2012

MALAYSIAN AIRLINE SYSTEM BERHAD / ANNUAL REPORT 2012

42nd Annual General Meeting
Malaysian Airline System Berhad

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

WHEN
Tuesday, 14 May 2013, 10.00 am

VISION:
To be the Preferred Premier Carrier

MISSION:
Our Journey towards making this Vision a reality requires us to:
- Put our People first and be the Employer of Choice
- Anticipate, consistently deliver and exceed customer expectations
- Build on our recognised personalised and sincere 'Malaysian Hospitality' service
- Innovate to make travel and doing business with us hassle-free
- Sustainable value creation for our shareholders



CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Tan Sri Md Nor bin Md Yusof
Chairman
Non-Independent Non-Executive Director

Ahmad Jauhari bin Yahya
Managing Director/Group Chief Executive Officer, Non-Independent Executive Director

David Lau Nai Pek
Senior Independent Non-Executive Director

Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah
Non-Independent Non-Executive Director

Tan Sri Mohamed Azman bin Yahya
Non-Independent Non-Executive Director

Tan Sri Krishnan Tan Boon Seng
Independent Non-Executive Director

Tan Sri Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani
Independent Non-Executive Director

Tan Sri Sukarti bin Wakiman
Independent Non-Executive Director

Dr. Mohamadon bin Abdullah
Independent Non-Executive Director

Eshah binti Meor Suleiman
Alternate Director to Dato' Sri Dr. Mohd Irwan bin Abdullah

COMPANY SECRETARY

Rizani bin Hassan
(LS 0009520)

REGISTERED OFFICE

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

WEBSITE

www.malaysiaairlines.com

INVESTOR RELATIONS

investor@malaysiaairlines.com

AUDITORS

Ernst & Young (AF 0039)
Chartered Accountants
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur
Malaysia
Tel : +603 7495 8000
Fax : +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
Tel : +603 7841 8000
Fax : +603 7841 8151

STOCK EXCHANGE LISTING

Main Market Bursa Malaysia Securities Berhad
Listed since 16 December 1985
Sector: Trading & Services
Stock Code: 3786

PRINCIPAL BANKERS

CIMB Bank Berhad
Citibank Berhad
Malayan Banking Berhad
RHB Bank Berhad

FINANCIAL CALENDAR

29 February 2012
Announcement of
Full Year 2011 Annual Results

22 May 2012
Announcement of
2012 First Quarter Results

21 June 2012
41st Annual General Meeting

14 August 2012
Announcement of 2012 Second Quarter Results

27 November 2012
Announcement of
2012 Third Quarter Results

28 February 2013
Announcement of
2012 Fourth Quarter Results & Full Year 2012 Annual Results

GROUP CORPORATE STRUCTURE

MALAYSIAN AIRLINE SYSTEM BERHAD (10601-W)

100%	**MAS Academy Sdn. Bhd.** (317184-W)
100%	**MAS Aerotechnologies Sdn. Bhd.** (317185-K)
100%	**MAS Golden Boutiques Sdn. Bhd.** (317182-T)
100%	**MAS Golden Holidays Sdn. Bhd.** (317144-A)
100%	**MASkargo Sdn. Bhd.** (318815-M)
100%	**MASkargo Logistics Sdn. Bhd.** (68121-P)
100%	**MASwings Sdn. Bhd.** (773841-A)
100%	**FlyFirefly Sdn. Bhd.** (346606-K) *
100%	**Malaysian Aerospace Engineering Sdn. Bhd.** (775412-D) # Ψ
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%	**Malaysia Airlines Capital V Cayman Limited** (WK-275500)
100%	**Malaysia Airlines A330 Capital Labuan Limited** (LL09020)
100%	**MH Loyalty Programme Sdn. Bhd.** (951320-T)
100%	**Delima Insurance (Labuan) Limited** (LL08535)
100%	**Kelip-Kelip Labuan Limited** (LL06736)
100%	**Kelip-Kelip II Labuan Limited** (LL07075)
100%	**Kelip-Kelip III Labuan Limited** (LL07638)
100%	**Kelip-Kelip II Cayman Limited** (WK-225671)
100%	**Macnet CCN (M) Sdn. Bhd.** (318626-W) under Members Voluntarily Winding Up
80%	**Abacus Distribution Systems (Malaysia) Sdn. Bhd.** (180535-T)
60%	**MAS Awana Services Sdn. Bhd.** (372384-D)
51%	**Aerokleen Services Sdn. Bhd.** (277266-X)

ASSOCIATE COMPANIES

49%	**Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd.** (301833-D)
30%	**GE Engine Services Malaysia Sdn. Bhd.** (423679-X)
30%	**Honeywell Aerospace Services (M) Sdn. Bhd.** (465037-M) under Members Voluntarily Winding Up
30%	**Brahim's Airline Catering Sdn. Bhd.** (317281-X) (formerly known as LSG Sky Chefs-Brahim's Sdn. Bhd.)
23.53%	**Pan Asia Pacific Aviation Services Limited** (470740)
20%	**Taj Madras Flight Kitchen Limited** (30706 State Code 18)

* *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)*

STATEMENT BY CHAIRMAN

DEAR SHAREHOLDERS,

In my last letter to Shareholders, I wrote about the momentous task that the Board and Management have to return your Company back to profitability and predictable financial performance.

Our hard work continues, and since then, I am pleased to announce that for the year under review, Malaysia Airlines has been able to reduce its full year 2012 financial loss to RM430.74 million from a loss of RM2.52 billion in the previous year.

Much focus and determination went into the corporate turnaround of your Company in these last 12 months. These included making tough and at times unpopular decisions with our network, systems, processes and people practices. These changes have shown positive impact to the organisation and traction as depicted in our Quarterly financial performance.

Yet, we are still not out of the woods. Malaysia Airlines continues to face twin challenges in firstly, to return the Group to recovery and a sustainable future, and secondly, to restore strength in our balance sheet to support and sponsor future growth.

The opportunity for growth is at our doorstep here in Asia. Having built up a strong market presence over the last 40 years, it is our strategy that Malaysia Airlines remains a player in this expanding market. Yet in order to remain relevant, we must invest in our fleet, products and service. These are expensive investments; however not doing so is not an option.

Statement by Chairman

The airline business is extremely asset intensive. Generally, airlines have a heavy reliance on external funding for capex. For Malaysia Airlines to do this, we must have a credible and presentable balance sheet to show when we go to the market for our new aircraft investment plan. To prepare our Group for its future growth trajectory and sustainability, we need to reset and reboot our organization.

The year 2012 saw us make progress towards reconstructing our funding base as part of gapping measures necessary to strengthen our financial fundamentals. These are part of a funding plan that comprised three main pillars.

The first was launching a perpetual Sukuk programme, a quasi capital instrument engineered to raise up to RM2.5 billion. To-date, RM1.5 billion has been drawn-down.

The second pillar of our funding plan was to enter into an arrangement to buy new aircraft with financing from an external entity, a special purpose company, wholly-owned by the Ministry of Finance, Inc. This enabled Malaysia Airlines to take delivery of 8 new aircraft, including the 6 A380s.

The third pillar is capital restructuring and a proposed Rights Issue to inject new capital into our Group. We are thankful that Shareholders gave their support to proceed with the capital restructuring, which when put in place, will redress our Company's balance sheet representation. As for the Rights Issue, its proceeds will significantly improve the Company's balance sheet and reset its capacity to raise external financing for operational and developmental needs.

Together, these two exercises are critical enablers to energise our recovery and growth.

Once the funding and capital restructuring are in place, this will give Management much more room to implement the Business Plan and see sustainable results that will contribute to the bottom-line. Much progress has been made in 2012 to align our network, improve our products and service, to thoroughly review all internal processes to plug leakages, reduce wastage and drive productivity. All these fundamental business measures would come to nought if we do not set our financial fundamentals right.

2012 saw the retirement of long time Director, Tan Sri Dr Wan Abdul Aziz Wan Abdullah. We thank Tan Sri Dr Wan Aziz for his many contributions to Malaysia Airlines, through both good and challenging times.

Moving forward, we have the addition of a few more Board Members crucial to the Group's future growth. Over the year, we welcomed Dato' Sri Dr. Irwan from the Ministry of Finance, Dr. Mohamadon with his long experience in Malaysia Airlines, and the State Secretaries of the Sabah and Sarawak governments, Tan Sri Sukarti and Tan Sri Datuk Amar Morshidi.

I am confident of the synergy that this Board and Management team possess to steer Malaysia Airlines forward.

Ahmad Jauhari or AJ, our Group CEO, and the Management team have done well in 2012. I ask for Shareholders to continue to support the Board, AJ and the Management team in 2013 as together we put our full attention to progress implementation of the Business Plan in an ever competitive business environment.

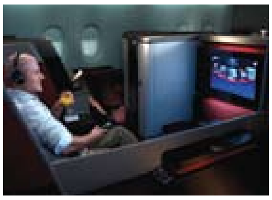
TAN SRI MD NOR YUSOF
Chairman
Malaysia Airlines

March 2013

STATEMENT BY GROUP CHIEF EXECUTIVE OFFICER

DEAR SHAREHOLDERS,

After one year of implementing our Business Plan as Malaysia Airlines' journey following the realisation of a major loss in the previous financial year, many people ask me what is the Malaysia Airlines' story? To answer that question, I say, ours is a story of growth.



Ours is a story that is built on strong foundations of a 40-year long history in which Malaysia has invested in a national carrier that is Malaysia Airlines. When the going was tough, and the profits became chequered, the stakeholders decided that they could not take the option to let Malaysia Airlines grind to a halt. This has been done with other national carriers before rebuilding these airlines.

