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OFFERING MEMORANDUM

TNB Capital (L) Ltd.

(Company No.: LL01816) (formerly known as Cofus Ltd.)
(Incorporated in Labuan, Malaysia with limited liability)

US$350,000,000 2.625% GUARANTEED EXCHANGEABLE BONDS DUE 2007

fully and unconditionally guaranteed by

TENAGA NASIONAL BERHAD

(Incorporated in Malaysia with limited liability)

This is an offering of US$350,000,000 2.625% guaranteed exchangeable bonds due 2007 (the "Bonds") issued by TNB Capital (L) Ltd. (the "Issuer"). The Bonds will be fully and unconditionally guaranteed by Tenaga Nasional Berhad ("Tenaga"), a public limited company incorporated in Malaysia. The Bonds are being offered in the United States by the Initial Purchasers (as defined herein), through their selling agents, only to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act of 1933, as amended (the "Securities Act")) in reliance on Rule 144A, and to non-U.S. persons (as defined in Regulation S under the Securities Act) outside the United States in reliance on Regulation S. The Bonds are being offered in Labuan, Malaysia, only to offshore companies (as defined herein) licensed to conduct offshore banking business (as defined in the Offshore Banking Act 1990) or offshore insurance business (as defined in the Offshore Insurance Act 1990).

The Bonds will be direct, senior, unsecured and unsubordinated obligations of the Issuer and will rank at least *pari passu* in right of payment with all other senior, unsecured and unsubordinated debt of the Issuer and shall at all times rank *pari passu* in right of payment among themselves. Tenaga's guarantee of the Bonds (the "Guarantee") will be a direct, senior, unsecured and unsubordinated obligation of Tenaga and will rank at least *pari passu* in right of payment with all other senior, unsecured and unsubordinated debt of Tenaga.

Unless the Bonds have been previously redeemed, repurchased and cancelled or exchanged, any and all of the Bonds may be exchanged into ordinary shares, par value RM1.00 per share of Tenaga (the "Shares") at the option of the holders of the Bonds (the "Bondholders") during the period from and including December 20, 2002 to and including October 21, 2007, at an initial exchange price (the "Exchange Price") of RM10.15 per Share (equivalent to US$2.67 per Share at a fixed exchange rate of RM3.80 = US$1.00 (the "Fixed Exchange Rate")). The Exchange Price is subject to adjustment in certain circumstances.

Unless previously redeemed, repurchased and cancelled or exchanged, the Issuer may at its option (i) on or at any time after November 20, 2005 (a) redeem all of the Bonds if the closing price of the Shares reported on the Main Board of the Kuala Lumpur Stock Exchange (the "KLSE"), translated into US dollars at the then Prevailing Rate (as defined herein) for 30 consecutive Trading Days (as defined herein), the last of which Trading Days occurs not more than five days prior to the date the notice of redemption is given, is at least 115% of the Exchange Price, translated into US dollars at the Fixed Exchange Rate, or (b) redeem all of the Bonds if the principal amount of the Bonds outstanding is equal to or less than 10% of the original aggregate principal amount of the Bonds, in each such case at a repurchase price equal to 100% of the outstanding principal amount of the repurchased Bonds plus accrued and unpaid interest, or (ii) redeem all of the Bonds if specified changes relating to taxation occur, at the Early Redemption Amount (as defined herein) plus accrued and unpaid interest (if any) up to and including the most recent Semi-annual Date (as defined herein) if redeemed prior to or on November 20, 2005 and thereafter, at a repurchase price equal to 100% of the outstanding principal amount of the repurchased Bonds plus accrued and unpaid interest.

Unless previously redeemed, repurchased and cancelled or exchanged, Bondholders will have the right to require the Issuer to purchase for cash all or part of their Bonds (i) if the Shares are officially delisted from the KLSE at the Early Redemption Amount plus accrued and unpaid interest (if any) up to and including the most recent Semi-annual Date if redeemed prior to or on November 20, 2005 and thereafter, at a repurchase price equal to 100% of the outstanding principal amount of the repurchased Bonds plus accrued and unpaid interest or (ii) on November 20, 2005 upon prior written notice at a repurchase price equal to 102.568% of the principal amount of the repurchased Bonds, plus accrued and unpaid interest.

Tenaga has granted the Initial Purchasers an option to purchase up to an additional US$50,000,000 aggregate principal amount of Bonds at any time in whole or in part, on one or more occasions, exerciseable from November 20, 2002 to December 20, 2002. The Issuer will notify the Luxembourg Stock Exchange if this over-allotment option is exercised.

Application has been made to list the Bonds on the Luxembourg Stock Exchange and to have the Bonds sold by the Initial Purchasers in reliance on Rule 144A designated for trading in the PORTAL[SM] System ("PORTAL") of the U.S. National Association of Securities Dealers, Inc. Applications have been made to list the Bonds on the Labuan International Financial Exchange Inc. Approval in principle to have the Shares deliverable upon exchange of the Bonds listed on the Main Board of the KLSE has been received.

Tenaga's outstanding ordinary shares are listed on the Main Board of the KLSE. Approval has been obtained from the Malaysian Securities Commission for the issuance of the Shares deliverable upon the exchange of the Bonds. On November 11, 2002, the closing price of Tenaga's outstanding ordinary shares on the Main Board of KLSE was RM8.75 per Share.

Investing in the Bonds involves risks. See "Risk Factors" beginning on page 16.

Delivery of the Bonds in book-entry form only will be made on or about November 20, 2002 (the "Closing Date").

The Bonds and the Shares deliverable upon exchange of the Bonds have not been and will not be registered under the Securities Act. The Bonds may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A and to non-U.S. persons outside the United States in reliance on Regulation S. You are hereby notified that sellers of the Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Bonds offered hereby are not transferable except in accordance with the restrictions described under "Transfer Restrictions".

Joint Global Coordinators and Bookrunners

JPMorgan **CIMB**

November 12, 2002

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This Offering Memorandum is being furnished by Tenaga in connection with an offering exempt from the registration requirements under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the Bonds offered by this Offering Memorandum. The information contained herein has been provided by Tenaga and other sources identified herein. No representation or warranty, express or implied, is made by the Initial Purchasers as to the accuracy or completeness of such information, and nothing contained herein is, or shall be relied upon as, a promise or representation by the Initial Purchasers as to the past or the future.

In this Offering Memorandum, unless the context otherwise requires, the terms "the Company" and "Tenaga" refer to Tenaga Nasional Berhad and its consolidated subsidiaries. References to "US$" and "US dollars" in this Offering Memorandum are to United States dollars and references to "RM", "Ringgit" and "Sen" are to the currency of Malaysia. One RM or Ringgit is equal to one hundred Sen. Tenaga publishes its financial statements in Ringgit. This Offering Memorandum contains translations of certain Ringgit amounts into US dollar amounts at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Ringgit amounts represent such US dollar amounts or could be, or could have been, converted into US dollars at the rates indicated or at all. Unless otherwise indicated, all translations from Ringgit to US dollars have been made at a rate of RM3.80 = US$1.00, the rate fixed by the Malaysian Government in September 1998. See "Exchange Rates and Exchange Controls" for further information regarding the rates of exchange between the Ringgit and the US dollar.

All discrepancies in the tables included herein between the amounts listed and the totals thereof are due to rounding.

The distribution of this Offering Memorandum and the offering and sale of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Memorandum comes are required by Tenaga and the Initial Purchasers to inform themselves about and to observe any such restrictions. This Offering Memorandum does not constitute, and may not be used for or in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation.

The Issuer and Tenaga, having made all reasonable enquiries, confirm that this Offering Memorandum contains all information with respect to the Issuer, Tenaga, the Bonds and the Shares that is material to the issue and offering of the Bonds, that the statements contained in it relating to the Issuer, Tenaga, the Bonds and the Shares are in every material respect true and accurate and not misleading, that the opinions and intentions expressed in this Offering Memorandum with regard to the Issuer and Tenaga have been reached after considering all relevant circumstances and are based on reasonable assumptions, and that there are no other facts in relation to the Issuer, Tenaga, the Bonds and the Shares the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Memorandum misleading in any material respect. All reasonable enquiries have been made by the Issuer and Tenaga to ascertain such facts and to verify the accuracy of all such information and statements; provided that information contained herein concerning Malaysia, including the information contained under "Relationship with the Malaysian Government", "Foreign Investment Regulations in Malaysia" and "Regulation and Market for Malaysian Securities", has been extracted from publicly available sources and is given for general background purposes only. These publicly available sources include various publications from the Malaysian Ministry of Finance, Bank Negara Malaysia, various governmental agencies and the KLSE and annual reports of publicly-listed companies. The Issuer and Tenaga accept responsibility for accurately reproducing such summaries and data but accept no further or other responsibility in respect of such information.

Each person receiving this Offering Memorandum is advised to read and understand the contents of this document before investing. If in doubt, such person should consult his or her adviser.

The Labuan International Financial Exchange Inc. takes no responsibility for the contents of this document, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon any part of the contents of this document.

Each person receiving this Offering Memorandum acknowledges that none of the Issuer, Tenaga or the Initial Purchasers have authorized any person to give any information or to make any representation other than as contained in this Offering Memorandum and, if given or made, any such information must not be relied upon as having been authorized by the Issuer, Tenaga or the Initial Purchasers or any affiliate thereof. Nothing in this Offering Memorandum should be relied upon as a promise or representation as to future results or events and neither the delivery of this Offering Memorandum nor any offering, sale or delivery of the Bonds shall under any circumstances imply that there has been no change in the affairs of the Issuer or Tenaga or that the information herein is correct as of any date subsequent to the date hereof.

FOR NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

THE OFFERING IS BEING MADE IN RELIANCE UPON THE EXEMPTIONS FROM REGISTRATION UNDER THE SECURITIES ACT. PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT SELLERS OF BONDS MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. EACH PURCHASER OF THE BONDS WILL BE DEEMED TO HAVE MADE CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS AND AGREEMENTS REGARDING THE BONDS AND THE SHARES AND THE OFFER, SALE, REOFFER, PLEDGE OR OTHER TRANSFER OF THE BONDS AND THE SHARES. SEE "TRANSFER RESTRICTIONS".

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this Offering Memorandum that are not statements of historical fact constitute "forward-looking statements". Some of these statements can be identified by forward-looking terms, such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "will" and "would" or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding Tenaga's expected financial condition and results of operations, business, plans and prospects are forward-looking statements. These forward-looking statements include statements as to Tenaga's business strategy, its revenue and profitability (including, without limitation, any financial or operating projections or forecasts), planned projects and other matters discussed in this Offering Memorandum regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Offering Memorandum (whether made by Tenaga, the Malaysian Government or any third party) involve known and unknown risks, uncertainties and other factors that may cause Tenaga's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

The factors that could cause Tenaga's actual results to be materially different include, among others:

- general political, social and economic conditions in Malaysia and elsewhere in Asia;
- change in the exchange rate of the Ringgit to the US dollar if the Ringgit peg to the US dollar is removed or recalculated;
- accidents and natural disasters;
- terms on which Tenaga finances its working capital and capital expenditure requirements;
- implementation of new projects;
- contractual arrangements with independent power producers;
- government policies regarding the electricity industry;

- government policies concerning Tenaga's tariff rates and the pricing of Tenaga's gas supply contract with Petronas Gas Berhad;
- the continued availability of Malaysian gas supplies and the ability of those supplies to meet growth in electricity demand in Malaysia;
- Tenaga's relationship with the Malaysian Government; and
- other factors beyond Tenaga's control.

SUMMARY

The following summary is qualified in its entirety by the more detailed information and the consolidated financial statements of Tenaga that appear elsewhere in this Offering Memorandum.

Tenaga's Business

Tenaga is a public limited company (Company No. 20866-W) incorporated under the laws of Malaysia on July 12, 1990, which succeeded Lembaga Letrik Negara as the principal provider of electricity in Peninsular Malaysia. As of November 11, 2002, Tenaga had a market capitalization of approximately RM27.2 billion (US$7.2 billion), which is the second largest among companies listed on the KLSE.

Tenaga's core activities are the generation, transmission and distribution of electricity. Tenaga's generating stations consist of either thermal or hydro-generation sets ("gensets"). As of August 31, 2002, Tenaga accounted for approximately 62% of the electricity generation capacity in Peninsular Malaysia, and its thermal and hydro-electricity generating system had an aggregate installed capacity of 8,661 megawatts. Tenaga also transmits and distributes substantially all of the electricity used in Peninsular Malaysia, the state of Sabah on the island of Borneo and the Federal Territory of Labuan. Tenaga's 132kV, 275kV and 500kV transmission system, known as the "National Grid", spans Peninsular Malaysia from north to south with a closed loop connecting the major load centers and generating stations. Tenaga's distribution system supplies electricity to approximately 5.8 million customers in Peninsular Malaysia, the state of Sabah and the Federal Territory of Labuan.

Tenaga has experienced annual growth in electricity sales (measured in kilowatt hours) during each of the last five fiscal years. This growth was largely a result of the performance of the Malaysian economy, the continued transformation of Malaysia from an agricultural to a manufacturing-oriented economy, the expansion of the commercial sector in Malaysia and the rising affluence and increased urbanization of the Malaysian population. Growth in Tenaga's electricity sales is expected to continue to be closely linked to economic growth in Malaysia.

In 1992, the Malaysian Government began awarding licenses to generate electricity to privately owned companies (known as independent power producers ("IPPs")), in order to expedite an increase in the number of generation facilities. As of August 31, 2002, the eight operating thermal electricity generation IPPs accounted for approximately 38% of the electricity generation capacity in Peninsular Malaysia. Tenaga currently has a 20.0% equity interest in four of the IPPs, a 4.4% equity interest in a fifth IPP, YTL Power International Bhd., and a 30% equity interest in a sixth IPP, Sepang Power Sdn. Bhd. ("SPSB"). See "Business — Other Malaysian Investments".

For the fiscal year ended August 31, 2002, Tenaga recorded revenue of RM15,375 million (US$4,046 million), operating profit before exceptional items of RM2,537 million (US$668 million) and net profit for the financial year of RM1,401 million (US$369 million). As of August 31, 2002, Tenaga had total assets less current liabilities of RM50,463 million (US$13,280 million), long-term debt (excluding the current portion thereof) of RM26,964 million (US$7,096 million) and shareholders' funds of RM17,728 million (US$4,665 million). See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Recently Announced New Accounting Standards Applicable to Tenaga" for a discussion of the effect of Malaysian Accounting Standards Board ("MASB") No. 25 on Tenaga's deferred tax liability and shareholders' funds.

Strategy

Tenaga intends to maintain its position as the leading power company in Malaysia by: (i) strengthening its power generation capabilities; (ii) leveraging its position as the sole provider of power transmission services in Peninsular Malaysia; and (iii) taking advantage of its broad distribution network. In particular, Tenaga intends to achieve this objective by:

Continuing to Improve Operational Performance. Tenaga intends to continue improving its operational performance by expanding, and increasing the efficiency of, generation availability and capacity, optimizing fuel mix and reducing operating costs. In particular, Tenaga plans to invest approximately RM7.2 billion in additional generation assets, increase generation capacity by 2,960 megawatts and maintain a reserve margin of at least 30%, in fiscal 2003, 2004 and 2005. Tenaga believes this investment program will, among other things, increase plant availability and provide additional operational flexibility. Furthermore, Tenaga plans to continue to invest in initiatives to improve transmission and distribution assets. Tenaga plans to improve the reliability of electricity supply by, among other things, system reinforcement and rehabilitation projects and by improving monitoring and failure analysis. Tenaga also plans to reduce transmission and distribution loss by, among other things, the use of automatic electronic metering for all generating units and transmission substations to determine the extent of loss, and the installation of more distribution and transmission equipment. Moreover, Tenaga will continue diversifying its fuel mix and reducing its dependence on natural gas. For the fiscal year ended August 31, 2002, Tenaga's fuel generation mix was 55.9% natural gas, 19.9% coal, 12.1% hydro-electric and 12.1% fuel oil. Tenaga also plans to continue reducing operating costs by, among other measures, streamlining operations through increased use of advanced management information systems, reducing maintenance costs by standardizing maintenance practices, and achieving greater efficiency through enhanced project and contract work management. In addition, in seeking to reduce operating costs, Tenaga will be introducing demand risk sharing ("DRS") clauses in its future power purchase agreements with the IPPs. DRS clauses are aimed at achieving a more favorable risk sharing balance between Tenaga and the IPPs in relation to maintaining the national reserve margin. This is achieved by limiting the IPP fixed capacity payments to a negotiated portion of the IPPs' plant capacity. Payments for plant capacity in excess of the fixed amount are subject to the dispatched levels of the IPP. Such an approach was recently adopted by Tenaga in the power purchase agreement entered into with SKS Power Sdn. Bhd. in July 2002. A more favorable demand risk allocation between Tenaga and IPPs in future power purchase agreements, if achieved, should result in further cost savings for Tenaga. See "Business — Development of IPPs".

Reducing Outstanding Debt and Foreign Currency Exposure. Tenaga plans to better position itself financially for future growth, as well as increase its flexibility in the formulation and implementation of its future growth plans, by reducing its outstanding debt and foreign currency exposure. In particular, Tenaga intends to repay a portion of its outstanding debt with the net proceeds from this offering, as well as reduce future borrowings through more efficient management of capital expenditures. Furthermore, as substantially all of Tenaga's revenues are denominated in Ringgit, Tenaga plans to reduce its foreign currency borrowings in order to improve its asset-liability management as well as lower its exposure to exchange rate fluctuations. As of August 31, 2002, Tenaga's debt-to-total capitalization ratio (i.e., total long-term debt (excluding the current portion of long-term debt) divided by the sum of such long-term debt, minority interest and shareholders' funds) was 60.3%, and its debt to shareholders' funds ratio (i.e., total long-term debt (excluding the current portion of long-term debt) divided by shareholders' funds) was 152.1%. For a discussion on the impact of recent accounting pronouncements in Malaysia on the financial statements of Tenaga, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Recently Announced New Accounting Standards applicable to Tenaga". As of the same date, Tenaga's outstanding debt was RM29.4 billion, of which 51.9% was denominated in foreign currencies.

Continuing to Focus on Enhancing Customer Service. Tenaga intends to continue its focus on enhancing customer service and increasing customer satisfaction. In particular, Tenaga intends to continue utilizing technology to better serve its customers as well as provide innovative customer services. During fiscal 2001, Tenaga launched an Internet-based service facility for its customers. This facility enables customers to use Tenaga's e-service for general inquiries, bills overview, bills payment and electricity usage history. In addition, Tenaga is in the process of developing "smart card" meter readers, as well as implementing supervisory control and data acquisition systems for its distribution network in order to improve customer service. Moreover, Tenaga plans to continue strengthening its relationship with large power customers through its prime management program.

Adopting Leading International Corporate Governance Practices. Tenaga intends to be a leader in corporate governance in Malaysia. In particular, Tenaga has instituted corporate governance structures to operate its business with a focus on shareholder value. Since October 1, 2001, the audit committee of Tenaga's Board of Directors has been comprised entirely of independent Directors. Furthermore, Tenaga has formed separate corporate governance, nomination and remuneration committees during fiscal 2001 in accordance with the Malaysian Code on Corporate Governance. Tenaga believes that these corporate governance structures will reinforce its position as one of the leading companies in Malaysia.

Reorganization of Corporate Structure to Enhance Accountability and Responsibility. Tenaga intends to continue optimizing the efficiency of its organizational structure. In late 2001, Tenaga implemented a structural reorganization as a means of further aligning its business activities to its core businesses of generation, transmission and distribution. The new structure comprises the following four main groups: (i) core businesses; (ii) project services and logistics; (iii) corporate services support; and (iv) education and research. Each of these groups reports directly to Tenaga's President/Chief Executive Officer. The four groups are further separated into nine divisions, each headed by a vice president who manages subsidiaries or departments that provide a related business or service in each of the divisions. The objective of this re-grouping and consolidation of various support functions is to provide a system in which resources are better managed, accountability is enhanced, and more efficient services can be provided to Tenaga's core businesses. Tenaga believes that the reorganization and continued review of its corporate structure will help ensure that efficient services are continually provided to its core businesses, and will reinforce its position as one of the leading electricity companies in the Southeast Asian region.

Strengths

Tenaga believes its principal strengths are:

Stable Regulatory Environment. The Malaysian Government recently introduced several changes to the regulatory environment for the electricity industry, including the establishment of the Energy Commission to act in an advisory capacity to the Minister of Energy, Communications and Multimedia (the "Minister of Energy"), and recently announced its intention to introduce a competitive bidding process for new generation capacity. Apart from these initiatives, however, no major reforms have been announced by the Malaysian Government, which has recently indicated that no fundamental change to the power industry structure is likely to occur in the near term. This approach is in contrast to the major market restructuring programs being implemented in certain other Asian countries, where the introduction of cost-based power pooling and the privatization of the generation and transmission assets are anticipated or already underway. As a result, Tenaga expects to maintain its significant market share in the generation sector and to continue to be the principal owner and operator of the transmission and distribution networks. See "Business — Industry Restructuring".

Nationwide Operations. Tenaga is the largest generator, supplier and distributor of electricity in Malaysia. In particular, Tenaga accounted for 62% of the electricity generation capacity in Peninsular Malaysia as of August 31, 2002. Furthermore, Tenaga also transmits and distributes substantially all of the electricity used in Peninsular Malaysia, the state of Sabah on the island of Borneo and the Federal Territory of Labuan. Tenaga believes that its extensive operations provide considerable logistical advantages and also significant leverage to capture future growth in these markets.

Potential for Growth of Malaysian Economy and Electricity Demand. Historically, there has been a strong correlation between the demand for electricity in Malaysia and growth in the country's gross domestic product ("GDP"). Similarly, growth in Tenaga's electricity sales has been, and is expected to continue to be, closely linked to economic growth in Malaysia. Malaysia currently has a low per capita consumption of electricity compared to other Asian economies such as Singapore, Taiwan, Hong Kong and South Korea. This indicates that there is potential for future growth of electricity demand in Malaysia if its economy continues to grow. However, there can be no assurance that economic growth in Malaysia will continue or that such growth may not be affected by adverse changes in inflation, interest rates, taxation or other political, economic or social developments in or affecting Malaysia. See "Business — History of Power Demand in Malaysia" and

"Risk Factors — Risks Relating to Tenaga's Business and the Electricity Industry in Malaysia — Political and economic developments in Malaysia could affect Tenaga's business".

Key Role in the Malaysian Economy. Tenaga is one of the largest Malaysian corporations in terms of market capitalization. As of August 31, 2002, Tenaga's market capitalization constituted 10% of the total market capitalization of companies included in the KLSE Composite Index. As the largest power company in Malaysia, Tenaga plays an important role in the future growth of the Malaysian economy. In particular, the security of energy supply is one of the key national policy objectives of the Malaysian Government. As such, Tenaga often assists the Malaysian Government, with whom it believes it has a good working relationship, on matters relating to electricity policy and central planning, industry restructuring, generation capacity, expansion plans and fuel source diversification policy. The Malaysian Government also consults with Tenaga on a regular basis. As of October 31, 2002, the Malaysian Government and related entities owned, directly or indirectly, approximately 85% of Tenaga's outstanding ordinary shares and the sole "Special Share" of Tenaga, with the Minister of Finance Incorporated, Khazanah Nasional Berhad and Bank Negara Malaysia, the Malaysian Central Bank ("Bank Negara"), collectively owning approximately 64% of Tenaga's outstanding ordinary shares. See "Relationship with the Government of Malaysia" for more details.

Experienced and Motivated Management. Tenaga is managed by a motivated team with extensive experience in the electricity industry as well as in financial management. In particular, Tenaga's management constantly seeks to identify initiatives that maintain or improve Tenaga's business operations or financial position, as well as maximize business opportunities arising from Tenaga's assets and inherent advantages. For example, management has identified opportunities to reduce the borrowing costs of Tenaga and to lower the costs associated with the purchase of electricity from IPPs. Tenaga's management has further undertaken a number of initiatives to enhance operational efficiency, such as installing capacitor banks to improve performance, improving maintenance practices and plant maintenance scheduling, and reducing unexpected plant outages. Tenaga's management has also undertaken certain initiatives to streamline operations by realigning and consolidating functional units into appropriate divisions, as well as by upgrading communication and information systems. The interests of Tenaga's management are further aligned with the interests of Tenaga through employee share options schemes. Tenaga further expects to provide additional incentives and rewards to its management by linking their compensation with Tenaga's performance.

Principal Shareholder

As of October 31, 2002, the Malaysian Government and related entities owned, directly or indirectly, approximately 85% of Tenaga's outstanding ordinary shares and the sole "Special Share" of Tenaga, with the Minister of Finance Incorporated, Khazanah Nasional Berhad and Bank Negara collectively owning approximately 64% of Tenaga's outstanding ordinary shares. The Special Share requires Tenaga to obtain the approval of the holder of the Special Share before undertaking certain extraordinary transactions or effecting any significant changes in the business or operations of Tenaga. The holder of the Special Share also has the right to appoint up to six out of a maximum of 12 Directors of Tenaga. At present, six of the current 12 Directors of Tenaga have been appointed by the Minister of Finance Incorporated as holder of the Special Share.

The Malaysian Government regulates the electricity industry, including Tenaga, through the Minister of Energy and the Energy Commission, which acts in an advisory capacity to the Minister of Energy. The Malaysian Government, through the Minister of Energy and the Energy Commission, approves rates and administers the terms of Tenaga's operating license. In addition, the Energy Commission Act 2001 prescribes various functions of the Energy Commission, which include: (i) advising the Minister of Energy on all matters concerning the national policy objectives for energy supply activities, the generation, production, transmission, distribution, supply and use of electricity; (ii) regulating all matters relating to the electricity supply industry; (iii) promoting and safeguarding competition and fair and efficient market conduct or, in the absence of a competitive market, preventing the misuse of monopoly or market power in respect of the generation, production, transmission, distribution and supply of electricity; and (iv) protecting persons from dangers arising from the generation, production, transmission, distribution, supply and use of electricity. In addition to regular contact with the Energy Commission, Tenaga consults from time to time with various departments of the Malaysian Government on matters relating to electricity policy and central planning, industry restructuring, generation capacity, expansion plans and fuel source diversification policy.

Corporate Information

Tenaga was incorporated in 1990 in Malaysia as a company with limited liability. Tenaga's ordinary shares were listed on the Main Board of the KLSE in 1992. Tenaga's registered address and principal executive offices are located at 129 Jalan Bangsar, Kuala Lumpur 59200, Malaysia, and its principal website on the internet is located at *http://www.tnb.com.my*. Information contained on that website is not a part of this Offering Memorandum.

Summary Consolidated Financial Information

The summary consolidated financial information set out below as of and for the years ended August 31, 2000, 2001 and 2002 has been derived from Tenaga's audited consolidated financial statements included elsewhere in this Offering Memorandum, and is qualified in its entirety by reference to, and should be read in conjunction with, those audited consolidated financial statements and notes thereto. Those consolidated financial statements were audited by PricewaterhouseCoopers, independent auditors. The summary consolidated financial information set out below as of and for the years ended August 31, 1998 and 1999 has been derived from Tenaga's audited consolidated financial statements not included in this Offering Memorandum. These consolidated financial statements were audited by PricewaterhouseCoopers, independent auditors. Tenaga's consolidated financial statements are prepared and presented on a consolidated basis and in accordance with the Malaysian Companies Act of 1965 (the "Malaysian Companies Act") and applicable approved accounting standards in Malaysia (collectively, "Malaysian GAAP"). Malaysian GAAP differs in certain respects from generally accepted accounting principles in the United States ("US GAAP"). For a discussion of certain significant differences between Malaysian GAAP and US GAAP as applicable to Tenaga, see "Summary of Principal Differences Between Malaysian GAAP and US GAAP". The financial information set out below has been reformatted for the convenience of the reader.

	Fiscal Year Ended August 31,					
	1998	1999	2000	2001	2002	2002
	RM	RM	RM	RM	RM	US$
	(Audited) (Amounts in millions, except earnings per share data and as otherwise indicated)					
Income Statement Information:						
Revenue						
Electricity sales	11,076	11,716	13,220	13,952	14,933	3,930
Good and services	123	127	233	162	185	49
Release of deferred income	240	265	266	249	257	67
	11,439	12,108	13,719	14,363	15,375	4,046
Operating Expenses(1)						
Energy cost	6,625	6,770	7,215	7,589	9,012	2,372
Transmission cost	332	470	517	567	666	175
Distribution cost	1,556	1,578	1,955	2,419	2,183	575
Administration expenses	368	578	604	649	765	201
Other operating expenses	779	337	674	696	483	127
	9,660	9,733	10,965	11,920	13,109	3,450
Other Operating Income	152	225	482	350	271	72
Operating Profit Before Exceptional Items	1,931	2,600	3,236	2,793	2,537	668
Exceptional Items	—	—	(332)	(374)	16	4
Operating Profit After Exceptional Items	1,931	2,600	2,904	2,419	2,553	672
Foreign Exchange (Loss)/Gain	(3,506)	(614)	(371)	785	(92)	(24)

	Fiscal Year Ended August 31,					
	1998	1999	2000	2001	2002	2002
	RM	RM	RM	RM	RM	US$
	(Audited)					
	(Amounts in millions, except earnings per share data and as otherwise indicated)					
Shares of Results of Associates	84	98	107	125	143	38
(Loss)/Profit Before Finance Cost	(1,491)	2,084	2,640	3,329	2,604	686
Finance Cost	(1,297)	(1,106)	(1,116)	(1,136)	(1,127)	(297)
(Loss)/Profit Before Taxation	(2,788)	978	1,524	2,193	1,477	389
Taxation(2)	(306)	(237)	(231)	(123)	(91)	(24)
(Loss)/Profit After Taxation	(3,094)	741	1,293	2,070	1,386	365
Minority Interests	—	32	40	35	15	4
Net (Loss)/Profit for the Financial Year	(3,094)	773	1,333	2,105	1,401	369
Weighted Average Number of Ordinary Shares in Issue(3)	3,100,000	3,100,100	3,103,306	3,106,519	3,108,797	3,108,797
(Loss)/Earnings Per Share						
— Basic(4)	(99.8) Sen	24.9 Sen	42.9 Sen	67.8 Sen	45.1 Sen	11.9 Cents
— Diluted(5)	(99.8) Sen	24.9 Sen	42.9 Sen	67.7 Sen	N/A	N/A

(1) Operating expenses include depreciation expenses allocated among energy, transmission and distribution costs and administration expenses and other operating expenses aggregating RM1,413 million in fiscal 1998, RM1,637 million in fiscal 1999, RM1,692 million in fiscal 2000, RM1,977 million in fiscal 2001 and RM2,243 million in fiscal 2002.

(2) Tenaga made deferred tax provisions of RM201 million in fiscal 1998 and RM209 million in fiscal 1999. In fiscal 2000 there was a reversal of deferred tax liability of RM24 million. Tenaga made deferred tax provision of RM5 million in each of fiscal 2001 and fiscal 2002. See note 9 to Tenaga's audited consolidated financial statements included in this Offering Memorandum.

(3) In thousands.

(4) Basic earnings per Share is calculated by dividing the net profit for the financial year by the weighted average number of Shares in issue during the financial year.

(5) Retroactively adjusted for employee share options. There was no adjustment for dilution in fiscal 2002 because all outstanding employee share options expired on May 11, 2002.

	As of August 31,					
	1998	1999	2000	2001	2002	2002
	RM	RM	RM	RM	RM	US$
	(Audited) (Amounts in millions, except Net Asset per share data)					
Balance Sheet Information:						
Property, Plant and Equipment	39,188	42,988	45,710	48,270	50,711	13,345
Associates	358	457	582	726	807	213
Investments	405	405	402	391	390	103
Long-Term Receivables	—	444	444	—	—	—
Current Assets						
Inventories	967	1,115	1,001	983	1,216	320
Receivables(1)	1,674	2,155	2,501	3,293	2,772	729
Amount owing from associates	4	13	21	4	5	1
Marketable securities	27	61	60	48	11	3
Cash and bank balances	1,113	972	768	870	1,154	304
	3,785	4,316	4,351	5,198	5,158	1,357
Current Liabilities						
Payables(2)	2,485	3,361	3,212	3,433	3,479	915
Amount owing to associates	330	310	353	356	365	96
Current taxation	158	136	325	390	306	81
Short-term borrowings(3)	1,408	2,299	5,372	3,214	2,453	646
	4,381	6,106	9,262	7,393	6,603	1,738
Net Current Liabilities	(596)	(1,790)	(4,911)	(2,195)	(1,445)	(381)
Total Assets less Current Liabilities	39,355	42,504	42,227	47,192	50,463	13,280
Long-Term Liabilities						
Term loans	(22,300)	(23,957)	(22,290)	(25,102)	(26,964)	(7,096)
Consumer deposits	(935)	(1,105)	(1,224)	(1,325)	(1,455)	(383)
Retirement benefits	(259)	(327)	(384)	(453)	(487)	(128)
Other liabilities	(95)	(126)	(124)	(110)	(97)	(26)
	(23,589)	(25,515)	(24,022)	(26,990)	(29,003)	(7,633)
Deferred Taxation	(786)	(995)	(971)	(976)	(981)	(258)
Deferred Income	(1,925)	(2,063)	(2,097)	(2,150)	(2,232)	(587)
Government Development Grants	—	(349)	(380)	(516)	(474)	(125)
	13,055	13,582	14,757	16,560	17,773	4,677
Financed by:						
Share Capital	3,100	3,101	3,106	3,107	3,112	819
Share Premium	3,107	3,113	3,140	3,143	3,182	837
Revaluation and Other Reserves	1,211	1,207	1,183	1,157	1,211	319
Retained Profits	5,502	6,092	7,246	9,105	10,223	2,690
Shareholders' Funds	12,920	13,513	14,675	16,512	17,728	4,665
Minority Interests	135	69	82	48	45	12
	13,055	13,582	14,757	16,560	17,773	4,677
Net Assets Per Share	417 Sen	436 Sen	472 Sen	531 Sen	570 Sen	150 Cents

(1) Receivables include trade receivables (RM1,000 million in fiscal 1998; RM1,348 million in fiscal 1999; RM1,663 million in fiscal 2000; RM1,583 million in fiscal 2001, and RM1,529 million in fiscal 2002) and other receivables (RM674 million in fiscal 1998; RM807 million in fiscal 1999; RM838 million in fiscal 2000; RM1,710 million in fiscal 2001, and RM1,243 million in fiscal 2002).

(2) Payables include trade payables (RM1,345 million in fiscal 1998; RM2,225 million in fiscal 1999; RM1,843 million in fiscal 2000; RM1,828 million in fiscal 2001; and RM2,030 million in fiscal 2002) and other trade payables (RM1,140 million in fiscal 1998; RM1,136 million in fiscal 1999; RM1,369 million in fiscal 2000; RM1,605 million in fiscal 2001; and RM1,449 million in fiscal 2002).

(3) Short-term borrowings include the current portion of term loans.

	Fiscal Year Ended August 31,				
	1998	1999	2000 (Audited)	2001	2002
Other Information:					
Installed Capacity (MW)(1)	8,129	7,520	7,661	8,661	8,661
Units of Electricity Sold (GWh)(2)	47,197	49,322	56,210	59,417	63,534
Average Tariff (Sen per kWh)(3)	23.47	23.75	23.52	23.48	23.50
Interest Coverage(4)	2.6x	3.8x	4.4x	4.2x	4.2x
Earnings to Fixed Charges(5)	2.1x	2.5x	3.2x	2.8x	2.9x

(1) Figures exclude Sabah Electricity Sdn. Bhd. and Liberty Power Limited. Tenaga's installed capacity represents the combined level of output that may be sustained continuously without significant risk of damage to plant and equipment.

(2) Figures include units of electricity sold by Sabah Electricity Sdn. Bhd. and, for the periods since its commercial operation date (September 10, 2001), Liberty Power Limited.

(3) Figures include tariffs charged by Sabah Electricity Sdn. Bhd. and, for the period since its commercial operation date (September 10, 2001), Liberty Power Limited.

(4) Interest coverage is calculated as operating profit before exceptional items plus depreciation (see note (1) on page 7) divided by interest charges, including interest paid on consumer deposits.

(5) Earnings to fixed charges is calculated as operating profit before exceptional items plus depreciation (see note (1) on page 7) divided by the sum of interest charges, interest paid on consumer deposits and interest during construction (capitalized interest); Interest during construction (capitalized interest) amounted to: RM300 million in fiscal 1998; RM622 million in fiscal 1999; RM424 million in fiscal 2000; RM569 million in fiscal 2001; and RM515 million in fiscal 2002.

THE OFFERING

Issuer	TNB Capital (L) Ltd. (Company No. LL01816) (formerly known as Cofus Ltd.), a company incorporated in the Federal Territory of Labuan, Malaysia, with limited liability.
Guarantor	Tenaga, a company incorporated in Malaysia with limited liability.
The Bonds	2.625% Guaranteed Exchangeable Bonds due 2007.
Closing Date	November 20, 2002.
The Offering	US$350,000,000 aggregate principal amount of the Bonds are being offered (i) in the United States only to qualified institutional buyers (as defined in Rule 144A under the Securities Act) in reliance on Rule 144A, and (ii) to non-U.S. persons (as defined in Regulation S under the Securities Act) outside the United States in reliance on Regulation S and other applicable laws. The Bonds are being offered in Labuan, Malaysia, only to offshore companies (as defined herein) licensed to conduct offshore banking business (as defined in the Offshore Banking Act 1990) or offshore insurance business (as defined in the Offshore Insurance Act 1990).
Issue Price	100%.
Interest	The Bonds will bear interest from November 20, 2002 at the rate of 2.625% per annum, payable semi-annually in arrears. Interest on the Bonds is computed on the basis of actual days elapsed over a year of 365 days.
Interest Payment Dates	May 20 and November 20 of each year, commencing May 20, 2003.
Guarantee	The Bondholders will be entitled to the benefit of the Guarantee provided for in the Indenture (as defined herein). Pursuant to the Guarantee, Tenaga will fully and unconditionally guarantee the due and punctual payment of the principal of, and interest on, the Bonds, any Cash Settlement Amount (as defined herein) and any Additional Amounts (as defined herein) and all other monetary obligations of the Issuer under the terms of the Bonds and the Indenture.
Optional Bonds	J.P. Morgan Securities Ltd. and CIMB (L) Limited, referred to as the Joint Global Coordinators and Bookrunners in this Offering Memorandum, have been granted an option by the Issuer to purchase at any time in whole or in part, on one or more occasions, exerciseable from November 20, 2002 to December 20, 2002, up to an additional US$50,000,000 aggregate principal amount of the Bonds. See "Plan of Distribution".
Maturity Date and Final Redemption	Unless the Bonds have been previously redeemed, repurchased and cancelled or exchanged, the Issuer will redeem the Bonds on the Maturity Date (as defined herein) at a price equal to 100% of the outstanding principal amount thereof plus any accrued but unpaid interest.
Malaysian Withholding Tax	As the Issuer is incorporated under the Labuan Offshore Companies Act 1990, payments of interest and principal on the Bonds (as

well as payments made by Tenaga under the Guarantee) will be exempt from Malaysian withholding tax, and non-residents of Malaysia will not be required to pay income tax in Malaysia with respect to interest and other payments received in respect of the Bonds. See "Taxation — Malaysian Tax Considerations".

Malaysian Exchange Controls .... Payments of or in respect of principal and interest on the Bonds (as well as payments made by Tenaga under the Guarantee), and any capital gains realized on the sale or exchange of the Bonds, are not subject to the payment of any repatriation levy under Malaysia's exchange control measures.

The Guarantee has been registered with the Malaysian Controller of Foreign Exchange. Payments may be freely made by Tenaga under the Guarantee pursuant to Malaysia's exchange control regulations upon the Guarantor or Trustee (as defined herein) giving notice to the Malaysian Controller of Foreign Exchange that the Guarantee has been called upon.

Status of Bonds .... The Bonds will be direct, senior, unsecured and unsubordinated obligations of the Issuer, ranking at least *pari passu* in right of payment with all other senior, unsecured and unsubordinated debt of the Issuer and shall at all times rank *pari passu* in right of payment among themselves.

The Guarantee will be the direct, senior, unsecured and unsubordinated obligation of Tenaga, and will rank at least *pari passu* in right of payment with all other senior, unsecured and unsubordinated debt of Tenaga.

Exchange .... Subject to certain conditions, each Bondholder will have the right during the Exchange Period (as defined herein) to exchange its Bonds into Shares, provided, however, that such right to exchange its bonds into Shares will be suspended during any Closed Period (as defined herein), and the Exchange Period shall not include any such Closed Period. See "Description of the Bonds — Exchange".

Exchange Price .... The initial Exchange Price will be RM10.15 per share (determined at the Fixed Exchange Rate of RM3.80 = US$1.00). The applicable Exchange Price will be subject to adjustment for, among other things, subdivision or consolidation of the Shares, bonus rights, rights issues, extraordinary cash and share distributions and reorganization and other dilutive events. See "Description of the Bonds — Exchange — Adjustments".

Exchange Price Reset .... The Exchange Price will be adjusted on August 20, 2005 in the event that the Average Market Price (as defined herein) of the Shares for the 15 consecutive Trading Days (as defined herein) immediately prior to August 20, 2005 converted into US dollars at the then Prevailing Rate (as defined herein) is less than the Exchange Price on the Reset Date (as defined herein), converted into U.S. dollars at the Fixed Exchange Rate of RM3.80 = US$1.00, provided that any adjustment to the Exchange Price pursuant to the Exchange Price Reset shall be limited such that, among other things, the adjusted Exchange Price shall in no event be less than 85% of the initial Exchange Price (as

	adjusted from time to time for dilutive events). See "Description of the Bonds — Adjustments — Exchange Price Reset".
Cash Settlement Option	Tenaga may, at its option, satisfy its obligation to deliver Shares pursuant to the exercise of the right of exchange by a Bondholder, in whole or in part, by paying to the relevant Bondholder an amount of cash in US dollars at the then Prevailing Rate equal to the product of (i) the number of Shares otherwise deliverable upon exercise of such Bondholder's right of exchange in respect of which Tenaga has elected to satisfy by the Cash Settlement Option and (ii) the arithmetic average of the Closing Price (as defined herein) of Shares on the Main Board of the KLSE for each day during the 10 Trading Days immediately before the Exchange Date.
Restrictive Covenants	The Issuer and Tenaga have agreed to observe certain covenants, including, among other things, limitations on the incurrence of Liens (as defined herein) and limitations on certain sale and leaseback transactions. See "Description of the Bonds — Certain Covenants".
Redemption at the Option of the Issuer	At any time on or after November 20, 2005, subject to any applicable Malaysian or Labuan laws and regulations, the Issuer may, on a date not falling within a Closed Period, at a price equal to 100% of the outstanding principal amount of the Bonds redeemed plus accrued and unpaid interest on the Redemption Date (as defined herein): (i) redeem all but not less than all of the Bonds if the average closing price of the Shares listed on the Main Board of the KLSE and translated into US dollars (at the then Prevailing Rate) for a period of 30 consecutive Trading Days (including Trading Days that fall within a Closed Period), the last of which occurs not more than five days prior to the date the notice of redemption is given, is at least 115% of the Exchange Price then in effect translated into US dollars at the Fixed Exchange Rate, or (ii) redeem all of the Bonds, if the aggregate principal amount of the Bonds outstanding is equal to or less than 10% of the original aggregate principal amount of the Bonds.
Tax Redemption	The Bonds may be redeemed at the option of the Issuer, in whole but not in part, at the Early Redemption Amount (as defined in "Description of Bonds — Definitions") plus accrued and unpaid interest (if any) up to and including the most recent Semi-annual Date if redeemed prior to or on November 20, 2005 and thereafter, at 100% of the outstanding principal amount thereof plus accrued and unpaid interest in certain circumstances in which the Issuer would become obligated to pay additional amounts under the Bonds in respect of certain Malaysian taxes. See "Description of the Bonds — Redemption for Taxation Reasons".
Repurchase in the Event of Delisting	Unless the Bonds have been previously redeemed, repurchased and cancelled or exchanged, in the event of a Delisting (as defined

	herein), each Bondholder shall have the right, at such Bondholder's option, to require the Issuer to repurchase all of its Bonds (or any portion of the principal amount thereof which is US$1,000 or any integral multiple thereof), at a price equal to the Early Redemption Amount (as defined in "Description of Bonds — Definitions") plus accrued and unpaid interest (if any) up to and including the most recent Semi-annual Date if repurchased prior to or on November 20, 2005 and thereafter, at 100% of the outstanding principal amount of the Bonds redeemed, plus accrued and unpaid interest. The date for such repurchase shall be set by the Issuer, and shall not be less than 30 days nor more than 60 days following the date the Issuer informs the Trustee of the Delisting.
Repurchase at the Option of the Bondholder	Unless the Bonds have been previously redeemed, repurchased and cancelled or exchanged, each Bondholder shall be entitled to exercise a one-time right to require the Issuer to repurchase all or part of its Bonds, at a price equal to 102.568% of the outstanding principal amount of the Bonds redeemed, plus accrued and unpaid interest, on November 20, 2005, provided notice is given to the Issuer and Tenaga not more than 60 days nor less than 30 days prior to such date.
Denomination, Form and Title	The Bonds will be deliverable only in registered form and only in denominations of US$1,000 or any integral multiple of US$1,000 in excess thereof. Bonds offered in the United States to qualified institutional buyers in reliance on Rule 144A (the "Rule 144A Bonds") will be represented by one or more permanent global bonds in definitive, fully registered form without interest coupons (the "Rule 144A Global Bonds"). Bonds offered outside the United States in reliance on Regulation S (the "International Bonds") will be represented by one or more permanent global bonds in definitive fully registered form without interest coupons (the "International Global Bonds" and, together with the Rule 144A Global Bonds, the "Global Bonds"). Except as described in this Offering Memorandum, interests in the Bonds evidenced by the Rule 144A Global Bonds will be shown on, and transferred only through, records maintained by The Depository Trust Company and its direct and indirect participants, and interests in the Bonds evidenced by the International Global Bonds will be deposited on or before the closing date with a common depositary for, and registered in the name of a nominee of, and transferred only through, Euroclear Bank S.A./N.V., as operator of the Euroclear system ("Euroclear"), and Clearstream Banking, société anonyme ("Clearstream"). Except in the limited circumstances described in this Offering Memorandum, certificates in respect of Bonds will not be issued in exchange for interests in the Global Bonds.
Transfer Restrictions	The Bonds represented by the Global Bonds will bear the relevant Securities Act legends and such Bonds (or any beneficial interest therein) may not be transferred except in compliance with the transfer restrictions set forth in such legends. A transfer of a beneficial interest in the Rule 144A Global Bonds to a person that

	takes delivery through an interest in the International Global Bonds is subject to certain certification requirements as set forth in the Indenture. A transfer of a beneficial interest in the International Global Bonds to a person that takes delivery through an interest in the Rule 144A Global Bonds is also subject to certification requirements. See "Transfer Restrictions".
Restriction on Disposition of Securities	The Bonds and the Shares deliverable upon exchange of the Bonds have not been, and will not be, registered under the Securities Act. Offers and sales of the Bonds offered in the offering will be subject to certain restrictions described in "Transfer Restrictions" and "Plan of Distribution".
Lock-Up Arrangements	Tenaga has agreed that, without the prior consent of the Initial Purchasers, it will not directly or indirectly, offer, sell, contract to sell, pledge or otherwise dispose of any Shares or any securities which may be converted into or exchanged for any of its Shares for a period of 180 days from the date of this Offering Memorandum, except for (i) Shares issued pursuant to employee share options issued under any employee share option scheme adopted by Tenaga and approved by the Malaysian Securities Commission and the shareholders and the Board of Directors of Tenaga in an aggregate amount not exceeding 10% of the outstanding ordinary shares of Tenaga at the time the options are granted, (ii) up to RM200 million aggregate principal amount of redeemable income securities convertible into Shares ("CRIS") to be offered and sold only to Malaysian resident investors, and (iii) the Bonds and Shares issuable upon exchange of such Bonds and upon conversion of the CRIS. Certain of Tenaga's shareholders, namely the Minister of Finance Incorporated, Khazanah Nasional Berhad and Bank Negara Malaysia, have agreed that without the prior consent of the Initial Purchasers, they will not directly or indirectly, offer, sell, contract to sell, pledge or otherwise dispose of any Shares or any securities that may be converted into or exchanged for any Shares for a period of 90 days from the date of this Offering Memorandum, other than the issue and sale only in Malaysia to Malaysian resident investors by Khazanah Nasional Berhad of up to an aggregate of RM1 billion aggregate principal amount of Ringgit denominated bonds and warrants exchangeable into shares held by Khazanah Nasional Berhad in several companies, which may include up to 50 million ordinary shares, par value RM1.00 per share, of Tenaga.
Governing Law	The Bonds, the Indenture and the Purchase Agreement (as defined herein) will each be governed by the laws of the State of New York.
Trustee	JPMorgan Chase Bank.
Listings	Application has been made to list the Bonds on the Luxembourg Stock Exchange and the Labuan International Financial Exchange Inc. and to designate the Rule 144A Bonds for trading in PORTAL. Approval in principle to have the Shares deliverable upon

	exchange of the Bonds listed on the Main Board of the KLSE has been received.
Trading Market for the Shares	The only trading market for the Shares is the KLSE. Tenaga's outstanding ordinary shares have been listed on the Main Board of the KLSE since May 28, 1992.
Use of Proceeds	The net proceeds from this offering, after deduction of underwriting discounts and commissions, are estimated to be approximately US$343,000,000 (or approximately US$392,000,000 if the over-allotment option is exercised in full). The Issuer intends to lend or otherwise provide the entire net proceeds from this offering to Tenaga. Tenaga intends to use the net proceeds received from the Issuer principally for the repayment of Tenaga's foreign currency-denominated debt maturing from 2004 onwards, and for general corporate purposes.

RISK FACTORS

Prospective investors should carefully consider the following, in addition to the other information contained in this Offering Memorandum, before making any investment decision relating to the Bonds and the Shares deliverable upon the exchange of the Bonds.

Risks Related to Tenaga's Business and the Electricity Industry in Malaysia

Tenaga's financial condition and results of operations will be adversely affected to the extent it is not able to increase its tariff to cover its operating costs.

There has been no increase in Tenaga's tariff since May 1997. Tenaga's financial condition and results of operations will be adversely affected to the extent it is unable to increase its tariff to respond to increases in operating costs. In particular, under Tenaga's 20-year natural gas supply agreement with Petronas Gas Berhad, the gas price is fixed every three years pursuant to a pricing arrangement agreed between Tenaga and Petronas Gas Berhad. The most recent three-year pricing arrangement that fixed the gas price at RM6.40 per million British thermal units ("BTUs") from May 1997 onwards expired in December 2001. Until such a time as new pricing arrangements are agreed upon, the current price of RM6.40 per million BTUs will remain in force. There can be no assurance that Tenaga will receive timely approval from the Minister of Energy for any increases in its tariff necessary to cover increases in its operating costs, including higher energy costs, if at all.

Tenaga's contractual arrangements with other independent power producers may adversely affect its operating profit.

As of August 31, 2002, Tenaga accounted for approximately 62% of electricity generation capacity in Peninsular Malaysia. Since 1992, the Malaysian Government has licensed IPPs to generate electricity for use in Peninsular Malaysia and Sabah. The eight IPPs that have commenced operations accounted for approximately 38% of installed generation capacity in Peninsular Malaysia as of August 31, 2002. Tenaga has entered into a separate power purchase agreement with each of those eight IPPs, each with a duration of between 21 to 25 years from the commencement of commercial operations. Under these agreements, Tenaga is generally obligated to purchase the dependable capacity of these IPPs. The Malaysian Government has also awarded licenses to additional IPPs to generate electricity for use in Malaysia. See "Business — Development of IPPs". As a result, three additional IPPs are expected to begin commercial operations by 2006, subject to the need for further power capacity. These IPPs, along with Panglima Power Sdn. Bhd. and GB 3 Sdn. Bhd., which are expected to add a further 260 megawatts and 211 megawatts, respectively, of generating capacity in 2003, are expected to provide approximately 3,571 megawatts of additional generation capacity by the end of 2007. The growth in generation capacity in Peninsular Malaysia brought about by IPPs and Tenaga's own planned expansion of generation capacity over the next six years may outpace growth in electricity demand during this period. This may result in low capacity utilization (measured as electricity generated compared to generation capacity) and a high reserve margin (measured as installed capacity relative to peak demand) for Tenaga and the IPPs. Lower capacity utilization and higher reserve margins in turn would likely reduce Tenaga's operating profit.

Tenaga requires significant capital for its business, and to the extent Tenaga is unable to obtain additional capital on acceptable terms or in a timely manner, its growth prospects and future profitability may be adversely affected.

Tenaga incurs substantial capital expenditures relating to new projects as well as the replacement of operating assets and infrastructure. As of August 31, 2002, Tenaga has approved capital expenditures aggregating RM13,514 million in fiscal 2003, 2004 and 2005, for committed projects. Tenaga has further budgeted for an additional RM4,867 million for capital expenditure on new projects in fiscal 2003, 2004 and 2005, although capital expenditure on any such new project will require specific approval by Tenaga's Board of Directors. These capital expenditures are expected to be funded through a combination of internally generated cash flow and other external financing sources. If Tenaga is unable to fund capital expenditures from internally generated cash flow or obtain funds from external sources on acceptable terms or in a timely manner, or at all, these capital expenditures would have to be deferred. This may restrict Tenaga's ability to grow and, over time, may reduce the quality and reliability of the service it provides as well as adversely affect future profitability.

A weakening of the Ringgit may increase Tenaga's operating costs and capital expenditures in Ringgit terms, increase the Ringgit cost of repaying Tenaga's indebtedness and reduce Tenaga's operating and net income.

A weakening of the Ringgit may increase Tenaga's operating expenses denominated in or tied to the value of foreign currencies, such as costs of imported fuel, and would increase the Ringgit cost of Tenaga's foreign currency capital expenditures, which include expenditures for equipment and machinery. In addition, a weakening of the Ringgit may increase Tenaga's financing costs, and will increase Tenaga's interest expenses in Ringgit terms on foreign currency-denominated indebtedness, as well as increase in Ringgit terms the principal repayments on outstanding foreign currency loans. Since substantially all of Tenaga's revenues are denominated in Ringgit, a weakening of the Ringgit would likely reduce Tenaga's operating and net income, as well as adversely affect Tenaga's cash flow position, and may strain Tenaga's ability to repay its debt obligations in a timely manner.

Political and economic developments in Malaysia could affect Tenaga's business.

Tenaga's electricity sales growth has historically been closely linked to, and is expected to continue to be affected by, the performance of the Malaysian economy. Beginning in the second half of 1999 and continuing through 2000, the economic environment in Malaysia generally improved and real GDP grew at a rate of 5.8% in 1999 and 8.5% in 2000. This economic improvement was reflected in Tenaga's financial results, as Tenaga's revenue and profit attributable to shareholders increased in fiscal 2001 as compared to fiscal 2000, and increased in fiscal 2000 as compared to fiscal 1999. The Malaysian economy slowed down significantly in 2001, particularly during the second half of 2001, and recorded real GDP growth of only 0.4% for that year. The Malaysian Ministry of Finance has estimated that the Malaysian economy will grow at a rate of 4.0% to 5.0% in 2002 and the World Bank has estimated that the Malaysian economy will grow at a rate of 3.5%. Future Malaysian economic growth and Tenaga's financial condition and results of operations may be affected by changes in inflation, interest rates, taxation and other political, economic or social developments in or affecting Malaysia.

Tenaga has in the past violated certain covenants contained in some of its loan agreements and its lenders could enforce remedies against Tenaga.

Tenaga is party to numerous loan agreements with lenders throughout the world, including loan agreements entered into by predecessors of Tenaga. Like the loan agreements of many other Asian borrowers, many of Tenaga's loan agreements include extensive and restrictive covenants and broad default provisions. As a result, Tenaga has in the past inadvertently violated certain technical covenants contained in certain of these loan agreements, thus creating defaults under those loan agreements and, through cross default provisions, under many of its other loan agreements. Tenaga has sought to cure these violations and/or to obtain waivers of these defaults from its principal lenders. The process of obtaining consent or waivers in connection with these defaults, however, is difficult and time consuming due to the large number of lenders with which Tenaga has banking relationships. Tenaga can provide no assurance that it will be able to obtain all consents and waivers that are required to remedy any of these defaults or any cross default arising as a result of these defaults. Because Tenaga believes that its relationships with its lenders are excellent and that these defaults have not been material to Tenaga's ability to repay amounts due in respect of its indebtedness, no lender has sought, and Tenaga believes that it is unlikely that any lender would seek, to declare a default or enforce remedies under its loan agreements as a result of any such default, although no assurance can be provided in this regard. Tenaga has adopted a practice of fully informing potential lenders or financiers of the existence of the aforementioned violations of covenants contained in some of Tenaga's loan agreements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources".

Future restructuring of the electricity supply industry in Malaysia may have an adverse effect on Tenaga's business and operations.

The Malaysian Government has in the past, and may in the future, consider restructuring the Malaysian electricity supply industry. Tenaga has been a participant in this process and has in the past assisted the Malaysian Government. While the Malaysian Government has recently suspended its previously announced plans to restructure the Malaysian electricity market (see "Relationship with Malaysian Government"), Tenaga expects to assist the Malaysian Government in any future consideration of this issue. No definitive timetable has in the past been proposed by the Malaysian Government for restructuring the Malaysian electricity supply industry, and no assurances can be made as to the timing of any decision by the Malaysian Government on this issue in the future. Furthermore, no assurances can be made as to the form and scope of any final restructuring plan that will be adopted by the Malaysian Government, if any. There can be no assurance that any industry restructuring will not have an adverse effect on Tenaga's business and operations.

Fluctuations in the supply of certain energy sources could have a negative impact on Tenaga's operational performance and profitability.

Fluctuations in the supply to Tenaga of certain energy sources may require Tenaga to rely to a greater extent on other more expensive energy sources for generating electricity. Furthermore, under the existing power purchase agreements between Tenaga and the IPPs, any increase in fuel costs to those IPPs may be passed through to Tenaga. Tenaga's results for the second half of fiscal 2002 were adversely affected by increased fuel costs as a result of a shortage in the supply of natural gas by Petronas Gas Berhad. There can be no assurance that such shortages or fluctuations in the supply of energy sources will not continue in the future, which may adversely affect Tenaga's operational performance and profitability.

Tenaga is subject to many environmental laws.

Tenaga's operations are subject to various environmental laws relating to water, air and noise pollution and the disposal of hazardous materials. Although Tenaga believes that it is in compliance in all material respects with these environmental laws, some risk of environmental costs and liabilities is inherent in its operations and there can be no assurance that material costs and liabilities will not be incurred in the future in this regard. Compliance with environmental laws and regulations may also result in delays in the expansion and development of its gensets and transmission and distribution systems.

Developments in the United States and South East Asia and related deterioration in world economic conditions could directly and indirectly adversely affect Tenaga's financial condition and results of operations.

The terrorist attacks in the United States on September 11, 2001 and in Indonesia on October 12, 2002 may have long-term effects on world economies and markets. The immediate impact of the September 11, 2001 attacks on the Malaysian economy was a severe downturn in the Malaysian securities markets, which have recovered gradually over the last 12 months. The immediate economic impact on Malaysia of the October 12, 2002 terrorist attacks has been more muted. Presently, it is not possible to determine the longer term effects of these events on economic conditions in Malaysia and, ultimately, on Tenaga's financial condition and results of operations. In particular, the national and global responses to these terrorist attacks, many of which are still being formulated, and/or the occurrence of further such incidents in South East Asia may materially and adversely affect Tenaga's business and operations in ways that cannot be predicted at this time.

As a result of developments in the United States, and the adverse impact those events have had on the insurance industry worldwide, Tenaga may be forced to pay substantially higher premiums in the future in respect of its insurance policies with third parties, and may experience increased difficulties in obtaining or renewing those insurance policies.

No insurance policies have been refused by Tenaga's third-party insurers in the last three years. However, since September 11, 2001, Tenaga has experienced difficulties in placement for certain of its major policies, including machinery breakdown and the business interruption portions of its machinery breakdown insurance policy, and its industrial all-risk insurance policy. Although Tenaga was able to obtain these policies, the premiums paid by Tenaga for these policies increased substantially. In addition, a number of Tenaga's insurance policies will need to be renewed in the future. There can be no assurance that the premiums payable for these insurance policies upon renewal will not increase substantially, which may adversely affect Tenaga's results of operations. Furthermore, any failure or inability to obtain the necessary insurance coverage on a timely basis, or at all, may severely restrict or materially disrupt Tenaga's business and operations.

Risks Related to an Investment in a Malaysian Company

Tenaga's public shareholders may have more difficulty protecting their interests than they would as shareholders of United States or European companies.

Tenaga's corporate affairs are governed by its Memorandum and Articles of Association and by the laws governing corporations incorporated in Malaysia. The rights of Tenaga's shareholders and the responsibilities of the members of its Board of Directors under Malaysian law may be different from those applicable to a corporation incorporated in the United States, Europe or elsewhere in Asia. Therefore, Tenaga's public shareholders may have more difficulty in protecting their interests in connection with actions taken by Tenaga's management, members of its Board of Directors or its principal shareholders than they would as shareholders of a corporation incorporated in the United States, Europe or elsewhere in Asia. For example, principal shareholders in United States corporations are subject to fiduciary duties while principal shareholders in Malaysian corporations are not subject to such duties. For a discussion related to Tenaga's relationship with its principal shareholders, see "Major Shareholders" and "— Risks Related to the Shares — The ownership and control of Tenaga is concentrated and the Malaysian Government could exercise substantial control over decisions affecting operations and financial performance".

Investors may have difficulty enforcing judgments against Tenaga or against its management.

Tenaga is incorporated in Malaysia. All of its Directors and executive officers, as well as some of its advisers and the experts named in this Offering Memorandum, reside outside the United States. All of its assets are located outside the United States. As a result, you may not be able to:

- effect service of process upon Tenaga or these persons within the United States; or
- enforce against Tenaga or these persons in U.S. courts judgments obtained in U.S. courts, including judgments predicated on the civil liability provisions of the U.S. Federal securities laws.

Tenaga's Malaysian legal counsel has advised it that judgments obtained in the U.S. courts based upon the civil liability provisions of the U.S. Federal securities laws are not directly enforceable in Malaysian courts. Tenaga's Malaysian legal counsel has also advised Tenaga that there is doubt as to whether Malaysian courts will enter judgments in original actions brought in Malaysian courts based solely upon the civil liability provisions of the U.S. Federal securities laws.

A re-imposition of capital controls may affect investors' ability to repatriate the proceeds from the sale of Bonds and Shares and principal or interest paid on the Bonds from Malaysia.

As part of the package of policy responses to the 1997 economic crisis in Southeast Asia, the Malaysian Government introduced, on September 1, 1998, selective capital control measures. Under the requirements announced in September 1998, external account holders who are non-resident corporations and non-resident individuals residing outside Malaysia must obtain prior approval from the Controller of Foreign Exchange for transfers of funds between external accounts for uses of funds other than for permitted purposes. The requirements also stipulated that inflows of portfolio capital remain in Malaysia for a minimum period of one year before they could be repatriated, restricted the import and export of Ringgit by Malaysian travelers and limited the amount of investment abroad or foreign currency that may be carried abroad by travelers.

The Malaysian Government initiated the liberalization of the selective capital control measures in 1999 to allow foreign investors to repatriate principal capital and profits, subject to an exit levy based on a percentage of profits repatriated. On February 1, 2001, the Malaysian Government revised the levy to apply only to profits made from portfolio investments retained in Malaysia for less than one year. On May 2, 2001, the Malaysian Government lifted all controls affecting the repatriation of foreign portfolio funds, which stem largely from the sale of stocks listed on the KLSE.

There can be no assurance that the Malaysian Government will not re-impose these or other capital controls in the future. If the Malaysian Government re-imposes foreign exchange controls, investors may not be able to repatriate the proceeds of the sale of Shares and interest and principal paid on the Bonds from Malaysia for a specified period of time or may only do so after paying a levy.

Malaysian law contains provisions that could discourage a takeover of Tenaga.

The Malaysian Securities Commission Act 1993 and the Malaysian Code on Takeovers and Mergers (the "Takeovers Code") contain certain provisions that may delay, deter or prevent a future takeover or change in control of Tenaga. Any person acquiring an interest — either singly or acting in concert with others — in more than 33% of Tenaga's voting shares must extend a takeover offer for the remaining voting shares in accordance with the Takeovers Code. A takeover offer must also be made if a person holding (either singly or acting in concert with others) more than 33% but less than 50% of the voting rights acquires more than an additional 2% of Tenaga's voting shares in any six-month period. These provisions may discourage or prevent certain types of transactions involving an actual or threatened change of control of Tenaga. This may adversely affect investors because these types of transactions may allow investors to sell their ordinary shares at a price above the prevailing market price.

Significant differences exist between Malaysian GAAP and US GAAP, which may be material to the financial information contained in this Offering Memorandum.

The audited financial information included in this Offering Memorandum is prepared and presented in accordance with Malaysian GAAP. Significant differences exist between Malaysian GAAP and US GAAP, which may be material to the financial information contained herein. Tenaga has made no attempt to quantify the effect of any of those differences. In making an investment decision, investors must rely upon their own examination of Tenaga, the terms of the offering and the financial information contained herein. See "Summary of Principal Differences Between Malaysian GAAP and US GAAP".

The introduction of MASB No. 25 will have a material impact on Tenaga's deferred tax liability and shareholders' funds.

MASB No. 25, which is effective for accounting periods beginning on or after July 1, 2002, requires an enterprise to recognize a deferred tax liability or deferred tax asset, with certain limited exceptions. If MASB No. 25 were applicable as of August 31, 2002, Tenaga estimates that the amount of deferred tax liability resulting from the application of MASB No. 25 would have increased by approximately RM4 billion, and that shareholders' funds would have correspondingly decreased by the same amount. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Recently Announced New Accounting Standards applicable to Tenaga".

Risks Related To The Bonds

An active market for the Bonds may fail to develop, which may cause the price of the Bonds to fall.

