MALAYSIAN AIRLINE SYSTEM BERHAD ANNUAL REPORT 2011

2011

41st AGM

Venue

Auditorium, 1st Floor, South Wing
MAS Academy, No. 2 Jalan SS7/13
Kelana Jaya, 47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia

When

Thursday, 21 June 2012, 10.00 am

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Tan Sri Md Nor bin Md Yusof
(Chairman)

Ahmad Jauhari bin Yahya

Mohammed Rashdan bin Mohd Yusof

Tan Sri Wan Azmi bin Wan Hamzah
@ Nik Awang

Dato' Rohana binti Rozhan

Tan Sri Tan Boon Seng @ Krishnan

David Lau Nai Pek

Tan Sri Dr Wan Abdul Aziz
bin Wan Abdullah

Datuk Mohamed Azman bin Yahya

Eshah binti Meor Suleiman
(Alternate to Tan Sri Dr Wan Abdul Aziz
bin Wan Abdullah)

COMPANY SECRETARY

Shahjanaz binti Kamaruddin
(LS 0009441)

REGISTERED OFFICE

3rd Floor, Administration Building 1
MAS Complex A
Sultan Abdul Aziz Shah Airport
47200 Subang
Selangor Darul Ehsan
Malaysia
T: 603 7840 4550
F: 603 7846 3932

WEBSITE

www.malaysiaairlines.com

AUDITORS

Ernst & Young (AF 0039)
Chartered Accountants
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur
Malaysia
T: 603 7495 8000
F: 603 2095 9076

REGISTRAR

Symphony Share
Registrars Sdn. Bhd.
(378993-D)
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia
T: 603 7841 8000
F: 603 7841 8151

STOCK EXCHANGE LISTING

Main Market Bursa Malaysia
Securities Berhad
Sector: Trading/Services
Stock Code: 3786

PRINCIPAL BANKERS

Citibank Berhad
Malayan Banking Berhad
CIMB Bank Berhad
RHB Bank Berhad

FINANCIAL CALENDAR

25 February 2011
Announcement of
Full Year 2010 Annual Results

25 May 2011
Announcement of
2011 First Quarter Results

23 August 2011
Announcement of
2011 Second Quarter Results

21 November 2011
Announcement of
2011 Third Quarter Results

29 February 2012
Announcement of
Full Year 2011 Annual Results

GROUP CORPORATE STRUCTURE

MALAYSIAN AIRLINE SYSTEM BERHAD (10601-W)

100%	**Malaysia Airlines Capital (L) Limited** (LL01132)
100%	**Malaysia Airlines Capital II (L) Limited** (LL07894)
100%	**Malaysia Airlines Capital III (L) Limited** (LL07927)
100%	**Malaysia Airlines Capital IV (L) Limited** (LL08669)
100%	**Malaysia Airlines Capital IV Cayman Limited** (WK-265139)
100%	**MAS Sdn. Bhd.** (346606-K) (formerly known as FlyFirefly Sdn. Bhd.)*
100%	**MAS Airline System Sdn. Bhd.** (973371-K)
100%	**MAS Aerotechnologies Sdn. Bhd.** (317185-K)
100%	**MAS Academy Sdn. Bhd.** (317184-W)
100%	**MAS Golden Boutiques Sdn. Bhd.** (317182-T)
100%	**MAS Golden Holidays Sdn. Bhd.** (317144-A)
100%	**MASkargo Sdn. Bhd.** (318815-M) (formerly known as Malaysia Airlines Cargo Sdn. Bhd.)
100%	**MASkargo Logistics Sdn. Bhd.** (68121-P)
100%	**MASwings Sdn. Bhd.** (773841-A)
100%	**Malaysian Aerospace Engineering Sdn. Bhd.** (775412-D) # Ψ
100%	**MH Loyalty Programme Sdn. Bhd.** (951320-T)
100%	**Macnet CCN (M) Sdn. Bhd.** (318626-W) under Members Voluntary Winding Up
100%	**Delima Insurance (Labuan) Limited** (LL08535)
100%	**Kelip-Kelip Labuan Limited** (LL06736)
100%	**Kelip-Kelip II Labuan Limited** (LL07075)
100%	**Kelip-Kelip II Cayman Limited** (WK-225671)
100%	**Kelip-Kelip III Labuan Limited** (LL07638)
80%	**Abacus Distribution Systems (Malaysia) Sdn. Bhd.** (180535-T)
60%	**MAS Awana Services Sdn. Bhd.** (372384-D) (formerly known as MAS Catering (Sarawak) Sdn. Bhd.)
51%	**Aerokleen Services Sdn. Bhd.** (277266-X)

ASSOCIATE COMPANIES

30%	**GE Engine Services Malaysia Sdn. Bhd.** (423679-X)
49%	**Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd.** (301833-D)
30%	**Honeywell Aerospace Services (M) Sdn. Bhd.** (465037-M)
30%	**LSG Sky Chefs-Brahim's Sdn. Bhd.** (317281-X)
24%	**Pan Asia Pacific Aviation Services Limited** (470740)
20%	**Taj Madras Flight Kitchen Limited** (30706 State Code 18)

* *MAS Sdn. Bhd. (formerly known as FlyFirefly Sdn. Bhd.) (346606-K) owns 100% equity in FlyFirefly Holiday Sdn. Bhd. (780113-P)*

MAS GMR Aerospace Engineering Company Private Limited (U45201KA2008PTC045463) is a jointly-controlled entity of Malaysian Aerospace Engineering Sdn. Bhd. (775412-D)

Ψ *Malaysian Aerospace Engineering Sdn. Bhd. (775412-D) owns 100% equity in MAE Aero Services Pte. Ltd. (201100826N)*

Dear Shareholders,

It pains me deeply to report the grave reality of a RM2.52 billion loss suffered by Malaysia Airlines in the year under review. You will also have noted the significant changes to the Board and Management of your Company since August last year. All of these confirm the severity of the turbulence your Company has found itself in and the hard challenges ahead to turn it around.

As the new Chairman of Malaysia Airlines, I am focused on moving the airline back into profitability and onto a platform that will allow for long-term stability and growth. Needless to say, that is easier said than done. But I am gratified to have supporting me a revamped Board of Directors comprising individuals with excellent credentials and experience. It is my hope and intention that this Board will be further strengthened with persons with airline sector experience and track record in the near term.

The burden of responsibility to manage the turnaround has fallen on Ahmad Jauhari Yahya, the new Group Chief Executive Officer of Malaysia Airlines. Although AJ has no claim to an airline sector background, your Board, impressed and comforted by his excellent track record in senior management and as CEO in his previous appointments, believes he is the right man for the job. Apart from his professional attainments and track record, he is also a long distance runner and a tri-athlete, qualities that demonstrate he understands a difficult challenge.

Supporting AJ in this lengthy and arduous task is his Management team. Efforts will continue to be made to strengthen the airline's Management with proven industry professionals from outside and accelerating the elevation of home-grown talents into positions of responsibility. The Management team building is by no means complete, and this effort will continue to grow. For now, I believe we have in place a Management organisation that is prepared to work with sheer determination, grit and strong willpower to accomplish this important task alongside the new Board. Related to this, I give a note of thanks to the previous Board and Management for their service and commitment through very trying times.

Difficult as it is for me to write this letter to shareholders, it will be many times harder to deliver the turnaround. The task means re-looking at the corporate structure and organization, reviewing routes and operations, continuing to do the things we do well and changing our ways in areas we have fallen short. It means reviving broken spirits and rebuilding morale, combating wastage and plugging leakages, repairing balance sheets and shoring up capital, and managing cultural renewal and change.

I myself was the Managing Director of Malaysia Airlines from 2001 until 2004, so I have a fair idea of the difficulties and complexities of running a national carrier as well as of the challenges that lie ahead. I also know how much hard work and clear thinking has been done in the past few months and how much more is required to dig Malaysia Airlines out of its financial hole.

The task will be made considerably lighter if we can look forward to the cooperation and understanding of the various stakeholders within the airline. I am gratified to see continuing support from our controlling shareholder in the face of the stream of bleak financial and operational tidings that the new Board had to be the bearer of. We look to the same spirit of cooperation and support from our employees at all levels, and the unions and associations that represent them. Even as we promise a tough period of adjustment and no more business-as-usual, we want all of them to understand that unless we shape and size the airline right and return our beloved airline to financial viability, there is no guarantee of sustainability and survival.

The new Board has been meeting every three weeks on average, to ensure that we remain focused on the recovery and sustainable future of Malaysia Airlines, and that we leverage our collective experience and wisdom in a clear and strategic fashion. We have cut unprofitable routes and also pushed ahead with plans to upgrade our fleet. We will take delivery of 23 new passenger aircraft for 2012 and then 16 more in 2013, 11 in 2014 and another 10 over 2015 - 2017. Such purchases are highly expensive, but essential if we are to escape the vicious cycle of underfunding in our fleet replacement. I am relieved to announce that we have secured funding for the first of these purchases.

It would be remiss of me not to mention the matter of Tune Air's short presence on our share register, the reversal of their presence and our intended future relationship with their carriers, AirAsia and AirAsia X. With the benefit of hindsight, the kindest thing that I can say is both sets of shareholders should have taken a lot more time to deliberate the complex issues arising from such linkage, both in terms of competition laws as well as the likely emotive fallouts. Much of the latter has little to do with the business of running airline operations, which may explain why their impact was under-estimated or over-looked in the first place. It was clearly a bridge too far.

However, the short relationship did result in a mindset shift in Malaysia Airlines' operations with the other Malaysian carrier, AirAsia. Although our Share Swap deal with them had to be undone after eight months, there were many positives that Malaysia Airlines gained within the short period, and indeed it is very much in both airlines' plans that the cooperation shall continue. Immediately we are planning to cooperate with them in procurement, aircraft maintenance and training.

On the issue of commercial reality, I am very pleased that the Government has recently established the National Aviation Council. Malaysia Airlines needs clarity from policy makers about where we sit in the aviation sector, how much we can run our own affairs and where non-commercial considerations lie. We recognize that the aviation industry is important to transport, tourism, job creation, economic growth, national unity, and connectivity in the region and beyond. But many of these wider benefits do not benefit Malaysia Airlines' bottom-line and actually create systemic losses and under funding.

It is Malaysia Airlines' bottom-line that is consuming all of our energy at the present time. A record loss of RM2.52 billion in 2011 and losses for four of the past 10 years are concrete proof that difficult decisions in all areas of operation must be taken to re-boot our national carrier.

In ending, while the losses at Malaysia Airlines over 2011 come against a backdrop of difficult operating conditions in the global aviation industry, quite a few carriers have succeeded in navigating these difficulties to build and maintain nimble and profitable businesses. Some of these include airlines that have been put through Chapter Eleven-type workouts. As challenging as it is, we are determined to make Malaysia Airlines yet another successful aviation turnaround success story.

In conclusion, suffice that I state my Board and I and the entire Management team are fully absorbed and engaged on this task of returning your Company to profitability and predictability. How soon that may be achieved shall depend on several key factors, a few of which are not exactly under our control. However, we would consider we have failed in our mission if a return to operational profitability is not achieved by the conclusion of the financial year 2014.

TAN SRI MD NOR MD YUSOF
Chairman
Malaysia Airlines

8 May 2012

THE MARKET PLACE

2011 was a tough year for the aviation industry. Fuel price, a major cost component for airlines the world over, not only continued to stay stubbornly high but showed an upward trend as the year progressed. Fuel rose from USD99 per barrel in the fourth quarter of 2010 to USD134 per barrel in the fourth quarter of 2011.

For the year under review, fuel expenditure of the Group rose 33%, equivalent to RM1.46 billion compared to the previous year. In addition, the impact of a weak global economy, particularly in Europe, resulted in fewer people travelling by air. The economic uncertainty and rise in fuel prices led the International Air Transport Association (IATA) to report that Asia-Pacific airlines were expected to witness a fall in revenue of between 5-10% in 2011 following a peak in airline profitability in 2010. In 2011, Malaysia Airlines nevertheless did see revenue rise by a marginal 2% to RM13.90 billion, still below the 17.1% increase recorded in 2010, hence reflecting IATA's pessimism.

Similarly, the cargo business was not spared the market difficulties. According to the Association of Asia Pacific Airlines (AAPA), cargo carriers together recorded a 47% drop in net profit in 2011 compared to the previous year.

IMPACT ON THE GROUP'S FINANCIAL PERFORMANCE

The tough market conditions saw Malaysia Airlines record consecutive quarterly losses in 2011, resulting in an operating loss of RM1.20 billion and a total net loss of RM2.52 billion for the full year. Operating expenditure increased 21% to RM16.20 billion compared to RM13.41 billion in the previous year. This steep increase was largely attributed to high fuel costs and substantial provisions amounting to RM1.09 billion. These provisions were made in respect of re-delivery of aircraft (RM602 million), impairment of freighters (RM314 million) and stock obsolescence (RM179 million).

Operationally, Malaysia Airlines saw capacity, denominated in ASK (Available Seat Kilometre), increase by 7% for the full year, passenger traffic rise 5%, while seat factor lower to 75%. Revenue per ASK (RASK) rose 2% to 18.5 sen per kilometre while yield improved 4% to 24.7 sen compared to the previous year. However, these encouraging trends were insufficient to offset the higher fuel costs which saw Cost per ASK (CASK) increase to 24.8 sen.

These higher costs were compounded by an earlier planned expansion in capacity particularly on long haul routes. The higher fuel costs and lower demand in North Asia in 2011 as result of the Japan tsunami and low demand on flights operating from the Kota Kinabalu hub meant that revenue was not able to reflect the higher costs of flying passengers. Our Middle East routes also suffered with the rise in popularity and capacity of the premium Middle Eastern full service carriers.

While RASK was impacted on routes to South Africa, South America, Europe, Australia, New Zealand, North Asia, and the Middle East, Malaysia Airlines did see improvement in RASK and even a narrowing in the gap between RASK and CASK in the China, South Asia, ASEAN region and domestic markets. The arrival of 7 B737-800 aircraft in 2011 helped the financial performance by enabling our airline to increase frequencies to these destinations with a more fuel-efficient aircraft, especially important in these times of high fuel bills. This was also seen in flights to South Asia which saw capacity and RASK increase and CASK decrease.

Routes to China saw yield increase 5% with high seat factor loads. Similarly our short haul sectors to ASEAN and domestic destinations recorded a high 9% increase in yield with steady seat factor loads.

In the cargo business, despite a 14% drop in revenue and a 9% decline in capacity, cargo yield increased 2%.

The Group operated a total of 108,774 flights system-wide in 2011, an increase of 3.2% over the previous year. On-Time Performance (OTP) of our core airline stood at 84.59% against a target of 85.0%.

During the year under review, Malaysia Airlines won recognition for several aspects of its operational excellence. These included Asia's Leading Airline and Asia's Leading Airline Lounge at the World Travel Awards (Asia and Australiasia) 2011, World's Leading Airline to Asia at the World Travel Awards 2011 and IT Innovation of the Year (joint winners with SITA) at the Centre for Asia Pacific Aviation (CAPA) Aviation Awards for Excellence 2011. More recently, Malaysia Airlines received Gold at the Putra Brand Awards 2011 dubbed the People's choice awards.

BUSINESS PLAN

A significant development in the last quarter of 2011 was the roll-out of the Business Plan which charts the Group's going forward journey. This plan is based on two broad strategies of recovering from its present financial predicament and then sustaining performance over a longer term through a series of game-changers.

Under Recovery, our major thrusts are:

1. Operate a smaller and profitable network – by March 2012, Malaysia Airlines had reduced total passenger capacity (ASK) by 9%, potentially saving the Group between RM220-300 million per year. While the focus was on cutting loss-making routes, we also increased frequency on other growth routes. Capacity was added through increased frequencies on 8 routes - Beijing, Taipei, Manila, Bangkok, Phnom Penh, Jakarta, Medan and Los Angeles. These changes underscore a dynamic review of routes in response to market demand to improve the Group's profitability.

   Over the past 10 years, Malaysia Airlines has not been able to recover its costs through revenue. In 2011, the gap stood at 6.3 sen. A key target for our team going forward is to narrow this difference by improving our current 18.6 sen RASK and lowering our current 25.8 sen CASK.

2. Win back customers – with the scheduled delivery of 23 new aircraft in 2012 including the A380 aircraft, Malaysia Airlines' average age of fleet will dramatically reduce from 12.2 years to 7.7 years. These substantive improvements in product will be matched by service improvements aimed at winning back customers. This will be further supported by aggressive marketing campaigns in Malaysia and key markets such as the UK and Australia.

3. Relentless cost focus – Management has adopted a relentless cost focus including re-looking at all procurement contracts in an effort to reduce costs. Wherever possible, a full review of out-sourced activities will be done to contain costs and increase staff productivity.

4. Keeping the business simple – the core airline business will receive our full attention in order to become more competitive. Areas deemed outside of this will be separated and managed as profit centres.

5. Immediate business model improvements – These will be made to optimise flight operations through faster turnaround times, higher aircraft utilisation and improved employee productivity. Also, we will be looking to review and revamp our Commercial operations which include branding and product marketing, more efficient revenue management and improved sales and distribution channels. In addition, our plan includes short term and long term product and service improvements that will enhance our premium travel.

Importantly, to ensure that Malaysia Airlines is sustainable over the long term, the Group will adopt a set of strategic game-changers. These include:

1. Capitalising on collaborations and joint efforts to build on economies of scale towards yielding synergistic benefits. Areas currently being considered include procurement and aircraft engineering services.

2. Strategic partnerships and alliances to improve profitability and also to offer enhanced services to passengers. One such example is Malaysia Airlines' membership to the **one**world alliance by the end of 2012.

OUTLOOK

Going forward, high fuel costs, uncertainty in the global economy and stiff competition both in passenger and cargo will continue to put pressure on Malaysia Airlines as we work hard to fill our planes. Forecasts of oil demand and prices for 2012 suggest that the difficult market conditions experienced in 2011 will spill into the next financial year.

IATA described the first quarter of 2012 as challenging. Fears of a European economic meltdown may have subsided for the time being but they were replaced with concerns over rapidly rising oil prices. In March, IATA downgraded its 2012 full year outlook to a collective profit of USD3.0 billion with a razor thin margin of just 0.5%.

CAPA wrote in January 2012 about over-capacity as a looming threat. Record aircraft delivery levels are being maintained even as traffic growth slows. The Association of Asia Pacific Airlines (AAPA) describes Asian airlines as being optimistic of growth prospects in the longer term as evidenced by ambitious fleet plans, ongoing service enhancements, and the launch of innovative new business ventures.

The cautious sentiment is being echoed by aviation research teams, both local and regional – that airlines are experiencing weak passenger forward-bookings, declining cargo demand, falling underlying yields for both passenger and cargo, and high fuel prices which cannot be fully recovered through fuel surcharges. Record aircraft deliveries, recession in Europe and slower Asian GDP growth will impact full service carriers that have exposure to weak long haul passenger and cargo markets. Indeed the growth potential is here in Asia.

Malaysia Airlines is entering difficult aviation industry conditions from a position of extreme weakness and vulnerability. Our deeply weakened balance sheet, inadequate operating cash flow, less than optimum network, high operational and maintenance costs and ageing fleet are challenges we face today. Many full service carriers around the world and surprisingly even low cost carriers have reported losses or much reduced profits for their full year 2011 or first quarter 2012. The reasons are common amongst all the airlines – high fuel costs, waning demand due to the weak economic outlook and increased new capacity.

MOVING FORWARD

Moving forward, any improvement in our financial position will have to be earned the hard way – through sheer hard work to sweat our assets, increasing productivity and driving forward smart strategies to grow our business.

With the perceived distraction brought about by the earlier Share Swap between our major shareholder, Khazanah Nasional Berhad, and AirAsia Berhad's major shareholder, Tune Air, everyone in Malaysia Airlines knows that we need to work very hard to implement the Business Plan to stem the losses, return the Group to profitability, and win back customers.

Our team knows that the onus is fully on us to turnaround our Company. Strong measures need to be adopted to use all product and service levers to increase revenue and curb the losses. These include staff redeployment and retraining, increasing productivity and efficiency, a relentless cost control and network rationalisation.

Given the financial performance of 2011, Malaysia Airlines has put together a plan to strengthen the Balance Sheet to increase cash reserves and our Company's funding capacity. The plan includes, but is not limited to, debt and/or equity options. Khazanah Nasional Berhad is supportive of these initiatives.

With the funding plan in place, we can proceed with our aircraft purchases. Some RM6 billion is required in 2012 for the 23 new aircraft, with more required for the remaining aircraft which will be delivered until 2015. These expenditures are heavy and must be addressed at a time when we can least afford it, but it is a very much needed investment to win back customers.

In addition, we will continue to leverage on Malaysia Airlines' strengths such as our high service standards and excellent track record of reliability and safety. We are confident that these qualities coupled with Malaysia's strategic location at the heart of Asia bode well for the Group given the growing intra-Asia market segment.

Challenging times require big changes. The challenge is to get all stakeholders, both internal and external, on board this journey with us. Partner with us by allowing Management the space and flexibility to implement difficult but necessary measures to deliver Malaysia Airlines back to profitability in the soonest time possible so that we can once again become 'The Preferred Premium Carrier'.

AHMAD JAUHARI YAHYA
Group Chief Executive Officer
Malaysia Airlines

8 May 2012

FIVE YEARS STATISTICAL REVIEW OF THE GROUP

		31-Dec 2011	31-Dec 2010 Restated	31-Dec 2009	31-Dec 2008	31-Dec 2007
FINANCIAL*						
Total Revenue	RM'000	13,901,421	13,585,559	11,605,511	15,570,141	15,232,741
Total Expenditure	RM'000	16,485,693	13,485,355	12,288,452	15,299,234	14,404,400
Fair value change of derivatives	RM'000	60,660	164,251	1,163,133	N/A	N/A
Taxation	RM'000	(8,441)	(44,690)	31,116	(19,086)	(29,590)
(Loss)/Profit after Tax	RM'000	(2,521,325)	237,346	522,948	271,795	852,743
Shareholders' Funds	RM'000	1,042,508	3,524,166	699,693	4,119,822	3,934,893
(Loss)/Profit as a % of Revenue	%	(18.1)	1.7	4.5	1.7	5.6
Return on Shareholders' Fund	%	(241.9)	6.7	74.7	6.6	21.7
(Loss)/Earnings Per Share	sen	(75.5)	7.2	25.3	16.2	58.0
Cash Flow Per Share	RM	(0.2)	0.0	(1.0)	(0.4)	1.4
Net Tangible Assets Per Share	RM	0.3	1.0	0.4	2.4	2.3
PRODUCTION						
Network Size	KM	372,966	418,666	366,908	387,987	421,075
Time Flown	Hours	427,024	386,853	355,641	364,013	356,295
Distance Flown	'000 KM	261,209	237,618	219,961	236,031	239,699
Available Capacity	'000 TKM	7,872,485	7,893,689	7,366,845	8,503,203	9,579,101
Available Passenger Capacity	'000 Seat KM	55,873,707	50,817,898	48,761,794	53,378,580	56,227,787
TRAFFIC						
Passenger Carried	'000	17,046	15,708	13,870	13,760	14,213
Passenger Carried KM	'000 Pax KM	41,645,340	38,652,874	33,455,303	36,176,166	40,162,186
Passenger Load Factor	%	74.5	76.1	68.6	67.8	71.4
Cargo Carried	'000 TKM	2,063,255	2,441,254	2,065,120	2,445,021	2,621,597
Mail Carried	'000 TKM	8,908	8,406	7,674	8,965	4,721
Overall Load Carried	'000 TKM	5,945,441	5,949,090	5,110,924	5,750,376	6,305,358
Overall Load Factor	%	75.5	75.4	69.4	67.6	65.8
STAFF						
Employee Strength		20,477	20,000	19,147	19,094	19,423
Revenue Per Employee	RM'000	679	679	606	815	784
Available Capacity Per Employee	TKM	384,455	394,684	384,752	445,334	493,183
Load Carried Per Employee	TKM	290,347	297,455	266,931	301,161	324,634

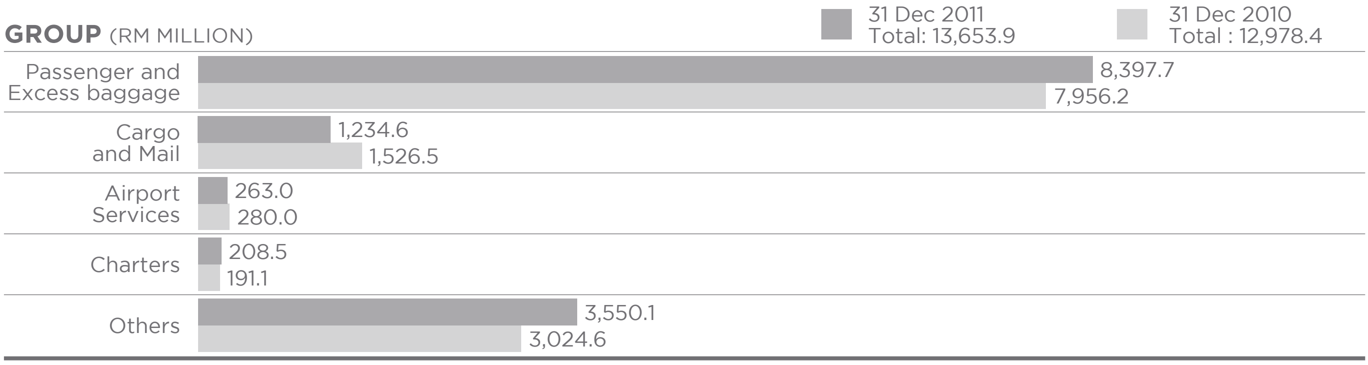
** Per Audited Financial Statements for the financial year under review*

		31-Dec 2011	31-Dec 2010	Change %
GROUP				
Financial				
Total Revenue	RM Million	13,901.4	13,585.6	2.3
Total Expenditure	RM Million	(16,485.7)	(13,485.4)	22.2
(Loss)/Profit after Tax	RM Million	(2,521.3)	237.3	(1,162.5)
Shareholders' Funds	RM Million	1,042.5	3,524.2	(70.4)
Earnings Per Share	Sen	(75.5)	7.2	(1,148.6)
Dividend Per Share	Sen	-	-	-
Cash Flow Per Share	RM	(0.2)	0.0	-
Operating Statistics				
Available Tonne Kilometres	Million	7,872.5	7,893.7	(0.3)
Load Tonne Kilometres	Million	5,945.4	5,949.1	(0.1)
Overall Load Factor	%	75.5	75.4	0.2
Available Seat Kilometres	Million	55,873.7	50,817.9	9.9
Passenger Kilometres Flown	Million	41,645.3	38,652.9	7.7
Passenger Load Factor	%	74.5	76.1	(2.0)
Staff and Productivity				
Employee Strength		20,477	20,000	2.4
Available Tonne Kilometres Per Employee		384,456	394,685	(2.6)
Load Tonne Kilometres Per Employee		290,345	297,455	(2.4)
COMPANY				
Operating Statistics				
Available Tonne Kilometres	Million	6,640.5	6,278.6	5.8
Load Tonne Kilometres	Million	4,888.0	4,810.3	1.6
Overall Load Factor	%	73.6	76.6	(3.9)
Available Seat Kilometres	Million	52,997.8	49,613.1	6.8
Passenger Kilometres Flown	Million	39,730.8	37,837.6	5.0
Passenger Load Factor	%	75.0	76.3	(1.7)
Aircraft Utilisation (Average)	Hours Per Day	10.9	11.2	(2.7)
Staff and Productivity				
Employee Strength		17,013	17,072	(0.3)
Available Tonne Kilometres Per Employee		390,319	367,772	6.1
Load Tonne Kilometres Per Employee		287,310	281,765	2.0

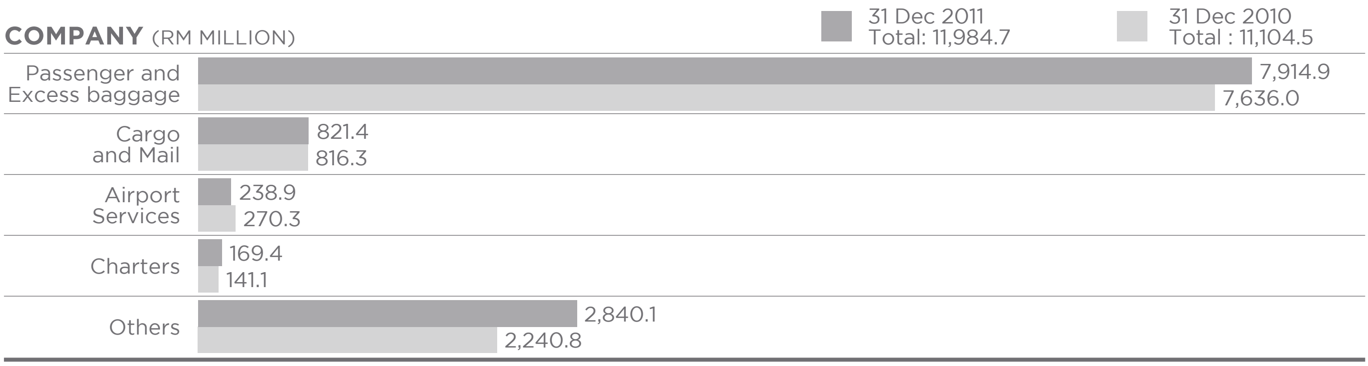
REVENUE AND EXPENDITURE

REVENUE COMPOSITION

GROUP (RM MILLION)

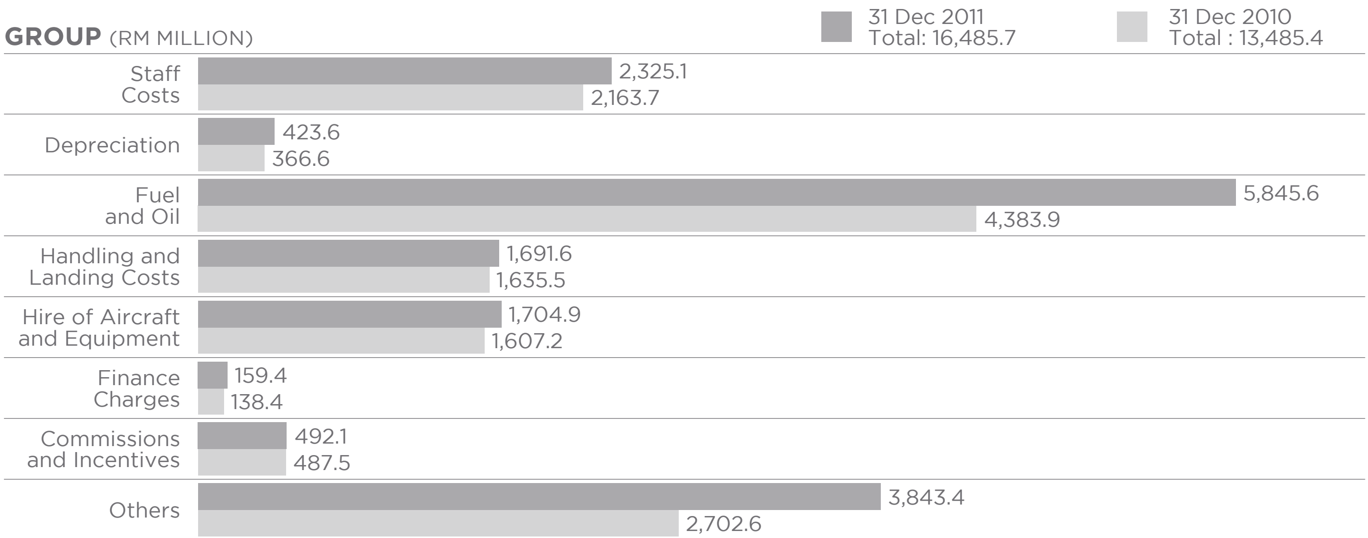


COMPANY (RM MILLION)

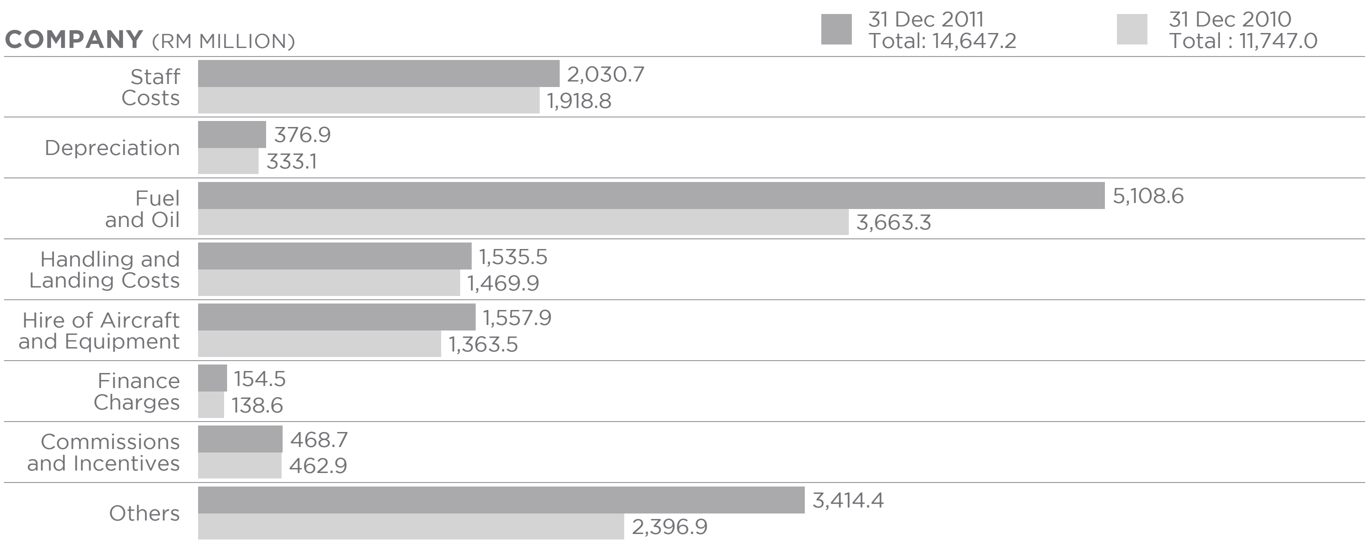


EXPENDITURE COMPOSITION

GROUP (RM MILLION)



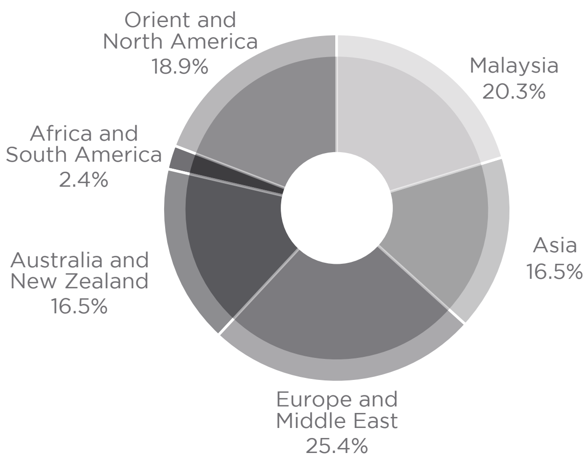
COMPANY (RM MILLION)



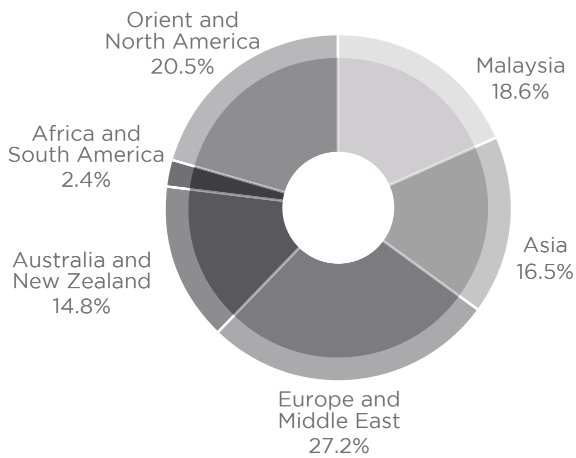
	31-Dec 2011	31-Dec 2010	Change %
Route Revenue (RM Million)			
Malaysia	1,961.2	1,770.2	10.8
Asia	1,595.1	1,567.1	1.8
Europe and Middle East	2,449.4	2,582.0	(5.1)
Australia and New Zealand	1,595.7	1,405.5	13.5
Africa and South America	231.4	230.8	0.3
Orient and North America	1,814.1	1,940.0	(6.5)
	9,646.9	9,495.6	1.6
Passenger Load Factor (%)			
Malaysia	66.9	68.9	(2.9)
Asia	73.6	73.6	0.0
Europe and Middle East	77.9	79.0	(1.4)
Australia and New Zealand	79.6	78.9	0.9
Africa and South America	67.9	73.0	(7.0)
Orient and North America	72.3	76.2	(5.1)
	74.5	76.1	(2.1)
Overall Load Factor (%)			
Malaysia	76.4	62.5	22.2
Asia	86.9	76.7	13.3
Europe and Middle East	74.9	78.1	(4.1)
Australia and New Zealand	74.7	75.1	(0.5)
Africa and South America	59.4	65.9	(9.9)
Orient and North America	77.2	82.2	(6.1)
	75.5	75.4	0.1

ROUTE REVENUE

31-DEC 2011



31-DEC 2010



OPERATIONS DIVISION

Operations Division comprises four main roles of Flight Operations, Airport Operations, Operations Control Centre (OCC) and Security. In terms of meeting its Key Performance Indicators for 2011, Operations saw a 3% improvement in cost per Available Seat per Kilometre (ASK) against budget, an On-Time Performance (OTP) achievement of 84.59% system-wide against the target of 85.0%, and a commendable low mishandled baggage rate of 4.16 per 1,000 passengers, well below industry standards.

Operations Division continued its relentless pursuit of achieving operational excellence under Project Delta 2 launched in 2010 with a focus on people and processes. Aimed at simplifying business processes to increase efficiency, drive costs down and provide better customer experience, Delta 2 has successfully maintained the required levels of service quality while changing the mindset of employees to be more innovative.

The use of technology also contributed towards the higher performance efficiency. Close cooperation amongst the business units and Group IT enabled the successful delivery of major projects, specifically Flight Planning and Flight Following Upgrading, Crew Management System Phase 1 (Planning & Pairing Module), and the Integrated Security System Phase 2.

In addition, numerous initiatives were carried out throughout the year by both Flight and Ground operations to improve and enhance safety. This is in line with the Company's stringent safety standards.

The year under review also saw the successful handling by OCC of trouble spots and natural disasters impacting Malaysia Airlines.

Moving forward, 2012 will be a challenging one – with volatile and increasing fuel prices, unpredictable weather and natural disasters. Operations Division is well prepared to face these challenges. Apart from rigorously ensuring compliance to the current fuel saving initiatives, the team is continuously reviewing processes and procedures and looking at other areas where fuel savings can be made.

All the above will be carried out without compromising on our high safety standards. With the team's experience in handling natural disasters in 2010 and 2011, the Division is well poised to handle any such occurrence in 2012.

Part of Operations Division's plan in 2012 is to increase the daily aircraft utilisation hours thereby achieving a higher productivity per aircraft. This will definitely be a challenge in addition to maintaining the high OTP that has been achieved since the beginning of 2012. (OTP for January – April 2012 improved considerably to 91% system-wide.) In order to achieve this, the network, departure and boarding processes would have to be reviewed and improved further.

Moving forward, Operations Division will continue to review existing business processes and capitalise on the latest available technology to align implementation of the Business Plan to ensure the viability of business operations, improve safety standards and enhance our service delivery.

Flight Operations

The year under review was a turbulent year for the airline as the strong economic recovery was dampened by crisis in the Middle East and global natural calamities such as earthquakes, volcanic ash and extreme snow storms. Throughout these challenges, Flight Operations successfully manned all flights in accordance with the Company's Business Plan and the 'Mastering Operational Excellence' mission by consistently focusing on Safety, Legal and Efficiency in our operations.

The pursuit of relentless cost optimisation has been fruitful. By the end of 2011, the total expenditure variance was 4.17% lower than budget. Cost saving activities and diligent monitoring were embedded throughout the financial year in the wake of high fuel costs. Using 'Mastering Operational Excellence' principles based on strong technical fundamentals, the initiatives planned for 2011 remained focused to drive efficiency throughout the Division.

Flight Operations also played an active role in the Aircraft Implementation project for the B737-800, A330 and A380 aircraft readiness, and is focused on supporting aircraft deliveries. As part of the A380 aircraft readiness, flight crew slated for duty on the new fleet are required to be trained in the facility. The A380 Door Trainer Agreement was completed in May 2011 and commissioned in April 2012. This now enables our crew to undergo safety training at Malaysia Airlines Academy. Flight Operations had also successfully completed the International Air Transport Association Operational Safety Audit (IOSA) and Line Operations Safety Audit (LOSA) and has been actively involved in preparation for the **one**world audit since October 2011.

Flight Operations is fully committed to driving efficiency at all touch points and thus has embedded initiatives to reflect this commitment. One such initiative that has become part of the daily operations is the Fuel Efficiency programme implemented in 2007. Since 2008, fuel efficiency initiatives have resulted in a savings of RM450 million. In 2012 alone, the team forecasts a savings of approximately RM45 million.

Airport Operations
During the year under review, Airport Operations undertook various initiatives to further improve its service delivery. To better serve our front-end customers, a new and exclusive Premium Check-In lounge was introduced for Platinum/First Class and Business Class passengers. The lounge offers fast and efficient check-in service in a comfortable and personalised environment.

With customer experience and seamless travel in mind, in August 2011, Malaysia Airlines implemented check-in kiosks for all domestic flights at KL International Airport. Customers now have better control over their departure formalities during self check-in. Staff are also on-hand to offer familiarisation assistance with this facility. With self check-in, customers have another check-in option in addition to the convenience offered through our MH Mobile Check-in, MH Web Check-in and MH Buddy Check-in through Facebook. The self check-in kiosks also alleviates congestion during peak operations.

Moving forward and in line with the Company's Recovery Plan to simplify its business, ground services will be spun-off together with other ancillary businesses. This move will allow Airport Operations to grow and achieve its full potential as an independent ground service provider. Airport Operations is also working very closely with Customer Experience to introduce premier A380 ground services that match the overall in-flight experience presented by Malaysia Airlines.

Operations Control Centre (OCC)
Whilst the team at OCC worked tirelessly throughout year, day in and day out, to ensure our flights take-off and land safely and on time, 2011 saw Malaysia Airlines play a major role in several emergency missions of people evacuation.

When the political crisis in Cairo, Egypt, began in February, Malaysia Airlines stepped up to the plate and mounted 13 flights to carry over 5,300 passengers out of Cairo. The mission was carried out in 2 phases: Phase 1 to air-lift students from Cairo to Jeddah and Phase 2 was from Jeddah to Kuala Lumpur. Some 150 technical and cabin crew were involved in this mission, along with another 8 ground staff who were stationed in Cairo and Jeddah to operate and manage these flights and bring our students and Malaysian citizens home.

OCC was also responsible for the effective and efficient transfer of Malaysians during the Japan major earthquake and Fukushima Nuclear Reactor Radiation emergency in March. In this mission, Malaysia Airlines assisted Majlis Keselamatan Negara to mount rescue flights to send home hundreds of stranded Malaysians working in Japan at the time.

In May, OCC was again involved in the handling of stranded passengers and delayed flights due to Iceland's second volcanic eruption. Our flights to London Heathrow, Amsterdam, Frankfurt and Paris' Charles De Gaulle were affected. Learning from the 2010 Icelandic volcano ash crisis, OCC was this time better prepared to handle and offer passenger transfers and relocation on other flights. Daily teleconferences with Eurocontrol and good tactical plans with all operating departments were key factors for the successful and smooth mission.

ENGINEERING & MAINTENANCE (E&M)

Malaysia Airlines operated a total of 108,774 flights system-wide throughout 2011, a marginal 3.2% increase from 2010. Out of this, the Wide-body Total Dispatch Reliability for 2011 recorded was 97.70%, an improvement from 2010 performance at 96.71%. Narrow-body Total Dispatch Reliability also saw an improvement from 97.80% in 2010 to 98.81% in 2011.