Instead, our stakeholders said we have to fix this carrier, so that it can fly high again. So that it will continue to be Malaysia's national flag carrier across the nation and beyond our borders across the world. After all, Malaysia Airlines has strong brand equity, and a soft spot in the hearts of millions of Malaysian travellers. Now, Malaysia Airlines has an opportunity tap growth because of its location within the future aviation growth hub, Asia.

Our Business Plan was announced at the end of 2011. It consists of a Recovery Plan to urgently address the financial losses in light of high fuel prices and an uncompetitive product. This involves building a profitable network, winning back customers, a relentless cost focus and bridging our funding gap for investment in new aircraft.

The other key component of the Business Plan is implementing a set of Game Changers to help Malaysia Airlines stay relevant in a highly competitive environment of more and more capacity being put in our market. This includes capturing point-to-point traffic, growing our route network through alliances and strategic partnerships, and building profitable ancillary businesses that will contribute to the Group.

Finally, the Business Plan leverages on our strong Foundations of a branded customer experience, operational improvements and a winning organisation to build upwards.

Statement by Group Chief Executive Officer

Combined, the Business Plan aims profit sustainability as we make our vision to be the preferred premium carrier a reality. To do this, the focus is to raise revenue, manage costs, and improve productivity.

From a RM2.52 billion loss position and weak financial fundamentals, we said turning around Malaysia Airlines group would be a journey. Our Business Plan is a 3 year plan, and we expect to attain operational profitability by the end of 2014.

We have completed one year of this journey, and the result has been to finally achieve profitability in Quarter 3 of 2012, after 6 consecutive Quarters of loss. We made a larger operating profit in Quarter 4, 2012, and managed to reduce the full year financial loss substantially to RM430.74 million.

Excluding the one-off provisions made in the year before, our FY2012 Results showed a RM1 billion improvement. This is a small success. More importantly, we saw that our Business Plan is working. That the many initiatives we put in, processes we changed, practices we tweaked, are gaining momentum and traction to chart a steady performance growth.

There is no single major initiative that has gotten us here to reduce our annual financial loss. Instead, it has been about doing many small things right. Today, we have a good product comparable to our peers and are constantly looking to give our guests a better value proposition. We have outstanding service that has become the hallmark of Malaysia Airlines. We ensure our network matches market demand by rationalising and quickly aligning our routes so that we can improve productivity of our assets, both fleet and people, by right-sizing the fleet and sweating our assets.

Today, we are investing to grow our airline in order to remain relevant in a fast expanding and highly competitive aviation market at our doorstep. The fleet renewal programme is on-going, and delivering modern design, new technology and more fuel efficient aircraft every month.

We did not waste the excellent opportunity to re-launch our branding that came with the arrival of the long awaited A380 fleet in June 2012. We were so bold as to give the A380 fleet its own distinctive blue 'wau' logo and livery. This made heads turn, grabbed everyone's attention, and helped make customers take a second look at Malaysia Airlines' fares and products. This is exactly what we needed to promote the significant changes at Malaysia Airlines.

With the A380, we upgraded our Golden Lounge at KLIA, changed our advertising look & feel, and became more aggressive in marketing to leverage on all channels to drive sales. We worked really hard to ensure that the service delivery on the A380 is consistently premium, no matter the class of travel.

Going forward, the journey ahead is still expected to be challenging. While we are doing many things to build a better organisation and a more competitive airline with new products and the best service, the business environment is still very competitive. Added capacity into the region by many airlines will challenge yields of all carriers. Then there is competition from new players and LCCs. At the same time, fuel prices remain high.

Still, we believe we are on the right flight plan with the numerous changes we made over 2012, and continue to drive across the Group. With continued strong support from Shareholders, we are optimistic of meeting our aggressive sales targets, of managing our costs better, and improving productivity in both people and processes.

We must do all we can to preserve value in a Company that has a deep intrinsic economic value built from a long history of pride amongst Malaysians, and through its role as a key wheel in the bigger economic wheel of our Nation.

We say "Journeys are made by the people you travel with". We hope that you and our Shareholders will continue to fly this long journey with us.

AHMAD JAUHARI YAHYA
Group Chief Executive Officer

March 2013

FIVE YEARS STATISTICAL REVIEW OF THE GROUP

		31-Dec 2012	31-Dec 2011	31-Dec 2010	31-Dec 2009	31-Dec 2008
FINANCIAL						
Total Revenue	RM'000	**13,756,411**	13,901,421	13,585,559	11,605,511	15,570,141
Total Expenditure	RM'000	**(14,162,738)**	(16,485,693)	(13,485,355)	(12,288,452)	(15,299,234)
Fair value change of derivatives	RM'000	**(17,216)**	60,660	164,251	1,163,133	N/A
Taxation	RM'000	**(5,937)**	(8,441)	(44,690)	31,116	(19,086)
(Loss)/Profit after Tax	RM'000	**(430,738)**	(2,521,325)	237,346	522,948	271,795
Shareholders' Funds	RM'000	**2,123,144**	1,042,508	3,524,166	699,693	4,119,822
(Loss)/Profit as a % of Revenue	%	**(3.1)**	(18.1)	1.7	4.5	1.7
Return on Shareholders' Fund	%	**(20.3)**	(241.9)	6.7	74.7	6.6
(Loss)/Earnings Per Share	sen	**(12.9)**	(75.5)	7.2	25.3	14.6
Net Tangible Assets per Share	RM	**0.6**	0.3	1.0	0.4	2.4
PRODUCTION						
Network Size	KM	**359,632**	372,966	418,866	366,908	387,987
Time Flown	Hours	**404,509**	427,024	386,853	355,641	364,013
Distance Flown	'000 KM	**244,769**	261,209	237,618	219,961	236,031
Available Capacity	'000 TKM	**7,292,377**	7,872,485	7,893,689	7,366,845	8,503,203
Available Passenger Capacity	'000 Seat KM	**51,223,973**	55,873,707	50,817,898	48,761,794	53,378,580
TRAFFIC						
Passenger Carried	'000	**16,651**	17,046	15,708	13,870	13,760
Passenger Carried	'000 Pax KM	**38,144,029**	41,645,340	38,652,874	33,455,303	36,176,166
Passenger Load Factor	%	**74.5**	74.5	76.1	68.6	67.8
Cargo Carried	'000 TKM	**1,889,058**	2,063,255	2,441,254	2,065,120	2,445,021
Mail Carried	'000 TKM	**8,739**	8,908	8,406	7,674	8,965
Overall Load Carried	'000 TKM	**5,312,774**	5,945,441	5,949,090	5,110,924	5,750,376
Overall Load Factor	%	**72.9**	75.5	75.4	69.4	67.6
STAFF						
Employee Strength		**19,406**	20,477	20,000	19,147	19,094
Revenue Per Employee	RM'000	**709**	679	679	606	815
Available Capacity Per Employee	TKM	**375,781**	384,456	394,684	384,752	445,334
Load Carried Per Employee	TKM	**273,771**	290,345	297,455	266,931	301,161

* As per Audited Financial Statements for the financial year under review

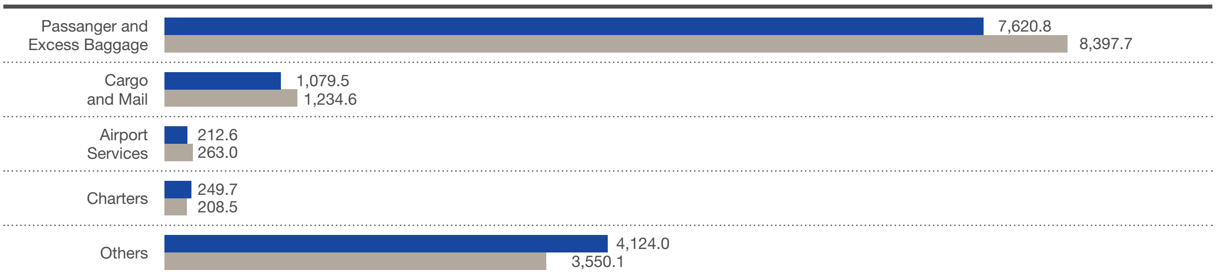
PERFORMANCE HIGHLIGHTS

		31-Dec 2012	31-Dec 2011	Change %
GROUP				
Financial				
Total Revenue	RM Million	**13,756.4**	13,901.4	(1.0)
Total Expenditure	RM Million	**(14,162.7)**	(16,485.7)	(14.1)
Loss after Tax	RM Million	**(430.7)**	(2,521.3)	(82.9)
Shareholders' Funds	RM Million	**2,123.1**	1,042.5	103.7
Loss Per Share	Sen	**(12.9)**	(75.5)	(82.9)
Dividend Per Share	Sen	**-**	-	-
Cash Flow Per Share	RM	**(0.1)**	(0.2)	(54.4)
Operating Statistics				
Available Tonne Kilometres	Million	**7,292.4**	7,872.5	(7.4)
Load Tonne Kilometres	Million	**5,312.8**	5,945.4	(10.6)
Overall Load Factor	%	**72.9**	75.5	(3.5)
Available Seat Kilometres	Million	**51,224.0**	55,873.7	(8.3)
Passenger Kilometres Flown	Million	**38,144.0**	41,645.3	(8.4)
Passenger Load Factor	%	**74.5**	74.5	(0.1)
Staff and Productivity				
Employee Strength		**19,406**	20,477	(5.2)
Available Tonne Kilometres Per Employee		**375,781**	384,456	(2.3)
Load Tonne Kilometres Per Employee		**273,771**	290,345	(5.7)
COMPANY				
Operating Statistics				
Available Tonne Kilometres	Million	**6,157.6**	6,640.5	(7.3)
Load Tonne Kilometres	Million	**4,548.4**	4,888.0	(6.9)
Overall Load Factor	%	**73.9**	73.6	0.3
Available Seat Kilometres	Million	**49,741.6**	52,997.8	(6.1)
Passenger Kilometres Flown	Million	**37,169.6**	39,730.8	(6.4)
Passenger Load Factor	%	**74.7**	75.0	(0.3)
Aircraft Utilisation (Average)	Hours Per Day	**10.0**	10.9	(8.3)
Staff and Productivity				
Employee Strength		**16,123**	17,013	(5.2)
Available Tonne Kilometres Per Employee		**381,914**	390,319	(2.2)
Load Tonne Kilometres Per Employee		**282,106**	287,310	(1.8)