There is no existing market for the Bonds, and there can be no assurance regarding the future development of a market for the Bonds, the ability of Bondholders to sell their Bonds or the price at which Bondholders may be able to sell their Bonds.

Application has been made to list the Bonds on the Luxembourg Stock Exchange and the Labuan International Financial Exchange Inc. There can be no assurance that the Bonds will be accepted for listing on the Luxembourg Stock Exchange and the Labuan International Financial Exchange Inc. In addition, the Bonds could trade at prices that may be lower than the initial market value thereof depending on many factors, including prevailing market interest rates, Tenaga's operating results and the market for similar securities. The Initial Purchasers have no obligation to make a market in the Bonds. In addition, the market for debt securities in emerging markets has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Bonds. There can be no assurance that the markets for the Bonds, if any, will not be subject to similar disruptions. Any disruptions in these markets may have an adverse effect on the market price of the Bonds.

Bondholders will bear the risk of fluctuations in the price of the Shares.

The market price of the Bonds at any time will be affected by fluctuations in the price of the Shares. It is impossible to predict whether the price of the Shares will rise or fall. Trading prices of the Shares will be influenced by, among other things, Tenaga's financial condition, results of operations and political, economic, financial and other factors. Any decline in the price of the Shares would adversely affect the market price of the Bonds.

Bondholders will have no rights as holders of the Shares into which the Bonds are exchangeable until the exchange of such Bonds and the allotment of the relevant Shares.

Upon an exchange of the Bonds for Shares by a Bondholder pursuant to its Exchange Right (as defined herein), such Bondholder will have no rights with respect to those Shares unless and until the Shares deliverable upon exchange are allotted by Tenaga to such Bondholder. This allotment may take up to 10 Trading Days from the Exchange Date (as defined herein). Upon such allotment, the Bondholder will be entitled to exercise the rights of a holder of such Shares only as to actions for which the applicable record date occurs after the date of such allotment.

Shares deliverable upon an exchange of the Bonds cannot be traded until they are listed on the KLSE.

Immediately after Tenaga has allotted Shares to an exchanging Bondholder, Tenaga will deliver or procure delivery of certain information and documents to the KLSE such that the Shares deliverable upon such exchange may be listed on the KLSE. Listing will take place up to three clear KLSE trading days after such allotment and the delivery of information and documents by Tenaga in accordance with the listing requirements of the KLSE. The Shares may only be traded on the KLSE after such listing has occurred. Apart from the delivery of such information and documents to the KLSE, Tenaga has no control over the listing of the relevant Shares on the KLSE. As such, there can be no assurance of the timely listing of such Shares.

The Bonds are subject to restrictions on transfer that may adversely affect the liquidity of the Bonds.

The Bonds are subject to restrictions on transfer as described under "Transfer Restrictions". These transfer restrictions may adversely affect the liquidity of the Bonds. To exercise the right of exchange with respect to a Bond, a Bondholder must make certain representations and agreements in the Exchange Notice (as defined herein) as described in "Description of the Bonds — Exchange". In addition, non-Malaysian Bondholders seeking to exercise their exchange rights will be required to first obtain a trading account number from the Malaysian Central Depository Sdn. Bhd. in accordance with applicable Malaysian laws and regulations. These requirements may further affect the liquidity of the Bonds and may limit a non-Malaysian Bondholder's ability to take advantage of short-term increases in the market price of the Shares.

Risks Related to the Shares

The ownership and control of Tenaga is concentrated and the Malaysian Government could exercise substantial control over decisions affecting operations and financial performance.

As of October 31, 2002, the Malaysian Government and its related entities owned, directly or indirectly, approximately 85% of Tenaga's outstanding ordinary shares, with the Minister of Finance Incorporated, Khazanah Nasional Berhad and Bank Negara Malaysia collectively owning approximately 64% of Tenaga's outstanding ordinary shares. The Malaysian Government also holds the sole "Special Share" of Tenaga which entitles the Malaysian Government to a veto right with respect to Tenaga's undertaking certain extraordinary transactions or significant changes in Tenaga's business or operations as well as the right to appoint six out of a maximum of 12 Directors of Tenaga. See "Relationship with the Malaysian Government".

Although certain of the Malaysian Government's ownership interest in Tenaga is held indirectly through corporate entities or pension funds that may or may not vote in accordance with one another, the Malaysian Government generally has the ability to exercise control over decisions taken at meetings of Tenaga's Board of Directors or shareholders, including decisions relating to:

- mergers or other business combinations;
- material acquisitions or dispositions of assets;
- future issuances of shares with voting rights attaching to those shares;
- payment of dividends on any shares; and
- significant amendments to Tenaga's organizational documents.

The interests of the Malaysian Government in deciding matters, and the factors it considers, could be different from the interests of Tenaga's other shareholders.

In addition, the current concentration of ownership and control of Tenaga in the Malaysian Government gives the Malaysian Government the ability to prevent a change of control of Tenaga, even if such a transaction were economically beneficial to Tenaga and its shareholders. The Malaysian Government could also delay or prevent any transaction of a nature that would be beneficial to Tenaga and its other shareholders or alternatively cause Tenaga to enter into a transaction that would be detrimental to Tenaga or its other shareholders.

The price of the Shares listed on the Main Board of the KLSE may be adversely affected by the size and volatility of the Malaysian securities market.

As of November 11, 2002, there were more than 500 companies listed and quoted on the Main Board of the KLSE. The aggregate market capitalization of listed equity securities of these companies was approximately RM500 billion. The relatively small market capitalization of, and trading volume on, the KLSE compared with stock exchanges in the United States and certain European and other countries may cause the market price of securities listed on the KLSE, including the Shares, to fluctuate more than those listed on these larger stock exchanges.

The Malaysian securities market is smaller and more volatile than the securities markets in the United States and in certain European and other countries. The KLSE has experienced substantial fluctuations in the prices and volumes of sales of listed securities. Between 1997 and 2001, the KLSE Composite Index, which represents 100 component stocks representing the various sectors, reached a peak of 1,271.6 in the first quarter of 1997, and reached a low of 262.7 in the third quarter of 1998. As of November 11, 2002, the KLSE Composite Index reached a peak of 808.1, and reached a low of 624.2 during 2002. The daily closing values of Tenaga's outstanding ordinary shares, which are listed on the Main Board of the KLSE, ranged from RM8.20 per share to RM11.60 per share over the same period. On November 11, 2002, the KLSE Composite Index closed at 653.2, and the daily closing value of Tenaga's outstanding ordinary shares was RM8.75 per share. In addition, the KLSE has experienced problems such as market manipulation, insider trading and payment defaults. The recurrence of these or similar problems could adversely affect the market price and liquidity of the securities of Malaysian companies, including the Shares, in both the domestic and the international markets. For more information, please see "Regulation and Market for Malaysian Securities".

For a description of certain restrictions on ownership of Tenaga, see "Description of the Shares — Limitation on Shareholdings" and "Clearing and Settlement".

If the Ringgit peg to the US dollar is removed or recalculated, resultant fluctuations in the exchange rate between the Ringgit and the US dollar may have a material adverse effect on the value of the Shares deliverable upon exchange of the Bonds in US dollar terms.

The Shares deliverable upon exchange of the Bonds are expected to be listed on the Main Board of the KLSE, where securities are quoted and traded in Ringgit. If there are any cash dividends on such Shares, these dividends will be paid in Ringgit. If the Ringgit peg to the US dollar is removed or recalculated, fluctuations in the exchange rate between the Ringgit and the US dollar may affect, among other things, the US dollar value of the proceeds that a holder receives upon a sale of such Shares or in respect of any cash dividends paid on such Shares. In addition, any removal or recalculation of the peg will affect the value of such Shares in US dollar terms. See "Exchange Rates and Exchange Controls".

Your ability to participate in any future rights offerings by Tenaga is limited.

Tenaga may, from time to time, distribute rights to its shareholders. However, Tenaga is under no obligation to file a registration statement in the United States or in any other jurisdictions outside Malaysia with respect to any rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. Accordingly, certain U.S. holders or holders in other jurisdictions outside Malaysia of Tenaga's ordinary shares, including the Shares deliverable upon exchange of the Bonds, may be unable to participate or may be excluded from participation in rights offerings by Tenaga and may, as a result, experience dilution of their holdings.

Shares eligible for future sale may adversely affect the price of the Shares.

The market price of the Shares could decline as a result of sales of a large number of the Shares after this offering or the perception that such sales could occur. Tenaga has agreed that, without the prior consent of the Initial Purchasers, it will not directly or indirectly, offer, sell, contract to sell, pledge or otherwise dispose of any Shares or any securities which may be converted into or exchanged for any of its Shares for a period of 180 days from the date of this Offering Memorandum, except for (i) Shares issued pursuant to employee share options issued under any employee share option scheme adopted by Tenaga and approved by the Malaysian Securities Commission and the shareholders and the Board of Directors of Tenaga in an aggregate amount not exceeding 10% of the outstanding ordinary shares of Tenaga at the time the options are granted, (ii) up to RM200 million aggregate principal amount of the CRIS to be offered and sold only to Malaysian resident investors, and (iii) the Bonds and Shares issuable upon exchange of such Bonds and upon conversion of the CRIS. Certain of Tenaga's shareholders namely the Minister of Finance Incorporated, Khazanah Nasional Berhad and Bank Negara Malaysia, have agreed that without the prior consent of the Initial Purchasers, they will not directly or indirectly, offer, sell, contract to sell, pledge or otherwise dispose of any Shares or any securities that may be converted into or exchanged for any Shares for a period of 90 days from the date of this Offering Memorandum, other than the issue and sale only in Malaysia to Malaysian resident investors by Khazanah Nasional Berhad of up to RM1 billion aggregate principal amount of Ringgit denominated bonds and warrants exchangeable into shares held by Khazanah Nasional Berhad in several companies, which may include up to 50 million ordinary shares, par value RM1.00 per share, of Tenaga. After the expiration of these lock-up periods, Tenaga or these shareholders, as the case may be, may sell additional Shares and securities without regard to any such limitations. The sale of a substantial number of additional Shares or securities could adversely affect the market price of the Shares.

The Shares deliverable upon exchange for the Bonds are subject to restrictions on transfer and foreign ownership that may adversely affect the liquidity and trading price of the Shares.

The Shares deliverable upon exchange for the Bonds are subject to restrictions on transfer and foreign ownership as described under "Transfer Restrictions" and "Clearance and Settlement". These transfer restrictions and foreign ownership limitations may adversely affect the liquidity of the Shares. Such reduced liquidity of the Shares could adversely affect the market price for such Shares.

AVAILABLE INFORMATION

For so long as the Bonds and the Shares deliverable upon exchange thereof remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, Tenaga will furnish, upon the request of any holder, beneficial owner or prospective purchaser of the Bonds or the Shares deliverable upon exchange thereof or interest therein who is a "qualified institutional buyer" within the meaning of Rule 144A, the information specified in paragraph (d)(4) of Rule 144A under the Securities Act to that holder, beneficial owner or prospective purchaser in order to permit compliance by such holder or beneficial owner with Rule 144A in connection with the resale of the Bonds or the Shares deliverable upon exchange thereof or beneficial interest therein in reliance on Rule 144A unless, at the time of that request, Tenaga is subject to the reporting requirements of Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), or Tenaga is included in the list of foreign private issuers that claim exemption from the registration requirements of Section 12(g) of the Exchange Act (and therefore are required to furnish the U.S. Securities and Exchange Commission certain information pursuant to Rule 12g3-2(b) under the Exchange Act).

Tenaga will furnish annual reports in English to the KLSE. These annual reports will include a review of its business and operations. Tenaga will also furnish to the KLSE its quarterly financial statements and all notices of ordinary shareholders' meetings and other reports and communications in English that it makes available to its shareholders. This information may be obtained from the website of the KLSE at *http://www.klse.com.my*. Information contained on that website is not a part of this Offering Memorandum.

RELATIONSHIP WITH THE MALAYSIAN GOVERNMENT

Tenaga traces its origins to the Central Electricity Board, which was established under the Electricity Act in 1949 to monitor and develop electricity supply in Malaysia. The Central Electricity Board, later renamed the National Electricity Board of the States of Malaya or Lembaga Letrik Negara (the "National Electricity Board"), undertook the consolidation of electricity supply in Peninsular Malaysia between 1965 and 1982, and eventually became the principal provider of electricity in Peninsular Malaysia. On July 12, 1990, in line with the privatization policy of the Malaysian Government, Tenaga was incorporated as a public limited company under the Malaysian Companies Act. In September 1990, under the Malaysian Electricity Supply (Successor Company) Act of 1990, all of the property, rights and liabilities of the National Electricity Board were transferred to Tenaga.

In May 1992, Tenaga was privatized through an initial public offering and listing on the KLSE. As of October 31, 2002, the Malaysian Government and related entities owned, directly or indirectly, approximately 85% of Tenaga's outstanding ordinary shares and the sole "Special Share" of Tenaga, with the Minister of Finance Incorporated, Khazanah Nasional Berhad and Bank Negara Malaysia collectively owning approximately 64% of Tenaga's outstanding ordinary shares.

The Memorandum and Articles of Association of Tenaga specifies that the Special Share may only be held by the Minister of Finance Incorporated or any minister, representative or any person acting on behalf of the Malaysian Government and requires Tenaga to obtain approval of the holder of the Special Share before undertaking certain extraordinary transactions or effecting any significant changes in the business or operations of Tenaga, including the dissolution of Tenaga, any substantial acquisition or disposal of assets, any amalgamation and any merger or takeover. The holder of the Special Share also has the right to appoint up to six out of a maximum of 12 Directors of Tenaga. At present, six of the current 12 Directors of Tenaga have been appointed by the Minister of Finance Incorporated as the holder of the Special Share. In addition, the holder of the Special Share has the right to require Tenaga to redeem the Special Share at par at any time by serving written notice and delivering the relevant share certificate to Tenaga.

The Malaysian Government regulates the electricity industry, including Tenaga, through the Minister of Energy and the Energy Commission, which acts in an advisory capacity to the Minister of Energy. The Malaysian Government, through the Minister of Energy and the Energy Commission, approves rates and administers the terms of Tenaga's operating license. In addition, the Energy Commission Act 2001 prescribes various functions of the Energy Commission, which include: (i) advising the Minister of Energy on all matters concerning the national policy objectives for energy supply activities, the generation, production, transmission, distribution, supply and use of electricity; (ii) regulating all matters relating to the electricity supply industry; (iii) promoting and safeguarding competition and fair and efficient market conduct or, in the absence of a competitive market, preventing the misuse of monopoly or market power in respect of the generation, production, transmission, distribution and supply of electricity; and (iv) protecting persons from dangers arising from the generation, production, transmission, distribution, supply and use of electricity. In addition to regular contact with the Energy Commission, Tenaga consults from time to time with various departments of the Malaysian Government on matters relating to electricity policy and central planning, industry restructuring, generation capacity, expansion plans and fuel source diversification policy. Tenaga believes it has a cordial working relationship with the Malaysian Government and its ministries and departments.

Since Tenaga's privatization in 1992, the Malaysian Government has continued to consider various ways in which the competitiveness of the Malaysian electricity supply industry could be improved. One of the Malaysian Government's earlier reforms was the awarding of licenses to IPPs in order to increase the number of generation facilities operating in Malaysia and to improve the reliability of electricity supply. Between 1992 and 2002, eight power generation facilities operated by IPPs were designed, constructed and began commercial operations. Tenaga entered into power purchase agreements with each of these IPPs, pursuant to which Tenaga is obliged to purchase the dependable capacity of those IPPs. A number of additional IPPs have since been licensed and these IPPs, along with other IPPs should the Malaysian Government deem additional generation capacity to be necessary, are scheduled to commence operations before 2010. Furthermore, under the auspices of the Malaysian Ministry of Finance, the Minister of Energy, the Department of Electricity

Supply and Gas (now the Energy Commission) and the Economic Planning Unit of the Malaysian Government (the "Economic Planning Unit"), various alternative proposals for energy deregulation and enhanced competition have been studied, including the introduction of full retail competition, the development of a power pool, the establishment of three or four vertically integrated power companies and maintenance of the status quo.

At the beginning of 2001, the Malaysian Government stated that the timing and form of any restructuring of the electricity supply industry would be finalized later in that year. However, as a result of difficulties encountered world wide with energy deregulation and the separation of electricity generation from electricity transmission and distribution — particularly in the State of California in the United States, New Zealand and the United Kingdom — the Malaysian Cabinet decided in April 2001 against adopting the timing and form of restructuring proposed by the Economic Planning Unit earlier that year.

Tenaga expects to continue to assist the Malaysian Government in formulating its policies in connection with any future restructuring of the Malaysian electricity supply industry. However, no assurances can be made as to the timing of a decision by the Malaysian Government on this issue. Furthermore, no assurances can be made as to the form and scope of any final restructuring plan that may be adopted by the Malaysian Government, if any, and there can be no assurance that any industry restructuring will not have an adverse effect on Tenaga's business and operations.

MARKET PRICE INFORMATION

Tenaga's outstanding ordinary shares commenced trading on the Main Board of the KLSE on May 28, 1992. The table below sets forth, for the periods indicated, the high and low closing prices and the average volume of trading activity on the Main Board of the KLSE for Tenaga's outstanding ordinary shares and the highest and lowest of the daily closing values of the KLSE Composite Index. On November 11, 2002, the closing price of Tenaga's outstanding ordinary shares on the Main Board of the KLSE was RM8.75 (US$2.30) per share.

	Daily Closing Price per Share (RM)		Average Daily Trading Volume	Daily Closing Value of KLSE Composite Index	
	High	Low	(In thousands of shares)	High	Low
1992	10.20	7.90	1,966	660.4	546.6
1993	19.50	8.55	1,463	1,275.3	614.3
1994	20.70	9.50	1,227	1,314.5	895.8
1995	11.10	8.55	1,153	1,085.0	840.9
1996	12.10	8.55	1,748	1,238.0	993.2
1997	13.10	5.50	2,680	1,271.6	526.1
1998	10.10	2.00	4,424	745.4	262.7
1999	10.10	5.50	2,123	851.7	494.6
2000	14.70	9.40	2,534	1,013.3	679.6
First Quarter	13.10	9.40	2,764	1,013.3	815.8
Second Quarter	14.70	12.10	3,294	965.4	803.9
Third Quarter	13.50	10.80	1,721	860.8	713.5
Fourth Quarter	13.00	10.30	2,401	796.2	679.6
2001	13.00	7.40	1,659	736.3	553.3
First Quarter	13.00	10.70	1,325	736.3	647.5
Second Quarter	12.10	7.40	1,863	650.7	553.3
Third Quarter	11.40	8.60	1,617	696.7	586.3
Fourth Quarter	10.80	8.45	1,809	696.1	592.3
2002					
January	11.10	10.20	1,144	718.8	682.8
February	11.10	10.40	1,238	729.7	701.1
March	11.60	10.50	1,063	761.0	717.6
April	11.50	10.70	2,033	808.1	752.4
May	11.30	10.00	1,942	795.4	741.8
June	10.10	9.80	1,788	755.2	705.0
July	11.00	9.50	807	744.6	715.1
August	10.20	9.70	439	736.6	711.4
September	9.95	8.00	909	713.4	636.8
October	8.95	8.20	391	662.8	624.2
November (through November 11)	9.05	8.70	404	658.7	653.2

The KLSE has experienced substantial fluctuations in the prices of listed securities. For more information regarding the KLSE, see "Regulation and Market for Malaysian Securities".

EXCHANGE RATES AND EXCHANGE CONTROLS

Exchange Rates

The following table sets forth the exchange rates between the Ringgit and the US dollar (in Ringgit per US dollar) since 1996. Since September 1, 1998, the Ringgit has been fixed at an exchange rate against the US dollar of RM3.80 = US$1.00. The exchange rate as of November 11, 2002 was RM3.80 = US$1.00. No representation is made that the Ringgit amounts actually represent such US dollar amounts or could have been or could be converted into US dollars at the rates indicated, any other rate or at all. See "Risk Factors" for information regarding the effect of the fixed exchange rate system on Tenaga's financial condition and results of operations.

Year	Period End	Period Average(1)
1996	2.5279	2.5158
1997	3.8883	2.8132
1998 (through September 1)	4.2175	3.9794
1998 (full year)	3.8000	3.9229
1999	3.8000	3.8000
2000	3.8000	3.8000
2001	3.8000	3.8000
2002 (through November 11)	3.8000	3.8000

(1) The average of the monthly average exchange rates for each month of the applicable period.

Source: Bank Negara Malaysia.

Exchange Controls

As part of the package of policy responses to the 1997 economic crisis in Southeast Asia, the Malaysian Government introduced selective exchange control measures in September 1998. These measures were designed to eliminate the internationalization of the Ringgit, contain speculation and stabilize short-term capital flows. The internationalization of the Ringgit refers specifically to the offshore Ringgit market, which encompasses all Ringgit-related activities transacted outside the boundaries of Malaysia. These activities include Ringgit trading and trading in derivatives on the Ringgit such as options, forwards, futures and swap contracts. The offshore Ringgit market also encompasses all Ringgit-deposit taking and lending activities outside Malaysia. As a result of these measures, the Ringgit is no longer a freely convertible currency.

The permission of the Controller of Foreign Exchange (the "Controller") is required for payments to non-residents in certain specified circumstances. However, no permission is required for the payment of dividends by a Malaysian company on its shares to non-resident shareholders. A Malaysian company paying dividends to its non-resident shareholders in excess of RM10,000 is, however, required to report these payments to Bank Negara Malaysia, the Malaysian Central Bank ("Bank Negara"). These payments are made in Ringgit by way of dividend vouchers sent by the Malaysian company to shareholders, or in the case of shares of listed companies that are deposited with the Malaysian Central Depository Sdn. Bhd., at the address of the respective depositor.

Settlement of a sale and purchase of shares in a Malaysian company between non-residents of Malaysia may be made only in Ringgit through Ringgit accounts maintained with licensed banks in Malaysia (each an "External Account"). Similarly, all payments by residents of Malaysia to non-residents of Malaysia for the purchase of shares in a Malaysian company must be made in Ringgit. All dividends and proceeds of sale in Ringgit received by or for the account of a non-resident of Malaysia in respect of shares in a Malaysian company must be paid into an External Account in Ringgit, which may converted into any foreign currency (other than the currencies of Israel, Montenegro and Serbia) by the bank with whom the External Account is maintained and repatriated to such non-resident.

The exchange control measures further: (i) require that inflows of portfolio capital remain in Malaysia for a minimum period of one year before they may be repatriated; (ii) restrict the import and export of Ringgit by Malaysian travelers; (iii) limit the amount of investment abroad; and (iv) limit the amount of foreign currency that may be carried by travelers. These regulations do not affect trade or foreign direct investment, and full convertibility remains for current account transactions.

The Malaysian Government initiated the liberalization of the selective exchange control measures in 1999. Effective February 15, 1999, the one-year minimum holding period was modified to allow foreign investors to repatriate principal capital and profits, subject to a graduated exit levy depending on whether the funds were brought into Malaysia before or after February 15, 1999 and the duration of the investment. On September 21, 1999, the Malaysian Government made a further relaxation when the exit levy on principal and the two-tier levy system were replaced by a flat levy of 10% on profits repatriated. On February 1, 2001, the Malaysian Government revised the levy to apply only to profits made from portfolio investments retained in Malaysia for less than one year. Profits retained in Malaysia for more than one year were exempt from the levy. On May 2, 2001, the Malaysian Government lifted all controls affecting the repatriation of foreign portfolio funds, which stem largely from the sale of stocks listed on the KLSE. There can be no assurance that the Malaysian Government will not re-impose selective exchange control measures. See "Risk Factors — Risks Related to an Investment in a Malaysian Company — A re-imposition of capital controls may affect investors' ability to repatriate the proceeds from the sale of Shares from Malaysia".

In respect of offshore borrowings in Ringgit, Malaysian residents are required to obtain the permission of the Controller before they can obtain credit facilities, including financial guarantees, from non-residents if the amount involved is in excess of RM5 million in the aggregate. However, Malaysian residents are allowed to obtain financial guarantees in foreign currencies from non-resident individuals, non-resident shareholders and associated or related companies that are not financial institutions, provided that the guarantor is not a financial institution and all payments related to the guarantees are made in foreign currencies. Information on the guarantees must be submitted to Bank Negara. Payments on the guarantees may be freely made upon: (i) acknowledgment of receipt of the information by Bank Negara; and (ii) informing Bank Negara when the guarantees are called upon. The Issuer intends to lend or otherwise provide the entire net proceeds from this offering to Tenaga. As Tenaga intends to use the net proceeds received from the Issuer for, among other things, the repayment of Tenaga's foreign currency-denominated debt, Tenaga has applied for and received the necessary approval from the Controller.

Residents in Malaysia that are not authorized dealers are generally required to obtain the permission of the Controller before buying or selling, or doing any act which involves, is associated with or is preparatory to the buying or selling of, any foreign currency, whether spot or forward, with a non-authorized dealer in Malaysia or any person outside Malaysia. This approval process may, under certain circumstances, limit the economic benefit of entering into hedging transactions.

FOREIGN INVESTMENT REGULATIONS IN MALAYSIA

Acquisition of shares and assets and mergers and takeovers of companies in Malaysia are regulated and monitored by the Foreign Investment Committee (the "FIC"). The FIC guidelines for these acquisitions, mergers and takeovers in Malaysia are policy guidelines of a non-statutory nature that do not have the force of law, although there is some debate as to whether these guidelines have attained the status of public policy such that contravention of the guidelines could render an agreement void and unenforceable for being against public policy.

The FIC guidelines provide that a proposed acquisition of shares should result directly or indirectly in a more balanced Malaysian participation in ownership and control, should lead directly or indirectly to net economic benefits being derived by the nation in specific areas, and should not have adverse consequences in terms of national policies in certain areas. Subject to these guidelines, foreigners may acquire shares in a Malaysian company. In the event of an acquisition by any one foreign interest or associated group of 15% or more, or an acquisition by foreign interests in the aggregate of 30% or more, of the voting power of a Malaysian company, or in the event that the value of the shares, assets or interests acquired by Malaysian or foreign interests exceeds RM5 million (or RM10 million in the case of real property) or in the event that there is an acquisition of assets or interests that will result in ownership or control of a Malaysian company passing to foreign interests, or a change of control of Malaysian companies and businesses through any form of joint venture agreement, management agreement or technical assistance agreement or other arrangements, or there is a merger with, or takeover of a Malaysian company, the FIC guidelines require the prior approval of the FIC. "Foreign interest" includes voting, equity or other rights in a company held by: (i) foreign individuals; (ii) companies or institutions incorporated outside Malaysia; or (iii) local companies where foreign individuals and/or companies or institutions incorporated outside Malaysia hold more than 50% of the voting rights or have control of the management of the companies by way of joint venture agreements, management agreements, technical assistance agreements or other types of agreements.

By a letter dated September 24, 2002, the FIC has granted a general consent in respect of the issue of the Shares deliverable upon the exchange of the Bonds. In respect of acquisitions of Shares in the secondary market, purchasers remain subject to the restrictions referred to in the immediately preceding paragraph, or as prescribed from time to time by the FIC. Tenaga's Articles of Association contain an additional restriction on the acquisition by foreign interests of an aggregate of 25% or more of voting power in Tenaga. As of October 31, 2002, approximately 2.7% of the Shares were held by non-Malaysian citizens. See "Description of the Shares — Limitation on Shareholdings" and "Clearing and Settlement".

DIVIDEND POLICY

Tenaga has historically paid dividends on both an interim and final basis. For fiscal 2001, Tenaga paid an interim net dividend of RM89.5 million and a final tax-exempt dividend of RM133.6 million to its shareholders, representing an interim gross dividend of 4.0 Sen per Share, and a final tax-exempt dividend of 4.3 Sen per Share. On July 3, 2002, Tenaga paid an interim tax-exempt dividend of RM93.4 million to its shareholders, representing a tax-exempt dividend of 3.0 Sen per Share to its shareholders in respect of fiscal 2002. The Board of Directors of Tenaga has recommended a final gross dividend of 6.0 Sen per share which, after deducting income tax at a rate of 28%, represented a net total dividend of RM134.4 million.

Tenaga may declare dividends by ordinary resolution of its shareholders at a general meeting. However, Tenaga may not pay dividends in excess of the amount recommended by its Board of Directors. Tenaga's Board of Directors may, without the approval of its shareholders, declare an interim dividend. Tenaga's Board of Directors currently intends to continue proposing the payment of final dividends during general meetings of Tenaga's shareholders. However, in making a determination to recommend the amount of the final dividend or to declare an interim dividend, Tenaga's Board of Directors will consider, among other factors:

- Tenaga's cash flows, financial condition, results of operations, capital requirements and future prospects;
- Tenaga's ability to obtain tax credits;
- restrictions imposed by law; and
- other factors deemed relevant by the Board of Directors.

Tenaga is permitted to pay dividends only out of its profits, which would generally comprise retained earnings, or pursuant to Section 60(3) of the Malaysian Companies Act, which permits the application of the share premium attributable to its issued Shares to the payment of dividends in the form of shares.

Tenaga will pay dividends on the Shares, if any, in Ringgit. As a result, the US dollar equivalent of any dividends paid will vary with any changes in the exchange rate between the Ringgit and the US dollar. For a description of the historical rate of exchange between the Ringgit and the US dollar and the Ringgit peg to the US dollar, see "Exchange Rates and Exchange Controls" and "Risk Factors — Risks Related to an Investment in a Malaysian Company — If the Ringgit peg to the US dollar is removed or recalculated, resultant fluctuations in the exchange rate between the Ringgit and the US dollar may have a material adverse effect on the value of the Shares in US dollar terms".

The following table sets forth the interim and final dividends paid by Tenaga to shareholders for the fiscal years indicated.

	Gross Dividend (Sen per share)			Net Total Dividend (RM million)		
Fiscal Year	Interim	Final	Total	Interim	Final	Total
1994	5.0	7.0	12.0	103.1	148.9	252.0
1995	5.0	7.0	12.0	107.6	150.7	258.3
1996	5.0	7.0	12.0	107.8	150.9	258.7
1997	5.0	7.0	12.0	108.5	156.2	264.7
1998	—	5.0	5.0	—	111.6	111.6
1999	—	5.0	5.0	—	111.6	111.6
2000	3.0	7.0	10.0	67.1	156.6	223.7
2001	4.0	6.0(1)	10.0	89.5	133.6(2)	223.1

(1) The final tax-exempt dividend for fiscal 2001 was 4.3 Sen per share.

(2) Tax-exempt.

USE OF PROCEEDS

The net proceeds from this offering, after deduction of underwriting discounts and commissions, are estimated to be approximately US$343,000,000 (or approximately US$392,000,000 if the over-allotment option is exercised in full). The Issuer intends to lend or otherwise provide the entire net proceeds from this offering to Tenaga. Tenaga intends to use the net proceeds received from the Issuer principally for the repayment of certain of Tenaga's foreign currency-denominated debt maturing from 2004 onwards, and for general corporate purposes.

CAPITALIZATION

The following table sets forth Tenaga's consolidated short-term debt and capitalization as of August 31, 2002, as adjusted to give effect to this offering and the application of the net proceeds in the manner described in "Use of Proceeds". There has been no material change in the capitalization of Tenaga since August 31, 2002.

This table should be read in conjunction with:

(1) Tenaga's consolidated financial statements, the related notes and the other financial information contained elsewhere in this Offering Memorandum; and

(2) the section in this Offering Memorandum entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	As of August 31, 2002			
	Actual		Adjusted(4)	
	RM	US$	RM	US$
	(Amounts in millions)			
Short-Term Debt (including current portion of long-term debt)	2,453	646	2,453	646
Long-Term Debt				
Unsecured				
Term Loans	12,638	3,326	12,638	3,326
Notes	1,600	421	1,600	421
Bonds	12,188	3,207	12,188	3,207
Exchangeable Bonds Payable	—	—	1,330	350
Fixed Income Securities(1)	1,500	395	1,500	395
Amount due to Cagamas Berhad	230	61	230	61
	28,156	7,410	29,486	7,760
Secured				
Term Loans	58	15	58	15
Total Long-Term Debt	28,214	7,425	29,544	7,775
Minority Interests	45	12	45	12
Shareholders' Equity				
Capital Stock(2):				
Ordinary common shares, par value RM1.00 3,500,000,000 shares authorized, 3,111,825,300 shares issued and outstanding	3,112	819	3,112	819
Share Premium	3,182	837	3,182	837
Reserves	11,434	3,009	11,434	3,009
Total Shareholders' Equity	17,728	4,665	17,728	4,665
Total Capitalization(3)	45,987	12,102	47,317	12,452

(1) Includes (i) 1,000 Class A Redeemable Preference Shares, par value RM1.00, issued to RHB Sakura Merchant Bankers Berhad on August 16, 2001 and (ii) 500 Class B Redeemable Preference Shares, par value RM1.00, issued to RHB Bank Berhad on September 19, 2001.

(2) Excludes (i) the sole Special Rights Redeemable Preference Share, par value RM1.00, issued to the Minister of Finance Incorporated on September 1, 1990 (see "Relationship with the Government of Malaysia"), (ii) 1,000 Class A Redeemable Preference Shares, par value RM1.00, issued to RHB Sakura Merchant Bankers Berhad on August 16, 2001 and (iii) 500 Class B Redeemable Preference Shares, par value RM1.00, issued to RHB Bank Berhad on September 19, 2001.

(3) Total capitalization is defined as the sum of long-term debt (excluding the current portion of long-term debt), minority interest and shareholders' funds.

(4) Assuming the Initial Purchasers do not exercise their option to purchase an additional US$50,000,000 in aggregate principal amount of the Bonds.

THE ISSUER

The Issuer was incorporated in the Federal Territory of Labuan, Malaysia, under the Offshore Companies Act, 1990 of Malaysia on October 1, 1998, and is a wholly-owned subsidiary of Tenaga. The registered office of the Issuer is located at Unit Level 13(E), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Labuan, Federal Territory of Labuan, Malaysia. Effective as of September 23, 2002, the Issuer changed its name from Cofus Ltd. to TNB Capital (L) Ltd.

The directors of the Issuer are Dato' Pian bin Sukro @ Sukoro and Tuan Haji Nik Ibrahim bin Nik Mohamed. Dato' Pian bin Sukro @ Sukoro is also the President/Chief Executive Officer and a Director of Tenaga. Tuan Haji Nik Ibrahim bin Nik Mohamed is the Acting Vice President, Finance of Tenaga. The address of each of the directors is c/o TNB Capital (L) Ltd., Unit Level 13(E), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Labuan, Federal Territory of Labuan, Malaysia.

The authorized share capital of the Issuer is US$12,000, of which 2,500 ordinary shares of par value US$1.00 each have been issued. All of these issued ordinary shares are owned by Tenaga.

The objects of the Issuer as set out in its Memorandum of Association include the issue of securities of any kind, including notes, bonds, debentures, commercial papers and other instruments, to enter into certain arrangements or agreements necessary for the performance of its obligations in relation thereto, and to carry on any activities that are conducive to the attainment of its objects as a finance subsidiary of Tenaga.

The Issuer has not engaged, since its incorporation, in any material activities other than those regarding or incidental to the issue of the Bonds and the matters contemplated in this Offering Memorandum and the authorization of its entry into other transactions and documents referred to in this Offering Memorandum to which it is or will be a party. See "Description of the Bonds — Certain Covenants — Maintenance of Finance Subsidiary". The Issuer does not have any employees.

The following table sets forth the Issuer's capitalization as of August 31, 2002, as adjusted to give effect to this offering and the application of the net proceeds in the manner described in "Use of Proceeds". This table should be read in conjunction with the Issuer's financial statements, the related notes and other financial information contained elsewhere in this Offering Memorandum.

	As of August 31, 2002	
	Actual	**Adjusted(1)**
	US$	**US$**
Long-Term Debt	—	350,000,000
Shareholders' Equity		
Share Capital (Authorized — 12,000 ordinary shares par value US$1.00 each)		
Issued 2,500 ordinary shares par value US$1.00 each	2,500	2,500
Accumulated Losses	(14,706)	(14,706)
Total Capitalization	(12,206)	349,987,794

(1) Assuming the Initial Purchasers do not exercise their option to purchase an additional US$50,000,000 in aggregate principal amount of Bonds.

Other than as described above, there has been no material change in the capitalization of the Issuer as of the date of this Offering Memorandum.

As of the date of this Offering Memorandum, after giving effect to the transactions contemplated by this Offering Memorandum, the total equity of the Issuer will be US$2,500, consisting of 2,500 issued and paid shares. In addition, the total assets of the Issuer will be US$400 million and the total liabilities will be US$400 million if the over-allotment option is exercised in full.

The fiscal year of the Issuer will end on August 31 of each year. The Issuer prepares audited accounts on an annual basis but does not prepare interim accounts. PricewaterhouseCoopers acts as the independent auditors of the Issuer. The first audited financial statements of the Issuer have been prepared for the fiscal year ended August 31, 2001. The financial statements of the Issuer as of and for the fiscal years ended August 31, 2001 and 2002 are included elsewhere in this Offering Memorandum.

SELECTED FINANCIAL INFORMATION

The selected consolidated financial information set out below as of and for the years ended August 31, 2000, 2001 and 2002 has been derived from Tenaga's audited consolidated financial statements included elsewhere in this Offering Memorandum, and is qualified in its entirety by reference to, and should be read in conjunction with, those audited consolidated financial statements and notes thereto. Those consolidated financial statements were audited by PricewaterhouseCoopers, independent auditors. The selected consolidated financial information set out below as of and for the years ended August 31, 1998 and 1999 has been derived from Tenaga's audited consolidated financial statements not included in this Offering Memorandum. These consolidated financial statements were audited by PricewaterhouseCoopers, independent auditors. Tenaga's consolidated financial statements are prepared and presented on a consolidated basis and in accordance with the Malaysian Companies Act and Malaysian GAAP. For a discussion of certain significant differences between Malaysian GAAP and US GAAP as applicable to Tenaga, see "Summary of Principal Differences Between Malaysian GAAP and US GAAP". The financial information set out below has been reformatted for the convenience of the reader.

	Fiscal Year Ended August 31,					
	1998	1999	2000	2001	2002	2002
	RM	RM	RM	RM	RM	US$
	(Audited) (Amounts in millions, except earnings per share data and as otherwise indicated)					
Income Statement Information:						
Revenue						
Electricity sales	11,076	11,716	13,220	13,952	14,933	3,930
Good and services	123	127	233	162	185	49
Release of deferred income	240	265	266	249	257	67
	11,439	12,108	13,719	14,363	15,375	4,046
Operating Expenses(1)						
Energy cost	6,625	6,770	7,215	7,589	9,012	2,372
Transmission cost	332	470	517	567	666	175
Distribution cost	1,556	1,578	1,955	2,419	2,183	575
Administration expenses	368	578	604	649	765	201
Other operating expenses	779	337	674	696	483	127
	9,660	9,733	10,965	11,920	13,109	3,450
Other Operating Income	152	225	482	350	271	72
Operating Profit Before Exceptional Items	1,931	2,600	3,236	2,793	2,537	668
Exceptional Items	—	—	(332)	(374)	16	4
Operating Profit After Exceptional Items	1,931	2,600	2,904	2,419	2,553	672
Foreign Exchange (Loss)/ Gain	(3,506)	(614)	(371)	785	(92)	(24)
Shares of Results of Associates	84	98	107	125	143	38
(Loss)/Profit Before Finance Cost	(1,491)	2,084	2,640	3,329	2,604	686

	Fiscal Year Ended August 31,					
	1998	1999	2000	2001	2002	2002
	RM	RM	RM	RM	RM	US$
	(Audited) (Amounts in millions, except earnings per share data and as otherwise indicated)					
Finance Cost	(1,297)	(1,106)	(1,116)	(1,136)	(1,127)	(297)
(Loss)/Profit Before Taxation	(2,788)	978	1,524	2,193	1,477	389
Taxation(2)	(306)	(237)	(231)	(123)	(91)	(24)
(Loss)/Profit After Taxation	(3,094)	741	1,293	2,070	1,386	365
Minority Interests	—	32	40	35	15	4
Net (Loss)/Profit for the Financial Year	(3,094)	773	1,333	2,105	1,401	369
Weighted Average Number of Ordinary Shares in Issue(3)	3,100,000	3,100,100	3,103,306	3,106,519	3,108,797	3,108,797
(Loss)/Earnings Per Share						
— Basic(4)	(99.8) Sen	24.9 Sen	42.9 Sen	67.8 Sen	45.1 Sen	11.9 Cents
— Diluted(5)	(99.8) Sen	24.9 Sen	42.9 Sen	67.7 Sen	N/A	N/A

(1) Operating expenses include depreciation expenses allocated among energy, transmission and distribution costs and administration expenses and other operating expenses aggregating RM1,413 million in fiscal 1998, RM1,637 million in fiscal 1999, RM1,692 million in fiscal 2000, RM1,977 million in fiscal 2001 and RM2,243 million in fiscal 2002.

(2) Tenaga made deferred tax provisions of RM201 million in fiscal 1998 and RM209 million in fiscal 1999. In fiscal 2000 there was a reversal of deferred tax liability of RM24 million. Tenaga made deferred tax provisions of RM5 million in each of fiscal 2001 and fiscal 2002. See note 9 to Tenaga's audited consolidated financial statements included in this Offering Memorandum.

(3) In thousands.

(4) Basic earnings per Share is calculated by dividing the net profit for the financial year by the weighted average number of Shares in issue during the financial year.

(5) Retroactively adjusted for employee share options. There was no adjustment for dilution in fiscal 2002 because all outstanding employee share options expired on May 11, 2002.

	As of August 31,					
	1998	1999	2000	2001	2002	2002
	RM	RM	RM	RM	RM	US$
	(Audited) (Amounts in millions, except per share amounts)					
Balance Sheet Information:						
Property, Plant and Equipment	39,188	42,988	45,710	48,270	50,711	13,345
Associates	358	457	582	726	807	213
Investments	405	405	402	391	390	103
Long-Term Receivables	—	444	444	—	—	—
Current Assets						
Inventories	967	1,115	1,001	983	1,216	320
Receivables(1)	1,674	2,155	2,501	3,293	2,772	729
Amount owing from associates	4	13	21	4	5	1
Marketable securities	27	61	60	48	11	3
Cash and bank balances	1,113	972	768	870	1,154	304
	3,785	4,316	4,351	5,198	5,158	1,357
Current Liabilities						
Payables(2)	2,485	3,361	3,212	3,433	3,479	915
Amount owing to associates	330	310	353	356	365	96
Current taxation	158	136	325	390	306	81
Short-term borrowings(3)	1,408	2,299	5,372	3,214	2,453	646
	4,381	6,106	9,262	7,393	6,603	1,738
Net Current Liabilities	(596)	(1,790)	(4,911)	(2,195)	(1,445)	(381)
Total Assets less Current Liabilities	39,355	42,504	42,227	47,192	50,463	13,280
Long-Term Liabilities						
Term loans	(22,300)	(23,957)	(22,290)	(25,102)	(26,964)	(7,096)
Consumer deposits	(935)	(1,105)	(1,224)	(1,325)	(1,455)	(383)
Retirement benefits	(259)	(327)	(384)	(453)	(487)	(128)
Other liabilities	(95)	(126)	(124)	(110)	(97)	(26)
	(23,589)	(25,515)	(24,022)	(26,990)	(29,003)	(7,633)
Deferred Taxation	(786)	(995)	(971)	(976)	(981)	(258)
Deferred Income	(1,925)	(2,063)	(2,097)	(2,150)	(2,232)	(587)
Government Development Grants	—	(349)	(380)	(516)	(474)	(125)
	13,055	13,582	14,757	16,560	17,773	4,677
Financed by:						
Share Capital	3,100	3,101	3,106	3,107	3,112	819
Share Premium	3,107	3,113	3,140	3,143	3,182	837
Revaluation and Other Reserves	1,211	1,207	1,183	1,157	1,211	319
Retained Profits	5,502	6,092	7,246	9,105	10,223	2,690
Shareholders' Funds	12,920	13,513	14,675	16,512	17,728	4,665
Minority Interests	135	69	82	48	45	12
	13,055	13,582	14,757	16,560	17,773	4,677
Net Assets Per Share	417 Sen	436 Sen	472 Sen	531 Sen	570 Sen	150 Cents

(1) Receivables include trade receivables(; RM1,000 million in fiscal 1998; RM1,348 million in fiscal 1999; RM1,663 million in fiscal 2000; RM1,583 million in fiscal 2001; and RM1,529 million in fiscal 2002) and other receivables (RM674 million in fiscal 1998; RM807 million in fiscal 1999; RM838 million in fiscal 2000; RM1,710 million in fiscal 2001; and RM1,243 million in fiscal 2002).

(2) Payables include trade payables (RM1,345 million in fiscal 1998; RM2,225 million in fiscal 1999; RM1,843 million in fiscal 2000; RM1,828 million in fiscal 2001; and RM2,030 million in fiscal 2002) and other trade payables (RM1,140 million in fiscal 1998; RM1,136 million in fiscal 1999; RM1,369 million in fiscal 2000; RM1,605 million in fiscal 2001; and RM1,449 million in fiscal 2002).

(3) Short-term borrowings include the current portion of term loans.

	Fiscal Year Ended August 31,				
	1998	1999	2000	2001	2002
			(Audited)		
Other Information:					
Installed Capacity (MW)(1)	8,129	7,520	7,661	8,661	8,661
Units of Electricity Sold (GWh)(2)	47,197	49,322	56,210	59,417	63,534
Average Tariff Rate (Sen per kWh)(3)	23.47	23.75	23.52	23.48	23.50
Interest Coverage(4)	2.6x	3.8x	4.4x	4.2x	4.2x
Earnings to Fixed Charges(5)	2.1x	2.5x	3.2x	2.8x	2.9x

(1) Figures exclude Sabah Electricity Sdn. Bhd. and Liberty Power Limited. Tenaga's installed capacity represents the combined level of output that may be sustained continuously without significant risk of damage to plant and equipment.

(2) Figures include units of electricity sold by Sabah Electricity Sdn. Bhd. and, for the periods since its commercial operation date (September 10, 2001), Liberty Power Limited.

(3) Figures include tariffs charged by Sabah Electricity Sdn. Bhd. and, for the period since its commercial operation date (September 10, 2001), Liberty Power Limited.

(4) Interest coverage is calculated as operating profit before exceptional item plus depreciation (see note (1) on page 7) divided by interest charges, including interest on consumer deposits.

(5) Earnings to fixed charges is calculated as operating profit before exceptional items plus depreciation (see note (1) on page 7) divided by the sum of interest charges, interest paid on consumer deposits and interest during construction (capitalized interest); Interest during construction (capitalized interest) amounted to: RM300 million in fiscal 1998; RM622 million in fiscal 1999; RM424 million in fiscal 2000; RM569 million in fiscal 2001; and RM515 million in fiscal 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis are based on, and should be read in conjunction with, the audited consolidated financial statements and notes thereto of Tenaga as of and for the fiscal years ended August 31, 2000, 2001 and 2002 included elsewhere in this Offering Memorandum. Tenaga's consolidated financial statements are prepared in conformity with Malaysian GAAP. For a discussion of certain significant differences between Malaysian GAAP and US GAAP as applicable to Tenaga, see "Summary of Principal Differences between Malaysian GAAP and US GAAP".

Overview

Tenaga is the largest generator of electricity in Peninsular Malaysia, accounting for approximately 62% of the electricity generation capacity in Peninsular Malaysia as of August 31, 2002. Tenaga also transmits and distributes substantially all the electricity used in Peninsular Malaysia, the state of Sabah and the Federal Territory of Labuan. Tenaga's thermal and hydro-electricity generating system had an aggregate installed capacity of 8,661 megawatts as of August 31, 2002.

Tenaga was partially privatized through an initial public offering and listing on the Main Board of the KLSE in May 1992. As of November 11, 2002, Tenaga had a market capitalization of approximately RM27.2 billion (US$7.2 billion), which is the second largest among companies listed on the KLSE. As of October 31, 2002, the Malaysian Government and related entities owned, directly or indirectly, approximately 85% of Tenaga's outstanding ordinary shares and the sole Special Share of Tenaga, with the Minister of Finance Incorporated, Khazanah Nasional Berhad and Bank Negara collectively owning approximately 64% of Tenaga's outstanding ordinary shares.

Tenaga's financial condition and results of operations are primarily affected by five key factors. Each of these key factors is briefly described below.

Electricity Sales

Growth in Tenaga's electricity sales has been, and is expected to continue to be, closely linked to economic growth in Malaysia. In 1996, the Malaysian economy grew at a rate of 10.0% in terms of real GDP. As a result, Tenaga's electricity sales (measured in kilowatt hours) grew at a rate of 13.0% in fiscal 1996. Beginning in the second half of 1997, however, the Asian economic crisis adversely affected the Malaysian economy. In particular, the rate of GDP growth for Malaysia increased at a slower rate of 7.3% in 1997, and real GDP contracted by 7.4% in 1998 before recovering to a growth rate of 5.8% in 1999. Although Tenaga's electricity sales growth increased by 15.0% in fiscal 1997, Tenaga's electricity sales growth slowed significantly to 7.9% in fiscal 1998 and 4.5% in fiscal 1999. Beginning in the second half of 1999 and continuing through 2000, the economic environment in Malaysia generally improved and real GDP grew at a rate of 5.8% in 1999 and 8.5% in 2000. As a result, Tenaga's electricity sales grew at a rate of 14.0% in fiscal 2000. The Malaysian economy slowed down significantly in 2001, particularly during the second half of the year, and recorded real GDP growth of only 0.4% in 2001. As a result, Tenaga's electricity sales grew at a rate of 5.7% in fiscal 2001. Tenaga's electricity sales (excluding sales by Liberty Power Limited) grew at a rate of 4.6% in fiscal 2002. The Malaysian Ministry of Finance has estimated that real GDP in Malaysia will grow at a rate of 4.0 to 5.0% in 2002.

The following table sets forth certain information regarding real GDP growth and Tenaga's electricity sales and sales growth from 1995 until 2002 in Peninsular Malaysia and Sabah.

	Year						
	1996	1997	1998	1999(1)	2000(1)	2001(1)	2002(1)
Real GDP Growth Rate(2)	10.0%	7.3%	(7.4)%	5.8%	8.5%	0.4%	4.0%-5.0%(2)
Electricity Sales(3)	38,034	43,747	47,197	49,322	56,210	59,417	62,167
Electricity Sales Growth Rate(4)	13.0%	15.0%	7.9%	4.5%	14.0%	5.7%	4.6%

(1) Figures include units of electricity sold by Sabah Electricity Sdn. Bhd.

(2) Real GDP growth rate figures are provided by Bank Negara and are based on calendar years, except for the real GDP Growth Rate for calendar year 2002, which is based on estimates by the Malaysian Ministry of Finance.

(3) Measured in gigawatt hours and based on Tenaga's fiscal year-end information.

(4) Electricity sales growth rates are based on Tenaga's fiscal year-end information.

Average Tariff Rates

Tenaga's revenue from electricity sales is a function of kilowatt hours of electricity sold and the rates that it is allowed to charge customers. In April 1995, the Director General of Energy Supply (the "Director General"), the predecessor to the Energy Commission, suspended the application of a tariff adjustment formula implemented in March 1994 that provided for periodic adjustment of rates for inflation, certain changes in fuel cost and the cost of purchasing power from IPPs. Although the Director General approved interim tariff increases in March 1996 and May 1997, the tariff adjustment formula is still under review by the Minister of Energy, and any tariff increases by Tenaga remain subject to the prior approval of the Minister of Energy. A proposal for a rate increase was forwarded by Tenaga to the Minister of Energy in December 2000. This proposal is still being considered by the Minister of Energy. In the absence of tariff increases, Tenaga will not be able to pass through to customers the full extent of any increases in its costs of generating, transmitting and distributing electricity (including costs associated with purchases from IPPs) and must absorb such cost increases itself. Tenaga's average tariff rate in Malaysia from May 1997 through fiscal 2002 was 23.5 Sen per kilowatt hour. Tenaga's financial condition and results of operations will be adversely affected to the extent it is unable to increase its tariff to respond to increases in operating costs. In addition, there can be no assurance that Tenaga will receive timely approval from the Minister of Energy for any proposal for tariff increases, if at all. See "Business — Tariff Structure" and "Risk Factors — Risks Related to Tenaga's Business and the Electricity Industry in Malaysia — Tenaga's financial condition and results of operations will be adversely affected to the extent it is not able to increase its tariff to cover its operating costs".

The following table sets forth Tenaga's average tariff rates and Tenaga's total electricity sales in Peninsular Malaysia and Sabah for each of the last seven fiscal years through August 31, 2002.

	Fiscal Year						
	1996	1997	1998	1999	2000	2001	2002
Average Tariff Rate(1)	20.7	22.2	23.5	23.8	23.5	23.5	23.6
Electricity Sales(2)	7,886	9,699	11,076	11,716	13,220	13,952	14,638

(1) Sen per kilowatt.

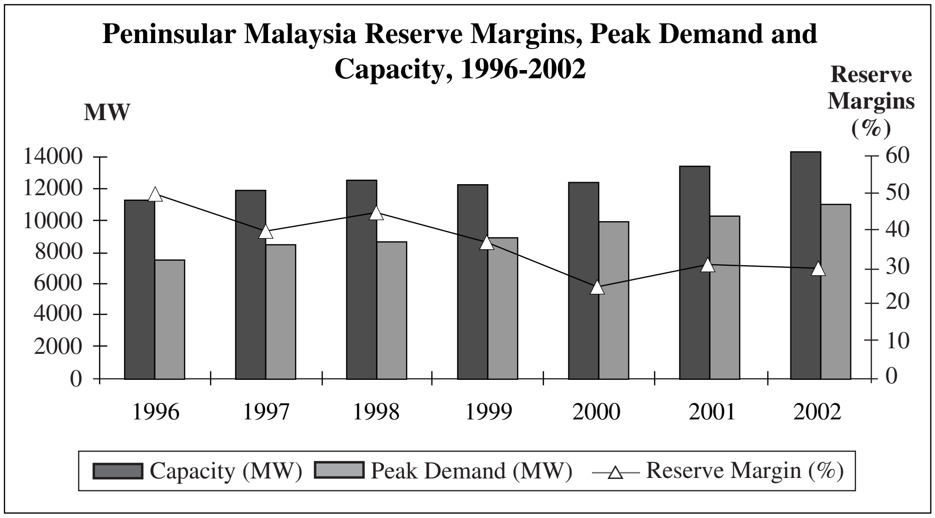
(2) Amounts in RM millions. Figures include electricity sold by Sabah Electricity Sdn. Bhd.

Capacity, Capacity Utilization and Reserve Margin

Tenaga's results of operations are affected by, among other things, the levels of capacity utilization (measured as electricity generated compared to generation capacity) and reserve margin (measured as installed capacity relative to peak demand). For the four-year period from fiscal 1991 to fiscal 1994, Tenaga experienced high levels of capacity utilization and a low reserve margin contributing to the relatively high operating and net margins of Tenaga. In fiscal 1995 and fiscal 1996, however, Tenaga experienced a decline in capacity utilization, largely due to an increase in installed capacity, which outpaced growth in demand.

Although the reserve margin improved in fiscal 1997, the downturn in the Malaysian economy resulting from the Asian economic crisis contributed to an increase in Tenaga's reserve margin in fiscal 1998. The improvement in the Malaysian economy during the second half of 1999 and 2000 resulted in an increase in Tenaga's capacity utilization and a decrease in Tenaga's reserve margin from fiscal 1999 to fiscal 2000. Reserve margin increased in fiscal 2001 principally as a result of a slowdown in the global economy and its impact on the Malaysian economy. Reserve margin decreased in fiscal 2002 primarily as a result of higher electricity demand in Malaysia. For fiscal 2002, the reserve margin stood at 30%.

The following chart and table set forth certain information regarding the reserve margin, reserve capacity, peak demand and installed capacity for Tenaga and the IPPs in Peninsular Malaysia for each of the fiscal years through August 31, 2002.



	Fiscal Year Ended August 31,						
	1996	1997	1998	1999	2000	2001	2002
	(Megawatts, except percentages)						
Installed Capacity(1)	11,043	11,646	12,273	11,994	12,135	13,135	14,024
Peak Demand(2)	7,351	8,294	8,470	8,724	9,712	10,060	10,783
Reserve Capacity	3,692	3,352	3,803	3,270	2,423	3,075	3,241
Reserve Margin(3)	50%	40%	45%	37%	25%	31%	30%

(1) Installed capacity represents the combined level of output that may be sustained continuously without significant risk of damage to plant and equipment.

(2) Peak demand represents the actual maximum peak demand on Tenaga's system at any single time during the period.

(3) The reserve margin is equal to the difference between installed capacity and peak demand as a percentage of peak demand.

Tenaga has approved capital expenditures for committed projects as of August 31, 2002 aggregating RM13,514 million for fiscal 2003, 2004 and 2005, and has further budgeted an additional RM4,867 million for capital expenditure on new projects in fiscal 2003, 2004 and 2005, although capital expenditure on any such new project will require specific approval by Tenaga's Board of Directors. These capital expenditures are expected to be funded through a combination of internally generated cash flow and other external financing sources. See "Business — Capital Expenditure Program". Tenaga expects to add approximately 2,960 megawatts of generation capacity for use in Peninsular Malaysia over the next three fiscal years. Concurrently, licensed IPPs, which at August 31, 2002, had a total of 5,363 megawatts of generation capacity, are expected to add approximately 1,471 megawatts of generation capacity for use in Peninsular Malaysia over the same period.

For further information on competition from the IPPs, see "Business — Development of IPPs".

Operating Expenses

Changes in operating expenses affect the profitability of Tenaga. Depreciation charges attributable to Tenaga's generation assets and purchases of electricity from IPPs are included in energy cost. Energy cost increased from RM7,215 million in fiscal 2000 to RM9,012 million in fiscal 2002. Energy cost as a percentage of revenue, however, increased from 52.6% in fiscal 2000 to 58.6% in fiscal 2002. This increase was primarily due to increased fuel costs, principally as a result of a shortage in the supply of natural gas. Although Tenaga purchases natural gas, fuel oil, coal and diesel fuel primarily under long-term contracts, the prices paid, with the exception of natural gas, generally vary with worldwide market price movements. Moreover, any shortages in the availability of sufficient quantities of natural gas may increase operating expenses and adversely affect the profitability of Tenaga. See "Business — Power Generation — Fuel".

Purchases of electricity from IPPs increased from RM4,095 million in fiscal 2000 to RM4,791 million in fiscal 2002, and was equal to 29.8% and 31.2%, respectively, of Tenaga's revenue during these periods. Purchases of electricity from IPPs are likely to increase further over the next three years.

Transmission cost increased from RM517 million in fiscal 2000 to RM666 million in fiscal 2002, primarily due to increases in repair and maintenance expenses as well as an increase in depreciation charges. Transmission cost as a percentage of revenue increased from 3.8% in fiscal 2000 to 4.3% in fiscal 2002.

Distribution cost increased from RM1,955 million in fiscal 2000 to RM2,183 million in fiscal 2002, primarily due to an increase in depreciation charges and repair and maintenance expenses. Depreciation charges attributable to Tenaga's distribution assets are included in distribution cost. Distribution cost as a percentage of revenue was 14.2% in fiscal 2000 and fiscal 2002. The increase in distribution cost was primarily due to increased depreciation charges resulting from the ongoing build-up of distribution assets.

Administration expenses, which consist primarily of personnel costs (including salary and pension costs) and general and administrative costs, increased from RM604 million in fiscal 2000 to RM765 million in fiscal 2002. These expenses as a percentage of revenue increased from 4.4% in fiscal 2000 to 5.0% in fiscal 2002. Other operating expenses decreased from RM674 million in fiscal 2000 to RM483 million in fiscal 2002.

Total depreciation, including depreciation attributable to Tenaga's generation, transmission and distribution assets, increased from RM1,692 million in fiscal 2000 to RM2,243 million in fiscal 2002. Total depreciation as a percentage of revenue was 12.3% in fiscal 2000 compared to 14.6% in fiscal 2002.

Foreign Currencies

A weakening of the Ringgit may increase Tenaga's operating expenses denominated in or tied to the value of foreign currencies and would increase the Ringgit cost of Tenaga's foreign currency capital expenditures, which include expenditures for equipment and machinery. In addition, a weakening of the Ringgit may increase Tenaga's Ringgit interest expenses on foreign currency denominated indebtedness, as well as increase in Ringgit terms the principal repayments on outstanding foreign currency loans. As substantially all of Tenaga's revenues are denominated in Ringgit, this may reduce Tenaga's operating net income, as well as adversely affect Tenaga's cash flow position, and may strain Tenaga's ability to repay its debt obligations in a timely manner. However, over a period of time, this impact may be lessened as an increasing portion of Tenaga's borrowings is expected to be denominated in Ringgit.

Tenaga has also experienced and can be expected to continue to experience foreign exchange gains or losses on its obligations denominated in foreign currencies. For fiscal 2002, Tenaga had a foreign exchange loss of RM92 million, primarily due to the strengthening of the Japanese Yen. Foreign exchange gains and losses include both transaction and translation gains and losses, which are recognized on Tenaga's income statement on a net basis. Tenaga's foreign currency exposures are marked-to-market on a monthly basis for income statement purposes and on a quarterly basis for balance sheet purposes. Translation gains and losses represent unrealized foreign exchange gains and losses on liabilities denominated in currencies other than Ringgit. Realized foreign exchange gains and losses, however, are recorded as transaction gains and losses.

Results of Operations

The following table sets forth selected income statement items expressed as a percentage of Tenaga's revenue for each of the last three fiscal years through August 31, 2002.

	Fiscal Year Ended August 31,		
	2000	2001	2002
	(Percent (%))		
Revenue			
Electricity sales	96.4	97.1	97.1
Goods and services	1.7	1.1	1.2
Release of deferred income	1.9	1.8	1.7
	100.0	100.0	100.0
Operating Expenses			
Energy cost	52.6	52.8	58.6
Transmission cost	3.8	4.0	4.3
Distribution cost	14.2	16.8	14.2
Administration expenses	4.4	4.5	5.0
Other operating expenses	4.9	4.9	3.1
	79.9	83.0	85.2
Other Operating Income	3.5	2.4	1.8
Operating Profit Before Exceptional Items	23.6	19.4	16.6
Exceptional Items	(2.4)	(2.6)	0.1
Operating Profit After Exceptional Items	21.2	16.8	16.7
Foreign Exchange (Loss)/Gain	(2.7)	5.5	(0.6)
Shares of Results of Associates	0.8	0.9	0.9
Profit Before Finance Cost	19.3	23.2	17.0
Finance Cost	(8.1)	(7.9)	(7.3)
Profit Before Taxation	11.2	15.3	9.7
Taxation	(1.7)	(0.9)	(0.6)
Profit After Taxation	9.5	14.4	9.1
Minority Interests	0.3	0.2	0.1
Net profit for the financial year	9.8	14.6	9.2

Fiscal 2002 compared to Fiscal 2001

Tenaga's revenue increased by 7.0% to RM15,375 million in fiscal 2002 from RM14,363 million in fiscal 2001. Revenue from electricity sales increased by 7.0% to RM14,933 million in fiscal 2002 from RM13,952 million in fiscal 2001. This increase was primarily attributable to a 6.9% increase in kilowatt hours of electricity sold resulting from the continued expansion of the Malaysian economy and commencement of Liberty Power Limited's operations in September 2001. Average tariff rates during both fiscal 2002 and fiscal 2001 were 23.5 Sen per kilowatt hour.

Revenue from goods and services increased by 14.2% to RM185 million in fiscal 2002 from RM162 million in fiscal 2001, primarily due to an increase in revenues from Tenaga's manufacturing subsidiaries. Revenue from the release of deferred income increased by 3.2% to RM257 million in fiscal 2002 from RM249 million in fiscal 2001. Deferred income represents contributions received by Tenaga from certain customers to defray the cost of capital projects. Amounts from deferred income are released to the income statement on a straight-line basis over the useful life of such projects, which is 15 years.

Total operating expenses increased by 10.0% to RM13,109 million in fiscal 2002 from RM11,920 million in fiscal 2001. Total operating expenses as a percentage of revenue increased to 85.2% in fiscal 2002 from 83.0% in fiscal 2001.

Energy cost increased by 18.8% to RM9,012 million in fiscal 2002 from RM7,589 million in fiscal 2001. This increase was primarily due to an increase in depreciation charges resulting from the ongoing build-up of operating assets, higher fuel costs resulting from gas shortages in the second half of fiscal 2002 and increased capacity payments to IPPs resulting from the commencement of operations of two new IPPs. Energy cost as a percentage of revenue increased to 58.6% in fiscal 2002 from 52.8% in fiscal 2001.

Transmission cost increased by 17.5% to RM666 million in fiscal 2002 from RM567 million in fiscal 2001. This increase was primarily attributable to an increase in repair and maintenance expenses and an increase in depreciation charges resulting from the build-up of transmission assets. Transmission cost increased as a percentage of revenue to 4.3% in fiscal 2002 from 4.0% in fiscal 2001.

Distribution cost in fiscal 2002 decreased by 9.8% to RM2,183 million from RM2,419 million in fiscal 2001. This decrease was primarily due to a reversal of certain provisions for outstanding customer debt and lower repair and maintenance expenses, which was partially offset by an increase in depreciation charges resulting from the build-up of distribution assets. Distribution cost decreased as a percentage of revenue to 14.2% in fiscal 2002 from 16.8% in fiscal 2001.

Administration expenses increased by 17.9% to RM765 million in fiscal 2002 from RM649 million in fiscal 2001. This increase was primarily due to an increase in staff costs and depreciation. Administration expenses increased as a percentage of revenue to 5.0% in fiscal 2002 from 4.5% in fiscal 2001.

Other operating expenses decreased to RM483 million in fiscal 2002 from RM696 million in fiscal 2001. This decrease was primarily due to a decline in miscellaneous expenses. Other operating expenses as a percentage of revenue decreased to 3.1% in fiscal 2002 from 4.9% in fiscal 2001.