The results demonstrate the benefits of moving E&M's operational activities into a better planned environment that maximises maintenance effectiveness and minimises unscheduled non-serviceability. The airline's fleet reliability measure is already showing signs of benefitting from a stronger Maintenance Control Centre (MCC) comprising technical management of aircraft defects, rectification planning in a single location, a refocused Technical Services organisation at KLIA and an improved B737 maintenance programme including a 'Top 20' focus.

The achievement of the above Dispatch Reliability performance hinges considerably on E&M's ability to manage aircraft health as measured in deferred defects (MR2). Since end-2004, E&M has shown phenomenal improvement in its MR2 management. In 2004, E&M's MR2 stood at 957, equivalent to an average 12 deferred defects per aircraft. By the end of 2011, E&M registered a much lowered 167 MR2 from a total fleet of 80 aircraft equivalent to an average of two MR2 defects per aircraft, surpassing the target of attaining 300 MR2.

E&M saw wholly-owned subsidiary, Malaysian Aerospace Engineering (MAE), record a 15% increase in revenue in 2011 to RM445 million from third party work compared to RM387 million in 2010. Approximately 59% of this total was contributed by the Fleet Technical Management (FTM) programme for clients such as Al-Wafeer, MASwings, Firefly and MASkargo. In addition, E&M conducted airframe-related maintenance jobs and modifications for 40 customers in 2011. Nine were new customers - Virgin Blue, Strategic Airlines, Cebu Pacific Airlines, Air Kanbawza, Southern Air, Thomas Cook, Travel Air, Nordic Aviation Capital and Myanmar Airways.

E&M Achievements 2011

- ***Accredited Training Organisation*** – E&M's Training Department has been recognised by Malaysia's Department of Civil Aviation (DCA) with the DCAM Part 147 Approved Training Organisation accreditation enabling it to conduct basic and aircraft-type training courses, issue certificates and conduct examinations on behalf of the DCA.
- ***Maintenance, Repair & Overhaul (MRO) Award*** - MAE is an award-winning MRO provider with over 100 customers and so it was an honour to be acknowledged as the top airline-affiliated MRO in the world by Aviation Week's Overhaul & Maintenance magazine in June 2011. This globally reputed McGraw Hill monthly publication also ranked MAE as third amongst the top 10 airframe MRO in the world.
- ***Joint Venture*** – In October 2011, MAE entered into a 50:50 joint venture with Indian entity, GMR Hyderabad International Airport Ltd. (GHIAL), to form MAS-GMR Aerospace Engineering Company Ltd (MGAE) to develop a third-party Airframe Maintenance, Repair and Overhaul (MRO) facility. It is the first of its kind and scale located in the Special Economic Zone (SEZ) of Rajiv Gandhi International Airport in Hyderabad. With one wide-body hanger, one narrow-body hanger with three bays and an paint-cum-narrow-body hanger and associated workshops, MGAE has the capability to provide base maintenance service for the narrow-body A320, ATR 42/72 and Boeing 737–NG, and subsequently the A330 and B777 wide-body aircraft.
- ***Growing the business*** – MAE was a key player at the 11th Langkawi International Maritime & Aerospace Exhibition (LIMA) 2011 with the signing of 3 agreements. These were to provide enhanced total fleet technical management support for MASwings' ATR72 aircraft, provide end-of-lease maintenance & repair to Virgin Australia's B737-700 and B737-800 aircraft, and to provide technical management engineering support for Club Excellence, a private jet service for luxury business and leisure golf travel within the ASEAN region. In addition, MAE also received an award letter from KLM Royal Dutch Airlines for heavy maintenance of its B747-400 aircraft throughout 2012.

Safety & Quality

Safety is an integral part of our service delivery and corporate culture. In 2011, E&M embarked on a series of projects aimed to develop an Open Safety Culture (OSC). Workshops on safety were organised for staff of all levels, open reporting is actively promoted, Management and Board safety reports provide important safety oversight, while safety development plans are being implemented to continuously enhance proactive safety capabilities. The initial results show success – the Safety Index for Flight Incident, Ground Incidence, and Industrial Incidence measures have shown marked improvement. There were 117 Flight Incidences in 2011 compared to 126 for 2010. Ground Incidences lowered from 28 in 2010 to 18 in 2011; Industrial Incidences lowered from 49 in 2010 to 41 in 2011.

Moving Forward into 2012

E&M will be kept very busy in 2012 supporting the fleet renewal programme of Malaysia Airlines. Some 23 new aircraft will be delivered in 2012 including the A380 fleet equipped with state-of-the-art passenger amenities. Thirty-four under-performing, older fleet types will be returned to lessors during the year including 17 units of B737-400, 9 units of A330-300 and 8 units of B747-400.

Malaysia Airlines' Business Plan touches on the growth potential of E&M to transform and strengthen MAE from merely being an E&M outfit, a division overseeing airworthiness of the airline's fleet, to a business that also develops its MRO business to tap growth in the aviation sector. While MAE already serves airlines other than Malaysia Airlines, an autonomous MAE will be free to set its own strategy, service more customers, become more responsive to customers and have the ability to raise capital for expansion. This will drive improved focus to deliver truly leading cost positions to clients as MAE increasingly competes for third-party business.

The formation of the Airline Engineering Group (AEG) also provides more focus on aircraft technical reliability, maintenance and logistical support activities, planning and control and quality enhancement of our fleet.

MASkargo

The year under review was exceptionally challenging for MASkargo. Despite making significant progress towards long-term sustained profitability for 2011, the Company registered a Loss before Tax of RM18.78 million, reflecting the general weak economic conditions particularly in developed countries, high fuel costs and high operational expenses. Cargo revenue was RM2.05 billion in FY2011 equivalent to a 12.9% decline on FY2010. As a result, MASkargo and other industry players were forced to scale back operations to defend eroding margins. Cargo throughput at KLIA stood at 557,346 tonnes in 2011, down 8% from the previous year. Its cargo mishandling rate was kept at 0.057%, a slight increase compared to the previous year.

In preparation for future improvements in world trade, particularly in the Asia-Pacific region, it is important that MASkargo continues to invest in enhancing its services to meet the demands of the global-freight industry. The upgrading of its major cargo-handling system with state-of-the-art technology will result in an increase in the Advanced Cargo Centre throughput capacity from 650,000 tonnes to 1 million tonnes per annum. This will enable MASkargo to cater to future business growth at KLIA and support Malaysia as a global trans-shipment hub.

Further improvements were made in 2011 as part of MASkargo's expansion plans. Two of four new A330-200F freighters ordered arrived during the year to complement its freighter fleet of two B747-400F covering the world's major cargo hubs in Asia, Australia, Europe and Middle East. The new A330-200F freighters will tap into new markets along the Intra-Asia routes and compete efficiently and effectively to generate value in diverse market conditions.

In a service industry such as the airline and cargo business, success is also determined by non-financial measures especially how we treat our customers. In 2011, MASkargo garnered the Cargo Airline of the Year Award from Malaysia Airports Berhad and the Logistics Excellence Award by the Malaysian Institute of Logistics based on customer service extended.

Going forward into 2012, MASkargo's challenge is to further elevate its standing as a global air cargo service provider. To compete in the supply of air cargo space worldwide, MASkargo will focus on quality and service towards better understanding its customers' needs and demands in order to deliver the right products at the right time. It will also focus on developing new products and seeks to improve its processes for a seamless and hassle-free shipment operation.

FIREFLY

Many customers will remember Firefly, Your Community Airline, for making a big impact on the market in 2011 with its popular and growing turboprop business operating out of hubs in Subang and Penang to various points within Peninsular Malaysia, Southern Thailand, Singapore and Sumatra, Indonesia.

The acquisition of two additional ATR72-500 aircraft in October saw Firefly expand its fleet to 12, which strengthened its network through additional frequencies on existing routes. The airline flew 1.5 million passengers on its turboprop services, an increase of 15% year-on-year from 2010. The most popular routes were Subang to Penang which flew 354,000 passengers, followed by Subang to Singapore and Subang to Kota Bharu which flew 229,000 and 226,000 passengers respectively.

Firefly tracks its customer satisfaction levels daily, and is proud of an approval rating of 98.8% in addition to achieving a 90% OTP rating. This achievement led to Firefly being voted as the most valued local brand and conferred the 'Superbrand' Malaysia status in 2011. Firefly was also accorded the Most Promising Brand Award at the Putra Brand Awards 2011.

2011 also saw Firefly venture into jet operations by presenting customers in Sabah and Sarawak markets with a lower cost alternative. Firefly's first B737-800 jet flights from KLIA to Kota Kinabalu and Kuching in January were very well received. Over the next few months, its jet fleet of B737-800 and B737-400 increased to 8 aircraft. A corporate business realignment exercise in September, however, saw the jet operations wind down by the end of 2011.

Never one to rest on its laurels, 2012 sees Firefly continuing to expand its ATR turboprop operation. An aggressive marketing plan, both locally and internationally, the introduction of more innovative products and services, and additions to its ATR fleet will further strengthen Firefly's current network and market share. Management is also reviewing re-fleeting plans to invest in new generation turboprop aircraft with better fuel efficiency, lower emissions and enhanced comfort.

In view of this rapid fleet growth, Firefly is looking at being self-sufficient in the training of pilots, cabin crew and ground operations staff. In July, Firefly acquired a state-of-the-art ATR72-500 Simulator and is targeting to operate a fully integrated training centre by 2015.

MASwings

In 2011, MASwings continued initiatives to improve productivity and customer service, as well as to reduce operational costs. Measures included consolidation of ticketing offices in Sabah and Sarawak, and enhancement of the Company's customer value proposition. The introduction of self check-in kiosks at Kota Kinabalu and Kuching airports has seen approximately 80% of MASwings customers take to using this facility.

With the completion of MASwings' fleet renewal program in mid-2010, the fleet of 10 ATRs in 2011 enabled MASwings to increase flight capacity by 36%. The number of passengers uplifted in 2011 recorded an increase of 15% over the same period in 2010. Its seat factor rose to 62% from 59% despite the increase in capacity.

Going forward, MASwings will boost its business plan by continuing to develop innovative products and services through the greater use of e-commerce and marketing by way of social media platforms. Maintaining affordable fares for customers is also key for MASwings which has built up its reputation for efficiently catering to the air travel needs of Sabah and Sarawak's travelling population by providing affordable fares, convenient schedules and connections within the two states. In 2012, the rural community airline expanded its horizons by adding destinations to Bandar Seri Begawan in Brunei and Pontianak and Tarakan in Kalimantan, Indonesia to support Sabah and Sarawak's participation in the East ASEAN growth area of BIMP-EAGA trade zone.

CORPORATE SAFETY PERFORMANCE

In 2011, the objective to attain an optimal safety performance across the Group focused efforts on implementation of the Safety Management System (SMS). This included embedding SMS processes into daily outputs of business units and ensuring regular Board and Management reviews of key safety performance indicators.

To ensure Malaysia Airlines kept its safety risks at a minimum level as it proceeded with the fleet refreshment programme and the Company's reorganisation, a series of Change Management Processes, Fatigue Risk Management System (FRMS) and Just Culture Policy and Practices were introduced in 2011.

In March 2011, Malaysia Airlines renewed, for the third time, the IOSA which is a mandatory safety standard for all IATA carriers. In addition, the Company conducted the Second LOSA for Flight Operations to identify improvements or operational risks that may arise after implementation of the change management process following the first LOSA audit in 2004.

The continuous safety risk management review was implemented through the Raise the Safety Bar (RSB) programme throughout 2011. All 92 Outcomes of RSB 2010 had been validated by the close of 2011 to reduce overall operational risks. Business unit risks, lessons learned and related safety matters across domains have been shared during the monthly RSB engagements with business units. Four Widening Safety Circles sessions were conducted for operational staff to share key learnings and the basic SMS risks framework and behaviours required for a safe operation.

Moving forward in 2012, work on building a Safety culture across Malaysia Airlines will continue to reinforce the appropriate safety behaviours towards a more matured safety culture. A key focus is to ensure a robust change management process is in place to mitigate safety risks arising from the business reconfiguration and changes.

While the SMS is mandated by regulators, the Group's safety management led by Corporate Safety Operation (CSO) provides an active leadership role to ensure the success of the Safety agenda. In acknowledging that Safety is not a given, active leadership will ensure the pillars of SMS (Policy & Objectives, Risk Management, Assurance & Promotion) are effectively implemented through the building and implementation of a positive Safety culture embedded with leading practices and enablers.

FLEET RENEWAL

An initiative of the Business Plan's Recovery is 'Winning Back Customers'. Through an aggressive fleet renewal programme, Malaysia Airlines will be able to reduce the average age of its fleet from 12.2 years at the end of 2011 to 7.7 years by the end of 2012, making it one of the youngest fleets in the region.

AIRCRAFT MOVEMENT 2011	
DELIVERY	
• B737-800	7
• A330-300	5
RETURN TO LESSORS	
• B737-400	5
• B747-400	1

Average Malaysia Airlines Fleet Age as at 31 Dec 2011: 12.2 years

AIRCRAFT MOVEMENT 2012	
DELIVERY	
• B737-800	13
• A330-300	5
• A380	5
RETURN TO LESSORS	
• B737-400	17
• A330-300	9
• B747-400	8

Average Malaysia Airlines Fleet Age as at 31 Dec 2012: 7.7 years

CUSTOMER EXPERIENCE

Whilst Malaysia Airlines invests in new hardware – aircraft, systems and ground infrastructure - it takes more than that to become a preferred premium carrier. In order to win back customer loyalty, the strategic focus of Customer Experience within the Group was aligned. The thrust of the newly named division is implementation of the Branded Customer Experience Programme (BCEP) through which Malaysia Airlines hopes to understand its various customer groups intimately.

Efforts are being focused on areas that make the biggest difference, ensuring that investments of time and money are relevant and well-thought through. BCEP is a 3-year programme that involves a fundamental change in the way and manner we serve our customers.

Important strides were made in BCEP in 2011 following an insightful perception study carried out in 2010. Into Year 1 of the 3-year programme, the BCEP resulted in key activities around analysing service gaps, understanding our guests, formulating a strategy and drawing up the execution plan.

A comprehensive customer segmentation study was conducted across 7 countries analysing the in-depth views of over 4,000 responses. The study identified key customer segments and that 'Malaysian Hospitality' was the one big idea that had significant emotional relevance for customers and employees. Cascade sessions were held for various groups of Malaysia Airlines employees to build understanding and clarity of our customer experience promise. In understanding Malaysia Airlines' customer experience journey map, a series of touch points and quick wins were identified for which tools and coaching have been provided to implement the BCEP.

Year 2 activities include integrating BCEP into our business processes and implementation of the A380 premium product and service. Year 3 sees BCEP embedded into our organization as a way of life where employees embrace and 'live' the brand.

In the meantime, the detailed monthly tracking of performance of initiatives and customer touch-points continued throughout 2011. Key factors tracked are website, reservations and ticketing, airport and inflight services, cabin crew service delivery, food & beverage, inflight entertainment, cabin conditions and overall customer loyalty.

AT THE WORKPLACE

In 2011, Human Capital (HC) embarked on a Transformation Plan to re-design its way of working so that the Division would be a more effective support function to Malaysia Airlines' corporate objectives and importantly, a partner to the Group's 20,000 employees. Armed with the tagline 'Service from the Heart with Care', HC's transformation focuses on innovation, simplifying and standardising processes, and ensuring effectiveness of HC policies. Among HC's initiatives in the past year were:

Building the Talent Pipeline

- The Succession Planning policy, approved in July 2011, aims to unleash talent and capabilities towards building a ready supply of effective leaders to deliver sustainable business success.
- The Job Rotation policy, also approved in July 2011, covers employees at all levels to enable job rotation and cross assignments as part of career progression.
- Implementation of the Leadership Behavioural Competency model to address capability gaps and ensure successor readiness.
- The MAS Talent Identification Programme supports a high performance culture by identifying consistent high performers and high potential talents through gathering feedback, employee profiling and career potential assessment.
- 360-degree performance feedback is now conducted for executive-level employees and above involving peers, subordinates and immediate superiors.
- The use of technology has enhanced our Recruitment process to enable candidates from overseas to be interviewed in a timely and cost-effective manner.
- i-Recruitment has simplified HC processes by reducing the recruitment cycle time whilst having the Employee Self Service (ESS) online further reduces paperwork and enhances tracking.

Providing Effective Service for our People

- HC Service Centres at Subang and South Support Zone KLIA were upgraded and a new centre was opened at the Flight Management Building KLIA. As these Service Centres are the main employee touch points, great care has been taken to design the centres to improve HC's service delivery.
- Development of the HC Service Charter.
- The dedicated HC website, http://hc.mas.net, forms an important repository of people-related matters with information on staff vacancies, health services, training, policies, annual privilege and duty travel arrangements.

Business Partnership

- The Human Capital Business Engagement team, set up in January 2011, partners with business units to better understand needs and expectations, in order to deliver value and efficient service as an effective business partner.
- Service Level Agreements are a formal commitment of HC's service delivery.

People Engagement Activities

- Leadership engagement within departments and cross-division encourage efficient communication and knowledge-sharing among leaders.
- Staff Family Visitation programmes were carried out monthly to build bonds.
- HC-led events in 2011 for employees and their families included the Corporate Challenge Day, Secretaries Day, Kite Festival Day (attracted many employees' children to join in the fun), 'Singgah Sahur' and the School Holiday Programme for Children (for both employees and the public) with reading courses and the Fun, Lively Youth (FLY) programme to build self-confidence, communication skills and teamwork.

Going forward in 2012, HC continues to focus on enhancing its human resource fundamentals, developing capabilities and growing talents. HC will also engage our People towards developing new ways of working for higher productivity and to create a high performing culture.

Safety at the workplace is a priority for the operations too. MASkargo has taken pro-active actions in ensuring quality cargo services are offered to customers without compromising on the safety of workers and the work place. The Company received the Integrated Management Systems (IMS) certification from SIRIM for its seamless business processes covering planning of a charter, the provision of cargo ground-handling services as well as innovative and safe warehouse operations.

FOR THE COMMUNITY

Malaysia Airlines' involvement in Project PINTAR is proof that the Group is firmly committed to meaningful initiatives that will bring about change in the lives of the needy specifically through the building up of academic excellence in our future generations. Malaysia Airlines was the first Government-linked company (GLC) to participate in Project PINTAR (Promoting Intelligence, Nurturing Talent and Advocating Responsibility), established in 2006 under the auspices of the Putrajaya Committee on GLC High Performance (PCG) Secretariat.

The PINTAR school adoption programme takes a holistic view to improve academic performance and personal development of students from low income families. In 2011, the MAS Project PINTAR had 16 schools, a combination of primary and secondary schools both in urban and rural areas, across the Nation, under its care. A total of RM1.05 million was spent on the MAS Project PINTAR in 2011.

Beyond providing much needed funds for the schools' activities (organizing of examination preparation workshops, summer camps and school holiday programmes), MAS PINTAR promotes employee volunteerism through participation in motivational and career talks, provision of tuition and even leadership courses. In 2011, more than 500 employees volunteered 3,500 hours towards MAS Project PINTAR. Caring internal talents such as pilots, engineers, cabin crew and even chefs contributed personal time to share their success stories. Such programmes serve as eye-openers for students to build ambitions and personal goals.

MAS PINTAR programmes held in 2011 include UPSR, PMR and SPM examination workshops, education visits to Malaysia Airlines' operations, motivational seminars, futsal training with the Chelsea football team, Kem PINTAR 1Malaysia coordinated by Malaysia Airlines Sports Club, participation in the National BattleBot Challenge, leadership training for PINTAR schools principals and headmasters, and Basic Life Support Training techniques for school children.

MAS-MERCY Collaboration

For the third year, MERCY Malaysia and Malaysia Airlines ran a fund-raising campaign called 'Change for Charity' to collect contributions from passengers. Proceeds are channeled to aid organizations and charitable trusts. The strategic collaboration with MERCY Malaysia includes providing humanitarian assistance.

To-date, 'Change for Charity' has generated over RM300,000 in cash funds from passengers, showcasing the commitment of Malaysia Airlines' cabin crew as project champions of community service. These valuable funds have been channeled towards the Cleft Lip and Palate Programme in Bangladesh and Cambodia, Disaster Risk Reduction Programme for schools in Malaysia, the set up of Rehabilitation Health Centres in Cambodia and the giving of emergency funds to humanitarian relief missions.

MERCY Malaysia also trains Malaysia Airlines' staff for possible participation in relief missions in Malaysia and beyond.

Malaysia Airlines participates in humanitarian relief missions by contributing tickets and waiving excess baggage fees to support MERCY Malaysia. In 2011, free air tickets from Malaysia Airlines enabled MERCY volunteers to participate on the Tsunami Relief mission in Japan and Earthquake relief mission in Turkey.

In addition, Malaysia Airlines grants complimentary flights to bona fide patients seeking medical treatment overseas. Requests have been met for non-governmental organisations Make-A-Wish Foundation, Children's Wish Society of Malaysia, National Heart Institute and individual requests.

MASkargo

In addition to MASkargo's long-standing support for charity, education and the arts, it organised several humanitarian relief efforts for Japan's earthquake victims and Australia's flood victims. MASkargo maintained its annual sponsorship of Zoo Melaka's Lobo, an endangered 6-year-old Sumatran tiger, as well as continued to support Rumah Penyayang Bestari orphanage through various education and fun-filled activities.

MASwings

Whilst MASwings plays a pivotal role as a strategic tourism industry player in Sabah and Sarawak, MASwings is equally committed to its social obligations towards the local community. The introduction of MASwings' community tagline, 'Wings of Love', emphasises three main areas: Community, Education and the Environment. The community programme was launched in August 2011 in Bario, northern Sarawak, with a project to install a Very Small Antenna Transmitter (VSAT) at Bario and Ba'kelalan to allow the local community important access to wireless internet services.

MASwings also runs a school adoption programme and to-date has three schools, SK Bario, SMK Bario and SK Ba' Kelalan, under its care. Its involvement is to raise awareness on the importance of education and to improve the academic standards of under-privileged children from the area.

MASwings' commitment to champion the cause of protecting the planet and environment led to the airline to conduct an internal campaign on email by calling all employees to sign-off with a reminder to care for the environment by not printing documents unnecessarily.

In December 2011, MASwings made the dreams of 23 top students from rural areas in Sabah and Sarawak come true when they flew to Kuala Lumpur especially to meet the Prime Minister's wife, Datin Seri Rosmah Mansor, at the Prime Minister's official residence, Sri Perdana, in Putrajaya. The special trip was organized to mark MASwings' second anniversary of the 'Our Children, Our Future' programme and was a truly memorable reward and motivation for top students from the rural schools in Sabah and Sarawak who had performed well in the Primary 6 Ujian Penilaian Sekolah Rendah (UPSR).

Firefly
As part of its corporate social responsibility, in August 2011, Firefly adopted three young orang utan from the Sepilok Orang Utan Rehabilitation Centre in Sandakan. This was part of Firefly's efforts to contribute to the preservation of this species which includes support for rehabilitation efforts such as food, medication and required equipment.

Firefly also reached out to the community by including children from Bukit Harapan and St. Theresa & D LaSalle Hostel, Kota Kinabalu, in their events and by donating household goods, sports and educational tools.

CARE FOR THE ENVIRONMENT

Carbon and Noise Emissions
Malaysia Airlines complies with the European Union Emission Trading Scheme (EU ETS) regulation following our 2010 Annual Emissions and Tonne Kilometre data which was verified and submitted to the Environment Agency for England and Wales. Our airline has also been advised of its yearly allocation of free allowances that can be utilised when the scheme is implemented from 2012 onwards. We are currently in the process of submitting information for the Annual Emission 2011.

Like other airlines, we expect the actual 2012 emissions to be above our free allocation, necessitating the purchase of additional allowances. Processes are in place to manage the financial and regulatory impacts of the EU ETS, and we continue to monitor the situation as it unfolds.

Going forward, Malaysia Airlines is in a relatively favourable position with the arrival of the new fuel efficient wide-body A380 passenger and A330-200F freighter aircraft. These aircraft, as well as the new narrow-body B737-800s will progressively replace the older B737-400s. Additional ATR 72-500 aircraft in the Firefly and MASwing fleets means that we operate a newer fleet with better cabin and inflight experiences including operating aircraft that use less fuel.

The Group has initiated trials of the Pratt & Whitney's EcoPower engine wash at KLIA. Using this engine wash regime has resulted in fuel efficiency improvements of up to 1.2%, a significant fuel savings that translates into reduced emissions.

In terms of noise emissions, Malaysia Airlines has complied with all regulations.

Voluntary Carbon Off-set Scheme
Malaysia Airlines offers our customers the ability to off-set carbon emissions attributed to their flight by contributing towards the rehabilitation of the South East Pahang Peat Swamp Forest Complex. In March 2011, the first batch of 1,000 seedlings were planted at Sungai Bebar, Hutan Simpanan Pekan, Pahang. Some 250 participants including the local community and school children, were involved in planting two selected species endemic to the area, Mersawa Paya and Ramin Melawis. The Forestry Department together with the Forest Research Institute of Malaysia conducts regular monitoring of this first batch of seedlings for survivability during the year-end monsoon season. This serves as a guide for our strategy and planning of subsequent plantings and carbon off-sets. To demonstrate our commitment to this initiative, Malaysia Airlines contributes to this fund by off-setting carbon emissions from employee duty travel on our aircraft.

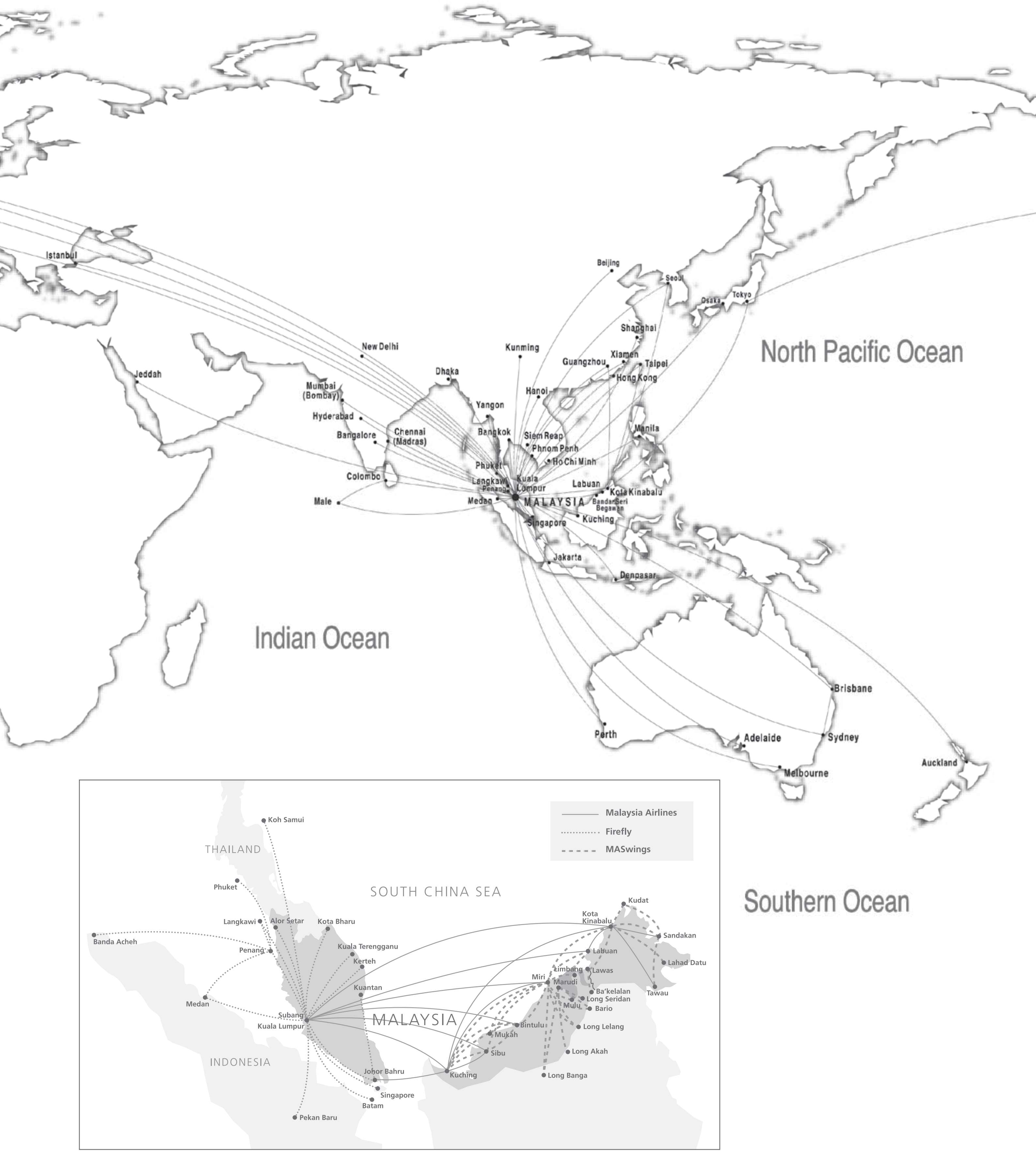
Environmental Management
Whilst the bulk of Malaysia Airlines' carbon footprint is in the air, we continue to seek to reduce our impact on the environment in other on-ground activities. Our 'Green Office' programme of recycling office waste continues into its second year. MASkargo recycles packaging material used for cargo pallets. Engineering & Maintenance will embark on a 'Total Scrap Management Programme', where scrap metal and scheduled waste is recycled. Going forward in 2012, we will work on systems to better monitor and manage our carbon and energy footprint. As part of this initiative, Property Department conducted building energy audits which is expected to highlight potential energy and cost savings.

Through an Inflight Services' cooperation by our vendor, the Inflight Recycling programme for medium to long haul flights into KLIA was implemented in the third quarter of 2011. Its aim is to reduce waste from food and beverages served on board flights.

This Statement is made in accordance with a resolution of the Board of Directors dated 18 April 2012.

Fleet Status

Aircraft Type	31 December 2011	31 December 2010
B747-400P	**9**	10
B747-400F	**2**	2
B747-200F	**0**	4
B777-200	**17**	17
A330-300	**14**	9
A330-200	**3**	3
A330-200F	**2**	0
B737-800	**22**	12
B737-400	**34**	37
ATR72-500	**22**	19
DHC6	**4**	4
Total	**129**	117


North Pacific Ocean
Indian Ocean
Southern Ocean
Istanbul
Jeddah
New Delhi
Mumbai (Bombay)
Hyderabad
Bangalore
Chennai (Madras)
Colombo
Male
Dhaka
Yangon
Kunming
Beijing
Seoul
Osaka
Tokyo
Shanghai
Guangzhou
Xiamen
Taipei
Hong Kong
Hanoi
Bangkok
Siem Reap
Phnom Penh
Ho Chi Minh
Manila
Phuket
Langkawi
Penang
Kuala Lumpur
Medan
MALAYSIA
Labuan
Kota Kinabalu
Bandar Seri Begawan
Kuching
Singapore
Jakarta
Denpasar
Brisbane
Sydney
Adelaide
Melbourne
Perth
Auckland
Malaysia Airlines
Firefly
MASwings
THAILAND
SOUTH CHINA SEA
INDONESIA
Koh Samui
Alor Setar
Kota Bharu
Banda Acheh
Kuala Terengganu
Kerteh
Kuantan
Subang
Johor Bahru
Batam
Pekan Baru
Kudat
Sandakan
Lahad Datu
Tawau
Lawas
Limbang
Miri
Marudi
Ba'kelalan
Long Seridan
Mulu
Bario
Bintulu
Mukah
Sibu
Long Lelang
Long Akah
Long Banga

TAN SRI MD NOR BIN MD YUSOF • Non-Independent Non-Executive Chairman

Tan Sri Md Nor bin Md Yusof, aged 64, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Non-Independent Non-Executive Chairman on 1 August 2011.

He holds a Bachelor's Degree in Commerce from University of Otago, New Zealand and is a qualified Chartered Accountant.

He is very familiar with Malaysia Airlines and the airline industry having previously served the Company as its Managing Director from February 2001 until March 2004, after serving as advisor to the Ministry of Finance. He thereafter joined Securities Commission as Executive Chairman.

He has spent 18 years of his working career with CIMB Group; more notably as President and Chief Executive Officer of Bank of Commerce (M) Berhad (now known as CIMB Bank). He was appointed to the Board of CIMB Group Holdings Berhad as Director in June 2006 and assumed the post of Chairman in July 2006.

He is also a Director and Chairman of the Executive Committee of Khazanah Nasional Berhad. He sits on the Boards of several companies and institutions including Pelaburan Hartanah Berhad and is a Trustee of Yayasan Khazanah.

Tan Sri Md Nor attended all 9 Board Meetings held during the financial year since his appointment to the Board of Directors of the Company. He has no conflict of interest with the Company and does not have any family relationship with any Director/major shareholder of the Company. He has no conviction for any offences within the past 10 years.

AHMAD JAUHARI BIN YAHYA • Managing Director/Group Chief Executive Officer

Ahmad Jauhari bin Yahya, aged 57, a Malaysian, was appointed Managing Director/Group Chief Executive Officer of Malaysia Airlines on 19 September 2011. He sits on the Boards of various subsidiaries within the Group. He is also a member of the Board of Safety and Security Committee and Board Tender Committee.

He holds a Bachelor of Science (Honours) Degree in Electrical and Electronic Engineering from University of Nottingham, United Kingdom.

Ahmad Jauhari started his career with ESSO Malaysia Berhad before joining The New Straits Times Press (M) Berhad where he rose to the rank of Senior Group General Manager, Production and Circulation, in 1990. He then joined Time Engineering Berhad as Deputy Managing Director in 1992 and was subsequently made Managing Director in the same year. He then served as Managing Director of Malaysian Resources Corporation Berhad and Malakoff Berhad. He was also a Director of Malaysia Airports Holdings Berhad and Chairman of Destination Resorts & Hotels Sdn Bhd. Prior to Ahmad Jauhari's appointment in Malaysia Airlines, he was Managing Director/CEO of Premium Renewable Energy (M) Sdn Bhd.

He has a vast and diverse working experience in various industries including oil & gas, publication, engineering, power and energy. He is also experienced at managing organisations on the international front, having served as Director and Chairman of the Executive Committee of Central Electricity Generating Company Limited (Jordan) and as Director of Shuaibah Expansion Project Company Limited (Saudi Arabia). He was a former Honorary President of Penjanabebas (Association of Independent Power Producers in Malaysia).

Ahmad Jauhari attended all 4 Board Meetings held during the financial year since his appointment to the Board of Directors of the Company. He has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

MOHAMMED RASHDAN BIN MOHD YUSOF • Executive Director/Deputy Group Chief Executive Officer

Mohammed Rashdan bin Mohd Yusof, aged 41, a Malaysian, is currently Executive Director/Deputy Group Chief Executive Officer of Malaysia Airlines, a position he held since 9 August 2011. He was first appointed to the Board of Directors of Malaysia Airlines on 15 October 2010. He is also a member of the Board Hedging Committee and sits on the Boards of various subsidiaries within the Group.

He holds a double First Class Honours degree in Economics from the University of Cambridge, United Kingdom. He is a Chartered Accountant and an Associate Member of the Institute of Chartered Accountants in England and Wales and Association of Corporate Treasurers of the United Kingdom. He trained as an accountant at PricewaterhouseCoopers and later was a financial consultant specialising in financial services and structured finance. In 2002, he was one of two co-founders of BinaFikir Sdn Bhd, an investment advisory firm, and was its Managing Director from 2004 to 2008. He was subsequently appointed as Chief Executive Officer and Director of Maybank Investment Bank Berhad in 2008 to mid-May 2010. Prior to joining Malaysia Airlines, he was an Executive Director of Khazanah Nasional Berhad.

Mohammed Rashdan attended 14 out of 16 Board Meetings held during the financial year. He has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

TAN SRI WAN AZMI BIN WAN HAMZAH @ NIK AWANG • Senior Independent Non-Executive Director

Tan Sri Wan Azmi bin Wan Hamzah, aged 62, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Independent Non-Executive Director on 9 August 2011. He serves as Chairman of the Nomination and Remuneration Committee.

He is an active private investor, both at home and abroad, with significant interests in the utility, manufacturing, real estate and resource sectors.

Tan Sri Wan Azmi has attended all 7 Board Meetings held during the financial year since his appointment to the Board of Directors of the Company. He has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

DATO' ROHANA BINTI ROZHAN • Independent Non-Executive Director

Dato' Rohana binti Rozhan, aged 49, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Independent Non-Executive Director on 9 August 2011. She is also a member of the Board Audit Committee and Nomination and Remuneration Committee.

She holds a Bachelor of Arts (Honours) degree in Accounting & Economics from University of Kent, Canterbury, United Kingdom and is a Fellow Member of the Chartered Institute of Cost & Management Accountants (CIMA), United Kingdom and member of the Malaysian Institute of Accountants (MIA). She also completed the Advanced Management Programme at Harvard Business School in 2006.

Dato' Rohana is Chief Executive Officer of Astro Malaysia Holdings Sdn Bhd, one of South East Asia's leading media groups which comprises Pay TV, Radio, Content and Digital businesses in Malaysia. She is also the CEO of Measat Broadcast Network Systems Sdn Bhd, a position she has held since 2006. Prior to being appointed CEO, she was Group Chief Financial Officer, where she was instrumental for Astro's listing in 2003 (accorded Finance Asia's best deal) and Asia Money's Best Financial Management award in 2004. She sits on various boards including Media Innovations Pte Ltd group and Astro Overseas Limited.

Prior to Astro, she was with the Unilever Group of Companies for 9 years, both in the United Kingdom and Malaysia, where she gained substantial experience in financial and business management in the fast-moving consumer goods sector.

Dato' Rohana attended 6 out 7 Board Meetings held during the financial year since her appointment to the Board of Directors of the Company. She has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. She has no conviction for any offences within the past 10 years.

TAN SRI TAN BOON SENG @ KRISHNAN • Independent Non-Executive Director

Tan Sri Tan Boon Seng @ Krishnan, aged 59, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Independent Non-Executive Director on 9 August 2011. He serves as Chairman of the Board Safety & Security Committee and is a member of the Board Audit Committee.

He qualified as a Certified Public Accountant in 1978 after graduating with a Bachelor of Economics (Honours) degree from University of Malaya in 1975. He holds an MBA from Golden Gate University, San Francisco, USA.

He is currently Executive Deputy Chairman of IJM Corporation Berhad. He is a Director of IJM Plantations Berhad, IJM Land Berhad (Chairman), Malaysian South-South Corporation Berhad and Grupo Concesionario del Oeste S.A., Argentina. He joined IJM as Financial Controller in 1983 and was appointed Group Managing Director in 1997. He was re-designated as Chief Executive Officer & Managing Director in 2004 and served in this position until the end of 2010.

Tan Sri Krishnan attended 5 out 7 Board Meetings held during the financial year since his appointment to the Board of Directors of the Company. He has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

DAVID LAU NAI PEK • Independent Non-Executive Director

David Lau Nai Pek, aged 59, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Independent Non-Executive Director on 9 August 2011. He serves as Chairman of the Board Audit Committee.

He holds a Bachelor of Commerce degree from Canterbury University, New Zealand and is a member of the Malaysian Institute of Accountants and New Zealand Institute of Chartered Accountants.

David Lau has over 35 years of professional experience in finance and leading financial organisations in Australia, Brunei, China, Malaysia, New Zealand, the Netherlands and United Kingdom. He retired from Shell Malaysia in August 2011 after serving Shell Group for 30 years. His major assignments included Finance Director for Shell Malaysia, Finance Director for Shell China, Global Controller for Exploration & Production Division of Royal Dutch Shell, and Vice-President Finance for Shell International Exploration & Production B.V., the Netherlands.

He is currently Non-Executive Director and Chairman of the Board Audit Committee of Axiata Group Bhd, a public listed company, and Celcom Berhad, a non-listed company. He sits on the Board of Shell Refining Company (FOM) Bhd, KKB Engineering Bhd, and is a member of the Investment Panel of the Employees Provident Fund.

David Lau attended 6 out 7 Board Meetings held during the financial year since his appointment to the Board of Directors of the Company. He has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

TAN SRI DR. WAN ABDUL AZIZ BIN WAN ABDULLAH • Non-Independent Non-Executive Director

Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah, aged 59, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Non-Independent Non-Executive Director on 20 March 2007.

He holds a Bachelor of Economics (Honours) degree in Applied Economics from University of Malaya and a Master of Philosophy in Development Studies from the Institute of Development Studies, University of Sussex, United Kingdom. He went on to earn a Ph.D in Economics from the School of Business and Economic Studies, University of Leeds, United Kingdom. In 2004, he attended the Advanced Management Program at Harvard Business School, Harvard University.

He began his career in the Administrative and Diplomatic Service as Assistant Director of the Economic Planning Unit in the Prime Minister's Department in 1975. He was later promoted to the position of Senior Assistant Director, Macro-economics in 1984, Senior Assistant Director, Human Resource Section and Director, Energy Section in 1988. In the same year, he was seconded to the World Bank Group in Washington DC, USA as an Alternate Executive Director. He then served the Ministry of Finance as Deputy Secretary in the Economics and International Division in 2001. He later returned to the Economic Planning Unit in the Prime Minister's Department as Deputy Director General, Macro Planning Division in 2004. In 2005, he was appointed Deputy Secretary General of Treasury (Policy), Federal Treasury in the Ministry of Finance. He is currently Secretary General of Treasury in the Ministry of Finance.

He is Chairman of the Inland Revenue Board, Kumpulan Wang Persaraan (Diperbadankan) (KWAP), Cyberview Sdn Bhd, Pembinaan BLT Sdn Bhd and Bintulu Port Holdings Berhad. He also sits on the Boards of Federal Land Development Authority (FELDA), Petroliam Nasional Berhad (PETRONAS), MISC Berhad, Syarikat Bekalan Air Selangor Sdn Bhd (SYABAS), Pelaburan Hartanah Bumiputera Berhad, Bank Negara Malaysia and Malaysia Deposit Insurance Corporation (PIDM).

Tan Sri Dr. Wan Abdul Aziz attended 11 out of 16 Board Meetings held during the financial year. He has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

DATUK MOHAMED AZMAN BIN YAHYA • Non-Independent Non-Executive Director

Datuk Mohamed Azman bin Yahya, aged 48, was appointed to the Board of Directors of Malaysia Airlines as Non-Independent Non-Executive Director on 1 December 2001. He serves as Chairman of the ESOS Committee and Board Hedging Committee. He is also a member of the Nomination and Remuneration Committee.

He holds a First Class Honours degree in Economics from the London School of Economics and Political Science (LSE) and is a member of the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants and a Fellow of the Malaysian Institute of Banks.

His career appointments include auditing with KPMG in London, finance with Island & Peninsular Group and investment banking with Amanah Merchant Bank. In 1998, he was appointed by the Government of Malaysia to set up and head Danaharta Nasional Berhad and subsequently became its Chairman until 2003. He was also Chairman of the Corporate Debt Restructuring Committee, set up by Bank Negara Malaysia, until its closure in 2002.

He is currently Group Chief Executive and Board member of Symphony House Berhad, a listed outsourcing group and is Executive Chairman of Bolton Berhad, a listed property group.

Apart from his professional engagements, he is active in public service. He sits on the Boards of a number of Government Linked Corporations namely Khazanah Nasional Berhad, PLUS Expressways Berhad and Ekuiti Nasional Berhad. He also serves as a member of the National Council for Scientific Research & Development, National Innovation Council, Special Task Force to facilitate Business (PEMUDAH), Financial Reporting Foundation and is Chairman of Motorsports Association of Malaysia.

Datuk Mohamed Azman has attended 15 out of 16 Board Meetings held during the financial year. He has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

ESHAH BINTI MEOR SULEIMAN • Alternate Director to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah

Eshah binti Meor Suleiman, aged 57, a Malaysian, was appointed as Alternate Director to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah on 25 November 2011.

She holds a Bachelor of Economics (Honours) degree from University of Malaya in 1980 and obtained a Diploma in Public Administration from the National Institute of Public Administration (INTAN) in 1981. She later obtained an MBA (Finance) from Oklahoma City University, USA in 1994.