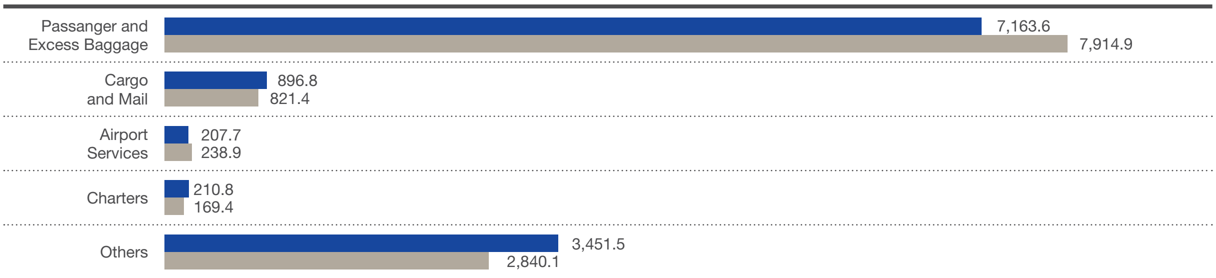
REVENUE AND EXPENDITURE

REVENUE COMPOSITION

GROUP (RM Million) 31 December 2012 31 December 2011

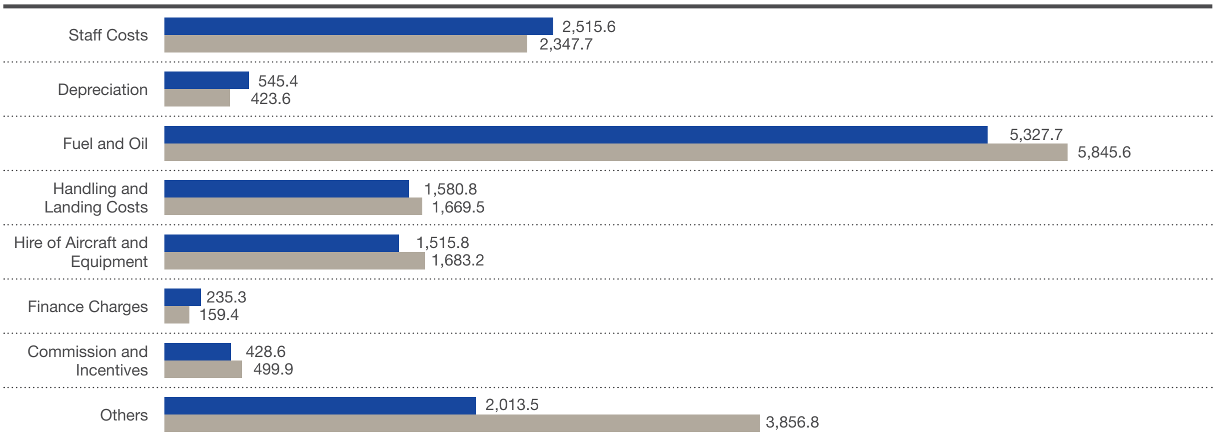


COMPANY (RM Million) 31 December 2012 31 December 2011

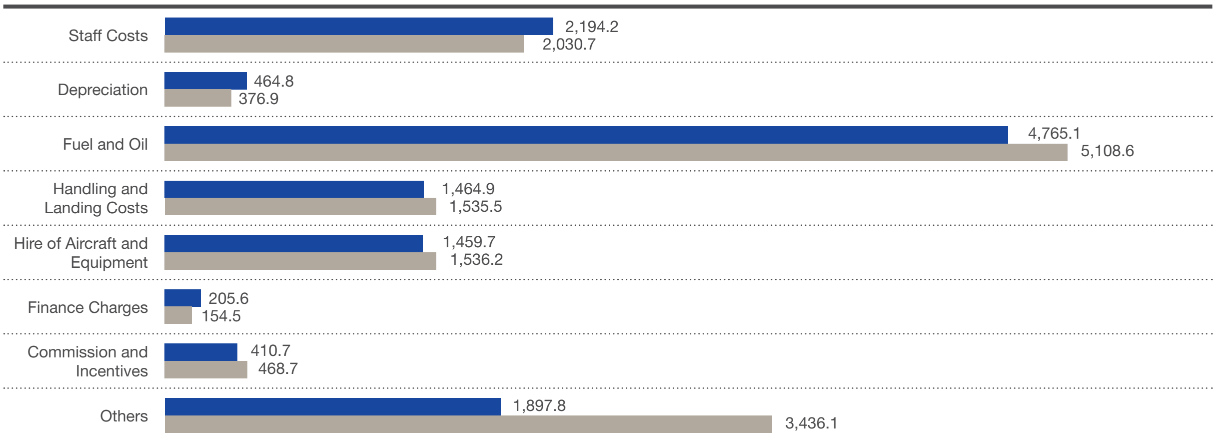


EXPENDITURE COMPOSITION

GROUP (RM Million) 31 December 2012 31 December 2011



COMPANY (RM Million) 31 December 2012 31 December 2011

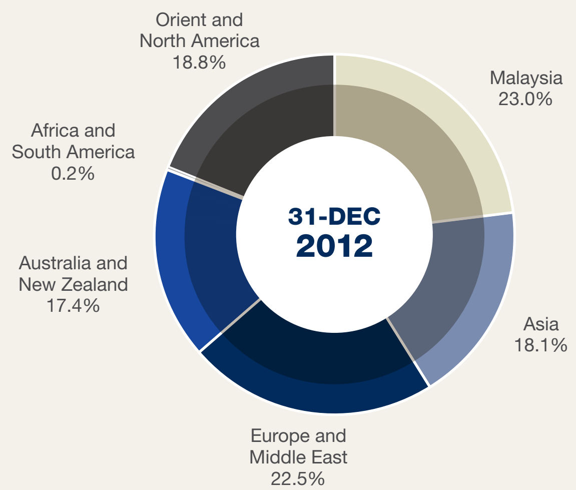


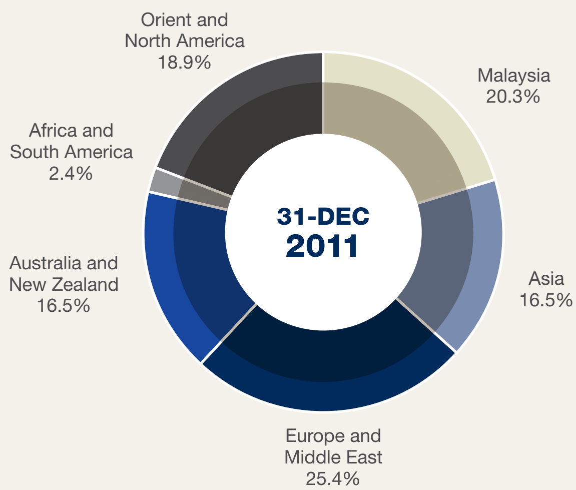
ANALYSIS OF AIRLINE OPERATIONS (including Freighter)

By Geographical Route Region

	31-Dec 2012	31-Dec 2011	Change %
Route Revenue (RM Million)			
Malaysia	**2,015.2**	1,961.2	2.8
Asia	**1,576.7**	1,595.1	(1.2)
Europe and Middle East	**1,962.8**	2,449.4	(19.9)
Australia and New Zealand	**1,517.3**	1,595.7	(4.9)
Africa and South America	**18.1**	231.4	(92.2)
Orient and North America	**1,635.0**	1,814.1	(9.9)
	8,725.1	9,646.9	(9.6)
Passenger Load Factor (%)			
Malaysia	**71.9**	66.9	7.5
Asia	**73.1**	73.6	(0.7)
Europe and Middle East	**80.7**	77.9	3.6
Australia and New Zealand	**73.9**	79.6	(7.2)
Africa and South America	**62.5**	67.9	(8.0)
Orient and North America	**70.4**	72.3	(2.6)
	74.5	74.5	0.0
Overall Load Factor (%)			
Malaysia	**66.2**	76.4	(13.4)
Asia	**70.9**	86.9	(18.4)
Europe and Middle East	**78.3**	74.9	4.5
Australia and New Zealand	**73.0**	74.7	(2.3)
Africa and South America	**54.8**	59.4	(7.7)
Orient and North America	**72.6**	77.2	(6.0)
	72.9	75.5	(3.4)

ROUTE REVENUE





OPERATIONS REVIEW

In 2012, Malaysia Airlines operated 105,077 flights, averaging 292 flights per day system-wide. With a fleet of 109 aircraft, we carried 13.4 million passengers to 60 destinations in 30 countries across Asia, Australiasia, Europe, and North America. On Time Performance (OTP) improved considerably to 87.22% in 2012, the best in 5 years.

COMMERCIAL

Network & Revenue Management

Network Planning
Apart from increasing frequencies to key ASEAN business and leisure cities and introducing morning Indian services to enhance connectivity and increase traffic flow, 2012 saw Malaysia Airlines introduce Kathmandu as a new route. Starting 1 September with thrice weekly B738 services, the frequency was quickly increased to 5 times weekly by November.

Schedule Planning
As part of efforts to improve efficiency of schedules, processes were introduced to reduce turn-around times of aircraft at KLIA and reduce firebreaks in narrow-body aircraft rotations.