Other operating income decreased to RM271 million in fiscal 2002 from RM350 million in fiscal 2001. This decrease was principally a result of decreases in interest income and government subsidies relating to Tenaga's operations in Sabah. Other operating income as a percentage of revenue decreased to 1.8% in fiscal 2002 from 2.4% in fiscal 2001.

As a result of the foregoing, operating profit before exceptional items decreased by 9.2% to RM2,537 million in fiscal 2002 from RM2,793 million in fiscal 2001. Operating profit before exceptional items as a percentage of revenue decreased to 16.6% in fiscal 2002 from 19.4% in fiscal 2001. After accounting for a RM16 million write-back in fiscal 2002, operating profit after exceptional items increased by 5.5% to RM2,553 million in fiscal 2002 from RM2,419 million in fiscal 2001. This write-back was due to a partial reversal of certain provisions previously incurred in connection with Liberty Power Limited, Tenaga's wholly-owned IPP subsidiary in Pakistan, which commenced operations in September 2001.

Foreign exchange loss was RM92 million in fiscal 2002 compared to a foreign exchange gain of RM785 million in fiscal 2001. This loss was primarily due to the strengthening of the Japanese Yen.

Share of results of associates increased by 14.4% to RM143 million in fiscal 2002 from RM125 million in fiscal 2001. Share of results of associates as a percentage of revenue remained unchanged at 0.9% for both fiscal years.

Finance cost decreased by 0.9% to RM1,127 million in fiscal 2002 from RM1,137 million in fiscal 2001. This decrease was primarily due to financing cost savings resulting from swap arrangements.

Taxation decreased by 26.0% to RM91 million in fiscal 2002 compared to RM123 million in fiscal 2001, primarily as a result of more effective utilization of capital allowances. In particular, Tenaga's effective tax rate was lower than the statutory tax rate due to the utilization of brought forward and current capital allowances.

As a result of the foregoing, profit after taxation decreased by 33.0% to RM1,386 million in fiscal 2002 from RM2,070 million in fiscal 2001. Minority interests were RM15 million in fiscal 2002 and RM35 million in fiscal 2001. As a result, net profit for the financial year decreased by 33.4% to RM1,401 million in fiscal 2002 from RM2,105 million in fiscal 2001.

Fiscal 2001 compared to Fiscal 2000

Tenaga's revenue increased by 4.7% to RM14,363 million in fiscal 2001 from RM13,719 million in fiscal 2000. Revenue from electricity sales increased by 5.5% to RM13,952 million in fiscal 2001 from RM13,220 million in fiscal 2000. This increase was primarily attributable to a 5.7% increase in kilowatt hours of electricity sold resulting from the continued expansion of the Malaysian economy. Average tariff rates during both fiscal 2001 and fiscal 2000 were 23.5 Sen per kilowatt hour.

Revenue from goods and services decreased by 30.5% to RM162 million in fiscal 2001 from RM233 million in fiscal 2000, primarily due to a decrease in revenues from Tenaga's manufacturing subsidiaries. Revenue from the release of deferred income decreased by 6.4% to RM249 million in fiscal 2001 from RM266 million in fiscal 2000. Deferred income represents contributions received by Tenaga from certain customers to defray the cost of capital projects. Amounts from deferred income are released to the income statement on a straight-line basis over the useful life of such projects, which is 15 years.

Total operating expenses increased by 8.7% to RM11,920 million in fiscal 2001 from RM10,965 million in fiscal 2000. Total operating expenses as a percentage of revenue increased to 83.0% in fiscal 2001 from 79.9% in fiscal 2000.

Energy cost increased by 5.2% to RM7,589 million in fiscal 2001 from RM7,215 million in fiscal 2000. This increase was primarily a result of an increase in depreciation charges resulting from the ongoing build-up of operating assets. Energy cost as a percentage of revenue increased to 52.8% in fiscal 2001 from 52.6% in fiscal 2000.

Transmission cost increased by 9.7% to RM567 million in fiscal 2001 from RM517 million in fiscal 2000. This increase was primarily attributable to an increase in repair and maintenance expenses resulting from the build-up of transmission assets as well as an increase in depreciation charges. Transmission cost increased as a percentage of revenue to 4.0% in fiscal 2001 from 3.8% in fiscal 2000.

Distribution cost in fiscal 2001 increased by 23.8% to RM2,419 million from RM1,955 million in fiscal 2000. This increase was primarily due to an increase in provisioning for outstanding customer debt and an increase in depreciation charges resulting from the build-up of distribution assets. Distribution cost increased as a percentage of revenue to 16.8% in fiscal 2001 from 14.2% in fiscal 2000.

Administration expenses increased by 7.4% to RM649 million in fiscal 2001 from RM604 million in fiscal 2000. This increase was primarily due to an increase in depreciation charges. Administration expenses increased as a percentage of revenue to 4.5% in fiscal 2001 from 4.4% in fiscal 2000.

Other operating expenses increased to RM696 million in fiscal 2001 from RM674 million in fiscal 2000. The increase was primarily due to an increase in miscellaneous expenses. Other operating expenses as a percentage of revenue remained unchanged at 4.9% in fiscal 2001 and fiscal 2000.

Other operating income decreased to RM350 million in fiscal 2001 from RM482 million in fiscal 2000. This decrease was principally a result of decreases in interest income and government subsidies relating to Tenaga's operations in Sabah. Other operating income as a percentage of revenue decreased to 2.4% in fiscal 2001 from 3.5% in fiscal 2000.

As a result of the foregoing, operating profit before exceptional items decreased by 13.7% to RM2,793 million in fiscal 2001 from RM3,236 million in fiscal 2000. Operating profit before exceptional items as a percentage of revenue decreased to 19.4% in fiscal 2001 from 23.6% in fiscal 2000. After accounting for a RM374 million exceptional item provision in fiscal 2001, operating profit after exceptional items decreased by 16.7% to RM2,419 million in fiscal 2001 from RM2,904 million in fiscal 2000. Exceptional items consisted of a provision made by Tenaga as a result of delays in the commencement of commercial operations of, and in finalizing the relevant power purchase and gas supply agreements relating to, Liberty Power Limited, Tenaga's wholly-owned IPP subsidiary in Pakistan, and redemption premium and fee charges on certain term loans.

Foreign exchange gain was RM785 million in fiscal 2001 compared to a loss of RM371 million in fiscal 2000. This increase was primarily due to the weakening of the Japanese Yen.

Share of results of associates increased by 16.8% to RM125 million in fiscal 2001 from RM107 million in fiscal 2000. Share of results of associates as a percentage of revenue was 0.9% in fiscal 2001 and 0.8% in fiscal 2000.

Finance cost increased by 1.9% to RM1,137 million in fiscal 2001 from RM1,116 million in fiscal 2000. This increase was primarily due to an increase in Tenaga's outstanding debt.

Taxation decreased by 46.8% to RM123 million in fiscal 2001 compared to RM231 million in fiscal 2000, primarily as a result of tax refunds resulting from overpayments in previous years. In addition, Tenaga's effective tax rate was lower than the statutory tax rate due to the utilization of brought forward and current capital allowances.

As a result of the foregoing, profit after taxation increased by 60.1% to RM2,070 million in fiscal 2001 from RM1,293 million in fiscal 2000. Minority interests were RM35 million in fiscal 2001 and RM40 million in fiscal 2000. As a result, net profit for the financial year increased by 57.9% to RM2,105 million in fiscal 2001 from RM1,333 million in fiscal 2000.

Liquidity and Capital Resources

Tenaga's principal sources of funds have been funds generated from operations, bank and capital market borrowings and project related financing, including export agency and supplier credits. An economic slowdown in Malaysia may result in a decline in electricity demand and adversely affect Tenaga's net cash inflow generated by operations. A deteriorating economic environment in Malaysia could also result in an inability to obtain funds from external sources on acceptable terms or in a timely manner, or at all.

Net cash inflow from operating activities amounted to RM4,557 million in fiscal 2000, RM4,772 million in fiscal 2001 and RM5,032 million in fiscal 2002. Tenaga's total borrowings as of August 31, 2002 was RM29.4 billion.

Term loans (including the current portion of such loans) were RM25,743 million, RM26,962 million and RM28,214 million as of August 31, 2000, 2001 and 2002, respectively, while the effective weighted average interest rate was 5.9%, 5.3% and 5.3% per annum for the respective periods.

As of August 31, 2002, RM21,089 million or 74.7% of Tenaga's outstanding term loans bore interest at fixed rates or bore interest at floating rates and was hedged by interest rate swap agreements which fixed Tenaga's interest cost. The remaining RM7,125 million or 25.3% of Tenaga's outstanding term loans bore interest at floating rates.

Tenaga's ratio of debt to total capitalization (i.e., total long-term debt (excluding the current portion of long-term debt) divided by the sum of total long-term debt, minority interest and shareholders' funds) was 60.2%, 60.3% and 60.3% as of August 31, 2000, 2001 and 2002, respectively. The ratio of earnings to fixed charges (i.e., operating profit before exceptional items plus depreciation divided by the sum of interest charges, interest on consumer deposits and interest during construction (capitalized interest)) was 3.2x, 2.8x and 2.9x for fiscal 2000, 2001 and 2002, respectively.

An increasing portion of Tenaga's funding requirements are being met primarily through financings in the Malaysian capital markets, as well as through Ringgit-denominated loans from banks, other financial institutions and government pension funds. Tenaga expects to continue satisfying its future financing requirements in this manner. Since 1998, Tenaga has been reducing its exposure to foreign currency risks by increasing the portion of its borrowings denominated in Ringgit and decreasing its borrowings denominated in foreign currencies. As of August 31, 2002, 48.1% of Tenaga's borrowings were denominated in Ringgit compared to 46.8% as of August 31, 2000. Tenaga's ability to incur additional debt in the future is subject to a variety of uncertainties including, among other things, the amount of capital that other Malaysian entities may seek to raise in the domestic and foreign capital markets, economic and other conditions in Malaysia that may affect investor demand for securities of Tenaga and other Malaysian entities, the liquidity of Malaysian capital markets and Tenaga's financial condition and results of operations. Tenaga will continue to manage its debt maturity profile in line with its long-term cash flows and funding cost reduction strategy. In addition, Tenaga will continue to strengthen its debt servicing capability. As of August 31, 2002, Tenaga's debt service and interest coverage ratios were 1.7 and 4.2, respectively.

The following table provides a summary of the maturity profile for the outstanding long term debt obligations of Tenaga as of August 31, 2002.

Payments Due by Period	RM (millions)
Repayment within 1 year	1,250
After one and up to two years	2,924
After two and up to five years	8,728
After five and up to ten years	7,442
After ten and up to twenty years	5,970
After twenty and up to thirty years	1,330
After ninety years	570
Total:	28,214

As of August 31, 2002, Tenaga had bankers acceptance facilities of RM3,154 million and a commercial paper and a commercial paper/medium-term note facility for up to RM1,600 million with financial institutions based in Malaysia. These facilities generally provide for short-term and medium-term maturities. As of August 31, 2002, approximately RM1,203 million of the bankers acceptance and other facilities and RM1,600 million of the commercial paper and commercial paper/medium-term note facility, respectively, have been drawn by Tenaga and were outstanding. Tenaga's outstanding borrowings under these facilities carry floating interest rates. Tenaga may in the future choose to replace a portion of the outstanding borrowings under these facilities with longer term borrowings and/or fixed rate borrowings.

Working capital (i.e., current assets minus current liabilities) registered a deficit of RM1,445 million as of August 31, 2002 compared to a deficit of RM2,195 million as of August 31, 2001 and RM4,911 million as of August 31, 2000. The reduction in deficit as of August 31, 2002 was primarily due to a decrease in the usage of short-term facilities. The current portion of the term loans decreased from RM3,453 million as of August 31, 2000 to RM1,861 million as of August 31, 2001 and RM1,237 million as of August 31, 2002. Total short-term loans (including the current portion of term loans) was RM2,453 million as of August 31, 2002 compared to RM3,214 million as of August 31, 2001 and RM5,372 million as of August 31, 2000. Tenaga's policy is to cover capital expenditures initially through interim funding in the form of short-term borrowings. Once a long-term capital expenditure plan has been finalized, Tenaga will then replace the short-term borrowings with long-term funding. Tenaga believes that this allows it to better match its long-term funding requirements with its long-term capital expenditure requirements.

The following table sets forth Tenaga's short-term and long-term debt as of August 31, 2000, 2001 and 2002.

	As of August 31,			
	2000	2001	2002	2002
	RM	RM	RM	US$
	(Audited) (Amounts in millions)			
Total Short-Term Debt	1,919	1,353	1,203	317
Total Current Portion of Long-Term Debt	3,453	1,861	1,250	329
Other Long-Term Debt	22,290	25,102	26,964	7,096
Total Debt:	27,662	28,316	29,417	7,741

Tenaga has invested RM15,388 million over the last three fiscal years to build and expand generation capacity, and to expand and enhance its transmission and distribution networks and investments/support services. Capital expenditures were RM5,003 million, RM5,865 million and RM4,520 million during fiscal 2000, 2001 and 2002, respectively. Of the investment over the last three fiscal years, approximately 38.2% was related to generation, 17.3% to transmission, 32.9% to distribution and 11.6% for other activities.

Tenaga expects to continue to make substantial investments in property, plant and equipment over the next several years, including committed capital expenditures for existing projects and new capital expenditures for new projects. In particular, Tenaga has been implementing an expansion program primarily to build and expand generation capacity and, to a lesser extent, expand and enhance its transmission and distribution networks and support services to ensure adequate capacity as electricity consumption grows. As of August 31, 2002, Tenaga has approved capital expenditures for committed projects aggregating RM13,514 million for fiscal 2003, 2004 and 2005, and has further budgeted for an additional RM4,867 million for capital expenditure on new projects in fiscal 2003, 2004 and 2005, although capital expenditure on any such new project will require specific approval by Tenaga's Board of Directors. These capital expenditures are expected to be funded through a combination of internally generated cash flow and other external financing sources. See "Business — Capital Expenditure Program".

Tenaga declared dividends (net of tax) totaling RM224 million in fiscal 2000, RM223 million in fiscal 2001 and RM228 million in fiscal 2002.

Tenaga is party to numerous loan agreements with lenders throughout the world, including loan agreements entered into by predecessors of Tenaga. Like the loan agreements of many other Asian borrowers, many of Tenaga's loan agreements include extensive and restrictive covenants and broad default provisions. The provisions of many of these loan agreements also differ in substantial respects from each other thus further complicating attempts to comply with their terms. As a result, Tenaga has in the past inadvertently violated certain technical covenants contained in some of these loan agreements, thus creating defaults under these loan agreements and, through cross default provisions, under many of its other loan agreements. Tenaga has sought to cure these violations and/or to obtain waivers of these defaults from its principal lenders. The process of obtaining consents or waivers in connection with these defaults, however, is difficult and time consuming due to the large number of lenders with which Tenaga has banking relationships. Tenaga can provide no assurance that it will be able to obtain all consents and waivers that may be required to remedy any of these defaults or any cross default arising as a result of these defaults. Because Tenaga believes that its relationships with its lenders are excellent and because these defaults have not been material to Tenaga's ability to repay amounts due in respect of its indebtedness, no lender has sought, and Tenaga believes that it is unlikely that any lender would seek to declare a default or enforce remedies under its loan agreements as a result of any such default, although no assurance can be provided in this regard. Tenaga has adopted a practice of fully informing potential lenders or financiers of the existence of the aforementioned violations of covenants contained in some of Tenaga's loan agreements.

In addition, due to its significant capital expenditure program and to the suspension of the tariff adjustment formula, Tenaga failed in fiscal years 1996 through 2002 to satisfy the financial covenant ratio contained in its loan agreements with the Asian Development Bank (the "ADB") that required Tenaga to achieve a minimum eight percent return on its rate base (i.e., net operating income divided by the average current net value of fixed assets in operation). Because Tenaga believes that its relationship with the ADB is excellent, and as Tenaga's indebtedness to the ADB is guaranteed by the Malaysian Government and Tenaga is current in all of its payment obligations to the ADB, Tenaga does not believe that the ADB will take any action to enforce any of its rights under such loan agreements in respect of such failures. To this end, Tenaga has applied to the ADB for a written waiver of its rights in respect of Tenaga's failure to satisfy its financial covenant ratios. The ADB has been in communication with Tenaga on this matter, and both parties are working towards obtaining a waiver letter from the ADB in the near future. The ADB has not at any time expressed any desire or intention to attempt to take any remedies that it may be entitled to take as a result of Tenaga's failure to satisfy these financial covenant ratios.

The following table sets forth Tenaga's contingent liabilities as of October 24, 2002.

	As of October 24, 2002 (RM millions)	As of October 24, 2002 (US$ millions)
Claims by third parties(1)	1,010.0	265.8
Trade guarantees and performance bonds	10.2	2.7
Stamp duties on transfer of assets	108.0	28.4
Other contingencies	61.7	16.2
Total	1,189.9	313.1

(1) Claims by third parties include claims by contractors, consultants, consumers and former employees.

Quantitative and Qualitative Disclosures about Market Risk

Tenaga's exposure to financial market risks derives primarily from changes in interest rates and foreign exchange rates. To mitigate these risks, Tenaga utilizes certain derivative financial instruments, including interest rate option contracts and currency swap agreements, the application of which, pursuant to its internal guidelines and a consistent risk management strategy, is primarily for hedging purposes and not for speculative purposes.

Tenaga's exposure to interest rate risks relates primarily to its long-term debt, which is normally incurred to finance its capital expenditures.

The following table sets forth certain information relating to Tenaga's foreign currency debt exposure as of August 31, 2000, 2001 and 2002.

	As of August 31, 2000	2001	2002
	(Percent (%))		
Total foreign denominated debt as percentage of total outstanding debt	53.2	54.3	51.9
Total US$ debt as percentage of total outstanding debt	21.5	24.6	24.1
Total JPY debt as percentage of total outstanding debt	29.5	24.2	21.3

Tenaga currently intends to further reduce its foreign currency borrowings in order to improve its asset-liability management, to lower its exposure to exchange rate fluctuations, and as part of its broader aim to reduce its total outstanding debt.

Derivatives and Other Financial Instruments

A more detailed description of Tenaga's current hedging arrangements is set out in note 23 to Tenaga's audited consolidated financial statements as of and for the years ended August 31, 2000, 2001 and 2002 included in this Offering Memorandum. Except for currency-forward contracts entered into during the ordinary course of business and those contracts disclosed in note 23 to Tenaga's audited consolidated financial statements included in this Offering Memorandum, Tenaga currently has no other derivative or financial instrument obligation outstanding.

Recently Announced New Accounting Standards applicable to Tenaga

MASB No. 19 (applicable to Tenaga beginning fiscal 2002)

Events after Balance Sheet Date. The objective of this accounting standard is to prescribe (i) when an enterprise should adjust its financial statements for events after the balance sheet date; and (ii) the disclosure that an enterprise should give about the date when the financial statements were authorized for issue and about events after the balance sheet date. The standard also requires that an enterprise should not prepare its financial statements on a going concern basis if events after the balance sheet date indicate that the going concern assumption is not appropriate.

MASB No. 20 (applicable to Tenaga beginning fiscal 2002)

Provisions, Contingent Liabilities and Contingent Assets. The objective of this accounting standard is to ensure that appropriate recognition criteria and measurement basics are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to the financial statements to enable readers to understand their nature, timing and amount.

MASB No. 21 (applicable to Tenaga beginning fiscal 2002)

Business Combinations. This accounting standard prescribes the accounting treatment and disclosure in the financial statements for business combinations. The standard covers both acquisition accounting and merger accounting.

MASB No. 22 (applicable to Tenaga beginning fiscal 2003)

Segment Reporting. The objective of this accounting standard is to establish principles for reporting financial information by segment-information about different types of products and services and the different geographical areas in which an enterprise operates.

MASB No. 23 (applicable to Tenaga beginning fiscal 2003)

Impairment of Assets. The objective of this accounting standard is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount. MASB No. 23 specifies when an enterprise should reverse an impairment loss and prescribes certain disclosures for impaired assets. Previously, provision for diminution in value of assets need not have been provided on the grounds that the diminution was temporary in nature. Under MASB No. 23, this characterization is no longer valid, and impairment allowance must be made according to the rules of MASB No. 23.

MASB No. 24 (applicable to Tenaga beginning fiscal 2003)

Financial Instruments: Disclosure and Presentation. This accounting standard prescribes certain requirements for presentation of on-balance sheet financial instruments and identifies the information that should be disclosed about both on-balance sheet (recognized) and off-balance sheet (unrecognized) financial instruments.

MASB No. 26 (applicable to Tenaga beginning fiscal 2003)

Interim Financial Reporting. This accounting standard prescribes the minimum content of an interim financial report and prescribes the principles for recognition and measurement in complete or condensed financial statements for an interim period.

MASB No. 27 (applicable to Tenaga beginning fiscal 2003)

Borrowing Costs. This accounting standard prescribes the accounting treatment for borrowing costs. It generally requires the immediate expensing of borrowing costs. However, MASB No. 27 permits, as a permitted alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

Tenaga does not expect any of the accounting standards described above to materially impact its consolidated financial statements.

MASB No. 25 (applicable to Tenaga beginning fiscal 2003)

Income Taxes. MASB No. 25, "Income Taxes", is effective for accounting periods beginning on or after July 1, 2002. This accounting standard prescribes the accounting treatment for income taxes. An asset or liability may only be recognized if the reporting enterprise expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger or smaller than they would if such recovery or settlement were to have no tax consequences, MASB No. 25 requires an enterprise to recognize a deferred tax liability or deferred tax asset, as the case may be, with certain limited exceptions. MASB No. 25 prohibits the application of the partial provisioning method. In addition, MASB No. 25 disallows the application of discounting method that is permitted by generally accepted accounting principles in the United Kingdom.

If MASB No. 25 were applicable as of August 31, 2002, Tenaga estimates that its deferred tax liability would increase by approximately RM4 billion and its shareholders' funds would correspondingly decrease by the same amount through a prior year adjustment. However, Tenaga does not expect the adoption of MASB No. 25 to have any material impact on its consolidated cash flow position.

BUSINESS

The Company

Tenaga (Company No. 20866-W) is a public limited company incorporated under the laws of Malaysia on July 12, 1990, which succeeded Lembaga Letrik Negara as the principal provider of electricity in Peninsular Malaysia. As of November 11, 2002, Tenaga had a market capitalization of approximately RM27.2 billion (US$7.2 billion), which is the second largest among companies listed on the KLSE.

Tenaga's core activities are the generation, transmission and distribution of electricity. Tenaga's generating stations consist of either thermal or hydro gensets. As of August 31, 2002, Tenaga accounted for approximately 62% of the electricity generation capacity in Peninsular Malaysia, and its thermal and hydro-electricity generating system had an aggregate installed capacity of 8,661 megawatts. Tenaga also transmits and distributes substantially all of the electricity used in Peninsular Malaysia, the state of Sabah on the island of Borneo and the Federal Territory of Labuan. Tenaga's 132kV, 275kV and 500kV transmission system, known as the "National Grid", spans Peninsular Malaysia from north to south with a closed loop connecting the major load centers and generating stations. Tenaga's distribution system supplies electricity to approximately 5.8 million customers in Peninsular Malaysia, the state of Sabah and the Federal Territory of Labuan.

Tenaga has experienced annual growth in electricity sales (measured in kilowatt hours) during each of the last five fiscal years. This growth was largely a result of the performance of the Malaysian economy, the continued transformation of Malaysia from an agricultural to a manufacturing-oriented economy, the expansion of the commercial sector in Malaysia and the rising affluence and increased urbanization of the Malaysian population. Growth in Tenaga's electricity sales is expected to continue to be closely linked to economic growth in Malaysia.

In 1992, the Malaysian Government introduced competition to the electricity supply industry by awarding licenses to generate electricity to IPPs. As of August 31, 2002, the eight operating thermal electricity generation IPPs accounted for approximately 38% of the electricity generation capacity in Peninsular Malaysia. Tenaga currently has a 20.0% equity interest in four of the IPPs, a 4.4% equity interest in a fifth IPP, YTL Power International Bhd., and a 30% equity interest in a sixth IPP, SPSB. See "— Other Malaysian Investments".

For the fiscal year ended August 31, 2002, Tenaga recorded revenue of RM15,375 million (US$4,046 million), operating profit before exceptional items of RM2,537 million (US$668 million) and net profit for the financial year of RM1,401 million (US$369 million). As of August 31, 2002, Tenaga had total assets less current liabilities of RM50,463 million (US$13,280 million), long-term debt (excluding the current portion thereof) of RM26,964 million (US$7,096 million) and shareholders' funds of RM17,728 million (US$4,665 million). See "Management Discussion and Analysis of Financial Condition and Results of Operations — Recently Announced New Accounting Standards applicable to Tenaga", for a discussion of the effect of MASB No. 25 on Tenaga's deferred tax liability and shareholders' funds.

Strategy

Tenaga intends to maintain its position as the leading power company in Malaysia by: (i) strengthening its power generation capabilities; (ii) leveraging its position as the sole provider of power transmission services in Peninsular Malaysia; and (iii) taking advantage of its broad distribution network. In particular, Tenaga intends to achieve this objective by:

Continuing to Improve Operational Performance. Tenaga intends to continue improving its operational performance by expanding, and increasing the efficiency of, generation availability and capacity, optimizing fuel mix and reducing operating costs. In particular, Tenaga plans to invest approximately RM7.2 billion in additional generation assets, increase generation capacity by 2,960 megawatts and maintain a reserve margin of at least 30%, in fiscal 2003, 2004 and 2005. Tenaga believes this investment program will, among other things, increase plant availability and provide additional operational flexibility. Furthermore, Tenaga plans to continue to invest in initiatives to improve transmission and distribution assets. Tenaga plans to improve the reliability of electricity supply by, among other things, system reinforcement and rehabilitation projects and by improving monitoring and failure analysis. Tenaga also plans to reduce transmission and distribution loss by, among other things, the use of automatic electronic metering for all generating units and transmission substations to determine the extent of loss, and the installation of more distribution and transmission equipment. Moreover, Tenaga will continue diversifying its fuel mix and reducing its dependence on natural gas. For the fiscal year ended August 31, 2002, Tenaga's fuel generation mix was 55.9% natural gas, 19.9% coal, 12.1% hydro-electric and 12.1% fuel oil. Tenaga also plans to continue reducing operating costs by, among other measures, streamlining operations through increased use of advanced management information systems, reducing maintenance costs by standardizing maintenance practices, and achieving greater efficiency through enhanced project and contract work management. In addition, in seeking to reduce operating costs, Tenaga will be introducing DRS clauses in its future power purchase agreements with the IPPs. DRS clauses are aimed at achieving a more favorable risk sharing balance between Tenaga and the IPPs in relation to maintaining the national reserve margin. This is achieved by limiting the IPP fixed capacity payments to a negotiated portion of the IPP's plant capacity. Payments for plant capacity in excess of the fixed amount are subject to the dispatched levels of the IPP. Such an approach was recently adopted by Tenaga in the power purchase agreement entered into with SKS Power Sdn. Bhd. on July 25, 2002. A more favorable demand risk allocation between Tenaga and IPPs in future power purchase agreements, if achieved, should result in further cost savings for Tenaga. See "— Development of IPPs".

Reducing Outstanding Debt and Foreign Currency Exposure. Tenaga plans to better position itself financially for future growth, as well as increase its flexibility in the formulation and implementation of its future growth plans, by reducing its outstanding debt and foreign currency exposure. In particular, Tenaga intends to repay a portion of its outstanding debt with the net proceeds from this offering, as well as reduce future borrowings through more efficient management of capital expenditures. Furthermore, as substantially all of Tenaga's revenues are denominated in Ringgit, Tenaga plans to reduce its foreign currency borrowings in order to improve its asset-liability management as well as lower its exposure to exchange rate fluctuations. As of August 31, 2002, Tenaga's debt-to-total capitalization ratio (i.e., total long-term debt (excluding the current portion of long-term debt) divided by the sum of such long-term debt, minority interest and shareholders' funds) was 60.3%, and its debt to shareholders' funds ratio (i.e., total long-term debt (excluding the current portion of long-term debt) divided by shareholders' funds) was 152.1%. As of the same date, Tenaga's outstanding debt was RM29.4 billion, of which 51.9% was denominated in foreign currencies.

Continuing to Focus on Enhancing Customer Service. Tenaga intends to continue its focus on enhancing customer service and increasing customer satisfaction. In particular, Tenaga intends to continue utilizing technology to better serve its customers as well as provide innovative customer services. During fiscal 2001, Tenaga launched an Internet-based service facility for its customers. This facility enables customers to use Tenaga's e-service for general inquiries, bills overview, bills payment and electricity usage history. In addition, Tenaga is in the process of developing "smart card" meter readers, as well as implementing supervisory control and data acquisition systems for its distribution network in order to improve customer service. Moreover, Tenaga plans to continue strengthening its relationship with large power customers through its prime management program.

Adopting Leading International Corporate Governance Practices. Tenaga intends to be a leader in corporate governance in Malaysia. In particular, Tenaga has instituted corporate governance structures to operate its business with a focus on shareholder value. Since October 1, 2001, the audit committee of Tenaga's Board of Directors has comprised entirely of independent Directors. Furthermore, Tenaga has formed separate corporate governance, nomination and remuneration committees during fiscal 2001 in accordance with the Malaysian Code on Corporate Governance. Tenaga believes that these corporate governance structures will reinforce its position as one of the leading companies in Malaysia.

Reorganization of Corporate Structure to Enhance Accountability and Responsibility. Tenaga intends to continue optimizing the efficiency of its organizational structure. In late 2001, Tenaga implemented a structural reorganization as a means of further aligning its business activities to its core businesses of generation, transmission and distribution. The new structure comprises the following four main groups: (i) core businesses; (ii) project services and logistics; (iii) corporate services support; and (iv) education and research. Each of these groups reports directly to Tenaga's President/Chief Executive Officer. The four groups are further separated into nine divisions, each headed by a vice president who manages subsidiaries or departments that provide a related business or service in each of the divisions. The objective of this re-grouping and consolidation of various support functions is to provide a system in which resources are better managed, accountability is enhanced, and more efficient services can be provided to Tenaga's core businesses. Tenaga believes that the reorganization and continued review of its corporate structure will help ensure that efficient services are continually provided to its core businesses, and will reinforce its position as one of the leading electricity companies in the Southeast Asian region.

Strengths

Tenaga believes its principal strengths are:

Stable Regulatory Environment. The Malaysian Government recently introduced several changes to the regulatory environment for the electricity industry, including the establishment of the Energy Commission to act in an advisory capacity to the Minister of Energy, and recently announced its intention to introduce a competitive bidding process for new generation capacity. Apart from these initiatives, however, no major reforms have been announced by the Malaysian Government, which has recently indicated that no fundamental change to the power industry structure is likely to occur in the near term. This approach is in contrast to the major market restructuring programs being implemented in certain other Asian countries, where the introduction of cost-based power pooling and the privatization of the generation and transmission assets are anticipated or already underway. As a result, Tenaga expects to maintain its significant market share in the generation sector and to continue to be the principal owner and operator of the transmission and distribution networks. See "Business — Industry Restructuring".

Nationwide Operations. Tenaga is the largest generator, supplier and distributor of electricity in Malaysia. In particular, Tenaga accounted for 62% of the electricity generation capacity in Peninsular Malaysia as of August 31, 2002. Furthermore, Tenaga also transmits and distributes substantially all of the electricity used in Peninsular Malaysia, the state of Sabah on the island of Borneo and the Federal Territory of Labuan. Tenaga believes that its extensive operations provide considerable logistical advantages and also significant leverage to capture future growth in these markets.

Potential for Growth of Malaysian Economy and Electricity Demand. Historically, there has been a strong correlation between the demand for electricity in Malaysia and growth in the country's GDP. Similarly, growth in Tenaga's electricity sales has been, and is expected to continue to be, closely linked to economic growth in Malaysia. Malaysia currently has a low per capita consumption of electricity compared to other Asian economies such as Singapore, Taiwan, Hong Kong and South Korea. As a result, there is potential for future growth of electricity demand in Malaysia if its economy continues to grow. However, there can be no assurance that economic growth in Malaysia will continue or that such growth may not be affected by adverse changes in inflation, interest rates, taxation or other political, economic or social developments in or affecting Malaysia. See "Business — History of Power Demand in Malaysia" and "Risk Factors — Risks Relating to Tenaga's Business and the Electricity Industry in Malaysia — Political and economic developments in Malaysia could affect Tenaga's business".

Key Role in the Malaysian Economy. Tenaga is one of the largest Malaysian corporations in terms of market capitalization. As of November 11, 2002, Tenaga's market capitalization constituted 10% of the total market capitalization of companies included in the KLSE Composite Index. As the largest power company in Malaysia, Tenaga plays an important role in the future growth of the Malaysian economy. In particular, the security of energy supply is one of the key national policy objectives of the Malaysian Government. As such, Tenaga often assists the Malaysian Government, with whom it believes it has a good working relationship, on matters relating to electricity policy and central planning, industry restructuring, generation capacity, expansion plans and fuel source diversification policy. The Malaysian Government also consults with Tenaga on a regular basis. As of October 31, 2002, the Malaysian Government and related entities owned, directly or indirectly, approximately 85% of Tenaga's outstanding ordinary shares and the sole "Special Share" of Tenaga, with the Minister of Finance Incorporated, Khazanah Nasional Berhad and Bank Negara Malaysia collectively owning approximately 64% of Tenaga's outstanding ordinary shares. See "Relationship with the Government of Malaysia" for more details.

Experienced and Motivated Management. Tenaga is managed by a motivated team with extensive experience in the electricity industry as well as in financial management. In particular, Tenaga's management constantly seeks to identify initiatives that maintain or improve Tenaga's business operations or financial position, as well as maximize business opportunities arising from Tenaga's assets and inherent advantages. For example, management has identified opportunities to reduce the borrowing costs of Tenaga and to lower the costs associated with the purchase of electricity from IPPs. Tenaga's management has further undertaken a number of initiatives to enhance operational efficiency, such as installing capacitor banks to improve performance, improving maintenance practices and plant maintenance scheduling, and reducing unexpected plant outages. Tenaga's management has also undertaken certain initiatives to streamline operations by realigning and consolidating functional units into appropriate divisions, as well as by upgrading communication and information systems. The interests of Tenaga's management are further aligned with the interests of Tenaga through employee share options schemes. Tenaga further expects to provide additional incentives and rewards to its management by linking their compensation with Tenaga's performance.

Principal Shareholder

As of October 31, 2002, the Malaysian Government and related entities, directly or indirectly, owned approximately 85% of Tenaga's outstanding ordinary shares and the sole "Special Share" of Tenaga with the Minister of Finance Incorporated, Khazanah Nasional Berhad and Bank Negara Malaysia collectively owning approximately 64% of the outstanding ordinary shares of Tenaga. The Special Share requires Tenaga to obtain the approval of the holder of the Special Share before undertaking certain extraordinary transactions or effecting any significant changes in the business or operations of Tenaga. The holder of the Special Share also has the right to appoint up to six out of a maximum of 12 Directors of Tenaga. At present, six of the current 12 Directors of Tenaga have been appointed by the Minister of Finance Incorporated as holder of the Special Share.

History of Power Demand in Malaysia

Growth in Tenaga's electricity sales has been, and is expected to continue to be, closely linked to economic growth in Malaysia. In 1996, the Malaysian economy grew at a rate of 10.0%, in terms of real GDP. As a result, Tenaga's electricity sales (measured in kilowatt hours) grew at a rate of 13.0% in fiscal 1996. Beginning in the second half of 1997, however, the Asian economic crisis adversely affected the Malaysian economy. In particular, the rate of real GDP growth for Malaysia increased at a slower rate of 7.3% in 1997, and real GDP contracted by 7.4% in 1998 before recovering to a growth rate of 5.8% in 1999. Although Tenaga's electricity sales growth increased by 15.0% in fiscal 1997, Tenaga's electricity sales growth slowed significantly to 7.9% in fiscal 1998 and 4.5% in fiscal 1999. Beginning in the second half of 1999 and continuing through 2000, the economic environment in Malaysia generally improved and real GDP grew at a rate of 5.8% in 1999 and 8.5% in 2000. As a result, Tenaga's electricity sales grew at a rate of 14.0% in fiscal 2000. The Malaysian economy slowed down significantly in 2001, particularly during the second half of the year, and recorded real GDP growth of only 0.4% in 2001. As a result, Tenaga's electricity sales grew at a rate of 5.7% in fiscal 2001. Tenaga's electricity sales rate grew at a rate of 4.6% in fiscal 2002. The Malaysian Ministry of Finance of Malaysia has estimated that real GDP in Malaysia will grow at a rate of 4.0-5.0% in 2002.

The following table sets forth certain information regarding real GDP growth and Tenaga's electricity sales and sales growth from 1995 until 2002 in Malaysia.

	Year						
	1996	1997	1998	1999(1)	2000(1)	2001(1)	2002(1)
Real GDP Growth Rate(2)	10.0%	7.3%	(7.4)%	5.8%	8.5%	0.4%	4.0%-5.0%(2)
Electricity Sales(3)	38,034	43,747	47,197	49,322	56,210	59,417	62,167
Electricity Sales Growth Rate(4)	13.0%	15.0%	7.9%	4.5%	14.0%	5.7%	4.6%

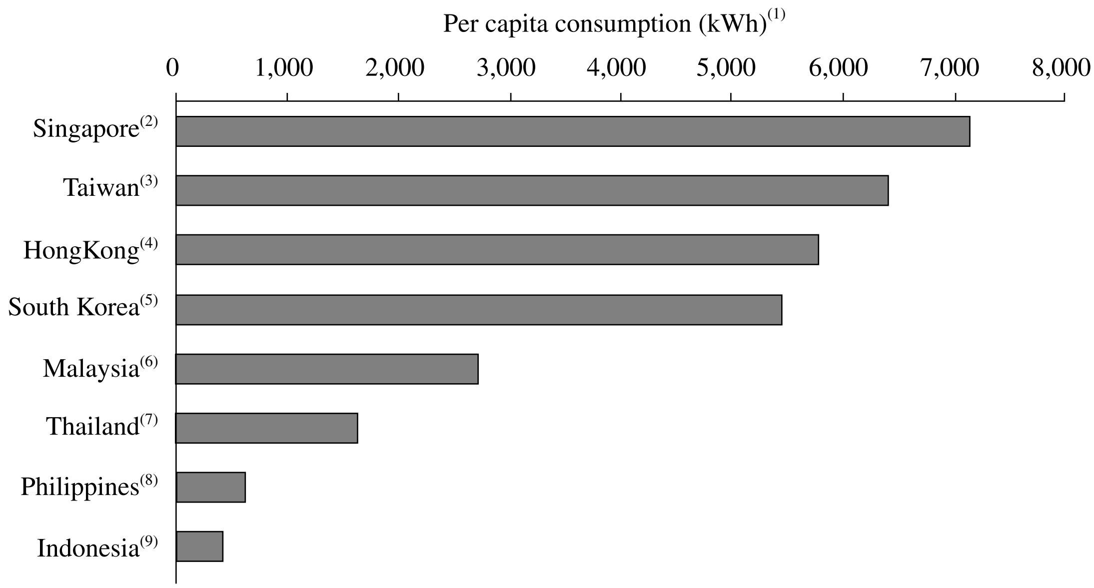
(1) Figures include units of electricity sold by Sabah Electricity Sdn. Bhd.

(2) Real GDP growth rates figures are provided by Bank Negara and are based on calendar years, except for the real GDP growth rate for calendar year 2002, which is based on estimates by the Malaysian Ministry of Finance.

(3) Measured in gigawatt hours and based on Tenaga's fiscal year-end information.

(4) Electricity sales growth rates are based on Tenaga's fiscal year-end information.

As shown in the chart below, Malaysia's per capita consumption of electricity is low compared to other developed Asian economies, such as Singapore, Taiwan, Hong Kong and South Korea. This indicates that there is potential for future growth in electricity demand as the Malaysian economy further develops.



(1) Calendar year 2001 unless otherwise stated. Population statistics sourced from relevant national statistical bodies.

(2) For year ended March 31, 2001. Source: Singapore Power.

(3) Source: Taiwan Power Company.

(4) Source: Hong Kong Census and Statistics Department.

(5) Source: Korea Electric Power Company.

(6) Source: Department of Statistics, Malaysia.

(7) Source: Electricity Generating Authority of Thailand.

(8) Source: National Statistics Office, Philippines.

(9) Source: PT Perusahaan Listrik Negara.

The ongoing transformation of Malaysia from an agricultural to a manufacturing-oriented economy has played a particularly important role in the growth of demand for electricity. The agricultural sector generally has low electricity consumption despite its rising usage of electric motors and pumps and other electrical equipment. In contrast, the manufacturing sector relies heavily on electricity as a major source of energy. In 1984, the agricultural and manufacturing sectors each accounted for approximately 20% of Malaysian GDP. In 2002, the manufacturing sector has expanded to account for approximately 31% of GDP while the portion of GDP represented by the agricultural sector has declined to 8%. The expansion of the commercial sector in Malaysia, which generally also has a higher level of electricity consumption than the agricultural sector, has also contributed significantly to the growth of demand for electricity.

The following table sets forth certain information regarding Malaysia's GDP by industrial sector from 1997 to 2001, in 1987 constant prices, and estimates by the Malaysian Ministry of Finance for 2002.

	Year					
	1997	1998	1999	2000	2001	2002(1)
	RM	RM	RM	RM	RM	RM
	(Amounts in millions)					
Manufacturing	58,788	50,899	57,761	67,717	63,536	66,805
Services	102,164	101,452	104,881	112,371	118,763	125,116
Agriculture, Livestock, Forestry and Fishing	18,010	17,415	18,076	17,943	18,269	18,478
Mining and Quarrying	14,305	14,425	13,974	15,641	15,892	16,217
Construction	9,522	7,333	6,922	6,996	7,159	7,434

(1) Estimated.

Source: Economic Reports published by Malaysian Ministry of Finance.

Other factors which have contributed to growth in power demand in Malaysia are the rising affluence and the increasing urbanization of the Malaysian population. Nominal per capita gross national product ("GNP") in Malaysia increased from RM6,797 in 1991 to RM12,867 in 2001. Rising affluence and improving standards of living in Malaysia have generally resulted in higher usage of air conditioners and electrical household appliances. Increased urbanization has also generally reduced the number of persons per dwelling, which has led to a larger number of electricity consuming households. Moreover, both rising affluence and urbanization have contributed to a general change in the population's lifestyle towards increased consumption of electricity.

The following table sets forth statistics regarding Malaysia's population and GNP from calendar year 1997 to calendar year 2001 and estimates by the Malaysian Ministry of Finance for 2002.

	Year					
	1997	1998	1999	2000	2001	2002(1)
Population (in millions)	21.7	22.2	22.7	23.3	23.8	24.5
GNP per capita (at current prices, RM)	12,051	12,134	12,305	13,411	12,867	13,361

(1) Estimated.

Source: Economic Reports published by Malaysian Ministry of Finance.

Industry Restructuring

Since Tenaga's privatization in 1992, the Malaysian Government has continued to consider various ways in which the competitiveness of the Malaysian electricity supply industry could be improved. One of the Malaysian Government's earlier reforms was the awarding of licenses to IPPs in order to increase electricity generation capacity in Malaysia and improve the reliability of supply of electricity. Further, under the auspices of the Malaysian Ministry of Finance, the Minister of Energy, the Department of Electricity Supply and Gas (now the Energy Commission) and the Economic Planning Unit, various alternative proposals for energy deregulation and enhanced competition have been studied, including the introduction of full retail competition, the development of a power pool, the establishment of three or four vertically integrated power companies and maintenance of the status quo. At the beginning of 2001, the Malaysian Government indicated that the proposed timing and form of restructuring would be finalized later in that year. However, as a result of difficulties encountered world wide with energy deregulation and the separation of electricity generation from electricity transmission and distribution — particularly in the State of California in the United States, New Zealand and the United Kingdom — the Malaysian Cabinet decided in April 2001 against adopting the timing and form of restructuring proposed by the Economic Planning Unit earlier that year.

Tenaga expects to continue to assist the Malaysian Government in formulating its policies in connection with any future restructuring of the Malaysian electricity supply industry. However, no assurances can be made as to the timing of a decision by the Malaysian Government on this issue. Furthermore, no assurances can be made as to the form and scope of any final restructuring plan that may be adopted by the Malaysian Government, if any, and there can be no assurance that any industry restructuring will not have an adverse effect on Tenaga's business and operations.

The Generation System

Tenaga's electricity generating system consists primarily of ten major generating stations, all of which are managed by either TNB Generation Sdn. Bhd. ("TNB Generation") or TNB Hidro Sdn. Bhd. ("TNB Hidro"), both wholly-owned subsidiaries of Tenaga. As of August 31, 2002, Tenaga had an aggregate installed capacity of 8,661 megawatts. All of Tenaga's major generating stations consist of either thermal or hydro gensets. Tenaga's thermal gensets produce power using conventional steam turbine generators principally fired by coal, oil or natural gas ("steam turbines"), gas-fired or diesel-fired open cycle turbine generators ("open cycle gas turbines"), and gas-fired combined cycle turbine generators ("combined cycle gas turbines") in which the gas is ignited to turn two turbines and the exhaust is used to convert water into steam to power a third turbine. Tenaga's hydro stations consist of both run-of-the-river and pondage stations. In addition to producing power from its own generating facilities and purchasing power from the IPPs, Tenaga has in the past purchased small amounts of electricity from the Electricity Generating Authority of Thailand and Singapore Power to satisfy peak demand.

TNB Generation operates and maintains seven of Tenaga's thermal electricity generating stations in Peninsular Malaysia with an aggregate installed capacity of 6,750 megawatts. TNB Generation is also responsible for the operation and maintenance of a power generating station in Daharki, Pakistan, with installed capacity of 235 megawatts. TNB Generation pays rent to Tenaga for the generating assets and sells the electricity produced to Tenaga. TNB Hidro is responsible for hydro-electric power generation through the operation of three generating stations which have an aggregate installed capacity of 1,911 megawatts.

The table below sets forth, for each of Tenaga's generating stations, the number of gensets, average age of gensets and installed capacity in Peninsular Malaysia as of August 31, 2002, and the average capacity factor and average fuel cost for the fiscal year ended August 31, 2002.

Station/Fuel		Type(1)	Number of Gensets	Average Age of Gensets(2)	Installed Capacity(3)	Average Capacity Factor(4)	Average Fuel Cost per kWh
				(Years)	(Megawatts)	%	(Sen/kWh)
Paka	— Gas/Distillate	C/GT	8	14.8	744		
	— Gas	ST	4	12.3	395		
	— Total Station	—	12	13.9	1,139	71.4	5.7
Kapar(5)	— Oil/Gas	ST	2	15.5	600		
	— Coal/Oil/Gas	ST	2	12.5	600		
	— Coal/Oil	ST	2	1.0	1000		
	— Gas/Distillate	GT	2	7.0	220		
	— Total Station	—	8	9.0	2,420	49.9	7.2
Connaught Bridge	— Gas	C/GT	2	19.5	212		
	— Gas	ST	1	8.0	100		
	— Gas/Distillate	GT	4	9.0	520		
	— Total Station	—	7	11.9	832	60.0	7.5
Pasir Gudang	— Gas/Oil	ST	2	20.0	240		
	— Gas	C/GT	2	9.5	174		
	— Gas	ST	1	5.0	95		
	— Gas/Diesel	GT	2	8.0	220		
	— Total Station	—	7	11.4	729	67.7	8.6

Station/Fuel		Type(1)	Number of Gensets	Average Age of Gensets(2)	Installed Capacity(3)	Average Capacity Factor(4)	Average Fuel Cost per kWh
				(Years)	(Megawatts)	%	(Sen/kWh)
Perai (including Gelugor and Teluk Ewa)	— Oil	ST	3	21.3	360		
	— Distillate	GT	2	5.0	65		
	— Gas/Distillate	GT	2	7.0	220		
	— Total Station	—	7	12.6	645	31.4	14.0
Tuanku Jaafar	— Gas/Oil	ST	3	24.7	360	39.7	7.4
Serdang	— Gas/Distillate	GT	5	8.0	625	56.8	8.2
Kenyir	— Hydro	—	4	17.0	400	55.3	—
Sungai Perak	— Hydro	—	22	11.8	1,249	21.0	—
Cameron Highlands	— Hydro	—	7	36.6	262	28.8	—
Total/Combined Average			82	16.9	8,661	48.2	8.4

(1) "ST" refers to steam turbine gensets, "GT" refers to gas or diesel turbine gensets, and "C/GT" refers to combined cycle gas turbine gensets.

(2) Genset ages are based on dates of commencement of commercial operation. Average ages of gensets are based on number of gensets.

(3) Installed capacity represents the level of output that may be sustained continuously without significant risk of damage to plant and equipment.

(4) Average capacity factor represents the total number of kilowatt hours of electricity generated during fiscal 2002 divided by the total number of kilowatt hours that would have been generated assuming continuous operation of gensets at installed capacity, expressed as a percentage.

(5) Subject to conditional asset sale agreement with Kapar Energy Ventures Sdn. Bhd. and Malakoff Berhad. See "Business — Other Malaysian Investments".

All of Tenaga's generating stations have received the ISO 9002 certification, which signified that these stations have satisfied certain international quality standards in its operations. In addition, more than half of Tenaga's generating stations have received the ISO 14000 certification, which signified that these stations have satisfied certain international environmental standards in its operations. Furthermore, two of Tenaga's generating stations have received the OHSAS 18000 certification, which is a recognized occupational health and safety assessment and management standard. The remaining generating stations are in the process of receiving ISO 14000 and OHSAS 18000 certifications.

The useful lives of Tenaga's gensets are approximately 20 years for open cycle gas turbine and combined cycle gas turbine gensets, approximately 25 years for steam turbine gensets and approximately 40 years for hydro gensets.

Tenaga has an ongoing maintenance and rehabilitation program in order to maintain and increase the overall efficiency of its generating stations and to derive the most economic loading for such stations. This maintenance program includes, among other things, replacing heaters, turbine blades and cleaning parts to improve heat rates, maintaining equipment to reduce heat loss and modifying existing turbines to improve environmental quality and reduce air emission, as well as pilot projects to increase the capacity of selected generation stations. An additional benefit of this maintenance program is the extension of the useful life of Tenaga's gensets.

The table below sets forth the electricity generated and purchased by Tenaga, the amount of auxiliary use and the amount of electricity used or lost in the course of transmission and distribution for each of the five fiscal years through August 31, 2002.

	Fiscal Year Ended August 31,(1)				
	1998	1999	2000	2001	2002
	(Millions of kilowatt hours)				
Tenaga facilities:					
Thermal:					
Conventional Thermal — Coal	3,971	3,688	4,213	6,364	7,656
— Oil/Gas	10,554	9,090	8,634	6,558	7,533
Combined Cycle — Gas/Distillate	9,011	10,294	10,605	10,771	10,245
Open Cycle — Gas/Distillate	5,696	3,619	4,715	7,832	8,377
Hydro	3,330	6,083	6,311	5,226	4,648
Total Tenaga Production	32,562	32,774	34,478	36,751	38,459
Auxiliary Use	1,185	1,067	1,142	1,907	2,410
Net Tenaga Production	31,377	31,707	33,336	34,844	36,049
Purchased from IPPs	21,164	20,959	26,008	28,701	30,411
Total Net Generation	52,541	52,666	59,344	63,545	66,460
Transmission and Distribution Loss	5,344	5,121	5,089	6,093	6,414
Total Tenaga Electricity Sales	47,197	47,545	54,255	57,452	60,046

(1) Figures exclude Sabah Electricity Sdn. Bhd. and Liberty Power Limited.

Peak Load and Capacity

The chart below shows the installed generation capacity, peak demand, reserve capacity and the reserve margin capacity of Tenaga and the IPPs for each of the fiscal years through August 31, 2002.

	Fiscal Year Ended August 31,(1)				
	1998	1999	2000	2001	2002
	(Megawatts, except percentages)				
Installed Capacity — Tenaga(2)	8,129	7,520	7,661	8,661	8,661
Installed Capacity — IPPs(2)	4,144	4,474	4,474	4,474	5,363
Total Installed Capacity	12,273	11,994	12,135	13,135	14,024
Peak Demand(3)	8,470	8,724	9,712	10,060	10,783
Reserve Capacity	3,803	3,270	2,423	3,075	3,241
Reserve Margin(4)	45%	37%	25%	31%	30%

(1) Figures exclude Sabah Electricity Sdn. Bhd. and Liberty Power Limited.

(2) Installed capacity represents the combined level of output that may be sustained continuously without significant risk of damage to plant and equipment.

(3) Peak demand represents the actual maximum peak demand on Tenaga's system at any single time during the period.

(4) The reserve margin is equal to the difference between installed capacity and peak demand as a percentage of peak demand.

Fuel

In recent years, Tenaga's fuel strategy has followed the Malaysian Government's "four fuel" diversification policy requiring the use of natural gas, coal, hydro-electric power and fuel oil. Tenaga plans to continue its diversified fuel strategy. However, to control energy costs, Tenaga expects to continue reducing its use of fuel oil. For the fiscal year ended August 31, 2001, Tenaga's fuel generation mix (expressed in terms of the percentage of total kilowatt hours generated by each fuel source) was 63.6% natural gas, 17.4% coal, 14.3%

hydro-electric and 4.7% fuel oil. For the fiscal year ended August 31, 2002, Tenaga's fuel generation mix was 55.9% natural gas, 19.9% coal, 12.1% hydro-electric and 12.1% fuel oil. Tenaga expects that coal will be utilized to a larger extent in the future in order to achieve a better fuel generation mix between coal and natural gas, as well as to reduce fuel costs. Nuclear power generation is prohibited in Malaysia under current government policy.

Tenaga's natural gas requirements are supplied by Petronas Gas Berhad ("Petronas Gas"), a subsidiary of Petroliam Nasional Berhad, the national oil and gas company of Malaysia. In October 1994, Tenaga entered into a 20-year natural gas supply agreement with Petronas Gas for up to 500 million standard cubic feet of gas per day. The gas price is fixed every three years pursuant to a pricing arrangement agreed between Tenaga and Petronas Gas. The most recent three-year pricing arrangement that fixed the gas price at RM6.40 per million BTUs from May 1997 onwards expired in December 2001. The most recent pricing arrangements have remained operative in the absence of any new pricing arrangement being entered into between Tenaga and Petronas Gas. Tenaga intends to seek Malaysian Government approval for a corresponding tariff rate increase if Petronas Gas raises the price of natural gas pursuant to any future pricing arrangements.

Since mid-2001, the supply of gas to the power sector by Petronas Gas has from time to time been insufficient to meet the gas demand of Tenaga and the IPPs. Between July 2001 and August 2002 the average monthly gas shortfall was 157.5 million standard cubic feet per day. This gas shortfall was further exacerbated in April and May of 2002 when record peak demand coincided with scheduled shutdown of onshore and offshore gas facilities. As a result, Tenaga and the IPPs have had to rely to a greater degree on more expensive fuel oil and distillate in order to meet electricity demand. This had an adverse effect on Tenaga's financial performance during the second half of fiscal 2002. Tenaga is currently addressing this gas supply shortfall in a number of ways. As discussed elsewhere in this Offering Memorandum, Tenaga is pursuing a policy aimed at achieving a better fuel generation mix and reducing the emphasis on natural gas in such mix. In particular, two coal-fired generation units at Tenaga's Kapar plant, capable of delivering an aggregate of 1,000 megawatts, have recently resumed operations. In addition, Tenaga plans to accelerate the commercial operations currently scheduled for April 2003 of one 700 megawatt unit of the coal-fired Janamanjung plant, which is currently undergoing commissioning tests. Tenaga is also currently in talks with the Malaysian Government, Petronas Gas and the IPPs to reallocate the risk of gas shortages so that more of the financial burden (which is currently borne by Tenaga solely) is shared with the IPPs and Petronas Gas. In addition, Tenaga expects new sources of gas to be developed by Petronas Gas to increase the supply of gas. These include the Joint Development Area project with Thailand to develop natural gas resources in Thailand and Northern Peninsular Malaysia. Since August 2002, Petronas Gas has begun to source gas from local gas fields such as Angsi, Selingi and Pulai and import gas from the West Natuna gas fields. The gas supply shortfall has more recently improved and the shortfall of gas for the power sector has declined from an average of 199 million standard cubic feet per day in May 2002 to 108 million standard cubic feet per day in October 2002. The table below sets forth certain historical information on the gas supply shortfall:

Period	Average Gas Shortfall (Millions of standard cubic feet per day)
January 31 to June 30, 2000	36
July 1 to December 31, 2000	54
January 31 to June 30, 2001	19
July 1 to December 31, 2001	133
January 31 to June 30, 2002	199
July 2002	159
August 2002	77
September 2002	108

The principal suppliers of fuel oil to Tenaga are Petronas and Royal Dutch/Shell Group. Oil supplies for Tenaga's Perai, Kapar and Pasir Gudang oil-fired gensets are transported by tanker to each station's own jetty. Tenaga enters into oil supply contracts with its suppliers, generally for a period of three years at prevailing world oil prices. For the year ended August 31, 2002, Tenaga paid an average of RM91 per barrel for its oil supplies.

The bulk of Tenaga's coal supplies have historically been obtained from Australia, China and Indonesia. Approximately 50% of Tenaga's coal supplies are purchased under long term contracts and the balance under spot or option contracts. Tenaga considers a number of factors in selecting coal suppliers, including the suitability of the coal quality to the boiler design, security of supply, cost and diversification by country, port and mine. For the year ended August 31, 2002, Tenaga paid an average of RM146 per ton for its coal supplies.

The Transmission System

Tenaga owns the transmission lines and switching substations through which it delivers electricity to customers. Tenaga's transmission system, known as the "National Grid", spans Peninsular Malaysia from north to south with a closed loop connecting the major load centers and generating stations. The main voltage levels of Tenaga's transmission grid are 66kV, 132kV, 275kV and 500kV. Tenaga is in the process of phasing out the 66kV system as part of its efforts to upgrade its existing transmission system.

The following table provides information on Tenaga's transmission grid as of August 31, 2002.

Voltage	Overhead Lines	Underground Cables	Total
	(Circuit-kilometers)		
66kV	346	0	346
132kV	9,165	687	9,852
275kV	5,736	40	5,776
500kV(1)	890	0	890

(1) Currently 693.6 circuit km energized at 275kV and 196.4 circuit km energized at 500kV.

Tenaga's transmission system is interconnected with the Electricity Generating Authority of Thailand ("EGAT") in the northern part of Peninsular Malaysia through a 132kV overhead line (with a maximum transmission capability of 80 megawatts) between Chuping in Perlis and Sadao in Thailand. In 2001, Tenaga enhanced the interconnection with EGAT to a high voltage direct current ("HVDC") overhead line connection (with a transmission capacity of 300 megawatts), which began commercial operation on October 1, 2001. These arrangements were formalized on May 14, 2002, when an HVDC system interconnection agreement was signed with EGAT. Pursuant to this agreement, Tenaga and EGAT will share a spinning reserve, and will further facilitate power exchanges and a continual source of supply during power emergencies. Tenaga's transmission grid is also interconnected with Singapore Power at 230kV (with a transmission capacity of 200 megawatts) by submarine cables and double-circuit transmission lines between the Senoko Power Station in Singapore and Tenaga's Plentong Sub-Station. Tenaga is responsible for the planning and development of the National Grid to ensure a secure, adequate and reliable electricity supply system.

In order to enhance efficiency in the generation and distribution of electricity supply in Sabah, all power stations in the state's main towns are to be linked by a common grid system. Work on the grid on the east coast of Sabah is expected to be completed in May 2003. Work on the grid from Kota Kinabalu to Kudat has also begun and is scheduled to be completed in 2004, while the grid from Sandakan to Kota Kinabalu is expected to be ready in 2006.

Due to the increasing levels of electricity consumption in Peninsular Malaysia over the past five fiscal years, Tenaga has been required to continuously expand and enhance its transmission and distribution systems. Although Tenaga expects to continue incurring substantial capital expenditures over the next three fiscal years, Tenaga expects such expenditures to gradually decrease as a result of the significant additional transmission capacity that is expected to become available. For a description of Tenaga's capital expenditure program in coming years, see "— Capital Expenditure Program".

The Distribution System

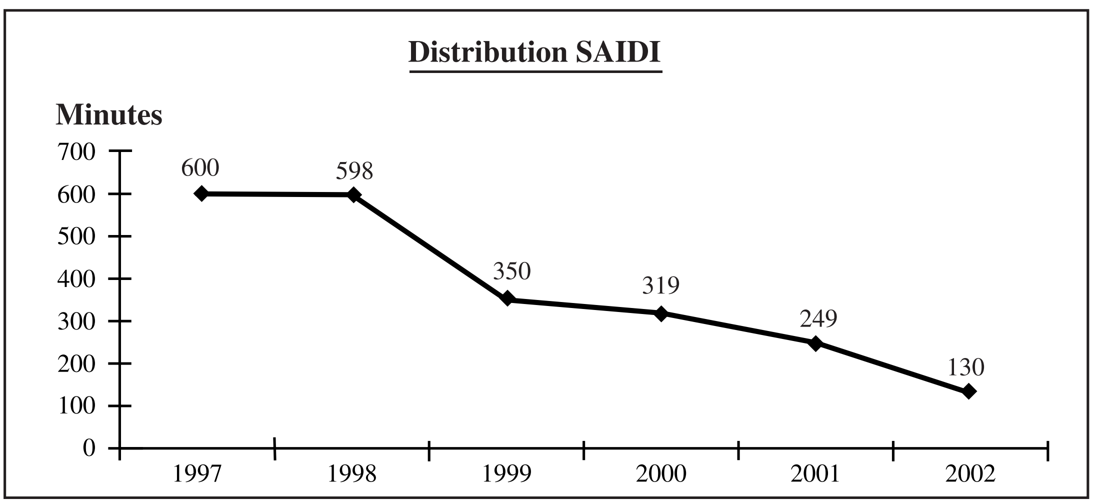
Tenaga is the largest distributor of electricity to customers in Peninsular Malaysia. Tenaga's distribution system operates at voltages of 33kV and below and connects to the transmission grid at 132kV. Tenaga's distribution system supplies almost all of Tenaga's customers in Peninsular Malaysia at 415V and 240V. As of August 31, 2002, approximately 2,810 industrial and commercial customers in that region were supplied at higher voltages ranging from 11kV to 33kV. In addition, as of August 31, 2002 there were 45 large industrial customers connected directly to the National Grid at 132kV and 275kV.

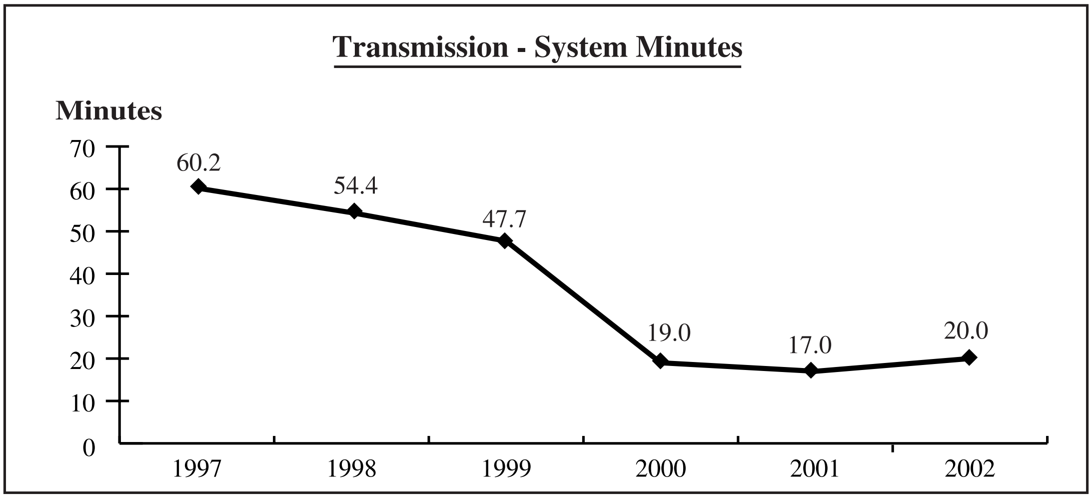
As of August 31, 2002, Tenaga had approximately 54,277 distribution sub-stations. The following table provides certain details relating to Tenaga's distribution system, as of August 31, 2002.

Voltage	Overhead Lines	Underground Cables	Total
		(Circuit-kilometers)	
33kV	2,758	3,399	6,157
22kV	1,515	2,859	4,374
11kV	6,281	181,983	188,264

Power Interruption and System Loss

Tenaga closely monitors key operational statistics to ensure that its transmission and distribution network is highly efficient and reliable. Two principal measures of system reliability and security used by Tenaga are System Average Interruption Duration Index ("SAIDI") and system minutes. SAIDI measures the distribution system average interruption duration (expressed in minutes per customer per year) over the relevant comparison period. System minutes measures the transmission system average interruption duration (expressed in minutes at times of annual system peak) over the relevant comparison period. The following charts present Tenaga's SAIDI and system minutes for the fiscal periods presented.





Tenaga has experienced interruption of supply from time to time as its operations are located in an area of frequent lightning strike activity and in a hot and humid environment. Tenaga has introduced a number of initiatives to improve the reliability of electricity supply, and Tenaga may be required to undertake additional measures in this regard from time to time. To improve the reliability of supply, about RM1 billion of system reinforcement and rehabilitation projects have been implemented since 2001. In particular, Tenaga has implemented remote switching facilities in its transmission substations with its optic communication network to improve response time to interruptions of supply. Tenaga has also benchmarked its operations against 22 utilities listed in International Transmission and Operation and Maintenance Studies to upgrade its practices in line with current practices of developed utilities. Furthermore, Tenaga has adopted the concept of reliability centered maintenance and is implementing maintenance procedures that are focused on condition monitoring and centralized failure analysis. As a result of the measures taken, the number of distribution interruptions in fiscal 2002 decreased by 25.6% to 31,331 from 42,113 distribution interruptions in fiscal 2001.