Eshah began her career in the Malaysian civil service in 1981 as Assistant Director, Macro Economic Section, of the Economic Planning Unit, Prime Minister's Department. In 1991, she was appointed as Assistant Secretary in the Government Procurement Management Division, Ministry of Finance (MoF), Principal Deputy Assistant Secretary, Finance Division, MoF, and Deputy Under Secretary, before assuming her current position as Under Secretary, Investment, MoF (Inc.) and Privatisation Division in September 2006.

Eshah is a Director of Malaysia Airports Holdings Berhad, Pos Malaysia Berhad, Global Maritime Ventures Berhad (a subsidiary of Bank Pembangunan Malaysia Berhad) and is an Alternate Director in Telekom Malaysia Berhad.

Eshah did not attended any Board Meeting of the Company held during the financial year on behalf of Tan Sri Dr. Wan Abdul Aziz Wan bin Abdullah. She has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. She has no conviction for any offence within the past 10 years.

SENIOR MANAGEMENT

Malaysian Airline System Berhad

AHMAD JAUHARI YAHYA
Group Chief Executive Officer

CAPTAIN MOHAMED AZHARUDDIN OSMAN
Director, Operations

MOHAMMED RASHDAN MOHD YUSOF
Group Deputy Chief Executive Officer

IGNATIUS ONG MING CHOY
Head, Short Haul /
Chief Executive Officer, Firefly

ROZMAN OMAR
Group Chief Financial Officer

CAPTAIN DR OOI TEONG SIEW
Head, Corporate Safety & Oversight

ABDUL AZIZ ABU BAKAR
Head, Aircraft
Finance & Management

AZHARI MOHD DAHLAN
Head, Engineering &
Maintenance/MAE

DATO' MOHD SALLEH AHMAD TABRANI
Head, Customer Experience

MOHD YUNUS IDRIS
Acting Head, MASkargo

DR. HUGH DUNLEAVY
Head, Network,
Alliance & Planning

DATO' CAPTAIN MOHD NAWAWI AWANG
Managing Director, MASwings

BRYAN FOONG CHEE YEONG
Head, Strategy

NOR ZALIDA AHMAD
Vice President, Strategic
Communications

SHANE NOLAN
Acting Commercial Director

DATO' MERINA ABU TAHIR
Chief Internal Auditor

ZAHRAH ZAID
Head, Human Capital

DR. WAFI NAZRIN ABDUL HAMID
Head, Risk Legal & Governance

Dated: 8 May 2012

BOARD OF DIRECTORS' MEETINGS

DATE OF MEETING	NATURE OF MEETING
25 February 2011	Board of Directors' Meeting [No. 01-11]
22 March 2011	Board of Directors' Meeting [No. 02-11]
19 April 2011	Board of Directors' Meeting [No. 03-11]
10 May 2011	Special Board of Directors' Meeting. [No. 04-11]
24 May 2011	Board of Directors' Meeting [No. 05-11]
27 June 2011	Special Board of Directors' Meeting. [No. 06-11]
20 July 2011	Board of Directors' Meeting [No. 07-11]
5 August 2011	Special Board of Directors' Meeting. [No. 08-11]
7 August 2011	Special Board of Directors' Meeting. [No. 09-11]
9 August 2011	Special Board of Directors' Meeting. [No. 10-11]
23 August 2011	Board of Directors' Meeting [No. 11-11]
14 September 2011	Special Board of Directors' Meeting. [No. 12-11]
27 September 2011	Board of Directors' Meeting [No. 13-11]
1 November 2011	Board of Directors' Meeting [No. 14-11]
21 November 2011	Board of Directors' Meeting [No. 15-11]
5 December 2011	Special Board of Directors' Meeting [No. 16-11]

STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors ("the Board") of Malaysian Airline System Berhad ("MAS" or "the Company") presents this Statement to provide an overview into the corporate governance practices of the Company. The Statement demonstrates the Board's commitment to maintain a sound level of corporate governance in the Group as a framework to enhance business integrity and build confidence in our ability to return value to shareholders.

Apart from adhering to the principles and best practices of the Malaysian Code on Corporate Governance (revised 2007) ("the Code"), the Company also abides by the Guidelines to Enhance Board Effectiveness per the 'Green Book' set by the Putrajaya Committee on GLC High Performance (PCG). The Board has adopted the Board Charter as recommended in the 'Green Book' to ensure that all members of the Board are aware of their fiduciary duties and responsibilities, legislations and regulations affecting their conduct, and that the highest standards of corporate governance are applied in all their dealings in respect and on behalf of the Company.

The Company continues to review initiatives identified under the Government-linked Companies Transformation Programme. It also takes note of the new Malaysian Code of Corporate Governance (MCCG) 2012 and has taken steps to ensure that the new recommendations are being addressed.

The following Statement of Corporate Governance outlines the manner in which MAS has complied with the principles and best practices of the Code.

THE BOARD OF DIRECTORS

Roles and Responsibilities

The Board is responsible for determining the Company's long-term direction, business objectives and strategy. The Board adopts a formal schedule to decide on matters requiring its approval. This covers:

- A review and adoption of long-term objectives and strategy, capital and funding requirements, operating plans, major investments and disposals, financial statements and dividends.
- Succession planning for senior management.
- Ensuring that the Company has adequate resources to meet its objectives.
- Ensuring that an effective safety and risk management system is maintained.
- Monitoring the Company's performance and ensuring that it acts ethically and meets its responsibilities to all stakeholders.

Board Balance, Structure and Composition

Board structure and composition is the foundation for an effectiveness Board. The Board is led by a Non-Executive Chairman with strong leadership, long experience and management capabilities to lead and manage discussions among the Directors of differing backgrounds. As at 31 December 2011, the Board of MAS comprises eleven (11) members which complies with the requirement on Independent Directors of the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (BMSB).

Category	No.
Non-Independent and Non-Executive Chairman	1
Executive Directors	2
Non-Independent and Non-Executive Directors	4
Independent and Non-Executive Directors	4

A brief profile of each Director appears on pages 24 to 28 of this Annual Report.

There is a clear division of responsibilities between the Chairman of the Board and Group Chief Executive Officer (GCEO). The Chairman is responsible for providing leadership to the Board and ensuring the effectiveness of the Board and its various Committees in accordance with the defined Terms of Reference (ToR) and compliance to corporate governance best practices. The GCEO, on the other hand, is responsible for the day-to-day business and operations of the Company and implementation of the Board's decisions. The distinct and separate roles of the Chairman and GCEO ensure an important balance of power and authority.

The requirement of the Code for a balanced board is fulfilled with Independent Directors constituting more than one-third of the Board. Their presence ensures a balance by providing unbiased and independent views, advice and judgement in all deliberations.

The Non-Executive Directors provide a mix of related industry-specific knowledge as well as broad government, business and commercial experience. Non-Executive Directors do not participate in the day-to-day management of the Company and are free from any relationship that could interfere with their ability to exercise independent judgement and act in the best interests of the Company and its shareholders.

In situations where it is inappropriate for concerns to be dealt with by the Chairman or GCEO, such concerns are conveyed to the Senior Independent Non-Executive Director, Tan Sri Wan Azmi bin Wan Hamzah @ Nik Awang.

The Board believes that its present structure and composition satisfactorily reflects the investment of its shareholders, and serves to provide clear and effective leadership to the Group.

Board Meetings and Supply of Information to the Board

Board meetings for the ensuing financial year are scheduled in advance to enable Directors to plan ahead. Board meetings are conducted in accordance with a structured Agenda. Papers relating to the Agenda items are forwarded to Directors before the Board meeting for review and/or clarification on the issues to be sought well ahead of the meeting date to enable the Directors to make informed decisions.

The Board has full unrestricted access to information within the Group, individually or collectively, and has direct access to the advice and services of the Company Secretary. In addition, the Board may seek independent professional advice at the Company's expense on specific issues to enable the Board to discharge its duties in relation to matters being deliberated. An established procedure is set in place for the Board to take independent professional advice.

Apart from information that is finance-oriented and historical in nature, information made available to the Board allows the Board to review and assess key performance factors such as product and service quality, operational KPIs, customer satisfaction and market competitiveness.

Directors who have an interest in any proposal to be considered by the Board shall disclose to that effect at the Board meeting and abstain from deliberation and decisions of the Board on the proposal.

A total of sixteen (16) Board meetings were held during 2011. The Directors' attendance record was as follows:

Directors	No. of Meetings Attended
Tan Sri Md Nor bin Md Yusof Chairman *(appointed on 1 August 2011)*	8/8
Ahmad Jauhari bin Yahya Group Chief Executive Officer *(appointed on 19 September 2011)*	2/2
Mohammed Rashdan bin Mohd Yusof Group Deputy Chief Executive Officer	13/16
Tan Sri Wan Azmi bin Wan Hamzah @ Nik Awang *(appointed on 9 August 2011)*	6/6
Dato' Rohana binti Rozhan *(appointed on 9 August 2011)*	5/6
Tan Sri Tan Boon Seng @ Krishnan *(appointed on 9 August 2011)*	5/6
David Lau Nai Pek *(appointed on 9 August 2011)*	5/6
Tan Sri Dato' Sri Anthony Francis Fernandes *(appointed on 11 August 2011, resigned on 2 May 2012)*	4/6
Datuk Kamarudin bin Meranun *(appointed on 11 August 2011, resigned on 2 May 2012)*	4/6
Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah Eshah Binti Meor Suleiman *(appointed as Alternate Director to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah on 25 November 2011)* Datuk Dr. Rahamat Bivi Binti Yusoff *(appointed and resigned as Alternate Director to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah on 1 June 2011 and 18 October 2011 respectively)* Dato' Puteh Rukiah binti Abd Majid *(resigned as Alternate Director to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah on 1 June 2011)*	9/16
Datuk Mohamed Azman bin Yahya	14/16
Tan Sri Dr. Mohd. Munir bin Abdul Majid *(formerly Chairman, resigned on 31 July 2011)*	7/7
Dato' N. Sadasivan a/l N. N. Pillay *(formerly Deputy Chairman, resigned on 7 August 2011)*	9/9
Tengku Dato' Sri Azmil Zahruddin bin Raja Abdul Aziz *(formerly Managing Director, resigned on 9 August 2011)*	9/9
Keong Choon Keat *(resigned on 8 August 2011)*	8/9

Directors	No. of Meetings Attended
Martin Gilbert Barrow *(resigned on 8 August 2011)*	8/9
Datuk Seri Panglima Mohd Annuar bin Zaini *(resigned on 7 August 2011)*	8/9
Datuk Haji Yusoff @ Hunter bin Datuk Mohamed Kasim *(resigned on 22 March 2011)*	0/2
Dato' Abdul Rahman bin Abdul Ghani *(ceased as Alternate Director to Datuk Haji Yusoff bin Datuk Mohamed Kasim ceased on 22 March 2011)*	0/2
Datuk Amar Wilson Baya Dandot *(resigned on 27 June 2011)*	4/5
Datuk Amar Mohamad Morshidi bin Abdul Ghani *(ceased as Alternate Director to Datuk Amar Wilson Baya Dandot on 27 June 2011. Appointed and resigned as Director on 27 June 2011 and 8 August 2011 respectively)*	0/5
Datu Haji Ismawi bin Haji Ismuni *(appointed and ceased as Alternate Director to Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani on 27 June 2011 and 8 August 2011 respectively)*	0/5
Datuk Sukarti bin Wakiman *(appointed on 22 March 2011 and resigned on 8 August 2011)*	2/7
Datuk Pengiran Hassanel bin Pg. Mohd Tahir *(appointed and ceased as Alternate Director to Datuk Sukarti bin Wakiman on 22 March 2011 and 8 August 2011 respectively)*	2/7

Appointment of Board Members

Nomination to the Board of MAS is made either by the Special Shareholder in accordance with Article 5(2) or by the Board pursuant to Article 136 of the Company's Articles of Association. Appointments to the Board of MAS and its subsidiaries are first considered by the Nomination and Remuneration Committee (NRC). This Committee is tasked to scrutinise the sourcing and nomination of suitable candidates based on a mix of skills and competencies, expertise and industry knowledge that can strengthen the composition of the Board and contribute significantly its effectiveness. The Board does not set a specific tenure for Directors to serve on the Board.

Directors' Training

All Directors have attended and successfully completed the Mandatory Accreditation Programme mandated by BMSB. During the financial year, the Company arranged for in-house training programmes on topics relevant to the Company. These were attended by both members of the Board and Senior Management. In addition, the Directors attended various conferences and seminars organised by external organisers to keep abreast of industry developments and trends and to assist the Directors in the discharge of their duties.

Conferences, seminars and training programmes attended by the Directors in 2011 included:

- MAS Board Induction Programme
- Khazanah Megatrends Forum 2011
- Hedge Fund Conference
- Majlis Konsultasi Belanjawan 2012
- MITI Domestic Investment Summit
- Meeting Bursa's Financial Reporting Timelines
- The Economic Transformation Programme: What's In It For Me?
- Inaugural Corporate Directors Conference

Re-election of Directors

Pursuant to the MMLR of BMSB and the Company's Articles of Association, all Directors are subject to re-election by rotation once at least every three (3) years. Re-election of Directors takes place at each Annual General Meeting. Executive Directors are also ranked for re-election by rotation. The purpose is to ensure that shareholders have a regular opportunity to reassess the composition of the Board. The Directors standing for re-election are set out in the Statement accompanying the Notice of Annual General Meeting.

Directors Remuneration

Remuneration of Executive and Non-Executive Directors is benchmarked against market practices. The Executive Directors' remuneration consists of a basic salary, emoluments and other customary benefits as appropriate to a member of the Senior Management. Salary reviews take into account market rates and performance of the individual and the Group. Executive Directors are not paid Directors' fees nor are they entitled to receive meeting allowances for Board and Board Committee meetings attended. Meanwhile, Non-Executive Directors' remuneration is based on standard fixed fees and allowances that reflect the number of meetings attended during the year.

Details of the total remuneration during the financial year, disclosed by category, is as follows:

	Salaries & Other Emoluments (RM'000)	Benefits (RM'000)	Total (RM'000)
Executive Directors	2,726	1,029	3,755
Non-Executive Directors	721	-	721
Total	3,447	1,029	4,476

The number of Directors whose total remuneration during the financial year within the following bands is:

	No. of Directors
Executive Directors:	
Below RM500,000	1
RM500,001 to RM1,000,000	1
RM2,500,001 to RM3,000,000	1
Non-Executive Directors:	
Below RM50,000	19
RM50,001 to RM100,000	3
RM100,001 to RM150,000	2

The Board has chosen not to disclose remuneration of Directors on an individual basis as suggested by the Code as the Board believes that such information will not add significantly to the understanding and evaluation of the Group's standards of corporate governance.

COMPANY SECRETARY

The Directors have unrestricted access to the advice and services of the Company Secretary to enable them to discharge their duties effectively. The role of Company Secretary includes regularly updating the Board on new statues and directives issued by the regulatory authorities and implications to the Company and Directors in carrying out their duties and responsibilities.

The Company Secretary organises, attends and ensures that all Board meetings are properly convened, as well as ensures that accurate and proper records of the proceedings and resolutions passed are recorded and kept in the statutory register at the registered office of MAS.

BOARD COMMITTEES

The Board delegates certain responsibilities to Board committees with specified Terms of Reference and responsibilities. Chairmen of the various Committees report outcomes of the meetings to the Board whilst Minutes of the Board Committee meetings are circulated to the Directors for their information. Where the Committees have no authority to make decisions on matters reserved for the Board, recommendations are highlighted in the respective Board Committee reports for the Board's endorsement. In MAS, the following Board Committees exist:

- Board Audit Committee
- Nomination and Remuneration Committee
- Board Safety and Security Committee
- Board Tender Committee
- ESOS Committee
- Board Hedging Committee

BOARD AUDIT COMMITTEE (BAC)

A full BAC report detailing its membership, Terms of Reference and activities during the year is contained in pages 47 to 51 of this Annual Report. The Chairman of the BAC reports on the outcome of its Meeting to the Board. Such reports are incorporated as part of the Agenda of the Board meetings.

NOMINATION COMMITTEE AND REMUNERATION COMMITTEE (NRC)

Chairman	Tan Sri Wan Azmi bin Wan Hamzah @ Nik Awang
Members	Datuk Mohamed Azman bin Yahya
	Dato' Rohana binti Tan Sri Datuk Haji Rozhan

Two (2) Nomination Committee meetings and one (1) Remuneration Committee meeting were held during year 2011. On 21 February 2012, both Committees were merged as a single Nomination and Remuneration Committee (NRC) to streamline the process for greater efficiency.

Objectives
The NRC serves to assist the Board to nominate new members to the Board of Directors, Board Committees, candidates for the position of GCEO or equivalent, Deputy Group CEO (DGCEO) or equivalent, as well as nomination of members of Senior Management namely those reporting directly to either the GCEO or DGCEO. The NRC also reviews and recommends the appropriate remuneration packages applicable, and assesses the performance of Directors of the Company on an on-going basis.

Duties and Responsibilities

- To recommend to the Board, candidates for all directorships to be filled by Shareholders or Board of Directors.
- To consider and in making its recommendations candidates for directorship proposed by the GCEO or DGCEO and, within the bounds of practicability, by any other senior executive, Director or Shareholder.
- To recommend to the Board, nominees to be appointed as members of the Board, its Committees and Senior Management.
- To assess the effectiveness of the Board and Board Committee, as well as capabilities of individual Members.
- To review, assess and recommend, with or without other independent professional advice, remuneration packages of Directors and Senior Management.
- To ensure that the remuneration packages offered are sufficiently attractive to retain the best talents required to run the Company successfully.
- To structure component parts of the remuneration package so as to link rewards to corporate and individual performance, and to assess the needs of the Company for talent at the Board-level at any particular time.

Authority

The NRC, in accordance with methodology determined by the Board and at the expense of the Company:

- Shall annually review and determine the required mix of skills, experience, core competencies and other qualities which Executive and Non-Executive Directors should possess for recommendation to the Board.
- Shall assess on an annual basis, the effectiveness of the Board as a whole, the Board Committees, and contributions of each Director.
- Shall conduct periodic reviews of the overall remuneration policies and packages for Executive and Non-Executive Directors and Senior Management for recommendation to the Board.
- Shall be entitled to services of the Company Secretary who must ensure that all appointments are properly made, that all necessary information is obtained from Directors, both for the Company's records and to meet statutory obligations, MMLR of BMSB or other regulatory requirements where applicable.

BOARD SAFETY AND SECURITY COMMITTEE (BSSC)

Chairman	Tan Sri Tan Boon Seng @ Krishnan
Member	Ahmad Jauhari bin Yahya

Other members of the BSSC include relevant members of Senior Management specifically the Director of Operations and Head of Corporate Safety Oversight. Four (4) BSSC meetings were held in 2011.

Objectives

To provide assurance to the Board that the Company complies fully with its safety responsibilities under the Air Operator's Certificate (AOC) and to provide the Board with an assessment of risks arising from management of safety and security. This includes an assessment of reputational exposure from associated operations such as code-shares, sub-contracted operations under other AOCs, and subsidiaries holding their own regulatory approvals. Currently these include Firefly and MASwings and may in the future include other operating divisions.

The BSSC on behalf of the Board endorses the Safety Management System (SMS) of the airline, and agrees with its programme to safeguard the safety and security of its operations. It endorses the principles of openness and encourages an approach of continuous improvement.

Role and Scope
- To review the overall safety and security performance of operations under the MAS AOC by considering significant operational incidents and trends.
- To consider the effectiveness of controls by reviewing:
  (a) Results of audits, inspections and investigations
  (b) Significant quality lapses
  (c) Process conformance
  (d) Status of corrective and preventive actions
  (e) Follow up actions from previous management reviews
  (f) Regulatory violations and concessions
- To reviews occurrence reports and trend analyses and ensure corrective actions are taken in a timely manner.
- To periodically review safety and security performance of Firefly and MASwings.
- To consider relevant incidents of other operators with particular attention to those with contractual relationships with MAS.
- To review recommendations for management system improvement.
- To be updated on changes in regulatory policy or civil aviation legislation.
- To monitor safety management processes in flight operations, engineering, security, cargo and ground operations, and ensure that these are in line with the Group's quality standards.
- To encourage good internal communication across the Group to ensure problem areas are quickly highlighted and corrective actions taken.
- To ensure that contingency planning and crisis management procedures are in place.

BOARD TENDER COMMITTEE (BTC)

Chairman Ahmad Jauhari bin Yahya

Other members include the Group Chief Financial Officer. Eleven (11) BTC meetings were held in 2011.

Objective
To assist the Board to approve tenders with a contract value of above RM15 million.

Duties, Responsibilities and Authority
- To deliberate on and approve tenders endorsed by the Tender Committee with a contract value of above RM15 million.
- To make other decisions if required to effect contracts between MAS and appointed contractors/suppliers.
- To act in line with directions of the Board.

In the event a BTC meeting cannot be held to deliberate an urgent tender, approval of resolution by circulation is required. Such circularised resolutions and approval must then be confirmed at the next available BTC meeting. The BTC shall designate an authorised personnel to execute the Letter of Award or/and Contract Agreement upon such approval.

EMPLOYEES' SHARE OPTION SCHEME (ESOS) COMMITTEE

Chairman Datuk Mohamed Azman bin Yahya

Other members of the ESOS Committee include relevant members of Senior Management including the Director of Operations and Head of Human Capital. No ESOS Committee meeting was held during 2011.

Objective
To implement and administer the MAS ESOS in accordance with By-Laws approved by Shareholders of the Company in order to determine participation eligibility of employees based on the broad criteria set out in the By-Laws, option offers and share allocations.

Duties and Responsibilities

- To be responsible for the design and amendments of the ESOS Plan.
- To ensure that administrative oversight of the Plan is attended to and dealt with accordingly.
- To deliberate and decide on:
  (a) Participation and eligibility
  (b) Number of new shares granted
  (c) Criteria and method of allocation
  (d) Termination
- To determine the tenure of the ESOS Plan.
- To administer the Selling Flexibility mechanism.
- All other areas of the ESOS including but not limited to areas specified under the ESOS By-Laws.

Authority

- The MAS ESOS shall be administered by the ESOS Committee vested with powers and duties conferred upon it by the Board to administer the Scheme in a manner that it shall in its discretion deem fit, subject to the provisions contained in the By-Laws.
- The ESOS Committee may, for the purpose of administering the Scheme, do all acts and things and enter into any transaction, agreement, deed, document or arrangement, make rules, regulations or impose terms and conditions or delegate part of its power relating to the Scheme which the ESOS Committee may in its discretion consider to be necessary or desirable for giving full effect to the Scheme. For the avoidance of doubt, the ESOS Committee has the authority to administer the Selling Flexibility mechanism as approved by the Board.
- Any liberty or power which may be exercised or any determination which may be made by the ESOS Committee may be exercised at its discretion.
- Decisions of the ESOS Committee shall be final and binding

BOARD HEDGING COMMITTEE (BHC)

Chairman	Datuk Mohamed Azman bin Yahya
Member	Mohammed Rashdan bin Mohd Yusof

Four (4) BHC meetings were held in 2011.

Objective

To assist the Board in fulfilling its oversight responsibilities in relation to risk management relative to the Company's exposure to fluctuations in commodity price, interest rates and foreign exchange.

Duties and Responsibilities

- To oversee implementation of the Company's hedging strategy.
- To monitor and ensure compliance with the Hedging Policy, and ensure adequate controls and information systems are maintained for hedging transactions and outstanding hedge positions.
- To review the Hedging Policy and position, and as and when necessary recommend required strategies to the Board.
- To regularly report to the Board significant matters it has addressed on matters within its mandate. Such reports are incorporated as part of the Agenda of the Board meetings.

Authority

The BHC shall in accordance procedures or processes determined by the Board review the hedging mandates, policy, strategy and hedging position. The BHC is entitled to services of the Company Secretary who must ensure that all decisions made on hedging are properly recorded in the Minutes Book.

SHAREHOLDERS

The Company communicates regularly and pro-actively with Shareholders and investors to ensure that they are kept appropriately informed on major developments within the Group on a timely basis.

RELATIONSHIP AND COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Group continues its practice to brief analysts and the media immediately after announcement of its quarterly financial results via updates to Bursa Malaysia. In addition, special briefings/meetings are organised with analysts and media to provide greater clarity on special corporate developments within the guidelines of BMSB. These include briefings to institutional investors as and when required.

A dedicated Investor Relations unit allows for an open channel of communication between MAS and its Shareholders and institutional investors. Queries can be directed to the e-mail address investor@malaysiaairlines.com. Information can also be accessed via the Group's website www.malaysiaairlines.com.

The Annual General Meeting (AGM) is an important forum for communication and dialogue with Shareholders. Notice of the AGM and Annual Report are sent out to Shareholders at least 21 days before the date of the Meeting. The Annual Report provides detailed and comprehensive information on the Group's business and activities over the financial year to help shareholders make informed decisions on their investment in MAS. The Annual Report is also uploaded on the Group's website.

During the AGM, the Board presents a comprehensive review of the progress and performance of the Group. At these Meetings, Shareholders have direct access to Board members who are on hand to answer their questions and/or provide further clarification either on a specific resolution or on the Company generally.

While the Company endeavours to provide as much information as possible to its Shareholders and stakeholders, it is aware of the legal and regulatory framework governing the release of material and sensitive information. The Board and Company work within such restrictions to attain a balance to provide timely and accurate information that is not misleading to its Shareholders and stakeholders.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is mindful of providing and presenting a balanced and fair assessment of the Group's financial performance and prospects through its annual financial statements, quarterly results and Annual Report to both BMSB and Shareholders. The BAC assists the Board to scrutinise this information to ensure adequate disclosures are made in such reports and to ensure that the overall quality of the Group's financial reporting is maintained.

Directors' Responsibility to the Financial Statements

In the preparation of the Financial Statements as set out on pages 56 to 165 of this Annual Report, the Directors are of the view that:

- The Group has used appropriate accounting policies that were consistently applied;
- Reasonable and prudent judgement and estimates were made; and
- All applicable Financial Reporting approved accounting standards in Malaysia have been followed.

The Directors are responsible for ensuring that the Company maintains accounting records which disclose with reasonable accuracy the financial position of the Company and Group, and that the Financial Statements comply with the Companies Act 1965.

The Statement of Directors pursuant to Section 169 of the Companies Act 1965 is set out on page 61 of this Annual Report.

Whistle Blower Policy

The Group's Whistle Blower Policy provides an internal mechanism for employees to raise their concerns responsibly about malpractices, irregularities and negligence affecting MAS, without fear of adverse repercussions. The appropriately managed whistle blower system functions as an internal control mechanism to allow for effective action to be taken and to provide preventive measures to ensure that the integrity of the Company is maintained.

Approving Authority Manuals

A re-compilation of the existing Corporate Approving Authority Manual (CAAM) for ease of reference and compliance was made in early 2012. It is important that the CAAM is reviewed continuously to maintain its relevance with organisational and industry changes. The Station Approving Authority Manual (SAAM) and System-wide Station Internal Control Manual (SSICM) complement the CAAM in defining authority levels and accountability for business activities at the stations. As a pivotal internal control mechanism, the CAAM seeks to promote greater managerial discipline, accountability and transparency in the performance of identified operational and management decision-making activities.

Internal Controls

The Board acknowledges its overall responsibility for maintaining a sound system of internal controls to safeguard Shareholders' investment and the Group's assets. In compliance with the MMLR of BMSB under Paragraph 15.27(b) and guided by the Statement of Internal Control: Guidance for Directors of Public Listed Companies, a report on the Group's internal controls is presented in the Statement on Internal Control on pages 42 to 46 of this Annual Report.

Relationship with Auditors

The Board, through the BAC, has established and maintains a formal, transparent and appropriate relationship with the Group's external auditors towards seeking professional advice and ensuring compliance with relevant accounting standards.

This Statement is made in accordance with a resolution of the Board of Directors dated 18 April 2012.

INTRODUCTION

The Malaysian Code on Corporate Governance (MCCG) requires the Board of Directors (Board) to maintain a sound system of internal control to safeguard shareholders' investments and the Group's assets. Pursuant to Paragraph 15.26 (b) of Bursa Malaysia Securities Berhad (BMSB) Main Market Listing Requirements (MMLR) and Statement on Internal Control: Guidance for Directors of Public Listed Companies, the Board is pleased to present the Statement on Internal Control which outlines the nature and scope of internal controls of the Group during the financial year under review.

BOARD RESPONSIBILITIY

The Board asserts its overall responsibility on Malaysian Airline System Berhad's ('MAS' or 'the Company') group-wide systems of internal control and risk management as well as reviewing its effectiveness, adequacy and integrity. The Board acknowledges that the system of internal controls is designed to manage an acceptable and tolerable level of the Group's risk rather than eliminate the risk of failure to achieve business objectives. Therefore, the systems only provide reasonable but not absolute assurance against occurrence of any material misstatement or loss.

Concerted efforts from all business units are needed to ensure a sound system of internal controls. Management is responsible for implementing the Board's policies on risk management and internal controls. All employees have a responsibility towards maintaining a sound internal control system as part of their accountability in achieving the Group's overall objectives.

The system of internal control comprises the following key elements:
- Control Environment
- Control Activities
- Information & Communication
- Monitoring
- Risk Assessment

The key elements in MAS' internal control systems are as follows:

1. CONTROL ENVIRONMENT

The Board is committed to maintain a strong governance structure and environment for the proper conduct of the Group's business operations.

A. Governance Structure

- **Board of Directors (Board)**

  The Board assumes responsibilities, which facilitate the discharge of the Board's stewardship through the adoption of strategic plans for the Group, oversees the conduct of the Group's business and reviews the adequacy and integrity of the internal control systems and compliance to applicable regulations. The Board also reviews the operations and financial performance of the Group. The scope of this review covers any significant internal control issues identified and highlighted by Board Audit Committee (BAC).

- **Board Audit Committee (BAC)**

  The independent non executive directors of the BAC, duly execute their duties as defined in the MCCG. The BAC regularly reviews, on behalf of the Board, internal control issues reported by the Internal Audit Department (IAD) and external auditors, including any significant internal control issues affecting the financial statements. The BAC also performs an annual review on the adequacy of scope, authority and resources of IAD and appraises the performance of IAD.

- **Internal Audit Department (IAD)**

  Internal audit function is carried out by IAD which performs systematic reviews of key processes in high-risk areas and assesses the adequacy, integrity and effectiveness of internal controls. An Internal Control Performance Scorecard is provided in every audit report to highlight the state of internal control for the areas audited. On a monthly basis, IAD submits audit reports to the BAC through the Monthly Audit Reporting Package. Additionally, IAD presents key audit findings to the BAC on a quarterly basis which is also deliberated at the Senior Management's level. In 2011, follow-up reviews were conducted on a quarterly basis to monitor the status of all internal control issues raised and the overall closure rate of audit issues was reported to the BAC. Half yearly Audit Activity Reports which summarises all audit and related activities performed by IAD covering assurance, advisory, integrity and corporate reporting functions were also reported to BAC.

- **Quality Assurance (QA) Functions**

  15 internal QA functions have been established under various divisions such as IT Governance, Financial Compliance, Service Quality Unit, Engineering & Maintenance QA, Airport Operations QA, and which are aimed to improve the Group's services standards and meeting regulatory requirements.

- **Strategic Governance Function**

  Risk and Policy Advisory Services (RPAS) leads in implementing the Company's Enterprise Risk Management and Business Continuity Management Frameworks and focuses on aligning governance structures with key business objectives of the Company to enhance stakeholder value. RPAS relies on a working relationship with RPAS Business Partners (RBPs) who are formal appointees by the Heads of respective business units, tasked to support RPAS in implementing these governance frameworks in their operational areas.

- **Operating structure that defines responsibility and authority**

  A comprehensive organisation structure, which aligns to business and operational requirements and led by Division Heads with defined responsibility, accountability and delegation of authority, is in place.

B. Conduct

- **Code of Ethics (COE)**

  The Code continues to emphasize the need for all directors and employees of the Company to uphold the highest level of business ethics and personal integrity in discharging their responsibilities in all types of transactions and interactions. Since 2007 when the Code was incepted, RPAS, together with Human Capital Division (HC) have launched a series of awareness programme to instil its statements of principles that set out the basic standard of good business practices, values of honesty and need for compliance with good governance and applicable laws. Today, the Code forms part of advanced management development programmes for the Company and specific sessions were carried out for target groups as well. The Code has also integrated with existing business processes such as tender and procurement and yearly declarations are mandated to ensure employees do disclose their interest with respect to having any forms of relationship with external entities that deal with MAS. This initiative is in line with the Code's implementation programme that remains adamant in its intent to maintain integrity and professionalism in the workforce.

- **Consequence Management**

  The Commend & Reprimand Programme (CaRP) serves as a consequent management tool to instill discipline in the organization, reiterate the importance of complying with the Group's policies and procedures and to deal with unethical practices. A review of Consequence Management Policy in relation to disciplinary action taken against staff for misconduct commenced in the fourth quarter of 2011, The Consequence Management Policy aims to ensure that cases of misconduct are appropriately and consistently dealt with based on the principle of justice and fairness, in accordance to HC Policies.

C. Organisational Values

- The Internal Control Enhancement (ICE) Programme continues to be a group-wide effort put in place to increase awareness amongst business units on the importance of effective internal controls.

  - Business Assurance & Control Assessment (BACA)

    A key initiative under ICE programme is the Control Self Assessment, an approach to instil accountability for business unit owners to conduct half yearly assessments on their internal controls and communicate the results to management. All system-wide stations and some key departments at the corporate office have started performing self assessment and the results were reported to the BAC in 2011. Effective 1 January 2012, the BACA workshop function is undertaken by RPAS. IAD continues to perform the BACA validation audits to confirm the self assessment performed by management.

  - Whistle Blower Programme (WBP)

    The WBP is in place to provide an internal mechanism for employees to raise their concerns about malpractices, irregularities and negligence affecting MAS without fear of adverse repercussions and with their confidentiality protected. The Whistle Blower Independent Committee (WIC) chaired by the Group Chief Executive Officer (GCEO) is responsible to review and monitor concerns channelled through the WBP. Investigations and reviews are carried out by the Integrity Unit under IAD or any appointed action parties, tabled to the WIC and subsequently reported to the GCEO on a periodic basis. Appropriate actions are taken based on the strengths and merits of the findings. Broadcasts on WBP were issued in 2011 to serve as awareness on the importance of integrity, the lesson learned and the disciplinary action taken.

  - Employee Performance Measurement & Competency
    - The Performance Measurement System (PMS) is aligned to Strategies and Key Business Activities set forth in the Corporate Business Plan 2011. Key Performance Indicators (KPI) are used to measure staff performance on a half yearly basis.
    - Leadership and Management Development Programmes are conducted as part of Talent Management and Development Programme. Continuous education, development and training are provided to the staff through a wide variety of schemes and programmes. In addition to the Guest Auditor Programme which was part of the talent management programme, IAD is also embarking on a job rotation programme with the objective of building future leaders in MAS who appreciate cross-functional teamwork and possess strong corporate governance knowledge. The job rotation programme also provides the platform for on-the job training to employees from operational areas to gain exposure on governance, risk and control.

2. CONTROL ACTIVITIES

A. Authority & Accountability

- In line with the changes in organisational structure and key positions in the Company, the approving authority structure and key areas of decision making were reviewed and enhanced in the Corporate Approving Authority Manual (CAAM). The aim is to ensure there is clear accountability given to the part of the officers in duty and empowerment is designed to ensure expediency of effective decision making without compromising on governance requirements.
- The Subsidiary Governance Framework continues to set the foundation for approving authority structures to be established in new and existing subsidiaries. Risk & Policy Advisory Services assisted several key subsidiaries within the Group to finalise and review their respective approving authority profiles. Emphasis was also placed on the part of educating and creating awareness on the need for compliance to these policies.

B. Policies & Procedures

- MAS Corporate Policy Framework maintains the platform for consolidating and communicating corporate policies and manuals within the Group. RPAS assisted a number of business units to review and enhance current policies to address operational requirements, but more importantly to fulfill regulatory and stakeholders' demands.
- RPAS, with the assistance of the RBPs, maintains the inventory and availability of policies and manuals for all employees through the corporate policy Intranet and the enterprise content management system.
- RPAS continues to carry out a series of training and briefing sessions to all levels of stakeholders within the Group in order to promote awareness and application of policy revisions and new policies developed.

3. INFORMATION & COMMUNICATION

A. Planning

- Business Plan and Budget are reviewed and approved by the Board on an annual basis. An integrated business plan driven by commercial objectives is produced taking into consideration all aspects of business and operational risks and then translated into an operational budget. There is continuous enhancement of the planning and budgeting processes through a refined assignment of drivers that align with the profit and loss of the Group.

B. Information Dissemination

- Management Committee Meetings chaired by the GCEO are conducted on a regular basis to monitor business performance and to discuss other related issues.
- Townhall sessions and/or briefings are conducted on a quarterly basis for staff as an avenue for sharing of operational results, performance and issues.
- Updates to staff are also carried out through the internal communication channel, uVoice and the MH Pulse intranet.

4. MONITORING

- Budgets are monitored by each business unit and forms part of the unit's key performance indicator. An Expenditure Variance Report (EVS) is generated on a monthly basis for each business unit's validation and monitoring of actual cost incurred over budget.
- Other than regular reporting of internal control issues to the BAC, the effectiveness of internal control system is consistently monitored and reviewed through the following:
  - Status for matters arising, Periodic Update Register and management action items for update at BAC meetings compiled by Head of Risk, Legal & Governance.
  - Business Assurance Control Assessment (BACA) through a questionnaire approach was assessed and rated by head office and stations system-wide on a half yearly basis. IAD performs validation on the self assessed results and reports the findings to the BAC on a periodic basis.
  - Quarterly financial announcements and annual financial statement were presented to BAC for review and deliberation.
  - Half yearly report on risk management which comprises MAS corporate risk profile and RPAS activities were presented to BAC.
  - Half yearly Internal Control Incident Report (ICIR) which summarises all key deficiencies in control and control breakdown incidents reported within the Company were presented to BAC.

5. RISK ASSESSMENT

- RPAS continues to lead the implementation of the Enterprise Risk Management (ERM) Framework. The processes have been reviewed and enhanced and reflected in the latest revision of the Group's Corporate Risk Management Manual.
- RBPs, who are formal appointees by their Heads have been trained to assist the respective business units in identifying risks, required action plans and reporting of closure rates and key risk indicators.
- The risk management process currently integrates with the business planning process, ensuring risks are identified, reviewed and incorporated into the business plans prior to submission for Board's approval. Risks at the enterprise level are also discussed at the Risk Forum, chaired by the GCEO and attended by all RBPs, RPAS and Head of Risk, Legal & Governance.
- A new risk escalation channel was introduced for employees to highlight emerging/ existing risks to Head of Risk, Legal and Governance, whereby these risks might otherwise be suppressed within the business units. The escalated risks are evaluated and highlighted to affected parties, but more importantly, swift actions are designed and implemented to manage the risk.

- Risk management activities
  - A series of risk reviews were completed for all business units, including key subsidiaries and regional offices in Malaysia & ASEAN, Middle East & Africa, Europe, North Asia, China & SAR by RPAS with the assistance from the respective RBPs and Regional Senior Vice Presidents. All business units and subsidiaries were made to challenge and review their respective risk positions to primarily reflect global economic outlook, the Comprehensive Collaboration Framework (CCF), safety, security, regulatory requirements, as well as legal and antitrust exposures.
  - Outcomes of the risk reviews which include management action plans and risk indicators were reported to the relevant stakeholders including heads of business units and subsidiaries, management and relevant committees at the Board on a periodic basis.
  - Throughout the year, critical projects undertaken by the Group had also undergone formal project risk management assessment in ensuring that the project objectives are achieved. These include Enterprise Resource Planning (ERP), Strategic IT Outsourcing (SITO) and Call Center Transformation Project (CCTP).
  - MAS Business Continuity Management (BCM) Programme for the year continued with the completion of Business Continuity Plans (BCP) for several key stations including London, Kota Kinabalu, Kuching and Langkawi through prioritisation of scope and urgency, and also to align with Malaysia Airports Holdings Berhad's BCM Programme. RPAS was also involved in the ground work of aligning business continuity with emergency response to ensure seamless activation of response, recovery and restoration procedures.
  - Briefings and training sessions were conducted for all levels of stakeholders in ensuring that good risk management practice is embedded within the Group. Specific training modules on governance, risk management and internal controls structures for target groups were already integrated into corporate induction and management development programmes.

DESIGN OF INTERNAL CONTROL SYSTEM

MAS' internal control system does not apply to its associated companies and joint ventures within the Group. Nonetheless, the interests of MAS are served through its representatives on the Board of the respective associated companies and joint ventures as well as through the review of management accounts. These provide MAS' Board of Directors with performance-related information to enable timely decisions with regards to the Group's investments in such companies.

The Board confirms that the system of internal control, with the key elements highlighted above, is in place during the financial year. The system is subject to regular reviews by the Board.

This Statement is made in accordance with a resolution of the Board of Directors dated 18 April 2012.

The Board Audit Committee (BAC) of Malaysian Airline System Berhad (MAS or the Company) is pleased to present the Audit Committee Report for the financial year ended 31 December 2011.

1. ESTABLISHMENT AND COMPOSITION OF THE BOARD AUDIT COMMITTEE

In accordance to the Malaysian Code of Corporate Governance (MCCG) and Paragraph 15.09 of Bursa Malaysia Securities Berhad (BMSB) Main Market Listing Requirements (MMLR), the BAC comprises the directors listed below:

Name of Directors	Directorship
David Lau Nai Pek (Chairman) *(Appointed on 9 August 2011)*	Independent Non-Executive Director
Tan Sri Tan Boon Seng @ Krishnan *(Appointed on 9 August 2011)*	Independent Non-Executive Director
Dato' Rohana binti Rozhan *(Appointed on 9 August 2011)*	Independent Non-Executive Director
Keong Choon Keat (Chairman) *(Resigned on 8 August 2011)*	Independent Non-Executive Director
Dato' N. Sadasivan a/l N.N. Pillay *(Resigned on 7 August 2011)*	Independent Non-Executive Director
Datuk Amar Wilson Baya Dandot *(Resigned on 27 June 2011)*	Independent Non-Executive Director
Datuk Sukarti bin Wakiman *(Appointed on 22 March 2011, resigned on 8 August 2011)*	Independent Non-Executive Director

The BAC was appointed amongst MAS Board of Directors (Board) and fulfils the MMLR/MCCG as follows:
- Comprise not fewer than three (3) members
- All are independent directors
- All members are non-executive directors
- At least one should be a member of an accounting association
- No alternate director appointed as a member of the audit committee.

Appointment to the BAC is referred to the Nomination Committee (the Nomination Committee and Remuneration Committee were merged as a single Nomination and Remuneration Committee (NRC) on 21 February 2012) prior to approval by the Board. The Board then shall ensure that the composition of the BAC meets the independence and experience requirements set out by MMLR/MCCG.

The term of office of a member of the BAC shall be three years, after which he or she may be re-nominated and appointed by the Board. The Board shall review the performance of the BAC and its members at least once every three years.

The Chairman of the BAC was elected by members of BAC and is a member of the Malaysian Institute of Accountants. The profiles of the Chairman and BAC members are set out on pages 24 to 28 in the Annual Report.

2. QUORUM OF BAC

Quorum shall comprise at least two (2) members, majority of whom are independent directors.

3. MEETINGS OF THE BAC

The BAC shall meet at least four (4) times annually, or more frequently as circumstances dictate. The Committee held ten (10) meetings during the financial year, and the attendance record of each member is as follows:

Name of Directors	No. of Meetings Attended
David Lau Nai Pek	3/3
Tan Sri Tan Boon Seng @ Krishnan	3/3
Dato' Rohana binti Rozhan	3/3
Keong Choon Keat	7/7
Dato' N. Sadasivan a/l N.N. Pillay	7/7
Datuk Amar Wilson Baya Dandot	4/5
Datuk Sukarti bin Wakiman	1/1

Representatives of Senior Management, Chief Internal Auditor and External Auditors' representatives attend the meetings as and when appropriate. Additionally, the BAC conducted 2 meetings with the external auditor without the presence of Executive Directors and Senior Management.