2012 saw improved utlisation of our fleet. Overall planned utilization of the narrow-body fleet improved from just over 9 hours to more than 10 hours towards the end of the year.

Revenue Management
New fare products such as Global Marine Fares and Global Student Fares had a significant impact on revenue. These are now key channels of distribution. New web-tracking tools were implemented to monitor price changes in all key markets and traffic flows as part of efforts to quicken our response to changes in price strategies in these markets.

PROS G6 Groups Management system was implemented during 2012, allowing for cleaner and quicker decision-making on groups businesses. Improved Revenue Integrity management processes has led to a significant reduction in seat spoilage through no-shows. Ticketing time-limits and wait-listing options have been streamlined to ensure competitiveness and better booking materialization.

Along with the expansion of interline partners, Malaysia Airlines also made a wide range of fare products available for our customers to fly with these partners. Internally, a new staff travel programme was launched in 2012, providing deep-discounted fares for staff to travel with families on flights with distressed inventories.

Commercial Systems – Internet Booking Engine (IBE)

Our IBE was upgraded to version 4.0 with a successful cut-over at end-October. The upgraded IBE 4.0 provides better efficiency and performance of the booking process, contributing to a 20% monthly sales growth rate.

Marketing

Malaysia Airlines Brand refresh
The introduction of the A380 into our fleet in mid-2012 was marked with the unveiling of a special edition blue 'wau' branding with new markings on the biggest flying billboard in the world. This signalled the evolution of Malaysia Airlines to a new position of corporate strength, confidence, and product quality. The blue 'wau' livery is exclusive to the A380 product which further reinforces the unique value and brand prominence that the A380 brings to Malaysia Airlines.

The corporate brand was also given a refresh in mid-year with the 'wau' logo changing direction towards the East or right-facing, and a tweaking of the Malaysia Airlines typeface to a more modern look.

October 2012 marked 40 years of Malaysia Airlines following the parting of ways from Singapore of the earlier airline, MSA. We introduced our 40th anniversary logo in 1 October, and proudly unveiled it on the newest delivery of a Boeing 737-800 aircraft on 12.12.12. Dressed in the original Malaysia Airlines markings of a red 'wau', this latest addition to our fleet is a source of pride for Malaysians and our staff alike to recall the journey of Malaysia Airlines so far over the past 40 years.

Enrich

The launch of the 'Live The Dream' campaign in the fall of 2012 marked the most successful promotion in the history of Enrich loyalty programme. The promotion generated sales and revenue results not previously ever achieved during the same period including nearly 610 million Enrich Miles Redeemed, RM25 million revenue, 22,255 tickets sold (51% front-end), RM19 million in incremental surcharge revenue, and a 47% increase in bank point conversion to Enrich miles.

Digital Marketing

2012 marked a whole new dimension of Malaysia Airlines' positioning in digital marketing. Our relationship with Google had it allocating dedicated resources to complement the efforts of our team. This drove incremental revenue through creative campaigns and built up our presence online. 'Search' delivered annualised revenues of RM300 million in 2012; this target is doubled for 2013 and we are on track to achieve it.

Malaysia Airlines' use of new media has expanded beyond its Facebook and Twitter platforms. Whilst the number of friends on Facebook and followers on Twitters grows, in yet another effort to leverage on all channels to boost revenue and build branding, we launched MASTravel on YouTube in early 2013. Featuring fun behind-the-scenes videos of corporate and milestone events as well as videos of journeys by our guests and fans, the channel is fast gaining popularity among viewers.

Product

Continuous monitoring and improvement of our products and service is a key focus. In 2012, we introduced new features at the enhanced International Golden Lounge at KLIA, improved check-in facilities, and numerous customer service enhancements in our airport facilities.

Many new inflight products were also added to our offering as a premium airline. These included extending the 'Chef-on-Call' service to Business Class (previously limited to First Class), re-introducing caviar to the menu offering for First Class passengers, along with a complete upgrade of our inflight product in all cabin classes leveraging on the A380 service model.

Sales & Distribution

Revenue per Available Seat Kilometre (RASK) registered an increase of 8% to 20.0 sen in 2012. This was in line with Sales & Distribution's focus to generate a profitable business and drive high margin segments such as corporate travel which registered a 13% growth in 2012. Nearly 700 accounts were renewed and over 300 new accounts acquired.

Our relationship with Expedia, Inc. group, the world's largest online travel company, was expanded in September to offer travellers in Malaysia affordable airfares all year round and at any time of the day. This partnership provides Malaysian consumers with a simple and easy to use online travel booking channel for them to view, select, transact and finalise their air travel needs from the comfort of their homes and work places.

MASholidays began its turnaround journey in 2012, registering a tremendous growth of 64% during the year. Key growth segments were Umrah and group packages which grew 40% with Istanbul, Beijing and Kathmandu as top selling destinations. MASholidays also introduced niche products such as Formula 1 packages, Football packages (in conjunction with EPL Asia Tour) and Rainforest (in conjunction with the popular Rainforest Music Festival). Inbound, Malaysia Stopover was the main driver.

Charter continued to register 7% growth in 2012.

To reduce distribution costs, a new agreement was negotiated with Amadeus. The lower GDS rate will result in a savings of RM197 million over the next 5 years.

Call Centre revenue increased by 22% over the last year due to an improvement in conversion rates (from 11% in 2011 to 17% in 2012) and staff productivity (from 59% in 2011 to 65% in 2012).

OPERATIONS

Mastering operational excellence was the key strategic focus in 2012, driven by the implementation of Operations Project Delta II to support the corporate Business Plan. This translated into the continuation of simplifying processes, focusing on cost effectiveness and mitigating disruptions. The end game was to attain increased operational efficiency and improved customer satisfaction without compromising safety and security. Highlights include:

Flight Operations

Flight Operations attained an impactful core savings from fuel efficiency initiatives. Given the age of our fleet, 2012 Fuel Burn against Planned rates surpassed set targets. Good progress was made with a positive variance of 11.62 million kg. The accumulated savings from Total Planned Fuel since FY2008 amounted to RM147.8 million; savings in 2012 registered at RM86.1 million.

Fuel efficiency levels continued to improve at 1.87% of the fuel index. From 2008 to 2012, total accumulated fuel savings was 50.5 million kg. In 2012 alone, a fuel savings of 26.6 million kg was achieved. These levels are expected to improve beyond 2013 with the arrival of more new technologically and fuel-efficient aircraft.

Flight and cabin crew productivity achievements met targets in 2012. Crew flying and duty hours remained at healthy levels without the risk of exceeding regulatory requirements despite gradual increases in schedules implementation and a challenging operating environment.

Inflight services

Malaysia Airlines' cabin crew maintained their leadership position in 2012 as the 'World's Best Cabin Staff' awarded by Skytrax. Winners of this prestigious award for the seventh time (2001-2004, 2007, 2009) since 2001, the recognition further strengthened our inflight service and resolve as the best-in-class.

Other highlights include key training covered during the year – A380 preparation and aircraft safety, **one**world product knowledge, and language skills (English, French and Arabic). Our male cabin crew also saw a change of uniform. Launched on 1 July to coincide with the inaugural flight of the A380, the grey business suit with midnight blue tie upped the level of professionalism of the crew.

Operations Control Centre

Malaysia Airlines operated 105,077 flights (51% domestic, 49% international) in 2012 bringing the average number of flights operated daily of about 292 flights system-wide. On Time Performance (OTP) improved considerably to 87.22% in 2012 from 84.82% in 2011, the best in 5 years. Much hard work, engagement, collaboration and workshops involving inter and intra divisions brought about the improved OTP. Average Delay Duration (ADD) rates also fell in 2012 translating to improved punctuality.

The Emergency Response and Business Continuity unit continued to improve its planning and preparedness, concentrating on air disaster drills and exercises, both at stations and KL International Airport. Seven drills, exercises and table-top exercises were carried out. Specialised training was provided to staff and volunteers.

Operations Systems and Support

Great effort was put to establish an integrated platform for smooth delivery of day-to-day operations. Moving forward, the platform will be leveraged to simplify end-to-end business processes to better manage operational costs and integration between units.

ENGINEERING & MAINTENANCE

2012 was a challenging year for Engineering & Maintenance (E&M). Despite this, E&M remained focused on supporting the Group's operations to maintain profitability. All E&M services are being reviewed to strengthen its position as a major aircraft overhaul organization.

E&M recorded revenue of RM399 million in 2012, an 11% reduction from RM446 million achieved in 2011. The 2012 revenue was commendable considering 56% of the hangar capacity was filled up by Malaysia Airlines' end of lease (EOL) redelivery activities.

End of Lease (EOL)

E&M played a key role in the implementation of the Business Plan by ensuring the redelivery of aircraft. The arrival of new aircraft per the Fleet Renewal programme required E&M to redeliver a mixed fleet of B737, A330, B777 and B747 aircraft back to lessors. In 2012, E&M managed to redeliver 16 aircraft to lessors.

When an aircraft is returned at the end of a lease, the terms and conditions of getting the aircraft to its near-original state are much tougher. Work must be done in accordance with strict compliance to stringent regulatory requirements and redelivery obligations.

With safety a priority at all times and a relentless focus on keeping costs down, it was a challenge that E&M met head on in 2012 and succeeded. Missing the redelivery timeline was not an option as it attracts more penalties and other variable costs.

Improving Technical Reliability

Daily Primary Technical Delays attributed by E&M in 2012 system-wide for flight delays of more than 15 mins was 3.1 delays per day, a significant improvement on the previous year. This was attributed to the improved technical reliability of our fleet as a result of relentless efforts by our E&M team to address defects, and operational excellence initiatives on performance and quality.

Structural Costs Reduction

Materials Department saw major cost savings through improvements in the way we manage our engineering inventory. Without cutting corners or compromising on safety and quality, a thorough review of processes and controls led to E&M Materials Procurement achieving a monthly average of 30% savings on purchase orders.