Distribution loss as a percentage of net electricity generation (gross generation less auxiliary use) was 8.4% in fiscal 2002 compared to 7.9% in fiscal 2001. Tenaga estimates that most of its distribution loss is technical loss or loss due to a failure in materials (including the failure of third party materials), with a portion of the loss attributable to unmetered usage at substations, pilferage and theft of structural components from power stations.

Technical loss has been attributable to high load on the distribution network, low power factors, remote locations of gensets from load centers and transformations of electricity to appropriate voltages for consumption. Tenaga intends to continue reducing the rate of technical loss by installing more distribution and transmission equipment, including reactive power compensation equipment in substations (to improve the overall power factor), and by progressively phasing out intermediate voltages to reduce the number of transformations required. Moreover, 148 circuit km of 275kV line and 197 km of 500kV line were added to the system in 2001 to reduce technical loss, and 175 km of overhead line at 500kV was added to the system in 2001 to replace the earlier 275kV line. Tenaga currently intends to implement 750 MVA of capacitors in 2003 to reduce technical loss and improve system security.

To reduce pilferage, Tenaga formed a task force in 1998 to conduct surprise checks. In addition, incentives were introduced to encourage informers to report cases of pilferage to Tenaga. Moreover, Tenaga has in the past pursued, and intends to continue pursuing in the future, legal remedies to deter pilferage, including disconnection of electricity supply to parties suspected of pilferage, reporting such pilferage to the proper authorities and instituting civil actions where appropriate.

Sales and Customer Base

Tenaga supplied electricity to approximately 5.8 million customers as of August 31, 2002, an increase from approximately 5.5 million customers as of August 31, 2001, and approximately 5.3 million customers as of August 31, 2000. Tenaga's customers can be broadly classified as falling within the following categories: industrial, commercial, domestic, mining and public lighting. The table below sets forth the consumption of electricity in Peninsular Malaysia by class of customer for each of the last five fiscal years ended August 31, 2002.

Customer Classification	Fiscal Year Ended August 31, 1998	% of Total	1999	% of Total	2000	% of Total	2001	% of Total	2002	% of Total
	(Millions of kilowatt hours, except percentages)									
Industrial(1)	25,202	53.4	25,460	53.5	29,818	55.0	30,975	53.9	31,382	52.3
Commercial(2)	13,265	28.1	13,164	27.7	14,748	27.2	15,818	27.5	17,032	28.4
Domestic(3)	8,327	17.6	8,400	17.7	9,093	16.8	10,015	17.4	10,939	18.2
Mining	70	0.1	65	0.1	69	0.1	64	0.1	64	0.1
Public Lighting	333	0.7	456	1.0	527	1.0	580	1.0	629	1.0
Total	47,197		47,545		54,255		57,452		60,046	

(1) An industrial customer is defined as a customer that carries on a manufacturing business or quarrying operation or that uses electricity for the pumping of water. This also includes export customers.

(2) A commercial customer is defined as a customer occupying an office building, shop restaurant, school, hotel, boarding house, estate, post, railway installation, hospital, military or government establishment.

(3) A domestic customer is defined as a customer occupying a private dwelling that is not used as an office building, shop, restaurant, school, hotel, boarding house, estate, post, railway installation, hospital, military or government establishment.

Tenaga's sales to all its customer groups have increased substantially in recent years, except for mining customers due to the decline in mining activities in Peninsular Malaysia. Total electricity sales (measured in kilowatt hours) increased by 27.2% from 47,197 million kilowatt hours in fiscal 1998 to 60,046 million kilowatt hours in fiscal 2002 and by 4.5% from 57,452 million kilowatt hours in fiscal 2001 to 60,046 million kilowatt hours in fiscal 2002.

A feature of the Malaysian economy over the last several years has been the continued increase in manufacturing investment and the increasing industrialization of the economy, including the expansion of steel manufacturing. The rapid growth of manufacturing industries in Malaysia has resulted in an increase in demand for electricity by the industrial sector. Electricity sales to industrial customers (measured in kilowatt hours) increased by 24.5% during the period from fiscal 1998 to fiscal 2002.

Commercial customers comprise the second largest group of electricity consumers in Malaysia. Electricity sales to commercial customers (measured in kilowatt hours) increased by 28.4% during the period from fiscal 1998 to fiscal 2002. Electricity sales to commercial customers increased by 7.7% in fiscal 2002 from fiscal 2001.

Rising levels of affluence among domestic customers and increased urbanization contributed to a significant increase in electricity sales to domestic customers in Malaysia (measured in kilowatt hours) in recent years. Electricity sales to domestic customers increased by 31.4% during the period from fiscal 1998 to fiscal 2002. Electricity sales to domestic customers increased by 9.2% in fiscal 2002 from fiscal 2001. Tenaga estimates that approximately 99% of Malaysian households have access to electricity.

Electricity sales to customers that use electricity for extracting minerals and dredging (measured in kilowatt hours) decreased by 8.6% during the period from fiscal 1998 to fiscal 2002, due to declining activity in this sector. Electricity sales to these customers remained the same in fiscal 2002 compared to fiscal 2001. Sales to customers that use electricity for illuminating public thoroughfares (measured in kilowatt hours) increased by 88.9% during the period from fiscal 1998 to fiscal 2002. Electricity sales to these customers increased by 8.4% in fiscal 2002 compared to fiscal 2001.

Tenaga's largest 15 customers accounted for unit sales of 6,641 million kilowatt hours in fiscal year 2002, which was equivalent to 11.6% of total electricity sales in Peninsular Malaysia during that period.

The following table sets forth Tenaga's total electricity sales by type of customer for each of the last five fiscal years through August 31, 2002.

	Fiscal Year Ended August 31,(1)									
Customer Classification	**1998**	**% of Total**	**1999**	**% of Total**	**2000**	**% of Total**	**2001**	**% of Total**	**2002**	**% of Total**
	(Amounts in RM millions except percentages)									
Industrial	5,404	48.8	5,642	48.1	6,446	49.7	6,636	49.3	6,711	47.6
Commercial	3,673	33.2	3,911	33.4	4,117	32.6	4,398	32.7	4,734	33.5
Domestic	1,921	17.3	2,070	17.7	2,096	16.9	2,322	17.2	2,549	18.1
Public Lighting	68	0.6	83	0.7	82	0.7	91	0.7	96	0.7
Mining	10	0.1	10	0.1	10	0.1	9	0.1	9	0.1
Total Electricity Sales	11,076	100.0	11,716	100.0	12,751	100.0	13,456	100.0	14,099	100.0

(1) Figures exclude Sabah Electricity Sdn. Bhd. and Liberty Power Limited.

Customer Information and Settlement Services

Call management centers were established in each state of Peninsular Malaysia to allow customers to report power interruptions. Tenaga was the first utility in Malaysia to introduce one common telephone number for the convenience of customers nationwide to call in at the cost of a local telephone call. In addition, to further enhance customer service, TNB Distribution Sdn. Bhd. ("TNB Distribution"), a wholly-owned subsidiary of Tenaga, introduced the electricity bill settlement facility through leading local banks. TNB Distribution has also introduced account enquiries and electricity bill settlement services through the Internet.

The customer information billing system ("CIBS") was introduced in 1995 for the enhancement of customer accounts management. CIBS has expedited the process of acquiring information and provides easy access to reports on collections, payments, unbilled customers, power pilferages, number of customers and other management and technical reports. In addition, a company website was developed during 2000 to assist customers in acquiring information on the status of their electricity accounts and other related matters. To further improve service response to its customers, Tenaga is developing a distribution automation system through the implementation of a supervisory control and data acquisition system into Tenaga's entire distribution network.

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

Other Subsidiaries

Tenaga is also engaged, through its subsidiaries, in engineering, project management, operation and management, repair and maintenance, fuel procurement and services, metering, logistics to manufacturing of transformers, high voltage switchgears, cables, property developments, research and development and education. The activities of these subsidiaries are not material to Tenaga, accounting in the aggregate for net revenue of RM186 million during fiscal 2002. The book value of Tenaga's investment in these subsidiaries as of August 31, 2002 was RM144.1 million.

In September 1998, Tenaga acquired an 80% interest in Sabah Electricity Sdn. Bhd. ("Sabah Electricity"), a utility company providing generation, transmission and distribution services in the State of Sabah and the Federal Territory of Labuan. Sabah Electricity currently has a total generation capacity of 777 megawatts, and has implemented a number of projects to further enhance its generation, transmission and distribution infrastructure, including the development of an integrated transmission grid in Sabah. The remaining 20% interest in Sabah Electricity is owned by the State Government of Sabah. The book value of Tenaga's investment in Sabah Electricity as of August 31, 2002 was RM500 million.

Tenaga's wholly-owned subsidiary, TNB Janamanjung Sdn. Bhd. ("TNB Janamanjung"), is in the process of constructing a 2,100 megawatt coal-fired plant in Manjung, Perak Darul Ridzuan. The first 700 megawatt unit, which is currently expected to commence operations in April 2003, is being synchronized and is currently undergoing commissioning testing. TNB Janamanjung is currently examining the possibility of accelerating its commencement of operations. The coal plant will help meet the growing demand of electricity in the central part of Peninsular Malaysia and will be linked to the National Grid. Tenaga was awarded the project pursuant to a change in Malaysian Government policy to permit Tenaga to bid for IPP licenses on projects to be commissioned after 2000. See "— Development of IPPs" and "— Capital Expenditure Program — Power Generation". The project is scheduled to be fully completed by December 2004, and the total project cost is currently expected to be RM7.3 billion.

Other Malaysian Investments

On August 31, 2002, the book value of Tenaga's other Malaysian investments, excluding IPPs, was RM148 million.

Tenaga has made investments in six IPPs in the form of ordinary shares, preference shares or subordinated loan stock. Tenaga currently holds a 20% equity interest in four of these IPPs, a 4.4% equity interest in YTL Power International Bhd. and a 30% equity interest in a sixth IPP, SPSB. As of August 31, 2002, the book value of these investments was RM693 million. Tenaga's current intention is to dispose of these minority investments.

The following table shows certain information regarding Tenaga's investments in IPPs as of August 31, 2002:

IPP	Amount of Investment (In RM millions)	Equity Interest
Genting Sanyen Power Sdn. Bhd.	4.0	20.0%
Port Dickson Power Sdn. Bhd.	83.0	20.0%
Segari Energy Ventures Sdn. Bhd.	134.1	20.0%
Teknologi Tenaga Perlis Consortium Sdn. Bhd.	74.2	20.0%
YTL Power International Bhd. (2)	348.2	4.4%
Sepang Power Sdn. Bhd.	49.3	30% (1)

(1) Assumes completion of the disposition of a 40% equity interest by Tenaga that is expected to occur by December 2002.

(2) YTL Power International Bhd. owns a 100% equity interest in YTL Power Generation Sdn. Bhd., which is a party to power purchase agreements with Tenaga.

Sepang Power. On November 23, 2001, Tenaga entered into a conditional sale and purchase agreement with Malaysian Resources Corporation Berhad ("MRCB") for the acquisition of all of MRCB's 70% equity interest in Sepang Power Sdn. Bhd. ("SPSB") for a consideration of RM115 million. SPSB is a joint-venture company, which has been given a letter of award by the Economic Planning Unit to undertake the development of a 710 MW, combined-cycle power plant in the district of Kuala Langat, Selangor. This acquisition was completed on May 20, 2002. On May 21, 2002, Tenaga entered into a share sale agreement for the sale of a 40% equity interest in SPSB, or 400,000 of the 700,000 shares in SPSB purchased from MRCB on May 20, 2002, to Mastika Lagenda Sdn. Bhd. ("MLSB"), a 97.7%-owned subsidiary of Genting Berhad, for a proposed total consideration of RM66 million. The transfer of this 40% equity interest in SPSB is expected to occur, subject to receipt of approvals from all relevant parties and the satisfaction of certain other conditions, by December 2002.

Genting Sanyen. On April 26, 2002, Tenaga entered into a sale and purchase agreement for the sale of its 20% equity interest in Genting Sanyen Power Sdn. Bhd. ("GSP") to MLSB for a total consideration of

RM240 million. The sale and purchase agreement is subject to approvals from the relevant parties and is currently expected to be completed by December 2002. The sale and purchase agreement is part of negotiations between Tenaga and MLSB for the sale by Tenaga's of its 40% equity interest in SPSB to MLSB.

Fibrecomm. On June 28, 1995, Tenaga entered into a joint venture with Celcom Transmission Sdn. Bhd. and Malaysian Resources Corporation Bhd. to form Fibrecomm Network Sdn. Bhd. ("Fibrecomm"), pursuant to which a fiber-optic telecommunications network utilizing Tenaga's transmission and distribution infrastructure was to be constructed, owned, operated and maintained by Fibrecomm for the purpose of strengthening Tenaga's internal information technology operations. Tenaga has committed to invest approximately RM29 million in this project. On February 9, 2002, Tenaga entered into a conditional sale and purchase agreement with MRCB for the acquisition of MRCB's entire 20% equity interest in Fibrecomm. This acquisition was completed on August 26, 2002, resulting in Fibrecomm becoming a majority-owned subsidiary of Tenaga.

Kapar Energy. On July 31, 2000, Tenaga entered into a conditional asset sale agreement with Kapar Energy Ventures Sdn. Bhd. ("KEV") and Malakoff Berhad for the sale of its Kapar Power Station for a total consideration of RM6.3 billion, to be paid over a three-year period. On April 30, 2002, Tenaga, Malakoff Berhad and KEV executed a supplementary asset sale agreement and a supplementary power purchase agreement, pursuant to which Tenaga is to hold a 60% stake in KEV, with the remaining 40% stake held by Malakoff Berhad. The supplementary agreements further reduced the original purchase price to a single lump sum payment of RM4.2 billion, and reduced the average tariff payable to 10.62 Sen per kilowatt hour. The proposed transaction is expected to be completed by April 2003, subject to the satisfaction of certain conditions and approvals.

Other Investments. Tenaga also holds a 9% equity interest in Federal Power Sdn. Bhd. and a 55.2% equity interest in Tenaga Cable Industries Sdn. Bhd., both of which are engaged in the manufacture and sale of cables and electric conductors, and a 7% equity interest in Malaysian Technology Development Corporation Sdn. Bhd., which is engaged in promoting technology-based start-up companies in Malaysia by providing financing as well as management and technical support services.

International Investments

Tenaga owns, operates and maintains a 235 megawatt gas fired combined cycle power plant in Daharki, Province of Sindh, Pakistan, through its wholly-owned subsidiary Liberty Power Limited ("LPL"). The project was approved in July 1995 for construction of two 235 megawatt generation plants, but discussions relating to the construction of the second plant have been deferred. LPL's 25-year power purchase agreement with the Water & Power Development Authority of Pakistan began on LPL's commercial operation date, which occurred on September 10, 2001. The total project cost, comprising expenditure on property, plant and equipment through August 31, 2002, was US$392 million.

Due to the earlier uncertainties regarding LPL's gas supply agreement, finalization of the power purchase agreement and the delay in the commercial operation date for LPL, Tenaga made a provision of RM332 million for fiscal 2000, RM250 million for fiscal 2001 In fiscal 2002, Tenaga recorded a RM16 million write-back in connection with the investment in LPL. Since its commercial operation date, LPL has contributed approximately RM295 million to Tenaga's revenue for fiscal 2002. LPL is currently operating at full capacity.

Except for LPL, Tenaga currently does not have any other material international investments.

On July 20, 2001, in furtherance of its fuel diversification policy, Tenaga entered into a sale and purchase agreement for the purchase of a 70% equity interest in Dynamic Acres Sdn. Bhd. ("Dynamic Acres") for a total consideration of US$59.5 million. PT. Dasa Eka Jasatama, a 99%-owned subsidiary of Dynamic Acres, has been granted exclusive mining and marketing rights over all coal produced in certain concession areas in Kalimantan, Indonesia. The sale and purchase agreement is subject to approvals from the relevant parties and a satisfactory due diligence audit of Dynamic Acres by Tenaga. No assurances can be given at this time as to when, or if, this transaction will be completed.

Regulation

The Malaysian electricity supply industry is regulated by the Electricity Supply Act 1990 and the Electricity Supply (Amendment) Act 2001 (collectively, the "Electricity Supply Act") and the Energy Commission Act 2001 (the "Energy Commission Act"). The Electricity Supply Act empowers the Minister of Energy to establish the Energy Commission. Both the Electricity Supply Act and the Energy Commission Act prescribe the duties and functions of the Energy Commission, which include: (i) promoting the interest of consumers in respect of the prices to be charged and the continuity and quality of electricity supply; (ii) promoting competition in the generation and supply of electricity to, among other matters, ensure the optimum supply of electricity at reasonable prices; (iii) securing the ability of licensees to finance the carrying on of the activities which they are authorized by their licenses to carry on; (iv) licensing power facilities with the approval of the Minister of Energy; and (v) carrying out such other activities as may appear to the Energy Commission to be necessary, advantageous or convenient for the purpose of carrying out or in connection with the performance of his functions and duties under the Electricity Supply Act. In addition, the Energy Commission Act prescribes various functions of the Energy Commission, which include: (i) advising the Minister of Energy on all matters concerning the national policy objectives for energy supply activities, the generation, production, transmission, distribution, supply and use of electricity; (ii) regulating all matters relating to the electricity supply industry; (iii) promoting and safeguarding competition and fair and efficient market conduct or, in the absence of a competitive market, preventing the misuse of monopoly or market power in respect of the generation, production, transmission, distribution and supply of electricity; and (iv) protecting persons from dangers arising from the generation, production, transmission, distribution, supply and use of electricity. With effect from January 2, 2002, the role of the Director General in relation to, among other matters, the protection of consumer interests, the promotion of competition and the issue of licenses, has been assumed by the Energy Commission.

The Energy Commission comprises of a chairman, two members representing the Malaysian Government and between two to four other members appointed by the Minister of Energy. The functions and powers of the Energy Commission under the Energy Commission Act may be delegated by the Energy Commission to, among other bodies, a committee established by or an officer of the Energy Commission, except for the power to make subsidiary legislation. The Chairman of the Energy Commission also acts as the chief executive officer of the Energy Commission and is responsible for the overall administration and management of the functions, the day-to-day affairs of the Energy Commission and the general control of the other officers of the Energy Commission. The chief executive officer is vested with powers by the Energy Commission and his duties are determined by the Minister of Energy and the Energy Commission.

Tenaga holds a license that was issued on September 1, 1990 pursuant to Section 9 of the Electricity Supply Act. Under the terms of the license, Tenaga is required to ensure that there is sufficient generation at all times to meet the demands of power and energy, and to plan and design its transmission system capacity and distribution system in accordance with the regulations for transmission expansion or such other standards as Tenaga, with the concurrence of the Energy Commission, may adopt from time to time. The license allows Tenaga to supply energy throughout Malaysia, including interconnection arrangements with neighboring countries. Tenaga may impose such tariffs as are approved by the Minister of Energy from time to time. The Electricity Supply Act provides that in fixing tariffs and making agreements to supply electricity, Tenaga, as a licensee, cannot show undue preference or discrimination among customers and persons similarly situated having regard to the place and time of supply, the quantity of electricity supplied, the load and power factor and the purpose for which the supply is taken.

The following subsidiaries of Tenaga have also obtained a license under Section 9 of the Electricity Supply Act:

- TNB Generation was granted a 21-year license on September 1, 1997 to use, work and operate any electrical installations at designated sites in Peninsular Malaysia, and to supply energy to and for the use of Tenaga;
- TNB Janamanjung was granted a 21-year license on May 21, 1998 (to commence upon completion of its first generating unit) to use, work and operate any electrical installations to be constructed at Telok

Penchalang, Lekir, Manjung District in the State of Perak, Malaysia and any transmission and/or interconnection facilities, and to sell or supply energy to or for the use of Tenaga;

- Sabah Electricity was granted a 35-year license on August 26, 1998 to use, work and operate any electrical installations and to supply energy to or for the use of any other person from the installations; and

- TNB Hidro was granted a 21-year license on September 1, 2000 to use, work and operate any electrical installations at designated sites in Peninsular Malaysia, and to sell or supply energy to and for the use of Tenaga.

Except for the license granted to Sabah Electricity (which came into force on September 1, 1998), all the above licenses came into force on the date the licenses were granted.

Tenaga pays to the Energy Commission, directly or indirectly, annual license fees calculated based on forecasted maximum demand of consumption. However, for two of Tenaga's subsidiaries — TNB Generation and TNB Hidro — fees are based on kilowatts of installed capacity. Under the Electricity Supply Act, the license may be suspended or revoked by the Energy Commission at any time upon breach of any condition in the license by Tenaga or default in payment of any money due from Tenaga under the license, or if Tenaga ceases to work or operate the system in respect of which the license has been granted. The term of Tenaga's license is for a period of 21 years effective from September 1, 1990 and is subject to revocation on ten years' notice.

Under the licenses granted to TNB Generation, TNB Hidro, TNB Janamanjung and Sabah Electricity, each company is required to be cognizant of the Malaysian Government's policies, and in particular, Bumiputera equity participation. In addition, under the licenses granted to TNB Generation and Sabah Electricity, each of those companies is required to comply with the policies of the Malaysian Government relating to the electricity supply industry in the general conduct of their businesses and operations of their electrical installations at designated sites. TNB Janamanjung and TNB Hidro are further required to comply with the policies of the Malaysian Government on electricity production or usage and distribution in the general conduct of their business and operations of their electrical installations at designated sites.

The areas for rural electrification in Malaysia are identified by the Malaysian Government and the projects are financed by the Malaysian Electricity Supply Industry Trust Account (the "Trust Account"). The rural electrification program is a non-profit operation undertaken by Tenaga to support the Malaysian Government in its effort to improve the standard of living in the country, particularly in the villages of Peninsular Malaysia. Since the construction of the transmission lines and distribution system for the rural electrification program is substantially complete, Tenaga does not expect significant expenditures for the program in the future, and no projects are currently expected to be initiated in fiscal 2002. TNB Generation and the IPPs that have commenced operations are each required by the Malaysian Government to contribute up to 1% of their total annual audited turnover to the Trust Account to be used in part to operate and maintain the rural electrification system and to further increase the amounts and the frequency of supply of electricity supplied to rural areas. The Trust Account is also utilized to promote research and development projects, education and training, renewable sources of energy, energy efficiency and development and promotion of the electricity supply industry.

Tariff Structure

Under the terms of the Electricity Supply Act, the tariffs charged by Tenaga are required to be approved by the Minister of Energy. In considering any changes to the tariff structure of any licensee, the Energy Commission, in the course of advising the Minister of Energy, is directed under the Electricity Supply Act to take into account various factors, including promoting the interests of customers and securing the ability of licensees to finance the activities that they are authorized to conduct under their licenses. The Minister of Energy often exercises his authority in this regard in conjunction with informal consultations with various branches of the Malaysian Government. Although the Director General, the predecessor to the Energy

Commission, approved tariff increases in March 1996 and May 1997, there has been no subsequent increase in Tenaga's tariff rate.

Tenaga's average tariff rate in Malaysia for fiscal year 2002 was 23.5 Sen per kilowatt hour, which was substantially the same average rate that was charged by Tenaga since the last rate increase in May 1997. Set out below is the average tariff rates by customer class in Malaysia for each of the last five fiscal years through August 31, 2002.

	Fiscal Year Ended August 31,				
Customer Classification	1998	1999	2000	2001	2002
	(Sen per kWh)				
Industrial	21.4	21.7	21.6	21.4	21.4
Commercial	27.7	28.3	27.9	27.8	27.8
Domestic	23.1	23.1	23.1	23.2	23.3
Mining	14.9	14.7	14.4	14.3	14.4
Public Lighting	20.3	16.5	15.5	15.7	15.3
Weighted Average	23.5	23.8	23.5	23.5	23.5

With effect from July 1, 2000, Tenaga implemented a late payment surcharge of 1% per month on all outstanding customer electricity bills. This surcharge amounted to RM44.4 million for fiscal 2002, as compared to RM29.8 million for fiscal 2001.

A proposal for rate increase was forwarded by Tenaga to the Minister of Energy in December 2000. This proposal is being considered by the Minister of Energy.

Capital Expenditure Program

The following table sets forth Tenaga's capital expenditure in respect of generation, transmission, distribution and support services projects for each of the three fiscal years through August 31, 2002.

	Fiscal Year Ended August 31,		
	2000	2001	2002
	(Amounts in RM millions)		
Generation	1,967	2,267	1,639
Transmission	1,016	769	879
Distribution	1,813	1,590	1,664
Support Services	207	1,239	338
Total Capital Expenditure	5,003	5,865	4,520

Power Generation

Tenaga has four major power plant projects that are in differing stages of construction: TNB Janamanjung, Tuanku Jaafar Power Station, Kenyir II and Kedah. TNB Janamanjung is a 2,100 megawatt coal-fired plant located at Manjung, Perak Darul Ridzuan, which will help meet the growing demand for electricity in the central part of Peninsular Malaysia. At the Tuanku Jaafar Power Station, Tenaga is replacing an old generation plant with two new 750 megawatt gas-fired combined cycle units, which is expected to add the first 750 megawatts of generation capacity by July 2005. Kenyir II is expected to contribute 300 megawatts of generation capacity by late 2007. Tenaga also intends to build, in two phases, a power plant in Pulau Bunting, Kedah, to meet the growing demand for electricity in the northern part of Peninsular Malaysia. This plant is expected to contribute up to 700 megawatts of generation capacity by the end of fiscal 2008. In addition, as part of its on-going rehabilitation program of its older plants, Tenaga is currently converting its Gelugor plant from open cycle to combined cycle. This project is expected to be completed in December 2002, and the total project cost of this conversion is expected to be approximately RM618 million.

The following table shows the type, expected capacity and expected commission date of Tenaga's proposed generation plants.

Station	Source of Power	Unit	Planned Capacity	Expected Commission Date
			(Megawatts)	
Gelugor (conversion)	Combined Cycle - Gas	—	110	December 2002
TNB Janamanjung	Coal	Unit 1	700	April 2003
		Unit 2	700	April 2004
		Unit 3	700	December 2004
Tuanku Jaafar	Combined Cycle - Gas	Phase 1	750	July 2005
	Combined Cycle - Gas	Phase 2	750	Under review
Kenyir II	Hydro	—	2x150	September 2007
Kedah	Open Cycle - Gas	Phase 1	110	Mid-2006
	Combined Cycle - Gas	Phase 2	590	Under review

Capital expenditures for generation projects totaled RM2.3 billion in fiscal 2001, and RM1.6 billion for fiscal 2002. Total capital expenditures for all committed generation projects as of August 31, 2002, during the period from fiscal 2003 to fiscal 2005, including the Janamanjung plant, are expected to be RM7.2 billion, of which RM2.4 billion, RM2.9 billion and RM1.9 billion are expected to be spent in fiscal 2003, fiscal 2004 and fiscal 2005, respectively. Capital expenditures budgeted for all new generation projects, not yet committed to and specifically approved as of August 31, 2002, during the period from fiscal 2003 to fiscal 2005, amount to RM438 million, of which RM133 million, RM135 million and RM171 million have been budgeted to be spent in fiscal 2003, fiscal 2004 and fiscal 2005, respectively.

For information on the financial impact of Tenaga's capital expenditures in respect of power generation, see "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Transmission and Distribution System

Capital expenditures for transmission projects totaled RM769 million in fiscal 2001 and RM879 million in fiscal 2002. Total capital expenditures for all committed transmission projects as of August 31, 2002 for fiscal 2003, fiscal 2004 and fiscal 2005 are expected to be RM742 million, RM1.6 billion and RM1.1 billion, respectively. Capital expenditures budgeted for all new transmission projects not yet specifically committed to and approved as of August 31, 2002, during the period from fiscal 2003 to fiscal 2005, amount to RM251 million, of which RM203 million, RM10 million and RM38 million has been budgeted to be spent in fiscal 2003, fiscal 2004 and fiscal 2005, respectively.

Tenaga continues to expand its distribution system to meet the demands of new and existing customers. Tenaga spent RM1.6 billion on capital improvements to its distribution system during fiscal 2001, and RM1.7 billion for fiscal 2002. Total capital expenditures for all committed distribution projects as of August 31, 2002 for fiscal 2003, fiscal 2004 and fiscal 2005 are expected to be RM688 million, RM829 million and RM150 million, respectively. Capital expenditures budgeted for all new distribution projects not yet specifically committed to and approved as of August 31, 2002, during the period from fiscal 2003 to fiscal 2005, amount to RM3.7 billion, of which RM1.1 billion, RM1.0 billion and RM1.7 billion has been budgeted to be spent in fiscal 2003, fiscal 2004 and fiscal 2005, respectively. These capital expenditures will include reinforcing existing cables as well as upgrading substations and transformers.

Support Services

Capital expenditures on support services totaled RM1.2 billion in fiscal 2001 and RM338 million for fiscal 2002. Tenaga expects to spend RM1.2 billion on support services, including training, human resources, finance, legal, property and other support services, for fiscal 2003 to fiscal 2005. Capital expenditures budgeted for all new support service projects, not yet committed to and specifically approved, totaled RM437 million for the period from fiscal 2003 to fiscal 2005.

Development of IPPs

Since 1992, the Malaysian Government has licensed IPPs to generate electricity for use in Peninsular Malaysia. The licenses allow the IPPs producing electricity for use in Peninsular Malaysia to generate a stated amount of electricity, which must be sold to Tenaga.

The following table sets forth, for each of the IPPs that are licensed, or expected to be licensed, to generate electricity for use in Peninsular Malaysia, the source of power, installed generation capacity and the calendar year on which commercial operations began or are scheduled to begin.

IPP	Financial Year of Commission/Expected Year of Commission	Source of Power	Generating Capacity (MW)
YTL Power Generation Sdn. Bhd. (1)	1995	Combined Cycle-Gas	1,251
Powertek Sdn. Bhd. (1)	1995	Open Cycle-Gas	440
PD Power Sdn. Bhd. (1)	1995	Open Cycle-Gas	440
Genting Sanyen Power Sdn. Bhd. (1)	1995	Combined Cycle-Gas	710
Segari Energy Ventures Sdn. Bhd. (1)	1996	Combined Cycle-Gas	1,303
Pahlawan Power Sdn. Bhd. (1)	2000	Combined Cycle-Gas	330
GB 3 Sdn. Bhd. (1) (2)	2002	Open Cycle-Gas	429
Panglima Power Sdn. Bhd. (1) (2)	2002	Open Cycle-Gas	460
Prai Power Sdn. Bhd. (3)	2003	Combined Cycle-Gas	350
GB 3 Sdn. Bhd. (3) (4)	2003	Combined Cycle-Gas	211
Panglima Power Sdn. Bhd. (3) (4)	2003	Combined Cycle-Gas	260
TTPC Sdn. Bhd. (3)	2003	Combined Cycle-Gas	650
SKS Power Sdn. Bhd. (3) (4)	2006	Coal-Unit 1	700
	2007	Coal-Unit 2	700
	2007	Coal-Unit 3	700
Jimah Power Generation Sdn. Bhd. (5)	Under review	Coal-Unit 1	Under review
	Under review	Coal-Unit 2	Under review
Sepang Power Sdn. Bhd. (5)	As per system requirement.	Undecided	Undecided

(1) Currently operational.

(2) To be converted to combined cycle by 2003.

(3) Signed power purchase agreement but not yet operational.

(4) Under construction.

(5) Not yet under construction.

The eight IPPs that have begun commercial operations accounted for approximately 5,363 megawatts of generation capacity in Peninsular Malaysia as of August 31, 2002.

Tenaga has entered into a separate power purchase agreement on March 31, 1993, October 12, 1993, October 16, 1993, January 6, 1994, February 2, 1999, June 28, 2001 and July 16, 2001, respectively, with each of these eight IPPs. All of these power purchase agreements are for a period of between 21 to 25 years after the commencement of commercial operations. Tenaga's power purchase agreements with YTL Power Generation Sdn. Bhd. provides for the purchase of a minimum of 8,850,000 megawatt hours per annum at a fixed price. Tenaga has agreed with the remaining IPPs, subject to certain restrictions, to purchase dependable capacity at a fixed price (capacity charge) and to purchase the electricity despatched at variable prices pegged to operating, maintenance and fuel costs (energy charge).

Three additional IPPs are expected to begin commercial operations by 2006, subject to the need for further power capacity. These IPPs, along with Panglima Power Sdn. Bhd. and GB 3 Sdn. Bhd., which are expected to add a further 260 megawatts and 211 megawatts, respectively, of generating capacity in 2003, are expected to provide approximately 3,571 megawatts of additional generating capacity by the end of 2007. Tenaga has entered into a separate power purchase agreement with each of the three additional IPPs expected to begin commercial operations by 2006, namely Prai Power Sdn. Bhd., TTPC Sdn. Bhd. and SKS Power Sdn. Bhd., on August 8, 2000, May 26, 1998 and July 25, 2002, respectively.

Tenaga will be introducing DRS clauses in its power purchase agreements with future IPPs. DRS clauses are aimed at achieving a more favorable risk sharing balance between Tenaga and the IPPs in relation to sharing market risk. This is achieved by limiting the IPP fixed capacity payments to a negotiated portion of the IPPs' plant capacity. Payments for plant capacity in excess of the fixed amount are subject to the dispatched levels of the IPP. In its recent power purchase agreement with SKS Power Sdn. Bhd. entered into on July 25, 2002, Tenaga agreed to make capacity payments of 85% of a negotiated level of plant capacity. The remainder, termed as utilization payment, would be paid only if the power were dispatched. In previous power purchase agreements, Tenaga in line with accepted practice has made fixed capacity payments of 100% of the IPPs' plant capacity. Under the new power purchase agreement with SKS Power Sdn. Bhd., Tenaga only makes capacity payments with respect to the remaining 15% of plant capacity to the extent that the power is dispatched. A more favorable demand risk allocation between Tenaga and IPPs in future power purchases agreements, if achieved, should result in further cost savings for Tenaga.

Tenaga has invested in five of the IPPs currently producing electricity for consumption in Peninsular Malaysia in the form of ordinary shares, preference shares and subordinated loan stock. Tenaga currently holds a 20% equity interest in four of these IPPs, and a 4.4% equity interest in YTL Power Generation Bhd. As of August 31, 2002, Tenaga's book value with respect to these investments was RM693 million. Tenaga's current intention, however, is to dispose of these minority investments. In April 2002, Tenaga entered into a sale and purchase agreement for the sale of its 20% stake in Genting Sanyen Power Sdn. Bhd. to MLSB for a total consideration of RM240 million. The sale and purchase agreement is expected to be completed by December 2002. The sale and purchase agreement is part of a negotiation between Tenaga and MLSB involving the proposed sale of a 40% stake held by Tenaga in SPSB to MLSB for a proposed total consideration of RM66 million. See "— Other Malaysian Investments".

For information on the financial impact that the IPPs will have on Tenaga, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capacity and Reserve Margin".

Competition from Other Energy Sources

Tenaga expects that natural gas will continue to be increasingly used as an energy source in the industrial, commercial and domestic sectors. In particular, gas air conditioning in the commercial sector has been introduced in various load centers, such as the Kuala Lumpur International Airport and the Kuala Lumpur City Centre, and has been planned for operation in Putrajaya. Nevertheless, the use of natural gas is expected to have only a minimal impact on electricity consumption in Peninsular Malaysia, and is not expected to be a major direct competitor to electricity as an energy source. Natural gas will be available to end users in industrial and urban centers through the gas reticulation network at Klang Valley.

Environmental Matters

Tenaga's operations are subject to various environmental laws relating to water, air and noise pollution and the disposal of hazardous materials. Although Tenaga believes that it is in compliance in all material respects with these environmental laws, some risk of environmental costs and liabilities are inherent in its operations and there can be no assurance that material costs and liabilities will not be incurred in the future in this regard. Tenaga also complies with various environmental laws and regulations with respect to the expansion and development of its generating stations and transmission and distribution systems. There have not been any material delays resulting from compliance.

Tenaga has formulated its own environmental policy and is committed, by its stated goals, to "protecting, conserving and improving [the environment] in all its endeavors". In this regard, Tenaga has established its own detailed environmental requirements that include a program of pollution control and waste disposal management, environmental impact assessment studies, environmental monitoring and inspections, support for research and development directed to improving the quality of the environment and the promotion of environmental awareness among Tenaga's employees. Moreover, Tenaga's team of environmental specialists monitors and assesses any effluents and discharges emitted from Tenaga's power plants to ensure that such effluents and discharges are within the prescribed levels of the environmental standards stipulated by the Malaysian Department of Environment. Among other measures, Tenaga has recently adopted the use of XLPE cables for all its 132kV transmission cable to reduce oil pollution caused to the ground, and has replaced its halon-based fire suppression equipment with carbon dioxide and other more environmentally friendly fire suppression equipment.

Insurance

Tenaga holds insurance policies with third parties covering various risks, including fire, flood, civil disturbance, business interruption and property damage at each of its production facilities, and public liability, directors and officers liability and employees liability insurance. Tenaga believes that its insurance policies are adequate for its continued operations. Tenaga does not, however, hold insurance policies for material damage to its transmission and distribution lines and its submarine cables. See "Risk Factors — Risks Related to Tenaga's Business and the Electricity Industry in Malaysia — As a result of developments in the United States, and the adverse impact those events have had on the insurance industry world wide, Tenaga may be forced to pay substantially higher premiums in the future in respect of its insurance policies with third parties, and may experience increased difficulties in obtaining or renewing those insurance policies".

Employees

Fiscal 2002

As of August 31, 2002, Tenaga had a total of approximately 23,600 employees, approximately 2,500 of whom were engaged in power generation activities, approximately 1,700 of whom were engaged in transmission activities, approximately 15,000 of whom were engaged in distribution activities, approximately 1,600 of whom were engaged in corporate support services (human resource, finance and corporate affairs), approximately 1,050 of whom were engaged in engineering services, approximately 1,300 were in logistics and support and approximately 520 were in education and research. In addition approximately 2,700 employees were employed by Tenaga's majority owned subsidiaries.

As of August 31, 2002, approximately 17,600 of Tenaga's employees were members of either the TNB Junior Officers Union, the Amalgamated TNB Employees Union or the TNB Executive Association. Tenaga considers its relationship with its union to be good. In 1999, Tenaga entered into a new collective agreement with these three unions. The agreement, originally effective from January 1, 1999 to December 31, 2001, currently remains effective until a new collective agreement is executed, which Tenaga currently expects to occur in late 2002.

Fiscal 2001

As of August 31, 2001, Tenaga together with its wholly-owned and majority owned subsidiaries have a total of approximately 25,700 employees. Of this total, approximately 1,650 were engaged in power generation activities, approximately 14,200 were engaged in distribution activities, approximately 1,450 were engaged in transmission activities and the rest in various subsidiary operations and holding company activities.

As of the same date, approximately 17,600 of Tenaga's employees were members of either the TNB Junior Officers Union, the Amalgamated TNB Employees Union or the TNB Executive Association.

Fiscal 2000

As of August 31, 2000, Tenaga together with its wholly-owned and majority owned subsidiaries have a total of approximately 26,000 employees. Of this total, approximately 2,700 were engaged in power generation activities, approximately 15,600 were engaged in distribution activities, approximately 1,700 were engaged in transmission activities and the rest in various subsidiary operations and holding company activities.

As of the same date, approximately 17,600 of Tenaga's employees were members of either the TNB Junior Officers Union, the Amalgamated TNB Employees Union or the TNB Executive Association.

Legal Proceedings

Other than as disclosed below, Tenaga currently is not involved in any material legal proceedings.

In February 2002, UBS Warburg commenced proceedings against Tenaga in the High Court in London in respect of Tenaga's termination in September 2001 of two option agreements that Tenaga entered into with UBS Warburg in 1997 in conjunction with a issue of US$500 million 7.625% Notes due April 29, 2007. Under these options, UBS Warburg had the right to require Tenaga to issue up to US$500 million of 20-year notes in 2007. UBS Warburg claims that Tenaga is liable for a liquidated sum of approximately US$86.94 million in respect of the termination of the options.

Based on legal advice received from counsel handling these proceedings, Tenaga denies liability in full and has filed a defence and counterclaim on May 3, 2002, to which UBS Warburg replied on July 1, 2002. Tenaga is satisfied that the outcome of the case will not have a material adverse effect on its financial condition and results of operations.

MANAGEMENT

Directors

Under Malaysian law, the Board of Directors is entrusted with the responsibility for the overall management of Tenaga. The Malaysian Government, by virtue of the rights invested in the Special Share, can appoint up to six of the maximum 12 Directors on Tenaga's Board of Directors, including the Chairman of the Board of Directors. As of September 30, 2002, Tenaga's Board of Directors consisted of 12 Directors and three alternate Directors. Six of the Directors were appointed by the Minister of Finance Incorporated, as holder of the sole Special Share, and the remainder were elected by the shareholders. Other than the Chairman of the Board of Directors, who is not subject to retirement by rotation while in the possession of executive powers, all Directors are subject to retirement by rotation.

Tenaga's Articles of Association permit a Director to appoint an alternate Director to act in place of such Director be unable to perform his or her duties as a Director for a period of time. Under Malaysian law, the alternate Director is not merely an agent but is accountable to Tenaga for his or her actions as Director during the period for which he or she acts as alternate Director.

Set out below are the current Directors of Tenaga as at September 30, 2002 and the year they each became a Director:

Name	Position	Age	Year Appointed as Director
Dato' Dr. Jamaludin bin Dato' Mohd Jarjis	Chairman	51	2000(1)
Dato' Pian bin Sukro @ Sukoro	Director	54	2001(1)
Datuk Zainun Aishah binti Ahmad	Director	55	1995(1)
Dato' Lau Yin Pin @ Lau Yen Beng	Director	53	1990
Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak	Director	69	1994
Dato' Hari Narayanan a/l Govindasamy	Director	51	1995
Datin Husniarti binti Tamin	Director	53	2000(1)
Hajjah Kamariah binti Hussain	Alternate	53	2000
Datuk Dr. Halim bin Shafie	Director	53	2001(1)
Dato' Syed Hamzah bin Syed Othman	Alternate	54	2001
Dato' Hamzah bin Bakar	Director	58	2001
Datuk Wira Iskandar Dzakurnain bin Badarudin	Director	55	2001(1)
Raja Dato' Zaharaton binti Raja Zainal Abidin	Alternate	53	2001
Dato' Shaziman bin Abu Mansor	Director	38	2001
Datin Paduka Hajjah Seripah Noli binti Syed Hussin	Director	45	2002

(1) Appointed by the holder of the Special Share.

Biographies of Directors

Dato' Dr. Jamaludin bin Dato' Mohd Jarjis. Dato' Dr. Jamaludin was appointed as Non-Executive Chairman of Tenaga in 2000. He holds a Bachelors degree in Science (Electrical Engineering) from the University of Manchester, Institute of Science and Technology, a Masters of Science in Electrical Engineering from the University of Manitoba and a Ph.D in Electrical Engineering (Power Systems) from McGill University. Prior to joining Tenaga, he was a lecturer at Universiti Teknologi Malaysia (UTM), and later formed J&A Associates, a mechanical and electrical engineering consultancy firm before acquiring EPE Power Corporation Bhd. in 1986. He later resigned as Executive Vice Chairman of EPE Power Corporation Bhd. upon his appointment as Deputy Chairman of Tenaga. In addition to his current role with Tenaga, Dato' Dr. Jamaludin holds the position of Chairman of the Public Accounts Committee in the Malaysian Parliament and Chairman of the Back Benchers Club.

Dato' Pian bin Sukro @ Sukoro. Dato' Pian bin Sukro @ Sukoro was appointed a Non-Independent Executive Director to the Board of Tenaga in 2001. Dato' Pian bin Sukro is currently the President/Chief Executive Officer of Tenaga. He holds a Bachelors degree in Science with Honors from CNAA and a Masters degree in Science with Honors from the University of York;. Dato' Pian bin Sukro also holds a Chartered Engineer (C Eng.), and is a member of the Institute of Electrical Engineers, United Kingdom (MIEE(UK)), a member of the Institute of Engineers, Malaysia (MIEM(Malaysia)) and a member of Professional Engineers, Malaysia (P.Eng(Malaysia)). He has formerly held other senior positions at Tenaga, such as Senior Planning Engineer, Deputy Chief Engineer (Generation Projects), Assistant General Manager (New Business), Deputy General Manager (Strategic Management), Vice President (Corporate Planning and Business Development) and Vice President (Ventures). Dato' Pian bin Sukro has also undertaken various functions for other groups and organizations, including the Ministry of Energy, Communications and Multimedia, ASEAN, International Atomic Energy Agency, World Energy Council, Asian Development Bank and the World Bank.

Datuk Zainun Aishah binti Ahmad. Datuk Zainun Aishah binti Ahmad was appointed an Independent Non-Executive Director to the Board of Tenaga in 1995. She holds an Honors degree in Economics from Universiti Malaya. She is the Director General of the Malaysian Industrial Development Authority (the "MIDA"), the Malaysian Government's principal agency for the promotion and coordination of industrial development. In over 30 years of public service, she has held various key positions in the MIDA as well as in some of Malaysia's strategic councils, including as National Project Director involved in the formulation of Malaysia's First Industrial Master Plan and a member of the Industrial Co-ordination Council responsible for the implementation of the Second Industrial Master Plan. Datuk Zainun Aishah is also a member of the Industrial Coordination Act Advisory Council and the National Competitiveness Business Council.

Dato' Lau Yin Pin @ Lau Yen Beng. Dato' Lau Yin Pin @ Lau Yen Beng was appointed an Independent Non-Executive Director to the Board of the National Electricity Board in 1988 and to the Board of Tenaga in 1990. He obtained a Diploma in Commerce from Tunku Abdul Rahman College. He has been a member of the Chartered Association of Certified Accountants, United Kingdom, and the Institute of Chartered Secretaries and Administrators, as well as a Chartered Accountant of the Malaysian Institute of Accountants. He is also a Director on the Board of YTL Power International Bhd. and YTL e-Solutions Berhad, which are both listed on the KLSE, and is the Chairman of Matang Holdings Berhad and Koperasi Serbaguna Malaysia Berhad.

Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak. Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak was appointed to the Board of Tenaga in 1994. He holds an LL.B (Honors) degree from the University of London and is a Barrister-at-Law, Lincoln's Inn. He also holds a Corporate Masters Degree in Business Administration from Ohio University. He is an advocate and solicitor and a director of several companies, including Liberty Power Limited, TNB Generation Sdn. Bhd., Tenaga Switchgear Sdn. Bhd. and TNB Janamanjung Sdn. Bhd. He was formerly the President of the Malaysian Senate from December 1990 to March 1992.

Dato' Hari Narayanan a/l Govindasamy. Dato' Hari Narayanan a/l Govindasamy was appointed to the Board of Tenaga in 1995. He holds a Bachelor's degree in Electrical and Electronic Engineering from the Polytechnic of Newcastle-upon-Tyne. He serves as a director of several public companies, including Puncak Niaga Holdings Berhad and SP Setia Berhad. He is a member of the Institute of Engineers, Malaysia and a Registered Professional Engineer with the Board of Engineers Malaysia.

Datin Husniarti binti Tamin. Datin Husniarti binti Tamin was appointed a Non-Independent Non-Executive Director of Tenaga representing the Ministry of Finance in 2000. She holds an Honors degree in Economics from University Malaya and a Masters degree in Business Administration from University of Oregon. She was formerly the Director of Energy Section in the Economic Planning Unit. She is currently the Deputy Secretary General, Treasury (System & Control), Ministry of Finance.

Hajjah Kamariah binti Hussain. Hajjah Kamariah binti Hussain was appointed to the Board of Tenaga as an Alternate Director to Datin Husniarti binti Tamin in 2000. Hajjah Kamariah is currently the Secretary of the Tax Analysis Division of the Treasury. She holds an Honors degree in Economics from University of

Malaya and a Masters degree in Public Administration from Pennsylvania State University. Her previous engagements were as Deputy Secretary, Tax Analysis Division (Revenue) in the Treasury and Secretary of the Government's Procurement Management Division, Ministry of Finance. Hajjah Kamariah is also a Director of Asian Supply Base Sdn. Bhd., Malaysia-Thailand Joint Authority, Malaysian Industrial Development Authority, Perbadanan Putrajaya and TNB Generation Sdn. Bhd.

Datuk Dr. Halim bin Shafie. Datuk Dr. Halim bin Shafie was appointed as a Non-Independent Non-Executive Director to the Board of Tenaga in 2001. He holds an Honors degree in Economics from the University of Malaya, a Masters degree in Public and International Affairs from the University of Pittsburgh, and a Certificate in Advanced Management from Harvard Business School. He also holds a Ph.D degree in Information Transfer from Syracuse University. Datuk Dr. Halim formerly held various senior positions such as Assistant Secretary, Ministry of Education; Senior Research Officer, National Institute of Public Administration ("INTAN"); Programme Coordinator, National Computer Training Centre at INTAN; Director Information Technology, Malaysian Administrative Modernisation and Management Planning Unit; Director of INTAN; and Deputy Secretary General 1, Communications and Multimedia Sector of the Ministry of Energy. Datuk Dr. Halim is currently a Director of Telekom Malaysia Berhad, Pos Malaysia Berhad, Pusat Tenaga Malaysia, and Multimedia University. He is also currently Chairman of Lembaga Elektrik Sabah and Secretary General in the Ministry of Energy, Communications and Multimedia.

Dato' Syed Hamzah bin Syed Othman. Dato' Syed Hamzah bin Syed Othman was appointed to the Board of Tenaga as an Alternate Director to Datuk Dr. Halim bin Shafie in 2001. He holds an Honor's degree in Economics from the Universiti Malaya. He is currently Deputy Secretary General II at the Ministry of Energy, Communications and Multimedia. He has held many senior positions in the Malaysian civil service, including Malaysian Trade Commissioner to Kuwait, Iran and Iraq, Director of the Export Trade Centre, Ministry of Trade and Industry, Secretary of the Air Division, Ministry of Transport and Alternate Director on the Board of the Kuala Lumpur International Airport Berhad. He is also a Director of Sabah Electricity Sdn. Bhd. and Sarawak Hidro Sdn. Bhd. and an Alternate Director of Pusat Tenaga Malaysia.

Dato' Hamzah bin Bakar. Dato' Hamzah bin Bakar was appointed to the Board of Tenaga in 2001. He has an Honors degree in Economics from Queen's University of Belfast and Masters degree in Public Policy and Administration in Development Economics from the University of Wisconsin. Dato' Hamzah has held various senior positions of responsibility, including as Executive Director of Petronas and CEO of KLCC Holdings Sdn. Bhd. Dato' Hamzah currently holds directorships in iPerintis Sdn. Bhd., MISC Berhad, Commerce International Merchant Bankers Berhad and Renong Berhad.

Datuk Wira Iskandar Dzakurnain bin Badarudin. Dato' Iskandar Dzakurnain bin Badarudin was appointed as a Non-Independent Non-Executive Director to the Board of Tenaga in 2001. Dato' Iskandar holds an Honors degree in Economics from University of Malaya and a Masters degree in Business Administration from Cornell University. He is currently Director General of the Economic Planning Unit. He has served as Assistant Secretary, Economic Planning Unit; Assistant/Senior Assistant Secretary of the Implementation Coordination Development Administration Unit; Senior Assistant Secretary/Director, Tax Analysis and Budget Division in the Treasury; General Manager, Malacca State Development Corporation and Penang Development Corporation; and Secretary General, Ministry of Culture, Arts and Tourism. He also sits on the board of several other companies, including Petronas, Khazanah Nasional Berhad, DRB Hicom Berhad, Putrajaya Holdings Sdn. Bhd. and Rangkaian Hotel Seri Malaysia Sdn. Bhd.

Raja Dato' Zaharaton binti Raja Zainal Abidin. Raja Dato' Zaharaton binti Raja Zainal Abidin was appointed to the Board of Tenaga as an Alternate Director to Dato' Iskandar Dzakurnain in 2001. She holds a degree in Economics from University of Malaya and a Masters degree in Economics from the University of Leuven. She is currently the Deputy Director General (Sectoral) of the Economic Planning Unit. She was formerly Assistant Director, External Aid Section of the Economic Planning Unit; Principal Assistant Director, Industries Division, Ministry of International Trade and Industry, and Deputy Director, Public Enterprises Sector, Implementation Coordination Unit. She also served as Deputy Director, Unit for Monitoring Government Companies in the Treasury; Director, Trade and Industry Division, Economic

Planning Unit; and as Deputy Director General (Macro), Economic Planning Unit. Raja Dato' Zaharaton is also a Director of UDA Holdings Berhad.

Dato' Shaziman bin Abu Mansor. Dato' Shaziman bin Abu Mansor was appointed as a Independent Non-Executive Director to the Board of Tenaga in 2001. He holds a Bachelor of Science degree in Civil Engineering from Tri-State University, Indiana and a Diploma in Civil Engineering from Universiti Teknologi Malaysia. He began his career as a Management Executive at Aokam Tin Bhd. and Malaysian Assurance Alliance, and subsequently became Chairman of Inter Builders Sdn. Bhd. As a business entrepreneur, he is also involved in the fabrication of steel products for the oil and the gas industry.

Datin Paduka Hajjah Seripah Noli Binti Syed Hussin. Datin Paduka Hajjah Seripah Noli Binti Syed Hussin was appointed as an Independent Non-Executive Director to the Board of Tenaga in 2002. She obtained a Certificate in Finance Management from Swinburne University and holds a degree in Business Administration from Western Michigan University. Datin Paduka Hajjah Seripah Noli was appointed director of Kumpulam Perangsang Selangor Berhad in 1995 and subsequently director of Brisdale Holding Berhad, Lembaga Tabung Haji and TH Technologies Sdn. Bhd. She also a trustee of Yayasan Selangor.

Executive Officers

Set out below are the current executive officers of Tenaga as of September 30, 2002, and the year they each became an executive officer:

Name	Position	Year Appointed to Current Position
Dato' Pian bin Sukro @ Sukoro	President/CEO	2002
Dato' Tengku Mahmood Bin Tengku Hamid	Vice President, Logistic Support	2001
Mohd Zainal Azirun	Vice President, Transmission	2001
Datuk Md. Sidek Bin Ahmad	Vice President, Corporate Planning, Development & Services	2001
Datuk Ab Hadi Bin Md. Deros	Vice President, Generation	2001
Tuan Haji Shafie Bin Mat Zain	Vice President, Engineering Services	2001
Dato' Engku Hashim Al-Edrus Engku Pengiran Anum	Vice President, Distribution	2002
Datin Azizah binti Osman	Vice President, Human Resource	2002
Tuan Haji Nik Ibrahim bin Nik Mohamed	Acting Vice President, Finance	2002
Zainal Abidin bin Yunus	Company Secretary	2002

Executive Officers serve at the discretion of the Board of Directors.

Committees

Tenaga and its Board of Directors have formed various committees to enhance the overall level of corporate governance at Tenaga, as well as to comply with the recently revamped listing requirements of the KLSE that call for publicly listed companies in Malaysia to adhere to basic principles and best practices of corporate governance. A description of Tenaga's principal committees is set out below.

Audit Committee. In line with the recently revamped listing requirements of the KLSE and the terms of reference of Tenaga's audit committee, the audit committee has oversight responsibility for, among other matters: (i) corporate governance and transparency in the decision making process; (ii) management and financial accountability; (iii) efficiency of technical operations; (iv) effectiveness of resource allocation and utilization; and (iv) adequacy and effectiveness of internal control systems.

The audit committee reviews Tenaga's businesses on a regular basis. In order to fulfill its responsibilities, the audit committee focuses its attention on key aspects of business operations that have a significant impact on Tenaga's profitability and its position as a national utility company. Among the key concerns of Tenaga's management in the business activities and operations of Tenaga that have been reviewed by the audit committee are: (i) the effectiveness of managing major capital projects in terms of quality and cost; (ii) management and performance of core business functions with special emphasis on the quality and reliability of electricity supply to customers; (iii) evaluation of tenders and awarding of contracts; (iv) appointment of consultants; (v) investments by Tenaga in overseas ventures; (vi) external funding; (vii) controls related to cash collections; and (viii) delays in payments made to contractors and suppliers. Throughout these reviews, the audit committee has brought about a significant change in the level of awareness and division of responsibility among senior managers and employees of Tenaga.

During fiscal 2001, the audit committee held 13 meetings to review the reports submitted by Tenaga's internal audit department. Some of these meetings were held at the regional offices to ensure better understanding of the issues and problems at ground level and to ensure prompt action was taken by the management to improve efficiency of Tenaga's operations and the quality of its service to customers. The audit committee also held regular meetings with Tenaga's external auditors to obtain independent feedback on Tenaga's financial performance. The internal audit department also carries out audits of Tenaga's core business units as well as its subsidiaries. The audits have focused on: (i) assessing the effectiveness of the systems of internal control throughout Tenaga and its subsidiaries; (ii) assessing the effectiveness of risk management practices utilized by Tenaga; (iii) assessing the utilization of resources in ensuring effectiveness, efficiency and economy of Tenaga's operational and management processes; and (iv) ensuring corporate governance, accountability and transparency in Tenaga's management decision making process.

The internal audit department submitted 52 audit reports to the audit committee for review in fiscal 2001. The audits covered several areas, including: (i) reliability of supply; (ii) operational efficiency; (iii) award of tenders; (iv) project implementation; (v) metering, billing and revenue collection; and (vi) funding. The internal audit department also coordinated the management and engineering audit of Tenaga that was undertaken in fiscal 2001 by an independent consultant in accordance with the requirements of the license issued by the Director General. The report has been submitted to the Minister of Energy.

In compliance with the best practices in corporate governance, with effect from October 16, 2001, the audit committee's members are all Independent Non-Executive Directors. This underscores the full independence of the audit committee. The audit committee is comprised of Dato' Lau Yin Pin @ Lau Yen Beng (chairman), Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak, Dato' Hari Narayanan a/l Govindasamy and Datin Paduka Hajjah Seripah Noli Binti Syed Hussin.

Corporate Governance Committee. The corporate governance committee was established in May 2001 to provide oversight and to ensure the practice of good corporate governance within Tenaga. The corporate governance committee is comprised of the following Independent Non-Executive Directors: Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak (chairman), Dato' Pian bin Sukro @ Sukoro, Dato' Lau Yin Pin @ Lau Yen Beng, Datuk Zainun Aishah binti Ahmad, Dato' Hari Narayanan a/l Govindasamy and Datin Paduka Hajjah Seripah Noli Binti Syed Hussin.

Nomination and Remuneration Committee. The nomination and remuneration committee is responsible for: (i) reviewing the Board composition and recommending to the Board appointments of new Directors and committees for Tenaga and its subsidiaries; (ii) evaluating the effectiveness of the Board, committees and the contributions of each individual Director; (iii) determining the level and make-up of Executive Directors' remuneration to ensure that Tenaga attracts and retains Directors of the necessary caliber, experience and quality; (iv) developing policies and recommending proposals appropriate to facilitate the recruitment and retention of Directors, Executive Directors, and senior management; and (v) reviewing the President's, Chief Executive Officer's and Executive Directors' objectives and goals and the assessment of their performance. The assessment criteria and processes are currently being developed for individual Directors, committees and the Board. All Directors are expected to be subject to the same assessment criteria and process.

In addition, the Board of Directors, through the nomination and remuneration committee, will review annually its required mix of skills and experience and other qualities including core competencies which Non-Executive Directors should bring to the Board. The nomination and remuneration committee is comprised of

Dato' Dr. Jamaludin bin Dato' Mohd Jarjis (chairman), Datuk Dr. Halim bin Shafie, Datuk Wira Iskandar Dzakurnain bin Badarudin, Datuk Zainun Aishah binti Ahmad, Dato' Hari Narayanan a/l Govindasamy, Dato' Syed Hamzah Bin Syed Othman and Raja Dato' Zaharaton binti Raja Zainal Abidin.

Finance and Investment Committee. The finance and investment committee is responsible for reviewing the annual and any supplementary budgets and recommending the same to the Board for their approval. The finance and investment committee is also responsible for reviewing and monitoring quarterly progress reports on financial performance, capital budgets and investments, monthly management reports, treasury management and commercial policies. In addition, the finance and investment committee reviews and recommends new investment proposals to the Board. The finance and investment committee is comprised of Dato' Dr. Jamaludin bin Dato' Mohd Jarjis (chairman), Datin Husniarti binti Tamin, Datuk Dr. Halim bin Shafie, Datuk Wira Iskandar Dzakurnain bin Badarudin, Datuk Zainun Aishah binti Ahmad, Dato' Hamzah bin Bakar, Dato' Pian bin Sukro @ Sukoro, Dato' Syed Hamzah Bin Syed Othman, Raja Dato' Zaharaton binti Raja Zainal Abidin and Hajjah Kamariah binti Hussain.

Tender Committee. The tender committee is responsible for the formulation and review of policies, procedures, and the award of contracts for materials, equipment, works and services. Contracts above certain limits are required to be approved by the Board and the Ministry of Finance where appropriate. Other tender decisions are delegated to various management tender committees for approval in accordance with authority limits. The tender committee is comprised of Datin Husniarti binti Tamin (chairman), Datuk Dr. Halim bin Shafie, Datuk Zainun Aishah binti Ahmad, Dato' Pian bin Sukro @ Sukoro, Dato' Lau Yin Pin @ Lau Yen Beng, Dato' Shaziman bin Abu Mansor, Dato' Syed Hamzah Bin Syed Othman and Hajjah Kamariah binti Hussain.

Planning and Development Committee. The planning and development committee is responsible for planning and developing all power projects including those related to generation, transmission and distribution of power both locally and internationally, and monitoring the implementation and progress of key projects, asset development and ventures. The planning and development committee is comprised of Dato' Dr. Jamaludin bin Dato' Mohd Jarjis (chairman), Datin Husniarti binti Tamin, Datuk Dr. Halim bin Shafie, Datuk Wira Iskandar Dzakurnain bin Badarudin, Datuk Zainun Aishah binti Ahmad, Dato' Pian bin Sukro @ Sukoro, Dato' Syed Hamzah Bin Syed Othman, Raja Dato' Zaharaton binti Raja Zainal Abidin and Hajjah Kamariah binti Hussain.

Disciplinary Committee. The disciplinary committee handles management disciplinary cases and reports to the Board on decisions made where appropriate. The disciplinary committee is comprised of Datuk Zainun Aishah binti Ahmad (chairman), Datin Husniarti binti Tamin, Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak, Dato' Hamzah bin Bakar and Hajjah Kamariah binti Hussain.

Establishment Committee. The establishment committee is responsible for reviewing the organization structure, salary and terms of services and succession and promotion of executives and recommendations with respect to the same to the Board. The establishment committee approves appointments to executive positions, secondment of employees and extension of services for retired employees, up to a certain grade, above which approval is required from the Board. The establishment committee is comprised of Dato' Dr. Jamaludin bin Dato' Mohd Jarjis (chairman), Datuk Dr. Halim bin Shafie, Datin Husniarti binti Tamin, Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak, Dato' Pian bin Sukro @ Sukoro, Dato' Syed Hamzah Bin Syed Othman and Hajjah Kamariah binti Hussain.

Entrepreneur Development Committee. The entrepreneur development committee is responsible for overseeing the development of Tenaga's Entrepreneur Development Programme and ensuring the efficient implementation of its guidelines, procedures and policies and recommendations with respect to the same to the Board. The Entrepreneur Development Programme is aimed at nurturing the business potential of selected Bumiputera entrepreneurs by providing training, technical support and business opportunities within Tenaga's group of companies, with the objective of facilitating the independent operation of the participating companies in the open market. The entrepreneur development committee is comprised of Dato' Dr. Jamaludin bin Dato' Mohd Jarjis (chairman), Datuk Zainun Aishah binti Ahmad, Dato' Pian bin Sukro @ Sukoro, Dato' Shaziman bin Abu Mansor, Datin Paduka Hajjah Seripah Noli binti Syed Hussin, Hajjah Kamariah binti

Hussain, Datin Husniarti binti Tamin, Datuk Ab Hadi Bin Md. Deros, Datuk Md. Sidek Bin Ahmad, Datin Azizah binti Osman, Mohd Zainal Azirun and Tuan Haji Abdul Aziz Ismail.

Compensation

For the fiscal year ended August 31, 2002, the aggregate amount of remuneration paid and accrued to the Directors and executive officers as a group was approximately RM2.8 million.

Employee Share Option Scheme

Tenaga implemented an employees' share option scheme in May 1992, which expired on May 11, 2002. Under this scheme, directors, employees and retired employees of Tenaga were granted options to subscribe for the Shares, at an exercise price determined based on the average price of the Shares on the KLSE for the five market days preceding the date of the offer. Tenaga may implement a new scheme to replace the scheme that has expired.

SHARE OWNERSHIP

As of October 31, 2002, the Malaysian Government and related entities owned, directly or indirectly, approximately 85% of the Shares and the sole Special Share of Tenaga, with the Minister of Finance Incorporated, Khazanah Nasional Berhad and Bank Negara Malaysia collectively owning approximately 64% of Tenaga's outstanding ordinary shares. The remainder of the ordinary share capital of Tenaga is held by public shareholders. Accordingly, the Malaysian Government exercises effective control of the management of Tenaga and its subsidiaries, though certain of the government shareholders are distinct corporate entities or pension funds that may or may not vote in accordance with one another or, more generally, in accordance with Malaysian Government policy.

As of October 31, 2002, no other shareholder owned, directly or indirectly, 5% or more of the ordinary share capital of Tenaga.

As of October 31, 2002, the Directors and executive officers of Tenaga as a group owned approximately 14,000 Shares, representing less than 0.1% of Tenaga's ordinary share capital.