Minutes of each meeting are kept and distributed to each member of the BAC as well as to the other members of the Board. The Chairman of the BAC reports to the Board by highlighting issues of concern requiring considered deliberation by the Board.

4. OBJECTIVES

The principal objectives of the BAC are to assist the Board in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the holding company and each of its subsidiaries. In addition, the BAC shall:

- evaluate the quality of the audits performed by the internal and external auditors;
- provide assurance that the financial information presented by management is relevant, reliable and timely;
- oversee compliance with relevant laws and regulations and observance of a proper code of conduct; and
- determine and review the quality, adequacy and effectiveness of the Group's system of internal control.

5. TERMS OF REFERENCE

The BAC was established in 1992 with written terms of reference approved by the Board which deals with BAC authority and duties. These terms of reference are periodically reviewed, and the key points are summarized below:

A. Authority

The BAC shall, in accordance with procedures determined by the Board and at the expense of the Company,

- Investigate any activity within its terms of reference
- Have full and unlimited/ unrestricted access to all information and documents/ resources required to perform its duties.
- Obtain independent professional advice or other advice and to secure the attendance of external parties with relevant experience and expertise if it deems necessary
- Convene meetings with external auditors, internal auditors or both, without the attendance of other directors and employees if deemed necessary. However, at least twice a year the BAC shall meet with the external auditors without any executive board member or management member present.
- Make relevant reports when necessary to the relevant authorities if a breach of the LR has occurred.
- Review key audit findings from both internal audit and external audit, and direct management to execute recommendations to address the control weaknesses identified.

B. Duties and Responsibilities

The Internal Audit Department (IAD) shall report directly to the BAC on all matters within its scope of activities. The duties and responsibilities of the BAC are to undertake the following and report accordingly to the Board:

i. External Auditors

- Review the audit plan and audit reports, including the evaluation of the internal control system with the external auditors;
- Review the quality of the external auditors and to make recommendations on their appointment, termination and remuneration. In any resignation/termination any letter/representations by the external auditors would be reported to the Board and BMSB; and
- Review the liaison between the external auditors, Management and the Board, and the assistance given by Management to the external auditors.

ii. Financial Reporting

- Review the quarterly reporting to BMSB and year-end annual financial statements before submission to the Board, focusing on:
    - major accounting policy changes;
    - significant audit issues in relation to the estimates and judgmental areas;
    - significant and unusual events; and
    - compliance with accounting standards and other legal requirements.

iii. Internal Audit

- Assess the adequacy of the scope, functions, competency and resources of the internal audit function and ensure that internal auditors have the necessary authority to carry out its work;
- Review the internal audit programme processes and results of the audit and assess whether appropriate actions have been taken on the recommendations of the internal auditors;
- Review any appraisal or assessment of the performance of the internal audit function; and
- Review the performance of senior staff members of internal audit functions and approve their appointment or termination.

iv. Related Party Transactions

- Monitor any related party transactions that may arise within the Group and to report, if any, transactions that may arise within the Group and any related party outside the Group that are not based on arms-length terms and are disadvantageous to the Group;
- Review the process and allocation of options pursuant to the Employees Share Option Scheme (ESOS) at the end of each financial year as being in compliance with the terms and conditions under the ESOS scheme; and
- Review any related party transaction and conflict of interest situation that may arise within the Group including any transaction, procedure or cause of conduct that may raise questions of management integrity.
- Ensure that audit of related party transactions are carried out at least once a year.

6. ACTIVITIES IN THE FINANCIAL YEAR

The activities of the BAC during the financial year 2011 were as follows:-

A. Risks and Controls

- Reviewed the progress of the risk management functions and its on-going activities for identifying, evaluating, monitoring and managing risks; and
- Reviewed the adequacy and effectiveness of the system of internal controls through the evaluation of results of work performed by internal and external auditors, committees as well as through discussion with Management and representation by Management.

B. Internal Audit

- Approved the audit plan, scope and budget for the financial year;
- Reviewed the results of internal auditors' work and monitor the implementation of management action plans in addressing and resolving issues;
- Reviewed the adequacy of resources and the competencies of staff within the IAD to execute the plan; and
- Reviewed the performance of the IAD and recommend improvements.

C. External Audit

- Approved the external auditors terms of engagement, audit plan and scope for the financial year;
- Reviewed the results and issues arising from their audit of the financial year and the resolution of issues highlighted in their report to the BAC and Management response; and
- Made recommendations to the Board on the appointment and remuneration of the external auditors.

D. Financial Reporting

- Reviewed and deliberated on the Quarterly Financial Announcements and Annual Financial Statements to BMSB and recommend them for approval by the Board.

E. Annual Reporting

- Reviewed the annual financial statement for the year for inclusion in the Annual Report 2011.
- Reviewed and recommend Statement on Corporate Governance, Statement of Internal Control and BAC Report to the Board for approval.

F. Related Party Transactions

- Issued guidance notes on the identification and report of related party transactions.
- Reviewed related party transactions for compliance with the MMLR of BSMB and the adequacy of the review procedures for related party transactions.

G. Ad-hoc Reviews

- Requested for ad-hoc studies or review to be carried out where major control weaknesses are identified; e.g. inventory management.

7. GROUP INTERNAL AUDIT (IA) FUNCTION

The internal audit function of MAS Group is performed by IAD that reports to the BAC. Internal Audit function is governed by an approved MAS Internal Audit Charter that provides for its independence in evaluating and reporting on adequacy, integrity and effectiveness of the overall internal control system, risk management and corporate governance using a systematic and disciplined approach.

IAD adopts established auditing standards and performs periodic self-assessment against applicable guidelines to maintain its proficiency and ensures due professional care. IAD adopts COSO-based audit methodology in aligning itself to the internal control framework and spearheaded an initiative called Business Assurance Control Assessment (BACA), a Control Self Assessment methodology which was rolled out to all stations system-wide and key departments in Corporate Headquarters. BACA aims to instill accountability on business owners to perform self assessment on their internal controls and report to Management on a periodic basis. Effective 1 January 2012, the BACA workshop function has been handed over to Risk Management as envisaged previously for Management to take full responsibility on the establishment of a good internal control environment. IAD continues to perform BACA validation audits to confirm the self assessment performed by Management. The Chief Internal Auditor is a Fellow of the Association of Chartered Certified Accountants and a member of the Malaysian Institute of Accountants. MAS is a Corporate Member of the Institute of Internal Auditors.

The risk based audit plan approved by the BAC is developed to cover key Revenue, Cost, Operations, Customer Experience and Support activities that are significant to the overall performance of the MAS Group. The prioritisation of audit assignments is based on the results from the risk management exercise, past audit results and discussions with Senior Management. Key processes in the MAS Group are clustered into audit universes that have been aligned to the five key thrusts (the "MAS Way") against the following objectives:

- Revenue enhancement and protection;
- Operational effectiveness and efficiency, including cost containment;
- Assets and services management, including effectiveness of management assurance functions;
- Human resource management;
- Financial Report Integrity; and
- Information system management.

Internal audit activities covering all of the above objectives are undertaken for both passenger and cargo businesses at Corporate Headquarters, station systemwide and MAS subsidiaries. The IAD also conducts special audits on an ad-hoc basis based on specific requests either from the Board, BAC, Senior Management or arising from the Whistle Blower Programme. In 2012, IA ceased doing advisory assignments to focus on the core area of assurance to support the organisation in enhancing internal controls. Effective 1 January 2012, the department has changed its name from Audit & Business Advisory to IAD.

The BAC receives regular reports from the Chief Internal Auditor on the results of activities performed. IAD continuously monitors execution of the audit recommendations, external and internal through periodic follow up. The former Management Audit Action Committee (MAAC) chaired by the Managing Director discussed and deliberated on issues identified from audit work performed and other matters raised by the BAC to ensure effective implementation of recommendations and action items. The MAAC convened every quarter with selected members from Senior Management and the Chief Internal Auditor. MAAC was abolished in August 2011, however the function remains with the Group CEO, Group Chief Financial Officer and Head of Risk, Legal & Governance who are permanent invitees to the BAC meetings. During the financial year, the IAD undertook 94 audit assignments.

The BAC reviews and approves the IAD's annual budget to ensure that the function is adequately resourced with competent and proficient internal auditors. As at 31 December 2011, the IAD had 30 internal auditors of various mix of expertise and experiences with approximately 47,000 available man-hours per annum. During the year, the IAD also outsourced certain types of work where IAD clearly benefits from their expertise and involvement. The total expenditure incurred by the IAD for the financial year 2011 is approximately RM6.9 million. The BAC also reviewed whistle blower cases and the investigation finding following a whistle blower case.

As part of supporting a continuous learning culture in ensuring the auditors enhance their knowledge, skills and competencies, a detailed training plan was developed to address the individual training needs. On an average, IAD staff attended 8 training days in 2011.

This Statement is made in accordance with a resolution of the Board of Directors dated 18 April 2012.

In compliance with the MMLR of BMSB under Paragraph 9.25, the Board provides disclosure on the following information:

1. Imposition of Sanctions/Penalties
There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies during the financial year.

2. Material Contracts
Save as disclosed below, there are no other material contracts entered into or subsisting by the Company or its subsidiaries, involving directors and major shareholders interests, either still subsisting at the end of the financial year or, if not then subsisting, entered into since the end of the previous financial year:-

(i) Supplemental Agreement dated 28 May 2002 between the Company and Aircraft Business Malaysia Sdn. Bhd. (ABM), a wholly-owned subsidiary of Penerbangan Malaysia Berhad (PMB), to amend certain clauses stated in the Master Aircraft Purchase Agreement dated 5 February 2002 between the aforesaid parties.

(ii) Eight (8) Operating Lease Agreements, one (1) of which is dated 6 June 2002 and seven (7) of which are dated 28 May 2002, between the Company and ABM, a wholly-owned subsidiary of PMB, in relation to the lease of the eight (8) aircraft for a lease period not exceeding 12 years.

(iii) Eight (8) Supplemental Agreements dated 30 July 2002 between the Company and ABM, a wholly-owned subsidiary of PMB, to amend the terms of rental rate/formula stated in the Operating Lease Agreements between the aforesaid parties referred to in paragraph (ii) above.

(iv) Several Agreements dated 30 July 2002 between the Company and PMB:

(a) Widespread Asset Unbundling (WAU) Agreement which describes the general structure of the Agreement for Aircraft and Finance Agreements Unbundling, the Agreement for Domestic Business Unbundling, the Common Terms Agreement, the Governance Agreement and the Aircraft and Engines Purchase Agreement.

(b) Agreement for Aircraft and Finance Agreements Unbundling which sets out the terms and arrangements under which PMB and Malaysia Airlines must make payments to each other, in relation to the aircraft assets which are subject to finance leases, loan agreements or operating leases entered into by Malaysia Airlines.

(Encumbered Aircraft Assets) and certain payments which Malaysia Airlines receives in respect of its aircraft assets, and in relation to specifically identified liabilities of Malaysia Airlines which are unbundled. This agreement provides PMB with an option to purchase the Encumbered Aircraft Assets becoming unencumbered to Malaysia Airlines, upon which such aircraft will be leased back to Malaysia Airlines on the same terms as the leaseback agreements for Unencumbered Aircraft Assets referred to under Paragraph 2 (iv)(c).

(c) Aircraft and Engines Purchase Agreement which sets out the terms and arrangements under which Malaysia Airlines agrees to sell and transfer title to twenty four (24) aircraft and eight (8) spare engines owned by Malaysia Airlines (Unencumbered Aircraft Assets), to PMB, in consideration of PMB's obligation to pay Malaysia Airlines certain payments under the Agreement For Aircraft and Finance Agreements Unbundling. The signing of the leaseback agreements for the Unencumbered Aircraft Assets is a condition precedent to the Proposed WAU.

(d) Common Terms Agreement which sets out the common terms, conditions and provisions that are incorporated by reference into each of the Agreement for Aircraft and Finance Agreements Unbundling, the Agreement for Domestic Business Unbundling, the Governance Agreement and the WAU Agreement. Included in this agreement is a description of events of default which apply to the said agreements.

(e) Governance Agreement which constitutes an agreement between Malaysia Airlines, as the Asset Operator and PMB, ABM and Assets Global Network Sdn. Bhd. (Asset Owners) to comply with the corporate and contractual governance code in relation to the conduct between Malaysia Airlines and the Assets Owners on matter referred to in the Agreement for Aircraft and Finance Agreements Unbundling, the Agreement for Domestic Business Unbundling, the Governance Agreement, the Aircraft and Engines Purchase Agreement and the WAU Agreement.

(v) Supplemental Agreement dated 11 October 2002 between Malaysia Airlines and PMB, to amend certain provisions of the Agreement for Aircraft and Finance Agreements Unbundling and the Agreement for Domestic Business Unbundling.

(vi) Supplemental Agreement dated 11 October 2002 between Malaysia Airlines and PMB, to amend certain provisions of the Aircraft and Engines Purchase Agreement.

(vii) Lease Agreement dated 6 November 2002 between Malaysia Airlines and PMB in relation to the lease of eight (8) spare engines sold by Malaysia Airlines to PMB under the Aircraft and Engines Purchase Agreement, for a period which expires on 30 September 2005 or such other later date agreed by the parties.

(viii) Sub-Lease Agreement (In Respect of KLIA Buildings) dated 26 March 2003 between Malaysia Airlines and Assets Global Network Sdn. Bhd. ('AGN"), a wholly-owned subsidiary of the Minister of Finance, Incorporated in relation to the sub-lease of the land and the buildings and infrastructure as therein defined for fifty seven (57) years at a yearly rent payable by Malaysia Airlines to AGN in accordance with the Rent Schedule appended to the Sub-Lease Agreement.

(ix) Aircraft Operating Lease Agreement of one (1) Boeing B777-200ER Aircraft bearing Manufacturer's Serial Number 28421 Malaysian Registration Mark 9M-MRP dated 29 November 2004 between PMB (Lessor) and Malaysia Airlines (Lessee).

(x) Aircraft Operating Lease Agreement of one (1) Boeing B777-200ER Aircraft bearing Manufacturer's Serial Number 28422 Malaysian Registration Mark 9M-MRQ dated 13 December 2004 between PMB (Lessor) and Malaysia Airlines (Lessee).

(xi) Aircraft Sub-Lease Agreement of one (1) Boeing B747-4H6 Aircraft bearing Manufacturer's Serial Number 28434 Malaysian Registration Mark 9M-MPR dated 20 March 2006 between PMB (Lessor) and Malaysia Airlines (Lessee).

(xii) General Terms Agreement dated 29 March 2006 together with Side Letter Agreement Number One, Side Letter Agreement Number Two and Side Letter Agreement Number Three between Rolls-Royce Plc, Rolls-Royce Leasing Limited, PMB and Malaysia Airlines.

(xiii) Aircraft Sub-Lease Agreement of one (1) Boeing B747-4H6 Aircraft bearing Manufacturer's Serial Number 29902 Malaysian Registration Mark 9M-MPS, dated 30 May 2006 between PMB (Lessor) and Malaysia Airlines (Lessee).

(xiv) Several Agreements dated 22 December 2009 between PMB and Malaysia Airlines such as:

(a) Aircraft Lease Agreement in relation to the lease of one (1) Boeing model aircraft B747-400 bearing Manufacturer's Serial Number 27043 and Malaysian Registration Mark 9M-MPF from PMB to the Company for a period which expires on 7 June 2012 or such other date as agreed between the parties.

(b) Aircraft Lease Agreement in relation to the lease of one (1) Boeing model aircraft B747-400 bearing Manufacturer's Serial Number 27044 and Malaysian Registration Mark 9M-MPH from PMB to the Company for a period which expires on 20 September 2011 or such other date as agreed between the parties.

(c) Aircraft Lease Agreement in relation to the lease of one (1) Boeing model aircraft B777-200 bearing Manufacturer's Serial Number 28408 and Malaysian Registration Mark 9M-MRA from PMB to the Company for a period which expires on 1 November 2015 or such other date as agreed between the parties.

(d) Aircraft Lease Agreement in relation to the lease of one (1) Airbus model aircraft A330-300 bearing Manufacturer's Serial Number 77 and Malaysian Registration Mark 9M-MKE from PMB to the Company for a period which expires on 29 April 2014 or such other date as agreed between the parties.

(xv) Novation Agreement dated 22 December 2009 between PMB, Malaysia Airlines and Airbus S.A.S and a letter agreement between PMB and Malaysia Airlines for the acquisition of six (6) undelivered Airbus aircraft under the terms and conditions of the purchase agreement dated 24 November 2003 between PMB and Airbus.

(xvi) Supplemental Lease Agreement dated 22 December 2009 between PMB and Malaysia Airlines for the revision of the existing operating lease rentals for one (1) B777-200ER aircraft bearing Manufacturer's Serial Number 28421 and Malaysian Registration Mark 9M-MRP payable to PMB and the conditional sale and purchase agreement between PMB and Malaysia Airlines for the same aircraft.

(xvii) Supplemental Lease Agreement dated 22 December 2009 between PMB and Malaysia Airlines for the revision of the existing operating lease rentals for one (1) B777-200ER aircraft bearing Manufacturer's Serial Number 28422 and Malaysian Registration Mark 9M-MRQ payable to PMB and the conditional sale and purchase agreement between PMB and Malaysia Airlines for the same aircraft.

(xviii) Supplemental Lease Agreement dated 22 December 2009 between PMB and Malaysia Airlines for the revision of the existing operating lease rentals for one (1) B747-400F aircraft bearing Manufacturer's Serial Number 28434 and Malaysian Registration Mark 9M-MPR payable to PMB and the conditional sale and purchase agreement between PMB and Malaysia Airlines for the same aircraft.

(xix) Supplemental Lease Agreement dated 22 December 2009 between PMB and Malaysia Airlines for the revision of the existing operating lease rentals for one (1) B747-400F aircraft bearing Manufacturer's Serial Number 29902 and Malaysian Registration Mark 9M-MPS payable to PMB and the conditional sale and purchase agreement between PMB and Malaysia Airlines for the same aircraft.

(xx) Novation Agreement dated 28 May 2010 between Rolls-Royce plc, Rolls-Royce Leasing Limited, PMB and Malaysia Airlines for the acquisition of spare engines under the terms and conditions of the General Terms Agreement dated 29 March 2006 between Rolls-Royce plc, Rolls-Royce Leasing Limited, PMB and Malaysia Airlines.

(xxi) Collaboration Agreement dated 9 August 2011 between AirAsia Berhad, AirAsia X Sdn. Bhd. and Malaysia Airlines to establish a framework to explore the possibilities of mutual co-operation within their respective businesses.

3. Utilisation of Proceeds from Corporate Proposals
There was no corporate proposal undertaken by the Company during the financial year 2011.

4. Non-Audit Fees
The amount of non-audit fees paid or payable to the external auditors by the Group for the financial year ended 31 December 2011 is RM158,000.

5. Profit Guarantee
The Company did not give any profit guarantee during the financial year.

6. Share Buyback
There was no share buyback scheme undertaken by the Company.

7. Options, Warrants or Convertible Securities
The Company has not issued any options, warrants or convertible securities during the financial year 2011 other than the granting of options under the MAS Employees' Share Option Scheme as disclosed in Note to the Financial Statements.

8. American Depository Receipt ("ADR") or Global Depository receipt ("GDR") Programme (as at 31 December 2011)
The Company did not sponsor any ADR or GDR programme during the financial year.

9. Variation in Results
There was no variance of 10% or more between the unaudited results and the audited financial statement for the financial year ended 31 December 2011.

The directors present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the business of air transportation and the provision of related services. The principal activities of the subsidiaries are described in Note 12 to the financial statements.

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

RESULTS

	Group RM'000	Company RM'000
Loss for the financial year	(2,521,325)	(2,344,398)
Attributable to:		
Equity holders of the Company	(2,523,988)	(2,344,398)
Non-controlling interests	2,663	-
	(2,521,325)	(2,344,398)

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

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than:

(i) the provision for early aircraft redelivery costs included in the aircraft maintenance and overhaul costs of RM602 million;

(ii) the impairment of aircraft and aircraft related spares of RM314 million and RM113 million respectively for the Group and RM224 million and RM113 million respectively for the Company; and

(iii) the provision of inventories obsolescence and stock loss of consumable aircraft spares of RM47 million and RM42 million respectively.

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors do not recommend any dividend in respect of the financial year ended 31 December 2011.

DIRECTORS

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

Datuk Mohamed Azman bin Yahya
Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah
Mohammed Rashdan bin Mohd Yusof
Ahmad Jauhari bin Yahya (appointed on 19 September 2011)
Tan Sri Dr. Anthony Francis Fernandes (appointed on 11 August 2011)
Dato' Kamarudin bin Meranun (appointed on 11 August 2011)
David Lau Nai Pek (appointed on 9 August 2011)

DIRECTORS (CONTINUED)

Tan Sri Tan Boon Seng @ Krishnan (appointed on 9 August 2011)

Dato' Rohana binti Tan Sri Datuk Haji Rozhan (appointed on 9 August 2011)

Tan Sri Nik Awang @ Wan Azmi bin Wan Hamzah (appointed on 9 August 2011)

Tan Sri Md Nor bin Md Yusof (appointed on 1 August 2011)

Tengku Dato' Sri Azmil Zahruddin bin Raja Abdul Aziz (resigned on 9 August 2011)

Keong Choon Keat (resigned on 8 August 2011)

Martin Gilbert Barrow (resigned on 8 August 2011)

Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani (appointed on 27 June 2011, resigned on 8 August 2011)
(ceased as alternate director to Datuk Amar Wilson Baya Dandot on 27 June 2011)

Datuk Sukarti bin Wakiman (appointed on 22 March 2011, resigned on 8 August 2011)

Datuk Seri Panglima Mohd. Annuar bin Zaini (resigned on 7 August 2011)

Dato' N. Sadasivan A/L N.N. Pillay (resigned on 7 August 2011)

Tan Sri Dr. Mohd Munir bin Abdul Majid (resigned on 31 July 2011)

Datuk Amar Wilson Baya Dandot (resigned on 27 June 2011)

Datuk Haji Yusoff @ Hunter bin Datuk Haji Mohamed Kasim (resigned on 22 March 2011)

Eshah binti Meor Suleiman *(alternate to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah)*
(appointed on 25 November 2011)

Datuk Dr. Rahamat Bivi binti Yusoff *(alternate to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah)*
(appointed on 1 June 2011, resigned on 18 October 2011)

Datu Haji Ismawi bin Haji Ismuni *(alternate to Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani)*
(appointed on 27 June 2011, ceased as alternate director on 8 August 2011)

Datuk Pengiran Hassanel bin Pg. Mohd Tahir *(alternate to Datuk Sukarti bin Wakiman)*
(appointed on 22 March 2011, ceased as alternate director on 8 August 2011)

Dato' Puteh Rukiah binti Abd Majid *(alternate to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah)*
(resigned on 1 June 2011)

Dato' Haji Abdul Rahman bin Haji Abdul Ghani *(alternate to Datuk Haji Yusoff @ Hunter bin Datuk Haji Mohamed Kasim)*
(ceased as alternate director on 22 March 2011)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than those arising from the share options granted under the Employee Share Option Scheme ("ESOS").

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Company as disclosed in Note 8 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, other than as disclosed in Note 34.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interest of directors in office at the end of the financial year in shares in the Company during the financial year was as follows:

	Number of ordinary shares of RM1.00 each			
	1.1.2011	**Acquired**	**Sold**	**31.12.2011**
The Company				
Direct interests				
Mohammed Rashdan bin Mohd Yusof	-	1,201,900	-	1,201,900
Indirect interests				
Tan Sri Dr. Anthony Francis Fernandes*	-	685,142,000	-	685,142,000
Dato' Kamarudin bin Meranun*	-	685,142,000	-	685,142,000

* By virtue of their interests in shares in Tune Air Sdn. Bhd. ("TASB"), Tan Sri Dr. Anthony Francis Fernandes and Dato' Kamarudin bin Meranun are deemed to have interests in the Company to the extent of TASB's interest therein, in accordance with Section 6A of the Companies Act, 1965.

None of the other directors in office at the end of the financial year had any interest in shares in the Company or its related corporation during the financial year.

EMPLOYEE SHARE OPTION SCHEME

The Malaysian Airline System Berhad ("MAS") ESOS is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 23 April 2007. The ESOS was launched on 21 May 2007 and is to be in force for a period of 5 years from the effective date. On 18 April 2012, the Board has decided that the ESOS will not be extended upon its expiry.

The salient features and other terms of the ESOS are disclosed in Note 23 to the financial statements.

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of the option holders, other than directors, who have been granted options to subscribe for less than 800,900 ordinary shares of RM1 each. The names of option holders granted options to subscribe for 800,900 or more ordinary shares of RM1 each during the financial year are as follows:

Name	**Grant Date**	**Expiry Date**	**Exercise Price RM**	← Number of share options → **1.1.2011**	**Granted**	**Cancelled**	**31.12.2011**
Tengku Dato' Sri Azmil Zahruddin bin Raja Abdul Aziz	25.08.2010	14.05.2012	2.44	2,893,000	-	-	2,893,000
Dr. Mohd Amin Khan	29.06.2007	14.05.2012	3.88	424,464	-	-	424,464
	20.06.2008	14.05.2012	2.83	451,268	-	-	451,268
Mohd Roslan bin Ismail	29.06.2007	14.05.2012	3.88	424,464	-	-	424,464
	20.06.2008	14.05.2012	2.83	451,268	-	-	451,268
Dato' Captain Mohd Nawawi bin Awang	29.06.2007	14.05.2012	3.88	424,464	-	-	424,464
	20.06.2008	14.05.2012	2.83	414,537	-	-	414,537
Dato' Bernard Francis A/L G Francis	29.06.2007	14.05.2012	3.88	424,464	-	-	424,464
	20.06.2008	14.05.2012	2.83	414,537	-	-	414,537

EMPLOYEE SHARE OPTION SCHEME (CONTINUED)

Name	Grant Date	Expiry Date	Exercise Price RM	Number of share options 1.1.2011	Granted	Cancelled	31.12.2011
Dato' Captain Ahmad	29.06.2007	14.05.2012	3.88	424,464	-	-	424,464
Zuraidi bin Dahalan	20.06.2008	14.05.2012	2.83	376,494	-	-	376,494
Angaepattae Indira	29.06.2007	31.08.2011	3.88	424,464	-	(424,464)	-
A/P R Ponnan Nair	20.06.2008	31.08.2011	2.83	451,268	-	(451,268)	-
Effendi bin Abdul	29.06.2007	30.06.2011	3.88	424,464	-	(424,464)	-
Rahman	20.06.2008	30.06.2011	2.83	414,537	-	(414,537)	-

OTHER STATUTORY INFORMATION

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

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

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

(i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and

(ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

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

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

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

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

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

(f) In the opinion of the directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and

OTHER STATUTORY INFORMATION (CONTINUED)

(f) In the opinion of the directors (continued):

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

SIGNIFICANT EVENTS

Details of the significant events are disclosed in Note 43 to the financial statements.

SUBSEQUENT EVENTS

Details of the subsequent events are disclosed in Note 44 to the financial statements.

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 18 April 2012.

Tan Sri Md Nor bin Md Yusof

Ahmad Jauhari bin Yahya

STATEMENT BY DIRECTORS

Pursuant to Section 169(15) of the Companies Act, 1965

We, Tan Sri Md Nor bin Md Yusof and Ahmad Jauhari bin Yahya, being two of the directors of Malaysian Airline System Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 64 to 164 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2011 and of the financial performance and the cash flows of the Group and of the Company for the financial year then ended.

The supplementary information set out in Note 48 on page 165, is prepared in all material respects, in accordance with Guidance on Special Matter No.1 Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad.

Signed on behalf of the Board in accordance with a resolution of the directors dated 18 April 2012.

Tan Sri Md Nor bin Md Yusof

Ahmad Jauhari bin Yahya

STATUTORY DECLARATION

Pursuant to Section 169(16) of the Companies Act, 1965

I, Mohammed Rashdan bin Mohd Yusof, being the Director primarily responsible for the financial management of Malaysian Airline System Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 64 to 165 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed Mohammed Rashdan bin Mohd Yusof
at Subang Jaya in Selangor on 18 April 2012.

Mohammed Rashdan bin Mohd Yusof

Before me,

PESURUHJAYA SUMPAH
No: B-174
Nama: PANJAWARANAM A/P
SHANMUGAM PILLAY
MALAYSIA

Alamat tempat perniagaan
No. 76, Jalan SS 15/4,
47500 Subang Jaya,
Selangor D. E.

Report on the financial statements

We have audited the financial statements of Malaysian Airline System Berhad, which comprise the statements of financial position as at 31 December 2011 of the Group and of the Company, the income statements and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 64 to 164.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Report on other legal and regulatory requirements

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

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

(b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

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

Other matters

The supplementary information set out in Note 48 on page 165 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

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

Ernst & Young
AF: 0039
Chartered Accountants

Ong Chee Wai
No. 2857/07/12(J)
Chartered Accountant

Kuala Lumpur, Malaysia
18 April 2012

	Note	Group 2011 RM'000	Group 2010 RM'000 Restated	Company 2011 RM'000	Company 2010 RM'000 Restated
Operating revenue	3	**13,653,894**	12,978,396	**11,984,708**	11,104,531
Operating expenditure		**(16,197,154)**	(13,409,127)	**(14,396,034)**	(11,608,405)
Other operating income		**247,527**	607,163	**261,726**	568,600
(Loss)/Profit from operations	4	**(2,295,733)**	176,432	**(2,149,600)**	64,726
Fair value change of derivatives	5	**60,660**	164,251	**60,660**	164,251
Unrealised foreign exchange (loss)/gain		**(129,115)**	62,174	**(96,631)**	22,079
Finance costs	6	**(159,424)**	(138,402)	**(154,533)**	(138,584)
Share of results of associated companies		**25,332**	27,728	**-**	-
Share of results of jointly controlled entity		**(14,604)**	(10,147)	**-**	-
(Loss)/Profit before taxation		**(2,512,884)**	282,036	**(2,340,104)**	112,472
Taxation	9	**(8,441)**	(44,690)	**(4,294)**	(5,231)
(Loss)/Profit for the year		**(2,521,325)**	237,346	**(2,344,398)**	107,241
(Loss)/Profit attributable to:					
Equity holders of the Company		**(2,523,988)**	234,469	**(2,344,398)**	107,241
Non-controlling interests		**2,663**	2,877	**-**	-
		(2,521,325)	237,346	**(2,344,398)**	107,241

	Note	Group 2011	Group 2010
(Loss)/Earnings per share attributable to equity holders of the Company (sen):			
Basic, for (loss)/profit for the year	10	**(75.5)**	7.2
Diluted, for (loss)/profit for the year	10	**(75.5)**	7.2

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

STATEMENTS OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2011

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
(Loss)/Profit for the year	**(2,521,325)**	237,346	**(2,344,398)**	107,241
Other comprehensive income:				
Gains/(Losses) on cash flow hedges	**41,780**	(70,002)	**41,780**	(70,002)
Total comprehensive (loss)/income for the year	**(2,479,545)**	167,344	**(2,302,618)**	37,239
Total comprehensive (loss)/income attributable to:				
Equity holders of the Company	**(2,482,208)**	164,467	**(2,302,618)**	37,239
Non-controlling interests	**2,663**	2,877	**-**	-
	(2,479,545)	167,344	**(2,302,618)**	37,239

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

	Note	Group		
		2011	**2010**	**2009**
		RM'000	**RM'000 Restated**	**RM'000 Restated**
Non-current assets				
Aircraft, property, plant and equipment	11	**9,073,907**	7,663,357	3,149,827
Investments in associates	13	**120,043**	101,804	78,976
Investments in a jointly controlled entity	14	**-**	2,360	1,798
Other investments	15	**54,599**	54,604	53,952
Intangible assets	16	**151,757**	137,732	110,041
Other receivables	18	**343,582**	442,575	386,537
Deferred tax assets	31	**765**	3,495	34,026
		9,744,653	8,405,927	3,815,157
Current assets				
Inventories	17	**362,267**	430,849	384,916
Trade and other receivables	18	**1,268,154**	1,372,186	1,383,831
Tax recoverable		**8,865**	19,436	15,645
Negotiable instruments of deposit	19	**101,073**	139,206	287,466
Cash and bank balances	20	**1,014,464**	2,085,451	2,664,859
		2,754,823	4,047,128	4,736,717
Current liabilities				
Sales in advance of carriage	21	**1,705,943**	1,677,346	1,451,401
Deferred revenue	22	**205,307**	232,823	225,135
Trade and other payables	24	**2,643,899**	2,240,044	2,081,639
Provisions	25	**1,188,165**	934,967	902,295
Borrowings	26	**1,379,411**	293,867	315,518
Derivative financial instruments	41	**9,820**	108,080	584,788
Taxation		**1,437**	3,614	3,696
		7,133,982	5,490,741	5,564,472
Net current liabilities		**(4,379,159)**	(1,443,613)	(827,755)
		5,365,494	6,962,314	2,987,402
Financed by:				
Equity attributable to equity holders of the Company:				
Share capital	29	**3,342,156**	3,342,156	1,671,078
Reserves	30	**(2,299,648)**	182,010	(971,385)
		1,042,508	3,524,166	699,693
Non-controlling interests		**13,639**	13,078	11,869
Total equity		**1,056,147**	3,537,244	711,562
Non-current liabilities				
Borrowings	26	**4,290,583**	3,414,913	2,004,062
Derivative financial instruments	41	**18,566**	10,155	271,778
Deferred tax liabilities	31	**198**	2	-
		4,309,347	3,425,070	2,275,840
		5,365,494	6,962,314	2,987,402

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

Statements of Financial Position

As at 31 December 2011

	Note	Company		
		2011 RM'000	**2010 RM'000 Restated**	**2009 RM'000 Restated**
Non-current assets				
Aircraft, property, plant and equipment	11	**7,884,568**	7,113,341	2,692,446
Investments in subsidiaries	12	**160,345**	160,194	39,637
Investments in associates	13	**88,274**	81,274	81,274
Other investments	15	**54,599**	54,604	53,952
Intangible assets	16	**139,451**	129,184	95,743
Other receivables	18	**898,444**	748,285	830,977
		9,225,681	8,286,882	3,794,029
Current assets				
Inventories	17	**354,186**	424,963	378,073
Trade and other receivables	18	**1,398,937**	1,433,197	1,345,264
Tax recoverable		**3,445**	4,726	14,550
Negotiable instruments of deposit	19	**101,073**	139,206	287,466
Cash and bank balances	20	**915,425**	2,012,667	2,612,204
		2,773,066	4,014,759	4,637,557
Current liabilities				
Sales in advance of carriage	21	**1,680,991**	1,677,346	1,451,401
Deferred revenue	22	**204,812**	232,823	225,135
Trade and other payables	24	**2,643,548**	2,227,900	1,984,606
Provisions	25	**1,151,007**	919,280	887,938
Borrowings	26	**1,328,503**	292,817	314,248
Derivative financial instruments	41	**9,820**	108,080	584,788
Taxation		**745**	2,555	2,683
		7,019,426	5,460,801	5,450,799
Net current liabilities		**(4,246,360)**	(1,446,042)	(813,242)
		4,979,321	6,840,840	2,980,787
Financed by:				
Share capital	29	**3,342,156**	3,342,156	1,671,078
Reserves	30	**(2,248,958)**	53,110	(973,057)
Total equity		**1,093,198**	3,395,266	698,021
Non-current liabilities				
Other payables	24	**30,466**	24,714	12,778
Borrowings	26	**3,837,091**	3,410,705	1,998,210
Derivative financial instruments	41	**18,566**	10,155	271,778
		3,886,123	3,445,574	2,282,766
		4,979,321	6,840,840	2,980,787

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

	Note	Share capital RM'000	← Non-Distributable Share premium RM'000	Equity component of RCPS RM'000
Group				
At 1 January 2011		3,342,156	4,995,970	58,076
Loss for the year		-	-	-
Other comprehensive income		-	-	-
Transactions with owners				
Dividends		-	-	-
ESOS vested	23	-	-	-
Total transactions with owners		-	-	-
At 31 December 2011		3,342,156	4,995,970	58,076
At 1 January 2010		1,671,078	4,007,678	58,076
Profit for the year		-	-	-
Other comprehensive income		-	-	-
Transactions with owners				
Dividends		-	-	-
Rights issue		1,671,078	1,002,647	-
Net expenses recognised directly in equity		-	(14,355)	-
ESOS vested	23	-	-	-
Total transactions with owners		1,671,078	988,292	-
At 31 December 2010		3,342,156	4,995,970	58,076

Attributable to equity holders of the Company							
		Distributable					
Employee share option reserve RM'000	Cash flow hedge reserves RM'000	General reserve RM'000	Accumulated losses RM'000	Total reserves RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
88,388	(70,002)	501,530	(5,391,952)	182,010	3,524,166	13,078	3,537,244
-	-	-	(2,523,988)	(2,523,988)	(2,523,988)	2,663	(2,521,325)
-	41,780	-	-	41,780	41,780	-	41,780
-	-	-	-	-	-	(2,102)	(2,102)
550	-	-	-	550	550	-	550
550	-	-	-	550	550	(2,102)	(1,552)
88,938	(28,222)	501,530	(7,915,940)	(2,299,648)	1,042,508	13,639	1,056,147
87,752	-	501,530	(5,626,421)	(971,385)	699,693	11,869	711,562
-	-	-	234,469	234,469	234,469	2,877	237,346
-	(70,002)	-	-	(70,002)	(70,002)	-	(70,002)
-	-	-	-	-	-	(1,668)	(1,668)
-	-	-	-	1,002,647	2,673,725	-	2,673,725
-	-	-	-	(14,355)	(14,355)	-	(14,355)
636	-	-	-	636	636	-	636
636	-	-	-	988,928	2,660,006	(1,668)	2,658,338
88,388	(70,002)	501,530	(5,391,952)	182,010	3,524,166	13,078	3,537,244

Statements of Changes in Equity

For the financial year ended 31 December 2011

	Note	Share capital RM'000	Share premium RM'000	Equity component of RCPS RM'000	Employee share option reserve RM'000	Cash flow hedge reserves RM'000	General reserve RM'000	Accu-mulated losses RM'000	Total reserves RM'000	Total RM'000
		← Non-Distributable				→	← Distri-butable →			
Company										
At 1 January 2011		3,342,156	4,995,970	58,076	88,388	(70,002)	500,000	(5,519,322)	53,110	3,395,266
Loss for the year		-	-	-	-	-	-	(2,344,398)	(2,344,398)	(2,344,398)
Other comprehensive income		-	-	-	-	41,780	-	-	41,780	41,780
Transactions with owners										
ESOS vested	23	-	-	-	550	-	-	-	550	550
At 31 December 2011		3,342,156	4,995,970	58,076	88,938	(28,222)	500,000	(7,863,720)	(2,248,958)	1,093,198
At 1 January 2010		1,671,078	4,007,678	58,076	87,752	-	500,000	(5,626,563)	(973,057)	698,021
Profit for the year		-	-	-	-	-	-	107,241	107,241	107,241
Other comprehensive income		-	-	-	-	(70,002)	-	-	(70,002)	(70,002)
Transactions with owners										
Rights Issue		1,671,078	1,002,647	-	-	-	-	-	1,002,647	2,673,725
Net expenses recognised directly in equity		-	(14,355)	-	-	-	-	-	(14,355)	(14,355)
ESOS vested	23	-	-	-	636	-	-	-	636	636
Total transactions with owners		1,671,078	988,292	-	636	-	-	-	988,928	2,660,006
At 31 December 2010		3,342,156	4,995,970	58,076	88,388	(70,002)	500,000	(5,519,322)	53,110	3,395,266

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

	Note	Group 2011 RM'000	Group 2010 RM'000 Restated	Company 2011 RM'000	Company 2010 RM'000 Restated
Cash flows from operating activities					
(Loss)/Profit before taxation		**(2,512,884)**	282,036	**(2,340,104)**	112,472
Adjustments for:					
Fair value change of derivatives	5	**(60,660)**	(164,251)	**(60,660)**	(164,251)
Aircraft, property, plant and equipment:					
- depreciation	4	**423,573**	366,602	**376,871**	333,116
- loss/(gain) on disposal, net	4	**56,429**	(510)	**56,513**	(470)
- provision for/(writeback of) impairment losses, net	4	**426,558**	(2,671)	**337,004**	(2,671)
- written off, net	4	**25,462**	9,402	**25,458**	9,402
Provision for/(Writeback of):					
- aircraft maintenance and overhaul costs	25	**928,469**	735,577	**905,111**	734,247
- short term accumulating compensated absences	7	**17,037**	15,399	**17,037**	15,399
- unavailed credit on sales in advance of carriage	3	**(186,337)**	(213,359)	**(175,734)**	(202,290)
- doubtful debts, net	4	**39,428**	4,826	**41,049**	8,444
- inventories obsolescence, net	4	**46,810**	11,250	**46,810**	11,250
- stock loss	4	**42,119**	(6,493)	**42,119**	(6,493)
- impairment losses for:					
- subsidiaries, net	4	**-**	-	-	(121,000)
- associates, net	4	**-**	-	**(7,000)**	-
Amortisation of intangible assets	4	**33,420**	33,316	**27,006**	27,287
Operating (loss)/profit before working capital changes carried forward		**(720,576)**	1,071,124	**(708,520)**	754,442
ESOS expense	7	**550**	636	**550**	636
Share of results of:					
- associated companies		**(25,332)**	(27,728)	-	-
- jointly controlled entity		**14,604**	10,147	-	-
Unrealised foreign exchange loss/(gain)		**129,115**	(62,174)	**96,631**	(22,079)
Interest income	4	**(28,830)**	(51,993)	**(49,632)**	(60,361)
Dividend income	4	**(18,292)**	(18,694)	**(29,664)**	(27,884)
Interest expense	6	**153,486**	137,244	**154,533**	138,584
Operating (loss)/profit before working capital changes		**(495,275)**	1,058,562	**(536,102)**	783,338
Increase in inventories		**(20,347)**	(50,690)	**(18,152)**	(51,647)
Decrease/(increase) in trade and other receivables		**164,080**	41,023	**(270,586)**	49,094
Decrease in amount owing to immediate holding company		**-**	(115,974)	**-**	(115,974)
Increase in sales in advance of carriage		**214,934**	439,304	**179,379**	428,235
(Decrease)/Increase in deferred revenue		**(27,516)**	7,688	**(28,011)**	7,688
Increase in trade and other payables		**564,636**	235,021	**683,411**	338,336
Decrease in provisions	25	**(675,271)**	(702,905)	**(673,384)**	(702,905)
Cash (used in)/generated from operating activities		**(274,759)**	912,029	**(663,445)**	736,165
Net cash settlement on derivatives		**(102,080)**	(623,121)	**(102,080)**	(623,121)
Premium paid on derivatives		**(24,886)**	(37,873)	**(24,886)**	(37,873)
Interest paid		**(197,773)**	(176,435)	**(164,777)**	(176,617)
Taxes refunded/(paid)		**2,879**	(8,606)	**(4,823)**	(4,086)
Net cash (used in)/generated from operating activities		**(596,619)**	65,994	**(960,011)**	(105,532)

	Note	Group 2011 RM'000	Group 2010 RM'000 Restated	Company 2011 RM'000	Company 2010 RM'000 Restated
Cash flows from investing activities					
Purchase of:					
- aircraft, property, plant and equipment		**(3,516,585)**	(3,706,348)	**(3,386,370)**	(3,580,221)
- intangible assets	16	**(47,445)**	(61,007)	**(37,273)**	(60,728)
- investments in jointly controlled entity		**(12,244)**	(10,709)	**-**	-
- other investments		**-**	(652)	**-**	(652)
- investment in subsidiary		**-**	-	**(293)**	-
Withdrawal of:					
- negotiable instruments of deposits		**35,000**	150,000	**35,000**	150,000
- deposits pledged with banks		**106,024**	53,823	**106,024**	53,823
Proceeds from disposal of:					
- aircraft, property, plant and equipment		**1,216,076**	1,076	**1,861,360**	1,030
- other investments		**5**	-	**5**	-
Interest received		**29,429**	37,834	**50,231**	46,203
Dividend received		**25,385**	23,593	**29,664**	27,884
Net cash used in investing activities		**(2,164,355)**	(3,512,390)	**(1,341,652)**	(3,362,661)
Cash flows from financing activities					
Proceeds from:					
- borrowings		**1,160,418**	50,000	**673,892**	50,000
- aircraft refinancing		**1,033,879**	694,530	**1,033,879**	694,530
- issuance of shares		**-**	2,673,725	**-**	2,673,725
Repayment of:					
- borrowings		**(277,390)**	(260,000)	**(250,000)**	(260,000)
- finance lease		**(106,340)**	(208,271)	**(134,872)**	(208,271)
Settlement of RCPS	27	**-**	(696)	**-**	(696)
Expenses incurred on issuance of Rights share exercise		**-**	(14,355)	**-**	(14,355)
Dividends paid to:					
- RCPS holders	27	**(12,454)**	(12,454)	**(12,454)**	(12,454)
- minority shareholders in subsidiaries		**(2,102)**	(1,668)	**-**	-
Net cash generated from financing activities		**1,796,011**	2,920,811	**1,310,445**	2,922,479
Net decrease in cash and cash equivalents		**(964,963)**	(525,585)	**(991,218)**	(545,714)
Cash and cash equivalents at beginning of year		**1,923,777**	2,449,362	**1,850,993**	2,396,707
Cash and cash equivalents at end of year	20	**958,814**	1,923,777	**859,775**	1,850,993

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

1. CORPORATE INFORMATION

Malaysian Airline System Berhad ("the Company") is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Board of Bursa Malaysia Securities Berhad. The registered office of the Company is located at 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan.