Safety and Quality

Safety remains an integral part of our service delivery. In 2012, E&M embarked on several Safety Leadership Programme projects to enhance its safety culture. Since then, our Safety Index for Flight, Ground and Industrial Incidences has shown a marked improvement.

FLEET STATUS

As at 31 December 2012

Aircraft Type	No.	No.	Total No.
Total Malaysia Airlines			**109**
Narrow Body			61
B737-400	26		
B737-800 (Commercial Lease)	21		
B737-800 (New Purchase)	14		
Wide Body			48
A380-800	4		
A330-200	3		
A330-300	7		
A330-300 (New Purchase)	10		
B777-200	17		
B747-400	7		
Total Subsidiaries			**34**
B737-400 (Firefly)		2	
ATR72-500		22	
Firefly	12		
MASwings	10		
DHC-6 (MASwings)		4	
Freighters		6	
B747-400F	2		
A330-200F	4		
Group Total			**143**
Average Group Fleet Age			**9.2 years**

THE END-TO-END CUSTOMER JOURNEY

MH is not just Malaysia Airlines' flight code but also stands for Malaysian Hospitality. Delivery of our reknown Malaysian Hospitality across the entire value chain of a customer's journey has been a key focus for years.

In 2012, we upped the ante to transform Malaysia Airlines group into a customer-centric organisation that consistently delivers premium quality products and services at all customer touch points. That's Malaysia Airlines, a premium carrier. That's Malaysia Airlines, a 5-star airline.

The customer journey starts at the call centre, at the ticket offices and Malaysia Airlines website, to the check-in counter, airport lounge and boarding gate processes, to inflight cabin service, F&B, baggage handling, and customer care.

We introduced a host of new services in 2012.

Pre-travel

The Internet Booking Engine (IBE) platform was upgraded from SITA version 3.6 to version 4.0 in 2012. Enhancements were made to the following functionalities – multi-sector booking, Open Jaw travel, Stop-Overs, Calendar shopping, Last seat availability indicator, promotional fares based on target market segments, and code-share flight bookings. In addition, enhancements were made to the Manage My Booking (MMB) function and the multiple payment gateways with multiple acquirers.

On Ground Experience

Check-in

For First Class, we offer dedicated kerb side parking and baggage drop at KLIA, porters to collect luggage upon car arrival at the kerb side,

Priority baggage tags, 'Meet & Greet' at kerbside with personal escort to the Golden Lounge and departure gate, as well as pre check-in, and immigration clearance at check-in.

For First, Business and Enrich Platinum, we now offer an exclusive Premier check-in zone and use of dedicated premium Fast Track Immigration lanes.

There are exclusive Platinum, First and Business Class check-in counters, as well as dedicated security clearance at A380 departure gates. Check-in counters are also allocated for families with children, the elderly and passengers with reduced mobility.

Golden Lounge

Malaysia Airlines currently offers 12 Golden Lounges around the world to our premium customers. Our flagship Golden Lounge at the International Satellite Terminal Building of KLIA opened in June 1998. The introduction of the A380 into our fleet was a fitting time to upgrade this popular Golden Lounge to cater for more guests and introduce new features.

The upgraded Golden Lounge now features a sports bar and a video games room (in addition to the Children's play room) in a comfortable and private environment surrounded by Malaysian works of art. Capacity has been increased in both the Platinum Lounge, from 72 to 87 guests, and the Business Class Lounge which can now accommodate 340 guests from 278 previously.

2012 saw Malaysia Airlines walk the talk of providing seamless Malaysian Hospitality as part of creating memorable journeys for our guests. Malaysia Airlines is possibly the first airline in the world to introduce its cabin crew to serve premium guests in the lounge, enabling our World's Best Cabin Crew to provide premium service on the ground, even before guests come on board. With Malaysia Airlines, we have extended the 5-star service to both in the air and on ground.

Being a member of **one**world now sees the Golden Lounge at KLIA frequented by **one**world members. In addition, there are 14 other foreign carriers operating out of KLIA that use our Golden Lounge to accommodate their high-end customers.

Over the years, the Golden Lounge at KLIA has won several awards from Skytrax as the Best Airport Lounge in Southeast Asia, and more recently in 2011 as Asia's Leading Airline Lounge from the World Travel Awards.

On Air Experience

Aligning Cabin Baggage to oneworld
From May 2012, in preparation to become a member of **one**world, we aligned our cabin baggage policy to other member airlines' practices. First and Business Class guests are now allowed 2 pieces of cabin baggage (max 7kg each) whilst Economy Class guests 1 piece not exceeding 7kg.

Food & Beverage
In-flight Operations remains committed to present a modern but classic-inspired onboard dining experience. Menu development and planning emphasizes authenticity and simplicity to produce contemporary gastronomic delights for our guests. Compliance to halal and HACCP standards are ensured with efficiency in production to produce quality and consistency in all meals.

By listening closely to our customers, we introduced the hybrid menu concept (a combination of heavy and light meal choices) for late-night departures, a'la minute offerings of freshly prepared egg dishes, gourmet sandwiches and freshly-baked cookies, an enhanced bread service, and a selection of premium products – caviar, lobster and fine chocolates.

Our 'Chef-on-Call' service for First Class was revamped in June 2012, and extended to Business Class in September in conjunction with the increased capacity of our A380 fleet.

Still on the A380, Economy Class guests now experience an improved level of onboard dining with our new contemporary design of tableware made of super lightweight and highly durable material.

Our guests continue to appreciate menus created in conjunction with festive and special events celebrated in Malaysia and globally such as Chinese New Year, Ramadhan and Aidilfitri, Christmas, Deepavali and also for the Malaysian school holidays.

Adding to the innovative culinary delights presented on Malaysia Airlines led our team to collaborate with chefs from reknown hotels such as Shanghai Marriot, Taj India and Resorts of Madras, Mandarin Oriental Kuala Lumpur, and Grand Hilton Incheon to introduce specially designed menus.

We were honoured to receive prestigious customer recognition of our F&B offerings onboard. Malaysia Airlines' satay was voted the 'Best Airline Signature Dish' by Skytrax in 2012. First and Business Class F&B also came in the top 10 amongst Skytrax's review of global airlines.

Our wine selection was a big winner at Business Traveller's 'Cellar In the Sky Awards 2012' for the Best First Class Cellar, Best First Class Red Wine, and 2nd Place for First Class Sparkling – Champagne.

Improved Inflight Entertainment (IFE)
The IFE experience was further improved in 2012. Malaysia Airlines now boasts a wider selection of the latest entertainment content – 100% increase in Hollywood movies and audio CD selections, 80% increase in TV content, and 50% increase in international movies.

Guests on the A380 enjoy the latest Audio Video on Demand (AVOD) on their 23" screens in First Class, 17" screen for Business Class, 10.6" screen for Economy Class. Also included are premium branded noise cancelling headphones.

Inflight Amenities
In keeping with our premium carrier status, we upgraded the inflight amenities for guests on First and Business Class. To make their journey even more comfortable, First Class guests can discuss when they wish to dine and rest with a personalised journey planner, receive a luxurious amenity kit designed by BVLGARI, coat/jacket brush-down service, bigger plush pillows and down feather duvet, and new designed pyjamas and cabin slippers. Business Class guests receive a stylish TUMI pouch with Clarins toiletries.

Inflight Shopping
Temptations, Malaysia Airlines' inflight shopping service, now offers a wider range of products including limited edition A380 merchandise, watches and writing instruments as well as some innovative Malaysian made products.

Post Travel – Listening to our Customer

Customer feedback is so important to Malaysia Airlines. On an annual basis, we receive and respond to more than 30,000 comments, suggestions, compliments and complaints. The invaluable feedback allows us to improve shortcomings and service breakages and reward exemplary staff identified by our customers.

Monthly Domestic and International inflight surveys are conducted on 30 parameters involving guests travelling in all three classes.

Despite the many challenges encountered in 2012, Passenger Handling Services (Boarding Gate Management, Wheelchair Services) and Food were areas that showed 100% more compliments received. Even better was the 200% increase in compliments for our Technical Crew, Call Centre and Product Development. There was a 12% decline in the total number of complaints received.

Service areas in Malaysia Airlines that showed the biggest improvement was our Online Channel with the up-grade of systems, Flight Delay/Delay Handling, Engineering, Mishandled Baggage and Reservation.

MASkargo

2012 was both eventful and very challenging for MASkargo. The Company registered a Loss before Tax of RM74.11 million in 2012 reflecting the general weak economic conditions particularly in developed countries, soaring fuel costs and high operational expenses. Cargo revenue for FY2012 declined 9.3% from FY2011.

Similar to other industry players, MASkargo was forced to restructure operations to defend eroding margins. Cargo throughput at KLIA stood at 545,925 tonnes in 2012, down 8% from the previous year. Cargo mishandling rates showed better performance. Still, MASkargo continued to invest in systems to enhance its service and prepare itself for future improvements in world trade, particularly in the Asia-Pacific region.

A major refurbishment in 2012 was the state-of-the-art automated cargo handling system which enabled MASkargo's operational activities to improve efficiency. The capacity throughput increase is targeted at 1 million tonnes per annum, sufficient to enable MASkargo to cater for future business growth at KLIA and support Malaysia as a global trans-shipment hub.

Further improvements were made in 2012 as part of MASkargo's expansion plan. Two new A330-200F aircraft arrived to complement its freighter fleet of two B747-400F covering the world's major cargo hubs at Asia, Australia, Europe, Middle East and CIS. The new A330-200F freighters will tap markets along intra-Asia routes to generate value in diverse market conditions.