RELATED PARTY TRANSACTIONS

"Related party transactions" is defined in the Listing Requirements of the KLSE (the "Listing Requirements") as transactions entered into by a listed issuer or its subsidiaries which involve the interest, direct or indirect, of a related party. A related party has been further defined by the Listing Requirements as "a director, major shareholder (i.e., a shareholder holding not less than 5% of the issued shares of the listed issuer) or a person connected with such director or major shareholder," including a person who was a director, major shareholder or person connected with such director or major shareholder within the preceding 12 months before the transaction was entered into. As part of its operations, there are necessarily numerous related party transactions entered into between Tenaga and parties deemed as being related to it. As a company listed on the KLSE, Tenaga is obliged to adhere to certain Listing Requirements in relation to related party transactions, which include the following:

Recurrent Related Party Transactions of a Revenue or Trading Nature

In relation to recurrent related party transactions of a revenue or trading nature necessary for Tenaga's day-to-day operations, where the consideration, value or cost is equal to or exceeds RM1.0 million, or any of the percentage ratios as stipulated in the Listing Requirements is equivalent to or exceeds 1%, whichever is the lower, Tenaga is required to make an announcement to the KLSE. Where any of the said percentage ratios are equal to or exceed 5%, Tenaga is required to issue a circular to its shareholders, obtain specific shareholders' approval for the transaction and appoint an independent adviser to advise its shareholders, in particular, that the transaction is not to the detriment of minority shareholders. Where the percentage ratio is equal to or exceeds 25%, Tenaga is required to appoint a main adviser in addition to the independent adviser discussed above. Tenaga's shareholders who are interested in a related party transaction and persons connected to them or to the interested directors may not vote on any resolution approving such a transaction. However, if Tenaga has obtained a shareholders' mandate at a general meeting to enter into the related party transaction, the requirement for the issue of a circular, obtaining specific shareholders' approval and the appointment of an independent adviser as stated above need not be complied with.

In respect of transactions occurring during the period beginning June 1, 2001 until the next annual general meetings of all companies listed on the KLSE, such companies were required to obtain the relevant shareholders' mandate by June 30, 2002.

On June 28, 2002, Tenaga applied to the KLSE to obtain a further extension of time until its next general meeting to obtain the shareholders' mandate with respect to the period beginning June 2001 and ending December 30, 2002. On August 8, 2002, Tenaga received KLSE approval for this extension.

Transactions Not of a Revenue or Trading Nature

Tenaga is required to make an announcement of all related party transactions it enters into. These announcements must contain full details of the said transaction. In addition, where any of the percentage ratios in a related party transaction is equal to or exceeds 5%, Tenaga will also be required to send an explanatory circular to its shareholders, appoint an independent adviser for its shareholders and seek shareholders' approval for the transaction at a general meeting. If any of the percentage ratios in a related party transaction is equal to or exceeds 25%, Tenaga will be required to carry out all of the above and in addition appoint a main advisor to Tenaga for the transaction. Similarly, shareholders of Tenaga who are interested in a related party transaction may not vote on any resolution approving such a transaction. In addition, a director with any interest, direct or indirect, must abstain from board deliberation and voting on the relevant resolution in respect of the related party transaction.

DESCRIPTION OF THE BONDS

The Bonds are to be issued under an indenture, to be dated as of November 20, 2002 (the "Indenture"), among the Issuer, Tenaga and JPMorgan Chase Bank, as trustee (the "Trustee"), for the Bondholders. The following summary of certain provisions of the Bonds and the Indenture does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the Bonds and the Indenture, including the definitions of certain terms therein. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available to any prospective Bondholder on or after the Original Issue Date (as defined herein) at the corporate trust office of the Trustee during normal business hours.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for the full definition of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"Affiliate" means, with respect to any Person (the "Specified Person"), any Person other than the Specified Person directly or indirectly controlling, controlled by or under direct or indirect common control with, the Specified Person. For purposes of this definition, the term "control" when used with respect to any Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Authorized Newspaper" means (i) a leading English language newspaper having general circulation in Europe (which is expected to be the *Financial Times, London Edition*) and (ii) so long as the International Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, the *Luxemburger Wort* or any other leading newspaper having general circulation in Luxembourg.

"Bondholder" means the person in whose name a Bond is registered in the register of Bonds.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in London, England, The City of New York, United States or Kuala Lumpur, Malaysia (or, if applicable, in the city where the relevant Paying, Transfer or Exchange Agent is located), are authorized or obligated by law or executive order to close.

"Capital Stock" means, with respect to any Person, any and all shares, ownership interests, participation or other equivalents (however designated), including all common or ordinary stock and all preferred stock, of such Person.

"Cash Settlement Amount" means the product of (i) the number of Shares otherwise deliverable upon exercise of the Exchange Right in respect of the Bond(s) to which the Exchange Notice applies, and in respect of which the Issuer or the Guarantor has elected the Cash Settlement Option and (ii) the arithmetic average of the Closing Price (as defined herein) of the Shares on the Main Board of the KLSE for each day during the 10 Trading Days immediately before the Exchange Date.

"Central Depository" means the Malaysian Central Depository Sdn. Bhd.

"Certificated Bonds" means the individual certificated Bonds executed and delivered by the Issuer and authenticated by the Trustee, which may be delivered in exchange for the Rule 144A Global Bonds or International Global Bonds in the circumstances described in "— Book Entry; Delivery and Form — Individual Definitive Certificates".

"Closed Period" has the meaning specified in "— Exchange — Exchange Right".

"Closing Price" means for any Trading Day (i) with respect to the Shares, the closing sales price of such Shares on the Main Board of the KLSE on such day or, if no reported sales take place on such day, the average of the reported closing bid and offered prices, in either case as reported by the KLSE for such day and (ii) with respect to Capital Stock of Tenaga (other than the Shares), the closing bid price for such Capital

Stock (other than the Shares) on any securities exchange or quotation system selected by Tenaga on which such Capital Stock (other than the Shares) are quoted or traded (each a "Selected Exchange").

"Default" means any condition or event that, with the giving of notice or lapse of time or both, would become an Event of Default.

"Delisting Repurchase Date" has the meaning specified under "— Repurchase of the Bonds — Repurchase of the Bonds in the Event of Delisting".

"Deposit Date" has the meaning specified in "— Exchange — Procedures; Exchange Notice; Taxes and Duties".

"Early Redemption Amount" of a Bond, for each US$1,000 principal amount of the Bonds, is determined so that it represents for the Holder a gross yield of 3.445% on a semi-annual basis (identical to the gross yield in case of the exercise of the Optional Repurchase Right on the Optional Repurchase Date on November 20, 2005). The applicable Early Redemption Amount for each US$1,000 principal amount of Bonds is calculated in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards (provided that if the date fixed for redemption is a semi-annual date (as set out below, each a "Semi-annual Date"), such Early Redemption Amount shall be as set out in the table below in respect of such Semi-annual Date):

Early Redemption Amount = [Previous Redemption Amount $\times$ $(1 + r/2)^{d/p}$]

Previous Redemption Amount = the Early Redemption Amount for each US$1,000 principal amount on the Semi-annual Date immediately preceding the date fixed for redemption as set out below (or if the Bonds are to be redeemed prior to May 20, 2003, US$1,000):

Semi-annual Date	Early Redemption Amount (US$)
May 20, 2003	1,004.10
November 20, 2003	1,008.27
May 20, 2004	1,012.51
November 20, 2004	1,016.83
May 20, 2005	1,021.22
November 20, 2005	1,025.68

r = 3.445% expressed as a fraction.

d = number of days from and including the immediately preceding Semi-annual Date (or if the Bonds are to be redeemed before May 20, 2003, from and including the Closing Date) to, but excluding, the date fixed for redemption, calculated on the basis of actual days elapsed in a 365-day year.

p = 182.5.

"Exchange Price" means the initial Exchange Price set forth on the cover of this Offering Memorandum, as adjusted in the manner provided in "— Exchange — Adjustments".

"Exchange Date" means the Business Day following the Deposit Date, which must be a Trading Day with respect to the Shares and must fall within the Exchange Period.

"Fair Market Value" means with respect to any asset, the price that could be negotiated in an arm's length free market transaction, for cash, between a willing buyer and a willing seller, neither of which is under pressure or compulsion to complete the transaction.

"Indebtedness" means any obligation for the payment or repayment of money borrowed which has a final maturity of one year or more from its date of incurrence or issuance.

"Market Value" means (i) in the case of the Shares, the average of the Closing Prices of those shares for the most recent 30 consecutive Trading Days on the Main Board of the KLSE, (ii) in the case of Capital Stock (other than the Shares) that is listed on a Selected Exchange, the average of the Closing Prices of such Capital Stock (other than the Shares) for the most recent 30 consecutive Trading Days and (iii) if the market value cannot be determined pursuant to the procedures above, the market value determined by an opinion of an independent, internationally recognized investment banking firm selected by Tenaga.

"Person" or "person" means any individual, limited liability company, corporation, company, firm, partnership, joint venture, tribunal, undertaking, association, organization, trust, government or political subdivision or agency or instrumentality of a state or any other entity or organization, in each case whether or not being a separate legal entity.

"Prevailing Rate" means with respect to any Trading Day the closing rate for the purchase of US dollars with Malaysian Ringgit, expressed as the number of Malaysian Ringgit per US$1.00 on such Trading Day by Bumiputra-Commerce Bank Berhad (or if it is unable to provide such rate, then such other Malaysian bank as the Trustee shall select).

"Redemption Date" means, with respect to any Bond, (i) the date fixed for redemption of such Bond pursuant to a notice of redemption given by the Issuer in accordance with the provisions of the Indenture or (ii) the Maturity Date of such Bond if such Bond has not been redeemed, repurchased and cancelled or exchanged in accordance with its terms prior to the Maturity Date.

"Shares" means ordinary shares of Tenaga, par value RM1.00 per share.

"Special Share" is the Special Rights Redeemable Preference Share, RM1.00 par value, of the Guarantor.

"Special Shareholder" is the Minister of Finance Incorporated, holding the Special Share under the Minister of Finance (Incorporation) Act of 1957, or any Minister, representative or any person acting on behalf of the Malaysian Government.

"Subsidiary" means, with respect to any Person, any company or other business entity of which such Person owns or controls (either directly or indirectly) more than 50% of the issued share capital or other ownership interest having the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of such company or other business entity (whether or not capital stock or other ownership interest of any other class or classes shall or might have a voting power upon the occurrence of any contingency).

"Taxing Authority" means any government or political subdivision or any authority or agency thereof, having the legal power and authority to levy a mandatorily payable charge, assessment or tax.

"Trading Day" means (i) with respect to the Shares, a day when the KLSE is open for business; provided, however, that, if no transaction price or closing bid and offered prices are reported by the KLSE in respect of the Shares for one or more Trading Days, such day or days will be disregarded in any relevant calculation and will be deemed not to have existed when ascertaining any period of consecutive Trading Days, and (ii) with respect to Capital Stock of Tenaga (other than Shares), a day on which the Selected Exchange is open for trading or quotation; provided, however, that, if no bid price is reported by the Selected Exchange in respect of such Capital Stock (other than Shares) for one or more Trading Days, such day or days will be disregarded in any relevant calculation and will be deemed not to have existed when ascertaining any period of consecutive Trading Days.

General

Except in the limited circumstances set forth under "— Book Entry; Delivery and Form — Individual Definitive Certificates", the Bonds will only be issued in book-entry form. Accordingly, the following description of the Bonds which makes reference to Certificated Bonds should be read in conjunction with the information set forth under "— Book Entry; Delivery and Form".

The Bonds will be issued on November 20, 2002 (the "Original Issue Date"), limited in aggregate principal amount to US$350,000,000, and will be redeemed on November 20, 2007 (the "Maturity Date"), unless previously redeemed, repurchased and cancelled, or exchanged pursuant to the terms thereof and of the Indenture.

The Bonds will bear interest from and including the Original Issue Date at the rate of 2.625% per annum, payable semi-annually in arrears on May 20 and November 20 of each year, commencing on May 20, 2003. Interest on the Bonds will be computed on the basis of actual days elapsed over a year of 365 days.

Each Bond will cease to bear interest (i) on exchange, subject to and in accordance with the provisions relating to the Exchange as described below under "— Exchange" or (ii) from the due date for redemption or repurchase thereof if the Trustee or the relevant Paying Agent holds cash sufficient to pay the relevant redemption price of such Bond or the Optional Repurchase Price or the Delisting Repurchase Price, as the case may be, of Bonds for which Optional Repurchase Notices or Repurchase Notices, as the case may be, have been delivered in accordance with the provisions of the indenture whether or not such Bond is delivered to the Paying Agent.

Each Bond will be exchangeable, subject to compliance with certain conditions and procedures (see "— Exchange — Procedures; Exchange Notice; Taxes and Duties") at the Bondholder's election on any Business Day during the period (the "Exchange Period") commencing on December 20, 2002 (30 days from and including the Original Issue Date) and ending at the close of business in the location of the applicable Paying Agent on October 21, 2007 (30 days prior to the Maturity Date) or, if such Bond shall have been called for redemption prior to such latter date, then up to the close of business (at the place aforesaid) on the seventh day prior to the date fixed for redemption thereof (or if such day shall not be a Business Day at such place, on the immediately preceding Business Day at such place), provided, however, that the Exchange Right during any Closed Period shall be suspended and the Exchange Period shall not include any Closed Period (as defined herein). Bondholders that deliver an Exchange Notice during a Closed Period will not be permitted to exchange their Bonds until the Trading Day following the last day of that Closed Period, which (if all other conditions to exchange have been fulfilled) will be the Exchange Date for such Bonds.

The principal of, and interest on, the Bonds will be payable in US dollars by the Issuer pursuant to the terms of the Bonds and the Indenture, and the Bonds may be presented for registration of transfer, exchange or conversion, at the office or agency of the Issuer maintained for such purpose (the "Paying Agent", "Transfer Agent" or "Exchange Agent"), located (i) in New York City (which initially will be the corporate trust administration office of the Trustee, currently located at Institutional Trust Services, 4 New York Plaza, 15th Floor, New York, New York 10004), (ii) in London (which initially will be the office of JPMorgan Chase Bank, London Branch, currently located at 9 Thomas More Street, Trinity Tower, London E1W1YT, England), (iii) as long as the International Bonds are listed on the Luxembourg Stock Exchange, and the rules of that exchange so require, in the Grand Duchy of Luxembourg (which initially will be the office of J.P. Morgan Bank Luxembourg S.A. currently located at 5 rue Plaetis, L-2338, Luxembourg) and (iv) if a European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 comes into force, in a European Union member state that will not be obliged to withhold or deduct tax pursuant to such directive or any law implementing or complying with, or introduced in order to conform to, such directive.

The Issuer reserves the right, subject to the provisions of the Indenture, at any time to vary or terminate the appointment of any Paying Agent, Transfer Agent or Exchange Agent and to appoint further or other Paying Agents, Transfer Agents and Exchange Agents, provided that the Issuer will at all times maintain Paying Agents having offices in the Borough of Manhattan, The City of New York and the Grand Duchy of Luxembourg (as long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require). Notice of any such termination or appointment and of any changes in the specified offices of the Paying Agents, Transfer Agents or Exchange Agents will be given promptly by the Issuer to the Trustee in accordance with the notice provisions of the Indenture as described below under "— Notices".

No service charge will be payable for any registration of transfer or exchange of the Bonds, but the Issuer may require payment by a Bondholder of a sum sufficient to cover any transfer or stamp tax or other similar governmental charge payable in connection therewith outside Malaysia and Labuan.

The Issuer, Tenaga and their Affiliates may at any time, subject to applicable law, purchase Bonds in the open market, or otherwise, at any price. A Bond (other than a Bond purchased pursuant to the exercise of the Delisting Repurchase Right or the Optional Repurchase Right) does not cease to be outstanding because the Issuer, Tenaga or an Affiliate thereof holds such Bond; provided, however, that in determining whether the Bondholders of the requisite principal amount of Bonds have given or concurred in any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Bonds owned by the Issuer, Tenaga or any of their Affiliates shall be disregarded and deemed not to be outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee actually knows to be so owned shall be so disregarded.

Guarantee

Under the Indenture, Tenaga will fully and unconditionally guarantee the due and punctual payment of the principal of, and interest on, the Bonds, any premium, any Cash Settlement Amount and any additional amounts as described under "— Additional Amounts", upon acceleration, by call for redemption, by exercise of put right or otherwise, in accordance with the terms of such Bonds and of the Indenture and of all other monetary obligations of the Issuer under the terms of the Bonds and the Indenture (including obligations to the Trustee), whether for principal of, or interest on, the Bonds, any Cash Settlement Amount (if applicable), expenses, indemnification or otherwise. Tenaga has agreed that its obligations under the Guarantee will be as if it were principal debtor and not merely surety, and will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Bonds or the Indenture. In addition, Tenaga has expressly waived any right to require either the Trustee or any Bondholder to pursue or exhaust its legal or equitable remedies against the Issuer prior to exercising its rights under the Guarantee. The Guarantee will not be discharged with respect to any Bond except by payment in full of all amounts owing in respect thereof. Moreover, if at any time any payment by the Issuer or Guarantor to the Trustee or Bondholder is rescinded or must otherwise be restored, the rights of the Trustee or the Bondholders under the Guarantee will be reinstated with respect to such payments as though such payments had not been made.

Ranking

The Bonds will (i) be direct, senior, unsecured and unsubordinated obligations of the Issuer, (ii) rank at least *pari passu* in right of payment with all other senior, unsecured and unsubordinated debt of the Issuer now or hereafter outstanding, (iii) at all times rank *pari passu* and without any preference or priority among themselves, and (iv) be senior in right of payment to all debt of the Issuer that is expressed to be subordinated in right of payment to the Bonds, except as may be required by mandatory provisions of law.

The Guarantee will (i) be a direct, senior, unsecured and unsubordinated obligation of Tenaga, (ii) rank at least *pari passu* in right of payment with all other senior, unsecured and unsubordinated debt of Tenaga now or hereafter outstanding and (iii) be senior in right of payment to all debt of Tenaga that is expressed to be subordinated in right of payment to the Guarantee, except as may be required by mandatory provisions of law.

Additional Amounts

All payments of the principal and interest or premium on the Bonds or any Cash Settlement Amount by the Issuer or Tenaga and all deliveries by the Issuer or Tenaga of Shares made upon exchange of the Bonds by Tenaga will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by or on behalf of Malaysia, Labuan or any political subdivision thereof or Taxing Authority (as defined herein) having power to tax, unless the withholding or deduction of such Taxes is required by law. In that event, the Issuer or Tenaga, as the case may be, will pay such additional amounts (all such additional amounts being referred to herein as "Additional Amounts") as may be necessary in order that the net amounts received by the

Bondholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Bonds in the absence of such withholding or deduction, except that no such Additional Amounts shall be payable in respect of any Bond:

(1) to or on behalf of a holder or beneficial owner who is subject to such Taxes by reason of having (or by reason of a fiduciary, settlor, beneficiary, member or shareholder of such holder having, or having had) some connection with Malaysia or Labuan otherwise than by reason only of the holding of any Bonds or the receipt of principal or interest or premium or any Cash Settlement Amount in respect of any Bonds or the enforcement of payment on or exchange of any Bond;

(2) to or on behalf of a holder or beneficial power who would not be liable for or subject to such deduction or withholding by making an appropriate claim for exemption to the relevant Taxing Authority if, after having been requested to make such a declaration or claim by the Issuer, Tenaga or a relevant Taxing Authority or at least 30 days prior to when such claim for exemption is required to be made, such holder fails to do so;

(3) to or on behalf of a holder or beneficial owner who presents such Bond (where presentation is required) for payment more than 30 days after the later of the date on which payment of principal of and interest or premium on such Bond or any Cash Settlement Amount became due pursuant to the terms thereof or the date that such payment was made or duly provided for, except to the extent that the holder or beneficial owner thereof would have been entitled to such Additional Amounts on presenting that Bond for payment on the last day of such 30-day period;

(4) any combination of any of the preceding clauses (1) through (3).

In addition, Tenaga or the Issuer will not pay Additional Amounts to any Bondholder if the beneficial owner of such Bonds would not be entitled to Additional Amounts.

The obligation to pay Additional Amounts shall not apply to a withholding or deduction of (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, assessment or other governmental charge, (b) any Tax which is payable otherwise than by deduction or withholding from payments of principal of or interest on the Bonds; provided that, except as otherwise set forth in the Bonds and in the Indenture, Tenaga or the Issuer shall pay all stamp and other duties, if any, which may be imposed by Malaysia, Labuan, the United States or any respective political subdivision thereof or any Taxing Authority of or in the foregoing, with respect to the Indenture or as a consequence of the initial issuance of the Bonds, (c) any withholding or deduction imposed on a payment to an individual and required to be made pursuant to any European Union directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive, or (d) the presentation for payment (if presentation is required) of such Bond by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another paying agent in a Member State of the European Union.

Unless the context otherwise requires, any reference in the Bonds to principal or interest shall be deemed also to refer to any Additional Amounts which may be payable as described above.

Redemption for Taxation Reasons

The Bonds may be redeemed at the option of the Issuer, at any time in whole but not in part, upon no less than 30 days nor more than 60 days' notice to the Trustee, at a redemption price equal to the Early Redemption Amount plus accrued and unpaid interest (if any) up to and including the most recent Semi-annual Date (if the Redemption Date occurs prior to or on November 20, 2005) and at 100% of the outstanding principal amount of the Bonds redeemed plus accrued and unpaid interest to the Redemption Date (if the Redemption Date occurs after November 20, 2005) if, as a result of any change in or amendment to the laws of Malaysia or Labuan (or of any political subdivision or Taxing Authority thereof or therein) or any regulations or rulings promulgated thereunder, or any change in the official interpretation or official application of such laws, regulations or rulings, or any change in the official application or interpretation of, or any execution of or amendment to, any treaty or treaties affecting taxation to which Malaysia or Labuan (or such political subdivision or taxing authority) is a party, which change, amendment or treaty becomes effective on or after the Original Issue Date, among other things, the Issuer is or would be required on the next succeeding due date for a payment with respect to the Bonds to pay additional amounts with respect to the Bonds as described below under "Additional Amounts", and such obligation cannot be avoided by the use of reasonable measures available to the Issuer. Prior to any redemption of the Bonds, the Issuer shall deliver to the Trustee a certificate and an opinion of recognized counsel each stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of redemption have occurred.

Notice of any such redemption will be given by the Issuer to the Trustee and the Bondholders in accordance with the notice provisions of the Indenture as described below under "— Notices".

Redemption at the Option of the Issuer

At any time on or after November 20, 2005, the Bonds will be redeemable at the option of the Issuer, in whole but not in part, on not less than 30 days nor more than 60 days' notice to the Trustee, at a redemption price equal to 100% of the outstanding principal amount of the Bonds redeemed, plus accrued and unpaid interest, on the Redemption Date; provided, however, that no such redemption may be made unless the Closing Price (translated into US dollars at the Prevailing Rate) of the Shares for a period of 30 consecutive Trading Days (which may include Trading Days that fall within a Closed Period), the last of which occurs not more than five days prior to the date on which notice of such redemption is given, is at least 115% of the Exchange Price (translated into US dollars at the Fixed Exchange Rate).

In addition, the Issuer may redeem the Bonds, in whole but not in part, at any time, on not less than 30 days nor more than 60 days' notice to the Trustee, at a redemption price equal to 100% of the outstanding principal amount of the Bonds redeemed, plus accrued and unpaid interest, on the Redemption Date if the principal amount of the Bonds outstanding is equal to or less than 10% of the original aggregate principal amount of the Bonds.

Notice of any such redemption will be given by the Issuer to the Trustee and the Bondholders in accordance with the notice of the Indenture as described below under "— Notices".

If an event shall occur giving rise to a change in the Exchange Price during any 30 consecutive Trading Day period, appropriate adjustments for the relevant days shall be made for the purpose of calculating the Closing Price for such days by Tenaga (who shall promptly notify the Trustee thereof).

Redemption at Maturity

Unless the Bonds have been previously redeemed, repurchased and cancelled or exchanged, the Issuer will redeem the Bonds on the Maturity Date at a redemption price equal to 100% of the outstanding principal amount thereof plus any accrued but unpaid interest. The Bonds may be redeemed prior to the Maturity Date only as described herein.

Redemption Procedures

Payment of the relevant redemption price for any Bond will be made on the Redemption Date or, if such Bond is a Certificated Bond and has not been so delivered on or prior to the Redemption Date, at the time of delivery of such Bond (together with necessary endorsements) to the Trustee or any Paying Agent. If the Trustee or relevant Paying Agent holds, in accordance with the terms of the Indenture, cash sufficient to pay the relevant redemption price of such Bond on the Redemption Date, then, immediately after such Redemption Date, such Bond will cease to be outstanding and interest on such Bond will cease to accrue, whether or not such Bond is delivered to a Paying Agent, and all other rights of the Bondholder shall terminate (other than the right to receive the relevant redemption price).

In the case of any redemption other than on the Maturity Date, the notice of redemption to each holder shall specify, among other things, the Redemption Date, the price at which such Bonds will be redeemed and the place or places of payment and that payment will be made upon presentation and surrender of the Bonds to be redeemed. Such notice shall also specify the Exchange Price then in effect and the date on which the right to exchange such Bonds will expire.

Repurchase of the Bonds

Optional Repurchase Right

Each Bondholder shall have the one-time right (the "Optional Repurchase Right") to require the Issuer to repurchase all or part of its Bonds on November 20, 2005 (the "Optional Repurchase Date"), at a price (the "Optional Repurchase Price") equal to 102.568% of the outstanding principal amount of the Bonds redeemed, plus accrued and unpaid interest, provided irrevocable written notice ("the Optional Repurchase Notice") is given, and the applicable Bonds (if a Certificated Bond), are delivered, to any Paying Agent, not more than 60 days nor less than 30 days prior to such date at the location of such Paying Agent.

Payment of the Optional Repurchase Price upon exercise of the Optional Repurchase Right for a Certificated Bond for which a Optional Repurchase Notice has been delivered is conditioned upon delivery of such Certificated Bond (together with any necessary endorsements) to any Paying Agent on any Business Day on or after the delivery of such Optional Repurchase Notice and will be made promptly following the later of November 20, 2005 and the time of delivery of such Certificated Bond. If the Paying Agent holds on November 20, 2005 money sufficient to pay the Optional Repurchase Price of Bonds for which Optional Repurchase Notices have been delivered in accordance with the provisions of the Indenture upon exercise of such right, then, whether or not such Bond is delivered to the Paying Agent, on and after such date: (i) such Bond will cease to be outstanding; (ii) the interest on such Bond will cease to accrue; (iii) such Bond will be deemed paid; and (iv) all other rights of the Bondholder shall terminate (other than the right to receive Optional Repurchase Price).

Repurchase of Bonds in the Event of Delisting

In the event that the Shares cease to be listed or admitted to trading on the KLSE (a "Delisting"), each Bondholder shall have the right (the "Delisting Repurchase Right"), at such Bondholder's option, to require the Issuer to repurchase all or part of its Bonds at a price equal to the Early Redemption Amount plus accrued and unpaid interest (if any) up to and including the most recent Semi-annual Date (if the Delisting Repurchase Date occurs prior to or on November 20, 2005) and at 100% of the outstanding principal amount of the Bonds redeemed, plus accrued and unpaid interest (the "Delisting Repurchase Price") (if the Delisting Repurchase Date occurs after November 20, 2005), on the date set by the Issuer for such repurchase (the "Delisting Repurchase Date"), which shall not be less than 30 days nor more than 60 days following the date on which the Issuer notifies the Trustee of the Delisting.

Repurchase Procedures for Delisting Repurchase Right

Promptly after, and in any event within 10 days of becoming aware of a Delisting, the Issuer and Tenaga will provide sufficient information to the Trustee in sufficient time to permit the Trustee (i) to mail to each Bondholder and (ii) for so long as the International Bonds are listed on the Luxembourg Stock Exchange, and the rules of that exchange so require, to publish in English in the applicable Authorized Newspaper, a notice regarding such Delisting Repurchase Right, which notice shall state:

(A) the Delisting Repurchase Date;

(B) the date of the Delisting and, briefly, the events causing such Delisting;

(C) the date by which the Repurchase Notice (as defined herein) must be given;

(D) the Delisting Repurchase Price and the method by which such amount will be paid;

(E) the names and addresses of all Paying Agents;

(F) briefly, the Exchange Right of the Bondholders and the then-current Exchange Price;

(G) the procedures that Bondholders must follow and the requirements that Bondholders must satisfy in order to exercise their repurchase rights and Exchange Right; and

(H) that a Repurchase Notice, once validly given, may not be withdrawn.

To exercise its right to require the Issuer to purchase its Bonds pursuant to the Delisting Repurchase Right, the Bondholder must deliver a written irrevocable notice of the exercise of such Delisting Repurchase Right (a "Repurchase Notice") together with the applicable Bonds (if a Certificated Bond) to any Paying Agent on any Business Day prior to the close of business at the location of such paying agent on such day and which day is not less than 10 Business Days prior to the Delisting Repurchase Date.

Payment of the Delisting Repurchase Price upon exercise of the Delisting Repurchase Right for a Certificated Bond for which a Repurchase Notice has been delivered is conditioned upon delivery of such Certificated Bond (together with any necessary endorsements) to any Paying Agent on any Business Day on or after the delivery of such Repurchase Notice and will be made promptly following the later of the Delisting Purchase Date and the time of delivery of such Certificated Bond. If the Paying Agent holds on the Delisting Repurchase Date money sufficient to pay the Delisting Repurchase Price for Bonds for which Repurchase Notices have been delivered in accordance with the provisions of the Indenture upon exercise of such right, then, whether or not such Bond is delivered to the Paying Agent, on and after such Delisting Repurchase Date: (i) such Bond will cease to be outstanding; (ii) the interest on such Bond will cease to accrue; (iii) such Bond will be deemed paid; and (iv) all other rights of the Bondholder shall terminate (other than the right to receive the Delisting Repurchase Price).

Certain Covenants

Negative Pledge

So long as any of the Bonds are outstanding, Tenaga (not including any of its subsidiaries) shall not create, incur, issue or assume any mortgage, pledge, lien, charge, encumbrance or any other security interest ("Lien") upon the whole or any part of its property or assets, present or future, to secure for the benefit of the holders of any existing or future Indebtedness of itself or any other person (or to secure for the benefit of the holders thereof any guarantee or indemnity in respect thereof) without, in any such case, effectively providing that the Bonds shall be secured equally and ratably with or prior to such Indebtedness (or such guarantee or indemnity in respect thereof), unless, after giving effect thereto, the aggregate principal amount of all such secured Indebtedness plus Attributable Debt (as defined herein) of Tenaga in respect of Sale/Leaseback Transactions (as defined herein) as described under "— Limitation Upon Sale and leaseback Transactions" below, in each case entered into after the date of the initial issuance of the Bonds, would not exceed 10% of Consolidated Net Tangible Assets (as defined herein).

The foregoing restriction will not apply where such Indebtedness is secured by:

(i) any Lien existing on any property or asset prior to the acquisition thereof by Tenaga or arising after such acquisition pursuant to contractual commitments entered into prior to and not in contemplation of such acquisition;

(ii) any Lien on any property or asset securing Indebtedness incurred or assumed for the purpose of financing the purchase price thereof or the cost of construction, improvement or repair of all or any part thereof, provided that such Lien attaches to such property concurrently with or within 12 months after the acquisition thereof or completion of construction, improvement or repair thereof; or

(iii) any Lien arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by any Lien permitted by any of the foregoing clauses or existing at the date of the initial issuance of the Bonds, provided that the amount of such Indebtedness is not increased.

Limitation Upon Sale and Leaseback Transactions

So long as any of the Bonds are outstanding, Tenaga (not including any of its subsidiaries) may not enter into any Sale/Leaseback Transaction, unless either (a) the Attributable Debt of Tenaga in respect of such

Sale/Leaseback Transaction and all other Sale/Leaseback Transactions entered into after the initial issuance of the Bonds (other than transactions as are permitted by clause (b) below), plus the aggregate principal amount of Indebtedness secured by Liens then outstanding (excluding any such Indebtedness secured by Liens described in clauses (i) through (iii) under "— Negative Pledge" above or existing at the date of the initial issuance of the Bonds) without equally and ratably securing the Bonds, would not exceed 10% of Consolidated Net Tangible Assets, or (b) Tenaga, within 12 months after such Sale/Leaseback Transaction, applies to the retirement of Indebtedness of Tenaga which is not subordinate to the Bonds an amount equal to the greater of (i) the net proceeds of the sale or transfer of the property or other assets which are the subject of such Sale/Leaseback Transaction and (ii) the fair market value of the property or other assets so leased (in each case as determined by Tenaga). The foregoing restriction shall not apply to any transaction between Tenaga and a subsidiary.

"Attributable Debt" means, with respect to any Sale/Leaseback Transaction, the lesser of (x) the fair market value of the property or other assets subject to such transaction and (y) the present value (discounted at a rate per annum equal to the discount rate of a capital lease obligation with a like term in accordance with Malaysian GAAP) of the obligations of the lessee for net rental payments (excluding amounts on account of maintenance and repairs, insurance, taxes, assessments, water rates and similar charges and contingent rents) during the term of the lease.

"Consolidated Net Tangible Assets" means the total amount of assets of Tenaga and its consolidated subsidiaries, including investments in unconsolidated subsidiaries, after deducting therefrom (i) all current liabilities, (ii) expenditures carried forward, including all goodwill, trade names, trademarks, patents, unamortized debt, discount and expense and other like intangible assets, if any, and (iii) all write-ups of fixed assets, net of accumulated depreciation thereon, after August 31, 2002, all as set forth on the most recent balance sheet of Tenaga and its consolidated subsidiaries and computed in accordance with Malaysian GAAP.

"Sale/Leaseback Transaction" means any arrangement with any person that provides for the leasing by Tenaga, for an initial term of three years or more, of any property or other asset, whether now owned or hereafter acquired, which is to be sold or transferred by Tenaga after the date of the initial issuance of the Bonds to such person for a sale price of US$1,000,000 (or the equivalent thereof) or more.

Consolidation, Merger and Sale of Assets

Tenaga, without the consent of the holders of any of the Bonds, may consolidate with, merge into, or sell, transfer, lease or convey its assets substantially as an entirety to any other entity (any such event, a "Merger") organized and existing under the laws of Malaysia, provided, however that (i) any successor entity expressly assumes Tenaga's obligations under the Bonds and the Indenture, (ii) after giving effect to the transaction, no Event of Default (as defined below) and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, and (iii) certain other conditions specified in the Bonds are satisfied.

In the event of any such Merger, the provisions described under "— Additional Amounts" and "— Redemption for Tax Reasons" will be applicable to the successor entity.

Maintenance of Finance Subsidiary

Tenaga shall ensure that the Issuer shall at all times remain a wholly-owned subsidiary of Tenaga. The Issuer shall not carry on any business activities other than the issue of securities of any kind, including notes, bonds, debentures, commercial paper and other instruments, to enter into certain arrangements or agreements necessary for the performance of its obligations in relation thereto, and to carry on any activities that are conducive to the attainment of its objectives as a finance subsidiary of Tenaga.

Exchange Shares

Upon a Bondholder's exercise of its Exchange Right, Tenaga will issue the Shares to such Bondholder in accordance with the terms of the Indenture. Tenaga will at all times keep available for issue free from preemptive rights out of its authorized but unissued capital such number of Shares as would enable all outstanding Exchange Rights, other rights of subscription and exchange for and exchange into Shares to be satisfied in full.

Bondholders are not entitled to any dividends or other income, distribution or rights in respect of the Shares deliverable upon exchange of a Bond that are declared, paid or made by reference to a record date falling prior to the date of allotment of such Shares, except for an Antidilution Adjustment (as defined herein) in the event of an Extraordinary Cash Dividend as described under "— Exchange — Adjustments".

Exchange

Exchange Right

Each Bondholder will have the right (the "Exchange Right") during the Exchange Period to exchange its Bonds (in denominations of US$1,000 in principal amount and any integral multiple of US$1,000 in excess thereof, provided that any remaining principal amount of such Bond will be at least US$1,000), at the option of such exchanging Bondholder, into Shares upon delivery of an irrevocable notice (the "Exchange Notice") together with the applicable Bonds (if Certificated Bonds), at the office of any Exchange Agent, between 9 a.m. and 3 p.m. on any Business Day prior to the close of business at the location of the Exchange Agent to which such Exchange Notice is delivered. "Exchange Period" means, with respect to each Bond, the period commencing on December 20, 2002 (30 days from and including the Original Issue Date) and ending at the close of business (at the place where such Bond is deposited for exchange) (i) on October 21, 2007 (30 days prior to the Maturity Date) or, (ii) if such Bond shall have been called for redemption prior to October 21, 2007, then up to the close of business (at the place aforesaid), on the seventh day prior to the date fixed for redemption thereof (or if such day shall not be a Business Day at such place, on the immediately preceding Business Day at such place). The Exchange Period shall not include any Closed Period, provided, that Bondholders that deliver an Exchange Notice during a Closed Period will not be permitted to exchange their Bonds until the Trading Day following the last day of that Closed Period, which (if all other conditions to exchange have been fulfilled) will be the Exchange Date for such Bonds. "Closed Period" means the periods (i) from three Trading Days prior to the date that Tenaga notifies the KLSE of the record date for determination of shareholders entitled to receipt of dividends, subscription of shares due to capital increase or other benefits, to the record date for the distribution or other allocation of the relevant dividends, right and benefits or (2) such other periods determined by Malaysian law applicable from time to time that Tenaga is required to close its register of members. Tenaga shall procure that Bondholders are given not less than seven or more than 60 days' prior notice of any Closed Period in accordance with the provisions of the Indenture.

The number of Shares to be issued upon exchange will be determined by the Issuer by dividing the aggregate principal amount of all the Bonds to be exchanged by such Bondholder (translated into Ringgit at the Fixed Exchange Rate) by the Exchange Price in effect on the Exchange Date, rounding the resulting number down to the nearest whole number. Fractions of shares will not be issued on exchange, and no cash adjustments will be made in respect of any such fraction. The Exchange Price shall at all times be subject to antidilution adjustments as described under "— Exchange — Adjustment".

Delivery of Shares Upon Exchange

Upon exercise of the Exchange Right, a Bondholder shall be required, in the Exchange Notice and prior to the issue of the Shares, to make the representations and warranties and provide certain written acknowledgments, agreements and certifications set out in the Indenture (and described under "Transfer Restrictions"), including that it, or the person who has the beneficial interest in the relevant Bond, understands that the Shares to be delivered upon exchange of such Bond have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State of the United States, and that:

(a) it or such person is not a U.S. person and is located outside the United States (each within the meaning of Regulation S under the Securities Act) and it or such person purchased such Bond, or the beneficial interest therein, in an offshore transaction (as defined in Regulation S under the Securities

Act) in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act and it is acquiring the Shares to be delivered upon exchange of such Bond for its own account or for the account of such persons; or

(b) (i) it or such person is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act ("QIB"), acquiring the Shares to be delivered upon exchange of such Bond for its own account or for the account of a QIB in the United States only through a transaction which is exempt from registration under the Securities Act and not with a view to distribution of the Shares; (ii) it or such person understands that the Shares may not be offered, sold, pledged or otherwise transferred except (x) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (y) to, or for the account of, a QIB in reliance on Rule 144A under the Securities Act and (z) pursuant to an exemption from registration under the Securities Act provided by Rule 144 under the Securities Act (if available), subject in the case of (z) to receipt by the Trustee of an opinion of counsel or such other evidence as it may reasonably require that such sale or transfer is in compliance with the Securities Act and, in each of cases (x) through (z), in accordance with any applicable securities laws of any State of the United States; and (iii) for so long as the Shares are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, it and such person will not deposit or cause to be deposited any of the Shares to be issued upon exchange of the Bonds in any unrestricted depositary receipt facility established or maintained by a depositary bank in the United States.

No Shares will be delivered to or for the account of a holder of a Bond or a beneficial interest therein unless such Bondholder satisfies the foregoing conditions.

Procedures; Exchange Notice; Taxes and Duties

In order to effect an exchange, each Bondholder must complete, execute and deliver, in duplicate, at such Bondholder's expense, an Exchange Notice at the office of any Exchange Agent between 9:00 a.m. and 3:00 p.m. on any Business Day at the location of the Exchange Agent, during the Exchange Period, in the form then obtainable from the office of any Exchange Agent, together with the Bonds to be exchanged, and any certificates and other documents as may be required under applicable law or any deposit agreement (if applicable) and any expenses or other payments required to be paid by the Bondholder pursuant to the terms of the Indenture. An Exchange Notice delivered outside the hours specified above or on a day which is not a Business Day at the office of the relevant Exchange Agent shall for all purposes be deemed to have been delivered to that Exchange Agent between 9:00 a.m. and 3:00 p.m. on the next Business Day. The Exchange Notice shall contain an appointment of a local agent by such exchanging Bondholder, the name and address of such local agent and a bank account, to pay Malaysian taxes, remit funds, exercise shareholders' rights and perform such other functions as may be designated by such exchanging Holder. In addition, such exchanging Holder is also required to maintain, either directly or through authorized nominees, a Central Depository account ("CDS Account"). The Exchange Notice shall state the name and address of any such authorized nominees, the name or names (with address) in which the certificate or certificates for Shares shall be issued as well as relevant information as to the Central Depository securities accounts. Bonds surrendered for exchange shall (if so required by the Issuer or the Trustee) be duly endorsed by, or be accompanied by a written instrument or instruments of transfer in form satisfactory to the Issuer and the Trustee duly executed by, the holder or his attorney duly authorized in writing.

An Exchange Notice once so delivered may not be withdrawn without the consent in writing of the Issuer. Bondholders that deliver an Exchange Notice during a Closed Period will not be permitted to exchange their Bonds until the Trading Day following the last day of that Closed Period which (if all other conditions to exchange have been fulfilled) will be the Exchange Date for such Bonds. The price at which such Bonds will be exchanged will be the Exchange Price in effect on the Exchange Date.

As conditions precedent to an exchange, the Bondholder must pay to the applicable Exchange Agent all stamp, issue, registration and similar taxes and duties (if any) arising on exchange in the country in which the Bond is deposited for exchange, or payable in any jurisdiction consequent upon the issue and delivery of Shares or any other property or cash upon exchange to or to the order of a person other than the exchanging

Bondholder. Except as aforesaid, the Issuer will pay the expenses (including any and all stamp, issue, registration, transfer and similar tax and duties) arising in Malaysia or Labuan in connection with the issue of Shares on an exchange of Bonds and all charges of the Exchange Agents in connection therewith as provided in the Indenture. The date on which any Bond and the Exchange Notice (in duplicate) relating thereto, together with any certificates and other documents as may be required under applicable law or any deposit agreement (if applicable) are deposited with a Exchange Agent and the payments, if any, required to be paid by the Bondholder are made is hereinafter referred to as the "Deposit Date". The Bondholder must satisfy all conditions on or before the Business Day prior to the end of the Exchange Period.

In the event a Bondholder exercises its Exchange Right, with effect from the opening of business in Malaysia on the Exchange Date, Tenaga will deem the person designated in the Exchange Notice as the person in whose name the Shares to be issued upon such exchange are to be registered as the holder of record of those Shares (disregarding any retroactive adjustment of the Exchange Price referred to below prior to the time such retroactive adjustment shall have become effective), and at such time the rights of the exchanging Bondholder as a Bondholder with respect to the Bonds deposited for exchange shall cease. The exchanging Holder's name must be registered in the register of members of Tenaga and the record of depositors maintained by the Central Depository in order to assert any rights as shareholder.

As soon as practicable, and in any event not later than 10 Trading Days after the Exchange Date, Tenaga will, following due exercise of the Exchange Right in accordance with the foregoing, if the Shares are prescribed to be deposited with the Malaysian Central Depository Sdn. Bhd. (the "Central Depository") and the regulations of the Central Depository so require (i) deliver or cause to be delivered to the Central Depository a record of the names of the exchanging Bondholders together with such particulars as may be required by the Central Depository for the purpose of making appropriate entries in the relevant CDS Accounts of the person or persons designated for the purpose in the Exchange Notice as holder(s) of the relevant number of Shares (the "Allotment Notice") and shall deliver to the Central Depository the appropriate certificate or certificates registered in the name of the Central Depository or its nominee company (the "Allotment Certificate"), and (ii) will make available for collection at Tenaga's registered office in Malaysia or, if so requested in the relevant Exchange Notice, will mail (at the expense and risk of such person or persons) the relevant Allotment Notice to the person or persons and at the place specified in the Exchange Notice within 10 Trading Days after the Exchange Date, together with any other securities, property or cash required to be delivered upon exchange and such assignments and other documents (if any) as may be required by law to effect the transfer thereof. No share certificates will be issued to the exchanging Bondholder(s) for so long as the KLSE has prescribed the Shares to be deposited with the Central Depository and the regulations of the Central Depository so require. Subject to the above, where Shares in certificated form are allotted and issued, certificates for Shares issued on exchange will be made available for collection at Tenaga's registered office in Malaysia or, if requested in the relevant Exchange Notice, will be mailed (at the expense and risk of such person or persons) to the person and at the place specified in the Exchange Notice, within 14 Trading Days after the Exchange Date. The Shares to be issued pursuant to the exchange of the Bonds will, upon allotment and issue, rank *pari passu* in all respects with the then existing Shares in issue, except that they will not be entitled to any dividend, rights, allotments and/or distributions, the entitlement date of which precedes the date of allotment of the Shares exchanged for the Bonds.

If the record date for any issue, distribution or grant that will result in any adjustment to the Exchange Price is on or prior to the Exchange Date in relation to any Bond but the relevant adjustment has not yet become effective and as a result has not been reflected in the Exchange Price on such Exchange Date, then Tenaga will procure that such additional number of Shares is issued as, together with such number of Shares issued or to be issued, is equal to the number of Shares which would have been required to be issued on exchange of such Bond if the relevant adjustment had in fact been made as at such Exchange Date.

As used in these Conditions, the expression "CDS Account" means a securities account maintained in the Central Depository System established by the Central Depository for the recording of the deposit of securities and for dealings in such securities.

In completing and executing the Exchange Notice in accordance with the preceding paragraphs, the Bondholders must ensure that they have stated their CDS Account numbers in the space provided in the Exchange Notice.

Cash Settlement

Notwithstanding the Exchange Right of each Bondholder in respect of each Bond, at any time when the delivery of Shares deliverable upon Exchange of the Bonds is required to satisfy the Exchange Right in respect of a Exchange Notice, the Issuer or Tenaga shall have the option to pay to the relevant Bondholder an amount of cash in US dollars (at the then Prevailing Rate) equal to the Cash Settlement Amount in order to satisfy such Exchange Right in full or in part (in which case the other part shall be satisfied by the delivery of Shares) (the "Cash Settlement Option"). In order to exercise the Cash Settlement Option, the Issuer or Tenaga shall provide notice of the exercise of the Cash Settlement Option (the "Cash Settlement Notice") to the relevant Bondholder as soon as practicable but no later than five Business Days following the date of delivery of the Exchange Notice (the "Cash Settlement Notice Date"). The Cash Settlement Notice must specify the number of Shares in respect of which the Issuer or Tenaga will make a cash payment in the manner described in this paragraph. The Issuer or Tenaga shall pay the Cash Settlement Amount not more than five Business Days following the Cash Settlement Notice Date. If the Issuer or Tenaga exercises its Cash Settlement Option in respect of Bonds held by more than one Bondholder which are to be exchanged on the same Exchange Date, the Issuer or Tenaga shall make the same proportion of cash and Shares available to all such exchanging Bondholders.

Adjustments

Antidilution. The Exchange Price will be subject to adjustment (each an "Antidilution Adjustment") in the circumstances described below.

(i) If Tenaga shall issue Shares as a dividend in Shares or make a distribution of Shares which is treated as a capitalization issue for accounting purposes under Malaysian GAAP (including but not limited to capitalization of capital reserves and employee stock bonus), then the Exchange Price in effect on the day preceding the day on which the price of Tenaga's ordinary shares as quoted on the Main Board of the KLSE is adjusted to reflect such dividend and/or distribution shall be adjusted in accordance with the following formula:

$$NEP = OEP \times [N/(N + n)]$$

where:

NEP = the Exchange Price after such adjustment.

OEP = the Exchange Price before such adjustment.

N = the number of Shares outstanding on the day preceding the issuance of such dividend and/or distribution (or at the close of business in Malaysia on such record date, as the case may be).

n = the number of Shares to be distributed to the shareholders as a dividend and/or distribution.

(ii) If Tenaga shall (a) subdivide its outstanding Shares, (b) combine its outstanding Shares into a smaller number of Shares or (c) re-classify any of its Shares into other securities of Tenaga, then the Exchange Price shall be appropriately adjusted so that the holder of any Bond, in respect of the Exchange Date which occurs on or after the coming into effect of the adjustment described in this subsection (ii), shall be entitled to receive the number of Shares and/or other securities of Tenaga which such holder would have held or have been entitled to receive after the happening of any of the events described above had such Bond been exchanged immediately prior to the happening of such event (or, if Tenaga has fixed a prior record date for the determination of shareholders entitled to receive any such securities issued upon any such subdivision, combination or reclassification, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Exchange Price made with effect from the date of the happening of such event (or such record date) or any time thereafter.

(iii) If Tenaga shall grant, issue or offer to the holders of Shares rights entitling them to subscribe for or purchase Shares, which expression shall include those Shares which are required to be offered to employees and persons other than shareholders in connection with such grant, issue or offer, at a consideration per Share receivable by Tenaga which is fixed, on or prior to the ex-rights date mentioned below and is less than the Market Value per Share on such ex-rights date, then the Exchange Price in effect on the day preceding the ex-rights date shall be adjusted in accordance with the following formula:

$$NEP = OEP \times [(N + v)/(N + n)]$$

where:

NEP and OEP have the meanings ascribed thereto in subsection (i) above.

N = the number of Shares outstanding, at the close of business in Malaysia on such ex-rights date.

n = the number of Shares to be issued upon exercise of such rights at such consideration.

v = the number of Shares which the aggregate consideration receivable by Tenaga would purchase at such Market Value specified above.

The "ex-rights" date is the date when the price of Tenaga's ordinary shares as quoted on the Main Board of the KLSE is adjusted to reflect such grant, issue or offer.

Subject as provided below, such adjustment shall become effective immediately after the latest date for the submission of applications for such Shares by shareholders entitled to the same pursuant to such rights or (if later) immediately after Tenaga fixes such consideration but retroactively to immediately after the ex-rights date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares of rights entitling them to subscribe for or purchase Shares, any shares which are not subscribed for or purchased by the persons entitled thereto are purchased by other persons after the latest date for the submission of applications for such Shares, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date Tenaga receives the consideration in full from such other persons but retroactively to immediately after the ex-rights date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares of rights entitling them to subscribe for or purchase Shares, any such Shares which are not subscribed for or purchased by such other persons as referred to above or by the persons entitled thereto (or persons to whom shareholders have transferred such rights) who have submitted applications for such Shares as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

(iv) If Tenaga shall grant, issue or offer to the holders of Shares warrants entitling them to subscribe for or purchase Shares at a consideration per Share receivable by Tenaga which is fixed at a price that is less than the Market Value per Share on the last Trading Day preceding the date of the announcement of the terms of such issue or grant, then the Exchange Price in effect on the last Trading Day preceding the date of the announcement of the terms of such issue or grant shall be adjusted in accordance with the following formula:

$$NEP = OEP \times [(N + v)/(N + n)]$$

where:

NEP and OEP have the meanings ascribed thereto in subsection (i) above.

N = the number of Shares outstanding at the close of business in Malaysia on last Trading Day preceding the date of the announcement of the terms of such issue or grant.

n = the number of Shares initially to be issued upon exercise of such warrants at such consideration where no applications by shareholders entitled to such warrants are required. Where applications by shareholders entitled to such warrants are required, n equals the number of such Shares that equals (A) the number of warrants which underwriters have agreed to underwrite or, as the case may be, (B) the number of warrants for which applications are received from shareholders except to the extent already adjusted for under (A).

v = the number of Shares which the aggregate consideration receivable by Tenaga would purchase at such Market Value per Share.

Subject as provided below, such adjustment shall become effective (i) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (2) where applications by shareholders entitled to the same are required, immediately after the latest date for the submission of applications for such warrants by shareholders entitled to the same pursuant to such rights or (if later) immediately after Tenaga fixes the said consideration but retroactively to immediately after the last Trading Day preceding the date of the announcement of the terms of such issue or grant.

If the warrants described herein expire prior to exercise, the Exchange Price will be adjusted to reflect the actual Shares received upon exercise.

If, in connection with a grant, issue or offer to the holders of Shares warrants entitling them to subscribe for or purchase Shares where applications by shareholders entitled to the same are required, any warrants which are not subscribed for or purchased by the persons entitled thereto are agreed to be underwritten by other persons after the latest date for the submission of applications for such warrants, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date Tenaga receives the consideration in full from such other persons but retroactively to immediately after the last Trading Day preceding the date of the announcement of the terms of such issue or grant.

If, in connection with a grant, issue or offer to the holders of Shares warrants entitling them to subscribe for or purchase Shares where applications by shareholders entitled to the same are required, any such warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights) who have submitted applications for such warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

(v) In case Tenaga or any Subsidiary of Tenaga shall distribute to all holders of Shares any shares of Capital Stock of Tenaga other than Shares, evidences of indebtedness or other assets (other than cash distributions described below) of Tenaga, or rights or warrants to subscribe for or purchase any Capital Stock of Tenaga (other than Shares) at less than the Market Value of such indebtedness, assets or Capital Stock, determined as of the date on which the Board of Directors of Tenaga approves such distribution, then in each such case the Exchange Price shall be adjusted so that the same shall equal the price determined by multiplying the Exchange Price in effect on the last Trading Day preceding the date of the announcement of the terms of such distribution (the "Ex-Entitlement Date") by a fraction of which:

(a) the numerator shall be the Market Value per Share, on the Ex-Entitlement Date, less the then Fair Market Value (as determined by the Board of Directors of Tenaga, whose determination shall, if made in good faith, be conclusive evidence of such Fair Market Value) of the portion of Capital Stock, evidences of indebtedness or other assets so distributed or of such subscription rights or warrants applicable to one Share; and

(b) the denominator shall be such Market Value per Share.

If the rights or warrants to subscribe for or purchase any Capital Stock of Tenaga (other than Shares) described herein expire prior to exercise, the Exchange Price will be adjusted to reflect the actual securities received upon exercise.

For the avoidance of doubt, in the event the price of Tenaga's Shares as quoted on the Main Board of the KLSE is not readjusted to reflect the actual securities received upon exercise, no further adjustment shall be made to the Exchange Price.

(vi) In case Tenaga shall, by dividend or otherwise, distribute cash to all holders of Shares (excluding any dividend or distribution to the extent that it is not an Extraordinary Cash Dividend) then, in such case, the Exchange Price shall be adjusted (with such adjustment to be effective on the record date for the determination of shareholders entitled to receive such distribution) in accordance with the following formula:

$$NEP = OEP \times N \;/\; (N + P)$$

where:

NEP and OEP have the meanings ascribed thereto in subsection (i) above.

N = the number of Shares outstanding on the record date

P = the number of Shares which the Extraordinary Cash Dividend would purchase at the volume-weighted Average Market Price of the Shares on the Main Board of the KLSE (using "VWAP" on Bloomberg function "VAP") for the three consecutive Trading Days ending on the earlier of (i) the day such distribution or dividend is paid and (ii) the date on which such dividend or distribution is publicly announced.

If such dividend or distribution is not so paid or made, the Exchange Price shall again be adjusted to be the Exchange Price that would then be in effect if such dividend or distribution had not been approved.

For purpose of this subsection (vi), "Extraordinary Cash Dividend" means any cash dividend or distribution by Tenaga during any fiscal year (a "Payment Year"), whenever paid and however described, to the extent it, together with all other cash and share dividends and distributions made by Tenaga during such Payment Year (and which were paid on account of consolidated net income for the fiscal year ending immediately prior to the Payment Year) exceeds an amount equal to the greater of (a) the product of the number of Shares outstanding on the record date and RM0.135 and (b) 150% of the average of all cash and share dividends and distributions made by Tenaga in the last three fiscal years.

(vii) In case a tender or exchange offer made by Tenaga or any Subsidiary of Tenaga for all or any portion of the Shares shall expire and such tender or exchange offer shall involve the payment by Tenaga or such Subsidiary of consideration per Share having a Fair Market Value (as determined by the Board of Directors of Tenaga, whose determination shall, if made in good faith, be conclusive) at the last time (the "Expiration Date") tenders or exchanges could have been made pursuant to such tender or exchange offer (as it shall have been amended) that exceeds the Market Value per Share, as of the Expiration Date, the Exchange Price shall be adjusted in accordance with the following formula:

$$NEP = OEP \times [(N \times M)/(a + [(N - n) \times M])]$$

where:

NEP and OEP have the meanings ascribed thereto in subsection (i) above.

N = the number of Shares outstanding (including any tendered or exchanged Shares) on the Expiration Date.

M = Market Value per Share as of the Expiration Date.

a = the Fair Market Value of the aggregate consideration payable to the holders of Shares based on the acceptance (up to a maximum specified in the terms of the tender or exchange offer) of all Shares validly tendered or exchanged and not withdrawn as of the Expiration Date (the Shares deemed so accepted up to any such maximum, being referred to as the "Purchased Shares").

n = the number of Shares purchased.

Such reduction will become retroactively effective immediately prior to the opening of business on the day following the Expiration Date.

If Tenaga is obligated to purchase Shares pursuant to any such tender or exchange offer, but Tenaga is permanently prevented by applicable law from effecting any such purchase or all such purchases are rescinded, the Exchange Price shall again be adjusted to be the Exchange Price which would then be in effect if such tender or exchange offer had not been made.

(viii) In case Tenaga issues Shares (other than Shares based on any of the circumstances described in subsections (i) and (ii) above and Shares issued on exercise of rights or warrants or on conversion or exchange of any convertible or exchangeable securities granted, offered or issued by Tenaga in any of the circumstances described in this "Antidilution" subsection) or Tenaga or any Subsidiary of Tenaga shall issue any securities initially convertible into or exchangeable for Shares at a price per Share less than the Market Value per Share determined as of the last Trading Day preceding the date of announcement of the terms of such issuance of securities, the Exchange Price shall be adjusted in accordance with the following formula:

$$NEP = OEP \times [(N + v) / (N + n)]$$

where:

NEP and OEP have the meanings ascribed thereto in subsection (i) above.

N = the number of Shares outstanding on the day preceding the date of issuance of such Shares or initially convertible or exchangeable Bonds.

n = the number of Shares issued or deliverable upon conversion or exchange of such initially convertible or exchangeable Bonds.

v = the number of Shares which the aggregate consideration issue price of the total amount of Shares or initially convertible or exchangeable Bonds would purchase at Market Value.

If the conversion or exchange right of any such convertible or exchangeable securities expires prior to exercise or if such convertible or exchangeable securities are for any reason not issued, the Exchange Price shall be readjusted to reflect the actual securities converted or exchanged.

If Tenaga determines, either by itself or in consultation with a leading independent securities company or merchant bank in Kuala Lumpur selected by Tenaga and approved by the Trustee, that any event or circumstance analogous to the events and circumstances described above in (i) through (viii) has occurred and has substantially the same effect as such event or circumstance described above, the Exchange Price shall be adjusted in a manner that in the opinion of Tenaga fairly and reasonably preserves the value of the Exchange Right of the Bondholders, such determination to be made, in Tenega's discretion, in consultation with such securities company or merchant bank. For the avoidance of doubt, for the purpose of subsections (i) to (viii) above, "outstanding" shares shall include any such Shares purchased by Tenaga "in treasury".

In any case in which the Indenture shall require that an adjustment be made immediately following a record date, Tenaga may elect to defer the effectiveness of such adjustment (but in no event until a date later than the effective date of the event giving rise to such adjustment), in which case Tenaga shall, with respect to any Bond exchanged after such record date and before such adjustment shall have become effective (i) defer issuing to the relevant Bondholder the number of Shares deliverable upon such exchange in excess of the number of Shares deliverable thereupon only on the basis of the Exchange Price prior to adjustment, and (ii) not later than 20 days after such adjustment shall have become effective, deliver or cause to be delivered to such Bondholder the additional Shares deliverable on such exchange.

In case of a Merger of Tenaga where Tenaga is not the surviving entity, each Bond then outstanding shall, without the consent of any Bondholders, become exchangeable only into the kind and amount of securities, cash and other property receivable upon such Merger by a holder of the number of Shares into which such Bonds could have been exchanged immediately prior to such Merger. The corporation formed by such Merger or the Person that acquired such properties and assets shall enter into a supplemental indenture with the Trustee to provide for the continuation of the Exchange Rights after such Merger and such supplemental indenture shall provide for adjustments to the Exchange Price which shall be as nearly equivalent as practicable to the adjustments provided in the Indenture.

The Antidilution Adjustment shall not be applicable (i) if pursuant to any employee share option scheme adopted by Tenaga and approved by the Malaysian Securities Commission and the shareholders and the board of directors of Tenaga, Tenaga issues to its employees (or the employees of any of its subsidiaries) options to purchase ordinary shares of Tenaga; provided, however, that in the event the number of options actually exercised in any particular fiscal year of Tenaga results in the issuance of ordinary shares in excess of 2% of Tenaga's then outstanding ordinary shares (the "2% Threshold"), the Antidilution Adjustment shall apply initially with respect to the 2% Threshold and any amount in excess of the 2% Threshold on the date the 2% Threshold is first exceeded (each an "Adjustment Date"), and thereafter the Antidilution Adjustment shall apply with respect to any additional shares issued since such Adjustment Date pursuant to options exercised during the remainder of such fiscal year on a fiscal quarterly basis; (ii) if Tenaga shall issue Shares upon conversion of up to RM200 million aggregate principal amount of the CRIS; or (iii) if Tenaga shall issue Shares upon exchange of Bonds under the Indenture.

Exchange Price Reset. If the average of the Closing Prices of the Shares (the "Average Market Price") for the period of 15 consecutive Trading Days immediately prior to August 20, 2005 (the "Reset Date"), converted into US dollars at the Prevailing Rate is less than the Exchange Price on the Reset Date, converted into US dollars at the Fixed Exchange Rate, the Exchange Price shall be adjusted on a one-time basis on the Reset Date in accordance with the following formula:

Adjusted Exchange Price = Average Market Price x [Fixed Exchange Rate/Prevailing Rate]

Such adjusted Exchange Price shall be rounded upwards, if necessary, to the nearest RM0.01, provided that:

(a) any such adjustment to the Exchange Price shall be limited such that the adjusted Exchange Price in no event shall be less than 85% of the Exchange Price prevailing on November 20, 2002 (taking into account any adjustments as described in "— Antidilution" above which may have occurred prior to the Reset Date);

(b) subject to (a) above, Antidilution Adjustments shall apply, *mutatis mutandis,* to adjustments hereunder to ensure that appropriate adjustments shall be made to any Exchange Price to reflect any Antidilution Adjustments;

(c) the Exchange Price shall not be reduced below the par value of the Shares (which was RM1.00 per Share at the date of this Offering Memorandum) unless under applicable law then in effect the Bonds could be exchanged at such reduced Exchange Price into legally issued, fully-paid and non-assessable Shares; and

(d) for the avoidance of doubt, any such adjustment to the Exchange Price shall only be a downward adjustment.

Any such adjustments shall become effective as of the Reset Date and shall be notified to the Bondholders as soon as practicable thereafter.

US Tax Effect of Exchange Price Adjustment. In the event of a taxable distribution to holders of Shares which results in an adjustment of the Exchange Price (or in which Bondholders otherwise participate) or in the event that the Exchange Price is decreased at the discretion of the Issuer, Bondholders may in certain circumstances be deemed to have received a distribution subject to United States federal income tax as a dividend. See "Taxation — United States Federal Income Taxation".

Provisions Applicable to All Exchanges and Adjustments of Exchange Price

No adjustment of the Exchange Price will be required to be made until the cumulative adjustments, required to be made in the circumstances set forth above amount to 1.0% or more of the Exchange Price as last adjusted. However, any adjustment required to be made in the circumstances set forth above, which is not made because of failure to meet the 1.0% threshold, will be carried forward. Except as otherwise described below, the Exchange Price may at any time be reduced by the Issuer.

Tenaga will not take any action which would reduce the Exchange Price per Share below the par value of the Shares (which was RM1.00 per share at the date of this Offering Memorandum), unless, under applicable law then in effect, the Bonds could be exchanged at such reduced Exchange Price into legally issued, fully-paid and non-assessable ordinary shares.

All calculations relating to exchange, including adjustments of the Exchange Price, will be made to the nearest .001 of a share of securities or other property or nearest cent, as the case may be.

Whenever the Exchange Price is adjusted, the Issuer will promptly deliver to the Trustee an officer's certificate setting forth the Exchange Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment. Promptly after delivering such certificate, the Issuer will prepare a notice of such adjustment of the Exchange Price setting forth the adjusted Exchange Price and the date on which such adjustment became effective and shall instruct the Trustee to give such notice of such adjustment of the Exchange Price to each Bondholder. For so long as the International Bonds are listed on the Luxembourg Stock Exchange, and the rules of that exchange so require, the Trustee will so inform the Luxembourg Stock Exchange, and the Issuer will publish such notice in the applicable Authorized Newspaper.

