
Other investment	41,336	-	-	41,336
Financial liabilities				
Derivative liabilities	-	6,626	-	6,626
2011				
Financial assets				
Derivative assets	-	5,398	-	5,398
Financial liabilities				
Derivative liabilities	-	6,849	-	6,849

There have been no transfers between Level 1, 2 and 3 during the financial year.

36. 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 of Directors and executed by risk management committees. The Group Risk Management Committee provides independent oversight to the effectiveness of the risk management.

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.

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, are 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 balance sheet.

As at 31 December 2012, approximately 34% (2011: 30%) 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 20. Management believes that no additional credit risk beyond that provided for is inherent in the Group's trade and other receivables.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(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.

Analysis of financial instruments by remaining contractual maturities

The following are the expected contractual undiscounted cash flows of financial liabilities of the Group, 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
2012					
Non-derivative financial liabilities					
Trade and other payables	840,011	840,011	840,011	-	-
Loans and borrowings	6,278,486	9,313,452	408,419	2,045,557	6,859,476
Derivative liabilities					
Forward currency contracts	6,626	6,626	6,626	-	-
	7,125,123	10,160,089	1,255,056	2,045,557	6,859,476
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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(b) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities (cont'd)

The following are the expected contractual undiscounted cash flows of financial liabilities of the Company, including interest payments:

Company	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
2012					
Non-derivative financial liabilities					
Trade and other payables	128,926	128,926	-	-	-
Loans and borrowings	5,500,000	8,234,696	268,650	1,542,306	6,423,740
Derivative liabilities					
Forward currency contracts	6,626	6,626	6,626	-	-
	5,635,552	8,370,248	275,276	1,542,306	6,423,740
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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(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.

(d) Foreign currency risk

The Group is exposed to transactional currency risk primarily through sales and 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 2012, the Group has outstanding forward currency contracts with notional amounts of approximately RM161.19 million (2011: RM682.67 million). The net fair value of forward currency contracts for the Group as at 31 December 2012 was valued at a loss of RM6.63 million comprising liabilities of RM6.63 million (2011: RM1.45 million comprising assets of RM5.40 million and liabilities of RM6.85 million). These amounts have been recognised as derivative assets and liabilities respectively in the balance sheet.

37. 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 2012 and 31 December 2011.

37. CAPITAL MANAGEMENT (CONT'D)

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 owners of the Company and non-controlling interests.

		Group		Company	
	Note	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Loans and borrowings	24	6,278,486	3,954,027	5,500,000	3,035,000
Less: Cash and bank balances	22	(2,112,334)	(591,660)	(1,695,707)	(248,247)
Net debt		4,166,152	3,362,367	3,804,293	2,786,753
Total equity		3,940,870	3,768,393	2,110,053	2,097,687
Gearing ratio (times)		1.06	0.89	1.80	1.33

38. SIGNIFICANT EVENT

Second Issuance of Sukuk Musyarakah Programme

On 19 January 2012, the Company has raised a total amount of RM2.5 billion from the second issuance under the RM15 billion Sukuk Musyarakah Programme.

39. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 December 2012 were authorised for issued in accordance with a resolution of the Directors on 18 May 2013.

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