MASkargo's route expansion programme saw it become one of the first few Asian air cargo operators to commence scheduled flights into Baku, Azerbaijan. MASkargo also moved into Labuan, Sabah to tap the oil & gas sector's equipment movement. Optimisation of charter activities showed a positive improvement of 21% in 2012 compared to 2011.

In a service industry, success of the cargo business is also determined by non-financial measures. MASkargo hosted the prestigious 6th World Cargo Symposium in Kuala Lumpur in 2012. As a pilot participant of the Secure Freight Programme, the event saw the signing of a Memorandum of Understanding (MoU) with IATA.

MASkargo was named 'Cargo Airline of the Year' for the fifth consecutive year by Malaysia Airports Berhad. The prestigious award is based on the Company's cost efficient operational process and excellent customer services.

Despite headwinds in 2012, MASkargo continued to improve quality, acquire new customers and gain market share in its home market - thanks to a highly motivated workforce. In addition, the Company will leverage on its strength of efficient service and an excellent track record of reliability and safety.

Going forward, MASkargo's challenge is to elevate its standing as a global air cargo service provider. To compete on a world stage, MASkargo will focus on quality and service through a better understanding of customers' needs and demands in order to deliver the right product at the right time.

It will also focus on developing new products, emerging niche markets and seek to improve its processes for a seamless and hassle-free shipment operation.

FIREFLY

With the cessation of its jet operation at the end of 2011, Firefly turned its focus on growing the turboprop business and its targeted niche market. Passenger growth increased 6% from the previous year with the top three destinations being Penang, Singapore and Kota Bharu, based on revenue and number of passengers.

Awarded 'Putra's Most Promising Brand of the Year', Firefly proudly introduced three new routes and one new destination in 2012 while utilizing the existing turboprop fleet of 12 ATR 72-500s. Two of these routes marked an historical milestone, as Firefly is the first commercial airline to provide air links to connect the East Coast to the southern region of Peninsular Malaysia and Singapore respectively. Firefly further strengthened its Southern Thailand network with Hat Yai being the newest destination from Subang and by launching the Penang-Koh Samui route.

Firefly continued to break new ground for the Company's charter service with the two Boeing 737-400 in its fleet. It explored three destinations from Kuala Lumpur International Airport, namely to Haikou and Nanning (via Penang), and to Christmas Island in Australia which has however been wound down due to a network rationalization.

Customer experience initiatives have been a large part of the Company's focus, while it closely developed a brand refresh track moving forward. By monitoring its customer satisfaction index daily onboard each flight, 2012 saw implementation of Firefly's mobile booking facility and a website revamp that has made it even easier for customers to use.

The year was successfully sealed with a Purchase Agreement for 20 brand new ATR 72-600 aircraft which boasts cutting-edge turboprop technologies, the latest glass panel cockpit, new avionics and a top notch designed cabin for added passenger comfort and safety. Delivery of the additional enhanced fleet series will start in mid-2013. The new aircraft is targeted for increased frequencies on high demand routes as well as to develop new South and East coast hubs to better facilitate the business and leisure traveling public.

Always seeking vibrant enhancements, 2013 will see Firefly soar with a renewed spirit. The new designed chic cabin crew uniform will further empower flight attendants in their duties on board. Firefly will continue to strengthen its turboprop business by reviewing new destinations. With an aggressive marketing and brand refresh plan ahead, Firefly will continue to build its underserved point-to-point strategy around Peninsular Malaysia, Singapore and the Indonesia, Malaysia and Thailand Growth Triangle (IMT-GT).

MASwings

MASwings aspires to be the most reputable and preferred community airline in East Asia. The year 2012 saw MASwings continue its charge to generate more revenue, increase productivity, enhance customer service, and manage operational costs.

As a result, MASwings managed to increase NIAT by 9.32% in 2012. Despite higher fuel and maintenance costs, CASK was reduced by 8.80% following implementation of a dynamic work schedule (rosters) of ground support staff, consolidation of Sibu office and relocation of Subang Office to Kota Kinabalu. Staff productivity, measured by revenue per staff, improved by 6.33%.

The 100% fulfillment of RAS Schedule 1 and completion of BIMP-EAGA Phase 1 enabled MASwings to grow ASK by 8.41% in 2012 compared to the previous year. This is important as the Company prepares to face greater competition in 2013. The introduction of flights into Bandar Seri Begawan (Brunei), Tarakan and Pontianak (Kalimantan, Indonesia), enabled passenger growth to increase by 12.06% in 2012.

MASwings successfully achieved an average rating of 91.06% in 2012 in customer satisfaction based on the MASwings Customer Insight Survey.

Whilst MASwings' role is pivotal as a strategic tourism industry player in Sabah and Sarawak, the carrier is equally committed to the local community. In 2012, another two interior schools in Sabah were adopted as part of its 'Wings of Love' CSR programme for Sabah and Sarawak, making it a total of 5 adopted schools so far. Other CSR projects include assisting orphanages and old folks homes.

As part of its employee development programme to enhance service delivery, MASwings launched a branding and change management programme called '1Wings of Love' that carries employee inspired values of teamwork, integrity, care, passion and being resourceful. To drive this exciting programme, 80 'warriors' from all grades of employees have been trained to cascade the Company's vision, mission and values to employees.

Safety

FLYING SAFELY, SECURELY AND RELIABLY

Safe and Secure Operations

Safety and security is our promise to customers. It is fundamental to our business, and is our license to operate. Safety is an integral part of Malaysia Airlines' vision and we remain committed to continuously elevating our safety performance.

This commitment requires a clear understanding from the top and across the organization that safety is a process and that the sum of many actions and efforts of many people will ensure a safe, secure and sustainable operation. Failure in this chain of linked processes can increase the risks of accidents and incidences.

This over-arching safety mindset underpins all safety initiatives and enhances our safety culture across the Group to ensure that our promise of safety and security are delivered sustainably to customers. A key part of the safety process is to have a proper risk mitigation plan, encourage open reporting and the implementation of a 'just culture'.

Safety Collaboration and Safety Quality

Safety is an industry issue and thus we collaborate with other stakeholders including regulators, industry associations and partner airlines. We work together with the **one**world Safety Group, AAPA, IATA, Flight Safety Foundation (FSF) and other safety bodies with the collective goal of enhancing safety performance.

Safety quality assurance is achieved through an annual audit programme in which Corporate Safety Oversight (CSO) works closely with business units (BU) on their audit programme. IATA Operational Safety Audit's (IOSA) enhanced checklists are used as a benchmark to ensure IATA conformance. This is renewed every two years by external approved auditors. In March 2013, Malaysia Airlines was audited for renewal of its IOSA certification for the fifth time by an IATA accredited audit organisation.

Malaysia Airlines keeps abreast of industry best practices in safety and security by reviewing other operators' incidents and monitoring industry issues to ensure lessons are learnt and shared. In addition, we work with the Department of Civil Aviation (DCA) Malaysia and Malaysia Airports Berhad (MAB) in the formation of a National Runway Safety Committee to organize Runway Safety Teams at each domestic airport to identify threats and provide multi-disciplinary mitigation.

Safety Oversight

CSO is a key department in Malaysia Airlines established to ensure the fulfillment of our Group's 'No Compromise to Safety' policy. CSO's mission is to build a sustainable safety culture across the Group through implementation of a Safety Management System (SMS).

A major role of CSO is to ensure clear understanding of the SMS across the Group in order to build a shared safety vision and to operationalise this understanding so that the Group manages risks as low as reasonably practicable (ALARP).

The oversight structure of CSO provides direct reporting to the Group CEO and functional reporting to the Board through the Board Safety and Security Committee (BSSC).

Specific safety events and key operational risks are reported as the first agenda at every Board of Directors meeting. We work closely with all heads of BU to ensure compliance to safety management policies, plans and processes. This interface provides continuous visibility and mitigation of operational risks to the Board and Management.

There are Safety Council Meetings in operational areas chaired by the respective Heads of Division where safety topics are discussed in detail for resolution.

Matters arising and key safety issues are highlighted to CSO and deliberated in other safety forums, namely Accountable Manager Meetings (AMM) chaired by the Group CEO and the BSSC meeting chaired by the BSSC Chairman.

Safety Key Performance Indicators (KPI)

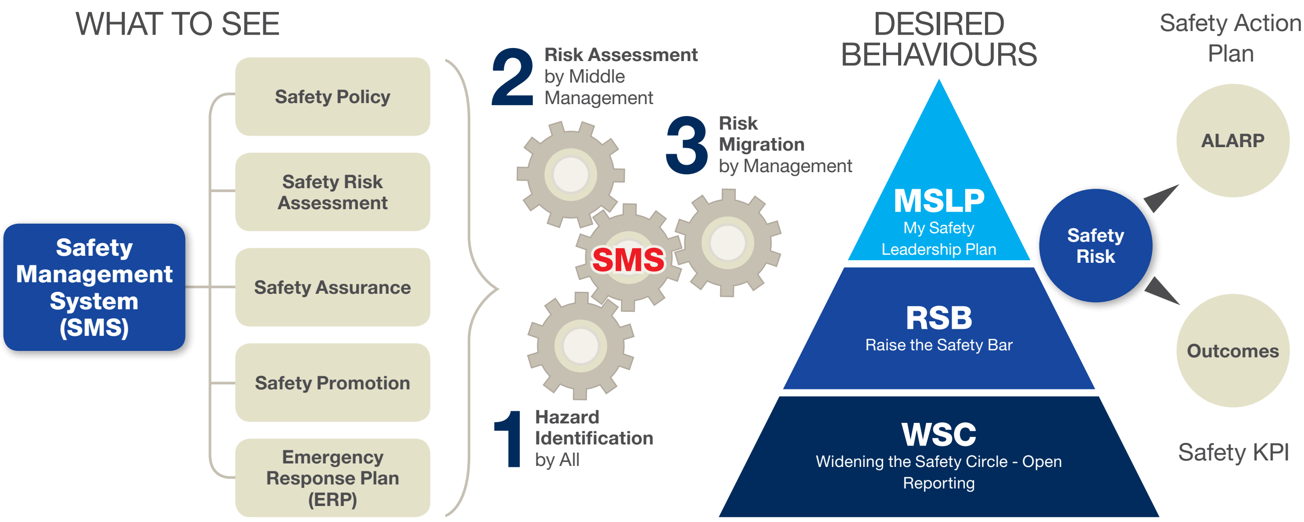
In addition to safety KPIs, a Corporate Safety Shared KPI is developed. Performance is reported monthly in a Corporate Safety Scorecard.