Events of Default; Notice and Waiver

The occurrence and continuance of the following events will constitute events of default ("Events of Default") under the Bonds: (i) default in the payment of any installment of interest upon any of the Bonds as and when the same shall become due and payable, and continuance of such default for a period of 30 days; (ii) default in the payment of all or any part of the principal of, or premium on, any of the Bonds as and when the same shall become due and payable, whether at maturity, upon redemption or otherwise; (iii) for so long as the Shares deliverable upon exchange for the Bonds are prescribed to be deposited with the Central Depository and the regulations of the Central Depository so require, failure by Tenaga, following due exercise the Exchange Right, to provide the Central Depository with the relevant Allotment Notice and Allotment Certificate within 10 Trading Days or such other period permitted or prescribed by the rules of the Central Depository after the Exchange Date relating to such exchange or, where Shares in certificated form may be allotted and issued, following due exercise of the Exchange Right, failure by Tenaga to make available for collection at its registered office in Malaysia or, if requested to do so in the relevant Exchange Notice, failure to mail, such Shares to the person and at the place specified in that Exchange Notice, within 14 Trading Days after the Exchange Date or such other period permitted or prescribed by the rules of the Central Depository; (iv) failure on the part of the Issuer or Tenaga to perform any other of the covenants or agreements on the part of the Issuer or Tenaga, as the case may be, contained in the Bonds or in the Indenture for a period of 60 days after the date on which written notice specifying such failure, stating that such notice is a "Notice of Default" under the Bonds and demanding that the Issuer or Tenaga, as the case may be, remedy the same, shall have been given by registered or certified mail, return receipt requested to the Issuer or Tenaga, as the case may be, at the office of the Trustee by the holders of at least 10% in aggregate principal amount of the Bonds at the time outstanding; (v) any indebtedness of the Issuer or Tenaga or its consolidated subsidiaries for borrowed money in the aggregate outstanding principal amount of US$30,000,000 or more or its equivalent in any other currency or currencies either (a) becoming due and payable prior to the due date for payment thereof by reason of acceleration thereof following default by the Issuer or Tenaga or its consolidated subsidiaries or (b) not being repaid at, and remaining unpaid after, maturity as extended by the period of grace applicable thereto, if any, or any guarantee given by the Issuer or Tenaga in respect of indebtedness of any other person in the aggregate outstanding principal amount of US$30,000,000 or more or its equivalent in any other currency or currencies not being honored when, and remaining dishonored after becoming, due and called, provided that, if any such default under any such indebtedness shall be cured or waived, then the default under the Bonds by reason thereof shall be deemed to have been cured and waived; (vi) an order is made by a court or authority of competent jurisdiction, or an effective resolution is passed, for dissolution of the Issuer or Tenaga; (vii) certain events of bankruptcy or insolvency relating to the Issuer or Tenaga; (viii) the Special Share either is no longer held by the Special Shareholder or is redeemed by Tenaga or (ix) failure by the Issuer to pay the Cash Settlement Amount, when due, pursuant to its exercise of the Cash Settlement Option.

In each case of an Event of Default, the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding, by written notice to the Issuer, Tenaga and the Trustee as provided in the Bonds, may declare the principal of all the Bonds, and the interest accrued thereon, to be due and payable immediately. However, the Bonds shall not be due and payable immediately if, prior to the time when the Issuer and Tenaga receive such notice, all Events of Default provided for in the Bonds and the Indenture shall have been cured. If, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the money due shall have been obtained or entered, the Issuer and Tenaga shall pay or deposit with the Trustee a sum sufficient to pay all money then due with respect to the Bonds (other than amounts due solely because of such declaration) and cures all other Events of Default, then the holders of more than 50% in aggregate outstanding principal amount of the Bonds may waive all defaults and rescind and annul such declaration and its consequences.

Return of Monies Held by Trustee or Other Paying, Exchange and Transfer Agent

Any monies deposited with or paid to the Trustee or any Paying, Exchange or Transfer Agent, or then held by the Issuer in trust, for the payment of the principal of, or interest on, any Bond or any Cash Settlement Amount and remaining unclaimed for two years after the date upon which such principal of, or interest on, any Bond or any Cash Settlement Amount shall have become due and payable shall promptly be repaid to or for the account of the Issuer or Tenaga (upon the Issuer's request therefore) by the Trustee or such Paying, Exchange and Transfer Agent upon the Issuer's request, the receipt of such repayment to be confirmed promptly in writing by or on behalf of the Issuer, and, to the extent permitted by law, the holder of such Bond shall thereafter look only to the Issuer for any payment which such holder may be entitled to collect, and all liability of the Trustee or such Paying, Exchange and Transfer Agent with respect to such monies shall thereupon cease.

Under New York law, any legal action upon the Bonds must be commenced within six years after the payment thereof is due.

Modification, Amendment and Waiver

The Issuer or Tenaga may at any time, or the Trustee shall, upon a request in writing made by Bondholders holding not less than 25% of the aggregate outstanding principal amount of the Bonds, made at any time after the Bonds shall have become immediately due and payable due to an Event of Default, convene a meeting of Bondholders. At a meeting of the Bondholders, persons entitled to vote a majority in aggregate principal amount of the Bonds at the time outstanding shall constitute a quorum. In the absence of a quorum at any such meeting, the meeting may be adjourned; in the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned; at the reconvening of any meeting adjourned for lack of a quorum, the persons entitled to vote 25% in aggregate principal amount of the Bonds at the time outstanding shall constitute a quorum for the taking of any action set forth in the notice of the original meeting. Any resolution at a meeting of Bondholders to modify or amend, or to waive compliance with, any of the covenants or conditions referred to above (other than those set forth below as requiring the consent of each

Bondholders affected thereby) shall be adopted if passed by the lesser of (i) a majority in aggregate principal amount of Bonds then outstanding and (ii) 75% in aggregate principal amount of the Bonds represented and voting at the meeting.

Modifications and amendments to the Indenture or the Bonds requiring consent of Bondholders may be made, and future compliance therewith or past defaults by the Issuer or Tenaga may be waived, with the consent of the Issuer, Tenaga and the Bondholders of more than 50% in aggregate principal amount of the Bonds at the time outstanding, or of such lesser percentage as may act at a meeting of Bondholders; provided that no such modification, amendment or waiver of the Indenture or any Bond may, without the consent of each Bondholder affected thereby, (i) change the stated maturity of the principal of or any interest payment date on any such Bond; (ii) reduce the principal of or interest or premium on any such Bond or any Cash Settlement Amount or Early Redemption Amount or increase the Exchange Price (as adjusted in accordance with the Indenture except as otherwise adjusted in accordance with the Indenture); (iii) change the currency of payment of the principal of or interest or premium on any such Bond or any Cash Settlement Amount or Early Redemption Amount; (iv) reduce the above-stated percentage of aggregate principal amount of Bonds outstanding or reduce the quorum requirements or the percentage of votes required for the taking of any action; (v) modify the Guarantee to the extent it would adversely affect such Bondholder or (vi) cancel or adversely affect by modification or otherwise the Exchange Right, Delisting Repurchase Right or the Optional Repurchase Right.

The Indenture provides that the Issuer, Tenaga and the Trustee may agree, without the consent of the Bondholders, to any modification of, or to the waiver or authorization of any breach or proposed breach of, any provision of the Indenture or the Bonds which shall not materially and adversely affect the interests of the Bondholders.

Notices

Whenever the Indenture provides for notice to be given to Bondholders, such notice will be sufficiently and validly given (except where otherwise expressly provided) if in writing and mailed, first-class postage prepaid, to each Bondholder entitled thereto, at such Bondholder's last address as it appears on the Bonds register maintained by the registrar. In addition, notices shall be published in an Authorized Newspaper. Notice shall be deemed to have been given on the later of (i) the date of publication, or if published on different dates, on the date of the last such publication and (ii) the seventh day after the date such notice was mailed as aforesaid. Notwithstanding the foregoing, so long as and to the extent the Bonds are represented by the Global Bonds and such Global Bonds are held by The Depository Trust Company, its custodian, Euroclear or Clearstream and/or the common depositary for Euroclear and Clearstream, as the case may be, notices to owners of beneficial interests in the Global Bonds may be given by delivery of the relevant notice to The Depository Trust Company, its custodian, Euroclear, Clearstream and/or the common depositary for Euroclear and Clearstream, as the case may be, for communication by it to entitled account holders; provided, that so long as the International Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices shall also be published in the *Luxemburger Wort* or any other leading newspaper having general circulation in Luxembourg.

The Trustee

The Indenture provides that, prior to the occurrence of an Event of Default, the Trustee will not be liable except for the performance of such duties as are specifically set forth in such Indenture. If an Event of Default has occurred and is continuing, the Trustee will be obligated to use the same degree of care and skill as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

Governing Law

The Indenture and the Bonds will be governed by and construed in accordance with the laws of the State of New York.

Book Entry; Delivery and Form

Except in the limited circumstances set forth under "— Individual Definitive Certificates" below, the Bonds will only be in book-entry form. International Bonds sold in offshore transactions in reliance on Regulation S will be represented by the International Global Bonds deposited with a common depositary for Euroclear and Clearstream, which will initially be JPMorgan Chase Bank, London Branch, and registered in the name of Chase Nominees Limited, a nominee of the common depositary for Euroclear and Clearstream. Rule 144A Bonds may be sold within the United States only to qualified institutional buyers ("QIBs") and will be represented by the Rule 144A Global Bonds deposited with a custodian, which will initially be JPMorgan Chase Bank, for The Depository Trust Company ("DTC"), and registered in the name of Cede & Co., a nominee of DTC. The Bonds will have minimum denominations of US$1,000 and any integral multiple of US$1,000 in excess thereof.

In the event Certificated Bonds are to be issued in respect of the Bonds pursuant to the Indenture, the Issuer will give notice to the Bondholders. Such notice will be made by mail and by publication in the Authorized Newspapers (including, so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange require, the Luxemburger Wort or any other leading newspaper having general circulation in Luxembourg) and shall specify, among other things, the procedures for receiving individual definitive certificates and for receiving payments and exercising Exchange Rights in respect of Bonds in definitive form and, so long as the Bonds are listed on the Luxembourg Stock Exchange, the name and address of the Paying Agent in Luxembourg.

The Bonds are not deliverable in bearer form.

Global Bonds

Rule 144A Global Bond. Upon the issue of the Rule 144A Global Bond, DTC or its custodian will credit, in its internal system, the respective principal amount of the individual interests represented by such Rule 144A Global Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Initial Purchasers. Ownership of beneficial interests in the Rule 144A Global Bond will be limited to persons who have accounts with DTC ("DTC Participants") or persons who hold interests through DTC Participants. Ownership of beneficial interests in the Rule 144A Global Bond will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

So long as DTC or its nominee is the registered owner or holder of the Rule 144A Global Bond, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Rule 144A Bonds represented by such Rule 144A Global Bond for all purposes under the Indenture and the Bonds. Unless DTC notifies Tenaga that it is unwilling or unable to continue as depositary for the Rule 144A Global Bond, or ceases to be a "clearing agency" registered under the Exchange Act, or an Event of Default has occurred and is continuing with respect to the Bonds, owners of interests in the Rule 144A Global Bond will not be entitled to have any Rule 144A Bonds registered in their names, will not receive or be entitled to receive physical delivery of Certificated Bonds and will not be considered the owners or holders of the Rule 144A Global Bond (or any Rule 144A Bonds represented thereby) under the Indenture or the Bonds. In addition, no beneficial owner of an interest in such Rule 144A Global Bond will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the Indenture referred to in this Offering Memorandum and, if applicable, those of Euroclear and Clearstream).

International Global Bond. The International Global Bond will be deposited with a common depositary for Euroclear and Clearstream (the "Common Depositary"), initially JPMorgan Chase Bank, London Branch, and registered in the name of Chase Nominees Limited, a nominee of the Common Depositary, and Euroclear and Clearstream will credit their respective accountholders with the respective principal amounts of the individual interests represented by such International Global Bond. Such accounts will be designated initially by or on behalf of the Initial Purchasers. Ownership of beneficial interests in the International Global Bond will be limited to persons who have accounts with Euroclear or Clearstream or persons who hold interests through such accountholders. Ownership of beneficial interests in the International Global Bond will be shown on, and the transfer of that ownership will be effected only through, the records maintained by Euroclear and Clearstream (with respect to interests of their respective accountholders) and the records of such accountholders (with respect to interests of persons other than such accountholders).

Payments in respect of Global Bonds. Payments in respect of the Global Bonds will be made to DTC and the Common Depositary or their respective nominees as the registered owners thereof. None of the Issuer, Tenaga, the Trustee, the Common Depositary, the Paying Agents and any custodian, transfer agent or registrar will have any responsibility or liability for the accuracy of any of the records relating to, or payments made on account of, ownership interests in the Global Bonds or for any notice permitted or required to be given to Bondholders or any consent given or actions taken by such registered Bondholders. Tenaga expects that upon receipt of any payment in respect of a Global Bond representing any Bonds held by it or its nominee, DTC or the Common Depositary, as the case may be, will immediately credit DTC Participants' accounts, in the case of DTC, or Euroclear and Clearstream in the case of the Common Depositary, with payments in amounts proportionate to their respective interests in the principal amount of such Global Bonds as shown on their respective records.

Transfers and Exchanges of Bonds. Transfers between DTC Participants will be effected in DTC's Same-Day Funds Settlement System. Transfers between accountholders in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

The laws of certain jurisdictions require that certain purchasers of securities take physical delivery of such Bonds in definitive form. Accordingly, the ability of beneficial owners to own, transfer or pledge beneficial interests in the Global Bonds may be limited by such laws.

Exchange of Rule 144A Bonds will be effected through DTC Participants in accordance with DTC's procedures. Exchange of International Bonds through participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Bonds described under "Transfer Restrictions", when beneficial interests in Global Bonds are to be transferred from the account of a DTC Participant holding a beneficial interest in the Rule 144A Global Bond to the account of a Euroclear or Clearstream accountholder wishing to hold a beneficial interest in the International Global Bond, the DTC Participant will deliver instructions for delivery to the relevant Euroclear or Clearstream accountholder to DTC by 12:00 p.m. (noon), New York City time, on the settlement date. On the settlement date, the Trustee will (i) decrease the amount of the Rule 144A Bonds registered in the name of DTC or its nominee and evidenced by the Rule 144A Global Bond and (ii) increase the amount of International Bonds registered in the name of the Common Depositary or its nominee and evidenced by the International Global Bond. Book-entry interests will be delivered to Euroclear or Clearstream, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Subject to compliance with the transfer restrictions applicable to the Bonds described under "Transfer Restrictions", when beneficial interests in Global Bonds are to be transferred from the account of a Euroclear or Clearstream account holder holding a beneficial interest in the International Global Bond to the account of a DTC Participant wishing to hold a beneficial interest in the Rule 144A Global Bond, the Euroclear or Clearstream participants must send delivery instructions to Euroclear by 10:00 a.m., Brussels time, for custody exchange instructions received by telex and by 3:00 p.m., Brussels time, for custody exchange instructions received through SWIFT or Euclid, and to Clearstream by 7:45 p.m., Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, as the case may be, will in turn transmit an appropriate instruction to the trustee to arrange delivery to the DTC Participant on the settlement date. On the settlement date, the Trustee will (i) deliver such Rule 144A Bonds by book-entry transfer to the relevant account of the DTC Participant and (ii) (a) decrease the amount of International Bonds registered in the name of the Common Depositary or its nominee as evidenced by the International Global Bond and (b) increase the amount of Rule 144A Bonds registered in the name of DTC or its nominee and evidenced by the Rule 144A Global Bond.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the International Global Bond and in the Rule 144A Global Bond among participants and accountholders of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of Tenaga, the Trustee, the Common Depositary, the Paying Agents, any custodian, any transfer agent, any registrar or any other agent of Tenaga will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants, indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

Disclosure with Respect to DTC. DTC has advised Tenaga that it will take any action permitted to be taken by a Bondholder (including the presentation of Bonds for exchange as described below) only at the direction of one or more DTC Participants to whose account or accounts with DTC interests in the Rule 144A Global Bond are credited and only in respect of such portion of the aggregate principal amount of Rule 144A Bonds as to which such DTC Participant or DTC Participants has or have given such direction. The giving of notices and other communications by DTC to DTC Participants, by DTC Participants to persons who hold accounts with them and by such persons to holders of beneficial interests in a Global Bond will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has also advised Tenaga as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "clearing agency" registered pursuant to the provision of Section 17A of the Exchange Act. DTC was created to hold securities for DTC Participants and facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

Disclosure with Respect to Euroclear and Clearstream. Euroclear and Clearstream each holds Bonds for participating organizations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Individual Definitive Certificates

If (i) DTC, the Common Depositary or any successor to DTC or the Common Depositary advises Tenaga in writing that it is at any time unwilling or unable to continue as a depositary, or ceases to be a "clearing agency" registered under the Exchange Act, and a successor depositary is not appointed by the Issuer within 90 days or (ii) either Euroclear or Clearstream or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (iii) the Issuer in its sole discretion determines not to have the Bonds represented by the Global Bonds and has provided DTC, the Common Depositary or successor thereof, as the case may be, with written notice of such election, or (iv) the Trustee advises the Issuer and Tenaga in writing that an Event of Default under the Indenture has occurred and is continuing for the requisite period and requests the issuance of Certificated Bonds, the Issuer will issue Certificated Bonds in registered form in exchange for the Rule 144A Global Bond and the International Global Bond, as the case may be, provided, however, that if an Event of Default referred to in clause (iv) above is waived pursuant to the terms of the Indenture and the Bonds, or is no longer continuing, such Certificated Bond need not be issued and if already issued may, at the holder's request, be represented again by a Global Bond in accordance with the Indenture. Upon receipt of such notice from DTC, Euroclear, Clearstream or the Trustee, as the case may be, the Issuer will use its reasonable best efforts to make arrangements for the exchange of interests in the relevant Global Bond for Certificated Bonds and cause the requested Certificated Bonds to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to Bondholders. Persons exchanging interests in a Global Bond for Certificated Bonds will be required to provide to the Trustee, through the relevant clearing system, (i) written instructions and other information required by Tenaga and the Registrar to complete, execute and deliver such Certificated Bonds and (ii) in the case of an exchange of an interest in the Rule 144A Global Bond, such certification as the Registrar shall require and, in all cases, Certificated Bonds delivered in exchange for any Global Bonds or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

In the case of Certificated Bonds issued in exchange for the Rule 144A Global Bond, such Certificated Bonds will bear, and be subject to, such legends as the Issuer requires in order to assure compliance with any applicable law. The holder of a restricted Certificated Bond may transfer the Bonds represented by such Certificated Bonds, subject to compliance with the provisions of such legend. Upon the transfer, exchange or replacement of Certificated Bonds bearing the legend, or upon specific request for removal of the legend on Certificated Bonds, Tenaga will deliver only Certificated Bonds that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

DESCRIPTION OF THE SHARES

The discussion below provides information about the Shares, the main provisions of Tenaga's Articles of Association and the applicable laws of Malaysia. This description is only a summary and is qualified by reference to Tenaga's Articles of Association and the applicable laws of Malaysia.

Share Capital

The authorized share capital of Tenaga is RM3,500,001,501, of which 3,111,825,300 ordinary shares, par value RMl.00 per share, and one "Special Share", par value RM1.00 per share, have been issued and are fully paid. Tenaga's Articles of Association permit Tenaga to issue shares with preferred, deferred or other special rights or such restrictions as shareholders may approve by ordinary resolution. Tenaga may also issue preference shares carrying a right of redemption out of profits or that are liable to be redeemed at the option of Tenaga or issue preference shares ranking equally with or in priority to preference shares already issued. Subject to the Malaysian Companies Act, the directors may redeem such shares on such terms as they think fit provided that the total par value of the issued preference shares shall not exceed the total par value of the issued ordinary shares.

Special Share

The Special Share enables the Malaysian Government to ensure that certain major decisions affecting the operations of Tenaga are consistent with Malaysian Government policy. The holder of the Special Share is currently the Minister of Finance Incorporated, but may be any other representative or person acting on behalf of the Malaysian Government. The holder of the Special Share is entitled to receive notices of meetings but does not carry any right to vote at such meetings of Tenaga. However, the holder of the Special Share is entitled to attend and speak at such meetings.

Certain matters, in particular the alteration of Tenaga's Articles of Association relating to the rights of the holder of the Special Share, the dissolution of Tenaga, any substantial acquisitions and disposals of assets, amalgamation, merger and takeover or change in operations carried on by Tenaga, require the prior consent of the holder of the Special Share.

The holder of the Special Share has the right to require Tenaga to redeem the Special Share at par at any time. In a distribution of capital in a winding-up of Tenaga, the holder of the Special Share is entitled to the repayment of the capital paid-up on the Special Share in priority to any repayment of capital to any other member. The Special Share does not confer to its holder any right to participate in the capital or profits of Tenaga.

As the holder of the Special Share, the Government, as represented by the Minister of Finance Incorporated, retains the right to appoint up to six out of maximum of 12 Directors of Tenaga (the "Government Appointed Directors"), including the Chairman of the Board of Directors and one or more Executive Directors. The Executive Directors shall serve for a term not exceeding three years and shall be subject to retirement by rotation. The Chairman of the Board of Directors shall be given such executive powers as the Board determines and shall not, while he has executive powers, be subject to retirement by rotation.

Except as otherwise disclosed below, the provisions of Tenaga's Articles of Association would apply to the Government Appointed Directors as they apply to the other Directors:

- any vacancy in the Government Appointed Directors may only be filled by a person appointed by the Special Shareholder; and
- the provision of the Articles of Association relating to the appointment of Directors would not apply to the Government Appointed Directors.

Redeemable Preference Shares

As of August 31, 2002, Tenaga had 1,000 Class A Redeemable Preference Shares of RM1.00 each ("Class A RPSs"), and 500 Class B Redeemable Preference Shares of RM1.00 each ("Class B RPSs" and, together with the Class A RPSs, the "RPSs"). The Class A RPSs were issued in August 2001 and the Class B RPSs were issued in September 2001. The current holder of the Class A RPSs is RHB Sakura Merchant Bankers Berhad and the holder of the Class B RPSs is RHB Bank Berhad. The rights attaching to the RPSs are identical and include the right to a fixed non-cumulative gross dividend payable semi-annually in cash on the day of the maturity of each six-month period from the date of issue of the RPSs. Ownership of the RPSs does not entitle the holder thereof: (i) to participate in the surplus profits or assets of Tenaga beyond the rights set out in the Articles of Association; (ii) to participate on a return in excess of capital on liquidation, winding up or otherwise of Tenaga, other than on redemption, up to the issue price of RM1,000 for each RPS; or (iii) to receive notice of or to attend or vote at any general meeting of Tenaga, other than on a resolution to amend or vary the rights of the holders of the RPSs. The RPSs are not convertible into Shares, and although they are transferable with Tenaga's consent (which shall not be unreasonably withheld), they may not be listed on the KLSE or any other stock exchange. Subject to Section 61 of the Malaysian Companies Act, the RPSs may be redeemed upon, and subject to, certain conditions, which include: (i) Tenaga having the right, at any time on or after the ninth anniversary of the date of issue of the RPSs, to redeem in whole and not part thereof at the issue price of RM1,000.00 for each RPS; and (ii) the RPSs redeemed by Tenaga may not be subsequently re-issued.

Ordinary Shares

As of August 31, 2002, 3,111,825,300 Shares were issued and are fully paid up. All of the Shares are in registered form. Tenaga may, subject to the provisions of the Malaysian Companies Act and the rules of the KLSE, purchase its own Shares. However, Tenaga may not, except in circumstances permitted by the Malaysian Companies Act and the rules of the KLSE, grant any financial assistance for the acquisition or proposed acquisition of its own Shares. The Shares have identical rights in all respects and rank equally with one another.

The shares may only be issued with the prior approval of the shareholders in general meeting. The approval, if granted, will lapse at the conclusion of the annual general meeting following the date on which the approval was granted or the expiration of the period within which the next annual general meeting after that date is required by law to be held, whichever is the earlier. However, any approval may be revoked or varied by the shareholders at a general meeting.

Subject to any direction to the contrary that may be given by the shareholders in a general meeting, Tenaga is required by its Articles of Association, before issuance, to offer all new shares to persons who, as of the date of the offer, are entitled to receive notices from Tenaga of general meetings in proportion, as far as the circumstances admit, to the amount of the existing shares to which they are entitled. Tenaga is required to make the offer by notice specifying the number of shares offered, and limiting a time within which the offer may be accepted and, if not accepted within the time limits specified, will be deemed to be declined. After the expiration of that time, or on the receipt of a notice from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of those shares in such manner as they think most beneficial to Tenaga.

Subject to the Malaysian Companies Act and subject to the KLSE waiving the requirement to convene a general meeting, Tenaga may, notwithstanding the provisions of the paragraph immediately above, issue new shares without first offering them to shareholders in proportion to the existing shares to which they are entitled, where the shares to be issued in any one financial year (other than by way of bonus or rights issues or the exercise of options granted under Tenaga's employee share option scheme) when aggregated with the nominal value of any shares/convertible securities issued during the preceding 12 months does not exceed 10% of Tenaga's prevailing share capital as at the date of the passing of the ordinary resolution approving the general mandate to the Directors on share issues. At Tenaga's last annual general meeting, the directors were given a general authority to issue any remaining approved but unissued ordinary shares prior to the next annual general meeting of Tenaga. To date, no ordinary resolution has been passed to revoke or vary such authority.

Where the creation or issue of new ordinary shares carrying voting rights (when aggregated with all other existing issued shares) exceeds 10% of the total voting rights of shareholders in general meeting, the prior consent of the holder of the Special Share must be obtained.

Subject to the foregoing, the provisions of the Malaysian Companies Act and any special rights attached to any class of shares currently issued, all new ordinary shares are under the control of the Board of Directors who may allot and issue the same with such rights and restrictions as it may think fit.

Shareholders

Only persons who are registered in Tenaga's Register of Members and, in cases in which the person so registered is the Central Depository, the persons named as the depositors in the depository register maintained by the Central Depository for the ordinary shares, are recognized as shareholders.

For the purposes of determining the number of votes that a shareholder who is an account-holder directly with the Central Depository or a depository agent, or his proxy, may cast at any general meeting on a poll, the reference to shares held or represented shall, in relation to shares of that shareholder, be the number of shares entered against his name in the register maintained with the Central Depository as of the date that is three market days before the time of the relevant general meeting as supplied by the Central Depository to Tenaga.

Tenaga will not, except as required by law, recognize any equitable, contingent, future or partial interest in any ordinary share or other rights for any ordinary share other than the absolute right thereto of the registered holder of the ordinary share or of the person whose name is entered in the depository register for that ordinary share. Tenaga may close the Register of Members upon giving 18 market days' notice to the KLSE of its intention to do so and stating in the notice the purpose of such closure. However, the Register of Members may not be closed for more than 30 days in aggregate in any calendar year. Typically, Tenaga closes the register to determine shareholders' entitlement to receive dividends and other distributions for no more than five days a year.

Limitation on Shareholdings

No person (other than the Malaysian Government or a trustee of any employees share option scheme of Tenaga) shall be entitled to hold more than 10% of the shares in issue or 10% of the total voting rights in Tenaga. In addition, pursuant to Tenaga's Articles of Association, the total number of shares or the total number of voting rights held by foreigners (defined to include foreign corporations or corporations under foreign control which, among other things, includes a corporation in which a majority of the board of directors are foreigners or a majority of the voting shares are held by foreigners) at any particular time shall not exceed 25% of the total shares of Tenaga then in issue or 25% of the total voting rights of members in general meeting. The Securities Industry (Central Depositaries) (Foreign Ownership) Regulations 1996 provide that where a foreigner holds shares beyond the prescribed foreign ownership limitation, the company's directors may determine whether such foreigner shall be entitled to such rights, benefits, powers and privileges in respect of such shareholding and be subject to all liabilities, duties and obligations conferred or imposed by the Malaysian Companies Act or the articles of association of the company. Tenaga's Articles of Association provide, inter alia, that where a foreign investor holds shares and such shareholding raises the beneficial ownership of Tenaga by foreign investors above the prescribed foreign ownership limitations, such foreign investor will not be entitled to exercise any voting rights in respect of its shareholding in any meeting of Tenaga's shareholders.

If it appears to Tenaga's Directors that the shares held by a foreign investor has exceeded such prescribed foreign ownership limitation, the Directors (and as a result, Tenaga) will be entitled to refuse to register any shares in the name of that person unless (i) there shall first have been given to the Directors a declaration stating the total number of shares held by that person and his associates and the total voting rights exercisable by him and his associates and (ii) the Directors are satisfied as to the contents thereof. The Directors may at any time give notice in writing to any person requiring him to make a declaration as to the total number of shares held by him and his associates. If the Directors are not satisfied that such person is capable of exercising the right to vote in general meetings of Tenaga's shareholders in a manner that does not exceed the prescribed foreign ownership limitation, the Directors may give a further notice in writing to such person requiring him to transfer such number of shares to other persons as will result in the Directors being satisfied that the number of shares held by him and his associates and the total voting rights exerciseable by him and his associates will not exceed the prescribed foreign ownership limitation.

If the notice referred to in the immediately preceding paragraph is not complied with to the satisfaction of the Directors, the Directors may arrange for Tenaga to sell such shares at the best price reasonably obtainable. The net proceeds of the sale of such shares will be received by Tenaga and shall be paid over by Tenaga to the former holder upon receipt of notification from the holders to the Central Depository authorizing the Central Depository to credit Tenaga's securities account with such number of shares.

Any change in Tenaga's Articles of Association relating to limitations on shareholdings and the definitions of "foreigner" and "foreign corporation" require the consent in writing of the holder of the Special Share.

Transfer of Ordinary Shares Held in Certificated Form

The Board of Directors may decline to register any transfer of ordinary shares which are not fully paid shares or ordinary shares over which Tenaga has a lien. Subject to the restriction imposed by the Malaysian Companies Act and any written law, ordinary shares in certificated form may be transferred by a duly signed instrument of transfer in writing and in such form and on payment of such fee as may be approved or determined by the KLSE. The Board of Directors may also decline to register a transfer of shares to a person of whom they shall not approve or where such transfer is subject to the restrictions set out in "— Limitation on Shareholdings". Tenaga will replace lost or destroyed certificates for ordinary shares if Tenaga is properly notified and if the applicant pays a fee which will not exceed RM3.00 and furnishes any evidence and indemnity that the Board of Directors may require. See "Clearance and Settlement" for information regarding the transfer of ordinary shares held through the Central Depository.

General Meetings of Shareholders

Tenaga is required to hold an annual general meeting every year and not more than 15 months after the preceding annual general meeting. The Board of Directors may convene an extraordinary general meeting whenever it thinks fit and must do so if shareholders representing not less than 10% of the issued share capital of Tenaga request in writing that such a meeting be held. Unless otherwise required by law or by Tenaga's Articles of Association, voting at general meetings is by ordinary resolution, requiring an affirmative vote of a simple majority of the votes cast at that meeting. An ordinary resolution suffices, for example, for the appointment of Directors. A special resolution, requiring the affirmative vote of at least 75% of the votes cast at the meeting, is necessary for certain matters under Malaysian law, including the voluntary winding up of Tenaga, amendments to the Tenaga's Memorandum and Articles of Association, a change of Tenaga's corporate name and a reduction in its share capital, share premium account or capital redemption reserve fund. Tenaga must give at least 21 days' notice in writing for every general meeting convened for the purpose of passing a special resolution and at least 14 days' notice for every general meeting convened for the purpose of passing an ordinary resolution. The notice must be given to every shareholder holding shares that confer upon the holder the right to attend and vote at the meeting and must set forth the place, the day and the hour of the meeting and, in the case of special business, the general nature of that business.

Voting Rights

A shareholder is entitled to attend, speak and vote at any general meeting, in person or by proxy, A proxy need not be a shareholder. A person who holds ordinary shares through the Central Depository book-entry clearance system will only be entitled to vote at a general meeting as a shareholder if his name appears on the depository register maintained by the Central Depository three market days before the general meeting.

Except as otherwise provided in Tenaga's Articles of Association, two or more shareholders must be present in person or by proxy to constitute a quorum at any general meeting. Under Tenaga's Articles of Association, on a show of hands, every shareholder present in person and each proxy shall have one vote, and on a poll, every shareholder present in person or by proxy shall have one vote for each ordinary share held. A poll may be demanded by the chairman of the meeting or by at least five shareholders present in person or by proxy or by any shareholder present in person or by proxy and representing not less than 10% of the total voting rights of all shareholders having the right to attend and vote at the meeting.

In the case of an equality of votes, the chairman of the meeting (unless he is not the Chairman of the Board of Directors) shall have a casting vote in addition to the vote(s) to which he is entitled as a member.

Dividends

Tenaga may, by ordinary resolution, declare dividends at a general meeting, but may not pay dividends in excess of the amount recommended by the Board of Directors. All dividends declared must be paid out of profits, which would generally comprise retained earnings, or pursuant to Section 60(3) of the Malaysian Companies Act, which permits the application of the share premium attributable to the issued shares to the payment of dividends in the form of shares. The Board of Directors may also declare an interim dividend without the approval of the shareholders. All dividends are paid pro rata among the shareholders in proportion to the amount paid up on each shareholder's ordinary shares, unless the rights attaching to an issue of any ordinary share provides otherwise. Tenaga pays dividends in Ringgit. See "Dividend Policy" for a discussion of Tenaga's dividend policy.

Bonus and Rights Issues

The Board of Directors may, with the approval of the shareholders at a general meeting, capitalize any profits standing to the credit of any reserve or to the credit of the profit and loss account and distribute the same as bonus shares credited as fully paid-up to the shareholders in proportion to their shareholdings. The Board of Directors may also issue rights to take up additional ordinary shares to shareholders in proportion to their shareholdings. These rights are subject to any conditions attached to such issue.

Takeovers

The Malaysian Companies Act and the Takeovers Code regulate the acquisition of ordinary shares of public companies and contain certain provisions that may delay, deter or prevent a future takeover or change in control of Tenaga. Any person acquiring an interest, either acting singly or acting in concert with others, in more than 33% of Tenaga's voting shares must extend a takeover offer for the remaining voting shares in accordance with the provisions of the Takeovers Code. A mandatory takeover offer is also required to be made if a person holding (either singly or acting in concert with others) more than 33% but less than 50% of the voting shares acquires additional voting shares representing more than 2% of the voting shares in any six-month period.

"Parties acting in concert" include a company and its related and associated companies, a company and its directors (including their relatives), a company and its pension funds, a person and any investment company, unit trust or other fund whose investment such person manages on a discretionary basis, and a financial advisor and its client in respect of shares held by the financial advisor and shares in the client held by funds managed by the financial advisor on a discretionary basis. An offer for consideration other than cash must be accompanied by a cash alternative at not less than the highest price paid by the offeror or parties acting in concert with the offeror within the preceding six months.

Liquidation or other Return of Capital

If Tenaga is liquidated or in the event of any other return of capital, holders of the ordinary shares will be entitled to participate in any surplus assets in proportion to their shareholdings, subject to any special rights attaching to any other class of shares then existing.

Indemnification

As permitted by Malaysian law, Tenaga's Articles of Association provide that subject to the Malaysian Companies Act, Tenaga will indemnify its Directors, auditors, secretary and officers against any liability incurred in defending any proceedings, whether civil or criminal, which relate to anything done or omitted to have been done as an officer, director or employee and in which judgment is given in his favor or if the proceedings are otherwise disposed of without any finding or admission of any material breach of duty on his part or in which he is acquitted or in connection with any application under any statute for relief is granted to him by the court. Tenaga may not indemnify directors and officers against any liability which by law would otherwise attach to them in respect of any negligence, default, breach of duty or breach of trust of which they may be guilty in relation to Tenaga.

Limitations on Rights to Hold or Vote Ordinary Shares

Except as described in "— Limitation on Shareholdings", "— Voting Rights" and "— Takeovers" and "Foreign Investment Regulations in Malaysia", there are no limitations imposed by Malaysian law or by Tenaga's Articles of Association on the rights of non-resident shareholders to hold or vote ordinary shares.

Minority Rights

The rights of minority shareholders of Malaysian-incorporated companies are protected under Section 181 of the Malaysian Companies Act, which gives the Malaysian courts a general power to make any order, upon application by any shareholder of Tenaga, as they think fit to remedy any of the following situations:

- Tenaga's affairs are being conducted or the powers of the Board of Directors are being exercised in a manner oppressive to, or in disregard of the interests of, one or more of the shareholders; or

- Tenaga takes an action, or threatens to take an action, or the shareholders pass a resolution, or threaten to pass a resolution, which unfairly discriminates against, or is otherwise prejudicial to, one or more of the other shareholders, including the applicant.

Malaysian courts have wide discretion as to the relief they may grant and the relief is in no way limited to the relief listed in the Malaysian Companies Act. Without prejudice to the foregoing, Malaysian courts may among other things:

- direct or prohibit any act or cancel or vary any transaction or resolution;

- regulate Tenaga's affairs in the future;

- authorize civil proceedings to be brought in the name of, or on behalf of, Tenaga by a person or persons and on such terms as the court may direct;

- provide for the purchase of a minority shareholder's shares by the other shareholders or by Tenaga and, in the case of a purchase of shares by Tenaga, a corresponding reduction of its share capital;

- provide that Tenaga's Memorandum or Articles of Association be amended; or

- provide that Tenaga be wound up.

TAXATION

United States Federal Income Taxation

This section describes the material United States Federal income tax consequences of owning Bonds or Shares. It applies to you only if you acquire your Bonds in this offering and you hold your Bonds and Shares as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities or currencies;
- a financial institution;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a tax-exempt organization;
- a life insurance company;
- a person liable for alternative minimum tax;
- a person that actually or constructively owns 10% or more of the voting stock of Tenaga;
- a person that holds Bonds or Shares as part of a straddle or a hedging, integration or conversion transaction; or
- a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations, published rulings and court decisions. These laws are subject to change, possibly on a retroactive basis. There is currently no comprehensive income tax treaty between the United States and Malaysia.

> *Please consult your own tax advisor concerning the consequences of owning the Bonds and Shares in your particular circumstances under the Code and the laws of any other taxing jurisdiction.*

United States Holders

This subsection describes the tax consequences to a United States holder. You are a United States holder if you are a beneficial owner of a Bond or Share and you are:

- a citizen or resident of the United States;
- a domestic corporation;
- an estate whose income is subject to United States federal income tax regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If you are not a United States holder, this section does not apply to you and you should refer to "— United States Alien Holders" below.

Payment of Interest

You will be taxed on any interest on your Bond as ordinary income at the time you receive the interest or when it accrues, depending on your method of accounting for tax purposes. Interest paid on the Bonds is income from sources outside the United States, but, with certain exceptions, will be "passive" or "financial services" income, which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

Sale, Exchange or Redemption of the Bonds

You will generally recognize gain or loss on the sale, redemption or exchange of your Bond (other than by an exercise of your Exchange Right solely for Shares) equal to the difference between the amount you realize on the sale or redemption and your tax basis in your Bond. Your tax basis in your Bond will generally be the U.S. dollar cost, as defined below, of your Bond. This gain will be capital gain or loss when you sell or exchange or we redeem your Bond, except to the extent attributable to accrued but unpaid interest. Capital gain of a noncorporate United States holder is generally taxed at a maximum rate of 20% where the property is held more than one year. Your ability to deduct capital losses is subject to limitation.

Exercise of Exchange Right

You generally will not recognize any income, gain or loss upon receipt of Shares when you exercise your Exchange Right solely for Shares except (i) to the extent such Shares are considered attributable to accrued interest not previously included in income and, thus, are taxable as ordinary income or (ii) with respect to cash received in lieu of a fractional Share. Your tax basis in the Shares received on an exchange of a Bond will be the same as your adjusted tax basis in the Bond at the time of the exchange, reduced by any basis allocable to a fractional Share interest for which you received cash. The holding period for the Shares received upon an exchange will generally include the holding period of the Bond converted. However, your tax basis in Shares considered attributable to accrued interest generally will equal the amount of such accrued interest included in income, and the holding period for such Shares will begin on the day after the exchange.

Cash received in lieu of a fractional Share upon an exchange will be treated as a payment in exchange for the fractional Share. Accordingly, the receipt of cash in lieu of fractional shares generally will result in capital gain or loss (measured by the difference between the cash received for the fractional Share and your adjusted tax basis in the fractional Share).

Dividends and Constructive Dividends

If you exchange your Bonds into Shares, under the United States Federal income tax laws, you must include in your gross income the net amount (or the gross amount, if taxes treated as deducted from dividends are eligible for credit against your United States Federal income tax liability) of any dividend paid by Tenaga out of its current or accumulated earnings and profits (as determined for United States Federal income tax purposes). The dividend is ordinary income that you must include in income when you receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the US dollar value of the Ringgit payments made, determined at the spot Ringgit/US dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into US dollars will be treated as ordinary income or loss. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States Federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the shares and thereafter as U.S. source capital gain.

It is unclear whether Malaysian taxes treated as deducted from dividends will be eligible for credit against your United States Federal income tax liability. You should consult your own tax advisor regarding the foreign tax credit implications of the payment of any Malaysian taxes.

Dividends will be income from sources outside the United States, but generally will be "passive income" or "financial services income", which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

You may, in certain circumstances, be deemed to have received a constructive distribution if the Exchange Ratio of your Bonds is adjusted. Adjustments to the Exchange Ratio pursuant to a bona fide reasonable adjustment formula which has the effect of preventing the dilution of the interest of the holders of the Bonds, however, will generally not be considered to result in a constructive distribution of Shares. Certain of the possible adjustments provided in your Bonds, including, without limitation, adjustments made to reflect taxable dividends to our stockholders, will not qualify as being pursuant to a bona fide reasonable adjustment formula. If these adjustments are made, you will be deemed to have received constructive distributions taxable as dividends to the extent of our current and accumulated earnings and profits, even though you have not received any cash or property as a result of these adjustments. In addition, you might be deemed to have received such constructive distributions upon an Exchange Price Reset. In certain circumstances, the failure of the Bonds to provide for such an adjustment may also result in taxable dividend income to you.

If you convert your Bonds into Shares, any distributions of additional shares to you with respect to Shares that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to United States federal income tax.

Sale of Shares

If you are a U.S. holder and you sell or otherwise dispose of your shares, you will recognize capital gain or loss for United States Federal income tax purposes equal to the difference between the US dollar value of the amount that you realize and your tax basis, determined in US dollars, in your shares. Capital gain of a non-corporate U.S. holder is generally taxed at a maximum rate of 20% where the property is held more than one year, and 18% where the property is held for more than five years. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. Your ability to deduct capital losses is subject to limitation.

United States Alien Holders

This subsection describes the tax consequences to a United States alien holder. You are a United States alien holder if you are the beneficial owner of a Bond or Share and are, for United States federal income tax purposes:

- a nonresident alien individual;
- a foreign corporation;
- a foreign partnership; or
- an estate or trust that in either case is not subject to United States federal income tax on a net income basis on income or gain from a Bond or Share.

If you are a United States holder, this section does not apply to you.

Payment of Interest

Under United States federal income and estate tax law, and subject to the discussion of backup withholding below, if you are a United States alien holder of a Bond interest on a Bond paid to you is exempt from United States federal income tax, including withholding tax, whether or not you are engaged in a trade or business in the United States, unless:

- you are an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Internal Revenue Code; or
- you both:
  - have an office or other fixed place of business in the United States to which the interest is attributable; and
  - derive the interest in the active conduct of a banking, financing or similar business within the United States.

Sale, Exchange or Redemption of the Bonds

If you are a United States alien holder of a Bond, you generally will not be subject to United States federal income tax on gain realized on the sale, exchange or retirement of a Bond unless:

- the gain is effectively connected with your conduct of a trade or business in the United States; or
- you are an individual, you are present in the United States for 183 or more days during the taxable year in which the gain is realized and certain other conditions exist.

Dividends and Constructive Dividends

If you are a non-U.S. holder, dividends paid to you in respect of shares will not be subject to United States Federal income tax unless the dividends are "effectively connected" with your conduct of a trade or business within the United States, and the dividends are attributable to a permanent establishment that you maintain in the United States if that is required by an applicable income tax treaty as a condition for subjecting you to United States taxation on a net income basis. In such cases you generally will be taxed in the same manner as a U.S. holder. If you are a corporate non-U.S. holder, "effectively connected" dividends may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

If you are a non-U.S. holder, you will not be subject to United States Federal income tax on gain recognized on the sale or other disposition of your Shares unless:

- the gain is "effectively connected" with your conduct of a trade or business in the United States, and the gain is attributable to a permanent establishment that you maintain in the United States if that is required by an applicable income tax treaty as a condition for subjecting you to United States taxation on a net income basis; or
- you are an individual, you are present in the United States for 183 or more days in the taxable year of the sale and certain other conditions exist.

Gain effectively connected with the United States trade or business generally will be taxed as if it were received by a U.S. holder. If you are a corporate non-U.S. holder, "effectively connected" gains that you recognize may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

Estate Taxes

A Bond or Share held by an individual who at death is not a citizen or resident of the United States will not be includible in the individual's gross estate for United States federal estate tax purposes if:

- the decedent did not actually or constructively own 10% or more of the total combined voting power of all classes of stock of the Company entitled to vote at the time of death; and
- the income on the Bond or Share would not have been effectively connected with a United States trade or business of the decedent at the same time.

Backup Withholding and Information Reporting

If you are a non-corporate U.S. holder, information reporting requirements, on Internal Revenue Service Form 1099, generally will apply to:

- payments of principal or interest, or dividends, constructive dividends or other taxable distributions made to you within the United States, including payments made by wire transfer from outside the United States to an account you maintain in the United States; and
- the payment of proceeds to you from the sale of Bonds or Shares effected at a United States office of a broker.

In addition, backup withholding may apply to such payments if you are a non-corporate U.S. holder that:

- fails to provide an accurate taxpayer identification number;
- is notified by the Internal Revenue Service that you have failed to report all interest and dividends required to be shown on your Federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

If you are a non-U.S. holder, you are generally exempt from backup withholding and information reporting requirements with respect to:

- payments of principal or interest, or dividends or constructive dividend payments made to you outside the United States by Tenaga or another non-United States payor; and
- other payments of principal or interest, or dividends and the payment of the proceeds from the sale of Bonds or Shares effected at a United States office of a broker, as long as the income associated with such payments is otherwise exempt from United States Federal income tax, and:
  - the payor or broker does not have actual knowledge or reason to know that you are a United States person and you have furnished the payor or broker:
    - an Internal Revenue Service Form W-8BEN or an acceptable substitute form upon which you certify, under penalties of perjury, that you are a non-United States person; or
    - other documentation upon which it may rely to treat the payments as made to a non-United States person in accordance with U.S. Treasury regulations; or
  - you otherwise establish an exemption.

Payment of the proceeds from the sale of Bonds or Shares effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale of Bonds or Shares that is effected at a foreign office of a broker will be subject to information reporting and backup withholding if:

- the proceeds are transferred to an account maintained by you in the United States;
- the payment of proceeds or the confirmation of the sale is mailed to you at a United States address; or
- the sale has some other specified connection with the United States as provided in U.S. Treasury regulations,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption.

In addition, a sale of Bonds or Shares effected at a foreign office of a broker will be subject to information reporting if the broker is:

- a United States person;
- a controlled foreign corporation for United States tax purposes;
- a foreign person 50% or more of whose gross income is effectively connected with the conduct of a United States trade or business for a specified three-year period; or
- a foreign partnership, if at any time during its tax year:
  - one or more of its partners are "U.S. persons", as defined in U.S. Treasury regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership, or
  - such foreign partnership is engaged in the conduct of a United States trade or business,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption. Backup withholding will apply if the sale is subject to information reporting and the broker has actual knowledge that you are a United States person.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the United States Internal Revenue Service.

Malaysian Tax

The following is a summary of certain Malaysian (including Labuan) tax considerations relevant to the subscription, redemption or exchange of the Bonds and ownership and disposal of the Shares involving persons not resident in Malaysia (either individuals or corporations) and who do not hold such Bonds or Shares in connection with the conduct of a business in Malaysia ("non-resident holders"). This is not a complete description of all the possible tax consequences associated with the subscription, redemption or exchange of the Bonds and the ownership and disposal of the Shares. In particular, this summary does not apply to holders who are subject to special Malaysian tax rules, including but not limited to financial institutions, insurance companies, dealers, traders or holders deemed to be engaged in speculation in the Bonds or Shares for Malaysian tax purposes. Prospective purchasers of the Bonds should consult their own advisers concerning the tax consequences applicable to their particular circumstances. This summary is based on the tax laws of Malaysia in effect on the date of this Offering Memorandum, which are subject to change.

Under Malaysian revenue law, the residency test of a corporate entity is determined by where management and control of its affairs is exercised. Therefore, a company is regarded as a "non-resident" for Malaysian tax purposes if the management and control of the company is exercised outside Malaysia. The rules regarding the residency status of individuals are complex but are generally based upon the length of time spent in Malaysia.

Bonds

Throughout the tenure of the Bonds, any interest income receivable by the non-resident holders from the Issuer will not be subject to any Malaysian withholding tax by virtue of a specific tax exemption. In addition, any gains from disposal or redemption of the Bonds or exchange of Bonds for Shares would constitute capital gains and would not be subject to Malaysian income tax (including withholding tax).

Exchange of Bonds for Shares

No Malaysian tax will apply upon the exchange of the Bonds for Shares.

Shares

In the event the Bonds are exchanged for Shares, the non-resident holders will be entitled to receive dividends on Shares issued by Tenaga. In Malaysia, dividend distributions are taxed on an imputation system whereby a shareholder's tax liability arising from the dividend income is deducted at source when the dividend is paid by the company. As such, a non-resident holder will not be subject to any further Malaysian tax liability on such dividend income provided that the shareholder's tax liability on dividend income is satisfied by Tenaga's payment of Malaysian income taxes on the earnings from which the dividend is paid. Otherwise, the Malaysian tax authorities could, if it appears to be necessary after having regard to all circumstances, seek to recover such tax due by raising an assessment on the shareholder based on the net dividend received. Dividends will be declared "gross", but the amount received by a non-resident holder will in all events be equal to the net amount distributed by Tenaga. Dividends that are distributed by Tenaga out of earnings that are exempt from Malaysian tax by reason of tax incentive provisions will be exempt from Malaysian tax in the hands of the holder. Also, there is no withholding tax on payment of dividends to non-resident holders.

Non-resident holders of Shares will not be subject to any Malaysian income tax or withholding tax as a result of the sale, exercise or other disposition of the Shares. However, if the gains arising from the sale, exercise or other disposition of the Shares are attributable to a Malaysian business undertaken by the non-resident holders, such gains are taxable at the current prevailing tax rate of 28%.

Malaysia does not impose estate, gift, inheritance, capital transfer or similar taxes on sales or other dispositions of shares. Malaysia also has no capital gains tax except for a the real property gains tax levied on transfers of property or shares in real property companies ("RPCs"), which are companies that own substantial property or shares in other RPCs. Tenaga is not an RPC and its shares are not RPC shares. There will be no exposure to real property gains tax on the disposal of the Shares. However, stamp duty at the rate of 0.3% of the price or value of the Shares is payable by the buyer in respect of transfers of Shares which are not transacted through the Central Depository, while stamp duty payable by the buyer at the rate of RM1.00 for every RM1,000.00 or fractional part of RM1,000.00 of the price or value of the Shares will be levied on transfers of Shares deposited on the Central Depository. There is also a nominal transfer fee of RM10 per transfer (irrespective of volume or value) payable by the transferor to the securities company or broker.

Non-resident holders receiving interest or dividend income and any gains on the sale, exercise or other disposition of the Shares or Bonds may also be liable to tax in their respective foreign jurisdictions. Subject to the domestic tax laws of the respective foreign jurisdictions and any double taxation agreements with Malaysia, there could be double tax relief or unilateral tax relief available for the Malaysian tax suffered on the dividend income and gains (if applicable).

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a Purchase Agreement dated as of November 12, 2002 (the "Purchase Agreement"), J.P. Morgan Securities Ltd. and CIMB (L) Ltd., as representatives of the Initial Purchasers named in the Purchase Agreement (the "Initial Purchasers"), have severally agreed to purchase from the Issuer, and the Issuer has agreed to sell to the Initial Purchasers, severally, the respective principal amount of Bonds set out opposite their respective names below.

Initial Purchaser	Principal Amount of the Bonds
J.P. Morgan Securities Ltd.	US$232,750,000
CIMB (L) Ltd.	99,750,000
HSBC Securities (Asia) Limited	8,750,000
Dresdner Kleinwort Wasserstein Limited	8,750,000
Total	US$350,000,000

The Purchase Agreement provides that the obligations of the Initial Purchasers are subject to the approval of certain legal matters by their counsel and certain other conditions. The Initial Purchasers are committed to take and pay for all of the Bonds if any are taken.

The Issuer and Tenaga have been advised that the Initial Purchasers propose to offer the Bonds directly at the offering price set forth on the cover page of this Offering Memorandum. After the offering, the offering price may be changed by the Initial Purchasers.

The Issuer has granted to the Initial Purchasers an option to purchase up to an additional US$50,000,000 aggregate principal amount of Bonds at any time in whole or in part, on one or more occasions, exerciseable from November 20, 2002 to December 20, 2002.

The Issuer and Tenaga have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the Initial Purchasers may be required to make in respect thereof.

The Bonds are a new issue of securities with no established trading market. Application has been made for the International Bonds to be listed on the Luxembourg Stock Exchange and the Labuan International Financial Exchange Inc. and for the Rule 144A Bonds to be designated eligible for trading in the PORTAL market of the National Association of Securities Dealers. No assurance can be given as to the liquidity of any trading market for the Bonds. The Initial Purchasers have advised the Issuer and Tenaga that they intend to make a market for the Bonds but they have no obligation to do so and may discontinue market-making at any time without providing any notice.

Commissions and Discounts

The Initial Purchasers have agreed to purchase the Bonds at the offering price set forth on the cover page of this Offering Memorandum less a discount of 2% of the offering price.

Lock-Up Agreements

Tenaga has agreed that, without the prior consent of the Initial Purchasers, it will not directly or indirectly, offer, sell, contract to sell, pledge or otherwise dispose of any Shares or any securities which may be converted into or exchanged for any of its Shares for a period of 180 days from the date of this Offering Memorandum, except for (i) Shares issued pursuant to employee share options issued under any employee share option scheme adopted by Tenaga and approved by the KLSE and the shareholders and the board of directors of Tenaga in an aggregate amount not exceeding 10% of the outstanding ordinary shares of Tenaga at the time the options are granted, (ii) up to RM200 million aggregate principal amount of the CRIS to be offered and sold only to Malaysian resident investors, and (iii) the Bonds and Shares issuable upon exchange of such Bonds and upon conversion of the CRIS. Certain of Tenaga's shareholders namely the Minister of Finance Incorporated, Khazanah Nasional Berhad and Bank Negara Malaysia, have agreed that without the prior consent of the Initial Purchasers, they will not directly or indirectly, offer, sell, contract to sell, pledge or otherwise dispose of any Shares or any securities that may be converted into or exchanged for any Shares for a period of 90 days from the date of this Offering Memorandum, other than the issue and sale only in Malaysia to Malaysian resident investors by Khazanah Nasional Berhad of up to RM1 billion aggregate principal amount of Ringgit denominated bonds and warrants exchangeable into shares held by Khazanah Nasional Berhad in several companies, which may include up to 50 million ordinary shares, par value RM1.00 per share, of Tenaga.

Delivery

It is expected that delivery of the Bonds will be made against payment therefor on or about the date specified on the cover page of this Offering Memorandum, which is expected to be six business days following the date of this Offering Memorandum. Pursuant to Rule 15c6-1 under the Exchange Act, settlement of trades in the secondary market is generally required in three business days, unless the parties to that trade expressly agree otherwise. Accordingly, any trades in the Bonds on the date of this Offering Memorandum or the next succeeding five business days, because the Bonds will initially settle in five business days, may need to specify an alternate settlement cycle at the time of such trade to prevent a failed settlement. Purchasers of the Bonds who wish to trade the Bonds on the date of this Offering Memorandum or the next succeeding five Business Days should consult their own advisors.

Selling Restrictions

No action has been taken or will be taken in any jurisdiction by the Issuer, Tenaga or the Initial Purchasers that would permit a public offering of the Bonds or the Shares deliverable upon the exchange of the Bonds (collectively, the "Securities"), or the possession, circulation or distribution of this Offering Memorandum or any other material relating to the Issuer, Tenaga or the Securities, in any jurisdiction where action for that purpose is required. Accordingly, no Securities may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the Securities may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

The Securities are not registered under the Securities Act

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold in the United States except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act and applicable U.S. state securities laws. See "Transfer Restrictions". The Securities are being offered and sold by the Initial Purchasers only (i) in the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act and (ii) outside the United States in reliance upon Regulation S under the Securities Act. Any offer or sale in reliance on Rule 144A will be made by broker-dealers who are registered as such under the Exchange Act.

Each Initial Purchaser has agreed in the Purchase Agreement that it will not offer, sell or deliver any Securities (i) as part of its distribution at any time or (ii) otherwise until on or after the 41st day after the later of the commencement of the offering and the closing date, within the United States or to, or for the account or benefit of, US persons except, in either case, in accordance with Regulation S or to persons who it reasonably believes to be qualified institutional buyers pursuant to Rule 144A in transactions exempt from the registration requirements under the Securities Act, and that it will have sent to each other dealer to which it sells Securities during the distribution compliance period (as defined in Regulation S), unless such sale is made in accordance with Rule 144A, a confirmation or other notice setting forth the restriction on offers and sales of Securities within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Securities within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A. As used in this paragraph and the immediately preceding paragraph, the terms "United States" and "US person" have the meanings given to them by Regulation S under the Securities Act.

Selling Restrictions in the United Kingdom

The Initial Purchasers have acknowledged and agreed that (i) they have not offered or sold and prior to the date six months after the date of issue of the Securities will not offer or sell any Securities to persons in the United Kingdom except to persons whose ordinary business is to buy, hold, manage or dispose investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended), (ii) they have complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by them in relation to the Securities in, from, or otherwise involving the United Kingdom, and (iii) they have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) received by them in connection with the issue or sale of the securities in circumstances in which Section 21(1) of the Financial Services and Markets Act 2000 does not apply to them.

Selling Restrictions in Japan

Each of the Initial Purchasers has acknowledged and agreed that the Securities have not been and will not be registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold, and it will not offer or sell, directly or indirectly, in Japan or to or for the account of any resident of Japan or to any persons for re-offering or resale, directly or indirectly, in Japan or to, or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

Selling Restrictions in Hong Kong

Each of the Initial Purchasers has acknowledged and agreed that (i) it has not offered or sold, and will not offer or sell the Securities in Hong Kong, by means of any document, other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances that will not constitute an offer to the public for the purposes of the Hong Kong Companies Ordinance (Cap. 32) and (ii) it has not issued or had in its possession and will not issue or have in its possession any invitation, document or advertisement relating to the Securities in Hong Kong (except if permitted to do so by the securities laws of Hong Kong) other than with respect to Securities that are intended to be disposed of to persons outside Hong Kong or only to persons whose business involve the acquisition, disposal, or holdings, of securities whether as principal or agent.

Selling Restrictions in Singapore

Each Initial Purchaser acknowledges and agrees that this offering memorandum and any other offering document relating to the Securities have not been and will not be registered as a prospectus but has been lodged as an information memorandum with the Monetary Authority of Singapore and the Securities will only be offered and sold in Singapore pursuant to an exemption invoked under Section 274 and/or 275 of the Securities and Future Act 2001. Accordingly, each Initial Purchaser represents and agrees that (1) in relation to Securities which are not listed or quoted on the Singapore Exchange Securities Trading Limited ("SGX-ST") or a recognized securities exchange within the meaning of the Securities and Futures Act of 2001 ("SFA"), the Securities may not be offered or sold or be made the subject of an invitation for subscription or purchase nor may this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Securities, be circulated or distributed, whether directly or indirectly, to the public or any member of the public other than (i) to an institutional investor or other person specified in Section 274 of the SFA, (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA and (2) in relation to Securities which are listed or quoted on the SGX-ST or a recognized securities exchange (the "Listed Securities"), until the date falling six months from the date of issue of the relevant Listed Securities (the "Expiry Date"), such Listed Securities may not be offered or sold or be made the subject of an invitation for subscription or purchase nor may this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Listed Securities, be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the SFA, (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise than pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Each Initial Purchaser further represents and agrees that after the Expiry Date, such Listed Securities may be offered or sold or be made the subject of an invitation for subscription or purchase to the public or any member of the public in Singapore provided that they continue to be listed or quoted on the SGX-ST or such recognized securities exchange.

Selling Restrictions in Malaysia

Each Initial Purchaser has represented and agreed that the Bonds may not be offered or sold, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia. Each Initial Purchaser has acknowledged that:

(i) residents of Malaysia are not permitted to purchase the Bonds without first having had and obtained all the necessary approvals from all relevant regulatory authorities, including but not limited to all the necessary approvals from Bank Negara Malaysia;

(ii) the onus of obtaining such approvals is on the residents concerned and none of the Trustee, the Initial Purchasers, the Issuer or Tenaga accepts any responsibility for the purchase of any Bonds by residents as aforesaid without the necessary approvals being in place; and

(iii) the Bonds may be sold in Labuan, Malaysia to offshore companies incorporated or registered under the Offshore Companies Act 1990 of Malaysia which include those offshore companies which are licensed to carry on offshore banking business (as defined in the Offshore Banking Act 1990) or which are licensed to carry on offshore insurance business (as defined in the Offshore Insurance Act 1990) and other non-residents of Malaysia.

"Resident" means (a) in relation to a natural person, a citizen or permanent resident of Malaysia; or (b) in relation to any other person, a person who has established a place of business and is operating in Malaysia and includes a person who is deemed to be resident pursuant to Section 43 of the Exchange Control Act 1953 of Malaysia.

"Non resident" means a person who is not a resident or permanent resident of Malaysia and who does not engage in a trade or business in Malaysia, and includes any offshore companies incorporated under the Offshore Companies Act of 1990 of Malaysia and any foreign offshore company registered under the Offshore Companies Act of 1990 of Malaysia.

Each Initial Purchaser acknowledges that no approval from the Securities Commission of Malaysia is or will be obtained for the offering of the Bonds in Malaysia on the basis that the Bonds will be issued and offered exclusively to persons outside Malaysia and to non-residents of Malaysia. Consequently, each Initial Purchaser has represented and agreed that it has not offered, sold or made any invitation in relation thereto and will not offer, sell or make any invitation in relation to, the Bonds nor has it distributed or published nor will it distribute or publish the Offering Memorandum or any notice that issues, offers for subscription or purchase of the Bonds, directly or indirectly, to any person in Malaysia unless they are non-residents of Malaysia.

Except for the lodgment and registration of the Offering Memorandum by the Labuan Offshore Financial Services Authority of Malaysia as a prospectus for the purposes of the Offshore Companies Act 1990 of

Malaysia, this Offering Memorandum has not been registered as a prospectus under Division 3 of the Securities Commission Act of Malaysia.

Selling Restrictions in The Netherlands

Each Initial Purchaser has acknowledged and agreed that the Securities have not been and will not be offered, sold, transferred or delivered in or from the Netherlands as part of its initial distribution or at any time thereafter, directly or indirectly, other than to certain individuals or legal entities which include but are not limited to banks, brokers, dealers, institutional investors and undertakings with a treasury department who or which trade or invest in securities in the conduct of business or a profession and shall mention this restriction in all offers and offer documents.

Selling Restrictions in France

Each Initial Purchaser has acknowledged and agreed that the Securities have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France, and neither this Offering Memorandum nor any other offering material relating to the Securities has been distributed or caused to be distributed to the public in France. Such offers, sales and distributions will be made in France only to qualified investors (investisseurs qualifies) as defined in and in accordance with Articles L.411-1 and L.411-2 of the Monetary and Financial Code and Decree no. 98-880 dated October 1, 1998. Neither this Offering Memorandum nor any other offering material relating to the Securities has been submitted to the clearance procedures of the Commission des Opérations de Bourse.

Selling Restrictions in Canada

Each Initial Purchaser has acknowledged and agreed that it has not offered or sold, and will not offer or sell, any Securities directly or indirectly in any province or territory of Canada or to, or for the benefit of, any resident of any province or territory of Canada, except in accordance with applicable securities laws pursuant to an exemption from the prospectus filing requirement and an exemption from the dealer registration requirement, or where a dealer registration is not available, offers or sales shall be made only by a registered dealer, in the relevant province or territory in Canada where such offer or sale is made.

Stabilization, Overallotment, Covering and Other Actions

The Initial Purchasers may engage in over-allotment, stabilization, syndicate covering transactions and penalty bids in accordance with Regulation M under the Exchange Act. Over-allotment involves sales in excess of the offering size, which creates a short position for the Initial Purchasers. Stabilizing transactions consist of bids or purchases of the Bonds made for the purpose of preventing or retarding a decline in the market price of the Bonds while the offering is in progress. Covering transactions involve purchasers of the Bonds in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Initial Purchasers to reclaim a selling concession from a dealer when the Bonds originally sold by such dealer are purchased in a covering transaction to cover short positions. Such stabilizing transactions, covering transactions and penalty bids may cause the price of the Bonds to be higher than it would otherwise be in the absence of such transactions. Neither the Issuer, Tenaga nor any of the Initial Purchasers makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, none of the parties nor any of the Initial Purchasers makes any representation that the Initial Purchasers will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Initial Purchasers or their affiliates may purchase the Bonds for their own account and enter into transactions relating to the Bonds, including asset swaps, repackaging and other transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Memorandum relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). These transactions may involve a substantial portion of the Bonds.

Other Relationships

Some of the Initial Purchasers and their affiliates have engaged, and in future may engage in investment banking and commercial banking transactions with Tenaga. These Initial Purchasers have in the past received customary fees and commissions in connection with these transactions.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers of the Bonds are advised to consult their own legal counsel prior to making any offer, resale, pledge or transfer of the Bonds or the Shares deliverable in exchange of the Bonds.

This offering is being made in reliance on Rule 144A under the Securities Act and Regulation S under the Securities Act. The Bonds and the Shares deliverable upon exchange thereof have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any State in the United States or other jurisdiction, and may only be offered, sold or delivered (a) within the United States to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act or (b) outside the United States to persons other than U.S. persons (as defined in Regulation S under the Securities Act) in offshore transactions in reliance on Regulation S, and in each case in accordance with any other applicable law.

With the exception of the offering of the Bonds in Malaysia to non-residents of Malaysia, as discussed in "Selling Restrictions in Malaysia", the Bonds may not be offered for subscription or sale in Malaysia and residents of Malaysia are disqualified from subscribing for or purchasing the Bonds, and, no person in Malaysia may (a) acquire, dispose of, subscribe for or underwrite or (b) make or offer to make with any person or induce or attempt to induce any persons to enter into or offer to enter into an agreement for or with a view to acquiring, disposing of or subscribing for or underwriting any of the Bonds unless such person is licensed or permitted to do so under the laws of Malaysia.

Except in certain limited circumstances, interests in the Bonds may only be held through owning beneficial interests in the Global Bonds. Such interests in the Global Bonds will be shown on, and transfers thereof will be effected only through, records maintained by DTC (in the case of Rule 144A Bonds) and Euroclear and Clearstream, (in the case of International Bonds) and their respective direct and indirect participants. See "Description of the Bonds — Book Entry's Delivery and Form — Global Bonds".