Khazanah Nasional Berhad ("KNB") is the major and single largest shareholder of the Company by virtue of its 48.9% shareholding as at 31 December 2011.

The Company is principally engaged in the business of air transportation and the provision of related services. The principal activities of the subsidiaries are described in Note 12. There were no significant changes in the nature of these activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 18 April 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below and comply with Financial Reporting Standards ("FRSs") and the Companies Act, 1965 in Malaysia.

At the beginning of the current financial year, the Group and the Company adopted new and revised FRS which are mandatory for financial periods beginning on or after 1 January 2011 as described fully in Note 2.2.

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs

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

FRS 1 (Revised):	First-time Adoption of Financial Reporting Standards
FRS 3 (Revised):	Business Combinations
FRS 127 (Revised):	Consolidated and Separate Financial Statements
IC Interpretation 4:	Determining Whether An Arrangement Contains a Lease
IC Interpretation 12:	Service Concession Arrangements
IC Interpretation 16:	Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17:	Distributions of Non-cash Assets to Owners
IC Interpretation 18:	Transfer of Assets from Customers

The amendments to the FRS:

FRS 1:	Limited Exemption from Comparative FRS 7 Disclosures and Additional Exemptions for First-time Adopters
FRS 2:	Share-based Payment
FRS 5:	Non-current Assets Held for Sale and Discontinued Operations
FRS 7:	Improving Disclosures about Financial Instruments
FRS 132:	Classification of Rights Issues
FRS 138:	Intangible Assets
IC Interpretation 9:	Reassessment of Embedded Derivatives

Improvements to FRS issued in 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (continued)

The adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group and the Company except for those discussed below:

(a) FRS 3 (Revised): Business Combination and FRS 127 (Revised): Consolidated and Separate Financial Statements

FRS 3 (Revised) introduces a number of changes to the accounting for business combinations occurring on or after 1 July 2010. These include changes that affect the valuation of non-controlling interest, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

FRS 127 (Revised) requires that a change in ownership interest of a subsidiary (without loss of control) is accounted for as transaction with owners in their capacity as owners to be recognised in equity. Therefore, such transaction will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the revised Standard changes the accounting for losses incurred by the subsidiary as well as loss of control of subsidiary.

The changes by FRS 3 (Revised) and FRS 127 (Revised) will be applied prospectively and only affect future acquisition or loss of control of subsidiaries and transactions with non-controlling interests.

(b) FRS 7 (Amended): Financial Instruments: Disclosures

FRS 7 (Amended) requires enhanced disclosure about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy (Level 1, Level 2 and Level 3), by class, for all financial instruments recognised at fair value. A reconciliation between the beginning and ending balance for Level 3 fair value measurements is required. Any significant transfers between levels of the fair value hierarchy and the reasons for those transfers need to be disclosed. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 40. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 38(d).

(c) IC Interpretation 4: Determining Whether An Arrangement Contains a Lease

IC Interpretation 4 clarifies that an arrangement should be accounted for as a lease under FRS 117: Leases when the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, even if the arrangement does not take the legal form of a lease.

2.3 Malaysian Financial Reporting Standards

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Malaysian Financial Reporting Standards (continued)

The Group will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2012. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition, if any, will be made, retrospectively, against opening retained profits.

The Group has completed its assessment on MFRS adoption. The MFRS adoption is expected not to have significant impact on the financial statements of the Group upon its initial application.

2.4 Significant Accounting Estimates and Judgements

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

(a) Critical judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(i) Contingent liabilities - litigations

As disclosed in Note 36, the Group has several pending litigations with various parties as at the current financial year end. The Board of Directors, after due consultation with the Group's solicitors, assess the merits of each case, and make the necessary provision for liabilities in the financial statements if their crystallisation are deemed as probable.

(ii) Operating lease commitments

The Group entered into commercial lease arrangements with its related party and other third parties with regards to passenger aircraft and freighters. Based on the terms of these lease arrangements, those aircraft and freighters that the Group does not retain all the significant risks and rewards of ownership are treated as operating lease and do not form part of the aircraft, property, plant and equipment of the Group.

(b) Key sources of estimation uncertainty

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

(i) Impairment of aircraft, property, plant and equipment

The Group assesses whether there are any indicators of impairment for aircraft, property, plant and equipment at each reporting date. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Significant Accounting Estimates and Judgements (continued)

(b) Key sources of estimation uncertainty (continued)

(i) Impairment of aircraft, property, plant and equipment (continued)

During the current financial year, management performed a review of the recoverable amounts based on a variety of estimations including the value in use of the cash generating unit ("CGU") to which the aircraft, property, plant and equipment are allocated. Value in use was determined by an estimate of the expected future cash flows from the CGU using a suitable discount rate in order to calculate the present value of those cash flows. The fair value less costs to sell of the aircraft were determined with reference to market values in the industry and benchmarked against several quotations from industry players. Further details of the impairment losses recognised are disclosed in Note 11(d).

(ii) Provision for aircraft maintenance and overhaul costs

The Group is obligated to carry out heavy duty maintenance check on the airframe, engines, landing gears and auxiliary power units, being part of the return conditions of its leased aircraft under contract. Provision for heavy maintenance cost is made progressively in the financial statements based on the number of flight hours or cycles. In arriving at the provision, assumptions are made on the estimated condition of the asset at the time of check, the material and overhead costs to be incurred, and the timing of when the check is to be carried out. These assumptions are formed based on past experience, and are regularly reviewed to ensure they approximate to the actual. Any revision in assumptions and estimations that causes a material effect to the provision would be adjusted prospectively in the financial statements.

During the current financial year, an additional RM602 million provision for aircraft maintenance and overhaul costs has been provided based on the anticipated early redelivery of several aircraft in 2012.

(iii) Impairment of intangible assets - landing slots

The Group determines whether the landing slots which have indefinite useful lives, are tested for impairment either annually or on a more frequent interval, depending on events or changes in circumstances that indicate the carrying value may be impaired. This requires an estimation of the "value in use" of the CGU to which the landing slots belong.

In assessing value in use, the management is required to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The details are as disclosed in Note 16.

(iv) Provisions for aircraft related direct operating expenses

The operation of air transportation services inevitably involves the making of various provisions on direct expenses, such as fuel, ground handling charges, landing and parking charges, inflight meals, computer reservation systems booking fees and information technology related expenses. The estimates and associated assumptions used are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making provisions for carrying values of liabilities as at the financial year end.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Significant Accounting Estimates and Judgements (continued)

(b) Key sources of estimation uncertainty (continued)

(v) Depreciation of aircraft, property, plant and equipment

The cost of aircraft, aircraft modifications/retrofits, spare engines, property and equipment are depreciated on a straight line basis over the assets' useful lives up to its residual value. Management reviews the residual values, useful lives and depreciation method at the end of each financial year and ensures consistency with previous estimates and patterns of consumptions of the economic benefits that embodies the items in these assets. Changes in useful lives and residual values of these assets may result in revision of future depreciation charges.

(vi) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The details are as disclosed in Note 31.

(vii) Unutilised tickets

Unutilised tickets are subsequently recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the tickets and historical trends. Changes in travel patterns, economic environment, variables and estimations used have an impact on the financial statements of the Group and the Company.

(viii) Frequent flyer programme

The consideration allocated to the mileage awards issued is measured at their fair value. Fair value is determined by considering the fair value of tickets for which they could be redeemed.

(ix) Fair value of financial instruments

Where the fair value of the financial assets and financial liabilities recorded in the statements of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing the fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

2.5 Summary of Significant Accounting Policies

(a) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(a) Revenue recognition (continued)

(i) Revenue from services

Passenger ticket and cargo airway bill sales including the related administration fees and various surcharges are recognised as revenue, net of discount, in the profit or loss when the transportation services are rendered. The value of unutilised tickets is included in current liabilities as sales in advance of carriage.

Tickets, other service fees and surcharges that remain unutilised after 12 months subsequent to their respective date of issue are recognised in the profit or loss as unavailed credits on sales in advance of carriage.

Revenue from other services such as airport handling and engineering services, are recognised in the profit or loss when services are rendered.

(ii) Catering, charter and other revenue

Catering, charter and other revenue are recognised, net of discount, upon completion of services rendered.

(iii) Dividend income

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

(iv) Rental income and lease of aircraft

Rental income and lease of aircraft are recognised on an accrual basis over the term of lease.

(v) Interest income

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

(b) Subsidiaries and basis of consolidation

(i) Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

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

(ii) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(b) Subsidiaries and basis of consolidation (continued)

(ii) Basis of consolidation (continued)

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the financial statements for like transactions and events in similar circumstances.

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, commonly known as negative goodwill, is recognised immediately in the profit or loss.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

(c) Associates

Associates are entities in which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

Investments in associates are accounted for in the financial statements using the equity method of accounting. Under the equity method, the investment in associate is carried in the statements of financial position at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in the profit or loss. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes. In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(c) Associates (continued)

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available management financial statements of the associates are used by the Group in applying the equity method. Where the dates of the financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting period. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

In the Company's separate financial statements, investments in associates are stated at cost less impairment losses.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in the profit or loss.

(d) Jointly controlled entity

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual agreement that establishes joint control over the economic activities of the entity.

Investments in jointly controlled entity is accounted for in the consolidated financial statements using the equity method of accounting as described in Note 2.5(c).

In the Company's separate financial statements, investment in jointly controlled entity is stated at cost less impairment losses. On disposal of such investment, the difference between net disposal proceeds and its carrying amounts is included in the profit or loss.

(e) Aircraft, property, plant and equipment and depreciation

All aircraft, property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The cost of property, plant and equipment comprises its purchase price and any incidental costs directly attributable to bringing the asset to working condition for its intended use. The cost of aircraft owned is stated after taking into account the manufacturers' credit. The cost of spare engines acquired on an exchange basis are stated at amount paid and the fair value of the item traded-in. Heavy maintenance expenditure for aircraft and engine overhauls are capitalised at cost. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Subsequent to recognition, aircraft, property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(e) Aircraft, property, plant and equipment and depreciation (continued)

Depreciation of aircraft, aircraft modifications/retrofits, spare engines, property and equipment is provided for on a straight line basis to write off the cost of each asset up to its residual value over the estimated useful life at the following annual rates:

(i) Narrow-body aircraft are depreciated over a period of 10 to 18 years.

(ii) Wide-body aircraft are depreciated over a period of 20 years.

(iii) Aircraft modifications/retrofits are depreciated over 7 years or the remaining lease period of the aircraft to which they relate, whichever is the shorter.

(iv) Spare engines are depreciated over their estimated useful commercial lives, which range from 7 to 20 years, having regard to their planned withdrawal from services.

(v) Maintenance and overhaul costs incurred on aircraft and spare engines owned by the Group are depreciated over the average expected life between major overhauls.

(vi) Repairable and rotable aircraft spares are depreciated over 7 to 20 years or the remaining lease period of the aircraft to which they relate, whichever is the shorter.

(vii) Freehold land is not depreciated. Buildings are depreciated over periods ranging from 5 to 40 years.

Certain buildings of the Company were revalued by the directors in 1985 based on a valuation report dated 15 November 1984 prepared by the Government Valuers using the “Open Market Value” basis. The directors have not adopted a policy of regular revaluations of these assets and no later valuation has been recorded. As permitted under the transitional provisions of International Accounting Standard 16 (Revised): Property, Plant and Equipment adopted by the Malaysian Accounting Standards Board then, these assets continue to be stated at their 1985 valuation less accumulated depreciation and accumulated impairment losses.

(viii) Operating equipment, office equipment and motor vehicles are depreciated over periods ranging from 2 to 10 years.

(ix) Progress payments represent aircraft, property, plant and equipment under construction. They are stated at cost and are not depreciated until the respective assets are ready for their intended use.

The residual values, useful lives and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of aircraft, property, plant and equipment.

An asset is derecognised upon disposal, replacement or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(f) Intangible assets

Intangible assets comprise software costs and aircraft landing slots at airports.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives such as software costs, are amortised on a straight-line basis over the estimated economic useful lives of not more than 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date.

Intangible assets with indefinite useful lives such as aircraft landing slots, are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the CGU level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable. The useful life of aircraft landing slots is estimated to be indefinite because based on the current landing slots arrangements, management believes there is no foreseeable limit to the period over which the aircraft landing slots are expected to generate net cash flows to the Group. Aircraft landing slots are stated at cost less any impairment loss.

(g) Impairment of Non-Financial Assets

The carrying amounts of non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date or more frequently when indicators of impairment are identified.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An impairment loss is recognised in the profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(g) Impairment of Non-Financial Assets (continued)

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for asset in prior years. A reversal of impairment loss for an asset is recognised in the profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

(h) Foreign currencies

(i) Functional and presentation currency

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

(ii) Foreign currency transactions

Transactions in foreign currencies are initially recorded in RM at exchange rates ruling at the transaction dates. At each reporting date, monetary items denominated in foreign currencies are translated into RM at exchange rates ruling at that date unless hedged by forward foreign exchange derivatives, in which case the rates specified in such derivatives are used. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the fair value was determined. All exchange differences are taken to the profit or loss.

Exchange differences arising on the settlement of monetary items are recognised in profit or loss.

(iii) Foreign operations

The assets and liabilities of foreign operations are translated into RM at the rate of exchange ruling at the reporting date and income and expenses are translated at exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income and accumulated in equity under foreign currency translation reserve relating to that particular foreign operation is recognised in the profit or loss.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the reporting date.

(i) Inventories

Inventories comprising consumable aircraft spares, catering and general stores are stated at the lower of cost and net realisable value.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(i) Inventories (continued)

Cost is determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases.

(ii) Finance leases - As lessee

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the statement of financial position as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the company's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with depreciable aircraft, property, plant and equipment as described in Note 2.5(e).

(iii) Finance leases - As lessor

When assets are leased out under finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method so as to reflect a constant periodic rate of interest on the balance outstanding.

(iv) Operating Leases - As lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(j) Leases (continued)

(iv) Operating Leases - As lessee (continued)

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

(v) Operating Leases - As lessor

Assets leased out under operating leases are presented on the statement of financial position according to the nature of the assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(k) Income tax

Income tax for the year comprises current and deferred tax.

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

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

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which these can be utilised.

Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

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

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

Deferred tax is recognised as income or expenses and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is adjusted against goodwill on acquisition.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(k) Income tax (continued)

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

(l) Employee benefits

(i) Short term benefits

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

(ii) Defined contribution plans

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

(iii) Share-based compensation

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

At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable on the vesting date. It recognises the impact of the revision of original estimates, if any, in the profit or loss, and a corresponding adjustment to equity over the remaining vesting period.

The equity amount is recognised in the share option reserve until the option is exercised, upon which it will be transferred to share capital and share premium, or until the option expires, upon which it will be transferred directly to retained earnings. The proceeds received net of any directly attributable transaction costs are credited to equity when the options are exercised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(m) Provisions for liabilities

Provisions for liabilities are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to passage of time is recognised as finance cost.

(n) Aircraft maintenance and overhaul costs

Where the Group is required to return the aircraft held under operating lease with adherence to certain maintenance conditions contained in the lease agreements, provision is made during the lease term. This provision is based on the present value of the expected future costs of maintenance of airframes, engines, landing gears, auxiliary power units and life-limiting parts, calculated by reference to the number of hours flown or cycles in accordance with the contractual terms.

Other maintenance costs are recognised on an incurred basis, except for engine maintenance costs covered by "power-by-the-hour" third party maintenance agreements, whereby expenses are accrued on the basis of hours flown in accordance with the contractual terms as there is a transfer of risk and legal obligation to the third party maintenance provider.

(o) Frequent flyer programme

The Company operates a frequent flyer programme named "Enrich", which awards members points based on accumulated mileage travelled. A portion of passenger revenue attributable to the award of frequent flyer benefits is deferred until they are utilised.

The consideration allocated to the mileage awards issued is measured at the fair value of the mileage awards. It is recognised as deferred revenue in the statement of financial position and recognised as revenue when the mileage awards are redeemed, have expired or are no longer expected to be redeemed.

(p) Borrowing costs

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(q) Cash and cash equivalents

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

(r) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(s) Redeemable convertible preference shares ("RCPS")

The RCPS are regarded as compound instruments, consisting of a liability component and an equity component. The component of RCPS that exhibits characteristics of a liability is recognised as a financial liability in the statements of financial position, net of transaction costs. The dividends on those shares are recognised as interest expense in profit or loss using the effective interest rate method. On issuance of the RCPS, the fair value of the liability component is determined using a market rate for an equivalent non-convertible debt and this amount is carried as a financial liability in accordance with the accounting policy for other financial liabilities set out in Note 2.5(u)(ii).

The residual amount, after deducting the fair value of the liability component, is recognised and included in shareholder's equity, net of transaction costs.

Transaction costs are apportioned between the liability and equity components of the RCPS based on the allocation of proceeds to the liability and equity components when the instruments were first recognised.

(t) Financial Assets

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

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

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

(i) Financial Assets at Fair Value Through Profit or Loss

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(t) Financial Assets (continued)

(i) Financial Assets at Fair Value Through Profit or Loss (continued)

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

Financial assets at fair value through profit or loss could be presented as current or non-current.

The Group and the Company have designated derivatives that do not qualify for hedge accounting as at fair value through profit or loss.

(ii) Loans and Receivables

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

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

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

(iii) Held-to-Maturity Financial Assets

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

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

(iv) Available-for-Sale Financial Assets

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(t) Financial Assets (continued)

(iv) Available-for-Sale Financial Assets (continued)

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

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

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

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

(u) Financial Liabilities

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

Financial liabilities are recognised in the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition.

(i) Financial Liabilities at Fair Value Through Profit or Loss

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

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

The Group and the Company have designated derivatives that do not qualify for hedge accounting as at fair value through profit or loss.

(ii) Other financial liabilities

The Group's and the Company's other financial liabilities include trade payables, other payables and loans and borrowings.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(u) Financial Liabilities (continued)

(ii) Other financial liabilities (continued)

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

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

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

(v) Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

(i) Financial assets carried at amortised cost

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(v) Impairment of Financial Assets (continued)

(ii) Financial assets carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(iii) Available-for-Sale Financial Assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on available-for-sale equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income.

(w) Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(x) Fair Value of Financial Instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

(y) Amortised Cost of Financial Instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(z) Derivative of Financial Instruments and Hedge Accounting

The Group uses derivative financial instrument such as fuel hedging contracts, foreign currency hedging contracts and interest rate hedging contracts to hedge its fuel price risks, foreign exchange risks and interest rate risks respectively. The Group applies hedge accounting for certain hedging relationships which qualify for hedge accounting.

The fair value of fuel hedging contracts is the difference between the fuel forward curve price and the contract price. The fuel forward curve price is referenced to fuel price at reporting date for contracts with similar maturity profiles. The fair value of foreign currency hedging contracts is the difference between the forward exchange rate curve and the contract rate. The forward exchange rate is referenced to forward exchange rates at reporting date for contracts with similar maturity profiles. The fair value of interest rate hedging contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as cash flow hedges i.e when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

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

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

(i) Cash flow hedges

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

Amounts recognised in other comprehensive income previously are reclassified from equity to profit or loss when the hedged transaction affects profit or loss, such as when the hedged income or expense is recognised or when a forecast sale occurs.

The Group has elected to apply basis adjustments to hedges of forecast transactions that result in the recognition of a non-financial asset or a non-financial liability, where the amounts recognised previously in other comprehensive income are removed and included in the initial carrying amount of the non-financial asset or liability.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of Significant Accounting Policies (continued)

(z) Derivative of Financial Instruments and Hedge Accounting (continued)

(i) Cash flow hedges (continued)

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

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

Any gains or losses arising from changes in fair value on derivatives during the financial year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the profit or loss.

The Group did not enter into any fair value hedge or net investment hedge as at the financial year end.

(aa) Segment reporting

For management purposes, the Group is organised into operating segments based on their nature of the services provided which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 33, including the factors used to identify the reportable segments and the measurement basis of segment information.

3. OPERATING REVENUE

	Group		Company	
	2011 RM'000	**2010 RM'000 Restated**	**2011 RM'000**	**2010 RM'000 Restated**
Traffic revenue:				
Scheduled services				
- passenger and baggage	**8,397,702**	7,956,245	**7,914,874**	7,636,033
- cargo and mail	**1,234,634**	1,526,522	**821,397**	816,287
	9,632,336	9,482,767	**8,736,271**	8,452,320
Non-scheduled services	**14,634**	12,779	**14,634**	12,779
	9,646,970	9,495,546	**8,750,905**	8,465,099
Fuel surcharge	**2,284,588**	1,749,368	**1,710,560**	1,217,979
Insurance surcharge	**223,732**	213,248	**213,862**	195,929
Security surcharge	**90,226**	111,981	**-**	-
Administration fees	**255,677**	212,275	**170,736**	159,324
Unavailed credits	**186,337**	213,359	**175,734**	202,290
	12,687,530	11,995,777	**11,021,797**	10,240,621
Other revenue:				
Lease of aircraft and engines	**62,607**	74,126	**183,177**	158,370
Airport handling and engineering services	**256,989**	273,680	**232,744**	263,974
Catering and cleaning services	**6,024**	6,291	**6,106**	6,291
Intercompany engineering services	**-**	-	**244,645**	160,656
Charter services	**208,498**	191,142	**169,403**	141,053
Others*	**432,246**	437,380	**126,836**	133,566
	13,653,894	12,978,396	**11,984,708**	11,104,531

* Included herein are revenues from the provision of computerised reservation services, trucking and warehousing services, retailing of goods, terminal charges, tour and travel related activities.

4. (LOSS)/PROFIT FROM OPERATIONS

The following amounts have been (credited)/debited in arriving at (loss)/profit from operations:

	Group		Company	
	2011 RM'000	**2010 RM'000 Restated**	**2011 RM'000**	**2010 RM'000 Restated**
Fuel and oil	**5,845,586**	4,383,906	**5,108,558**	3,663,320
Employee benefits expenses (Note 7)	**2,325,086**	2,163,731	**2,030,667**	1,918,802
Handling, enroute charges, catering and other related costs	**1,416,926**	1,389,279	**1,297,848**	1,261,939
Hire of aircraft, operating plant and equipment	**1,704,899**	1,607,243	**1,557,869**	1,363,477
Aircraft maintenance and overhaul:				
- maintenance costs	**1,100,653**	1,466,611	**1,086,681**	1,466,611
- provision for early aircraft redelivery cost	**602,000**	-	**602,000**	-
Landing, parking and other related costs	**274,700**	246,267	**237,651**	207,977
Aircraft, property, plant and equipment:				
- depreciation (Note 11)	**423,573**	366,602	**376,871**	333,116
- loss/(gain) on disposal, net	**56,429**	(510)	**56,513**	(470)
- provision for/(writeback of) impairment losses, net	**426,558**	(2,671)	**337,004**	(2,671)
- written off	**25,462**	9,402	**25,458**	9,402
Sales commission and incentives	**492,076**	487,471	**468,678**	462,890
Realised foreign exchange losses	**85,242**	18,347	**82,718**	18,522
Advertising and promotions	**134,088**	92,786	**114,575**	80,883
Computerised reservation system booking fees	**201,587**	183,577	**187,167**	177,514
Rental of land and buildings	**167,351**	180,619	**160,083**	174,783
Provision for/(Writeback of):				
- doubtful debts, net	**39,428**	4,826	**41,049**	8,444
- inventories obsolescence, net	**46,810**	11,250	**46,810**	11,250
- stock loss	**42,119**	(6,493)	**42,119**	(6,493)
- impairment losses for:				
- subsidiaries, net	**-**	-	**-**	(121,000)
- associates, net	**-**	-	**(7,000)**	-
Amortisation of intangible assets	**33,420**	33,316	**27,006**	27,287
Other engineering expenses	**72,078**	71,369	**53,619**	62,659
Hull and legal liability insurance	**48,305**	59,593	**38,681**	53,171
Directors' remuneration (Note 8)	**4,434**	3,371	**4,434**	3,371
Auditors' remuneration:				
- audit fees	**997**	915	**551**	551
- other professional fees	**158**	123	**158**	95
Interest income:				
- third parties	**(28,830)**	(51,993)	**(28,098)**	(51,720)
- subsidiary	**-**	-	**(21,534)**	(8,641)
Rental income	**(74,212)**	(81,802)	**(44,673)**	(41,648)
Dividend income:				
- subsidiaries	**-**	-	**(4,279)**	(3,477)
- associated companies	**-**	-	**(7,093)**	(5,713)
- unquoted shares	**(18,292)**	(18,694)	**(18,292)**	(18,694)

Included in (loss)/profit from operations of the Group and of the Company are the operating inventories used of RM319,437,000 and RM301,172,000 (2010: RM276,717,000 and RM258,019,000) respectively.

5. FAIR VALUE CHANGE OF DERIVATIVES

	Group and Company	
	2011 RM'000	**2010 RM'000**
Gain from fuel hedging contracts	**72,550**	194,603
Loss from foreign currency hedging contracts	**(1,626)**	(339)
Loss from interest rate hedging contracts	**(10,264)**	(30,013)
	60,660	164,251

Fair value change of derivatives consists of fair value changes due to movement in mark-to-market ("MTM") position on outstanding non-designated hedging contracts and ineffective portion of cash flow hedges.

6. FINANCE COSTS

	Group		Company	
	2011 RM'000	**2010 RM'000 Restated**	**2011 RM'000**	**2010 RM'000 Restated**
Interest expense on:				
- Revolving credit	**7,468**	1,975	**7,468**	1,975
- Term loans	**45,398**	39,190	**39,201**	32,062
- RCPS (Note 27)	**24,966**	24,226	**24,966**	24,226
- Finance leases				
- third party	**66,602**	33,294	**8,952**	4,555
- subsidiaries	**-**	-	**64,894**	37,207
- a related party	**51,115**	-	**51,115**	-
- immediate holding company	**-**	74,846	**-**	74,846
	195,549	173,531	**196,596**	174,871
Interest expense capitalised	**(42,063)**	(36,287)	**(42,063)**	(36,287)
	153,486	137,244	**154,533**	138,584
Other finance costs	**5,938**	1,158	**-**	-
	159,424	138,402	**154,533**	138,584

7. EMPLOYEE BENEFITS EXPENSES

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Salaries and wages	**1,420,644**	1,390,201	**1,248,641**	1,225,276
Contribution to defined contribution plan	**185,497**	172,721	**167,425**	153,669
Social security contributions	**9,995**	9,845	**8,151**	8,244
Share options granted under ESOS (Note 23)	**550**	636	**550**	636
Provision for short term accumulating compensated absences	**17,037**	15,399	**17,037**	15,399
Subsistence allowance	**335,518**	283,859	**283,900**	259,533
Other staff related expenses	**355,845**	291,070	**304,963**	256,045
Total (Note 4)	**2,325,086**	2,163,731	**2,030,667**	1,918,802

Included in employee benefits expense of the Group and of the Company are executive directors' remuneration of RM3,713,000 (2010: RM2,613,000) as further disclosed in Note 8.

8. DIRECTORS' REMUNERATION

	Group and Company	
	2011 RM'000	**2010 RM'000**
Executive directors' remuneration:		
Salaries and other emoluments	**2,726**	1,690
Bonus	**50**	-
Defined contribution plan	**387**	287
Share options vested	**550**	636
	3,713	2,613
Non-executive directors' remuneration:		
Fees	**467**	497
Other allowances	**254**	261
	721	758
Total directors' remuneration (Note 4)	**4,434**	3,371
Estimated money value of benefits-in-kind	**42**	30
Total directors' remuneration including benefits-in-kind	**4,476**	3,401

8. DIRECTORS' REMUNERATION (CONTINUED)

The number of directors of the Company whose total remuneration during the financial year fell within the following bands is as follows:

	Number of directors	
	2011	**2010**
Executive directors:		
Below RM500,000	**1**	-
RM500,001 to RM1,000,000	**1**	-
RM2,500,001 to RM3,000,000	**1**	1
Non-executive directors:		
Below RM50,000	**19**	6
RM50,001 to RM100,000	**3**	5
RM100,001 to RM150,000	**2**	-
RM150,001 to RM200,000	**-**	2

9. TAXATION

The following amounts have been debited/(credited) in arriving at total tax expense:

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Current income tax:				
Malaysian income tax	**2,173**	8,945	**-**	-
Foreign tax	**4,512**	5,610	**4,512**	5,610
	6,685	14,555	**4,512**	5,610
Over provision in prior years:				
Malaysian income tax	**(952)**	(19)	**-**	-
Foreign tax	**(218)**	(379)	**(218)**	(379)
	5,515	14,157	**4,294**	5,231
Deferred taxation (Note 31):				
Relating to origination and reversal of temporary differences	**(1,951)**	32,627	**-**	-
Under/(Over) provision in prior years	**4,877**	(2,094)	**-**	-
	2,926	30,533	**-**	-
Total income tax expense	**8,441**	44,690	**4,294**	5,231

There is no provision for Malaysian taxation for the Company in the current financial year as the Company has been granted an extension of the tax exemption status by the Ministry of Finance on its chargeable income in respect of all sources of income. The extension is valid for a period of ten years from year of assessment 2006 up to year of assessment 2015.

As at 31 December 2011, the Company has tax exempt income account of approximately RM12,276,584,000 (2010: RM12,253,237,000) available for payments of tax exempt dividends subject to agreement with the Inland Revenue Board.

9. TAXATION (CONTINUED)

Domestic current income tax is calculated at the Malaysian statutory tax rate of 25% (2010: 25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rate prevailing in the respective jurisdictions.

A reconciliation of income tax expense applicable to (loss)/profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	2011 RM'000	2010 RM'000
Group		
(Loss)/profit before taxation	**(2,512,884)**	282,036
Taxation at Malaysian statutory tax rate of 25% (2010: 25%)	**(628,221)**	70,509
Effects of share of profits of associates	**(6,333)**	(6,932)
Effects of share of loss of jointly controlled entity	**3,651**	2,537
Foreign income tax	**4,512**	5,610
Effect of tax exemption status	**(5,837)**	(106,872)
Income not subject to tax	**(36,556)**	(44,115)
Expenses not deductible for tax purposes	**223,665**	108,728
Deferred tax assets not recognised on:		
- current year's tax losses not recognised	**320,849**	-
- current year's tax capital allowance not recognised	**10,251**	-
- current year's investment allowance not recognised	**10,312**	324
- other deductible temporary differences	**108,441**	20,035
Utilisation of previously unabsorbed tax losses	**-**	(2,642)
Under/(Over) provision of deferred tax in prior years	**4,877**	(2,094)
Overprovision of tax expense in prior years	**(1,170)**	(398)
Tax expense for the year	**8,441**	44,690
Company		
(Loss)/profit before taxation	**(2,340,104)**	112,472
Taxation at Malaysian statutory tax rate of 25% (2010: 25%)	**(585,026)**	28,118
Foreign income tax	**4,512**	5,610
Effect of tax exemption status	**(5,837)**	(106,872)
Income not subject to tax	**(18,111)**	(36,942)
Expenses not deductible for tax purposes	**191,668**	95,661
Deferred tax assets not recognised on:		
- current year's tax losses not recognised	**308,865**	-
- other deductible temporary differences	**108,441**	20,035
Overprovision of tax expense in prior years	**(218)**	(379)
Tax expense for the year	**4,294**	5,231

10. (LOSS)/EARNINGS PER SHARE

(a) Basic

The basic (loss)/earnings per share is calculated by dividing the net (loss)/profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2011	**2010**
(Loss)/Profit attributable to equity holders of the Company (RM'000)	**(2,523,988)**	234,469
Weighted average number of ordinary shares in issue* ('000)	**3,342,156**	3,234,778
Basic (loss)/earnings per share for (sen):	**(75.5)**	7.2

(b) Diluted

For the purpose of calculating diluted (loss)/earnings per share, the (loss)/profit for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the financial year have been adjusted for the dilutive effects of all potential ordinary shares, i.e. RCPS and share options granted to employees.

	Group	
	2011	**2010**
Diluted (loss)/profit attributable to equity holders of the Company (RM'000)	**(2,523,988)**	234,469
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	**3,342,156**	3,234,778
Diluted (loss)/earnings per share for (sen):	**(75.5)**	7.2

The RCPS and share options granted under ESOS have not been included in the calculation of diluted (loss)/earnings per share because they are anti-dilutive for the current and previous financial years.

* adjusted for the effect of Rights Issue in 2010, as disclosed in Note 29(b).

11. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000
Cost/Valuation				
At 1 January 2010	18,543	1,056,775	863,458	335,700
Additions	-	64	1,353,784	-
Disposals	-	(1,100)	-	-
Write-offs	-	-	-	-
Reclassifications	-	15,016	560,469	-
At 31 December 2010	18,543	1,070,755	2,777,711	335,700
At 1 January 2011	18,543	1,070,755	2,777,711	335,700
Additions	-	4,396	536,770	29,840
Disposals	-	-	(1,259,510)	-
Write-offs	-	-	-	-
Reclassifications	-	2,285	2,315,648	-
At 31 December 2011	18,543	1,077,436	4,370,619	365,540
Accumulated depreciation and impairment loss				
At 1 January 2010	1,300	450,227	39,590	86,707
Charge for the year	188	27,635	128,120	10,200
Writeback of impairment losses	-	(179)	-	-
Disposals	-	(562)	-	-
Write-offs	-	-	-	-
At 31 December 2010	1,488	477,121	167,710	96,907
At 1 January 2011	1,488	477,121	167,710	96,907
Charge for the year	188	28,197	163,343	14,188
Provision for impairment losses	-	-	224,089	-
Disposals	-	-	-	-
Write-offs	-	-	-	-
At 31 December 2011	1,676	505,318	555,142	111,095
Net book value				
At 31 December 2010	17,055	593,634	2,610,001	238,793
At 31 December 2011	16,867	572,118	3,815,477	254,445

Aircraft related spares RM'000	Operating plant and equipment RM'000	Office furniture and equipment RM'000	Motor vehicles RM'000	Progress payments RM'000	Total RM'000
2,067,526	813,153	375,055	34,617	613,222	6,178,049
95,657	7,355	4,701	2,208	3,423,660	4,887,429
-	(2,198)	(5,766)	(820)	-	(9,884)
(22,058)	-	-	-	(369)	(22,427)
-	6,972	1,901	123	(584,481)	-
2,141,125	825,282	375,891	36,128	3,452,032	11,033,167
2,141,125	825,282	375,891	36,128	3,452,032	11,033,167
111,838	123,314	6,528	2,048	2,743,914	3,558,648
(993)	(46,001)	(14,567)	(7,086)	-	(1,328,157)
(71,571)	(3)	(7)	-	-	(71,581)
-	20,857	11,453	-	(2,350,243)	-
2,180,399	923,449	379,298	31,090	3,845,703	13,192,077
1,347,040	727,538	344,594	31,226	-	3,028,222
158,529	24,054	16,351	1,525	-	366,602
(2,492)	-	-	-	-	(2,671)
-	(2,221)	(5,715)	(820)	-	(9,318)
(13,025)	-	-	-	-	(13,025)
1,490,052	749,371	355,230	31,931	-	3,369,810
1,490,052	749,371	355,230	31,931	-	3,369,810
147,427	52,559	15,911	1,760	-	423,573
112,874	-	-	-	89,595	426,558
(802)	(33,455)	(14,368)	(7,027)	-	(55,652)
(46,113)	(1)	(5)	-	-	(46,119)
1,703,438	768,474	356,768	26,664	89,595	4,118,170
651,073	75,911	20,661	4,197	3,452,032	7,663,357
476,961	154,975	22,530	4,426	3,756,108	9,073,907

11. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000
Cost/Valuation				
At 1 January 2010	16,503	1,040,842	396,959	335,700
Additions	-	64	1,234,071	-
Disposals	-	(1,100)	-	-
Write-offs	-	-	-	-
Reclassifications	-	15,016	560,469	-
At 31 December 2010	16,503	1,054,822	2,191,499	335,700
At 1 January 2011	16,503	1,054,822	2,191,499	335,700
Additions	-	832	439,230	29,840
Disposals	-	-	(1,905,029)	-
Write-offs	-	-	-	-
Reclassifications	-	2,285	2,315,648	-
At 31 December 2011	16,503	1,057,939	3,041,348	365,540
Accumulated depreciation and impairment loss				
At 1 January 2010	972	446,715	15,317	86,707
Charge for the year	168	27,422	101,142	10,200
Writeback of impairment losses	-	(179)	-	-
Disposals	-	(562)	-	-
Write-offs	-	-	-	-
At 31 December 2010	1,140	473,396	116,459	96,907
At 1 January 2011	1,140	473,396	116,459	96,907
Charge for the year	166	27,300	125,121	14,188
Provision for impairment losses	-	-	134,760	-
Disposals	-	-	-	-
Write-offs	-	-	-	-
At 31 December 2011	1,306	500,696	376,340	111,095
Net book value				
At 31 December 2010	15,363	581,426	2,075,040	238,793
At 31 December 2011	15,197	557,243	2,665,008	254,445

Aircraft related spares RM'000	Operating plant and equipment RM'000	Office furniture and equipment RM'000	Motor vehicles RM'000	Progress payments RM'000	Total RM'000
2,067,526	460,633	296,844	28,265	625,601	5,268,873
95,657	5,527	2,142	181	3,423,660	4,761,302
-	(1,242)	(4,673)	(547)	-	(7,562)
(22,058)	-	-	-	(369)	(22,427)
-	6,972	1,901	123	(584,481)	-
2,141,125	471,890	296,214	28,022	3,464,411	10,000,186
2,141,125	471,890	296,214	28,022	3,464,411	10,000,186
111,838	112,437	3,043	1,001	2,730,212	3,428,433
(993)	(19,941)	(8,156)	(6,641)	-	(1,940,760)
(71,571)	-	-	-	-	(71,571)
-	20,857	11,453	-	(2,350,243)	-
2,180,399	585,243	302,554	22,382	3,844,380	11,416,288
1,347,040	382,075	271,491	26,110	-	2,576,427
158,529	20,816	13,818	1,021	-	333,116
(2,492)	-	-	-	-	(2,671)
-	(1,237)	(4,656)	(547)	-	(7,002)
(13,025)	-	-	-	-	(13,025)
1,490,052	401,654	280,653	26,584	-	2,886,845
1,490,052	401,654	280,653	26,584	-	2,886,845
147,427	48,829	13,017	823	-	376,871
112,874	-	-	-	89,370	337,004
(802)	(7,473)	(7,972)	(6,640)	-	(22,887)
(46,113)	-	-	-	-	(46,113)
1,703,438	443,010	285,698	20,767	89,370	3,531,720
651,073	70,236	15,561	1,438	3,464,411	7,113,341
476,961	142,233	16,856	1,615	3,755,010	7,884,568

11. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the financial year, the Group and the Company acquired aircraft, property, plant and equipment at aggregate costs of RM3,558,648,000 (2010: RM4,887,429,000) and RM3,428,433,000 (2010: RM4,761,302,000) of which RM1,024,036,000 (2010: RM682,426,000) were acquired by means of finance lease arrangements. In 2010, RM1,144,794,000 were finance lease liabilities assumed from its immediate holding company then, as approved by the shareholders in the Company's Extraordinary General Meeting on 25 January 2010.

Net carrying amounts of aircraft, property, plant and equipment held under finance lease arrangements are as follows:

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
	3,027,177	2,390,068	**2,546,259**	1,963,536

The net carrying amounts of aircraft, property, plant and equipment pledged as securities for term loan (Note 26) are as follows:

	Group	
	2011 RM'000	**2010 RM'000**
Aircraft	**767,111**	290,380

(a) Buildings

Certain buildings of the Group and the Company have been constructed on Federal and State Government land for which the lease arrangements are being formalised.

Certain buildings at a carrying value of RM2,027,000 (2010: RM2,102,000) were revalued by directors in 1985, as disclosed in Note 2.5(e)(vii). Had the revalued buildings been carried at historical cost less accumulated depreciation, the net book value of those buildings would have been as follows:

	Group and Company	
	2011 RM'000	**2010 RM'000**
Buildings	**1,348**	1,515

(b) Land

Certain land at carrying value of RM34,000 (2010: RM35,000) were revalued by directors in 1985, as disclosed in Note 2.5(e)(vii). Had the revalued leasehold land been carried at historical cost less accumulated depreciation, the net book value of those leasehold land would have been as follows:

	Group and Company	
	2011 RM'000	**2010 RM'000**
Leasehold land	**38**	40

11. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(c) Capitalisation of borrowing costs

The Group's aircraft, property, plant and equipment include borrowing costs arising from term loans borrowed specifically for the purpose of the construction of the aircraft. The capitalisation rate used to determine the amount of finance costs capitalised during the year was 3.0% (2010: 3.8%).

During the financial year, effects of borrowing costs capitalised to aircraft, property, plant and equipment is as follows:

	Group	
	2011 RM'000	**2010 RM'000**
Cost	**42,063**	36,287
Depreciation	**-**	192

	Company	
	2011 RM'000	**2010 RM'000**
Cost	**42,063**	36,287
Depreciation	**-**	15

(d) Impairment

During the current financial year, management carried out a review of the recoverable amount of the aircraft, property, plant and equipment of the Group and the Company because of losses in the freighter business segment. This review led to the recognition of an impairment loss of RM427 million and RM337 million for the Group and Company respectively. The recoverable amount was based on the fair value less costs to sell, which in this review, was higher than the value in use.

12. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011 RM'000	**2010 RM'000**
Unquoted shares, at cost	177,496	177,345
Less: Accumulated impairment losses	(17,151)	(17,151)
	160,345	160,194

12. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows:

Name of Company	Country of incorporation	Effective interest 2011 %	Effective interest 2010 %	Principal activities
Held by the Company:				
Abacus Distribution Systems (Malaysia) Sdn. Bhd.	Malaysia	**80**	80	Promotion, development, operation and marketing of computerised reservations system and related services
Aerokleen Services Sdn. Bhd.	Malaysia	**51**	51	Provision of laundry and cleaning related services
FlyFirefly Sdn. Bhd. ("Firefly")	Malaysia	**100**	100	Air transportation and the provision of related services
MASkargo Sdn. Bhd. (formerly known as Malaysia Airlines Cargo Sdn. Bhd.)	Malaysia	**100**	100	Air cargo operations, charter freighter and all warehousing activities relating to air cargo operations
MAS Catering (Sarawak) Sdn. Bhd.	Malaysia	**60**	60	Provision of catering and cabin handling services
MAS Golden Boutiques Sdn. Bhd.	Malaysia	**100**	100	Retailing of inflight goods and boutique operations
MASkargo Logistics Sdn. Bhd.	Malaysia	**100**	100	Provision of trucking, clearance and warehousing services
Malaysia Airlines Capital (L) Limited	Malaysia	**100**	100	Labuan leasing business
Malaysia Airlines Capital II (L) Limited	Malaysia	**100**	100	Labuan leasing business
Malaysia Airlines Capital III (L) Limited	Malaysia	**100**	100	Labuan leasing business
MASwings Sdn. Bhd.	Malaysia	**100**	100	Air transportation and the provision of related services
Kelip-Kelip Labuan Limited	Malaysia	**100**	100	Labuan leasing business
Kelip-Kelip II Labuan Limited	Malaysia	**100**	100	Labuan leasing business
Kelip-Kelip III Labuan Limited	Malaysia	**100**	100	Labuan leasing business

12. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows (continued):

Name of Company	Country of incorporation	Effective interest 2011 %	2010 %	Principal activities
Held by the Company (continue)**:**				
Kelip-Kelip II Cayman Limited	Cayman Islands	**100**	100	Leasing business
MAS Golden Holidays Sdn. Bhd.	Malaysia	**100**	100	Dormant
MAS Aerotechnologies Sdn. Bhd.	Malaysia	**100**	100	Dormant
MH Loyalty Programme Sdn. Bhd.	Malaysia	**100**	-	Dormant
Delima Insurance (Labuan) Limited	Malaysia	**100**	-	Captive insurance business
Malaysian Aerospace Engineering Sdn. Bhd. ("MAE")	Malaysia	**100**	100	Dormant
Macnet CCN (M) Sdn. Bhd.	Malaysia	**100**	100	Under Members' Voluntary Winding Up
MAS Academy Sdn. Bhd.	Malaysia	**100**	100	Dormant
Syarikat Pengangkutan Senai Sdn. Bhd.	Malaysia	**-**	100	Struck off during the financial year
Held through a subsidiary:				
FlyFirefly Holiday Sdn. Bhd.*	Malaysia	**100**	100	Tour and travel related operations
MAE Aero Services Pte. Ltd.**	Singapore	**100**	-	Dormant

* Firefly owns 100% equity in FlyFirefly Holiday Sdn. Bhd.
** MAE owns 100% equity in MAE Aero Services Pte. Ltd.

12. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Subscription of shares in subsidiaries

(i) On 27 October 2011, the Company has incorporated an off-shore company, Delima Insurance (Labuan) Limited with a paid-up capital of USD1.00 (equivalent to RM3.12). With effect from that date, Delima Insurance (Labuan) Limited became a wholly-owned subsidiary of the Company.

On 25 November 2011, the Company subscribed for an additional 93,999 ordinary shares of USD1.00 each in the capital of Delima Insurance (Labuan) Limited, a wholly-owned subsidiary by way of cash for working capital purposes. The equity interest remains unchanged.

(ii) On 11 July 2011, the Company subscribed for two ordinary shares of RM1 each of MH Loyalty Programme Sdn. Bhd. for a consideration of RM2, by way of cash. With effect from that date, MH Loyalty Programme Sdn. Bhd. became a wholly-owned subsidiary of the Company.

(iii) On 7 January 2011, a wholly owned subsidiary, Malaysian Aerospace Engineering Sdn. Bhd. ("MAE") subscribed for 100% equity of MAE Aero Services Pte. Ltd. with a total of 1 ordinary share for a purchase consideration of SGD1.00 (equivalent to RM2.38).

13. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Unquoted shares, at cost	**124,674**	124,674	**124,674**	124,674
Less: Accumulated impairment losses	**-**	-	**(36,400)**	(43,400)
	124,674	124,674	**88,274**	81,274
Share of post acquisition losses	**(4,631)**	(22,870)	**-**	-
	120,043	101,804	**88,274**	81,274

Details of the associated companies are:

Name of Companies [Financial year end]	**Country of incorporation**	**Effective interest 2011 %**	**Effective interest 2010 %**	**Principal activities**
Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd. ("Hamilton") [31 December]	Malaysia	**49**	49	Repair and overhaul of selected aircraft environmental control systems, aircraft pneumatic components and propeller system
LSG Sky Chefs-Brahim's Sdn. Bhd. ("LSG") [31 December]	Malaysia	**30**	30	Catering related services, cabin handling and cleaning services
GE Engine Services Malaysia Sdn. Bhd. ("GEESM") [31 December]	Malaysia	**30**	30	Repair and overhaul of aircraft engine

13. INVESTMENTS IN ASSOCIATES (CONTINUED)

Details of the associated companies are (continued):

Name of Companies [Financial year end]	Country of incorporation	Effective interest 2011 %	2010 %	Principal activities
Honeywell Aerospace Services (M) Sdn. Bhd. ("Honeywell") [31 December]	Malaysia	**30**	30	Repairing services, overhauling and testing of aircraft auxiliary power
Pan Asia Pacific Aviation Services Limited ("PAPAS") [31 March]	Hong Kong	**24**	24	Provision of aircraft maintenance services
Taj Madras Flight Kitchen Limited ("Taj Madras") [31 March]	India	**20**	20	Inflight catering of food and beverages

The financial statements of PAPAS and Taj Madras are made up to 31 March, each year. For the purpose of applying the equity method of accounting, the last audited financial statements available and management financial statements to the end of the accounting period of these companies for the financial period ended 31 December 2011 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 December 2011.

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

	2011 RM'000	2010 RM'000
Assets and liabilities		
Current assets	**600,046**	404,672
Non-current assets	**215,422**	208,967
Total assets	**815,468**	613,639
Current liabilities	**442,519**	293,063
Non-current liabilities	**2,689**	1,444
Total liabilities	**445,208**	294,507
Results		
Revenue	**1,405,929**	1,252,195
Profit for the year	**74,512**	67,674

14. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group 2011 RM'000	Group 2010 RM'000
Unquoted shares, at cost	**26,492**	14,248
Less: Share of post acquisition losses	**(26,492)**	(11,888)
	-	2,360

Details of the jointly controlled entity is as follows:

Name of Company	Country of incorporation	Effective interest 2011 %	Effective interest 2010 %	Principal activities
Held through a subsidiary:				
MAS GMR Aerospace Engineering Pte.Ltd.#	India	**50**	50	Aircraft maintenance, repair and overhaul

Malaysian Aerospace Engineering Sdn Bhd ("MAE") owns 50% in MAS GMR Aerospace Engineering Pte. Ltd.

The financial statements of the above jointly controlled entity are made up to 31 March, each year. For the purpose of applying the equity method of accounting, the last audited financial statements available and management financial statements to the end of accounting period of the jointly controlled entity for the financial period ended 31 December 2011 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 December 2011.

The Group's aggregate share of the current assets, non-current assets, current liabilities, non-current liabilities, income and loss for the year of the jointly controlled entity is as follows:

	Group 2011 RM'000	Group 2010 RM'000
Assets and liabilities		
Current assets	**26,885**	1,900
Non-current assets	**62,873**	20,700
Total assets	**89,758**	22,600
Current liabilities	**26,482**	6,204
Non-current liabilities	**69,252**	17,125
Total liabilities	**95,734**	23,329
Results		
Revenue	**1,428**	111
Loss for the year	**(14,604)**	(10,147)

15. OTHER INVESTMENTS

	Group and Company	
	2011	**2010**
	RM'000	**RM'000**
Unquoted shares, at cost:		
- in Malaysia	**10,825**	10,825
- outside Malaysia	**43,774**	43,779
Total	**54,599**	54,604

The Group and the Company have designated its unquoted equity investments as available-for-sale financial assets. Investments in unquoted equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

16. INTANGIBLE ASSETS

Group **At 31 December 2011**	**Software and related costs** **RM'000**	**Landing slots** **RM'000**	**Total** **RM'000**
Costs			
At 1 January 2011	**212,187**	**25,314**	**237,501**
Additions	**47,445**	**-**	**47,445**
At 31 December 2011	**259,632**	**25,314**	**284,946**
Accumulated amortisation			
At 1 January 2011	**99,769**	**-**	**99,769**
Charge for the year (Note 4)	**33,420**	**-**	**33,420**
At 31 December 2011	**133,189**	**-**	**133,189**
Net book value	**126,443**	**25,314**	**151,757**
At 31 December 2010			
Costs			
At 1 January 2010	151,180	25,314	176,494
Additions	61,007	-	61,007
At 31 December 2010	212,187	25,314	237,501
Accumulated amortisation			
At 1 January 2010	66,453	-	66,453
Charge for the year (Note 4)	33,316	-	33,316
At 31 December 2010	99,769	-	99,769
Net book value	112,418	25,314	137,732

16. INTANGIBLE ASSETS (CONTINUED)

Company **At 31 December 2011**	**Software and related costs RM'000**	**Landing slots RM'000**	**Total RM'000**
Costs			
At 1 January 2011	**180,422**	**25,314**	**205,736**
Additions	**37,273**	**-**	**37,273**
At 31 December 2011	**217,695**	**25,314**	**243,009**
Accumulated amortisation			
At 1 January 2011	**76,552**	**-**	**76,552**
Charge for the year (Note 4)	**27,006**	**-**	**27,006**
At 31 December 2011	**103,558**	**-**	**103,558**
Net book value	**114,137**	**25,314**	**139,451**
At 31 December 2010			
Costs			
At 1 January 2010	119,694	25,314	145,008
Additions	60,728	-	60,728
At 31 December 2010	180,422	25,314	205,736
Accumulated amortisation			
At 1 January 2010	49,265	-	49,265
Charge for the year (Note 4)	27,287	-	27,287
At 31 December 2010	76,552	-	76,552
Net book value	103,870	25,314	129,184

Impairment test for assets with indefinite useful life

The recoverable amount of the landing slots is based on value in use calculations, using information on current year and preceding year route results. Value in use for Year 2011 is derived from present value of future cash flows expected to be derived from the landing slots or budgeted route results which have been extrapolated using certain estimates and reasonable approximations.

17. INVENTORIES

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At cost:				
Catering and general stores	**732**	1,273	**-**	1,039
Consumable aircraft spares	**8,926**	9,643	**8,926**	9,643
	9,658	10,916	**8,926**	10,682
At net realisable value:				
Catering and general stores	**46,442**	53,496	**39,093**	47,844
Consumable aircraft spares	**306,167**	366,437	**306,167**	366,437
	352,609	419,933	**345,260**	414,281
	362,267	430,849	**354,186**	424,963

18. TRADE AND OTHER RECEIVABLES

	Group			Company		
	2011 RM'000	2010 RM'000 Restated	2009 RM'000	2011 RM'000	2010 RM'000 Restated	2009 RM'000
Current						
Trade						
Trade receivables (Note a)	**1,279,988**	1,374,528	1,511,110	**1,156,815**	1,212,035	1,313,538
Less: Provision for doubtful debts	**(423,583)**	(385,459)	(415,111)	**(395,029)**	(354,455)	(382,831)
	856,405	989,069	1,095,999	**761,786**	857,580	930,707
Non-Trade						
Prepayments to:						
- related parties (Note b)	**69,418**	-	-	**69,418**	-	-
- a fellow subsidiary (Note c)	**-**	40,931	41,147	**-**	40,931	41,147
- immediate holding company (Note d)	**-**	27,133	-	**-**	27,133	-
Lease receivables (Note e)	**-**	-	-	**41,135**	23,060	19,464

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Group			Company		
	2011 RM'000	**2010 RM'000 Restated**	**2009 RM'000**	**2011 RM'000**	**2010 RM'000 Restated**	**2009 RM'000**
Current (continued)						
Non-Trade (continued)						
Deferred maintenance costs (Note f)	**11,394**	47,562	67,498	**11,394**	47,562	67,498
Staff loans (Note g)	**8,952**	9,204	15,214	**8,952**	9,204	15,214
Security deposits:						
- refundable (Note h)	**32,932**	37,221	11,227	**32,932**	37,221	11,227
- others	**7,104**	7,304	5,696	**6,179**	6,892	5,300
Prepayments	**56,466**	44,573	55,185	**55,956**	44,093	54,788
Due from:						
- immediate holding company	**-**	19,680	-	**-**	19,680	-
- subsidiaries	**-**	-	-	**291,038**	266,239	123,257
- associates	**1,610**	1,484	3,106	**1,610**	1,484	3,106
Sundry receivables	**242,319**	166,559	107,594	**135,681**	69,262	90,725
Less: Provision for doubtful debts	**(18,446)**	(18,534)	(18,835)	**(17,144)**	(17,144)	(17,169)
	411,749	383,117	287,832	**637,151**	575,617	414,557
	1,268,154	1,372,186	1,383,831	**1,398,937**	1,433,197	1,345,264
Non-Current						
Non-Trade						
Prepayments to:						
- related parties (Note b)	**188,966**	-	-	**188,966**	-	-
- a fellow subsidiary (Note c)	**-**	122,378	162,740	**-**	122,378	162,740
- immediate holding company (Note d)	**-**	135,733	-	**-**	135,733	-

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Group			Company		
	2011 RM'000	2010 RM'000 Restated	2009 RM'000	2011 RM'000	2010 RM'000 Restated	2009 RM'000
Non-Current (continued)						
Non-Trade (continued)						
Lease receivables (Note e)	**-**	-	-	**554,862**	305,710	444,440
Deferred maintenance costs (Note f)	**19,198**	35,490	60,195	**19,198**	35,490	60,195
Staff loans (Note g)	**96,896**	100,744	95,608	**96,896**	100,744	95,608
Refundable security deposits (Note h)	**38,522**	48,230	67,994	**38,522**	48,230	67,994
	343,582	442,575	386,537	**898,444**	748,285	830,977

(a) Trade receivables

Trade receivables are non-interest bearing and are generally on 14 to 30 (2010: 14 to 30) day's terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

The carrying amount of debtors is impaired by credit losses and is reduced through the use of a provision account unless the Group and the Company write off the amount ascertained to be uncollectible. In subsequent period when a debtor is ascertained to be uncollectible, it is written-off against the provision account. Individual debtor is written-off when management has ascertained that the amount is not collectible.

(i) Ageing analysis of trade receivables

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

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Neither past due nor impaired	**515,881**	566,615	**454,538**	568,814
1 to 30 days past due not impaired	**145,567**	156,082	**143,690**	144,772
31 to 60 days past due not impaired	**32,818**	44,409	**31,738**	34,620
61 to 90 days past due not impaired	**14,685**	34,889	**14,043**	7,027
91 to 120 days past due not impaired	**22,604**	96,327	**19,154**	14,837
More than 121 days past due not impaired	**124,724**	90,747	**98,623**	87,510
	340,398	422,454	**307,248**	288,766
	856,279	989,069	**761,786**	857,580

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables (continued)

(i) Ageing analysis of trade receivables (continued)

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Trade receivables				
- collectively assessed	**-**	863	**-**	-
Less: Provision for doubtful debts	**-**	(863)	**-**	-
	-	-	**-**	-
Trade receivables				
- individually assessed	**423,709**	384,596	**395,029**	354,455
Less: Provision for doubtful debts	**(423,583)**	(384,596)	**(395,029)**	(354,455)
	126	-	**-**	-
	856,405	989,069	**761,786**	857,580

(ii) Receivables that are impaired

Movements on the provision for doubtful debts are as follows:

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
At 1 January	**385,459**	420,756	**354,455**	382,831
Charge for the year	**58,524**	105,736	**58,072**	109,395
Write-offs	**(1,392)**	(40,123)	**(475)**	(36,820)
Reversal	**(19,008)**	(100,910)	**(17,023)**	(100,951)
At 31 December	**423,583**	385,459	**395,029**	354,455

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and have defaulted on payments. Collaterals from debtors include bank guarantees and letter of credit amounting to RM19,950,000.

(b) Prepayment to related parties

	Group and Company	
	2011 RM'000	**2010 RM'000**
Current		
Due not later than one year	**69,418**	-
Non Current		
Due later than one year and not later than five years	**188,966**	-
	258,384	-

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Prepayment to related parties (continued)

The prepayment of RM122,651,000 (2010: RM163,309,000) to a related party represents prepaid lease rentals. It is unsecured, interest free and will expire on 28 May 2014.

The prepayment of RM135,733,000 (2010: RM162,866,000) to another related party represents prepaid operating lease rentals and is amortised over the lease term.

(c) Prepayment to a fellow subsidiary

	Group and Company	
	2011 RM'000	2010 RM'000
Current		
Due not later than one year	-	40,931
Non Current		
Due later than one year and not later than five years	-	122,378
	-	163,309

(d) Prepayment to immediate holding company

	Group and Company	
	2011 RM'000	2010 RM'000
Current		
Due not later than one year	-	27,133
Non Current		
Due later than one year and not later than five years	-	135,733
	-	162,866

On 29 December 2011, Penerbangan Malaysia Berhad ("PMB") ceased to be the immediate holding company of the Company. Hence, prepayments to a fellow subsidiary (Note 18 (c)) and immediate holding company (Note 18(d)) are disclosed as prepayment to related parties (Note 18(b)) in 2011.

(e) Lease receivables

	Company	
	2011 RM'000	2010 RM'000
Current		
Due not later than one year	**41,135**	23,060
Non Current		
Due later than one year and not later than five years	**247,810**	169,983
Due later than five years	**307,052**	135,727
	554,862	305,710
	595,997	328,770

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

(e) Lease receivables (continued)

The lease receivables of the Company is in respect of amount due from a certain subsidiary for aircraft lease rental. It is secured by certain aircraft, subject to interest ranging from 3.0% to 5.5% per annum (2010: 3.2% to 5.8% per annum) and will expire between 31 December 2017 to 18 November 2019.

(f) Deferred maintenance costs

	Group and Company	
	2011 RM'000	**2010 RM'000**
Current		
Due not later than one year	**11,394**	47,562
Non Current		
Due later than one year and not later than five years	**10,124**	22,231
Due later than five years	**9,074**	13,259
	19,198	35,490
	30,592	83,052

Deferred maintenance costs relates to maintenance costs incurred for aircraft, engines, auxiliary power units or landing gears prior to the return obligation stated in the lease agreements. Deferred maintenance costs is capitalised and amortised over the actual flying hours as the aircraft is flown up to its return condition.

Upon the expiry of the lease or disposal of the aircraft, the net carrying amount is recognised in the profit or loss.

(g) Staff loans

	Group and Company	
	2011 RM'000	**2010 RM'000**
Current		
Due not later than one year	**8,952**	9,204
Non Current		
Due later than one year and not later than five years	**26,392**	26,777
Due later than five years	**70,504**	73,967
	96,896	100,744
	105,848	109,948

Staff loans represent amount due from employees for cadet pilot training. The loans are repayable by the employees within 15 years.

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

(h) Refundable security deposits

	Group and Company	
	2011 RM'000	**2010 RM'000**
Current		
Due not later than one year	**32,932**	37,221
Non Current		
Due later than one year and not later than five years	**37,745**	38,043
Due later than five years	**777**	10,187
	38,522	48,230
	71,454	85,451

Refundable security deposits relate to deposits paid to lessors for the lease of aircraft and are refundable at the end of lease period.

(i) Due from intercompanies

The amounts due from subsidiaries and associates are unsecured, interest free and repayable upon demand.

In the previous financial year, the amount due from immediate holding company was unsecured, interest free and repayable upon demand.

19. NEGOTIABLE INSTRUMENTS OF DEPOSIT

	Group and Company	
	2011 RM'000	**2010 RM'000**
Negotiable instruments of deposit	**101,073**	139,206

Negotiable instruments of deposit ("NIDs") are deposits placed for its yield and are held to maturity. The principal of the instrument is protected if held to maturity. The above NIDs will mature within one year. If the NIDs are redeemed or sold prior to maturity, certain amount from the initial deposits may be forfeited.

20. CASH AND BANK BALANCES

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Cash on hand and at banks	**564,114**	676,107	**493,161**	625,536
Term deposits with:				
- Licensed banks	**390,446**	1,035,151	**362,360**	1,012,938
- Other financial institutions	**59,904**	374,193	**59,904**	374,193
Cash and bank balances	**1,014,464**	2,085,451	**915,425**	2,012,667
Less: Deposits pledged with banks	**(55,650)**	(161,674)	**(55,650)**	(161,674)
	958,814	1,923,777	**859,775**	1,850,993

Included in cash and bank balances as at 31 December 2011 is RM55,650,000 (2010: RM161,674,000) deposits pledged for banking facilities, held within the Group's and the Company's cash and bank balances, which are not immediately available for use in the business.

The range of interest rates of the term deposits as at 31 December 2011 is disclosed in Note 38(b).

The range of remaining maturities of the term deposits as at 31 December 2011 for the Group and the Company is 1 to 319 (2010: 1 to 316) days.

Other financial institutions are investment banks in Malaysia and other foreign banks.

21. SALES IN ADVANCE OF CARRIAGE

Sales in advance of carriage represents the value of unutilised tickets up to 12 months.

22. DEFERRED REVENUE

Deferred revenue represents the fair value allocated to the mileage awards as at 31 December 2011.

23. EMPLOYEE BENEFITS

Employee share options scheme ("ESOS")

The MAS ESOS is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 23 April 2007. The ESOS was launched on 21 May 2007 and is to be in force for a period of 5 years from the effective date.

(a) The salient details of the ESOS are as follows:

(i) Offer

The offer is made to any eligible employee selected based on the criteria of allocation at the discretion of the ESOS Committee. Each offer shall be made in writing and is personal to the eligible employee and is non-assignable and non-transferable.

23. EMPLOYEE BENEFITS (CONTINUED)

Employee share options scheme ("ESOS") (continued)

(a) The salient details of the ESOS are as follows: (continued)

(ii) Maximum number of shares available under the ESOS

The total number of the new ordinary shares in MAS which has a par value of RM1.00 each ("MAS Shares") which may be made available under the ESOS shall not exceed 10% of the total issued and paid-up share capital comprising ordinary shares of the Company at the time of offer.

In the event that the number of new MAS Shares granted under the ESOS exceeds the aggregate of 10% of the issued and paid-up share capital of the Company, no further option shall be offered until the number of new MAS Shares to be issued under the ESOS falls below 10% of the Company's issued and paid-up share capital.

(iii) Eligibility

The selection of any director or employee for the participation of the ESOS shall be at the discretion of the ESOS Committee based on the eligibility criteria stipulated in the By-Laws.

Any allocation of option under the ESOS to any person who is a Director of the Company or persons connected to such director, major shareholder or chief executive officer or the holding company shall require the prior approval of the shareholders of the Company in a general meeting.

Any eligible employee who has accepted the offer under the ESOS shall not be entitled to participate in any other share option scheme which may be implemented by any other company in the Group during the duration of the ESOS.

(iv) Termination of option

In the event the grantee ceased to be in the employment of the Group such option shall cease to be valid without any claims against the Company, unless approved otherwise by the ESOS Committee.

(v) Duration and termination of the ESOS

The ESOS shall be in force for a period of 5 years from the effective date of the scheme. The ESOS Committee shall have the discretion, to extend the tenure of the ESOS for another 3 years or shorter immediately from the expiry of the first 5 years.

The ESOS may be terminated by the Company upon recommendation of the ESOS Committee at any time during the continuance of ESOS. Upon such termination, the unexercised or partially exercised options shall be deemed terminated and be null and void.

(vi) Maximum allowable allotment

The number of MAS Shares allocated, in aggregate to the directors and senior management of the Group shall not exceed 50% of the total MAS Shares available under the ESOS. The number of MAS Shares allocated to any eligible employee who, either singly or collectively through persons connected with the eligible employee, holds 20% or more in the issued and paid-up share capital of the Company, shall not exceed 10% of the total MAS Shares available under the ESOS.

23. EMPLOYEE BENEFITS (CONTINUED)

Employee share options scheme ("ESOS") (continued)

(a) The salient details of the ESOS are as follows: (continued)

(vii) Subscription price

The subscription price upon the exercise of the option under the ESOS shall be the weighted average market price of the MAS Shares for the 5 Market Days immediately preceding the offer date, or the par value of the MAS Shares, whichever is higher.

(viii) Exercise of option

An option granted to an eligible employee is exercisable in the following manner:

- Offer in Year 1 of the option period

Percentage of option exercisable with each year from the date of the Offer				
Year 1	Year 2	Year 3	Year 4	Year 5
40%	30%	30%	-	-

- Offer in Year 2 of the option period

Percentage of option exercisable with each year from the date of the Offer				
Year 1	Year 2	Year 3	Year 4	Year 5
-	40%	30%	30%	-

- Offer in Year 3 of the option period

Percentage of option exercisable with each year from the date of the Offer				
Year 1	Year 2	Year 3	Year 4	Year 5
-	-	40%	30%	30%

(ix) Rights attaching to the new MAS shares

The new MAS Shares to be allotted upon the exercise of an option shall, upon allotment and issue, rank pari passu in all respects with the existing ordinary shares of the Company, save and except that the new MAS Shares will not be entitled to any dividends, rights and allotments and/or other distributions which entitlement date precedes the date of allotment of the said shares.

(x) Alteration of share capital

In the event of any alteration in the capital structure of the Company during the option period, whether by way of a rights issue*, bonus issue or other capitalisation issue, consolidation or subdivision of MAS Shares or reduction of capital or any other variation of capital, the Company shall adjust the number of MAS Shares which a grantee is entitled to subscribe for upon the exercise of each option and/or the subscription price.

23. EMPLOYEE BENEFITS (CONTINUED)

Employee share options scheme ("ESOS") (continued)

(a) The salient details of the ESOS are as follows: (continued)

(x) Alteration of share capital (continued)

The above shall not be applicable where an alteration in the capital structure of the Company arises from any of the following:

(a) an issue of new MAS Shares or other securities convertible into MAS Shares or rights to acquire or subscribe for MAS Shares in consideration or part consideration for an acquisition of any other securities, assets or business;

(b) a special issue of new MAS Shares to Bumiputera investors nominated by Ministry of International Trade and Industry, Malaysia and/or other government authority to comply with the Government policy on Bumiputera capital participation;

(c) a private placement/restricted issue of new MAS Shares by the Company;

(d) an issue of new MAS Shares arising from the exercise of any conversion rights attached to securities convertible to MAS Shares or upon exercise of any rights including warrants (if any) issued by the Company;

(e) an issue of new MAS Shares upon exercise of options pursuant to the ESOS; and

(f) a share buy-back arrangement by the Company, pursuant to Section 67A of the Act.

* Subsequent to the commencement of the ESOS, MAS had implemented a Rights Issue in November 2007 and February 2010. Pursuant to Paragraphs 13.1 and 13.9(e) in the by-laws, MAS has made the relevant adjustments to both the exercise price of the options and the number of the options allocated to maintain the value of the options in light of the alteration of its capital structure by way of a Rights Issue.

(xi) Utilisation of proceeds

The proceeds arising from the subscription of the options by the eligible employee shall be utilised as working capital of the Group.

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the financial year:

		Number of share options ('000)						
	WAEP RM	At 1 January	Granted	Exercised	Adjusted #	Cancelled	At 31 December	Exercisable at 31 December
2011								
2007 Options	**3.88**	**32,510**	**-**	**-**	**-**	**(2,571)**	**29,939**	**29,939**
2008 Options	**2.83**	**132,436**	**-**	**-**	**-**	**(5,144)**	**127,292**	**127,292**
2010 Options	**2.44**	**2,893**	**-**	**-**	**-**	**-**	**2,893**	**2,893**
		167,839	**-**	**-**	**-**	**(7,715)**	**160,124**	**160,124**

23. EMPLOYEE BENEFITS (CONTINUED)

Employee share options scheme ("ESOS") (continued)

(a) The salient details of the ESOS are as follows: (continued)

(xi) Utilisation of proceeds (continued)

		Number of share options ('000)						
	WAEP RM	**At 1 January**	**Granted**	**Exercised**	**Adjusted #**	**Cancelled**	**At 31 December**	**Exercisable at 31 December**
2010								
2007 Options	3.88/5.09	26,829	-	-	8,365	(2,684)	32,510	32,510
2008 Options	2.83/3.71	104,921	-	-	32,705	(5,190)	132,436	132,436
2009 Options	2.44/3.20	1,192	-	-	-	(1,192)	-	-
2010 Options	2.44	-	2,893	-	-	-	2,893	2,893
		132,942	2,893	-	41,070	(9,066)	167,839	167,839

Refer to Note 23(a)(x).

Movements in share option reserve on share options granted under ESOS during the financial year were as follows:

	Group and Company RM'000
At 31 December 2011	
At 1 January	**88,388**
Vested during the year	**550**
At 31 December	**88,938**
At 31 December 2010	
At 1 January	87,752
Vested during the year	636
At 31 December	88,388

(b) Details of share options outstanding at the end of the financial year:

	Exercise price RM	**Exercise period**
2011		
2007 Options	**3.88**	**05.11.2007 - 14.05.2012**
2008 Options	**2.83**	**30.06.2009 - 14.05.2012**
2010 Options	**2.44**	**25.02.2011 - 14.05.2012**

23. EMPLOYEE BENEFITS (CONTINUED)

Employee share options scheme ("ESOS") (continued)

(b) Details of share options outstanding at the end of the financial year: (continued)

	Exercise price RM	Exercise period
2010		
2007 Options	3.88	05.11.2007 - 14.05.2012
2008 Options	2.83	30.06.2009 - 14.05.2012
2009 Options	2.44	22.02.2010 - 14.05.2012

(c) Fair value of share options granted

The fair value of share options granted during the previous financial year was estimated by an external valuer using a binomial model, taking into account the terms and conditions upon which the options were granted. The fair value of share options measured at grant date and the assumptions are as follows:

	2010
Fair value of share options granted on	
- 25 August 2010 (RM/share option)	0.19
Share price (RM)	2.03
Exercise price (RM)	2.44
Expected volatility (%)	33.23
Expected life (years)	2.20
Attrition rate (%)	4.55
Exercise multipliers (times)	1.50
Risk free rate (%)	3.80
Expected dividend yield (%)	0.46

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the option grant were incorporated into the measurement of fair value.

24 TRADE AND OTHER PAYABLES

	Group			Company		
	2011 RM'000	**2010 RM'000 Restated**	**2009 RM'000 Restated**	**2011 RM'000**	**2010 RM'000 Restated**	**2009 RM'000 Restated**
Current						
Trade						
Trade payables	**1,860,070**	1,596,540	1,470,132	**1,734,614**	1,453,434	1,340,090
Due to a related party	**14,149**	-	-	**14,149**	-	-
Due to immediate holding company	**-**	-	96,294	**-**	-	96,294
Due to subsidiaries	**-**	-	-	**277,612**	256,080	85,409
Due to associates	**68,773**	58,048	52,669	**68,773**	58,048	52,669
	1,942,992	1,654,588	1,619,095	**2,095,148**	1,767,562	1,574,462
Non-trade						
Other payables	**435,120**	297,738	207,223	**291,208**	207,955	173,048
Accruals	**265,787**	287,718	255,321	**257,192**	252,383	237,096
	700,907	585,456	462,544	**548,400**	460,338	410,144
	2,643,899	2,240,044	2,081,639	**2,643,548**	2,227,900	1,984,606
Non Current						
Non-trade						
Other payables	**-**	-	-	**30,466**	24,714	12,778

The normal trade credit terms granted to the Group and the Company ranges from 7 to 90 (2010: 7 to 90) days.

The amounts due to a related party is unsecured, interest free and is repayable upon demand.

The amounts due to subsidiaries and associates are unsecured, interest free and under normal trade credit terms.

Included in other payables is Redeemable Preference Shares of RM500 (2010: RM500).

25. PROVISIONS

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At 1 January	**934,967**	902,295	**919,280**	887,938
Additional provisions	**928,469**	735,577	**905,111**	734,247
Utilisation of provisions	**(675,271)**	(702,905)	**(673,384)**	(702,905)
At 31 December	**1,188,165**	934,967	**1,151,007**	919,280

Provisions of the Group and the Company are mainly in respect of aircraft maintenance and overhaul costs of RM1,163,561,000 (2010: RM919,280,000) and RM1,151,007,000 (2010: RM919,280,000) respectively which includes a provision for aircraft early redelivery cost of RM602,000,000 (2010: RM Nil). The Company leases a majority of its aircraft and engines whereby under the terms of the leases, these aircraft and engines are to be returned substantially in the original state when they were leased. Provisions are made based on the estimated hours flown and estimated costs of maintenance required. These estimates are based on past experiences and are regularly reviewed to ensure they approximate actual costs.

26. BORROWINGS

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Current				
Unsecured				
Revolving credit	**581,360**	50,000	**581,360**	50,000
Term loans	**121,490**	118,613	**121,490**	118,613
RCPS Liability Component (Note 27)	**419,628**	-	**419,628**	-
Secured				
Term loan	**73,633**	22,356	**-**	-
Finance leases (Note 28)	**183,300**	102,898	**206,025**	124,204
	1,379,411	293,867	**1,328,503**	292,817
Non-current				
Unsecured				
Term loans	**701,663**	802,598	**701,663**	802,598
RCPS Liability Component (Note 27)	**-**	407,116	**-**	407,116
Secured				
Term loan	**625,796**	193,720	**-**	-
Finance leases (Note 28)	**2,963,124**	2,011,479	**3,135,428**	2,200,991
	4,290,583	3,414,913	**3,837,091**	3,410,705
	5,669,994	3,708,780	**5,165,594**	3,703,522

The range of interest rates as at the reporting date and the maturity profile of the above interest-bearing loans and borrowings are disclosed in Note 38(b).

The secured term loan and finance leases of the Group and the Company are secured by certain aircraft of the Group and the Company as disclosed in Note 11.

27. REDEEMABLE CONVERTIBLE PREFERENCE SHARES ("RCPS")

On 31 October 2007, the Company issued 417,747,955 RCPS of RM0.10 each at an issue price of RM1.00 each. The total proceeds received from the issuance of the RCPS is split between a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated by discounting the future estimated cash flows at the prevailing market interest rate available to the Group then. The difference between the total proceeds received from the issuance of the RCPS and the fair value assigned to the liability component, representing the conversion option is accounted for in shareholders' equity.

The liability component of the RCPS is thereafter measured and accounted for under the effective interest rate method, whereby an annual interest is accrued at the same rate as the discount rate used in estimating the fair value of the liability component mentioned above. The accrued interest is recognised in the profit or loss.

The RCPS are accounted for in the statements of financial position of the Group and of the Company as follows:

	Group and Company	
	2011 RM'000	**2010 RM'000**
RCPS - liability component		
At 1 January	**407,116**	396,040
Interest accrued - Recognised in the profit or loss (Note 6)	**24,966**	24,226
Cash settlement	**-**	(696)
Dividend paid	**(12,454)**	(12,454)
At 31 December	**419,628**	407,116
RCPS - equity component		
At 1 January/31 December	**58,076**	58,076

The following are the salient terms of the RCPS:

(a) Conversion Period - four years commencing from the first anniversary after the date of issuance on 31 October 2007.

(b) Conversion Price - fixed at RM3.09 per MAS share, which is the adjusted conversion price as a result of the Rights Issue, as disclosed in Note 29(b) or such adjusted price as may be applicable from time to time.

(c) Conversion Right - each RCPS carries the entitlement to convert into new MAS Shares at the Conversion Price through the surrender of the RCPS.

(d) Dividend - a non-cumulative preference dividend rate of 30% per annum on the par value of RCPS, shall be payable out of post taxation profits.

(e) Ranking of the RCPS - The RCPS shall rank pari passu amongst themselves. On a winding-up or upon a reduction of capital or other return of capital (other than on redemption or on the exercise of the Cash Settlement Option):

   (i) the RCPS shall confer on the holder thereof the right to receive, in priority to the holders of any other class of shares (except for the Special Rights Redeemable Preference Share ("Special Share") and Redeemable Preference Shares ("RPS") of RM0.10 each) in the Company, cash repayment in full of the nominal amount (and the premium payable and the amount of any dividend that have been declared and remaining in arrears) of that RCPS; and

   (ii) the RCPS shall not confer on the holders thereof the right to participate in any surplus capital or surplus profits.

27. REDEEMABLE CONVERTIBLE PREFERENCE SHARES ("RCPS") (CONTINUED)

The following are the salient terms of the RCPS (continued):

(f) Ranking new MAS Shares to be issued pursuant to the conversion of the RCPS, shall, upon allotment and issue, rank pari passu in all respects with the existing MAS Shares, save and except that they shall not be entitled to participate in any right, allotment and/or any other distributions, the entitlement date of which is prior to the date of allotment of the new MAS Shares. In addition, the new MAS Shares to be issued pursuant to the conversion of the RCPS shall not be entitled to participate in any dividend which may be declared in respect of the financial year immediately preceding the exercise of the RCPS notwithstanding the entitlement date thereof may fall on a date after the exercise of the RCPS.

(g) Any fraction of a new MAS Share resulting from a conversion shall be forfeited and be applied for the benefit of the Company and the Company shall not be under any obligation to make cash payment of the value of such fraction or cause the RCPS holder's securities account to be credited for such fraction.

(h) Redemption Date - any RCPS, which has not been converted during the Conversion Period will be automatically redeemed by the Company at the issue price of RM1.00 each within thirty days after the Conversion Period ends.

(i) Cash Settlement Option - The Company has the right to provide RCPS holders who elect to convert their RCPS into MAS Shares, payment in cash equal to the value of their new MAS Shares entitlements, based on the weighted average market price of MAS Shares for the ten market day period ending on and inclusive of the date of the receipt of the relevant conversion notice by the Company.

28. FINANCE LEASE LIABILITIES

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Future minimum lease payments:				
Not later than one year	**345,629**	244,341	**375,047**	272,922
Later than one year and not later than five years	**1,622,410**	1,286,967	**1,740,083**	1,401,315
Later than five years	**2,109,496**	1,360,037	**2,186,015**	1,462,981
Total minimum future lease payments	**4,077,535**	2,891,345	**4,301,145**	3,137,218
Less: Future finance charges	**(931,111)**	(776,968)	**(959,692)**	(812,023)
Present value of finance lease liabilities	**3,146,424**	2,114,377	**3,341,453**	2,325,195
Analysis of present value of finance lease liabilities:				
Not later than one year	**183,300**	102,898	**206,025**	124,204
Later than one year and not later than five years	**1,114,694**	863,745	**1,214,200**	957,034
Later than five years	**1,848,430**	1,147,734	**1,921,228**	1,243,957
	3,146,424	2,114,377	**3,341,453**	2,325,195
Less: Amount due within twelve months	**(183,300)**	(102,898)	**(206,025)**	(124,204)
Amount due after twelve months	**2,963,124**	2,011,479	**3,135,428**	2,200,991

The finance lease liabilities are in respect of leasing of aircraft. Under the terms of the finance lease, the Group has the option to buy the aircraft from the lessor at a predetermined price.

28. FINANCE LEASE LIABILITIES (CONTINUED)

In the event the Lessee exercises the option to buy the aircraft at the purchase option date, the purchase price comprises total sum of the purchase option price and rent of the aircraft due and payable on the purchase option date.

The finance lease of the Group and the Company has tenure ranging between 5 to 12 years (2010: 5 to 10 years). Details of the range of interest rate as at the reporting date and the maturity profile of the finance lease are disclosed in Note 38(b).

The finance lease of the Company in respect of amount due to certain subsidiaries is RM2,195,896,000 (2010: RM1,136,983,000) and to a related party is RM975,606,000 (2010: RM998,212,000).

29. SHARE CAPITAL

	Number of shares		Amount	
	2011 '000	**2010 '000**	**2011 RM'000**	**2010 RM'000**
Group and Company				
Authorised:				
At 1 January/31 December Ordinary shares of RM1.00 each	**9,000,000**	9,000,000	**9,000,000**	9,000,000
One Special Rights Redeemable Preference Share of RM1.00 each (Note a)	**1 share**	1 share	**RM1**	RM1
Redeemable Convertible Preference Shares of RM0.01 each	**100,000,000**	100,000,000	**1,000,000**	1,000,000
Redeemable Convertible Preference Shares of RM0.10 each	**418,000**	418,000	**41,800**	41,800
Redeemable preference shares of RM0.10 each	**1,000**	1,000	**100**	100
	109,419,000	109,419,000	**10,041,900**	10,041,900
Issued and fully paid:				
Ordinary shares of RM1.00 each				
At 1 January	**3,342,156**	1,671,078	**3,342,156**	1,671,078
Issued during the year:				
Rights issue (Note b)	**-**	1,671,078	**-**	1,671,078
At 31 December	**3,342,156**	3,342,156	**3,342,156**	3,342,156
At 1 January/31 December				
One special rights redeemable preference share of RM1.00 each (Note a)	**1 Share**	1 Share	**RM1**	RM1
	3,342,156	3,342,156	**3,342,156**	3,342,156

29. SHARE CAPITAL (CONTINUED)

(a) Special rights redeemable preference share ("Special Share")

The Special Share would enable the Government through the Minister of Finance Incorporated ("MoF") to ensure that certain major decisions affecting the operations of the Company are consistent with the Government's policy. The Special Share, which may only be held by the MoF or its successors or any Minister, representative, or any person acting on behalf of the Government of Malaysia, carries certain special rights as provided by Article 5 of the Company's Articles of Association (as amended at the Extraordinary General Meeting held on 19 April 1995). These special rights include:

(i) the right to appoint not more than three persons at any time as directors of the Company;

(ii) the right to repayment of the capital paid up on the Special Share in priority to any other member in the event of a winding-up of the Company; and

(iii) the right to require the Company to redeem the Special Share at par at any time.

Certain matters, in particular the alterations of specified Articles of Association of the Company, require the prior approval of the holder of the Special Share. The Special Share does not carry any right to vote at General Meetings but the holder is entitled to attend and speak at such meetings.

(b) Rights issue

In 2010, the Company increased its issued and paid-up capital from RM1,671,078,120 to RM3,342,156,240 by way of issuance of 1,671,078,120 ordinary shares of RM1.00 each ("Rights Shares") at an issue price of RM1.60 per ordinary share for:

(a) partial financing for the acquisition of up to 25 wide body aircraft;

(b) general working capital;

(c) repayment of bank borrowings; and

(d) expenses relating to the Rights Shares issue.

The new ordinary shares issued during the financial year ranked pari passu in all respects with the existing ordinary shares of the Company.

30. RESERVES

The nature and purpose of each category of reserves are as follows:

(a) Share premium reserve

The share premium reserve relates to the amount paid by shareholders for shares in excess of the nominal value.

(b) Equity component of RCPS

This reserve represents the fair value of the equity component of RCPS, as determined on the date of issue.

(c) Employee share option reserve

The employee share option reserve represents the equity-settled share options granted to employees. This reserve is made up of the cumulative value of services received from employees recorded on grant of share options.

30. RESERVES (CONTINUED)

(d) Cash flow hedge reserve

The cash flow hedge reserve contains the effective portion of the gain or loss on hedging instruments in cash flow hedges.

(e) General reserve

The general reserve relates to transfers made from retained profits in prior years.

31. DEFERRED TAXATION

	Group	
	2011 RM'000	**2010 RM'000**
At 1 January	**(3,493)**	(34,026)
Recognised in the profit or loss (Note 9)	**2,926**	30,533
At 31 December	**(567)**	(3,493)
Presented after appropriate offsetting as follows:		
Deferred tax assets	**(765)**	(3,495)
Deferred tax liabilities	**198**	2
	(567)	(3,493)

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

Deferred tax liabilities of the Group:

	Accelerated capital allowances RM'000	**Unrealised foreign exchange losses RM'000**	**Total RM'000**
At 1 January 2011	**2,932**	**2**	**2,934**
Recognised in the profit or loss	**27,734**	**(2)**	**27,732**
At 31 December 2011	**30,666**	**-**	**30,666**
At 1 January 2010	4,276	-	4,276
Recognised in the profit or loss	(1,344)	2	(1,342)
At 31 December 2010	2,932	2	2,934

31. DEFERRED TAXATION (CONTINUED)

Deferred tax assets of the Group:

	Unused tax losses and unabsorbed capital allowances RM'000	Provisions RM'000	Total RM'000
At 1 January 2011	**(1,042)**	**(5,385)**	**(6,427)**
Recognised in the profit or loss	**(30,001)**	**5,195**	**(24,806)**
At 31 December 2011	**(31,043)**	**(190)**	**(31,233)**
At 1 January 2010	(35,852)	(2,450)	(38,302)
Recognised in the profit or loss	34,810	(2,935)	31,875
At 31 December 2010	(1,042)	(5,385)	(6,427)

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Unused tax losses	**2,083,042**	799,647	**2,009,271**	773,811
Unabsorbed capital allowances	**110,653**	69,649	**59,370**	59,370
Unutilised investment allowance	**50,705**	9,457	**-**	-
Other deductible temporary differences	**1,588,998**	1,155,235	**1,588,998**	1,155,235
	3,833,398	2,033,988	**3,657,639**	1,988,416

The unused tax losses and unabsorbed capital allowances are available indefinitely for offsetting against future taxable profits of the respective companies in which those items arose, subject to no substantial changes in shareholdings on those subsidiaries under the Income Tax Act, 1967 and guidelines issued by the tax authority.