Targets are set based on continuous improvement of past performance and benchmarked against industry performance. The Scorecard is tracked, managed and shared with the BU and reported in many safety forums namely Raise the Safety Bar (RSB), AMM and BSSC.

Safety Management Systems (SMS) Awareness

- My Safety Leadership Plan (MSLP) is designed for senior management as part of their continuous commitment to safety. A MSLP workshop was held on 24 May 2012 in which leaders were required to assess how they can reach out to their teams in more intrinsic ways. These have been translated into safety initiatives and a Safety Action Plan (SAP). This is part of leadership-by-example through leading and showing commitment and support to elevate safety within their circle of influence.
- The Raise the Safety Bar (RSB) programme is for middle management to identify, develop, manage and mitigate key safety risks. The outcome is a risk register, SAP and safety KPIs which are reviewed and incorporated into the BU Risk Register if necessary.
- The Widening the Safety Circle (WSC) programme promotes safety beyond safety personnel. Visual aids to remind that 'Safety is everybody's responsibility' and 'Safety starts with me' are constant reminders for all staff.

Raise the Safety Bar (RSB)



Passenger Safety

To ensure the continued safety of our passengers, a comprehensive safety training programme is in place to train our pilots and cabin crew. All pilot and cabin crew are required to undergo an annual mandatory Safety Emergency Procedures (SEP) training. These are conducted in conformance with regulatory requirements of the Malaysian Civil Aviation Regulations (MCAR) 1996. Abnormal and emergency procedures performed by crew members are included in the SEP manual. These include:

- Location and use of safety and emergency equipment carried onboard specific aircraft, such as B737, A330, B777, B747 and the A380. Training encompasses the main characteristics of each aircraft type on doors/exits, oxygen system, lighting (normal and emergency), evacuation commands and post impact duties (pilot and cabin crew).
- Practical training on door/evacuation drills, fire/smoke drill, wet/raft drills and handling disruptive passengers.
- First aid training, handling emergencies inflight, basic guidelines on how to handle medical emergencies onboard which includes life-saving techniques, major and minor emergencies, traumatic emergencies, aviation medicine and child birth.

A380 Safety Related Training

In preparation for our A380 Entry-into-Service (EIS), Flight Safety Human Factors (FSHF) sent an early group of safety trainers to Airbus in Toulouse under the Train-the-Trainer (TTT) programme. These trainers then developed Malaysia Airlines' own A380 safety courseware and trained more safety instructors on the A380 Safety Emergency Procedures (SEP) for pilot and cabin crew.

Eight SEP training sessions were conducted for pilots and 25 sessions for cabin crew were held in 2012. The conversion training was attended by 88 pilots and 560 cabin crew to ensure safety certification for the A380 EIS. In addition, over 350 cabin crew attended Ground Cabin Training (GCT) on A380 cabin familiarisation, cabin safety walk view, mandatory door drill and evacuation command for cabin crew.

Other safety work included familiarisation of the doors to ground staff including vendors, and development of the A380 safety videos and safety information card. Malaysia Airlines finally participated in the familiarisation and certification flight of the A380 as required by DCA in June 2012.

Line Operation Safety Audit (LOSA)

As part of its pro-active safety programme, Malaysia Airlines conducted its second LOSA from March to August 2011. The Report was presented to senior management in March 2012, and provided a diagnostic snapshot of daily flight operations based on data derived from 281 observations of 188 flight crew flying in and out of more than 50 airports.

LOSA outcomes were also communicated to various levels of Flight Operations management personnel. A series of cascade sessions were conducted to the flight crew members. This is still ongoing.

A change process is being implemented to close gaps identified in the LOSA reports. These actions are tracked monthly by CSO and Flight Operations and discussed in the Raise Safety Bar (RSB) meeting, Flight Operations Safety Council meeting, AMM and BSSC.

Fatigue Risk Management System (FRMS)

FRMS is considered a core part of our business as it provides a significant opportunity to improve safety and efficiency of our operation and maximise the well-being of our staff. Malaysia Airlines recognises the need for a FRMS to manage fatigue safety risk and continues to support its implementation.

FRMS applies to all operations and will not cause crew patterns or ground staff shift rosters to exceed prescriptive flight and/or duty time limits in accordance with regulations, labour law and/or as agreed in the Memorandum of Understanding (MoU) or various Collective Agreements (CA), unless mutually agreed by Association/Union representatives and the Company.

Malaysia Airlines today is engaging the pilot association in the development, implementation and maintenance of a Pilot Fatigue Risk Management Programme. An initial programme involving one aircraft type is planned for completion before end-2013.

For other groups of employees, reports are handled by the Fatigue Risk Safety Action Group (FRSAG) which convenes regularly to address fatigue issues.

FRMS in Malaysia Airlines is at an early stage of implementation which will be carried out in phases. This will also involve our subsidiary companies. We expect to have a 'complete' FRMS in operation by end-2014.

Safe and Healthy Workplace

Safety and Health in the workplace and business environment is overseen by Corporate Occupational Safety & Health's (COSH). Its primary objective is to ensure compliance to the various acts, regulations, guidelines and industry's best code of practices. This is undertaken through regular inspection and surveillance at BU premises and stations to ensure compliance.

The Occupational Health unit reviews the implementation of occupational health policies to ensure compliance with regulatory acts and to mitigate occupational health risk at the work place. Occupational health screening and examinations are undertaken to ensure compliance by employees both in domains and at stations. This unit also undertakes planned drug free workplace screening and ensures continuance of the programme.

The Aviation Health unit reviews and implements aviation health policies in compliance to acts and regulations with the aim of increasing awareness of aviation health policies, guidelines and procedures for air crew. It will also pro-actively ensure the availability of required medical amenities and equipment for use of passengers and crew onboard aircraft.

	2011	2012
Loss Time Injury (cases)	83	117
Medical Leave (days)	765	1942
Fatality Rate	0	0
Incident Rate	2.26	4.02
Frequency Rate	1.07	1.90
Severity Rate	16.82	46.17

At the Workplace

BUILDING AN AWARD-WINNING TEAM

Our People's Journey

Malaysia Airlines first took to the skies in April 1947. Twenty years later, the Company had 2,400 employees. The current Malaysia Airlines brand was later incorporated on 3 April 1971 when the partnership between Malaysia and Singapore dissolved. Today, the number of employees has grown tremendously. By end 2012, our team strength stood at over 19,400 including 3 wholly-owned subsidiaries. Some 95% of employees are based in Malaysia; the remaining 5% work across 27 countries globally.

Malaysia Airlines is an award-winning airline, having received more than 100 awards in the last 10 years. Synonymous for its MH brand which is not just an airline code; MH is Malaysian Hospitality.

Unleashing Internal Talent

As a Government-linked company (GLC) of Malaysia, the Government's Orange Book on Strengthening Leadership Development sets a framework to assess and strengthen company-wide leadership development through talent management.

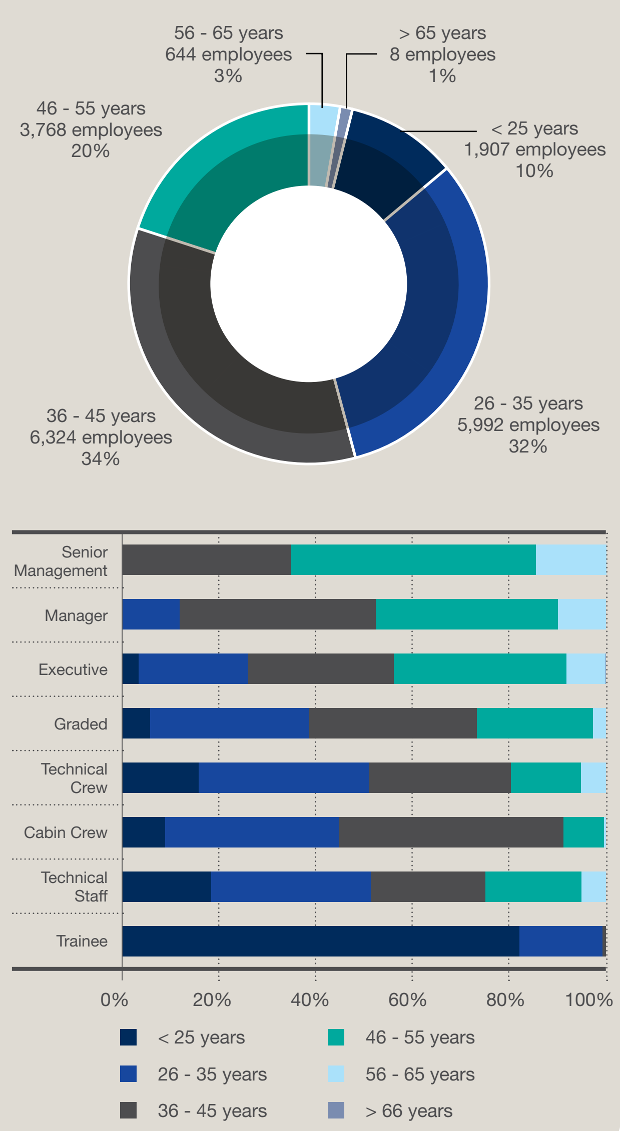
In line with Vision 2020, Malaysia Airlines focuses on developing leaders at all levels, creating development opportunities, improving succession planning and designing comprehensive talent development programmes.