Transfer Restrictions on the Rule 144A Bonds

Each purchaser of the Rule 144A Bonds, by accepting delivery of this Offering Memorandum or the Rule 144A Bonds, will be deemed to have acknowledged, represented and agreed as follows (terms used herein are defined in Rule 144A or Regulation S under the Securities Act):

(1) The Rule 144A Bonds and the Shares deliverable upon exchange of the Rule 144A Bonds have not been, and will not be registered under the Securities Act or with any securities regulatory authority of any State of the United States and are subject to restrictions on transfer.

(2) Such purchaser is (a) a QIB within the meaning of Rule 144A under the Securities Act, (b) purchasing the Rule 144A Notes for its own account, or for an account of a QIB and (c) aware, and each beneficial owner of the Rule 144A Bonds has been advised, that the sale of such Bonds to it is being made in reliance on Rule 144A.

(3) Such purchaser will not offer, sell, pledge or otherwise transfer any interest in the Rule 144A Bonds and the Shares deliverable upon exchange of the Rule 144A Bonds except as permitted by the applicable legend set out in paragraph 4 below.

(4) The Rule 144A Bonds will bear a legend to the following effect, unless the Issuer and Tenaga determine otherwise in compliance with applicable law, and that such purchaser will observe the restrictions contained therein:

> THE RULE 144A BONDS ("RULE 144A BONDS") EVIDENCED HEREBY, AND THE ORDINARY SHARES (THE "SHARES") OF TENAGA NASIONAL BERHAD ("TENAGA") DELIVERABLE UPON EXCHANGE OF THE RULE 144A BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND SUCH RULE 144A BONDS AND SHARES MAY NOT BE OFFERED, SOLD,

PLEDGED, DELIVERED OR OTHERWISE TRANSFERRED EXCEPT (1) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT IS (A) A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) OR A PURCHASER THAT THE SELLER AND ANY PERSON ACTING ON THE SELLER'S BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE, PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER AND (B) AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) TO A PERSON OTHER THAN A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A BOND OR AN INTEREST IN THE BONDS EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS AND THAT NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THIS RULE 144A BOND OR THE SHARES. EACH PURCHASER OF THIS RULE 144A BOND IS HEREBY NOTIFIED THAT THE SELLER OF THIS RULE 144A BOND MAY BE RELYING ON THE EXEMPTION FROM REGISTRATION UNDER SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.

THIS RULE 144A BOND AND THE SHARES DELIVERABLE UPON ITS EXCHANGE AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON RESALES AND OTHER TRANSFERS OF THIS RULE 144A BOND AND ANY SUCH SHARES TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS RULE 144A BOND AND SUCH SHARES SHALL BE DEEMED BY THE ACCEPTANCE OF THIS RULE 144A BOND AND SUCH SHARES TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

(5) The Rule 144A Bonds will initially be represented by Rule 144A Global Bonds. Before any Rule 144A Bonds evidenced by such Rule 144A Global Bonds may be sold or otherwise transferred to a person who takes delivery in the form of International Bonds evidenced by the International Global Bonds, the transferor and the transferee will be required to provide written certifications set out in the Indenture.

(6) Any resale or other transfer, or attempted resale or other transfer, of the Rule 144A Bonds made other than in compliance with the above-stated restrictions shall not be valid and shall not be recognized by the Issuer or Tenaga.

Transfer Restrictions on the International Bonds

Each purchaser of the International Bonds, by accepting delivery of this Offering Memorandum or the International Bonds, will be deemed to have acknowledged, represented and agreed as follows (terms used herein that are defined in Rule 144A or Regulation S are used as defined therein):

(1) The International Bonds and the Shares deliverable upon exchange of the International Bonds have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any State of the United States and are subject to restrictions on transfer.

(2) Each purchaser purchasing during the Distribution Compliance Period (as defined herein) is purchasing the International Bonds in an offshore transaction meeting the requirements of Regulation S.

(3) Such purchaser, prior to the expiration of the Distribution Compliance Period, will not offer, sell, pledge or otherwise transfer any interest in the International Bonds and the Shares deliverable upon exchange of the International Bonds except as permitted by the applicable legend set out in paragraph 4 below.

(4) The International Bonds will bear a legend to the following effect, unless the Issuer and Tenaga determine otherwise in compliance with applicable law and that such purchaser will observe the restrictions contained therein:

> THE INTERNATIONAL BONDS ("INTERNATIONAL BONDS") EVIDENCED HEREBY, AND THE ORDINARY SHARES (THE "SHARES") OF TENAGA NASIONAL BERHAD ("TENAGA") DELIVERABLE UPON EXCHANGE OF THE INTERNATIONAL BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND PRIOR TO THE EXPIRATION OF 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF INTERNATIONAL BONDS AND THE LAST RELATED CLOSING (THE "DISTRIBUTION COMPLIANCE PERIOD") SUCH BONDS MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT IS (A) A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) OR A PURCHASER THAT THE SELLER AND ANY PERSON ACTING ON THE SELLER'S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER AND (B) AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A (IN WHICH CASE THE BONDS SO SOLD TO THE QUALIFIED INSTITUTIONAL BUYER SHOULD BE DELIVERED IN THE FORM OF RULE 144A BONDS), (2) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS INTERNATIONAL BOND OR AN INTEREST IN THE BONDS EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS.
>
> THIS INTERNATIONAL BOND OR THE SHARES DELIVERABLE UPON ITS EXCHANGE AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON

RESALES AND OTHER TRANSFERS OF THIS INTERNATIONAL BOND AND ANY SUCH SHARES TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS INTERNATIONAL BOND AND SUCH SHARES SHALL BE DEEMED BY THE ACCEPTANCE OF THIS INTERNATIONAL BOND AND ANY SUCH SHARES TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

UPON THE EXPIRATION OF THE DISTRIBUTION COMPLIANCE PERIOD, THE INTERNATIONAL BONDS EVIDENCED HEREBY AND THE SHARES DELIVERABLE UPON EXCHANGE OF THE INTERNATIONAL BONDS SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS PROVIDED IN THIS LEGEND, PROVIDED THAT AT SUCH TIME AND THEREAFTER THE OFFER OR SALE OF THE INTERNATIONAL BONDS EVIDENCED HEREBY BY THE HOLDER HEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER ANY APPLICABLE SECURITIES LAWS OF THE UNITED STATES OR OF THE STATES OF THE UNITED STATES.

(5) The International Bonds will initially be represented by the International Global Bonds before any International Bonds evidenced by such International Global Bonds may be sold or otherwise transferred to a person who takes delivery in the form of Rule 144A Notes evidenced by the Rule 144A Global Bonds, the transferor and the transferee will be required to provide written certifications set out in the Indenture.

(6) Any resale or other transfer, or attempted resale or other transfer, of the International Bonds made other than in compliance with the above-stated restrictions shall not be valid and shall not be recognized by the Issuer or Tenaga.

Each purchaser of Bonds that may wish to resell any Bonds pursuant to Regulation S is advised that application has been made for the Bonds to be listed on the Luxembourg Stock Exchange. The Luxembourg Stock Exchange is a "designated offshore securities market" (within the meaning of Regulation S) and, accordingly, a resale transaction could be effected in, on or through the facilities of that exchange in reliance upon the safe harbor provided by Rule 904 of Regulation S, subject to compliance with the conditions of Rule 904.

Each purchaser of Bonds (including both Rule 144A Global Bonds and International Global Bonds) understands that to exercise the right of exchange with respect to a Bond, it must make, in the Exchange Notice, the representations, agreements and acknowledgements described in "Description of the Bonds — Exchange — Delivery of Shares upon Exchange".

REGULATION AND MARKET FOR MALAYSIAN SECURITIES

Background

The history of the market for Malaysian securities began in the late nineteenth century when British incorporated plantation and mining companies' shares were traded through brokers based in Singapore and some towns of Peninsular Malaysia. In 1930, the Singapore Stockholders' Association was established and provided the foundations of what became, on May 9, 1960, the "Malaysian Stock Exchange". Trading rooms were established in Singapore and Kuala Lumpur and it was operated as a single exchange. With the secession of Singapore from Malaysia, the common stock exchange continued to function under the title of the "Stock Exchange of Malaysia and Singapore" until 1973 when, following termination of the interchangeability of the Malaysian and Singapore currencies, separate exchanges were established, named respectively the "Kuala Lumpur Stock Exchange Bhd." and the "Stock Exchange of Singapore Ltd." (the "SES"). The KLSE and the SES were the principal exchanges for the trading in shares of Malaysian incorporated companies until January 1, 1990, when quoted shares of Malaysian companies were de-listed from the SES and vice versa.

Prior to the introduction of the Second Board of the KLSE in November 1988, the KLSE provided only a Main Board for listed shares. The Second Board provides access to the Malaysian equity market for companies having a smaller capital base, and which exhibit strong growth potential. In addition, the KLSE permitted the listing of property trusts and transferable subscription rights in 1989. On December 6, 1994, the KLSE issued guidelines for the listing of call warrants. On January 22, 2001, the KLSE issued its revamped listing requirements, a move widely seen as a major effort to further strengthen the capital market and securities industry in Malaysia. Companies listed on the Main Board and the Second Board of the KLSE are governed by the revamped listing requirements.

The futures industry in Malaysia commenced with the establishment of a futures exchange, the Kuala Lumpur Commodity Exchange. The Kuala Lumpur Options and Financial Futures Exchange (the "KLOFFE") was established on December 15, 1995, when the KLOFFE's stock index futures contract was launched. In December 1998, the KLCE merged with the Malaysian Monetary Exchange, an exchange set up to provide fixed income derivates, and changed its name to the Commodity and Monetary Exchange of Malaysia (the "COMMEX"). Subsequently, in January 1999, a sale and purchase agreement was finalized between the KLSE and the shareholders of KLOFFE Capital Sdn. Bhd., resulting in KLOFFE becoming a subsidiary of the KLSE Group of Companies. Both KLOFFE and COMMEX merged and the merged entity was renamed the Malaysia Derivatives Exchange Board (the "MDEX") on June 11, 2001 to establish a single exchange offering a multitude of products for investors. The MDEX operates under the supervision of the Malaysian Securities Commission and is governed by the Malaysian Futures Industry Act 1993 and falls within the jurisdiction of the Minister of Finance of Malaysia.

The KLSE

General Information

Securities of Malaysian companies are principally traded on the KLSE, the largest securities exchange in Malaysia. In 2000, turnover volume and value were 75.4 billion units and RM244.1 billion, respectively, and in 2001, the turnover volume and value were 54.9 billion units and RM96 billion, respectively. The only other operating exchange, the Bumiputra Stock Exchange, has only five companies listed, with very small market capitalization and trading volume. Access to this exchange is limited to Bumiputra institutions and individuals.

On February 18, 1997, Malaysia's finance minister announced the introduction of a new exchange, the Malaysian Exchange of Securities Dealing and Automatic Quotation ("MESDAQ"), which was established under the Malaysian Securities Industries Act 1983. MESDAQ is an "over-the-counter" market and is intended primarily to provide quotations for high-technology based companies with growth potential but no track record.

As of August 31, 2002, the KLSE Composite Index represented 100 component stocks representing the various sections of the market using 1977 as its base year. The following table sets forth for the periods indicated the high and low closing levels of the KLSE Composite Index and average daily trading volume of the KLSE. The KLSE Composite Index has been subject to extreme upward and downward movements and the information set forth below is not necessarily indicative of past or future trends.

	Closing KLSE Composite Index		KLSE Trading Volume
	High	Low	(Millions of units)
Year ended December 31, 1997			
First quarter	1,271.57	1,203.10	6,417.11
Second quarter	1,187.77	1,041.27	5,105.03
Third quarter	1,084.88	731.12	5,457.21
Fourth quarter	836.60	526.12	5,271.19
Year ended December 31, 1998			
First quarter	745.36	477.57	6,642.65
Second quarter	700.05	435.84	3,289.31
Third quarter	478.20	262.70	5,682.05
Fourth quarter	586.13	360.10	5,720.23
Year ended December 31, 1999			
First quarter	618.54	494.57	2,934.38
Second quarter	829.72	527.56	8,837.47
Third quarter	851.67	668.21	8,722.00
Fourth quarter	812.33	680.07	3,448.32
Year ended December 31, 2000			
First quarter	1,013.27	815.80	8,645.19
Second quarter	965.41	803.87	3,604.04
Third quarter	860.77	713.51	2,122.54
Fourth quarter	796.22	679.64	2,503.39
Year ended December 31, 2001			
First quarter	736.34	647.48	2,022.54
Second quarter	650.74	553.34	2,456.96
Third quarter	696.65	586.25	4,321.20
Fourth quarter	696.09	592.26	2,737.27
Year ended December 31, 2002			
January	718.82	682.83	1,269.00
February	729.73	701.09	989.58
March	761.01	717.57	1,320.17
April	808.07	752.41	2,131.28
May	795.35	741.76	1,942.00
June	755.20	705.00	927.12
July	744.60	715.10	763.11
August	736.6	711.4	681.79
September	713.4	636.8	765.99
October	662.8	624.2	783.73
November (through November 11)	658.7	653.2	184.73

Transaction Costs

For trades that are conducted on the KLSE, there is a clearing fee (payable by both the buyer and seller to the KLSE) at the rate of 0.04% of the transaction value subject to a maximum of RM200 per contract. For direct business transactions, there is a clearing fee (payable by both the buyer and seller to the KLSE) at the rate of 0.04% of the transaction value subject to a maximum of RM200 and a minimum of RM10 per contract. Trades that are conducted off the exchange are affected primarily on a principal basis. Accordingly, net prices received in such transactions may reflect a negotiated brokerage commission. Net trading and rebating of commissions are prohibited on the KLSE.

In addition to any commission costs, stamp duty at the rate of 0.3% of the transacted value is payable by the buyer in respect of transfers of shares that are not transacted through the Central Depository while stamp duty of RM1.00 per RM1,000 of the transacted value or part thereof is payable by the buyer in respect of shares deposited with the Central Depository. A fee of RM3.00 per share certificate is payable to the company registrar for the issuance of new certificates. A transfer fee of RM10 will be payable by the transferor to the securities company or broker upon application for the transfer subject to the Central Depository's approved reasons for transfer. Sales of shares of companies listed on the KLSE are normally sold in "board lots" of 1,000 shares. Investors who desire to sell less than 1,000 shares of a listed company occasionally experience delays in effecting such sales.

Regulation

The authority to regulate the Malaysian securities industry is currently vested principally in the Malaysian Securities Commission, and the Companies Commission of Malaysia (in relation to the offer of securities to the public by unlisted recreational clubs). In addition, the KLSE regulates the organization and conduct of its members and has established standards for listing securities.

Existing statutes grant the Malaysian Securities Commission the power to regulate the contents of prospectuses and the power to license dealers, investment advisers and their representatives. The Malaysian Securities Commission, in connection with annual license renewals, may refuse to grant a renewal of an applicant's license if it is satisfied, among other matters, that: (i) the minimum criteria to be met by licensees under the Malaysian Securities Industry Act 1983 (the "Securities Industry Act") have not been satisfied; or (ii) any requirements to be met by licensees under the Securities Industry Act have not been complied with by the applicant (e.g., the dealer or investment adviser has failed to meet the minimum financial requirements prescribed by the Securities Industry Act or as provided under the rules of the KLSE). The Companies Commission of Malaysia and the Malaysian Securities Commission have concurrent powers to enforce prohibitions against fraud, market manipulation and insider trading. Malaysian companies must maintain a share register and disclose changes in holdings of directors. Persons having an interest in 5% or more in a company's voting shares must disclose such shareholding, and any changes in such shareholding, to the company and, in the case of a company the shares of which are listed on the KLSE, to the KLSE and the Malaysian Securities Commission. In addition to a share register, Malaysian companies must also maintain a register disclosing the identity of shareholders with a shareholding of 5% or more and any changes in such shareholding.

The Malaysian Securities Commission was created on March 1, 1993 pursuant to the Malaysian Securities Commission Act of 1993 to assume the functions of the Capital Issues Committee, the Panel on Takeovers and Mergers and certain functions of other bodies. The authority of the Malaysian Securities Commission includes the power to regulate the issue of securities and their listing of the KLSE, to encourage the development of the securities market, to suppress illegal, dishonorable and improper practices in dealings in securities and to regulate all matters pertaining to unit trust schemes. All public companies that intend to issue or offer securities or to list such securities on the KLSE must obtain the approval of the Malaysian Securities Commission.

Takeovers in Malaysia are governed by the Takeovers Code (which has legislative effect and which is administered by Malaysian Securities Commission), the Securities Industry Act, the Malaysian Companies Act and the Foreign Investment Committee guidelines. These contain certain provisions that may delay, deter or prevent a future takeover or change in control of Tenaga. Pursuant to the Takeover Code, any person acquiring an interest, either acting singly or acting in concert with others, in 33% or more of Tenaga's voting shares must extend a takeover offer for the remaining voting shares in accordance with the provisions of the Takeovers Code. A mandatory takeover offer is also required to be made if a person holding (either singly or acting in concert with others) between 33% and 50% (inclusive of both) of the voting shares acquires additional voting shares representing more than 2% of the voting shares in any six-month period.

"Parties acting in concert" include a company and its related and associated companies, a company and its directors (including their relatives), a company and its pension funds, a person and any investment company, unit trust or other fund whose investment such person manages on a discretionary basis, and a financial adviser and its client in respect of shares held by the financial adviser and shares in the client held by funds managed by the financial adviser on a discretionary basis. An offer for consideration other than cash must be accompanied by a cash alternative at not less than the highest price paid by the offeror or parties acting in concert with the offeror within the preceding six months.

The Securities Industry Act prohibits various trading practices, including:

- creating a false or misleading appearance of active trading in securities on a stock market in Malaysia;
- stock market manipulations by engaging in transactions which are likely to change or maintain the price of a security with the intention of inducing others to purchase, sell or subscribe for such security;
- making certain false or misleading statements which are likely to affect the price of a security;
- fraudulently inducing a person to deal in securities or otherwise using manipulative or deceptive devices in connection with the purchase or sale of securities; and
- corporate insiders from trading on the basis of, or otherwise improperly using, non-public information about a company which, if generally known, might reasonably be expected to affect materially the price of the company's stock.

The Malaysian Companies Act prohibits any acquisition by a company of shares in a company in which a substantial shareholder or director of the acquiring company (or a person connected to such shareholder or director) has a substantial shareholding unless (i) the acquisition takes place more than three years after the shares in the target company were first held by the substantial shareholder or the director of the acquiring company (or a person connected to such shareholder or director) or (ii) if the acquisition falls within one of the limited exceptions provided in the Malaysian Companies Act.

The KLSE is a self-regulating organization, owned by members of the Malaysian securities industry. The KLSE has established minimum liquidity and capital requirements for its members, which it attempts to monitor through unannounced inspections of dealers' books. The KLSE listing requirements (which were revamped in 2001) contain provisions on standards for the listing of new securities issues, continuing listing obligations, financial reporting, corporate governance, investor protection and enforcement. The Rules of the KLSE, the Malaysian Companies Act and the Securities Industry Act prohibit insider trading. The KLSE requires a listed company to release material information to the public and to issue a clarifying statement in the event of unusual market activity in securities listed on the exchange.

CLEARING AND SETTLEMENT

Upon listing and quotation on the KLSE, the Shares will be traded by book-entry settlement through the Central Depository. All transactions of the Shares must be made through the KLSE and will be effected in accordance with the terms and conditions for the operation of Central Depository accounts, as amended from time to time. Accordingly, Tenaga will not deliver share certificates to subscribers for, or purchasers of, its Shares.

The Shares held in book-entry form will be registered in the name of Malaysian Central Depository Nominees Sdn. Bhd., and will be held by the Central Depository as bare trustee for and on behalf of beneficial owners of the Shares. Beneficial owners of the Shares are required under the Central Depository rules to maintain, either directly or through depository agents, Central Depository accounts. Persons named as direct securities account holders and depository agents in the depository register maintained by the Central Depository, rather than the Central Depository, will be treated, under Tenaga's Articles of Association and the Malaysian Companies Act, as members of Tenaga in respect of the number of the ordinary shares credited to their respective securities accounts.

Transactions in Tenaga's ordinary shares under the book-entry settlement system will be reflected by the seller's Central Depository account being debited with the number of ordinary shares sold and the buyer's Central Depository account being credited with the number of ordinary shares acquired. A transfer stamp duty of RM1.00 per RM1,000 of the transacted value or part thereof is payable by the buyer for Tenaga's ordinary shares that are settled on a book-entry basis. There is a nominal transfer fee of RM10.00 payable per transfer (irrespective of volume or value) by the transferor to the relevant securities company or broker upon application of the transfer.

Persons holding the ordinary shares in Central Depository accounts may not withdraw the number of ordinary shares they own from the book-entry settlement system in the form of physical share certificates except in the following instances:

- To facilitate a share buy-back;
- To facilitate conversion of debt securities;
- To facilitate a rectification of any error; and
- In any other circumstances determined by the Central Depository from time to time, after consultation with the Malaysian Securities Commission.

For trades that are conducted on the KLSE, there is a clearing fee of 0.04% of the transaction value subject to a maximum of RM200 per contract.

Settlement of trades done on a normal "ready" basis on the KLSE generally takes place on the third market day following the transaction date, and payment for the securities is generally settled on the third market day following the date of the contract.

For transactions not carried out through the Central Depository (direct business transactions), the price of the shares being transacted shall not be higher nor lower than 15% of the volume-weighted average price of the securities of the last trading day in which trades were conducted. All direct business transactions shall be reported to the KLSE and the clearing house, Securities Clearing Automated Network Services Sdn. Bhd., in such manner as may be determined by the KLSE from time to time.

Notice of direct business transactions in respect of shares to be transacted outside the price limits set out above must be given to the KLSE in writing by the KLSE member companies involved no less than ten trading days before the direct business transaction is done containing, among others, specific reason for the transaction, supported by all relevant documents together with a statutory declaration by the buyer and seller.

The KLSE may issue a directive in writing, no later than two trading days prior to the proposed date of a direct business transaction, requiring parties to a direct business transaction in respect of which notice was duly made to the KLSE in accordance with the preceding paragraph, to comply strictly with the price limits set out above. In the absence of such directive, parties shall proceed with the direct business transaction in the manner notified to the KLSE.

The Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 deals with the trading of shares of a company which has a prescribed limit on the ownership of shares by foreign investors (defined to include a non-Malaysian corporation or a non-Malaysian citizen). Such limits are imposed on the company in the articles of association or any other constituent documents of the company. Tenaga's Articles of Association restricts the level of foreign ownership of its shares to 25% of Tenaga's total share capital or outstanding voting rights. Under the rules, a foreign investor would not be entitled to all rights, benefits, powers and privileges and be subject to all liabilities, duties and obligations in respect of Tenaga's shares which are transferred to him if by such transfer, the prescribed foreign ownership limitation of 25% has been exceeded. The Securities Industry (Central Depositaries) (Foreign Ownership) Regulations 1996 provide that where a foreigner holds shares beyond the prescribed foreign ownership limitation, the company's directors may determine whether such foreigner shall be entitled to such rights benefits, powers and privileges in respect of such shareholding and be subject to all liabilities, duties and obligations conferred or imposed by the Malaysian Companies Act or the articles of association of the company. Tenaga's Articles of Association provide, inter alia, that where a foreign investor holds shares and such shareholding(s) raises the beneficial ownership of Tenaga by foreign investors above the prescribed foreign ownership limitation, such foreign investor will not be entitled to exercise any voting rights in respect of its shareholding in any meeting of Tenaga's shareholders.

If it appears to the Directors of Tenaga that the shares held by a foreign investor has exceeded such prescribed foreign ownership limitation, the Directors (and as a result Tenaga) will be entitled to refuse to register any shares in the name of that person unless (i) there shall first have been given to the Directors' a declaration stating the total number of shares held by that person and his associates and the total voting rights exercisable by him and his associates and (ii) the Directors are satisfied as to the contents thereof. The Directors of Tenaga may at any time give notice in writing to any person requiring him to make a declaration as to the total number of shares held by him and his associates. If the Directors are not satisfied that such person is capable of exercising the right to vote in general meetings Tenaga's shareholders in a manner that does not exceed the prescribed foreign ownership limitation, the Directors may give a further notice in writing to such person requiring him to transfer such number of shares to other persons as will result in the Directors being satisfied that the number of shares held by him and his associates and the total voting rights exercisable by him and his associates will not exceed the prescribed foreign ownership limitation.

If the notice referred to in the immediately preceding paragraph is not complied with to the satisfaction of the Directors, the Directors may arrange for Tenaga to sell such shares at the best price reasonably obtainable. The net proceeds of the sale of such shares will be received by Tenaga and shall be paid over by Tenaga to the former holder upon receipt of notification from the holders to the Central Depository authorizing the Central Depository to credit Tenaga's account with such number of shares.

GENERAL INFORMATION

The registered office of Tenaga is 129 Jalan Bangsar, 59200 Kuala Lumpur, Malaysia. The registered office of the Issuer is Unit Level 13(E), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Labuan, Federal Territory of Labuan, Malaysia.

Each of the Issuer and Tenaga has obtained or will obtain prior to the delivery of the Bonds all necessary consents, approvals and authorizations in connection with the issue and performance of the Bonds and the Guarantee except as disclosed in this Offering Memorandum. The approval of the Malaysian Securities Commission was obtained for the issue of the Shares deliverable upon the exchange of the Bonds on October 9, 2002. The approval of the Foreign Investment Committee for the issue of the Shares deliverable upon the exchange of the Bonds was obtained on September 24, 2002. The issue of the Bonds was authorized by resolutions adopted by the Board of Directors of Tenaga and the Issuer on September 10, 2002 and September 24, 2002, respectively. The issue of the Shares deliverable upon the exchange of the Bonds was authorized by resolutions adopted by the Board of Directors of Tenaga on September 10, 2002. The issue of the Shares deliverable upon the exchange of the Bonds was authorized by the shareholders of Tenaga on October 10, 2002.

Application has been made to list the International Bonds on the Luxembourg Stock Exchange. The legal notice relating to the issue of the Bonds and the Articles of Association of the Issuer and Tenaga will be registered prior to the listing with the Chief Registrar of the District Court in Luxembourg *(Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg)*, where such documents are available for inspection and where copies thereof can be obtained upon request. As long as the International Bonds are outstanding and listed on the Luxembourg Stock Exchange and the rules of that exchange so require, the Issuer and Tenaga will maintain an exchange, paying and transfer agent in Luxembourg, which initially will be J.P. Morgan Bank Luxembourg S.A. An application has been made for the listing of the Bonds on the Labuan International Financial Exchange Inc. Application has been made to the KLSE for approval for the listing of the Shares issuable upon exchange of the Bonds.

Other than as set forth in the Offering Memorandum, to the knowledge of management of Tenaga, as of the date of this Offering Circular neither the Issuer nor Tenaga is involved in any litigation, actual or pending, relating to claims or amounts which may have a significant adverse effect on the financial position of the Issuer or Tenaga, as the case may be.

Copies of the Articles of Association of the Issuer and Tenaga and copies of the Indenture (including the Guarantee) and the Purchase Agreement will, for so long as the International Bonds are outstanding and listed on the Luxembourg Stock Exchange, be available for inspection during usual business hours on any weekday (except public holidays) at the office of the Issuer's exchange, paying and transfer agent in Luxembourg. As long as any of the Bonds remain outstanding, copies of the Tenaga's annual report in English containing the audited consolidated financial statements and copies of the Issuer's audited financial statements will be delivered to and be obtainable from the specified offices of the Issuer's Exchange, Paying and Transfer agent in Luxembourg. Tenaga currently publishes unaudited quarterly financial information. For so long as Tenaga issues such unaudited financial information, copies of such statements in English will be delivered to and be obtainable from the specified offices of the Issuer's Exchange, Paying and Transfer agent in Luxembourg. The Issuer does not prepare any interim financial statements.

Pursuant to Section 30(3) of the Offshore Companies Act 1990 of Malaysia, the Issuer shall not without the approval of a special resolution of its shareholders vary the terms of a contract referred to in this Offering Memorandum unless the variation is made subject to the approval of a special resolution.

As required under Section 31(1)(b) of the Offshore Companies Act, 1990 of Malaysia, the Issuer undertakes that it will issue the Global Certificates within two months after acceptance of any money from any person in response to this offer. For the purpose of Section 31(1)(c) of the Offshore Companies Act 1990 of Malaysia, the Bonds are unsecured notes.

Pursuant to Section 36(4)(b) of the Offshore Companies Act, 1990 of Malaysia, a copy of the Purchase Agreement may be inspected at the registered office of the Exchange Agent, Paying Agent or Transfer Agent in Luxembourg during normal business hours on any weekday (except Saturdays and public holidays) up to and including December 20, 2002.

According to Chapter VI, Article 3, Point A/11/2 of the Rules and Regulations of the Luxembourg Stock Exchange, the International Bonds shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.

The Rule 144A Bonds are expected to be designated for trading in PORTAL.

Except as disclosed in this Offering Memorandum, there has been no material adverse change in the financial position of Tenaga and the Issuer since August 31, 2002.

The Bonds have been accepted for clearance through the facilities of the DTC, Euroclear and Clearstream. Certain information about the Bonds is set forth below:

	CUSIP Number	ISIN Number	Common Code Number	SEDOL
Rule 144A Bonds	872592AA8	US872592AA87	—	6565570
International Bonds	—	XS0158113075	15811307	6565558

Trades for the International Bonds on the Luxembourg Stock Exchange will be effected through Euroclear and Clearstream in accordance with their respective rules and operating procedures. Only International Bonds evidenced by an International Global Bond have been accepted for clearance through Euroclear and Clearstream and only such Bonds may trade on the Luxembourg Stock Exchange. Interests in Bonds evidenced by an Rule 144A Global Bond may be transferred to a person whose interest in such Bonds is subsequently represented by an International Global Bond only upon receipt by the Paying Agent of certain certifications as provided in the Indenture.

VALIDITY OF SECURITIES

The validity of the Bonds will be passed upon for Tenaga by Sullivan & Cromwell. Certain legal matters under United States and New York law with respect to the Bonds will be passed upon for the Initial Purchasers by Simpson Thacher & Bartlett. The validity of the Shares deliverable upon exchange of the Bonds will be passed upon for Tenaga by Zul Rafique & Partners and for the underwriters by Chooi & Company.

INDEPENDENT AUDITORS

The consolidated financial statements of Tenaga as of and for the fiscal years ended August 31, 2000, 2001 and 2002 included in this Offering Memorandum have been audited by PricewaterhouseCoopers, independent auditors as approved under Malaysian law, as stated in its report appearing herein.

The financial statements of the Issuer as of and for the fiscal years ended August 31, 2001 and 2002 included in this Offering Memorandum have been audited by PricewaterhouseCoopers, independent auditors as approved under Malaysian law, as stated in its report appearing herein.

ENFORCEABILITY OF CIVIL LIABILITIES

All of Tenaga's Directors and executive officers reside outside the United States. The assets of these persons and of Tenaga are primarily located outside the United States. As a result, investors may not be able to effect service of process upon Tenaga or such persons within the United States, or to enforce against Tenaga or such persons in United States courts judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the U.S. Federal securities laws. Tenaga has been advised by its Malaysian legal advisor, Zul Rafique & Partners, that judgments of United States courts, including judgments predicated upon the civil liability provisions of the U.S. Federal securities laws may not be enforced by a Malaysian court. Tenaga has been advised by its Malaysian legal advisor, Zul Rafique & Partners, that the judgments of United States courts are not directly enforceable in Malaysian courts. However, judgments obtained against the Issuer or Tenaga in a United States or State of New York court in respect of any sum payable under the Bonds would be recognized and enforced by the courts of Malaysia in an action based on such judgments that is specifically brought for the purpose of enforcing such judgments without a re-examination of the issues in dispute, subject to certain defences at common law that a defendant in such action might raise.

SUMMARY OF PRINCIPAL DIFFERENCES BETWEEN MALAYSIAN GAAP AND US GAAP

The following paragraphs summarize the areas in which differences between Malaysian GAAP and US GAAP could be significant to Tenaga's financial condition and results of operations. Tenaga has not quantified these differences, nor performed a reconciliation of Malaysian GAAP financial statements to US GAAP. Had Tenaga undertaken any such quantification or reconciliation, other potential significant accounting and disclosure differences may have come to its attention, which are not identified below. Accordingly, Tenaga cannot offer any assurances that the differences described below would, in fact, be the accounting principles creating the greatest differences between the consolidated financial statements of Tenaga as prepared under Malaysian GAAP compared to US GAAP, nor that the summary below represents all principal differences related to Tenaga. In addition, Tenaga cannot estimate the net effect that applying US GAAP would have on its financial condition or results of operations, or any component thereof, in any of the presentations of financial information included elsewhere in this Offering Memorandum.

Potential investors should consult their own professional advisors for an understanding of the differences between Malaysian GAAP and US GAAP, and how these differences might affect the financial information in this Offering Memorandum.

No attempt has been made to identify future differences between Malaysian GAAP and US GAAP as the result of prescribed changes in accounting standards that could be applicable for fiscal periods of Tenaga beginning after August 31, 2002. Regulatory bodies that promulgate Malaysian GAAP and US GAAP have significant ongoing projects that could affect future comparisons such as this one. In addition, no attempt has been made to identify future differences between Malaysian GAAP and US GAAP that may affect Tenaga's consolidated financial statements as a result of transactions or events that may occur in the future.

Income Statement

Derivative Financial Instruments

There is no specific standard on accounting for derivative instruments and hedging activities under Malaysian GAAP.

Under US GAAP, derivative instruments were not required to be recorded as assets or liabilities on the balance sheet prior to 2001. Hedge accounting was available for qualifying instruments so that changes in fair values of hedged items and hedging instruments were recognized in earnings in the same period.

Beginning in 2001, all derivative instruments are recorded as either assets or liabilities in the balance sheet and measured at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, in which case an entity is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. If the derivative qualifies for hedging treatment, the changes in the fair value of the hedge will be recorded in a separate component of shareholders' equity. Any ineffectiveness will be recorded in the income statement. Derivatives not designated as hedges are marked to market and changes in fair value are charged to the income statement.

Depending on the nature of the instruments, it is possible that the treatment of these instruments could result in different carrying amounts in Tenaga's balance sheet and different amounts being recognized as gains and losses in the income statement. The details and the financial effects of the hedging derivatives that Tenaga has entered into are described in note 23 to the consolidated financial statements included elsewhere in this Offering Memorandum.

Foreign Currency Translation

Under Malaysian GAAP, exchange rate differences arising from foreign currency transactions and from translation of monetary assets and liabilities at the exchange rate prevailing as of the balance sheet date are recognized as income or expense for the relevant period.

An exchange rate difference may be included in the carrying amount of the related asset if it (i) results from the depreciation of a currency against which there is no practical means of hedging, and (ii) affects liabilities arising directly from the acquisition of assets invoiced and payable in the foreign currency, provided that the adjusted carrying amount does not exceed the lower of replacement cost or the amount recoverable from the use or sale of the asset.

Prior to 2002, US GAAP did not permit capitalization or deferral of exchange rate differences unless the foreign currency asset or liability was specifically hedged. Beginning in 2002, these differences must be recorded in the income statement as hedge accounting is not allowed for foreign currency assets or liabilities which are required to be re-measured under the foreign currency translation requirements.

Balance Sheet

Deferred Tax

Malaysian GAAP requires that deferred tax liabilities and assets be provided for based upon timing differences, using the liability method, between the accounting and tax treatment of income and expenditure. However, provision for deferred tax may not be required if it is reasonably probable that the liability will not arise in the foreseeable future (at least three years ahead) and there are no indications it will arise thereafter. However, the amount of deferred tax not provided for (both current and cumulative) is required to be disclosed in the financial statements.

Under US GAAP, deferred tax liabilities and assets are recognized for the estimated future tax effect attributable to temporary differences.

Dividends

Previously under Malaysian GAAP, proposed dividends on ordinary shares, as recommended by the board of directors at the time of approval of the financial statements, are deducted from shareholders' equity and shown as a liability in the balance sheet at the end of the period to which they relate. Under US GAAP, dividends are recorded in the period in which they are declared.

However, under Malaysian Accounting Standards Board No. 19, "Events After the Balance Sheet Date", which became operative for financial statements beginning on or after July 1, 2001, proposed final dividends may only be recognized in the shareholders' equity as an appropriation of retained profits in the fiscal year in which shareholders' approval is obtained. The details and the financial effects of this new accounting standard on Tenaga are described in note 38 to the consolidated financial statements included elsewhere in this Offering Memorandum.

Goodwill

There is no specific guidance on accounting treatment for goodwill under Malaysian GAAP. Tenaga writes off goodwill and negative goodwill to reserves in the year of acquisition.

Under US GAAP, these amounts are required to be capitalized at the date of acquisition and amortized over the useful life of the net assets acquired. Negative goodwill is required to be allocated to reduce proportionately the values assigned to non-current assets. Effective for fiscal years beginning after December 15, 2001 and goodwill arising from acquisitions after June 30, 2001, goodwill is no longer amortized and is subject to a transitional and subsequent annual impairment tests. Negative goodwill will be recognized immediately as an extraordinary gain.

Pension Costs

Malaysian GAAP requires a charge to the income statement for the cost of providing pensions and other retirement benefits for eligible employees during the year, as well as an actuarial valuation at least once every three years. Prior to 2001, Tenaga used the attained age method, and from 2001, Tenaga has used the projected unit credit method to determine the appropriate retirement benefits cost.

US GAAP requires an annual valuation using the projected unit credit method. In addition, more detailed disclosures are required under US GAAP than under Malaysian GAAP. It is possible that had valuations had been performed under US GAAP, different amounts may have been recognized as annual pension expense.

Revaluation of Land and Buildings

Malaysian GAAP allows the periodic revaluation of land and buildings. Tenaga has applied the transitional provisions as allowed by the International Accounting Standards ("IAS") No. 16 (Revised), "Property, Plant and Equipment", which allow the previously revalued assets to be stated at their previous years' valuation less depreciation. Accordingly, these valuations have not been updated. Under US GAAP, periodic revaluations are not permitted.

Impairment of Long-Lived Assets

Under Malaysian GAAP, there is no specific standard relating to the evaluation and measurement of potential impairments of long-lived assets. In the absence of a specific standard, under Malaysian GAAP, IAS No. 36, "Impairment of Assets", provides an alternative pronouncement and Tenaga follows the provisions of this standard. IAS No. 36 requires that impairments be measured based on the discounted future cash flows of the asset.

Under US GAAP, long-lived assets and certain identifiable intangibles to be held and used by an entity must be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the entity should estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. Otherwise, an impairment loss is not recognized. Measurement of an impairment loss for long-lived assets and identifiable intangibles that an entity expects to hold and use should be based on the fair value of the asset.

Compensated Absences

There is no specific standard on accounting for compensated absences under Malaysian GAAP.

Under US GAAP, employers must accrue liabilities for future absences, primarily holiday and vacation absences, if the compensation is for services already rendered. Under Malaysian GAAP, Tenaga does not accrue for such absences.

Interest on Long-Term Receivables

Under Malaysian GAAP, Tenaga is not required to recognize as an employment cost the difference between interest charged on staff loans, which are generally at below market interest rates, and the prevailing market interest rate.

Under US GAAP, the principal amount of the transaction should be adjusted so that it is substantially equal to the present value of all future payments (principal and interest) discounted at the prevailing market interest rate. The difference should be recognized as an employment cost that is amortized on an appropriate and systematic basis over the remaining working lives of the relevant employees.

Government Grants

There is no specific standard on accounting for government grants under Malaysian GAAP. The Malaysian Federal and State Governments periodically provide grants to Tenaga to subsidies the costs of building certain transmission and distribution assets in developing areas of Malaysia, in order to further the development of those areas. Such grants are deferred and recognized as income over the life of the underlying assets.

Under US GAAP, such amounts would be recognized as grant income at the time all associated obligations are satisfied.

Accounting in a Regulatory Environment

Under Malaysian GAAP, there are no specific accounting standards for regulated entities.

Under US GAAP, if (i) a company's rates for regulated services or products provided to customers are established by a regulatory body, (ii) the regulated rates are designed to recover all costs of providing regulated services or products and (iii) it is reasonable to assume that rates are set at levels that will recover the company's costs can be charged to and collected from customers, then costs incurred which are not recovered in the current period through rates, are required to be capitalized.

In this environment, revenues intended to cover some costs are provided either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, companies must capitalize those costs. If current recovery is provided for costs that are expected to be incurred in the future, companies must recognize those current receipts as liabilities. US GAAP also requires capitalization of interest as a cost of an asset and recognition of inter-company profits as increases in net income, for allowable costs that include amounts not usually accepted as costs in the present accounting framework for non-regulated enterprises. These requirements could significantly change Tenaga's balance sheet composition and the results of operations.

Employee Stock Option Plans

Under Malaysian GAAP, no compensation expense is recognized in relation to stock options granted to employees.

US GAAP establishes the fair value method of accounting for stock-based compensation plans, resulting in the recognition of compensation expense equal to the fair value of the instruments issued on the date of grant. However, entities have the option of calculating compensation expense related to stock options granted to employees using the intrinsic value method and disclosing the impact of applying the fair value method in the notes to the financial statements.

Applying either method of accounting for stock compensation to the Tenaga's consolidated financial statements could result in a significant compensation expense being recognized.

Change in Accounting Policy

Under Malaysian GAAP, a change in an accounting policy as a result of the adoption of a newly issued accounting pronouncement is reflected through the restatement of all prior periods.

Under US GAAP, a newly issued accounting pronouncement is generally adopted in the current year with a cumulative catch-up amount recorded when appropriate.

Disclosure

Disclosure in Financial Statements

Disclosure in financial statements is generally more extensive under US GAAP than Malaysian GAAP, including (but not limited to) the following:

Disclosure of Significant Associates. US GAAP requires disclosure of detailed information about the financial results, assets and liabilities of significant associates. Under Malaysian GAAP, an appropriate listing and description of significant associates, including the proportion of ownership interest would, be sufficient.

Statement of Comprehensive Income. US GAAP requires the reporting of comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements that constitute a full set of financial statements. Malaysian GAAP does not require this disclosure.

INDEX TO THE FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Auditors' Report to the Members of
Tenaga Nasional Berhad

We have audited the accompanying consolidated financial statements of Tenaga Nasional Berhad for each of the three financial years in the period ended August 31, 2000, 2001 and 2002. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements have been prepared in accordance with the applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group as at August 31, 2000, 2001 and 2002 and of the results and cash flows of the Group for the financial years then ended.

In respect of the financial year ended August 31, 2000, without qualifying our opinion, we draw attention to Note 6 to the consolidated financial statements, which sets out the basis on which the provision has been made against the Group's investment in a subsidiary.

PricewaterhouseCoopers

Kuala Lumpur
November 12, 2002

TENAGA NASIONAL BERHAD

CONSOLIDATED INCOME STATEMENTS
For the Financial Year Ended August 31,

	Note	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Revenue	3	13,719.1	14,362.6	15,375.1	4,046.1
Operating expenses	4	(10,965.0)	(11,919.8)	(13,108.7)	(3,449.7)
Other operating income	5	481.7	349.6	271.0	71.3
Operating profit before exceptional items		3,235.8	2,792.4	2,537.4	667.7
Exceptional items	6	(332.4)	(373.7)	16.0	4.2
Operating profit after exceptional items		2,903.4	2,418.7	2,553.4	671.9
Foreign exchange (loss)/gain	7	(371.1)	785.5	(92.3)	(24.3)
Share of results of associates		107.0	125.2	142.9	37.6
Profit before finance cost		2,639.3	3,329.4	2,604.0	685.2
Finance cost	8	(1,115.5)	(1,136.4)	(1,127.2)	(296.6)
Profit from ordinary activities before taxation		1,523.8	2,193.0	1,476.8	388.6
Taxation					
— Company and subsidiaries	9	(204.5)	(83.8)	(53.6)	(14.1)
— Share of taxes in associates		(26.0)	(39.0)	(37.3)	(9.8)
Profit from ordinary activities after taxation		1,293.3	2,070.2	1,385.9	364.7
Minority interests		39.5	34.8	14.9	3.9
Net profit for the financial year		1,332.8	2,105.0	1,400.8	368.6
		Sen	Sen	Sen	Cents
Earnings per share					
— basic	10(a)	42.9	67.8	45.1	11.9
— diluted	10(b)	42.9	67.7	Not applicable	Not applicable

TENAGA NASIONAL BERHAD

CONSOLIDATED BALANCE SHEETS
As at August 31,

	Note	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
PROPERTY, PLANT AND EQUIPMENT	12	45,709.6	48,270.3	50,710.7	13,344.9
SUBSIDIARIES	13	0	0	0	0
ASSOCIATES	14	582.0	725.8	806.9	212.3
INVESTMENTS	15	402.4	391.0	390.1	102.7
LONG TERM RECEIVABLES	16	444.0	0	0	0
CURRENT ASSETS					
Inventories	17	1,001.0	982.4	1,216.2	320.1
Receivables, deposits and prepayments	18	2,500.9	3,293.4	2,772.2	729.5
Amount owing from associates		21.4	3.9	4.7	1.2
Marketable securities	19	59.5	47.7	10.7	2.8
Deposits, bank and cash balances	20	768.3	870.3	1,154.0	303.7
		4,351.1	5,197.7	5,157.8	1,357.3
CURRENT LIABILITIES					
Payables	21	3,211.5	3,433.5	3,478.2	915.3
Amount owing to associates		353.2	356.2	364.6	95.9
Current taxation		325.4	390.0	306.4	80.6
Short term borrowings	22				
— bank overdrafts		2.6	2.1	6.4	1.7
— others		5,369.0	3,211.7	2,446.8	643.9
		9,261.7	7,393.5	6,602.4	1,737.4
NET CURRENT LIABILITIES		(4,910.6)	(2,195.8)	(1,444.6)	(380.1)
TOTAL ASSETS LESS CURRENT LIABILITIES		42,227.4	47,191.3	50,463.1	13,279.8
LONG TERM LIABILITIES					
Borrowings	23	(22,289.9)	(25,101.8)	(26,963.6)	(7,095.7)
Consumer deposits		(1,224.5)	(1,324.9)	(1,455.0)	(382.9)
Retirement benefits	24	(383.6)	(452.8)	(487.4)	(128.3)
Other liabilities		(123.7)	(110.4)	(97.3)	(25.6)
		(24,021.7)	(26,989.9)	(29,003.3)	(7,632.5)
DEFERRED TAXATION	25	(970.9)	(975.8)	(980.9)	(258.1)
DEFERRED INCOME	26	(2,097.3)	(2,149.5)	(2,231.6)	(587.3)
GOVERNMENT DEVELOPMENT GRANTS	27	(380.0)	(516.6)	(474.4)	(124.8)
		14,757.5	16,559.5	17,772.9	4,677.1
Financed by:					
SHARE CAPITAL	28	3,106.2	3,106.8	3,111.8	818.9
SHARE PREMIUM	29	3,140.4	3,143.4	3,181.7	837.3
REVALUATION AND OTHER RESERVES	30	1,183.0	1,157.2	1,211.3	318.8
RETAINED PROFITS	31	7,245.6	9,104.5	10,223.3	2,690.3
SHAREHOLDERS' FUNDS		14,675.2	16,511.9	17,728.1	4,665.3
MINORITY INTERESTS		82.3	47.6	44.8	11.8
		14,757.5	16,559.5	17,772.9	4,677.1
		Sen	Sen	Sen	Cent
NET ASSETS PER SHARE	10(c)	472	531	570	150

TENAGA NASIONAL BERHAD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Financial Year Ended August 31,

	Note	Ordinary shares of RM1.00 each	Non-distributable: Share premium	Non-distributable: Revaluation and other reserves	Distributable: Retained profits	Total
		RM'million	RM'million	RM'million	RM'million	RM'million
At September 1, 1999						
— as previously reported		3,101.4	3,112.9	1,208.1	5,979.9	13,402.3
— prior year adjustment	37	0	0	0	111.6	111.6
— as restated		3,101.4	3,112.9	1,208.1	6,091.5	13,513.9
Currency translation differences	30			(25.1)	0	(25.1)
Net profit for the financial year ended August 31, 2000					1,332.8	1,332.8
Dividends						
— financial year ended August 31, 1999					(111.6)	(111.6)
— financial year ended August 31, 2000	11				(67.1)	(67.1)
Issuance of share capital						
— share options	28, 29	4.8	27.5	0	0	32.3
At August 31, 2000		3,106.2	3,140.4	1,183.0	7,245.6	14,675.2
At September 1, 2000						
— as previously reported		3,106.2	3,140.4	1,183.0	7,089.0	14,518.6
— prior year adjustment	37	0	0	0	156.6	156.6
— as restated		3,106.2	3,140.4	1,183.0	7,245.6	14,675.2
Net losses not recognised in income statement						
— currency translation differences	30			(25.8)	0	(25.8)
Net profit for the financial year ended August 31, 2001					2,105.0	2,105.0
Dividends						
— financial year ended August 31, 2000					(156.6)	(156.6)
— financial year ended August 31, 2001	11				(89.5)	(89.5)
Issuance of share capital						
— share options	28, 29	0.6	3.0	0	0	3.6
At August 31, 2001		3,106.8	3,143.4	1,157.2	9,104.5	16,511.9
At September 1, 2001						
— as previously reported		3,106.8	3,143.4	1,157.2	8,970.9	16,378.3
— prior year adjustment	37				133.6	133.6
— as restated		3,106.8	3,143.4	1,157.2	9,104.5	16,511.9

TENAGA NASIONAL BERHAD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — (Continued)
For the Financial Year Ended August 31,

	Note	Ordinary shares of RM1.00 each	Non-distributable: Share premium	Non-distributable: Revaluation and other reserves	Distributable: Retained profits	Total
		RM'million	RM'million	RM'million	RM'million	RM'million
Net gains not recognised in income statement						
— currency translation differences	30			54.1	0	54.1
Premium on acquisition of associates written off					(55.0)	(55.0)
Net profit for the financial year ended August 31, 2002					1,400.8	1,400.8
Dividends						
— financial year ended August 31, 2001	11				(133.6)	(133.6)
— financial year ended August 31, 2002	11				(93.4)	(93.4)
Issuance of share capital						
— share options	28, 29	5.0	38.3	0	0	43.3
At August 31, 2002		3,111.8	3,181.7	1,211.3	10,223.3	17,728.1

	Note	Ordinary shares of RM1.00 each	Non-distributable: Share premium	Non-distributable: Revaluation and other reserves	Distributable: Retained profits	Total
		US$'million	US$'million	US$'million	US$'million	US$'million
At September 1, 2001						
— as previously reported		817.6	827.2	304.5	2,360.8	4,310.1
— prior year adjustment		0	0	0	35.2	35.2
— as restated		817.6	827.2	304.5	2,396.0	4,345.3
Currency translation differences	30			14.3	0	14.3
Premium on acquisition of associates written off					(14.5)	(14.5)
Net profit for the financial year ended August 31, 2002					368.6	368.6
Dividends						
— financial year ended August 31, 2001	11				(35.2)	(35.2)
— financial year ended August 31, 2002	11				(24.6)	(24.6)
Issuance of share capital						
— share options	29	1.3	10.1	0	0	11.4
At August 31, 2002		818.9	837.3	318.8	2,690.3	4,665.3

TENAGA NASIONAL BERHAD

CONSOLIDATED CASH FLOW STATEMENTS
For the Financial Year Ended August 31,

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit from ordinary activities after taxation	1,293.3	2,070.2	1,385.9	364.7
Adjustments for:				
Taxation	230.5	122.8	90.9	23.9
Allowance for (write back of) diminution in value of property, plant and equipment	332.4	250.0	(16.0)	(4.2)
Depreciation	1,692.0	1,976.7	2,242.7	590.1
Provision for retirement benefits	62.5	75.4	59.7	15.7
Translation loss/(gain) — foreign term loans	316.4	(722.6)	132.1	34.8
Release of deferred income	(266.5)	(249.3)	(257.1)	(67.7)
(Gain) on disposal of property, plant and equipment	(1.7)	(0.4)	(1.1)	(0.3)
Share of results in associates	(107.0)	(125.2)	(142.9)	(37.6)
Loss/(gain) on disposal of marketable securities	0.1	(2.6)	36.0	9.5
Dividend income	(11.9)	(7.7)	(10.8)	(2.8)
Interest income	(173.5)	(109.4)	(82.6)	(21.7)
Interest on borrowings	1,062.2	1,077.6	1,062.7	279.6
Property, plant and equipment written off	32.4	0.5	0.8	0.2
Release of government development grants	(45.3)	(43.4)	(42.8)	(11.3)
Allowance for diminution in value of an associate	0	9.6	0	0
Allowance for diminution in value of investments	36.0	11.4	0	0
(Write back of)/allowance for diminution in value of marketable securities	(4.4)	11.7	(37.5)	(9.9)
Inventories written off	69.9	6.5	4.4	1.3
	4,517.4	4,351.8	4,424.4	1,164.3
Inventories	43.7	5.1	(234.3)	(61.6)
Receivables	(351.5)	(246.3)	516.9	136.0
Payables	(63.2)	261.0	5.6	1.5
Amount owing from/to associates	35.1	20.5	7.6	2.0
Cash generated from operations	4,181.5	4,392.1	4,720.2	1,242.2
Retirement benefits paid	(5.9)	(6.2)	(25.1)	(6.6)
Consumer contributions received	300.7	301.5	339.2	89.2
Consumer deposits received	119.8	100.4	130.1	34.2
Tax refund received	0	71.9	0	0
Taxation paid	(39.5)	(88.1)	(132.1)	(34.7)
Net cash inflow from operating activities	4,556.6	4,771.6	5,032.3	1,324.3
CASH FLOWS FROM INVESTING ACTIVITIES				
Additional investment in associates	(88.3)	(77.7)	(78.4)	(20.6)
Proceeds from redemption of preference shares in an associate	50.0	0	0	0
Proceeds from redemption of unsecured loan notes in an associate	9.5	10.6	11.2	2.9
Purchase of marketable securities	(14.4)	(8.4)	0	0

TENAGA NASIONAL BERHAD

CONSOLIDATED CASH FLOW STATEMENTS — (Continued)

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Proceeds from disposal of long term investment	0	0	0.9	0.2
Purchase of long term investment	(12.8)	0	0	0
Net proceeds from sale of marketable securities	20.6	12.0	40.0	10.5
Investment income received	58.8	7.2	43.9	11.5
Interest income received	95.9	104.0	101.7	26.8
Purchase of property, plant and equipment	(4,358.8)	(4,409.9)	(4,081.3)	(1,074.0)
Proceeds from disposal of property, plant and equipment	6.6	4.9	8.6	2.3
Net cash outflow from investing activities	(4,232.9)	(4,357.3)	(3,953.4)	(1,040.4)
CASH FLOWS FROM FINANCING ACTIVITIES				
Government development grants received	76.5	180.0	0.6	0.2
Proceeds from issuance of shares	32.3	3.6	43.3	11.4
Proceeds from long term borrowings	1,572.1	6,960.0	4,341.4	1,142.5
Repayment of long term borrowings	(1,348.3)	(4,927.3)	(3,540.2)	(931.6)
Interest paid	(1,572.3)	(1,702.3)	(1,276.3)	(335.9)
Dividends paid	(178.7)	(246.1)	(227.0)	(59.7)
Proceeds from short term borrowings	3,305.6	2,272.7	4,283.2	1,127.1
Repayment of short term borrowings	(2,440.0)	(2,837.9)	(4,439.6)	(1,168.4)
Issue of shares to minority interests	52.5	0	12.1	3.2
Net cash outflow from financing activities	(500.3)	(297.3)	(802.5)	(211.2)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(176.6)	117.0	276.4	72.7
EFFECT OF CHANGES IN FOREIGN CURRENCY	(25.1)	(14.5)	3.0	0.8
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR	967.4	765.7	868.2	228.4
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	765.7	868.2	1,147.6	301.9
Cash and cash equivalents at end of the financial year comprise:				
Cash in hand and at bank	296.7	194.0	284.1	74.7
Deposits with licensed banks	446.8	657.9	832.7	219.1
Deposits with finance companies	24.8	18.4	37.2	9.8
Bank overdrafts	(2.6)	(2.1)	(6.4)	(1.7)
	765.7	868.2	1,147.6	301.9

Included in cash and cash equivalents are deposits amounting to RM111.6 million (2001: RM151.5 million; 2000: Nil) and cash at bank amounting to RM0.1 million (2001: RM25.9 million; 2000: Nil), which are held in trust by a subsidiary in respect of a grant given by the Malaysian Government for a designated capital project.

TENAGA NASIONAL BERHAD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

The principal activities of the Group are the generation, transmission, distribution and sale of electricity.

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

The Company is a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Board of the Kuala Lumpur Stock Exchange.

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

2. Summary of Significant Accounting Policies

The principal accounting policies of the Group which are consistent with those adopted in the previous financial year are summarised below:

(a) Basis of accounting

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

The financial statements comply with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965. The new applicable approved accounting standards adopted in these financial statements are as follows:

(i) Retrospective application

Comparative figures have been adjusted or extended to conform with changes in presentation due to the requirements of Malaysian Accounting Standards Board ("MASB") Standard No. 19 "Events After Balance Sheet Date". The adoption of the Standard resulted in a change in accounting policy as disclosed in Note 37 to the financial statements.

(ii) Prospective application from September 1, 2001

In respect of MASB Standard No. 21 "Business Combinations", the Group has taken advantage of the exemption provided to apply the Standard prospectively. Accordingly, business combinations entered into prior to September 1, 2001 have not been restated to comply with the Standard.

(b) Basis of consolidation

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

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

(c) Associates

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

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

(d) Goodwill

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

Negative goodwill represents the excess of the fair value of the Group's share of identifiable net assets acquired over the purchase price. Negative goodwill is written off to reserves in the year of acquisition.

(e) Foreign currency

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

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

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

Foreign currency	2000	2001	2002
	RM	RM	RM
1 U.S. Dollar ("US$")	3.8000	3.8000	3.8000
100 Japanese Yen ("JPY")	3.5820	3.1725	3.2182
1 Pound Sterling	5.4829	5.5146	5.9022
100 PKR	6.9500	5.9190	6.4054
1 EURO	Not applicable	Not applicable	3.7448

(f) Property, plant and equipment and depreciation

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

The Directors have applied the transitional provisions of International Accounting Standard No. 16 (Revised) Property, Plant and Equipment as adopted by Malaysian Accounting Standards Board which allow the freehold land, leasehold land, buildings and civil works to be stated at their previous years' valuations less depreciation. Accordingly, these valuations have not been updated.

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

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

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

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

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

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

Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount.

(g) Capitalisation of interest

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

(h) Inventories

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

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

(i) Marketable securities

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

(j) Retirement benefits

Defined contribution plan

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

Defined benefit plan

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

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

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

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

(k) Deferred taxation

The tax expense is determined on the basis of tax effect accounting using the liability method. Deferred taxation is recognised for timing differences except when there is reasonable evidence that such timing differences will not reverse in the foreseeable future. The tax effect of timing differences that result in a debit balance or a debit to the deferred tax balance is not carried forward unless there is a reasonable expectation of its realisation.

The potential tax saving relating to a tax loss carry forward is only recognised if there is assurance beyond reasonable doubt that future taxable income will be sufficient for the benefit of the loss to be realised.

(l) Investments

Investments in subsidiaries, associates and other investments held for long term are stated at cost, less allowance for any permanent diminution in their value. Allowance for permanent diminution is only made where in the opinion of the Directors, there is a permanent diminution in value. Permanent diminution in the value of an investment is recognised as an expense in the financial year in which the diminution is identified.

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

(m) Deferred income

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

(n) Operating leases

A group company is the lessee

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

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

A group company is the lessor

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

(o) Receivables

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

(p) Cash and cash equivalents

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

(q) Revenue recognition

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

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

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

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

(r) Government development grants

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

(s) Financial instruments

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

The Group is also parties to financial instruments that manage exposure to fluctuations in foreign currency exchange and interest rate. These financial instruments, which mainly comprise foreign currency forward contracts and interest rate swap agreements, are not recognised in the financial statements on inception. The purpose of these instruments is to reduce risk.

Financial derivatives hedging instruments are used in the Company's risk management of foreign currency and interest rate risk exposure of its financial liabilities. Hedge accounting principles are applied for the accounting of the underlying exposures and their hedge instruments. The underlying foreign currency liabilities are translated at their respective hedged exchange rate, and net differentials in interest receipts and payments arising from interest rate derivative instruments are accrued, so as to match those net differentials with the related interest expense on the hedged liabilities. No amounts are recognised in respect of future periods.

(t) Rural electrification and 7th Malaysia Plan Projects

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

3. Revenue

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Sales — electricity	13,220.0	13,951.8	14,932.5	3,929.6
— goods and services	232.6	161.5	185.5	48.8
Release of deferred income (Note 26)	266.5	249.3	257.1	67.7
	13,719.1	14,362.6	15,375.1	4,046.1

4. Operating Expenses

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Energy cost	7,215.2	7,588.7	9,011.5	2,371.4
Transmission cost	517.0	567.5	665.6	175.2
Distribution cost	1,954.7	2,419.5	2,183.4	574.6
Administrative expenses	604.2	648.6	765.1	201.3
Other operating expenses	673.9	695.5	483.1	127.2
	10,965.0	11,919.8	13,108.7	3,449.7

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Operating expenses include the following items:				
Directors' remuneration				
— fees	0.4	0.5	0.6	0.2
— other emoluments	0.9	0.4	0.3	0.1
Auditors' remuneration	0.5	0.5	0.7	0.2
Depreciation	1,692.0	1,976.7	2,242.7	590.1
Retirement benefits expenses	62.5	100.8	83.1	21.9
Rental of land and buildings	33.0	25.8	24.2	6.4
Rental of plant and machinery	6.8	13.0	10.4	2.7
Research and development expenses	16.2	42.0	11.1	2.9
Property, plant and equipment written off	32.4	0.5	0.8	0.2
Allowance for diminution in value of investments	36.0	11.4	0	0
Allowance for diminution in value of an associate	0	9.6	0	0
(Write back of)/allowance for diminution in value of marketable securities	(4.4)	11.7	(37.5)	(9.9)
Staff costs	1,034.6	1,039.2	1,251.4	329.3

The number of persons employed at the end of the financial year was 25,686 (2001: 25,125; 2000: 24,334).

The estimated money value of benefits-in-kind received by the Directors for the financial year was RM143,504 (2001: RM86,052; 2000: RM114,664).

5. Other Operating Income

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Dividend income on investments from				
— quoted shares	11.9	7.7	10.8	2.8
Interest income	173.5	109.4	82.6	21.7
Rental income	23.2	6.9	6.5	1.7
Release of government development grants (Note 27)	45.3	43.4	42.8	11.3
Government subsidies	55.5	36.3	25.7	6.8
(Loss)/gain on disposal of marketable securities	(0.1)	2.6	(36.0)	(9.5)
Gain on disposal of property, plant and equipment	1.7	0.4	1.1	0.3
Other income	170.7	142.9	137.5	36.2
	481.7	349.6	271.0	71.3

Included in other income were interest on late payment of RM49.4 million (2001: RM37.1 million), minimum make up charges of RM22.2 million (2001: RM22.5 million) and rechargeable profit of RM8.5 million (2001: RM25.4 million).

6. Exceptional Items

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
(Allowance)/write back of allowance for diminution in value of property, plant and equipment in a subsidiary (Note (a))	(332.4)	(250.0)	16.0	4.2
Redemption premium and fees (Note (b))	0	(123.7)	0	0
	(332.4)	(373.7)	16.0	4.2

(a) The allowance relates to the Group's equity investment in a subsidiary, Liberty Power Limited ("LPL"). LPL has a power plant in Pakistan and is involved in the generation and sale of electricity to the Water & Power Development Authority of Pakistan.

The allowance was made due to the uncertainties relating to the extension of the Gas Supply Agreement and finalisation of the Power Purchase Agreement. On September 10, 2001, LPL's power plant achieved commercial operation and since then has been operating satisfactorily. The total cumulative allowance made as at August 31, 2002 was RM566.4 million (2001: RM582.4 million; 2000: RM332.4 million) (Note 12).

(b) During the financial year ended August 31,2001, the Company purchased US$302.6 million of its 7.875% Notes due June 2004 and US$176.2 million of its 7.200% Notes due April 2007 at a total consideration (excluding accrued interest) of US$505.0 million on April 4, 2001. Simultaneously, the Company issued US$600.0 million 7.625% Notes due 2011 which were fully subscribed. The redemption premium and fees associated with the above transaction amounted to RM123.7 million.

7. Foreign Exchange (Loss)/Gain

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Foreign exchange (loss)/gain comprises:				
Translation (loss)/gain — foreign term loans	(316.4)	742.2	(161.4)	(42.5)
Translation (loss)/gain — others	(9.7)	(19.6)	29.3	7.7
Transaction (loss)/gain	(45.0)	62.9	39.8	10.5
	(371.1)	785.5	(92.3)	(24.3)
The translation (loss)/gain is in respect of term loans denominated in foreign currencies which are repayable over the following periods:				
Within one year	(35.7)	98.9	(15.1)	(4.0)
After one and up to two years	(38.8)	109.1	29.1	7.7
After two and up to five years	(92.5)	113.0	(43.4)	(11.4)
After five and up to ten years	(134.0)	379.6	(61.3)	(16.2)
After ten years	(15.4)	41.6	(70.7)	(18.6)
	(316.4)	742.2	(161.4)	(42.5)

8. Finance Cost

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Interest on borrowings	1,486.4	1,646.3	1,578.1	415.2
Less: Amount capitalised into property, plant and equipment	(424.2)	(568.7)	(515.4)	(135.6)
Interest on consumer deposits	53.3	58.8	64.5	17.0
	1,115.5	1,136.4	1,127.2	296.6

9. Taxation

Arising in Malaysia:

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Tax charge for the financial year				
In respect of current financial year				
— Company	146.5	38.3	37.6	9.9
— Subsidiaries	82.4	97.2	10.7	2.8
In respect of prior years				
— Company	0	(56.6)	0.1	0
In respect of current financial year				
Deferred taxation	(24.4)	4.9	5.2	1.4
	204.5	83.8	53.6	14.1

The amount of unutilised tax losses of subsidiaries available for set off against their future income chargeable to tax of the respective subsidiaries amounted to RM545.2 million (2001: RM552.9 million, 2000: RM377.1 million).