The Company has been granted an extension of the tax exemption status by the Ministry of Finance on its chargeable income in respect of all sources of income. As such, deferred tax assets have not been recognised in respect of the unused tax losses, unabsorbed capital allowances and other deductible temporary differences.

32. OPERATING LEASE ARRANGEMENTS

(a) The Company as lessor

The Company has entered into non-cancellable operating lease agreements on lease of aircraft and building. These leases have remaining non-cancellable lease terms of between 1 to 10 years.

The future minimum lease payments receivable under non-cancellable operating leases contracted as at reporting date but not recognised as receivables, are as follows:

	Company	
	2011 RM'000	**2010 RM'000**
Due not later than one year	**197,608**	185,395
Due later than one year and not later than five years	**258,509**	251,206
Due later than five years	**172,878**	230,795
	628,995	667,396

(b) The Group and the Company as lessee

The Group and the Company have entered into non-cancellable operating lease agreements on lease of aircraft and for the use of land and office buildings. Leases of aircraft have remaining non-cancellable lease terms of between 5 to 8 years while leases for the use of land and office buildings have an average life between 3 to 50 years with no purchase option included in the agreements.

The future minimum lease payments payables under non-cancellable operating leases contracted as at reporting date but not recognised as liabilities, are as follows:

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Due not later than one year	**1,386,471**	1,981,291	**1,357,412**	1,730,547
Due later than one year and not later than five years	**2,930,663**	4,970,752	**2,877,118**	4,294,509
Due later than five years	**5,643,016**	5,604,595	**5,643,017**	5,145,745
	9,960,150	12,556,638	**9,877,547**	11,170,801

33. SEGMENTAL INFORMATION

(a) Business segments

The Group operates predominantly in two business segments, being airline operations and cargo services:

(i) Airline operations - operation of aircraft for passenger

(ii) Cargo services - operation of aircraft for cargo and mail services

Other business segments include, catering, engineering, computerised reservation services, trucking and warehousing services, retailing of goods, terminal charges and tour and travel related activities, none of which are of a sufficient size to be reported separately.

The Directors are of the opinion that all inter-segment transactions have been entered into in the normal course of business. Belly space charges from Airline to Cargo are based on an internal pricing policy, which is supported and reviewed by external studies prepared by an industry expert. All other inter-segment transactions have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties. These transactions are eliminated on consolidation.

31 December 2011	Airline operations RM'000	Cargo services RM'000	Others RM'000	Elimination RM'000	Total RM'000
Revenue					
External sales	**11,540,406**	**2,053,125**	**60,363**	**-**	**13,653,894**
Inter-segment sales	**1,210,970**	**-**	**44,210**	**(1,255,180)**	**-**
Total revenue	**12,751,376**	**2,053,125**	**104,573**	**(1,255,180)**	**13,653,894**
Results					
Segment results	**(2,360,027)**	**(12,956)**	**16,679**	**(7,884)**	**(2,364,188)**
Finance costs					**(159,424)**
Share of results of associates					**25,332**
Share of results of jointly controlled entity					**(14,604)**
Loss before taxation					**(2,512,884)**
Taxation					**(8,441)**
Net loss for the year					**(2,521,325)**
Assets					
Segment assets	**12,524,178**	**732,570**	**976,674**	**(1,854,754)**	**12,378,668**
Investments in associates	**120,043**	**-**	**-**	**-**	**120,043**
Unallocated assets					**765**
Consolidated total assets					**12,499,476**

33. SEGMENTAL INFORMATION (CONTINUED)

(a) Business segments (continued)

31 December 2010	Airline operations RM'000	Cargo services RM'000	Others RM'000	Elimination RM'000	Total RM'000
Revenue					
External sales	10,558,855	2,356,730	62,811	-	12,978,396
Inter-segment sales	1,088,462	-	45,349	(1,133,811)	-
Total revenue	11,647,317	2,356,730	108,160	(1,133,811)	12,978,396
Results					
Segment results	174,176	142,736	26,097	59,848	402,857
Finance costs					(138,402)
Share of results of associates					27,728
Share of results of jointly controlled entity					(10,147)
Profit before taxation					282,036
Taxation					(44,690)
Net profit for the year					237,346
Assets					
Segment assets	12,494,704	277,550	881,520	(1,308,378)	12,345,396
Investments in associates	101,804	-	-	-	101,804
Investment in jointly controlled entity					2,360
Unallocated assets					3,495
Consolidated total assets					12,453,055

(b) Geographical segments

The following table provides an analysis of the Group's revenue by geographical segment:

	2011 RM'000	2010 RM'000
Revenue		
Orient and North America	**2,526,257**	2,466,264
Europe and Middle East	**3,442,401**	3,548,906
Australia and New Zealand	**2,110,164**	1,870,289
Malaysia	**2,946,989**	2,706,475
Asia	**2,315,934**	2,084,114
Africa and South America	**312,149**	302,348
	13,653,894	12,978,396

The Group's revenue by geographical segment is based on route flown revenue.

Assets, which consist principally of flight and ground equipment that support the entire worldwide transportation system, are mainly located in Malaysia. An analysis of assets and capital expenditure of the Group by geographical distribution is therefore not included.

34. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) In addition to transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year.

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Expenses				
Expenses charged by subsidiaries:				
- Trucking, clearance and warehousing services	**-**	-	**49,660**	42,964
- Other inflight services	**-**	-	**12,926**	11,883
- Hire of aircraft	**-**	-	**2,017**	-
- Inflight meals	**-**	-	**8,441**	8,774
- Rental of premises	**-**	-	**3,078**	3,043
- Handling and cleaning services	**-**	-	**2,356**	2,292
GEESM, an associate				
- Engine maintenance services rendered and purchase of aircraft spares and equipment	**429,695**	331,703	**429,695**	331,703
LSG, an associate				
- Purchase of meals and beverages	**234,240**	229,284	**234,240**	229,284
Abacus International Holding Limited, a company in which the Company has equity interest				
- Computer reservation system access fee	**24,954**	35,353	**24,954**	35,353
Hamilton, an associate				
- Aircraft maintenance services	**10,299**	12,035	**10,299**	12,035
Evergreen Sky Catering Corporation, a company in which the Company has equity interest				
- Catering services	**5,024**	4,884	**5,024**	4,884
Honeywell, an associate				
- Aircraft maintenance services	**4,206**	4,721	**4,206**	4,721
PAPAS, an associate				
- Transit and cabin services	**4,240**	4,432	**4,240**	4,432
Taj Madras, an associate				
- Catering services	**1,435**	1,355	**1,435**	1,355

34. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) In addition to transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year. (continued)

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Expenses (continued)				
Miascor Catering Services, a company in which the Company has equity interest				
- Catering services	**1,388**	1,269	**1,388**	1,269
PMB, a related party:				
- Lease rental paid/payable	**240,053**	-	**240,053**	-
PMB, immediate holding company:				
- Purchase of aircraft	**-**	1,544,798	**-**	1,544,798
- Lease rental paid/payable	**-**	238,785	**-**	238,785
- Prepaid lease	**-**	190,000	**-**	190,000
Aircraft Business Malaysia Sdn. Bhd., a related party:				
- Lease rental paid/payable	**278,680**	-	**278,680**	-
Aircraft Business Malaysia Sdn. Bhd., a fellow subsidiary				
- Lease rental paid/payable	**-**	236,877	**-**	236,877
QPR Holdings Limited, a Club substantially owned by certain Directors of the Company				
- Sponsorship deals	**5,983**	-	**5,983**	-

34. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) In addition to transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year. (continued)

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Income				
Dividend received from:				
- associated companies	-	-	**7,093**	5,713
- subsidiaries	-	-	**4,279**	3,477
Income received from subsidiaries:				
- hire of belly space	-	-	**821,611**	818,840
- aircraft maintenance and overhaul	-	-	**234,705**	155,894
- hire of aircraft	-	-	**90,755**	120,186
- fuel and oil	-	-	**157,240**	44,959
- rental of premises	-	-	**41,391**	41,545
- administrative charges	-	-	**27,874**	25,871
- interest income on finance lease	-	-	**23,353**	17,001
- handling and cleaning services	-	-	**6,770**	5,934
- information technology support	-	-	**16,405**	13,378
- aircraft insurance	-	-	**6,172**	3,296
LSG				
- Rental and shared services income received	**19,593**	19,593	**19,593**	19,593
GEESM				
- Rental and shared services income received	**13,454**	13,224	**13,454**	13,028

The above transactions and transactions detailed elsewhere were undertaken at mutually agreed terms between the parties in the normal course of business and the terms and conditions are established under negotiated terms.

(b) Compensation of key management personnel ("KMP")

Total KMPs' remuneration (including Board of Directors)

	Group and Company	
	2011 RM'000	**2010 RM'000**
Total	**6,518**	5,236

34. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Compensation of key management personnel ("KMP") (continued)

KMPs' remuneration (excluding Board of Directors)

	Group and Company	
	2011 RM'000	**2010 RM'000**
Salaries and other emoluments	**1,682**	1,504
Bonus	**97**	1
Defined contribution plan	**263**	224
	2,042	1,729

For the details of Board of Directors' remuneration, please refer to Note 8.

The share options were granted on the same terms and conditions as those offered to the other employees of the Group (Note 23).

Significant related party transactions with KMPs (including Board of Directors)

Other than as disclosed above, there were no significant related party transactions with KMPs (including Board of Directors) during the financial year.

35. COMMITMENTS

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Due not later than one year				
- approved and contracted for	**5,261,344**	4,512,990	**5,208,277**	4,486,033
- approved but not contracted for	**-**	16,541	**-**	-
	5,261,344	4,529,531	**5,208,277**	4,486,033
Due later than one year				
- approved and contracted for	**5,502,869**	7,448,758	**5,474,216**	7,370,766
- approved but not contracted for	**13,994**	152,457	**13,994**	117,524
	5,516,863	7,601,215	**5,488,210**	7,488,290
Total capital commitments				
- approved and contracted for	**10,764,213**	11,961,748	**10,682,493**	11,856,799
- approved but not contracted for	**13,994**	168,998	**13,994**	117,524
	10,778,207	12,130,746	**10,696,487**	11,974,323

35. COMMITMENTS (CONTINUED)

The outstanding capital commitments of the Group and the Company are as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Purchase of aircraft	**9,936,377**	10,837,331	**9,936,377**	10,837,331
Others	**841,830**	1,293,415	**760,110**	1,136,992
	10,778,207	12,130,746	**10,696,487**	11,974,323

36. CONTINGENT LIABILITIES

(a) Guarantees (unsecured)

	Group and Company	
	2011 RM'000	2010 RM'000
Bank guarantee given to third parties in respect of services provided, and derivatives contracts acquired	**347,021**	353,048
Bank guarantee given to PMB on aircraft lease	**25,369**	18,854
Performance bonds given in respect of services provided to third party	**1,654**	1,896
	374,044	373,798

(b) Liabilities assumed from PMB

	Group and Company	
	2011 RM'000	2010 RM'000
Term loan		
- unsecured	**35,365**	47,790

In connection with the Widespread Asset Unbundling ("WAU") exercise undertaken by the Company in 2002, the Company continues to be the named borrower of term loan which have been taken over by PMB, a company wholly owned by KNB and is still contractually bound to meet the liability in the event PMB defaults on the payments. As such, the outstanding balance of the term loan assumed by PMB is included within the Group's and the Company's contingent liabilities.

The above term loan matures as follows:

	2011 RM'000	2010 RM'000
Due not later than one year	**12,656**	12,595
Due later than one year and not later than five years	**22,709**	35,195
	35,365	47,790

36. CONTINGENT LIABILITIES (CONTINUED)

(c) On 5 April 2006, the Company and MASkargo filed a civil suit in Malaysia against its former Executive Chairman, Tan Sri Tajudin bin Ramli and three other Defendants, Ralph Manfred Gotz, Uwe Juergen Beck and Wan Aishah binti Wan Hamid. The claim against the Defendants is for losses amounting to RM174.6 million for, amongst others, breach of fiduciary duties committed by the Defendants and conspiracy to defraud the Company. The First, Second and Fourth Defendants have filed applications to strike out the suit, whilst the third Defendant has applied to set aside the Service of the Amended Writ of Notice to be Served Out of Jurisdiction on him.

On 23 August 2010, the Court dismissed the First and Fourth Defendant's interlocutory applications to strike out the Plaintiff's claim. On 3 September 2010, the First Defendant served a Counterclaim seeking among others, damages of RM500 million for alleged defamation. On 24 November 2010, the Court dismissed the Second Defendant's interlocutory application to strike out the Plaintiff's claim.

To date, MAS has yet to receive any proposal for settlement and has not engaged in any negotiation with Tan Sri Tajudin bin Ramli with regard to an out of court settlement.

(d) On 26 May 2006, the Company, MAS Golden Holidays Sdn Bhd and MAS Hotels and Boutiques Sdn Bhd (collectively, the "Plantiffs") filed a civil suit ("Original Suit") in the High Court at Kuala Lumpur against its former Executive Chairman, Tan Sri Tajudin bin Ramli and four other Defendants for damages of approximately RM90 million together with further damages to be assessed, resulting from inter alia breach of fiduciary duties and/or knowingly assisting or benefiting from such breach of fiduciary duties.

In response to the Original Suit, Tan Sri Tajudin bin Ramli, Promet (Langkawi) Resorts Sdn Bhd and Kauthar Venture Capital Sdn Bhd had on 9 October 2006 jointly filed and served a defence and counterclaim ("Counter Claim") on the Plaintiffs, the Company directors and the Government alleging that the Defendants in the Counter Claim (except for the Government) had conspired to injure them or had caused injury to them through malicious prosecution of the Original Suit.

The First, Second, Third and Fourth Defendant's application to strike out the Original Suit has been dismissed by the High Court and they have filed an appeal to the Court of Appeal.

To date, MAS has yet to receive any proposal for settlement and has not engaged in any negotiation with Tan Sri Tajudin bin Ramli with regard to an out of court settlement.

(e) (i) Meor Adlin against MAS;
(ii) Stephen Gaffigan against MAS;
(iii) Micah Abrams against MAS;
(iv) Donald Wortman against MAS;
(v) Bruce Hut against MAS; and
(vi) Dickson Leung against MAS;

Between 18 January and 26 March 2008, the Company had been served with various complaints filed in the United States District Court for the Northern District of California (San Francisco) and the United States District Court for the Central District of California (Los Angeles) filed on behalf of various Plaintiffs against the Company and a number of other airlines. The cases involve allegation of price fixing on transpacific passenger fares and related surcharges.

At this juncture, no infringement has been established. The complaint does not make any mention of the quantum of damages sought against the Company. The Company has obtained legal advice in relation to the complaint and has entered into a joint defence agreement with the other defendants. The court allowed the Company's motion to strike out the part of the claims relating to the alleged price-fixing conspiracy prior to 6 November 2003 on the basis that those claims were time-barred. The court also dismissed portions of the claims relating to flights originating in Asia on the basis of lack of jurisdiction. These two rulings have, according to the Company's US lawyers, significantly reduced the potential amount of claims. The cases are proceeding.

36. CONTINGENT LIABILITIES (CONTINUED)

(f) On 15 December 2008, the Company was served with a "Statement of Claim" from the Commerce Commission of New Zealand in relation to its air freight investigation under Section 27 of the Commerce Act. The Statement of Claim does not indicate any quantum of fines that might be ultimately imposed.

The Company filed its defence on 11 December 2009. The trial of the case has started on 11 May 2011 and is ongoing.

(g) On 16 February 2010, the Company at its offices in the United States, was served with a complaint filed in the United States District Court for the Eastern District of New York on behalf of Benchmark Export Services and six other plaintiffs against the Company and eleven other defendants. The case involves allegations of price fixing on airfreight shipping services and related surcharges.

The Company on 11 July 2011 entered into a Settlement Agreement with the plaintiffs by which the Company is to pay a total sum of USD3.35 million as settlement to the plaintiffs. The settlement sum is apparently the lowest to date among the related actions. No admission of any infringement is made under the settlement and the settlement was entered into for the purpose of avoiding more legal costs that would otherwise have been incurred and treble damages that might be awarded by the court under the US antitrust laws had the plaintiffs won.

(h) On 9 April 2010, the Company was served with an "Application and Statement of Claim" from the Australian Competition and Consumer Commission ("ACCC") in relation to its air freight investigation on fuel and security surcharges under the Trade Practices Act 1974. The Statement of Claim does not indicate any quantum of fines that might be ultimately imposed.

The Company is taking legal advice in relation to the Statement of Claim and has replied accordingly to ACCC. The full hearing is expected to begin in late 2012.

(i) On 22 August 2011, the Company was served with a Complaint filed by the Plaintiff in Oklahoma, United States of America alleging that the Company breached the terms of a contract the Company entered into with the Plaintiff in 2008 by not paying to Plaintiff a percentage of the warranty claims received as agreed. The Plaintiff claimed total damages in the amount of USD97.3 million plus unspecified interest.

On 7 October 2011, the Company filed a motion to dismiss the Complaint. On 27 October 2011, the Plaintiff filed a motion for discovery relating to the issues raised in the Company's motion to dismiss. Both motions are currently pending.

37. CONTINGENT ASSETS

The Company has the right to receive from PMB, 80% of the profit arising from the eventual realisation of aircraft unbundled to PMB under the widespread asset unbundling agreement ("WAU Agreement"). The profit will be computed based on the excess of the value realised over the decayed net book value of the aircraft and maintenance costs required in accordance with the contractual redelivery terms. The decayed net book value for each aircraft at future dates is stipulated in the WAU Agreement.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group operates globally and generates revenue in various currencies. The Group's airline operations carry certain financial and commodity risks, including the effects of changes in fuel prices, foreign currency exchange rates and interest rates. The Group's overall risk management approach is to mitigate the effects of such volatility on its financial performance and reflect an inclination towards risk averse policies. The Board periodically reviews and agrees on policies in managing each of these risks.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The Group's policy is not to trade in derivatives but to use these instruments to hedge against anticipated exposures.

(a) Fuel price risk

Fuel price risk is the risk that the future cash flows of the Group will fluctuate because of changes in market prices of fuel.

The Group's earnings are affected by changes in the price of jet fuel as its operating activities in the air transportation business require a continuous supply of fuel for its flights. The Group manages this risk by using instruments such as swaps, options and swaptions. The Group's risk management strategy is to maintain a competitive hedge with regards to its competitors. The Group's risk management policy is to hedge up to 36 months forward with specified maximum and minimum hedge coverage. The percentage hedge is guided by both competitive hedge policy and management judgement.

As at 31 December 2011, the Company has entered into various fuel hedging transactions for periods up to 31 December 2012 in lots totalling 1,350,000 barrels (2010: 4,485,000 barrels).

Sensitivity analysis for fuel price risk

The following table demonstrates the sensitivity of the Group's and the Company's profit net of tax and equity to a reasonably possible change of USD10 per barrel in fuel price with all other variables held constant. The fuel price sensitivity analysis is based on fuel hedging contracts that are still outstanding as at the end of the financial year, as disclosed in Note 41. At the reporting date, if fuel price increases or decreases by USD10 per barrel, the effects are as follows:

	Increase/(Decrease)			
	2011		2010	
Group and Company	**Equity RM'000**	**Profit net of tax RM'000**	**Equity RM'000**	**Profit net of tax RM'000**
Increase in USD10 per barrel	**21,257**	**4,601**	3,145	68,512
Decrease in USD10 per barrel	**(11,818)**	**(2,558)**	(2,803)	(96,082)

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group will fluctuate because of changes in market interest rates.

The Group's earnings are affected by changes in interest rates due to the changes in interest bearing financial assets and liabilities, and operating lease arrangements. The Group's policy in managing its interest rate risk is by maintaining a prudent mix of fixed and floating rate investments and borrowings. To manage this mix in a cost-effective manner, the Group enters into interest rate caps and swaps.

The following tables sets out the carrying amounts of assets/(liabilities), the range of interest rates per annum as at the reporting date and the remaining maturities of the Group's and the Company's financial instruments that are exposed to interest rate risk.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Interest rate risk (continued)

	Note	Effective interest rates %	Within 1 Year RM'000	1-2 Years RM'000	2-3 Years RM'000	3-4 Years RM'000	4-5 Years RM'000	More than 5 Years RM'000	Total RM'000
2011									
Group									
Fixed rate:									
Term deposits	20	**2.74 - 4.99**	**450,350**	**-**	**-**	**-**	**-**	**-**	**450,350**
Term loans	26	**2.98 - 3.02**	**23,706**	**24,427**	**25,171**	**25,937**	**26,727**	**73,390**	**199,358**
Finance leases	28	**2.64 - 9.96**	**113,277**	**120,532**	**127,691**	**204,462**	**134,037**	**1,626,320**	**2,326,319**
Floating rate:									
Negotiable instruments of deposit	19	**4.50**	**101,073**	**-**	**-**	**-**	**-**	**-**	**101,073**
Revolving credit	26	**2.17 - 4.13**	**581,360**	**-**	**-**	**-**	**-**	**-**	**581,360**
Term loans	26	**3.38 - 5.65**	**171,417**	**298,727**	**500,272**	**50,599**	**51,273**	**250,936**	**1,323,224**
Finance leases	28	**3.82 - 6.63**	**70,023**	**73,594**	**380,972**	**36,368**	**37,038**	**222,110**	**820,105**
Company									
Fixed rate:									
Lease rental from a subsidiary	18	**3.64 - 5.27**	**41,135**	**43,755**	**45,695**	**116,161**	**42,199**	**307,052**	**595,997**
Term deposits	20	**3.35 - 4.99**	**422,264**	**-**	**-**	**-**	**-**	**-**	**422,264**
Finance leases	28	**2.64 - 9.96**	**136,002**	**144,087**	**152,106**	**229,768**	**160,267**	**1,699,118**	**2,521,348**
Floating rate:									
Negotiable instruments of deposit	19	**4.50**	**101,073**	**-**	**-**	**-**	**-**	**-**	**101,073**
Revolving credit	26	**2.17 - 4.13**	**581,360**	**-**	**-**	**-**	**-**	**-**	**581,360**
Term loans	26	**3.38 - 4.96**	**121,490**	**250,855**	**450,808**	**-**	**-**	**-**	**823,153**
Finance leases	28	**3.82 - 6.63**	**70,023**	**73,594**	**380,972**	**36,368**	**37,038**	**222,110**	**820,105**

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Interest rate risk (continued)

	Note	Effective interest rates %	Within 1 Year RM'000	1-2 Years RM'000	2-3 Years RM'000	3-4 Years RM'000	4-5 Years RM'000	More than 5 Years RM'000	Total RM'000
2010									
Group									
Fixed rate:									
Term deposits	20	0.03 - 4.82	1,409,344	-	-	-	-	-	1,409,344
Term loans	26	2.98 - 3.02	22,356	23,036	23,737	24,460	25,205	97,282	216,076
Finance leases	28	2.32 - 9.91	49,842	70,088	74,996	80,268	150,249	1,057,734	1,483,177
Floating rate:									
Negotiable instruments of deposit	19	4.50 - 4.90	139,206	-	-	-	-	-	139,206
Revolving credit	26	3.68	50,000	-	-	-	-	-	50,000
Term loans	26	3.38 - 4.96	118,613	100,936	250,939	275,723	175,000	-	921,211
Finance leases	28	4.83 - 6.63	53,057	55,248	57,401	355,494	20,000	90,000	631,200
Company									
Fixed rate:									
Lease rental from a subsidiary	18	3.90 - 5.27	23,060	24,132	25,254	26,430	94,167	135,727	328,770
Term deposits	20	0.03 - 4.82	1,387,131	-	-	-	-	-	1,387,131
Finance leases	28	2.32 - 9.91	71,147	92,171	97,886	103,993	174,841	1,153,957	1,693,995
Floating rate:									
Negotiable instruments of deposit	19	4.50 - 4.90	139,206	-	-	-	-	-	139,206
Revolving credit	26	3.68	50,000	-	-	-	-	-	50,000
Term loans	26	3.38 - 4.96	118,613	100,936	250,939	275,723	175,000	-	921,211
Finance leases	28	4.83 - 6.63	53,057	55,248	57,401	355,494	20,000	90,000	631,200

Sensitivity analysis for interest rate risk

The following table demonstrates the sensitivity of the Group's and the Company's profit net of tax and equity to a reasonably possible change of 25 basis points increase in interest rates with all other variables held constant. The sensitivity analysis includes interest bearing financial liabilities which are at floating rates and interest rate hedging contracts that are still outstanding as at the end of the financial year, as disclosed in Note 41. If the interest rate decreases by 25 basis points, the profit net of tax and equity would change by the same amount in an inversed manner.

	Increase/(Decrease)			
	2011		2010	
Group	**Equity RM'000**	**Profit net of tax RM'000**	**Equity RM'000**	**Profit net of tax RM'000**
Increase in 25 basis points in market interest rates	**(278)**	**(7,598)**	(270)	(6,113)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Interest rate risk (continued)

Sensitivity analysis for interest rate risk (continued)

	Increase/(Decrease)			
	2011		2010	
Company	**Equity RM'000**	**Profit net of tax RM'000**	**Equity RM'000**	**Profit net of tax RM'000**
Increase in 25 basis points in market interest rates	**(278)**	**(6,348)**	(270)	(6,113)

(c) Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of the Group will fluctuate because of changes in foreign exchange rates.

The Group is exposed to the effects of foreign exchange rate fluctuations because of its foreign currency denominated operating revenues and expenses. The Group's largest exposures are from United States Dollar ("USD"), Euro ("EUR"), Great Britain Pound ("GBP"), Japanese Yen ("JPY") and Australian Dollar ("AUD").

Approximately 58% (2010: 58%) of the Group's sales and almost 65% (2010: 64%) of the Group's costs are denominated in foreign currencies. The Group's trade receivables and trade payables balances at the reporting date have similar exposures.

In managing the foreign rate fluctuations, the Group's foreign exchange hedging policy is to hedge up to 12 months forward with specific maximum and minimum percentage of hedge coverage. This approach may mitigate some of the Company's exposure to transaction and translation foreign exchange gain and loss, but the policy is not designed to fully eliminate foreign exchange risk.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's and the Company's profit net of tax and equity to a reasonably possible change of 1% strengthening of respective foreign currencies against the functional currency, with all other variables held constant. The sensitivity analysis includes significant outstanding foreign currency denominated monetary items with their translation at period end adjusted for a 1% change in foreign exchange rates and foreign currency hedging contracts that are still outstanding as at the end of the financial year, as disclosed in Note 41. If the relevant foreign currency weakens by 1% against the functional currency, the equity and profit net of tax would change by the same amounts in an inversed manner.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Foreign exchange risk (continued)

Sensitivity analysis for foreign currency risk (continued)

	Increase/(Decrease)			
	Group		Company	
2011	**Equity RM'000**	**Profit net of tax RM'000**	**Equity RM'000**	**Profit net of tax RM'000**
USD	**-**	**(28,066)**	**-**	**(19,076)**
EUR	**(992)**	**55**	**(992)**	**91**
GBP	**(658)**	**146**	**(658)**	**146**
JPY	**(444)**	**247**	**(444)**	**262**
AUD	**(1,140)**	**785**	**(1,140)**	**804**
2010				
USD	18,997	(14,075)	18,997	(10,510)
EUR	(1,695)	2,299	(1,695)	2,409
GBP	(1,100)	(69)	(1,100)	(69)
JPY	(794)	356	(794)	356
AUD	(2,893)	199	(2,893)	199

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds.

The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group manages its liquidity risk by maintaining sufficient levels of cash or cash convertible investments and available credit facilities to meet its working capital requirements.

Surplus funds are mainly placed in high quality short term liquid instruments, usually term deposits. Some surpluses are placed in NIDs, which are principal protected deposits.

As at 31 December 2011, the Group and the Company is at a net current liabilities position of RM4,379,159,000 and RM4,246,360,000 respectively. Nonetheless, the Group and the Company has met its financial obligation when they fell due during the financial year.

The Group and the Company have already taken a number of significant positive actions to ensure that they will continue to have sufficient funds to meet all its operational and financial obligations as and when they fall due in the coming financial year. These initiatives, inter alia, include the following:

i. Secured funding commitment from investors in respect of an issuance of equity hybrid financing instrument;

ii. Secured a short term advance from a local financial institution amounting to RM1,000,000,000 for a 6 month period, extendible by another 6 months to serve as bridge finance prior to receipt of the proceeds from the issuance of the equity hybrid instrument mentioned above;

iii. Obtained the agreement of its major shareholder to provide its financial support to fund capital expenditure and, if and when required and subject to targets to be agreed, working capital of the Company; and

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk (continued)

iv. Very close monitoring of the Group's and the Company's cash flow position including potential monetisation of certain non-core assets.

The Directors are also finalising various other options of financing, including but not limited to bank borrowings and aircraft financing.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

2011 Group	Note	On demand or within 1 year RM'000	Between 1 and 2 Years RM'000	Between 2 and 3 Years RM'000	Between 3 and 4 Years RM'000	Between 4 and 5 Years RM'000	Over 5 Years RM'000	Total Contractual Cash Flow RM'000	Carrying amount RM'000
Non-derivative financial liabilities									
Trade and other payables	24	2,643,899	-	-	-	-	-	2,643,899	2,643,899
Term loan	26	230,858	299,533	465,664	274,173	93,755	357,222	1,721,205	1,522,582
Finance lease	28	345,629	346,259	649,106	356,043	271,003	2,109,496	4,077,536	3,146,424
Revolving credit	26	590,711	-	-	-	-	-	590,711	581,360
RCPS Liability Component	26	415,127	-	-	-	-	-	415,127	419,628
		4,226,224	645,792	1,114,770	630,216	364,758	2,466,718	9,448,478	8,313,893
Derivative financial assets/ (liabilities)									
Fuel hedging contracts	41	5,246	-	-	-	-	-	5,246	5,246
Interest rate hedging contracts	41	(15,895)	(11,526)	(1,693)	(1,733)	(1,817)	(1,797)	(34,461)	(34,461)
Foreign currency hedging contracts	41	829	-	-	-	-	-	829	829
		(9,820)	(11,526)	(1,693)	(1,733)	(1,817)	(1,797)	(28,386)	(28,386)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk (continued)

2011 Company	Note	On demand or within 1 year RM'000	Between 1 and 2 Years RM'000	Between 2 and 3 Years RM'000	Between 3 and 4 Years RM'000	Between 4 and 5 Years RM'000	Over 5 Years RM'000	Total Contractual Cash Flow RM'000	Carrying amount RM'000
Non-derivative financial liabilities									
Trade and other payables	24	2,643,548	-	30,466	-	-	-	2,674,014	2,674,014
Term loan	26	130,456	202,276	369,067	178,749	-	-	880,548	823,153
Finance lease	28	375,047	375,677	678,524	385,462	300,421	2,186,015	4,301,146	3,341,453
Revolving credit	26	590,711	-	-	-	-	-	590,711	581,360
RCPS Liability Component	26	415,127	-	-	-	-	-	415,127	419,628
		4,154,889	577,953	1,078,057	564,211	300,421	2,186,015	8,861,546	7,839,608
Derivative financial assets/ (liabilities)									
Fuel hedging contracts	41	5,246	-	-	-	-	-	5,246	5,246
Interest rate hedging contracts	41	(15,895)	(11,526)	(1,693)	(1,733)	(1,817)	(1,797)	(34,461)	(34,461)
Foreign currency hedging contracts	41	829	-	-	-	-	-	829	829
		(9,820)	(11,526)	(1,693)	(1,733)	(1,817)	(1,797)	(28,386)	(28,386)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk (continued)

2010 Group	Note	On demand or within 1 year RM'000	Between 1 and 2 Years RM'000	Between 2 and 3 Years RM'000	Between 3 and 4 Years RM'000	Between 4 and 5 Years RM'000	Over 5 Years RM'000	Total Contractual Cash Flow RM'000	Carrying amount RM'000
Non-derivative financial liabilities									
Trade and other payables	24	2,240,044	-	-	-	-	-	2,240,044	2,240,044
Term loan	26	162,772	159,043	230,863	397,654	207,336	102,945	1,260,613	1,137,287
Finance lease	28	244,341	247,078	246,280	540,485	253,124	1,360,037	2,891,345	2,114,377
Revolving credit	26	50,459	-	-	-	-	-	50,459	50,000
RCPS Liability Component	26	12,454	427,581	-	-	-	-	440,035	407,116
		2,710,070	833,702	477,143	938,139	460,460	1,462,982	6,882,496	5,948,824
Derivative financial liabilities									
Fuel hedging contracts	41	(26,772)	5,163	-	-	-	-	(21,609)	(21,609)
Interest rate hedging contracts	41	(10,679)	(10,365)	(6,764)	1,092	820	(101)	(25,997)	(25,997)
Foreign currency hedging contracts	41	(70,629)	-	-	-	-	-	(70,629)	(70,629)
		(108,080)	(5,202)	(6,764)	1,092	820	(101)	(118,235)	(118,235)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk (continued)

2010 Company	Note	On demand or within 1 year RM'000	Between 1 and 2 Years RM'000	Between 2 and 3 Years RM'000	Between 3 and 4 Years RM'000	Between 4 and 5 Years RM'000	Over 5 Years RM'000	Total Contractual Cash Flow RM'000	Carrying amount RM'000
Non-derivative financial liabilities									
Trade and other payables	24	2,227,900	-	-	24,714	-	-	2,252,614	2,252,614
Term loan	26	134,185	130,456	202,276	369,067	178,749	-	1,014,733	921,211
Finance lease	28	272,922	275,665	274,867	569,072	281,711	1,462,981	3,137,218	2,325,195
Revolving credit	26	50,459	-	-	-	-	-	50,459	50,000
RCPS Liability Component	26	12,454	427,581	-	-	-	-	440,035	407,116
		2,697,920	833,702	477,143	962,853	460,460	1,462,981	6,895,059	5,956,136
Derivative financial liabilities									
Fuel hedging contracts	41	(26,772)	5,163	-	-	-	-	(21,609)	(21,609)
Interest rate hedging contracts	41	(10,679)	(10,365)	(6,764)	1,092	820	(101)	(25,997)	(25,997)
Foreign currency hedging contracts	41	(70,629)	-	-	-	-	-	(70,629)	(70,629)
		(108,080)	(5,202)	(6,764)	1,092	820	(101)	(118,235)	(118,235)

The amounts included in the table are the contractual undiscounted cash flows, except for derivative financial instruments, which are included at their fair value. As a result, these amount will not reconcile to the amounts disclosed at the reporting date except for trade and other payables where discounting is not applied.

(e) Credit risk

Credit risk is the potential loss from a transaction in the event of default by the counterparty during the term of the transaction or on settlement of the transaction.

Credit exposure is measured as the cost to replace existing transactions should the counterparty default. The Group has credit risk associated with travel agents, industry settlement organisations and credit provided to direct customers.

The Group's objective is to maximise profitability and minimise write-offs by maintaining credit risk exposure within acceptable parameters. The Group minimises its exposure to credit risk through the application of stringent credit policies and accreditation of travel agents through industry programmes. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, active customer credit and accounts are monitored on an ongoing basis with the results that no credit limits were exceeded during the financial year and the Group's exposure to bad debts is not significant.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Credit risk (continued)

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position, including derivatives with positive fair values.

Trade receivables mainly consist of passenger and freight sales due from agencies and other airlines (for interline services provided).

Most of the agencies are accredited by the International Air Transport Association ("IATA") and connected to the IATA settlement systems. IATA checks the creditworthiness of such agencies and collects collateral according to local industry practices, when required. As a result of the broad diversification worldwide also, the credit risk for these agencies are relatively low.

Receivables and payables between airlines are generally settled bilaterally or through the IATA Clearing House, unless expressly specified otherwise in the contract. The weekly settlement of these balances leads to a significant reduction in default risk.

For all other service contracts, depending on the type and volume of the contracts involved, collateral is required subject to credit verification procedures to avoid defaults in payment.

Deposits with banks and other financial institutions and derivatives are placed with or entered with reputable financial institutions with no history of default.

39. FINANCIAL INSTRUMENTS

The accounting policies in Note 2.5(t) and Note 2.5(u) describe how the categories of financial instruments are measured, and how income and expenses, including changes in fair value, are recognised.

The table below reflects the financial assets and liabilities in the statement of financial position by the categories of financial instrument to which they are assigned:

	Note	Loans and receivables RM'000	Available for-sale financial assets RM'000	Other financial liabilities RM'000	Derivatives used for hedging RM'000	Total RM'000
2011						
Group						
Assets						
Investments in associates	13	-	**120,043**	-	-	**120,043**
Other investments	15	-	**54,599**	-	-	**54,599**
Trade and other receivables	18	**1,611,736**	-	-	-	**1,611,736**
Negotiable instruments of deposit	19	**101,073**	-	-	-	**101,073**

39. FINANCIAL INSTRUMENTS (CONTINUED)

	Note	Loans and receivables RM'000	Available for-sale financial assets RM'000	Other financial liabilities RM'000	Derivatives used for hedging RM'000	Total RM'000
2011						
Group						
Assets (continued)						
Cash and bank balances	20	**1,014,464**	-	-	-	**1,014,464**
Total financial assets		**2,727,273**	**174,642**	-	-	**2,901,915**
Total non-financial assets						**9,597,561**
Total assets						**12,499,476**
Liabilities						
Trade and other payables	24	-	-	**2,643,899**	-	**2,643,899**
Borrowings	26	-	-	**5,669,994**	-	**5,669,994**
Derivative financial instruments	41	-	-	-	**28,386**	**28,386**
Total financial liabilities		-	-	**8,313,893**	**28,386**	**8,342,279**
Total non-financial liabilities						**3,101,050**
Total liabilities						**11,443,329**
2011						
Company						
Assets						
Investments in subsidiaries	12	-	**160,345**	-	-	**160,345**
Investments in associates	13	-	**88,274**	-	-	**88,274**
Other investments	15	-	**54,599**	-	-	**54,599**
Trade and other receivables	18	**2,297,381**	-	-	-	**2,297,381**
Negotiable instruments of deposit	19	**101,073**	-	-	-	**101,073**
Cash and bank balances	20	**915,425**	-	-	-	**915,425**
Total financial assets		**3,313,879**	**303,218**	-	-	**3,617,097**
Total non-financial assets						**8,381,650**
Total assets						**11,998,747**

39. FINANCIAL INSTRUMENTS (CONTINUED)

	Note	Loans and receivables RM'000	Available for-sale financial assets RM'000	Other financial liabilities RM'000	Derivatives used for hedging RM'000	Total RM'000
2011						
Company						
Liabilities						
Trade and other payables	24	**-**	**-**	**2,674,014**	**-**	**2,674,014**
Borrowings	26	**-**	**-**	**5,165,594**	**-**	**5,165,594**
Derivative financial instruments	41	**-**	**-**	**-**	**28,386**	**28,386**
Total financial liabilities		**-**	**-**	**7,839,608**	**28,386**	**7,867,994**
Total non-financial liabilities						**3,037,555**
Total liabilities						**10,905,549**
2010						
Group						
Assets						
Investments in associates	13	-	101,804	-	-	101,804
Investments in jointly controlled entity	14	-	2,360	-	-	2,360
Other investments	15	-	54,604	-	-	54,604
Trade and other receivables	18	1,814,761	-	-	-	1,814,761
Negotiable instruments of deposit	19	139,206	-	-	-	139,206
Cash and bank balances	20	2,085,451	-	-	-	2,085,451
Total financial assets		4,039,418	158,768	-	-	4,198,186
Total non-financial assets						8,254,869
Total assets						12,453,055
Liabilities						
Trade and other payables	24	-	-	2,240,044	-	2,240,044
Borrowings	26	-	-	3,708,780	-	3,708,780
Derivative financial instruments	41	-	-	-	118,235	118,235
Total financial liabilities		-	-	5,948,824	118,235	6,067,059
Total non-financial liabilities						2,848,752
Total liabilities						8,915,811

39. FINANCIAL INSTRUMENTS (CONTINUED)

	Note	Loans and receivables RM'000	Available for-sale financial assets RM'000	Other financial liabilities RM'000	Derivatives used for hedging RM'000	Total RM'000
2010						
Company						
Assets						
Investments in subsidiaries	12	-	160,194	-	-	160,194
Investments in associates	13	-	81,274	-	-	81,274
Other investments	15	-	54,604	-	-	54,604
Trade and other receivables	18	2,181,482	-	-	-	2,181,482
Negotiable instruments of deposit	19	139,206	-	-	-	139,206
Cash and bank balances	20	2,012,667	-	-	-	2,012,667
Total financial assets		4,333,355	296,072	-	-	4,629,427
Total non-financial assets						7,672,214
Total assets						12,301,641
Liabilities						
Trade and other payables	24	-	-	2,252,614	-	2,252,614
Borrowings	26	-	-	3,703,522	-	3,703,522
Derivative financial instruments	41	-	-	-	118,235	118,235
Total financial liabilities		-	-	5,956,136	118,235	6,074,371
Total non-financial liabilities						2,832,004
Total liabilities						8,906,375

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

The different methods of estimating the fair value of financial instruments have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The fair value of financial instruments, by valuation method, are summarised in the table below:

2011	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Unquoted investments	**-**	**-**	**54,599**	**54,599**
Derivative financial instruments	**-**	**28,386**	**-**	**28,386**
Net financial instruments measured at fair value	**-**	**28,386**	**54,599**	**82,985**
2010				
Unquoted investments	-	-	54,604	54,604
Derivative financial instruments	-	118,235	-	118,235
Net financial instruments measured at fair value	-	118,235	54,604	172,839

Financial instruments carried at amount other than fair value

Set out below is a comparison by category of carrying amounts and fair values of all of the Group and the Company's financial instruments that are carried in the financial statements at amounts other than fair values as at 31 December 2011.

	Group		Company	
	Carrying amount 2011 RM'000	Fair value 2011 RM'000	Carrying amount 2011 RM'000	Fair value 2011 RM'000
Financial assets:				
- Staff loans	**105,848**	**63,932**	**105,848**	**63,932**
- Refundable deposits	**71,454**	**69,433**	**71,454**	**69,433**
Financial liabilities:				
- Term loans	**1,522,582**	**1,544,072**	**823,153**	**823,153**
- RCPS	**419,628**	**408,328**	**419,628**	**408,328**

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments carried at amount other than fair value (continued)

The methods and assumptions used by management to determine fair values of financial instruments other than those whose carrying amounts reasonably approximate their fair values as mentioned earlier, are as follows:

Financial assets and liabilities	Methods and assumptions
- Other receivables - Term loans - RCPS	Fair value has been determined using discounted estimated cash flows. Where repayment terms are not fixed, future cash flows are projected based on management's best estimates. The discount rates used are the current market incremental lending rates for similar types of lending, borrowing and leasing arrangements.

41. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

	2011		2010	
Group and Company	**Notional Value**	**Fair value Assets/ (Liabilities) RM'000**	**Notional Value**	**Fair value Liabilities RM'000**
Cash flow hedges				
Fuel hedging contracts (Barrels'000)	**1,350**	**5,246**	4,485	(21,609)
Interest rate hedging contracts (RM'000)	**1,702,245**	**(34,461)**	1,355,485	(25,997)
Foreign currency hedging contracts (RM'000)	**350,732**	**829**	2,603,528	(70,629)
		(28,386)		(118,235)
Analysed as:				
Current		**(9,820)**		(108,080)
Non-current		**(18,566)**		(10,155)
		(28,386)		(118,235)

The fair value of the hedging contracts above are based on forward curve/prices as at 31 December 2011 and 31 December 2010 respectively, as disclosed in Note 2.5(z).

(a) Fuel hedging contracts

The Group and the Company held swaps, options and swaptions designated as hedge of highly probable forecast fuel purchases to reduce the volatility of cash flows. The contracts are intended to hedge the volatility of the purchase price of fuel for a period up to 36 months forward.

The amounts retained in other comprehensive income at 31 December 2011 are expected to mature and affect the profit or loss by a loss of RM12,840,000 (2010: gain of RM2,720,000) in 2012.

There were no highly probable transactions for which hedge accounting had previously been used, which is no longer expected to occur.

The cash flow hedges of the highly probable forecast fuel purchases were assessed to be highly effective and as at 31 December 2011, a net unrealised loss of RM6,330,000 (2010: net unrealised gain of RM2,720,000) was included in other comprehensive income in respect of these contracts.

41. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

(a) Fuel hedging contracts (continued)

The amount removed from other comprehensive income during the financial year and included in profit or loss is RM9,230,000 (2010: RM Nil).

The ineffectiveness recognised in the profit or loss during the financial year was as disclosed in Note 5.

(b) Interest rate hedging contracts

As at 31 December 2011, the Group and the Company have interest rate caps and swaps at contracted interest rates varying from 2.1% to 5.0% (2010: 2.1% to 5.0%) per annum. The contracts are intended to hedge the volatility of interest rates for up to maximum 80% of the floating interest rate risk exposure of any financial year.

The amounts retained in other comprehensive income at 31 December 2011 are expected to mature and affect the profit or loss by a loss of RM16,460,000 (2010: loss of RM3,240,000) between 2012 to 2018.

There were no highly probable transactions for which hedge accounting had previously been used, which is no longer expected to occur.

The cash flow hedges of some of the interest rate contracts were assessed to be highly effective and as at 31 December 2011, a net unrealised loss of RM13,220,000 (2010: net unrealised loss of RM3,240,000) was included in other comprehensive income in respect of these contracts.

The ineffectiveness recognised in the profit or loss during the financial year was as disclosed in Note 5.

(c) Foreign currency hedging contracts

The Group has forward currency contracts outstanding at 31 December 2011 designated as hedges of firm commitment, highly probable future payments and net revenue denominated in foreign currencies.

The amount retained in other comprehensive income at 31 December 2011 are expected to mature and affect the profit or loss by a gain of RM1,080,000 (2010: loss of RM57,880,000 and carrrying amount by RM11,605,000) in 2012.

The terms of the forward currency contracts have been negotiated to match the terms of the commitments. There were no highly probable transactions for which hedge accounting had previously been used, which is no longer expected to occur.

The cash flow hedges of the firm commitment, highly probable future payments and net revenue denominated in foreign currencies were assessed to be effective and a net unrealised loss of RM56,105,000 (2010: net unrealised loss of RM69,485,000) relating to the hedging instruments is included in other comprehensive income.

The amount removed from other comprehensive income during the financial year and included in profit or loss or the carrying amount of the hedging items as a basis adjustment is as follows:

	Group and Company	
	2011 RM'000	2010 RM'000
Profit or loss	**107,990**	25,270
Carrying amount of hedging items	**18,680**	6,800

The ineffectiveness recognised in the profit or loss during the financial year was as disclosed in Note 5.

42. CAPITAL MANAGEMENT

The Group's primary objective in managing its capital is to maximise the Group's value by optimising its capital structure and enhancing capital efficiency while maintaining a sufficient level of liquidity.

The Group targets a capital structure of an optimal mix of debt and equity in order to achieve an efficient cost of capital vis-a-vis maintaining financial flexibility for its business requirement and investing for future growth. The Group regularly reviews and manages its capital structure in accordance to the changes in economic conditions, its business plans and future commitments.

The Group uses the gearing ratio, which is total debt divided by total equity attributable to equity holders of the Company, as the key measurement for its capital structure management.

The gearing ratio as at 31 December 2011 and 2010 were as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Total Debt	**5,669,994**	3,708,780	**5,165,594**	3,703,522
Total Equity	**1,056,147**	3,537,244	**1,093,198**	3,395,266
Gearing ratio (times)	**5.4**	1.0	**4.7**	1.1

The Group did not breach any gearing requirements during the financial years ended 31 December 2011 and 31 December 2010.

No changes were made in the objectives, policies or processes in regards to the Group's management of its capital structure during the financial years ended 31 December 2011 and 31 December 2010.

43. SIGNIFICANT EVENTS

(a) On 29 December 2011, the Company announced that its immediate holding company, PMB, has disposed its remaining shareholdings in the Company to KNB. Hence, all of the Company's shares previously held indirectly by KNB through PMB, are now held directly by KNB.

(b) On 7 December 2011, the Company announced its Business Plan - Our Way Forward ("Business Plan"). The Business Plan outlines the Company near-term recovery plan to profitability by 2013, as well as a set of 'game changers' to sustain performance and create a platform for continued growth for the Company.

(c) On 9 August 2011, the MAS entered into a Comprehensive Collaboration Framework ("CCF") with Air Asia Berhad ("AirAsia") and Air Asia X Sdn. Bhd. which includes a Collaboration Agreement to explore opportunities to co-operate on a broad range of areas. Under the CCF, all parties will strive to complement each other's businesses so as to leverage on their respective core competencies and optimise efficiency for the benefit of consumers.

(d) On 9 August 2011, on behalf of the Board of Directors of the Company ("Board"), CIMB Investment Bank Berhad announced that the Company is proposing to enter into a warrants exchange exercise with AirAsia ("Proposed Warrants Exchange").

The Proposed Warrants Exchange involves MAS issuing free warrants ("MAS Warrants") to AirAsia's ordinary shareholders and in exchange, AirAsia will be issuing free warrants ("AirAsia Warrants") to MAS's ordinary shareholders.

43. SIGNIFICANT EVENTS (CONTINUED)

(d) (continued)

The Proposed Warrants Exchange will not raise any funds for MAS as MAS Warrants will be issued for free to the shareholders of AirAsia.

The Proposed Warrants Exchange is subject to and conditional upon approvals being obtained from the following:

(i) Bursa Securities, for the following:

1. the admission of the MAS Warrants and AirAsia Warrants to the Official List of Bursa Securities; and

2. the listing of and quotation for the MAS Warrants and AirAsia Warrants as well as the new MAS and AirAsia Shares to be issued arising from the exercise of the MAS Warrants and AirAsia Warrants, on the Main Market of Bursa Securities;

(ii) Bank Negara Malaysia, for the issuance of the MAS Warrants and AirAsia Warrants to non-resident shareholders;

(iii) the approval of the Securities Commision ("SC");

(iv) MAS's shareholders for the Proposed Warrants Exchange at an extraordinary general meeting ("EGM") to be convened;

(v) AirAsia's shareholders for the Proposed Warrants Exchange at an EGM to be convened;

(vi) all relevant parties for AirAsia to undertake the Proposed Warrants Exchange; and

(vii) any other relevant authorities and/or parties, if required.

BNM and SC has approved the Proposed Warrants Exchange on 4 November 2011 and 4 January 2012 respectively.

There was no other significant event for the financial year ended 31 December 2011.

44. SUBSEQUENT EVENTS

(a) On 19 January 2012, the Company subscribed for two ordinary shares of RM1.00 each of MAS Airline System Sdn. Bhd., for a consideration of RM2, by way of cash. With effect from that date, MAS Airline System Sdn. Bhd. became a wholly-owned subsidiary of the Company.

(b) On 10 January 2012, the Company incorporated an off-shore company, Malaysia Airlines Capital IV (L) Limited with a paid up capital of USD1.00 (equivalent to RM3.14). With effect from that date, Malaysia Airlines Capital IV (L) Limited became a wholly-owned subsidiary of the Company.

(c) On 3 January 2012, the Company subscribed for 250 ordinary shares of USD1.00 each of Malaysia Airlines Capital IV Cayman Limited, an off-shore company, for a consideration of USD250 (equivalent to RM788), by way of cash. With effect from that date, Malaysia Airlines Capital IV Cayman Limited became a wholly-owned subsidiary of the Company.

There was no other material subsequent event for the financial year ended 31 December 2011.

45. DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors do not recommend any dividend in respect of the financial year ended 31 December 2011.

46. COMPARATIVES

The following statement of financial position and income statement comparative figures have been reclassified to conform with current year's presentation:

	As previously stated RM'000	**Re-classification RM'000**	**As restated RM'000**
2010			
Group			
Trade and other receivables	1,351,207	20,979	1,372,186
Trade and other payables	(2,219,065)	(20,979)	(2,240,044)
Operating revenue	12,980,447	(2,051)	12,978,396
Operating expenditure	(13,323,737)	(85,390)	(13,409,127)
Fair value change of derivatives (previously Derivative gain)	138,984	25,267	164,251
Unrealised foreign exchange gain	-	62,174	62,174
2010			
Company			
Trade and other payables (current)	2,252,614	(24,714)	2,227,900
Trade and other payables (non-current)	-	24,714	24,714
Operating revenue	11,106,582	(2,051)	11,104,531
Operating expenditure	(11,563,110)	(45,295)	(11,608,405)
Fair value change of derivatives (previously Derivative gain)	138,984	25,267	164,251
Unrealised foreign exchange gain	-	22,079	22,079
2009			
Company			
Trade and other payables (current)	1,997,384	(12,778)	1,984,606
Trade and other payables (non-current)	-	12,778	12,778

47. CURRENCY

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

48. SUPPLEMENTARY INFORMATION - DISCLOSURE ON REALISED AND UNREALISED PROFITS OR LOSSES

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued guidance on the disclosure and the format required.

The breakdown of accumulated losses of the Group as at 31 December 2011 and 31 December 2010, into realised and unrealised losses, pursuant to the directives, is as follows:

	Company and Subsidiaries RM '000	Associated Companies RM '000	Jointly Controlled Entity RM '000	Consolidation Adjustments RM '000	Group Accumulated Losses RM '000
31 December 2011					
Realised Losses	**(7,935,462)**	**(3,709)**	**(26,317)**	**67,291**	**(7,898,197)**
Unrealised Losses	**(16,646)**	**(922)**	**(175)**	**-**	**(17,743)**
	(7,952,108)	**(4,631)**	**(26,492)**	**67,291**	**(7,915,940)**
31 December 2010					
Realised Losses	(5,724,005)	(20,847)	(11,524)	256,193	(5,500,183)
Unrealised Profits/ (Losses)	110,618	(2,023)	(364)	-	108,231
	(5,613,387)	(22,870)	(11,888)	256,193	(5,391,952)

The determination of realised and unrealised profits or losses is based on the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits or losses above has been made solely for complying with the disclosure requirements as stipulated in the directives of Bursa Malaysia and should not be applied for any other purposes.

ANALYSIS OF SHAREHOLDINGS

STATEMENT OF SHAREHOLDINGS
as at 8 May 2012

Share Capital

Our authorized, and issued and fully paid-up share capital as at 8 May 2012 are as follows:

Type	No. of shares	Par value RM	Total RM
Authorised			
Ordinary Shares	9,000,000,000	1.00	9,000,000,000
Special Rights Redeemable Preference Share	1	1.00	1
Redeemable Convertible Preference Shares - Redeemed	100,000,000,000	0.01	1,000,000,000
Redeemable Preference Shares	1,000,000	0.10	100,000
Redeemable Convertible Preference Shares	418,000,000	0.10	41,800,000
Total			10,041,900,001
Issued and paid-up			
Ordinary Shares	3,342,156,240	1.00	3,342,156,240
Special Rights Redeemable Preference Share	1	1.00	1
Redeemable Preference Shares	500	0.10	50
Redeemable Convertible Preference Shares	415,127,155	0.10	41,512,715.50
Total			3,383,669,006.50

STATEMENT OF SHAREHOLDINGS (Continued)
as at 8 May 2012

Changes in our Share Capital

The changes in our issued and paid-up share capital since the date of incorporation up to 8 May 2012 are as follows:

Date of allotment	No. of shares allotted	Par value RM	Consideration/Type of issue	Total issued and paid-up share capital RM
Ordinary shares				
03.04.71	2	1.00	Subscribers' shares	2
02.08.71	5,000,000	1.00	Cash	5,000,002
13.09.71	12,500,000	1.00	Cash	17,500,002
08.11.71	8,500,000	1.00	Cash	26,000,002
18.02.72	14,000,000	1.00	Cash	40,000,002
18.10.72	2,167,982	1.00	Cash	42,167,984
22.11.72	21,999,998	1.00	Cash	64,167,982
28.12.76	2,416,009	1.00	Cash	66,583,991
29.07.77	2,416,009	1.00	Cash	69,000,000
09.04.79	1,000,000	1.00	Cash	70,000,000
12.09.85	210,000,000	1.00	Bonus issue on the basis of 3 new shares for every 1 Share	280,000,000
21.11.85	70,000,000	1.00	Public issue at RM1.80 per share	350,000,000
13.11.92	350,000,000	1.00	Rights issue on the basis of 1 new share for every 1 share at RM5.00 per Share	700,000,000
22.05.96	70,000,000	1.00	Private placement at RM8.00 per share	770,000,000

STATEMENT OF SHAREHOLDINGS (Continued)
as at 8 May 2012

Changes in our Share Capital (Continued)

Date of allotment	No. of shares allotted	Par value RM	Consideration/Type of issue	Total issued and paid-up share capital RM
Share (continued)				
15.01.03	483,243,865	1.00	In satisfaction of the surplus of the liabilities unbundled by MAS to PMB over the total aggregate value of the aircraft assets to be unbundled by MAS to PMB at RM3.85 per share	1,253,243,865
05.11.07	417,747,955	1.00	Rights issue on the basis of 1 new share for every 3 shares at RM2.70 per share	1,670,991,820
06.08.08	2,000	1.00	By way of MAS ESOS allotment	1,670,993,820
20.08.08	8,300	1.00	By way of MAS ESOS allotment	1,671,002,120
04.02.09	60,000	1.00	Allotment of shares by way of RCPS conversion	1,671,062,120
13.07.09	16,000	1.00	Allotment of shares by way of RCPS conversion	1,671,078,120
11.03.10	1,671,078,120	1.00	Rights Issue on the basis of 1 new share for every 1 share at RM1.60 per share	3,342,156,240
Special Rights Redeemable Preference Share (SRRPS)				
12.09.85	1	1.00	Special Share- Issued to MoF for cash	1
Redeemable Convertible Preference Shares (RCPS)				
11.09.01	800,000,000	0.01	RCPS - Issued at RM1.00 each to Intelek Perkasa Berhad for cash	8,000,000.00
11.09.06	(800,000,000)	0.01	RCPS - Redeemed	-

STATEMENT OF SHAREHOLDINGS (Continued)
as at 8 May 2012

Changes in our Share Capital (Continued)

Date of allotment	No. of shares allotted	Par value RM	Consideration/Type of issue	Total issued and paid-up share capital RM
05.11.07	417,747,955	0.10	RCPS - Rights issue on the basis of 1 RCPS share for every 3 ordinary shares at RM1.00 per RCPS	41,774,795.50
08.01.09	(680,400)	0.10	Redemption by way of cash settlement	41,706,755.50
15.01.09	(599,400)	0.10	Redemption by way of cash settlement	41,646,815.50
22.01.09	(97,200)	0.10	Redemption by way of cash settlement	41,637,095.50
04.02.09	(243,000)	0.10	Conversion by way of issuance of ordinary shares	41,612,795.50
13.07.09	(64,800)	0.10	Conversion by way of issuance of ordinary shares	41,606,315.50
06.08.09	(3,000)	0.10	Redemption by way of cash settlement	41,606,015.50
14.01.10	(933,000)	0.10	Redemption by way of cash settlement	41,512,715.50
Redeemable Preference Shares (RPS)				
31.01.07	500	0.10	RPS - Issued at RM1.00 each to CIMB Bank Berhad	50

ORDINARY SHARE
30 LARGEST SHAREHOLDERS
as at 8 May 2012

No.	Name	No. of Shares	%
1	Khazanah Nasional Berhad	2,218,218,317	66.37
2	Citigroup Nominees (Tempatan) Sdn. Bhd. <Employees Provident Fund Board>	278,955,620	8.35
3	CIMSEC Nominees (Tempatan) Sdn. Bhd. <Khazanah Nasional Berhad (MAS ESOS Pool)>	100,259,510	3.00
4	Amanahraya Trustees Berhad <Skim Amanah Saham Bumiputera>	73,035,867	2.19
5	Warisan Harta Sabah Sdn. Bhd.	50,302,884	1.51
6	State Financial Secretary Sarawak	45,833,333	1.37
7	Chief Minister, State of Sabah	29,809,116	0.89
8	Citigroup Nominees (Tempatan) Sdn. Bhd. <Exempt An for American International Assurance Berhad>	22,158,200	0.66
9	Maybank Nominees (Tempatan) Sdn. Bhd. <Maybank Trustees Berhad for Public Regular Savings Fund (N14011940100)>	16,746,000	0.50
10	Amanahraya Trustees Berhad <Public Sector Select Fund>	14,369,900	0.43
11	Cartaban Nominees (Asing) Sdn. Bhd. <State Street London Fund MATF for Marathon New Global Fund Plc>	12,139,568	0.36
12	Citigroup Nominees (Tempatan) Sdn. Bhd. <Employees Provident Fund Board (Nomura)>	10,000,000	0.30
13	Amanahraya Trustees Berhad <Public Savings Fund>	8,534,000	0.26
14	Mohamed Faroz bin Mohamed Jakel	8,474,000	0.25
15	ECML Nominees (Asing) Sdn. Bhd. <DMG & Partners Securities Pte Ltd for Keen Capital Investments Ltd (N2-60391) (009)>	7,350,000	0.22

ORDINARY SHARE
30 LARGEST SHAREHOLDERS (Continued)
as at 8 May 2012

No.	Name	No. of Shares	%
16	Mega First Housing Development Sdn. Bhd.	6,369,800	0.19
17	CIMB Group Nominees (Tempatan) Sdn. Bhd. <CIMB Bank Berhad (EDP 2)>	5,847,000	0.17
18	Citigroup Nominees (Tempatan) Sdn. Bhd. <Employees Provident Fund Board (CIMB PRIN)>	4,229,300	0.13
19	Citigroup Nominees (Tempatan) Sdn. Bhd. <Employees Provident Fund Board (AM INV)>	4,000,000	0.12
20	RCI Ventures Sdn. Bhd.	3,935,000	0.12
21	HSBC Nominees (Asing) Sdn. Bhd. <Exempt An for the Bank of New York Mellon (Mellon Acct)>	3,884,292	0.12
22	HSBC Nominees (Asing) Sdn. Bhd. <Exempt An for JPMorgan Chase Bank, National Association (U.S.A.)>	3,808,564	0.11
23	Citigroup Nominees (Asing) Sdn. Bhd. <CBNY for Dimensional Emerging Markets Value Fund>	3,795,300	0.11
24	Citigroup Nominees (Tempatan) Sdn. Bhd. <Employees Provident Fund Board (PHEIM)>	3,565,266	0.11
25	HSBC Nominees (Asing) Sdn. Bhd. <TNTC for the Marathon-London International Fund>	3,397,534	0.10
26	HSBC Nominees (Asing) Sdn. Bhd. <BBH and Co Boston for Vanguard Global Equity Fund>	3,279,566	0.10
27	Employees Provident Fund Board	3,000,000	0.09
28	HSBC Nominees (Asing) Sdn. Bhd. <Exempt An for the Bank of New York Mellon (BNYM as E&A)>	2,650,828	0.08
29	Citigroup Nominees (Asing) Sdn. Bhd. <CBNY for Emerging Market Core Equity Portfolio DFA Investment Dimensions Group Inc>	2,539,366	0.08
30	Citigroup Nominees (Asing) Sdn. Bhd. <CBNY for DFA Emerging Markets Small Cap Series>	2,361,400	0.07

REDEEMABLE CONVERTIBLE PREFERENCE SHARE
30 LARGEST SHAREHOLDERS
as at 8 May 2012

No.	Name	No. of Shares	%
1	Khazanah Nasional Berhad	289,652,500	69.77
2	Amanahraya Trustees Berhad <Skim Amanah Saham Bumiputera>	19,316,467	4.65
3	Lim Khuan Eng	10,587,200	2.55
4	Warisan Harta Sabah Sdn. Bhd.	10,014,000	2.41
5	Public Nominees (Tempatan) Sdn. Bhd. <Pledged Securities Account for Restoran Daiman Pekin Sdn. Bhd. (E-TSA)>	3,050,000	0.73
6	CIMSEC Nominees (Tempatan) Sdn. Bhd. <CIMB for Teo Ah Seng (Pb)>	2,920,000	0.70
7	CIMB Commerce Trustee Berhad <Exempt An for Phillip Capital Management Sdn. Bhd. (2)>	2,673,900	0.64
8	Maybank Nominees (Tempatan) Sdn. Bhd. <Ting Poi Ling>	2,085,000	0.50
9	Inter-Pacific Equity Nominees (Tempatan) Sdn. Bhd. <Pledged Securities Account for Yo Kok Kong @ Yue Kok Kong>	2,000,000	0.48
10	Maybank Securities Nominees (Asing) Sdn. Bhd. <Maybank Kim Eng Securities Pte Ltd for CYL Investments Limited>	1,900,000	0.46
11	Citigroup Nominees (Tempatan) Sdn. Bhd. <Employees Provident Fund Board>	1,835,798	0.44
12	Public Nominees (Tempatan) Sdn. Bhd. <Pledged Securities Account for Eu Hong Ngo (E-TSA)>	1,800,000	0.43
13	Citigroup Nominees (Tempatan) Sdn. Bhd. <ING Insurance Berhad (Inv-Il Par)>	1,364,200	0.33
14	Public Nominees (Tempatan) Sdn. Bhd. <Pledged Securities Account for Kong Goon Khing (E-BTR)>	1,257,000	0.30
15	OSK Nominees (Tempatan) Sdn. Bhd. <Pledged Securities Account for Aw Khoon Lee>	1,209,800	0.29

REDEEMABLE CONVERTIBLE PREFERENCE SHARE
30 LARGEST SHAREHOLDERS (Continued)
as at 8 May 2012

No.	Name	No. of Shares	%
16	Amanahraya Trustees Berhad <Skim Amanah Saham Nasional>	1,196,667	0.29
17	Maybank Nominees (Tempatan) Sdn. Bhd. <Maybank Trustees Berhad for MAAKL Value Fund (950290)>	1,020,300	0.25
18	Loo Ah Hooi	800,000	0.19
19	Tan Yu Wei	760,000	0.18
20	Lee Teck Hao	750,000	0.18
21	Lee Ah Beng	678,500	0.16
22	Maybank Nominees (Tempatan) Sdn. Bhd. <Leong Mun @ Leong Wong Fook>	670,000	0.16
23	CIMSEC Nominees (Tempatan) Sdn. Bhd. <CIMB for Chai Kim Sin (Pb)>	650,000	0.16
24	TA Nominees (Tempatan) Sdn. Bhd. <Pledged Securities Account for Ting Chek Ting>	608,300	0.15
25	Ong Keng Seng	600,000	0.14
26	Lim Fong Mo @ Lim Fung Chee	580,000	0.14
27	Tan Woan Koon	530,000	0.13
28	Yeong Ah Sung	515,000	0.12
29	Ti Teow Choo	511,800	0.12
30	Tan Chin Eng	509,300	0.12

As at 8 May 2012

ORDINARY SHARE

Category	Shareholders	%	Shareholdings	%
Less than 100	155	0	3,066	0
100 to 1,000	3,610	14	3,277,825	0
1,001 to 10,000	16,331	65	76,514,226	2
10,001 to 100,000	4,693	19	137,666,573	4
100,001 to less than 5% of issued shares	482	2	627,520,613	19
5% and above of issued shares	2	0	2,497,173,937	75
Total	25,273	100	3,342,156,240	100

REEDEMABLE CONVERTIBLE PREFERENCE SHARE

Category	Shareholders	%	Shareholdings	%
Less than 100	73	2	3,114	0
100 to 1,000	2,008	54	1,263,484	0
1,001 to 10,000	1,018	28	3,719,134	1
10,001 to 100,000	399	11	14,080,623	3
100,001 to less than 5% of issued shares	189	5	106,408,300	26
5% and above of issued shares	1	0	289,652,500	70
Total	3,688	100	415,127,155	100

LIST OF SUBSTANTIAL SHAREHOLDERS (5% AND ABOVE)
as at 8 May 2012

ORDINARY SHARE

		Shares Held		Percentage (%)	
No.	Name	Direct	Indirect	Direct	Indirect
1	Khazanah Nasional Berhad Registered under:				
	Khazanah Nasional Berhad	2,218,218,317	-	66.37	-
	CIMSEC Nominees (Tempatan) Sdn. Bhd. Khazanah Nasional Berhad (MAS ESOS Pool)	100,259,510	-	3.00	-
2	Employees Provident Fund Board Registered under:				
	Citigroup Nominees (Tempatan) Sdn. Bhd. Employees Provident Fund Board	278,955,620	-	8.35	-
	Citigroup Nominees (Tempatan) Sdn. Bhd. Employees Provident Fund Board (AM INV)	4,000,000	-	0.12	-
	Citigroup Nominees (Tempatan) Sdn. Bhd. Employees Provident Fund Board (Nomura)	10,000,000	-	0.30	-
	Citigroup Nominees (Tempatan) Sdn. Bhd. Employees Provident Fund Board (Pheim)	3,565,266	-	0.11	-
	Citigroup Nominees (Tempatan) Sdn. Bhd. Employees Provident Fund Board (CIMB PRIN)	4,229,300	-	0.13	-
	Employees Provident Fund Board (087-001-002671394)	3,000,000	-	0.09	-

REDEEMABLE CONVERTIBLE PREFERENCE SHARE

		Shares Held		Percentage (%)	
No.	Name	Direct	Indirect	Direct	Indirect
1.	Khazanah Nasional Berhad	289,652,500	-	69.77	-

DIRECTORS' DIRECT AND DEEMED INTERESTS IN THE COMPANY
as at 8 May 2012

In accordance with the Register of Directors' Shareholdings, the directors' direct and deemed interests in shares in the Company are as follows:

		No. of Shares		
No.	**Names**	**Direct**	**Indirect**	**%**
1	Tan Sri Md Nor bin Md Yusof	-	-	0.00
2	Tan Sri Wan Azmi bin Wan Hamzah @ Nik Awang	-	-	0.00
3	Ahmad Jauhari bin Yahya	-	-	0.00
4	Mohammed Rashdan bin Mohd Yusof	1,201,900	-	0.04
5	Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah	-	-	0.00
6	Datuk Mohamed Azman bin Yahya	-	-	0.00
7	David Lau Nai Pek	-	-	0.00
8	Tan Sri Tan Boon Seng @ Krishnan	-	-	0.00
9	Dato' Rohana binti Rozhan	-	-	0.00
10	Eshah binti Meor Suleiman (Alternate Director to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah)	-	-	0.00

Location	Description	Tenure	Approximate Area (sq feet)	Approximate Age (years)	Net Book Value as at 2011 (RM)
1 State of Selangor	32 office and workshop buildings forming MAS office complex at Sultan Abdul Aziz Shah Airport, 47200 Subang and 1 Pedestrian Bridge	Occupation of federal land	Land - 4,617,360 Built up - 2,284,309	13-40	221,842,877
	Industrial land at PT 44562 Mkm Sg Buloh, 47200 Subang	Leasehold 99 years expiring 2102	10.972 acres	8	15,163,236
	Hangar 6	Agreement with MAB on the land lease 29 years 9 months expiring 31/12/33	Built up - 41,058 sqm	5	269,607,306
2 State of Pulau Pinang	13 units of shoplots A1.04-A1.07 & A1.11-A1.14 Level 1; A4.05-A4.08 & B114.03 Level 4, Kompleks KOMTAR, Jalan Penang, George Town, 10000 Pulau Pinang	Leasehold 99 years expiring 2075	Built up - 8,690	35	583,764
	8 buildings at Penang International Airport, 11900 Bayan Lepas, Penang	Monthly tenancy pending renewal of tenance by MAB wef 1 August 2006	Built up - 331,154	42	24,310,035
3 State of Perak	4 shoplots Lot G-01 and 1-06,1-07 & 1-08, Bangunan Sri Kinta, Jalan Sultan Idris Shah, 30000 Ipoh	Freehold	Built up – 4,102	31	112,431
4 State of Pahang	Vacant Land Lot 51, Taman Bukit Kayangan, 49000 Bukit Fraser	Leasehold 60 years expiring 2041	Land - 52,816	31	33,573
	2 units condominium at K67 & B16 Pine Resort 49000 Bukit Fraser	Leasehold 99 years expiring 2082	Built up – 5,226	26	211,779

	Location	Description	Tenure	Approximate Area (sq feet)	Approximate Age (years)	Net Book Value as at 2011 (RM)
5	State of Terengganu	1 engineering workshop at Sultan Mahmud Airport, 21300 Kuala Terengganu wef 1 August 2006	Monthly tenancy pending renewal of tenance by MAB	Built up – 4,500	20	1
6	State of Kedah	1 engineering building at Sultan Abdul Halim Airport, 06200 Alor Setar wef 1 August 2006	Monthly tenancy pending renewal of tenance by MAB	Land - 2,065 Built up - 5,950	20	99,430
		1 cargo store at Langkawi International Airport, 07100 Padang Matsirat, Langkawi	Monthly tenancy pending renewal of tenance by MAB wef 1 August 2006	Built up - 1,632	17	1
7	State of Johor	1 engineering workshop at Sultan Ismail Airport, Senai, 81250 Johor Baharu	Tenancy commencing 1 November 2008 and expiring on 31 October 2011	Land - 16,000	20	346,659
		1 cargo building at Sultan Ismail Airport, Senai, 81250 Johor Baharu	Tenancy commencing 1 November 2008 and expiring on 31 October 2011	Built up - 10,911	19	4
8	State of Negeri Sembilan	5 units condominium at A-6-10, 1-7-5, 1-5-3, A-5-5, A-4-2, Tanjung Tuan Resort, Batu 5, Jalan Pantai, 71050, Port Dickson, Negeri Sembilan	Leasehold 99 years expiring 2086	Built up - 5,657	24	416,622

Location	Description	Tenure	Approximate Area (sq feet)	Approximate Age (years)	Net Book Value as at 2011 (RM)
9 State Of Sabah	Hangar & Cargo and Administration buildings at Kota Kinabalu International Airport, 88100 Kota Kinabalu	Engineering & Cargo: Leasehold expiring 2044	Engineering & Cargo: Land - 152,460 Built up - 118,207	22	4,716,343
		Administration Building: Monthly tenancy pending renewal by MAB wef 1 October 2006	Administration Building: Land - 16,000 Built up - 31,104	31	1,134,395
	1 Hangar / Cargo building at Tawau Airport, 91000, Tawau wef 30 November 2006	Monthly tenancy pending renewal of tenance by MAB	Built up - 16,625	10	2,096,062
10 State of Sarawak	Catering and workshop building at Kuching International Airport, 93250, Kuching	Monthly tenancy pending renewal of tenance by MAB wef 1 August 2006	Land - 67,662 Built up - 25,171	22-30	531,685
	1 Cargo Warehouse / Engineering Building at Miri Airport, 98000, Miri	Monthly tenancy pending renewal of tenance by MAB wef 1 August 2006	Land - 40,864 Built up - 19,588	26	567,600
	Carg / Engineering Building at Bintulu Airport, Jalan Bintulu, 97000, Bintulu	Monthly tenancy pending renewal of tenance by MAB wef 1 January 2007	Land - 52,474	8	2,041,829
	1 Cargo / Engineering building at Sibu Airport, 23km Sibu/Durin Road, 96000 Sibu	Monthly tenancy pending renewal of tenance by MAB wef 1 August 2006	Land - 39,654 Built up - 10,926	18	807,710
11 Singapore	Office lots #2-01 to #02-11, Level 2, 190, Clemenceau Avenue No 0209-11, Singapore Shopping Centre, 239924 Singapore	Leasehold 99 years expiring 2047	Built up - 7,061	32	1,169,346
12 United Kingdom	7 Storey Office building at No 247-249, Cromwell Road, London SW59GA	Freehold	Land - 29,977 Built up - 24,169	16	24,201,454

CORPORATE DIRECTORY

Head Office
Administration Building 1
MAS Complex A
Sultan Abdul Aziz Shah Airport
47200 Subang, Selangor Darul Ehsan
Malaysia

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MASkargo Sdn. Bhd.
(formerly known as Malaysia Airlines Cargo Sdn. Bhd.)
1M Zone C, Core 2, Advanced Cargo Centre
KLIA Free Commercial Zone
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OTHERS

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(Jabatan Perjalanan Kerajaan & Pelajar)
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MASkargo Animal Hotel
1M Floor, Zone D
Advanced Cargo Centre
KLIA Free Commercial Zone
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NOTICE IS HEREBY GIVEN THAT the 41st Annual General Meeting of Malaysian Airline System Berhad will be held at the Auditorium, 1st Floor, South Wing, MAS Academy, No. 2 Jalan SS7/13, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan on Thursday, 21 June 2012 at 10.00 a.m. for the following purposes:

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2011 and the Reports of Directors and Auditors thereon. **Resolution 1**

2. To re-elect the following Director who shall retire pursuant to Article 139 of the Company's Articles of Association, and who, being eligible, offer himself for re-election:-

   (i) Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah **Resolution 2**

3. To re-elect the following Directors who shall retire pursuant to Article 137 of the Company's Articles of Association, and who, being eligible, offer themselves for re-election:-

   (i) Tan Sri Md Nor bin Md Yusof **Resolution 3**
   (ii) Tan Sri Tan Boon Seng @ Krishnan **Resolution 4**
   (iii) Tan Sri Wan Azmi bin Wan Hamzah @ Nik Awang **Resolution 5**
   (iv) Dato' Rohana binti Rozhan **Resolution 6**
   (v) David Lau Nai Pek **Resolution 7**
   (vi) Ahmad Jauhari bin Yahya **Resolution 8**

4. To approve the payment of Directors' fees for the financial year ended 31 December 2011. **Resolution 9**

5. To re-appoint Messrs. Ernst & Young as Auditors of the Company for the financial year ending 31 December 2012 and authorise the Directors to fix their remuneration. **Resolution 10**

SPECIAL BUSINESS

To consider and if thought fit, to pass the following Ordinary Resolution:-

6. Authority to Allot and Issue Shares **Resolution 11**

   "THAT subject always to the Companies Act 1965, the Articles of Association of the Company and the approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby authorised pursuant to Section 132D of the Companies Act 1965, to issue and allot shares in the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may in their discretion deem fit, provided always that the aggregate number of shares to be issued pursuant to this resolution does not exceed ten per centum (10%) of the total issued capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval from Bursa Malaysia Securities Berhad for the listing and quotation of the additional shares so issued."

To consider and if thought fit, to pass the following Special Resolution:-

7. Proposed Amendments to the Articles of Association **Resolution 12**

   "THAT the proposed amendments to the Articles of Association of the Company in the form and manner as set out in Appendix 1 attached to the Annual Report 2011 be and are hereby approved AND THAT the Directors of the Company be and are hereby authorised to assent to any modifications, variations and/or amendments as may be considered necessary to give full effect to the Proposed Amendments to the Articles of Association of the Company."

8. To transact any other ordinary business for which due notice has been given. **Resolution 13**

BY ORDER OF THE BOARD

Shahjanaz binti Kamaruddin
(LS 0009441)
Company Secretary

Selangor Darul Ehsan
28 May 2012

EXPLANATORY NOTES ON SPECIAL BUSINESS

Resolution 11

This is a renewal of the general mandate sought to grant authority to Directors to issue and allot shares in the Company under Section 132D of the Companies Act 1965 that was approved by the shareholders at the Fortieth Annual General Meeting held on 27 June 2011. The general mandate will provide flexibility to the Company to undertake any possible fund raising exercises, including but not limited to further placement of shares for purpose of funding current and/or future investment projects, working capital and/or acquisitions, by the issuance of shares in the Company to such persons at any time, as the Directors may deem fit, without the need to convene a separate general meeting.

Up to the date of this Notice, the Company did not utilize the mandate granted at the Fortieth Annual General Meeting and thus no proceeds were raised from the previous mandate.

The Ordinary Resolution 11 above, if passed, will empower the Directors to issue and allot shares in the Company up to an amount not exceeding in total ten per centum (10%) of the issued capital of the Company, subject to compliance with the relevant regulatory requirements. The approval is sought to avoid any delay and additional cost in convening a separate general meeting for such issuance of shares. This authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting.

Resolution 12

The Special Resolution 12 above, if passed, will bring the Articles of Association of the Company in line with the recent amendments to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad as well as for ease of administration.

Please refer to Appendix 1 in the Annual Report 2011 for details on the Proposed Amendments to the Articles of Association.

Notes:

1. In respect of deposited securities, only members whose names appear on the Record of Depositors as at 13 June 2012 shall be entitled to attend and vote at the Meeting.

2. A member entitled to attend and vote at the Meeting is entitled to appoint more than two (2) proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Companies Act 1965 shall not apply to the Company.

3. Where a member appoints two (2) or more proxies, the appointment shall be invalid unless he specifies the proportion of his shareholding to be represented by each proxy.

4. Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 which holds ordinary shares in the Company for multiple beneficial owners in one security accounts ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

5. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer or attorney duly authorised.

6. The right of foreigners to vote in respect of their deposited securities is subject to Section 41(1)(e) and Section 41(2) of the Securities Industry (Central Depositories) Act 1991 and the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996. The position of such Depositors in this regard will be determined based on the General Meeting Record of Depositors. Such Depositors whose shares exceed the Company's foreign shareholding limit of 45% as at the date of the General Meeting Record of Depositors may attend the above Meeting but are not entitled to vote. Consequently, a proxy appointed by such Depositor who is not entitled to vote will also not be entitled to vote at the above Meeting.

7. The instrument appointing a proxy must be deposited at **Symphony Share Registrars Sdn. Bhd., Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia,** not less than 48 hours before the time for holding the Meeting or at any adjournment thereof.

Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

Directors who are seeking re-election or re-appointment at the 41st Annual General Meeting of the Company:

(i) The Director retiring pursuant Article 139 of the Company's Articles of Association and seeking re-election is as follows:

- Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah

(ii) The Directors retiring pursuant Article 137 of the Company's Articles of Association and seeking re-election are as follows:

- Tan Sri Md Nor bin Md Yusof
- Tan Sri Tan Boon Seng @ Krishnan
- Tan Sri Wan Azmi bin Wan Hamzah @ Nik Awang
- Dato' Rohana binti Rozhan
- David Lau Nai Pek
- Ahmad Jauhari bin Yahya

The details of the above Directors seeking re-election or re-appointment are set out on the following pages of this Annual Report:

pages 24 to 28 – Directors' Profiles

page 176 – Directors' Direct and Deemed Interests in the Company as at 8 May 2012

APPENDIX 1

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Articles of Association of the Company are proposed to be altered and amended in the following manner,

ARTICLE NO.	EXISTING PROVISION OF THE ARTICLES OF ASSOCIATION	REVISED PROVISION OF THE ARTICLES OF ASSOCIATION	RATIONALE
1	N/A	**Interpretation of Exempt Authorised Nominee** Exempt Authorised Nominee means an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which is exempted from compliance with the provisions of subsection 25A (1) of SICDA.	To be consistent with the recent amendments to the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (BMSB) which took effect on 3 January 2012.
104	No poll shall be demanded on the election of a chairman of a meeting or on any question of adjournment.	A poll may be demanded on the election of a chairman of a meeting or on any question of adjournment.	For better administration of voting at general meeting.
106	Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held, on a show of hands every member present in person or by proxy shall have one vote and upon a poll every member present in person or by proxy shall have one vote for every share held by him. Subject to Article 108, a member shall be entitled to appoint any person as his proxy and such person need not be an advocate, an approved company auditor or a person approved by the Registrar.	Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held, on a show of hands every member present in person or by proxy shall have one vote and upon a poll every member present in person or by proxy shall have one vote for every share held by him. Subject to Article 108, **there shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at a meeting of a company shall have the same rights as the member to speak at the meeting.**	To be consistent with the recent amendments to the MMLR which took effect on 3 January 2012.
107(2)	Where a member of the Company is an authorised nominee as defined under the Central Depositories Act, it may appoint at least one proxy in respect of each Securities account it holds with ordinary shares of the Company standing to the credit of the said Securities account.	Where a member of the Company is an **exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one security accounts ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.**	To be consistent with the recent amendments to the MMLR which took effect on 3 January 2012.

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FORM OF PROXY

Shareholder's CDS Account No.	
No. of ordinary shares held	

I/We, ... (Full Name as per NRIC in capital letters) Company No./NRIC No .... of .... (Full address) being a member(s) of **MALAYSIAN AIRLINE SYSTEM BERHAD** ("the Company"), hereby appoint:-
.... NRIC No. (new) .... (old) .... or failing him/her
.... NRIC No. (new) .... (old) .... or failing him/her
the CHAIRMAN OF THE MEETING as my/our proxy to vote for me/us on my/our behalf at the 41st Annual General Meeting of the Company to be held at the Auditorium, 1st Floor, South Wing, MAS Academy, No. 2, Jalan SS7/13, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan on Thursday, 21 June 2012 at 10.00 a.m. and at any adjournment thereof, on the following resolutions referred to in the Notice of the 41st Annual General Meeting. My/our proxy is to vote as indicated below:-

Place indicate with an "X" in the space below how you wish your votes to be cast. If no specific direction as to voting is given, the proxy will vote or abstain at his/her discretion.

Resolutions		For	Against
Resolution 1	To receive the Audited Financial Statements for the financial year 31 December 2011 and the Reports of the Directors and Auditors		
Resolution 2	Re-election of Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah as Director		
Resolution 3	Re-election of Tan Sri Md Nor bin Md Yusof as Director		
Resolution 4	Re-election of Tan Sri Tan Boon Seng @ Krishnan as Director		
Resolution 5	Re-election of Tan Sri Wan Azmi bin Wan Hamzah @ Nik Awang as Director		
Resolution 6	Re-election of Dato' Rohana binti Rozhan as Director		
Resolution 7	Re-election of David Lau Nai Pek as Director		
Resolution 8	Re-election of Ahmad Jauhari bin Yahya as Director		
Resolution 9	Approval of payment of Directors' fees		
Resolution 10	Re-appointment of Messrs Ernst & Young as Auditors and to authorize the Directors to fix the Auditors' remuneration		
Resolution 11	Authority under Section 132D of the Companies Act, 1965 for Directors to issue shares.		
Resolution 12	Proposed Amendments to the Articles of Association		

For appointment of two proxies, percentage of shareholdings to be represented by the proxies:-

	No. of shares	Percentage (%)
Proxy 1		
Proxy 2		
TOTAL		100

....
Signature of Member/Common Seal

As witness my/our hands this .... day of 2012

Notes:
1. Only members whose names appear on the Record of Depositors as at 13 June 2012 shall be entitled to attend and vote at the Meeting.
2. A member entitled to attend and vote at the Meeting is entitled to appoint more than two (2) proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Companies Act 1965 shall not apply to the Company.
3. Where a member appoints two (2) or more proxies, the appointment shall be invalid unless he specifies the proportion of his shareholding to be represented by each proxy.
4. Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 which holds ordinary shares in the Company for multiple beneficial owners in one security accounts ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
5. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer or attorney duly authorised.
6. The right of foreigners to vote in respect of their deposited securities is subject to Section 41(1)(e) and Section 41(2) of the Securities Industry (Central Depositories) Act 1991 and the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996. The position of such Depositors in this regard will be determined based on the General Meeting Record of Depositors. Such Depositors whose shares exceed the Company's foreign shareholding limit of 45% as at the date of the General Meeting Record of Depositors may attend the above Meeting but are not entitled to vote. Consequently, a proxy appointed by such Depositor who is not entitled to vote will also not be entitled to vote at the above Meeting.
7. The instrument appointing a proxy must be deposited at **Symphony Share Registrars Sdn. Bhd., Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia,** not less than 48 hours before the time for holding the Meeting or at any adjournment thereof.

fold here for sealing

Affix
stamp
here

Symphony Share Registrars Sdn. Bhd.
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301, Petaling Jaya
Selangor Darul Ehsan
Malaysia

fold here

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