The effective tax rate for the Group for the financial year ended August 31, 2002 is lower than the statutory rate due to the utilisation of brought forward and current capital allowances amounting to approximately RM3,504.8 million (2001: RM3,589.5 million; 2000: RM2,472.2 million).

10. Earnings per Share

(a) Basic earnings per share

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

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Net profit for the financial year	1,332.8	2,105.0	1,400.8	368.6
Weighted average number of ordinary shares in issue ('000)	3,103,306	3,106,519	3,108,797	3,108,797
Basic earnings per share (sen/cents)	42.9	67.8	45.1	11.9

(b) Diluted earnings per share

For the diluted earnings per share calculation, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. Previously the Company has one category of dilutive potential ordinary shares: Share options granted to employees. However, the share options have expired on May 11, 2002 and therefore no dilution in earnings per share.

In respect of the financial year ended August 31, 2002, in the diluted earnings per share calculation, the share options are assumed to have been converted into ordinary shares at the beginning of the financial year and the adjusted net profit for the financial year is arrived at after adjusting for interests savings (net of tax) on term loans.

	2000	2001	2002	2002
	RM'million	RM'million	RM'million	US$'million
Net profit for the financial year	1,332.8	2,105.0	Not applicable	Not applicable
Adjusted for interest savings (net of tax) on term loans	1.9	2.8	Not applicable	Not applicable
Adjusted net profit for the financial year	1,334.7	2,107.8	Not applicable	Not applicable
Weighted average number of ordinary shares in issue ('000)	3,103,306	3,106,519	Not applicable	Not applicable
Adjustment for:				
— share options ('000)	4,824	7,662	Not applicable	Not applicable
Weighted average number of ordinary shares for diluted earnings per share ('000)	3,108,130	3,114,181	Not applicable	Not applicable
Diluted earnings per share (sen)	42.9	67.7	Not applicable	Not applicable

(c) Net assets per share

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

11. Dividends

	2000		2001		2002		2002	
	Sen per share	Amount of dividend	Sen per share	Amount of dividend	Sen per share	Amount of dividend	Cents per share	Amount of dividend
		RM'million		RM'million		RM'million		US$'million
Interim dividend . . .	3.0	67.1	4.0	89.5	3.0*	93.4	0.8	24.6
Proposed final dividend	7.0	156.6	4.3*	133.6	6.0	134.4	1.6	35.2
	10.0	223.7	8.3	223.1	9.0	227.8	2.4	59.8

* tax exempt

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

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended August 31, 2002 of 6.0 sen gross per ordinary share, less income tax at 28%, amounting to RM134.4 million will be proposed for shareholders' approval. These financial statements do not reflect this final dividend which will be accrued as a liability in the financial year ending August 31, 2003 when approved by shareholders. This represents a change in accounting treatment from that of prior years as explained in Note 37 to the financial statements.

In respect of the financial year ended August 31, 2001, a final dividend of 4.3 sen per ordinary share, tax exempt, amounted to RM133.6 million was declared.

In respect of the financial year ended August 31, 2000, a final dividend of 7.0 sen gross per ordinary share less income tax amounted to RM156.6 million was declared.

12. Property, Plant and Equipment

	As at September 1, 1999	Exchange rate adjustment	Additions	Disposals	Transfers/ reclassifications	As at August 31, 2000
	RM'million	RM'million	RM'million	RM'million	RM'million	RM'million
2000						
Cost/Valuation						
At 1984 and earlier valuations:						
Long leasehold land . . .	8.4	0	0	0	0	8.4
Buildings and civil works	6.5	0	0	0	0	6.5
At 1994 valuation:						
Freehold land	845.5	0	0	0	0	845.5
Long leasehold land . . .	446.6	0	0	(0.2)	0	446.4
Short leasehold land . .	3.5	0	0	0	0	3.5
Buildings and civil works	441.9	0	0	0	0	441.9
	1,752.4	0	0	(0.2)	0	1,752.2
At cost:						
Freehold land	289.4	0	0.5	0	(94.3)	195.6
Long leasehold land . . .	74.4	0	101.0	(35.2)	0	140.2
Short leasehold land . .	38.2	0	0	0	0	38.2
Buildings and civil works	7,286.9	(0.1)	693.9	(2.2)	0	7,978.5
	9,441.3	(0.1)	795.4	(37.6)	(94.3)	10,104.7
Plant and machinery . .	17,035.1	0	1,545.0	(16.5)	0	18,563.6
Lines and distribution mains	12,685.0	0	1,722.4	0	0	14,407.4
Distribution services . .	1,313.4	0	229.0	0	0	1,542.4
Meters	415.3	0	180.0	0	0	595.3
Public lighting	183.0	0	23.9	0	0	206.9
Furniture, fittings and office equipment	363.4	(0.8)	226.9	(12.1)	0	577.4
Motor vehicles	243.0	(0.2)	57.5	(35.9)	0	264.4
	41,679.5	(1.1)	4,780.1	(102.1)	(94.3)	46,262.1
Capital project-in-progress	12,321.1	(41.0)	5,002.6	(2.2)	(4,874.6)	12,405.9
	54,000.6	(42.1)	9,782.7	(104.3)	(4,968.9)	58,668.0

	As at September 1, 1999	Charge for the financial year	Released on disposals/ transfers	As at August 31, 2000
	RM'million	RM'million	RM'million	RM'million
2000				
Accumulated depreciation				
At 1984 and earlier valuations:				
Long leasehold land	1.4	0.1	0	1.5
Buildings and civil works	2.7	0	0	2.7
At 1994 valuation:				
Freehold land	0	0	0	0
Long leasehold land	31.0	9.4	0	40.4
Short leasehold land	0.3	0	0	0.3
Buildings and civil works	54.2	20.8	0	75.0
	89.6	30.3	0	119.9
At cost:				
Freehold land	0	0	0	0
Long leasehold land	14.0	1.9	0	15.9
Short leasehold land	3.8	0.5	0	4.3
Buildings and civil works	1,347.5	167.2	(1.0)	1,513.7
	1,454.9	199.9	(1.0)	1,653.8
Plant and machinery	5,325.9	750.5	(0.5)	6,075.9
Lines and distribution mains	3,045.2	553.1	(24.4)	3,573.9
Distribution services	496.1	62.6	(0.4)	558.3
Meters	230.3	27.2	0	257.5
Public lighting	57.8	8.5	(1.3)	65.0
Furniture, fittings and office equipment	222.8	67.8	(16.5)	274.1
Motor vehicles	179.3	22.4	(34.2)	167.5
	11,012.3	1,692.0	(78.3)	12,626.0
Capital project-in-progress	0	332.4	0	332.4*
	11,012.3	2,024.4	(78.3)	12,958.4

* Relates to a provision in respect of Liberty Power Limited (Note 6 (a)).

	As at September 1, 2000	Exchange rate adjustment	Additions	Disposals	Transfers/ reclassifications	As at August 31, 2001
	RM'million	RM'million	RM'million	RM'million	RM'million	RM'million
2001						
Cost/Valuation						
At 1984 and earlier valuations:						
Long leasehold land	8.4	0	0	0	0	8.4
Buildings and civil works	6.5	0	0	0	0	6.5
At 1994 valuation:						
Freehold land	845.5	0	0	(0.1)	(155.9)	689.5
Long leasehold land	446.4	0	0	0	156.0	602.4
Short leasehold land	3.5	0	0	0	(0.1)	3.4
Buildings and civil works	441.9	0	0	(1.5)	0	440.4
	1,752.2	0	0	(1.6)	0	1,750.6
At cost:						
Freehold land	195.6	0	14.1	0	20.6	230.3
Long leasehold land	140.2	0	1.9	0	(37.3)	104.8
Short leasehold land	38.2	0	0	0	0	38.2
Buildings and civil works	7,978.5	(0.3)	934.5	0	0.1	8,912.8
	10,104.7	(0.3)	950.5	(1.6)	(16.6)	11,036.7
Plant and machinery	18,563.6	0	3,730.7	(3.7)	2.0	22,292.6
Lines and distribution mains	14,407.4	0	952.6	0	5.2	15,365.2
Distribution services	1,542.4	0	49.7	0	(48.0)	1,544.1
Meters	595.3	0	21.6	0	0	616.9
Public lighting	206.9	0	6.5	0	0	213.4
Furniture, fittings and office equipment	577.4	(0.8)	26.0	(0.6)	(15.9)	586.1
Motor vehicles	264.4	(0.1)	11.9	(2.3)	(0.3)	273.6
	46,262.1	(1.2)	5,749.5	(8.2)	(73.6)	51,928.6
Capital project-in-progress	12,405.9	(184.6)	5,865.0	0	(6,585.0)	11,501.3
	58,668.0	(185.8)	11,614.5	(8.2)	(6,658.6)	63,429.9

	As at September 1, 2000	Charge for the financial year	Released on disposals/ transfers	As at August 31, 2001
	RM'million	RM'million	RM'million	RM'million
2001				
Accumulated depreciation				
At 1984 and earlier valuations:				
Long leasehold land	1.5	0	0	1.5
Buildings and civil works	2.7	0.5	0	3.2
At 1994 valuation:				
Freehold land	0	0	0	0
Long leasehold land	40.4	8.0	0	48.4
Short leasehold land	0.3	0	0	0.3
Buildings and civil works	75.0	17.6	(1.0)	91.6
	119.9	26.1	(1.0)	145.0
At cost:				
Freehold land	0	0	0	0
Long leasehold land	15.9	(7.3)	0	8.6
Short leasehold land	4.3	0.5	0	4.8
Buildings and civil works	1,513.7	202.4	0	1,716.1
	1,653.8	221.7	(1.0)	1,874.5
Plant and machinery	6,075.9	910.8	(0.9)	6,985.8
Lines and distribution mains	3,573.9	608.7	0	4,182.6
Distribution services	558.3	70.7	(5.5)	623.5
Meters	257.5	34.6	0	292.1
Public lighting	65.0	9.3	0	74.3
Furniture, fittings and office equipment	274.1	87.5	(16.0)	345.6
Motor vehicles	167.5	33.4	(2.1)	198.8
	12,626.0	1,976.7	(25.5)	14,577.2
Capital project-in-progress	332.4	250.0	0	582.4*
	12,958.4	2,226.7	(25.5)	15,159.6

* Relates to a provision in respect of Liberty Power Limited (Note 6 (a)).

	As at September 1, 2001	Exchange rate adjustment	Additions	Disposals	Transfers/ reclassifications	As at August 31, 2002
	RM'million	RM'million	RM'million	RM'million	RM'million	RM'million
2002						
Cost/Valuation						
At 1984 and earlier valuations:						
Long leasehold land	8.4	0	0	0	0	8.4
Buildings and civil works	6.5	0	0	(0.9)	0	5.6
At 1994 valuation:						
Freehold land	689.5	0	0	(2.0)	0	687.5
Long leasehold land	602.4	0	0	0	0.3	602.7
Short leasehold land	3.4	0	0	0	(0.3)	3.1
Buildings and civil works	440.4	0	0	(0.3)	0	440.1
	1,750.6	0	0	(3.2)	0	1,747.4
At cost:						
Freehold land	230.3	0	61.2	0	(25.2)	266.3
Long leasehold land	104.8	0	28.6	0	25.2	158.6
Short leasehold land	38.2	0	0.3	0	0	38.5
Buildings and civil works	8,912.8	0	685.2	0	12.4	9,610.4
	11,036.7	0	775.3	(3.2)	12.4	11,821.2
Plant and machinery	22,292.6	0	2,781.7	(32.9)	2.3	25,043.7
Lines and distribution mains	15,365.2	0	1,048.9	0	31.1	16,445.2
Distribution services	1,544.1	0	197.2	0	(30.5)	1,710.8
Meters	616.9	0	128.7	0	(0.5)	745.1
Public lighting	213.4	0	28.4	0	(12.0)	229.8
Furniture, fittings and office equipment	586.1	0	104.7	(0.6)	1.7	691.9
Motor vehicles	273.6	0	13.9	(1.3)	0.3	286.5
	51,928.6	0	5,078.8	(38.0)	4.8	56,974.2
Capital project-in-progress	11,501.3	78.7	4,519.9	0	(4,920.7)	11,179.2
	63,429.9	78.7	9,598.7	(38.0)	(4,915.9)	68,153.4

	As at September 1, 2001	Charge for the financial year	Released on disposals/ transfers	As at August 31, 2002
	RM'million	RM'million	RM'million	RM'million
2002				
Accumulated depreciation				
At 1984 and earlier valuations:				
Long leasehold land	1.5	0	0	1.5
Buildings and civil works	3.2	0.5	0.9	4.6
At 1994 valuation:				
Freehold land	0	0	0	0
Long leasehold land	48.4	12.0	0	60.4
Short leasehold land	0.3	0.1	0	0.4
Buildings and civil works	91.6	17.5	0	109.1
	145.0	30.1	0.9	176.0
At cost:				
Freehold land	0	0	0	0
Long leasehold land	8.6	3.0	0.1	11.7
Short leasehold land	4.8	0.5	0	5.3
Buildings and civil works	1,716.1	232.8	0.7	1,949.6
	1,874.5	266.4	1.7	2,142.6
Plant and machinery	6,985.8	1,085.1	643.3	8,714.2
Lines and distribution mains	4,182.6	634.9	(5.1)	4,812.4
Distribution services	623.5	93.4	0	716.9
Meters	292.1	41.8	0	333.9
Public lighting	74.3	11.0	0.3	85.6
Furniture, fittings and office equipment	345.6	82.2	(15.5)	412.3
Motor vehicles	198.8	27.9	(1.9)	224.8
	14,577.2	2,242.7	622.8	17,442.7
Capital project-in-progress	582.4	(16.0)	(566.4)*	0
	15,159.6	2,226.7	56.4	17,442.7

* Relates to an allowance in respect of Liberty Power Limited (Note 6 (a)). During the financial year, the construction of the power plant was completed and capitalised into appropriate categories within property, plant and equipment. Included in the accumulated depreciation charged of plant and machinery is the accumulated impairment losses of RM566.4 million.

	As at September 1, 2001	Exchange rate adjustment	Additions	Disposals	Transfers/ reclassifications	As at August 31, 2002
	US$'million	US$'million	US$'million	US$'million	US$'million	US$'million
2002						
Cost/Valuation						
At 1984 and earlier valuations:						
Long leasehold land	2.2	0	0	0	0	2.2
Buildings and civil works	1.7	0	0	(0.2)	0	1.5
At 1994 valuation:						
Freehold land	181.4	0	0	(0.5)	0	180.9
Long leasehold land	158.5	0	0	0	0.1	158.6
Short leasehold land	0.9	0	0	0	(0.1)	0.8
Buildings and civil works	115.9	0	0	(0.1)	0	115.8
	460.6	0	0	(0.8)	0	459.8
At cost:						
Freehold land	60.6	0	16.1	0	(6.6)	70.1
Long leasehold land	27.6	0	7.5	0	6.6	41.7
Short leasehold land	10.0	0	0.1	0	0	10.1
Buildings and civil works	2,345.5	0	180.3	0	3.3	2,529.1
	2,904.3	0	204.0	(0.8)	3.3	3,110.8
Plant and machinery	5,866.5	0	732.0	(8.7)	0.6	6,590.4
Lines and distribution mains	4,043.5	0	276.0	0	8.2	4,327.7
Distribution services	406.3	0	51.9	0	(8.0)	450.2
Meters	162.3	0	33.9	0	(0.1)	196.1
Public lighting	56.2	0	7.5	0	(3.2)	60.5
Furniture, fittings and office equipment	154.2	0	27.7	(0.2)	0.4	182.1
Motor vehicles	72.0	0	3.6	(0.3)	0.1	75.4
	13,665.3	0	1,336.6	(10.0)	1.3	14,993.2
Capital project-in-progress	3,026.7	20.7	1,189.4	0	(1,294.9)	2,941.9
	16,692.0	20.7	2,526.0	(10.0)	(1,293.6)	17,935.1

	As at September 1, 2001	Charge for the financial year	Released on disposals/ transfers	As at August 31, 2002
	US$'million	US$'million	US$'million	US$'million
2002				
Accumulated depreciation				
At 1984 and earlier valuations:				
Long leasehold land	0.4	0	0	0.4
Buildings and civil works	0.8	0.1	0.2	1.1
At 1994 valuation:				
Freehold land	0	0	0	0
Long leasehold land	12.7	3.2	0	15.9
Short leasehold land	0.1	0	0	0.1
Buildings and civil works	24.1	4.6	0	28.7
	38.1	7.9	0.2	46.2
At cost:				
Freehold land	0	0	0	0
Long leasehold land	2.3	0.8	0	3.1
Short leasehold land	1.3	0.1	0	1.4
Buildings and civil works	451.6	61.3	0.2	513.1
	493.3	70.1	0.4	563.8
Plant and machinery	1,838.4	285.5	169.3	2,293.2
Lines and distribution mains	1,100.7	167.1	(1.3)	1,266.5
Distribution services	164.1	24.6	0	188.7
Meters	76.9	11.0	0	87.9
Public lighting	19.6	2.9	0.1	22.6
Furniture, fittings and office equipment	90.9	21.6	(4.1)	108.4
Motor vehicles	52.3	7.3	(0.5)	59.1
	3,836.2	590.1	163.9	4,590.2
Capital project-in-progress	153.3	(4.2)	(149.1)	0
	3,989.5	585.9	14.8	4,590.2

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Net book value				
At 1984 and earlier valuations:				
Long leasehold land	6.9	6.9	6.9	1.8
Buildings and civil works	3.8	3.3	1.0	0.4
At 1994 valuation:				
Freehold land	845.5	689.5	687.5	180.9
Long leasehold land	406.0	554.0	542.3	142.7
Short leasehold land	3.2	3.1	2.7	0.7
Buildings and civil works	366.9	348.8	331.0	87.1
	1,632.3	1,605.6	1,571.4	413.6
At cost:				
Freehold land	195.6	230.3	266.3	70.1
Long leasehold land	124.3	96.2	146.9	38.6
Short leasehold land	33.9	33.4	33.2	8.7
Buildings and civil works	6,464.8	7,196.7	7,660.8	2,016.0
	8,450.9	9,162.2	9,678.6	2,547.0
Plant and machinery	12,487.7	15,306.8	16,329.5	4,297.2
Lines and distribution mains	10,833.5	11,182.6	11,632.8	3,061.2
Distribution services	984.1	920.6	993.9	261.5
Meters	337.8	324.8	411.2	108.2
Public lighting	141.9	139.1	144.2	37.9
Furniture, fittings and office equipment	303.3	240.5	279.6	73.7
Motor vehicles	96.9	74.8	61.7	16.3
	33,636.1	37,351.4	39,531.5	10,403.0
Capital project-in-progress	12,073.5	10,918.9	11,179.2	2,941.9
	45,709.6	48,270.3	50,710.7	13,344.9

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

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Freehold land	44.3	51.7	51.7	13.6
Leasehold land	75.8	74.3	72.4	19.1
Buildings and civil works	166.1	156.0	148.4	39.1
	286.2	282.0	272.5	71.8

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

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

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

The generation power plants of the Company are leased to certain wholly owned subsidiaries. The lease is an operating lease and terms are subject to review between the parties. The property, plant and equipment under the operating lease are as follows:

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

	Freehold land	Leasehold land	Buildings and civil works	Plant and machinery	Total
	RM'million	RM'million	RM'million	RM'million	RM'million
2001					
Cost/revalued amount	220.3	250.2	4,609.8	10,010.2	15,090.5
Less: Accumulated depreciation	0	(17.4)	(1,312.2)	(4,376.2)	(5,705.8)
Net book value	220.3	232.8	3,297.6	5,634.0	9,384.7
Depreciation charged for the financial year	0	4.5	107.6	434.8	546.9

Net book value of plant and machinery in respect of closed power stations held for disposal amounted to RM3.4 million (2001: RM5.2 million; 2000: RM7.8 million).

Interest capitalised during the financial year in capital project-in-progress amounted to RM515.4 million (2001: RM568.7 million; 2000: RM424.2 million).

13. Subsidiaries

Name of company	Group's interest 2000	2001	2002	Principal activities	Country of incorporation
Malaysia Transformer Manufacturing Sdn Bhd*	73%	73%	73%	Manufacture and selling and repairing transformers and switchgears	Malaysia
Sabah Electricity Sdn Bhd	80%	80%	80%	Generation, transmission, distribution and sale of electricity and services	Malaysia

Name of company	Group's interest 2000	2001	2002	Principal activities	Country of incorporation
Sumber Hidro Management Sdn Bhd	100%	100%	100%	Dormant	Malaysia
Tenaga SPL Sdn Bhd*	100%	100%	100%	Generation and supply of various energy sources and provision of related technical services	Malaysia
Tenaga Switchgear Sdn Bhd*	60%	60%	60%	Manufacture and assembly of high voltage switchgears and contracting of turnkey transmission substation	Malaysia
TNB Capital (L) Ltd (Formerly known as Cofus Ltd)	100%	100%	100%	Dormant	Malaysia
TNB Distribution Sdn Bhd	100%	100%	100%	Provision of services relating to the distribution of electricity	Malaysia
TNB Engineering and Consultancy Sdn Bhd*	100%	100%	100%	Project management and consultancy, engineering works and energy project development services	Malaysia
TNB Engineers Sdn Bhd*	100%	100%	100%	Provision of contracting, trading and engineering services relating to the energy sector	Malaysia
TNB Fuel Services Sdn Bhd*	100%	100%	100%	Supply of fuel and coal for power generation	Malaysia
TNB Generation Sdn Bhd	100%	100%	100%	Operation of power plants and generation of electricity	Malaysia
TNB Hidro Sdn Bhd	100%	100%	100%	Operation of power plants and generation of electricity	Malaysia
TNB-IT Sdn Bhd*	100%	100%	100%	Supply of information and multimedia services and works	Malaysia
TNB Janamanjung Sdn Bhd*	100%	100%	100%	Operation of power plant and generation of electricity	Malaysia
TNB Kapar Sdn Bhd	100%	100%	100%	Dormant	Malaysia
TNB Kekal Sdn Bhd*	100%	100%	100%	Provision of property management services	Malaysia
TNB Logistics Sdn Bhd*	100%	100%	100%	Freight forwarding	Malaysia
TNB Metering Services Sdn Bhd*	100%	100%	100%	Supply of electricity meters	Malaysia
TNB Paka Sdn Bhd	100%	100%	100%	Dormant	Malaysia
TNB Power Daharki Ltd*	100%	100%	100%	Investment holding	Mauritius
TNB Prai Sdn Bhd	100%	100%	100%	Dormant	Malaysia
TNB Properties Sdn Bhd*	100%	100%	100%	Property development and management services	Malaysia
TNB Repair and Maintenance Sdn Bhd*	100%	100%	100%	Repair, maintenance and testing of power plants	Malaysia
TNB Research Sdn Bhd*	100%	100%	100%	Research and development	Malaysia

Name of company	Group's interest 2000	2001	2002	Principal activities	Country of incorporation
TNB Risk Management Sdn Bhd*	100%	100%	100%	Risk management services, risk surveys and insurance activities	Malaysia
TNB Transmission Network Sdn Bhd	100%	100%	100%	Provision of services related to the electrical transmission network system	Malaysia
TNB Ventures Sdn Bhd*	100%	100%	100%	Investment holding for domestic and international ventures	Malaysia
TNB Workshop Services Sdn Bhd*	100%	100%	100%	Repair and maintenance of motor vehicles	Malaysia
Universiti Tenaga Nasional Sdn Bhd*	100%	100%	100%	Institute of higher learning	Malaysia
Subsidiaries of TNB Engineering and Consultancy Sdn Bhd					
Bangsar Energy Systems Sdn Bhd*	100%	100%	100%	Development and operation of district cooling plants	Malaysia
Independent Power International Ltd*	100%	100%	100%	Dormant	Mauritius
Power and Energy International Mauritius Ltd*	100%	100%	100%	Dormant	Mauritius
TNEC Construction Sdn Bhd*	100%	100%	100%	Construction	Malaysia
TNEC Operations and Maintenance Sdn Bhd*	100%	100%	100%	Operations and maintenance of cooling and power plants	Malaysia
Subsidiaries of TNEC Operations and Maintenance Sdn Bhd					
Selesa Energy Systems Sdn Bhd*	100%	100%	100%	Dormant	Malaysia
Tomest Energy Management Sdn Bhd*	51%	51%	51%	Dormant	Malaysia
Subsidiary of TNB Generation Sdn Bhd					
TNBG Power Services Sdn Bhd	100%	100%	100%	Dormant	Malaysia
Subsidiary of TNB Power Daharki Ltd					
Liberty Power Limited	100%	100%	100%	Operation of power plant and generation of electricity	Pakistan
Subsidiary of TNB Properties Sdn Bhd					
TNP Construction Sdn Bhd*	100%	100%	100%	Construction	Malaysia

Name of company	Group's interest 2000	2001	2002	Principal activities	Country of incorporation
Subsidiary of TNB Research Sdn Bhd					
Tenaga Microwave Technologies Sdn Bhd*ˆ	70%	70%	70%	Dormant	Malaysia
Subsidiary of Tenaga SPL Sdn Bhd					
Jana Landfill Sdn Bhd*	0	100%	100%	Generation and distribution of heat and electricity using landfill gas	Malaysia
Subsidiary of TNB Repair and Maintenance Sdn Bhd					
Remaco Energy Ventures Limited*	100%	100%	100%	Dormant	Mauritius
Subsidiaries of Remaco Energy Ventures Limited					
Trichy Power Limited*	100%	100%	100%	Dormant	India
Trichy Energy Limited*	100%	100%	100%	Dormant	India
Subsidiary of TNB Ventures Sdn Bhd					
Tenaga Cable Industries Sdn Bhd*	55%	55%	55%	Manufacture and sale of electrical cables	Malaysia

* Not audited by PricewaterhouseCoopers.

ˆ On August 28, 2002, the High Court has granted liquidation petition of Tenaga Microwave Technologies Sdn Bhd brought by the Company and TNB Research Sdn Bhd.

14. Associates

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Share of net assets other than goodwill of associates	582.0	725.8	806.9	212.3

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

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Unquoted ordinary shares, at cost	38.1	38.1	38.1	10.0
Unsecured loan notes	117.8	107.2	96.0	25.3
	155.9	145.3	134.1	35.3

Name of company	Group's interest 2000	2001	2002	Principal activities	Country of incorporation
Fibrecomm Network (M) Sdn Bhd*	39%	39%	39%	Development and operation of fibre optic communication network	Malaysia
Genting Sanyen Power Sdn Bhd	20%	20%	20%	Independent Power Producer licensed by the government to supply electricity exclusively to TNB	Malaysia
Janaurus PDP Sdn Bhd	20%	20%	20%	Provision of operational and maintenance services to an Independent Power Producer	Malaysia
Perusahaan Otomobil Elektrik (Malaysia) Sdn Bhd	20%	20%	20%	Manufacture of electric vehicles	Malaysia
Port Dickson Power Berhad	20%	20%	20%	Independent Power Producer licensed by the government to supply electricity exclusively to TNB	Malaysia
Segari Energy Ventures Sdn Bhd	20%	20%	20%	Independent Power Producer licensed by the government to supply electricity exclusively to TNB	Malaysia
Sepang Power Sdn Bhdˆ	0	0	30%	Development of power plant and generation of electricity	Malaysia
Teknologi Tenaga Perlis Consortium Sdn Bhd	20%	20%	20%	Independent Power Producer licensed by the government to supply electricity exclusively to TNB (not yet operational)	Malaysia
Associate of Tenaga SPL Sdn Bhd					
Pendinginan Megajana Sdn Bhd	49%	49%	49%	District cooling system	Malaysia
Associates of TNB Properties Sdn Bhd					
HICOM-TNB Properties Sdn Bhd	40%	40%	40%	Property development	Malaysia
INDERA-TNB Properties Sdn Bhd	40%	40%	40%	Property development (Development and construction)	Malaysia
KM Metro-TNB Properties Sdn Bhd	40%	40%	40%	Property development	Malaysia
TNB Properties-JB Citytowers Sdn Bhd	40%	40%	40%	Property development	Malaysia
ZEUS-TNB Properties Sdn Bhd	40%	40%	40%	Property development	Malaysia

Name of company	Group's interest 2000	2001	2002	Principal activities	Country of incorporation
Associate of TNB Ventures Sdn Bhd					
Northern Utility Resources Sdn Bhd	20%	20%	20%	Operation of power plant, generation and supply of electricity	Malaysia

* Fibrecomm Network (M) Sdn Bhd ("FNMSB") is not consolidated since as at August 31, 2002, the Group has not achieved control over the financial and operating policies of FNMSB as to obtain benefits from its activities.

ˆ On May 20, 2002, the Company completed its acquisition of a 70% interest in Sepang Power Sdn Bhd ("SPSB"). Subsequently on May 21, 2002, the Company entered into a Share Sale Agreement with Mastika Lagenda Sdn Bhd to dispose 40% of its interest in SPSB and the amount receivable from the disposal is included in other receivables (Note 18). Accordingly, SPSB has been treated as an associate on the basis of the Company's 30% interest in its equity.

15. Investments

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Quoted shares, at cost	335.6	335.6	335.6	88.3
Quoted warrants, at cost	12.6	12.6	12.6	3.3
Unquoted shares, at cost	82.6	86.4	85.5	22.5
Unquoted unsecured loan stocks, at cost	7.6	3.8	3.8	1.0
	438.4	438.4	437.5	115.1
Allowance for diminution in value:				
— unquoted shares	(36.0)	(43.6)	(43.6)	(11.4)
— unquoted unsecured loan stocks	0	(3.8)	(3.8)	(1.0)
	402.4	391.0	390.1	102.7
Market value:				
— quoted shares	235.2	263.8	270.8	71.3
— quoted warrants	15.4	12.1	17.5	4.6
	250.6	275.9	288.3	75.9

16. Long Term Receivables

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Other receivables	444.0	0	0	0

In respect of financial year ended August 31, 2001:

This is in respect of the amount outstanding from the sale of the Melaka Power Station in 1999. The payment terms are governed by the Asset Sale Agreement and the Subscription Option Agreement ("SOA") and if the Company does not opt to receive shares under the SOA, then the amount is repayable between the year 2000 and the year 2005.

A new Supplementary Agreement was signed on July 16, 2001 and as a result, the outstanding amount is now payable to the Company on or before December 31, 2001. Accordingly, the amount has been reclassified to current receivables as at August 31, 2001 (Note 18).

17. Inventories

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
At cost				
Raw materials, fuel and consumables	914.2	877.4	1,126.1	296.3
Work-in-progress	58.2	94.8	74.7	19.7
Finished goods	28.6	10.2	15.4	4.1
	1,001.0	982.4	1,216.2	320.1

18. Receivables, Deposits and Prepayments

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Trade receivables	1,808.1	2,027.7	1,915.9	504.2
Less: Allowance for doubtful debts	(144.9)	(444.2)	(387.1)	(101.9)
	1,663.2	1,583.5	1,528.8	402.3
Rechargeable debtors	117.9	151.3	141.5	37.2
Less: Allowance for doubtful debts	(42.3)	(49.6)	(70.8)	(18.6)
	75.6	101.7	70.7	18.6
Staff advance/loans	455.5	707.4	727.8	191.5
Advance to contractors	7.7	122.6	57.0	15.0
Deposits and prepayments	12.6	43.5	88.6	23.3
Other receivables	286.3	734.7	299.3	78.8
	762.1	1,608.2	1,172.7	308.6
	2,500.9	3,293.4	2,772.2	729.5

Included in other receivables as at August 31, 2002 is RM65.7 million in respect of the amount outstanding from the sale of 40% equity interest in Sepang Power Sdn Bhd (Note 14).

Included in other receivables as at August 31, 2001 is RM444.0 million in respect of the amount outstanding from the sale of Melaka Power Station (Note 16). This amount has been fully repaid to the Company during the financial year.

Included in staff advance/loans are staff housing and car loans amounting to RM611.5 million (2001: RM617.6 million; 2000: RM395.6 million) which are not realisable within one year.

19. Marketable Securities

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Cost — Quoted in Malaysia:				
Shares	100.4	105.7	31.2	8.2
Other securities	5.4	0	0	0
	105.8	105.7	31.2	8.2
Less: Allowance for diminution in value	(46.3)	(58.0)	(20.5)	(5.4)
	59.5	47.7	10.7	2.8
Market value	59.5	47.7	10.7	2.8

20. Deposit, Bank and Cash Balances

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Deposits with finance companies	24.8	18.4	37.2	9.8
Deposits with licensed banks	446.8	657.9	832.7	219.1
Cash in hand and at bank	296.7	194.0	284.1	74.8
	768.3	870.3	1,154.0	303.7

21. Payables

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Trade payables	1,843.3	1,827.9	2,029.5	534.1
Accrued interest on borrowings	377.0	321.0	374.2	98.5
Other payables and accruals	991.2	1,284.6	1,074.5	282.7
	3,211.5	3,433.5	3,478.2	915.3

Included in other payables and accruals were payroll liabilities of RM139.9 million (2001: RM138.2 million) and deposits of RM280.4 million (2001: RM261.3 million).

22. Short Term Borrowings

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Portion of term loans due within one year (Note 23) — unsecured	3,451.9	1,858.7	1,243.4	327.2
— secured	0.7	1.8	6.7	1.8
Short term loans — unsecured	1,880.3	1,266.1	1,065.6	280.4
Bank overdrafts — unsecured	2.1	0	5.6	1.5
— secured	0.5	2.1	0.8	0.2
Bankers' acceptances	36.1	85.1	131.1	34.5
	5,371.6	3,213.8	2,453.2	645.6

The short term loans carry interest at rates ranging from 2.44% to 10.25% (2001: 2.92% to 10.25%; 2000: 2.95% to 7.65%) per annum.

The bank overdraft is secured by the corporate guarantee of a certain subsidiary and bears interest at 1.50% (2001: 1.00%; 2000: 1.00%) per annum above lenders' prevailing base lending rates.

23. Borrowings

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Unsecured				
— Term loans	15,656.4	14,426.5	12,638.0	3,325.7
— Notes	850.0	1,250.0	1,600.0	421.1
— Bonds	9,181.2	10,214.5	12,187.7	3,207.3
— Fixed income securities	0	1,000.0	1,500.0	394.7
— Amount due to Cagamas Berhad	0	0	229.6	60.4
	25,687.6	26,891.0	28,155.3	7,409.2
Secured				
— Term loans	54.9	71.3	58.4	15.4
	25,742.5	26,962.3	28,213.7	7,424.6
Payable within one year included under short term borrowings (Note 22)	3,452.6	1,860.5	1,250.1	329.0
Repayable after one year:				
After one and up to two years	3,333.6	1,141.5	2,923.3	769.3
After two and up to five years	7,510.7	6,594.5	8,728.2	2,296.9
After five and up to ten years	8,804.1	11,945.6	7,442.3	1,958.5
After ten and up to twenty years	741.5	3,520.2	5,969.8	1,571.0
After twenty and up to thirty years	1,330.0	1,330.0	1,330.0	350.0
After ninety years	570.0	570.0	570.0	150.0
	22,289.9	25,101.8	26,963.6	7,095.7
	25,742.5	26,962.3	28,213.7	7,424.7
Net book values of property, plant and equipment pledged as security for term loans:				
(i) Machinery and equipment	46.4	63.7	52.5	13.8
(ii) Building	8.5	7.6	5.9	1.6
	54.9	71.3	58.4	15.4

Unsecured term loans include RM21.7 million (2001: RM22.7 million; 2000: RM23.6 million) due to the Government of Malaysia and RM2,601.6 million (2001: RM2,726.3 million; 2000: RM3,228.5 million) guaranteed by the Government of Malaysia.

Interest rates applicable to the portfolio of term loans outstanding as at August 31, 2002 range from 0.1% to 10.3% (2001: 0.2% to 10.3%; 2000: 0.2% to 11.0%) per annum and the effective weighted average interest rate is 5.35% (2001: 5.29%; 2000: 5.90%) per annum.

10-year RM1,500.0 million Fixed Income Securities ("FIS")

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

- 1,500 interest bearing 10-year redeemable unsecured bonds ("Bonds") of an aggregate nominal value of RM999 million issued at 100% of nominal value (in denominations of RM999,000 each), with detachable coupons representing interest on the Bonds. The Bonds are to be redeemed at par in two tranches with redemption amounts of RM999 million and RM499.5 million on August 16, 2011 and September 19, 2011 respectively, and;

- 1,000 Class A RPS of RM1.00 each, issued at a premium of RM999.00 per share and 500 Class B RPS of RM1.00 each, issued at a premium of RM999.00 per share. Both classes of RPS are redeemable at RM1,000 each at the Company's option at any time on or after August 16, 2010 and September 19, 2010, for Class A and B RPS respectively. If the Class A and B RPS are not redeemed by August 16, 2011 and September 19, 2011 respectively, an additional sum of RM1.0 million on the first tranche and RM0.5 million on the second tranche shall become due and payable under the final Bond Coupon payment for each of the tranches.

- If the Company elects to declare and pay dividends on the RPS, payment of such dividends amounting to RM71.9 million per annum (net of income tax) shall be on a 6 monthly basis non-cumulative. In addition, interest under the Bond Coupons amounting to RM0.2 million per annum shall be payable. In the event that dividends on the RPS are not declared or paid, interest payable under the Bond Coupon is RM94.5 million per annum payable semi-annually.

- The FIS are classified as debt instruments and hence are reported as liabilities. Accordingly, the annual net dividend payment of the RPS amounting to RM71.9 million is classified as an interest expense, in the income statement.

- Under the terms of the FIS, if the holder of the RPS is unable to receive the related tax credits associated with the transaction, the Company has to indemnify the holder of the RPS, in respect of the benefits denied and any penalties arising which the RPS holder may incur.

The FIS was issued in two tranches as follows:

(i) Tranche 1 comprising 1,000 Bonds of an aggregate nominal value of RM999 million and 1,000 Class A RPS issued on August 16, 2001; and

(ii) Tranche 2 comprising 500 Bonds of an aggregate nominal value of RM499.5 million and 500 Class B RPS issued on September 19, 2001.

Amount due to Cagamas Berhad ("Cagamas")

The sale of Company's conventional staff housing loans was effected based on the maturity profile of the loans outstanding and based on the Cagamas interest rates effective from February 21, 2002. Under the Cagamas scheme, TNB's employees whose housing loans have been sold to Cagamas will continue to pay their monthly instalments through salary deduction where the interest on the loan is calculated at 4.0% per annum monthly rest. TNB will then pay to Cagamas the monthly instalments deducted from the employee plus the difference between the Cagamas rate offered to TNB and the 4.0% per annum interest paid by the employee. Interest rate charged by Cagamas during the financial year ranged from 4.05% to 5.15%.

Other unsecured borrowings with hedging arrangements are illustrated below:

(a) 10-Year JPY37 Billion Term Loan

In 1997, the Company entered into a 10-year JPY37 billion unsecured loan, paying interest at floating rates, to mature on June 30, 2007. The translated RM balance of the loan as at August 31, 2002 as per the Company's accounting policy is RM595.7 million (2001: RM704.3 million; 2000: RM927.8 million). This loan is an amortising loan, whose principal amount is payable in equal semi-annual instalments over the life of the loan. The repayments commenced since 1997. The notional principals of the hedging contracts illustrated below amortise in the same manner as this loan.

Interest rate swap ("IRS")

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

Interest rate collar and forward interest rate swap

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

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

(b) 10-Year US$500 Million Notes

In April 1997, the Company issued US$500 million 10-year 7.625% redeemable unsecured Notes. The translated RM balance of the Notes as at August 31, 2002 as per the Company's accounting policy is RM2,026.1 million (2001: RM1,997.4 million; 2000: RM2,255.2 million). The Notes are redeemable in full on April 29, 2007. For the purposes of hedging the Notes, the Company has adopted two strategies for each US$250 million tranche of the Notes.

Tranche 1: US$250 million

US$-JPY cross-currency swap ("CCS") and JPY interest rate collar

On the first US$250 million tranche, the Company has entered into cross-currency swap ("CCS") agreements in 1997 and 1998, that entitle it to receive a fixed rate of 7.625% in US$ and oblige it to pay floating interest rates in JPY. The principals of the swaps amount to US$250 million and this would be received by the Company in return for the payment of JPY31.6 billion on maturity. The swaps terminate on April 27, 2007. The Company has also entered into various interest rate collar arrangements with the effect of limiting the JPY floating rate liability to a maximum rate but subject to a minimum rate.

Forward interest rate swap

On the same tranche of JPY31.6 billion, upon maturity of the aforementioned JPY interest rate collar arrangement, the Company has entered into IRS agreements that entitle it to receive interest at floating rates and oblige it to pay interest at fixed rates in the range of 3.91% to 4.38% (dependent on the swap counterparty) on notional principals of JPY31.6 billion, maturing on April 27, 2007.

The effect of the above transaction is to convert the US$ fixed rate notes into a JPY fixed rate liability.

Tranche 2: US$250 million

US$-JPY Cross-currency swap and JPY interest rate collar

On the second US$250 million tranche, the Company has entered into CCS/IRS agreements in 1998 that entitle it to receive a fixed rate of 7.625% in US$ and oblige it to pay floating interest rates in JPY. The principals of the swaps amount to US$250 million and this would be received by the Company in return for the payment of JPY31.4 billion upon maturity. The swaps terminate on April 28, 2007.

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

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

(c) 5-Year US$90 million Term Loan

In 1998, the Company entered into a 5-year US$90 million unsecured loan, paying interest at floating rates. The loan is an amortising loan, whose principal amount is payable in equal semi-annual instalments commencing in May 2000 and matures on May 12, 2003. It was however, prepaid in full on December 19, 2001 and the amount prepaid was US$38.6 million.

Cross-currency swap

The Company has entered into IRS agreements, for the period May 28, 1998 to May 12, 2003, that entitle it to receive floating interest rates at a higher margin than the floating interest rates that it is obliged to pay. The initial notional principals amount to US$90 million. In May and August 1999, the counterparties of the swaps had the option to convert the US$ floating rate payments into JPY floating rate payments and the option was duly exercised. As such, there would be a series of principal exchanges where the Company pays JPY principal amounts and receives US$ principal amounts over the course of the amortisation schedule of the US$ loan.

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

(d) 5-Year US$300 million Notes

In 1998, the Company entered into a 5-year US$300 million unsecured loan, paying interest at floating rates, to mature on June 29, 2003. The loan was prepaid in full on November 29, 2001 and the prepaid amount was US$171.4 million.

Currency swap and interest rate swaption

The Company has entered into several IRS agreements with effective periods ranging from July 20, 1998 to June 30, 2003, with various financial institutions. The contracts entitle it to receive floating interest rates at a higher margin than the floating interest rates that it is obliged to pay. The initial principals amount to US$300 million. There is also a series of principal exchanges where the Company pays JPY principal amounts and receives US$ principal amounts.

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

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

(e) 10-Year US$600 million Notes

In 1994, the Company had issued US$600 million 10-year 7.875% redeemable unsecured Notes. The translated RM balance of the Notes as at August 31, 2002 as per the Company's accounting policy is RM1,186.9 million (2001: RM1,180.7 million; 2000: RM2,386.1 million). The Notes are redeemable in full on June 15, 2004. For purposes of hedging the Notes, the Company has adopted two strategies, one for the US$500 million tranche and another for the other US$100 million tranche.

Tranche 1: US$500 million (unswapped)

In the previous financial year, the Company redeemed US$302.6 million of this tranche of the 10-year US$600 million.

Tranche 2: US$100 million

Cross-currency zero-coupon swap

On the second US$100 million tranche, the Company entered into CCS arrangements with several financial institutions, for the period June 15, 1998 to June 14, 2004, to convert the US$100 million bond to a 6-year JPY zero coupon bond. The amount repayable on the JPY zero coupon swap is dependent on the US$/JPY exchange rate at the date of maturity but the final amount payable is limited to a minimum amount of JPY13,570.0 million and a maximum amount of JPY18,200.0 million. The Company has recognised interest arising on the foreign exchange difference on the zero coupon swap based on the year end closing rate against the book rate but only to the extent of the strengthening of the JPY against the US$ but not otherwise. However, should the final redemption amount be less than that, there would be a write back of the over-accrued interest.

(f) 10-Year US$570 million Notes

In April 2001, the Company issued US$600 million 10-year 7.625% redeemable unsecured notes. In May 2001, the Company repurchased US$30 million of the US$600 million notes leaving a balance of US$570 million 7.625% redeemable unsecured notes.

US$ interest rate swap with collar

In April 2002, the Company entered into an IRS with collar agreement on US$200 million notional amount that entitles it to receive interest at a fixed rate of 7.625% in US$ and obliges it to pay interest at floating rates in US$ for a period April 1, 2002 to April 1, 2003. The effect of this transaction is to effectively convert US$ fixed rate liability on the US$200 million notional amount into US$ floating rate liability, with those floating rates limited to a maximum and minimum rate.

(g) TNB Janamanjung Sdn Bhd ("TNBJ") 12-Year Amortising Loan

TNBJ, a wholly owned subsidiary of the Company, had in 1999 entered into a 12-year amortising loan facility with floating interest rates to part finance the construction of a power plant. The loan is guaranteed by the Company and is denominated in three major currencies amounting to GBP264.1 million, Euro161.1 million and US$97.1 million. The loan is repayable in equal semi-annual instalments commencing August 2003. The translated RM outstanding balance as per the Group's accounting policy as at August 31, 2002 is RM2,108.6 million. (2001: RM1,677.5 million)

Forward interest rate swap

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

(h) Other Term Loans

In February 1985, the Company entered into two 21-year long term loans, paying fixed interest at 4% per annum each. The outstanding balance of these loans as at August 31, 2002 is JPY3.9 billion (2001: JPY5.0 billion). These loans will mature on February 20, 2006.

US$/RM and JPY/US$ Cross-currency interest rate swap

The Company had entered into CCS agreements to effectively convert its JPY fixed rate loans to US$ fixed rate loans with fixed interest rates payable ranging between 6.4% to 6.5%. The outstanding balance of these US$ loan exposures as at August 31, 2002 is US$35.6 million (2001: US$45.7 million). The translated RM balance of this exposure as at this date, as per the Company's accounting policy is RM135.1 million (2001: RM173.7 million).

24. Retirement Benefits

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

In addition, contributions for retirement benefits in respect of eligible employees are paid into the Company's Retirement Benefit Scheme, a defined benefit scheme and an approved fund independent of the

Company's finances. The provision made in the financial statements for unfunded amounts as determined by actuarial valuation is as follows:

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
At September 1	327.0	383.6	452.8	119.2
Charged to income statement	62.5	75.4	59.7	15.7
Utilised during the period	(5.9)	(6.2)	(25.1)	(6.6)
At August 31	383.6	452.8	487.4	128.3

The principal assumptions used in the actuarial valuation are:

(i) salary increase rate of 6% per annum;

(ii) investment yields of 9% per annum;

(iii) discount rate of 8%;

(iv) staff turnover rates based on the Company's recent experience; and

(v) mortality and ill health retirement rates based on the experience of other schemes.

The amount charged for retirement benefits for the financial year is disclosed in Note 4 to the financial statements.

25. Deferred Taxation

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Deferred tax provided for in the financial statements:				
— tax effects of excess of capital allowances over depreciation	970.9	975.8	980.9	258.1
Deferred tax not provided for in the financial statements:				
— tax effects of excess of capital allowances over depreciation	5,524.4	6,209.2	3,902.7	1,027.0
— tax effects of revaluation of property, plant and equipment which are held for long term use	62.6	62.6	62.6	16.5
	5,587.0	6,271.8	3,965.3	1,043.5

26. Deferred Income

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Movement of deferred income, comprising contributions by customers, is as follows:				
As at the beginning of the financial year . . .	2,063.1	2,097.3	2,149.5	565.8
Received during the financial year	300.7	301.5	339.2	89.2
Released to the income statement (Note 3)	(266.5)	(249.3)	(257.1)	(67.7)
As at the end of the financial year	2,097.3	2,149.5	2,231.6	587.3

27. Government Development Grants

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Movement of government development grants is as follows:				
As at the beginning of the financial year . . .	348.8	380.0	516.6	135.9
Received during the financial year	76.5	180.0	0.6	0.2
Released to the income statement (Note 5)	(45.3)	(43.4)	(42.8)	(11.3)
As at the end of the financial year	380.0	516.6	474.4	124.8

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

28. Share Capital

	2000 RM	2001 RM	2002 RM
Authorised:			
Ordinary shares of RM1.00 each	3,500,000,000	3,500,000,000	3,500,000,000
Special Rights Redeemable Preference Share of RM1.00 each	1	1	1
Class A Redeemable Preference Shares of RM1.00 each			
As at the beginning of the financial year . .	0	0	1,000
Created during the financial year	0	1,000	0
As at the end of the financial year	0	1,000	1,000
Class B Redeemable Preference Shares of RM1.00 each			
As at the beginning of the financial year . .	0	0	500
Created during the financial year	0	500	0
As at the end of the financial year	0	500	500

	2000 RM	2001 RM	2002 RM
Issued and fully paid:			
Ordinary shares of RM1.00 each	3,106,216,300	3,106,775,300	3,111,825,300
Special Rights Redeemable Preference Share of RM1.00 each	1	1	1
Total share capital issued and fully paid as at the end of the financial year	3,106,216,301	3,106,775,301	3,111,825,301
Movements on issued ordinary shares of RM1.00 each			
As at the beginning of the financial year	3,101,368,300	3,106,216,300	3,106,775,300
Issuance of ordinary shares of RM1.00 each under the Employee Share Option Scheme ('ESOS')	4,848,000	559,000	5,050,000
As at the end of the financial year	3,106,216,300	3,106,775,300	3,111,825,300

The main features of the Company's ESOS are as follows:

(a) The options were granted to eligible Directors, Employees and Retirees of the Group to subscribe for ordinary shares of RM1.00 each and must be exercised before the expiry of the Scheme on May 11, 2002.

(b) The ESOS is exercisable on specific days as determined by the by-laws of the ESOS.

(c) The persons to whom the options have been granted under the ESOS have no right to participate in any share issue of any other company by virtue of the options.

During the financial year ended August 31, 2002, 5,050,000 new ordinary shares of RM1.00 each were issued by the Company for cash by virtue of the exercise of the options pursuant to the ESOS at the following issue prices:

Number of ordinary shares of RM1.00 each	Issue price (RM)	Proceeds (RM)	Proceeds (US$)
432,000	10.59	4,574,880	1,203,916
3,177,000	9.03	28,688,310	7,549,555
907,000	7.92	7,183,440	1,890,379
60,000	7.06	423,600	111,474
474,000	5.13	2,431,620	639,900
5,050,000		43,301,850	11,395,224

During the financial year ended August 31, 2001, 559,000 new ordinary shares of RM1.00 each were issued by the Company for cash by virtue of the exercise of options pursuant to the ESOS at the following issue prices:

Number of ordinary shares of RM1.00 each	Issue price	Proceeds	Proceeds
	(RM)	(RM)	(US$)
226,000	7.92	1,789,920	471,032
60,000	7.06	423,600	111,474
273,000	5.13	1,400,490	368,550
559,000		3,614,010	951,056

During the financial year ended August 31, 2000, 4,848,800 new ordinary shares of RM1.00 each were issued by the Company for cash by virtue of the exercise of options pursuant to the ESOS at the following issue prices:

Number of ordinary shares of RM1.00 each	Issue price	Proceeds	Proceeds
	(RM)	(RM)	(US$)
30,000	11.61	348,300	91,658
2,480,000	7.92	19,641,600	5,168,842
180,000	7.06	1,270,800	334,421
2,158,000	5.13	11,070,540	2,913,300
4,848,000		32,331,240	8,508,221

These ESOS expired on May 11, 2002 and has not been extended.

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

	Company		
	2000	2001	2002
		(in thousands)	
As at the beginning of the financial year	9,596	4,824	7,662
Granted	76	3,397	1,616
Exercised	(4,848)	(559)	(5,050)
Expired	0	0	(4,228)
As at the end of the financial year	4,824	7,662	0

Special Rights Redeemable Preference Share

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

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

(b) Certain matters, in particular the alteration of the Articles of Association of the Company relating to the rights of the Special Shareholder, creation and issue of additional shares which carry different voting rights, the dissolution of the Company, substantial disposal of assets, amalgamations, merger and takeover, require the prior consent of the Special Shareholder.

(c) The Special Shareholder does not have any right to participate in the capital or profits of the Company.

(d) The Special Shareholder has the right to require the Company to redeem the Special Share at par at any time.

Class A and Class B Redeemable Preference Shares

The main features of the Company's Class A and Class B Redeemable Preference Shares ("RPS") are as follows:

(a) The RPS do not carry any right to participate in the assets and surplus profit of the Company.

(b) The RPS holders have no voting rights except on resolution to amend the RPS holders' rights.

(c) These RPS are not convertible to ordinary shares.

(d) The Company has the right to redeem all Class A and Class B RPS on or after August 16, 2010 and September 19, 2010 respectively at RM1,000 each.

As described in Note 23 to the financial statements, these RPS form part of the Company's Fixed Income Securities.

29. Share Premium

	2000	2001	2002	2002
	RM'million	RM'million	RM'million	US$'million
As at the beginning of the financial year	3,112.9	3,140.4	3,143.4	827.2
Arising in respect of ordinary shares issued under the ESOS	27.5	3.0	38.3	10.1
As at the end of the financial year	3,140.4	3,143.4	3,181.7	837.3

30. Revaluation and Other Reserves

	2000	2001	2002	2002
	RM'million	RM'million	RM'million	US$'million
Non-distributable				
Revaluation reserve	1,237.1	1,237.1	1,237.1	325.5
Foreign currency translation reserve	(54.1)	(79.9)	(25.8)	(6.7)
	1,183.0	1,157.2	1,211.3	318.8

The movements in each category of reserves were as follows:

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Revaluation reserve				
As at the beginning and end of the financial year	1,237.1	1,237.1	1,237.1	325.5
Foreign currency translation reserve				
As at the beginning of the financial year	(29.0)	(54.1)	(79.9)	(21.0)
Arising in the financial year	(25.1)	(25.8)	54.1	14.3
As at the end of the financial year	(54.1)	(79.9)	(25.8)	(6.7)
Total revaluation and other reserves				
As at the beginning of the financial year	1,208.1	1,183.0	1,157.2	304.5
Arising in the financial year	(25.1)	(25.8)	54.1	14.3
As at the end of the financial year	1,183.0	1,157.2	1,211.3	318.8

31. Retained Profits

Subject to agreement by the Inland Revenue Board, the Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 available to frank approximately RM1,509.3 million (2001: RM1,421.0 million; 2000: RM1,386.4 million) of its retained profits as at August 31, 2002, if paid out as dividends.

In addition, the Company has tax exempt income as at August 31, 2002 arising from the Income Tax (Amendment) Act, 1999, relating to tax on income earned in 1999 being waived and exempt dividend income amounting to approximately RM388.5 million (2001: RM614.0 million; 2000: RM648.8 million) available for distribution as tax exempt dividends to shareholders. This tax exempt income is subject to agreement by the Inland Revenue Board.

32. Commitments

(a) Capital and other commitments

	2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
Authorised capital expenditure not provided for in the financial statements:				
Contracted for:				
Capital expenditure	6,797.7	4,777.9	4,271.5	1,124.1
Investment in other company	19.0	19.0	19.0	5.0
Not contracted for:				
Capital expenditure	6,790.1	7,123.8	8,766.2	2,306.8
Equity participation in an associate	7.3	7.3	0	0
Equity participation in other company	0	203.5	203.5	53.6
	13,614.1	12,131.5	13,260.2	3,489.5

(b) Non-cancellable operating lease commitments

	2000	2001	2002	2002
	Future minimum lease payments	Future minimum lease payments	Future minimum lease payments	Future minimum lease payments
	RM'million	RM'million	RM'million	US$'million
Not later than one year	13.3	13.3	13.3	3.5
Later than one year and not later than five years	53.1	53.1	53.1	14.0
Later than five years	64.1	50.9	37.6	9.9
	130.5	117.3	104.0	27.4

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

33. Contingent Liabilities (Unsecured)

	2000	2001	2002	2002
	RM'million	RM'million	RM'million	US$'million
Claims by third parties	603.6	618.6	1,010.0	265.8
Trade guarantees and performance bonds	0	24.5	10.2	2.7
Housing loans sold to Cagamas Berhad	233.8	0	0	0
Stamp duties on transfer of assets to a subsidiary	108.0	108.0	108.0	28.4
Other contingencies	37.3	61.9	61.7	16.2
	982.7	813.0	1,189.9	313.1

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

In respect of stamp duties on transfer of assets from Lembaga Letrik Sabah, Sabah Electricity Sdn Bhd is in the process of obtaining a vesting order to exempt itself from any potential liability.

34. Significant Related Party Disclosures

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

		2000 RM'million	2001 RM'million	2002 RM'million	2002 US$'million
(a)	Sales of electricity to associates	23.2	24.4	24.7	6.5
(b)	Purchases of electricity from associates	2,378.0	2,469.0	2,527.1	665.0
	Sales and purchases of electricity to and from associates are aggregated because the transactions are similar in nature and no single transaction is significant enough to warrant separate disclosure				
(c)	Interest income received from associates:				
	— Port Dickson Power Berhad	3.0	4.8	3.6	0.9
	— Segari Energy Ventures Sdn Bhd	12.3	11.4	10.5	2.8

35. Segmental Reporting

As the principal business of the Group is the generation and supply of electricity in Malaysia, segmental reporting is deemed not necessary.

36. Subsequent Events

(a) On October 2, 2002, the Company entered into agreements to put in place a RM1,500 million Murabahah Commercial Papers/Murabahah Medium Term Notes Facility. The Facility will be utilised by the Company as and when required during the 7 year tenor to part finance capital expenditure relating to generation, transmission and distribution assets for financial year ending August 31, 2003, and to meet working capital requirements.

(b) At its Extraordinary General Meeting held on October 10, 2002, the Company obtained the approval of its shareholders for the proposed issuance of:

(i) Up to RM200 million nominal value 5 year Unsecured Convertible Redeemable Income Securities; and

(ii) Up to US$500 million nominal value 5 year Guaranteed Exchangeable Bond by TNB Capital (L) Ltd, a wholly owned subsidiary of the Group.

In respect of financial year 2001:

The company issued the second and final tranche of a 10-year RM1,500.0 million Fixed Income Securities amounting to RM500.0 million.

This second and final tranche comprises:

(a) 500 interest bearing 10-year redeemable unsecured bonds of an aggregate nominal value of RM499.5 million issued at 100% of nominal value (in denominations of RM999,000 each), with detachable coupons interest on the bonds; and

(b) 500 class B Redeemable Preference Shares of nominal value of RM1.00 each issued at a premium of RM999.00 per RPS.

37. Prior Year Adjustment

During the financial year, the Group has changed its accounting policy with respect to recognition of proposed final dividend after balance sheet date in compliance with MASB No. 19 "Events After the Balance Sheet Date".

In previous financial years, dividends were accrued as a liability when proposed by Directors. The Group has now changed this accounting policy to recognise dividends in shareholders' equity in the period in which the obligation to pay is established in accordance with MASB No. 19. Therefore, final dividends are now accrued as a liability after approval by shareholders at the Annual General Meeting.

The change in accounting policy has been accounted for retrospectively. Comparative information has been restated to reflect the change in accounting policy.

The effects of the above changes of accounting policy on the Group's financial statements are as follows:

	As previously reported	Effects of change in policy	As restated
	RM'million	RM'million	RM'million
Group			
Retained profits:			
— August 31, 1999	5,979.9	111.6	6,091.5
— August 31, 2000	7,089.0	156.6	7,245.6
— August 31, 2001	8,970.9	133.6	9,104.5
Proposed final dividend:			
— August 31, 1999	111.6	(111.6)	0
— August 31, 2000	156.6	(156.6)	0
— August 31, 2001	133.6	(133.6)	0

INDEPENDENT AUDITORS' REPORT

Auditors' Report to the Members of
TNB Capital (L) Ltd (formerly known as Cofus Ltd)

We have audited the financial statements of TNB Capital (L) Ltd for each of the two financial years in the period ended August 31, 2001 and 2002. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements have been prepared in accordance with the applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Company as at August 31, 2001 and 2002 and of its results and cash flows for the financial years then ended.

PricewaterhouseCoopers

November 11, 2002

TNB CAPITAL (L) LTD.

INCOME STATEMENTS
For the Financial Year Ended August 31,

	Note	2001 RM	2002 RM	2002 US$
Revenue		0	0	0
Administrative expenses		(19,365)	(14,375)	(3,783)
Loss before taxation	4	(19,365)	(14,375)	(3,783)
Taxation		0	0	0
Loss after taxation		(19,365)	(14,375)	(3,783)

TNB CAPITAL (L) LTD.

BALANCE SHEETS
As at August 31,

	Note	2001 RM	2002 RM	2002 US$
CURRENT LIABILITIES				
Accrued expenses		(6,933)	(550)	(145)
Amount owing to holding company	5	(25,074)	(45,832)	(12,061)
		(32,007)	(46,382)	(12,206)
Financed by:				
SHARE CAPITAL	6	9,500	9,500	2,500
ACCUMULATED LOSSES		(41,507)	(55,882)	(14,706)
		(32,007)	(46,382)	(12,206)

TNB CAPITAL (L) LTD.

STATEMENT OF CHANGES IN EQUITY
For the Financial Year Ended August 31,

	Issued and fully paid ordinary shares of US$1.00 each			
	Number of shares	Nominal value	Accumulated losses	Total
		RM	RM	RM
At September 1, 2000	2,500	9,500	(22,142)	(12,642)
Loss after taxation for the financial year ended August 31, 2001	0	0	(19,365)	(19,365)
At August 31, 2001	2,500	9,500	(41,507)	(32,007)
At September 1, 2001	2,500	9,500	(41,507)	(32,007)
Loss after taxation for the financial year ended August 31, 2002	0	0	(14,375)	(14,375)
At August 31, 2002	2,500	9,500	(55,882)	(46,382)

	Issued and fully paid ordinary shares of US$1.00 each			
	Number of shares	Nominal value	Accumulated losses	Total
		US$	US$	US$
At September 1, 2001	2,500	2,500	(10,923)	(8,423)
Loss after taxation for the financial year ended August 31, 2002	0	0	(3,783)	(3,783)
At August 31, 2002	2,500	2,500	(14,706)	(12,206)

TNB CAPITAL (L) LTD.

CASH FLOW STATEMENTS
For the Financial Year Ended August 31,

	2001 RM	2002 RM	2002 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss after taxation	(19,365)	(14,375)	(3,783)
	(19,365)	(14,375)	(3,783)
Changes in working capital:			
Accrued expenses	5,433	(6,383)	(1,679)
Amount owing to holding company	13,932	20,758	5,462
Net cash outflow from operating activities	0	0	0
INCREASE IN CASH AND CASH EQUIVALENTS	0	0	0
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR	0	0	0
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	0	0	0

TNB CAPITAL (L) LTD.

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

The principal activity of the Company is investment holding. The Company has not commenced operations.

Tenaga Nasional Berhad, a company incorporated in Malaysia is the holding and ultimate holding company.

The Company is a limited liability company, incorporated and domiciled in Labuan, Malaysia.

2 Basis of Accounting

The financial statements are prepared under the historical cost convention in accordance with the applicable approved accounting standards in Malaysia.

3 Significant Accounting Policies

(a) Cash and cash equivalents

Cash and cash equivalents comprise bank balances, deposits with maturity period not exceeding 3 months and cash in hand less bank overdrafts.

(b) Deferred taxation

The tax expense is determined on the basis of tax effect accounting using the liability method. Deferred taxation is recognised for timing differences except when there is reasonable evidence that such timing differences will not reverse in the foreseeable future. The tax effect of timing differences that result in a debit balance or a debit to the deferred tax balance is not carried forward unless there is a reasonable expectation of its realisation.

The potential tax saving relating to a tax loss carry forward is only recognised if there is assurance beyond reasonable doubt that future taxable income will be sufficient for the benefit of the loss to be realised.

(c) Share capital

As the share capital is denoted in US$, for the purpose of the financial statements which are denoted in RM, the share capital amount has been translated at US$1 = RM3.80.

4 Loss Before Taxation

The following item have been charged in arriving at loss before taxation:

	2001 RM	2002 RM	2002 US$
Auditors' remuneration	500	550	145

5 Amount Owing to Holding Company

Amount owing to holding company, Tenaga Nasional Berhad is unsecured, interest free and has no fixed terms of repayment.

6 Share Capital

	2001 RM	2002 RM
Authorised:		
12,000 ordinary shares of US$1.00 each	45,600	45,600
Issued and fully paid as at the beginning and as at the end of the financial period:		
2,500 ordinary shares of US$1.00 each	9,500	9,500

7 Significant Transactions With Related Parties

Secretarial expenses paid on the Company's behalf by the holding company	17,265	0

REGISTERED OFFICE OF THE COMPANY

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129 Jalan Bangsar
59200 Kuala Lumpur
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TNB Capital (L) Ltd.

(Company No.: LL01816) (formerly known as Cofus Ltd.)
(Incorporated in Labuan, Malaysia with limited liability)

US$350,000,000 2.625% GUARANTEED EXCHANGEABLE BONDS DUE 2007

fully and unconditionally guaranteed by

TENAGA NASIONAL BERHAD

(Incorporated in Malaysia with limited liability)

OFFERING MEMORANDUM

November 12, 2002

Joint Global Coordinators and Bookrunners

JPMorgan **CIMB**

BOWNE U91958

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This Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Bonds may not be circulated or distributed, nor may the Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in section 274 of the Securities and Futures Act 2001 of Singapore (the "SFA"), (ii) to a sophisticated investor, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.