This focus is aligned with one of the key foundations in the Business Plan - to build a world-class award-wining team that delivers excellent customer services.

Equal Opportunity Employer

Malaysia Airlines practices equal opportunity for employees regardless of gender, age or type of jobs, among others. The Company recognizes and respects social and cultural backgrounds of all employees and customers. Malaysia Airlines is also committed to maintaining a healthy and safe working environment that promotes commitment to the job, improved productivity and delivery of quality services to customers.

JOB ROLE BY AGE



Union Representation

Malaysia Airlines acknowledges the role of trade unions in representing employees, in order to cultivate a healthy working relationship and industrial harmony. Decisions made through the process of collective bargaining and negotiation between employer and unions are today more objective and amicable.

Trade unions play an important role in supporting the Company's Business Plan and act as a conduit to harness members' commitment to deliver on the business objectives. Today, Malaysia Airlines recognizes eight (8) unions and associations, representing a diverse group of employees ranging from general workers to pilots.

People Engagement

Human Resources plays a vital role in ensuring the success of the Business Plan by driving a series of people engagement programmes to foster employee relations and build encouragement towards higher people productivity and innovative process improvements:

a. Communication
The following channels are used: Quarterly briefings on Financial Results, divisional townhalls, Group CEO Engagement Sessions (smaller face-to-face sessions), MH Pulse intranet and uVoice circulars.

b. People Engagement Survey: Reach Out – Make a Difference
Aspiring to create a Winning Organisation, placing people at the heart of the organisation and improving the understanding of our people towards organisational issues led Human Resources to run a comprehensive group-wide People Engagement Survey at the end of 2012. The Survey themed 'Reach out – Make a difference', sought honest and open feedback on the employee experience at Malaysia Airlines.

The key objectives were to measure, benchmark and improve Employee Engagement levels in order to achieve our Vision to become The Preferred Premium Carrier. Conducted via paper and on-line surveys, the confidential responses showed that 51% of employees were engaged.

Analysis of the results is essential towards creating tangible and measurable Action Plans to make Malaysia Airlines a 'Great Place to Work, Play and Perform'.

c. Care & Events
HR Care & Events was kept busy throughout 2012. Employees enjoyed 'bubur lambuk' distribution and 'Singgah sahur' events involving the Chairman, Group CEO and senior management. The 'MH Ceria Raya' open houses were celebrated with team members of all races. Long service awards for 1,468 employees serving 30 years and more, Best Student Awards, and coming to the aid of colleagues in their time of need (collections for flood and fire, hospital and home visits) were major activities by the team.

d. Heritage MH Gallery
Opened on 12.12.12, Heritage MH Gallery is a showcase of our rich history from 1947 onwards. Artefacts, photos and publications make up a special collection that will continue to grow and be shared with future generations as Malaysia Airlines' journey.

e. Innovation
'Innov8' is an introduction to INNOGateway, a platform to share and collaborate on ideas. INNOGateway's tagline is to Inspire, Connect and Innovate.

BUILDING INTEGRITY

Malaysia Airlines is taking important next steps to enhance the culture of integrity in the organisation through several key initiatives implemented company-wide in 2012 under the MAS Integrity Plan.

The Plan which is supported by five pillars - Prevention, Education, Assurance, Consequence and Enhancement (PEACE) - focuses on raising staff awareness and knowledge on good business ethics.

Periodic updates on integrity issues and information was made through the issuance of Integrity Bulletins, through staff engagements on education, and knowledge-sharing sessions. The existing Whistleblower programme also provides a safe and secure channel for employees and partners to raise concerns on integrity matters.

Building integrity is a journey. As part of this journey, we signed of a Memorandum of Understanding (MoU) with the Malaysia Anti-Corruption Commission (MACC) in October 2012. Working with MACC provides us with opportunities to leverage on MACC's wide experience, resources and skills to enhance our knowledge and education on integrity in the organisation.

Malaysia Airlines became the 140th signatory of the Corporate Integrity Pledge (CIP) which signifies a company's commitment to uphold Anti-Corruption Principles in Malaysia. CIP works towards creating a business environment that is free from corruption. The signing of the MoU with MACC and the CIP set a firm tone from the top that integrity is good business.

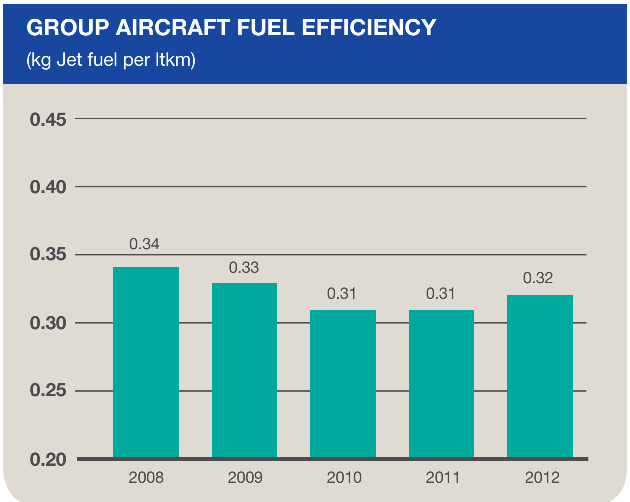
Care for the Environment

Our Emissions

Our carbon footprint for 2012 amounted to 5.46 million tonnes of CO_2 (2011: 6.03 million tonnes). This included fuel burn of the Group's aircraft and ground energy consumption (electricity, diesel and petrol). These represent Scope 1 and 2 of the GHG Protocol standards. The reduction in emissions compared to 2011 is a combination of our reduced capacity in 2012, and our fleet renewal which saw the introduction of more fuel efficient aircraft. By source, jet fuel is by far the largest contributor to our carbon footprint at 98.21%.

Fuel consumption of the Group in 2012 stood at 1.68 million tonnes of jet fuel (2011: 1.86 million tonnes). Malaysia Airlines' aircraft represent 88.06% of total fuel consumed, followed by MASkargo freighter planes at 7.91%.

Fuel Efficiency



Fuel efficiency of Malaysia Airlines Group aircraft in kgs of fuel per ltkm

Aircraft technology, flight operations, air traffic infrastructure and economic measures all play a part in reducing our carbon footprint. These represent IATA's 4-pillar strategy aimed at reducing emissions.

Technology (Pillar 1)
Our on-going fleet renewal has resulted in measurable fuel efficiency gains. We will not only have the youngest fleet in Asia by 2015, but also one of the most environmentally friendly. By phasing out older aircraft, the average fuel efficiency of our fleet has improved. Our fuel efficient B738 consumes 25% less fuel for every tonne of payload (comprising passengers, baggage and cargo) carried over the same distance. The same goes for our wide body fleet of aircraft.

Operations (Pillar 2)
Our aircraft go though regular washes as dirty aircraft create more drag and use more fuel. Engines too are washed, as clean engine internals result in greater efficiency. Our new aircraft come with lightweight seats, cargo containers are made of lightweight material, and loading of potable water is optimised based on number of passengers. Even paper manuals carried by pilots are being replaced with electronic versions (Electronic Flight Bag) for further weight and emission savings, estimated at 720 tonnes of CO_2 annually. Stationary aircraft at the ramp use external diesel Ground Power Units which burn much less fuel compared to the onboard auxiliary jet engine called Auxiliary Power Unit.

Air Traffic Infrastructure (Pillar 3)
Malaysia Airlines has invested in a state-of-the-art flight plan and flight following software, but we can only do so much to shorten flight times and lessen emissions. Air traffic management and airport efficiency is a shared responsibility.

Economic Measures (Pillar 4)
In the longer term, economic measures including regulatory schemes such as the EU-ETS and voluntary schemes such as our own voluntary carbon offset programme, will be required to support IATA's aviations emission reduction goals.

Energy and Water Consumption

Year	2010	2011	2012
Group:			
Electricity (MWh)	146,313.04	163,343.39	143,324.83
Water (cu m3)	2,106.62	1,095.19	1,737.65

Energy Efficient Lights Installed at Advanced Cargo Centre KLIA

In 2012, MASkargo undertook a retrofit exercise to replace all 1,625 high intensity lights at its 70,000sq m Advanced Cargo Centre with energy efficient types. Completed by October 2012, the results show a 60% monthly energy savings that translates to a 13,000 tonnes reduction in CO_2 emissions annually. These lights have also led to higher and more uniform illumination resulting in better and safer working conditions.

Waste and Recycling

In 2012, 28,820 m^3 of wastewater from KLIA and Subang was treated, and 378.53 tonnes of scheduled waste was generated and disposed of according to environmental laws and regulations.

Our Maintenance, Repair & Overhaul (MRO) operations in KLIA and Subang continue to implement their 'Total Scrap Management System' where scrap metals, plastic, paper and batteries are recycled. 85.82 tonnes of scrap material was recycled in 2012.

The 'Go Green Inflight 3R' initiative was launched in July 2011 and championed by our Inflight Services department. As of 31 December 2012, 13.7 tonnes of plastic tumblers, 2.6 tonnes of aluminum cans and 1.5 tonnes of aluminum foil have been collected.

Noise Management

Malaysia Airlines supports ICAO's 'balanced approach' to minimize aircraft noise through cooperation with all stakeholders. We provide adequate noise protection to our staff, and aircrafts and schedules comply with noise requirements of all airports we fly to.

Environmental Management

Our Group Environmental Policy developed in 2012 provides a clear message to internal and external stakeholders on our environmental direction, aspirations and intent to improve environmental performance and comply with relevant environmental legal and other obligations. We received Stage 1 IEnvA certification in 2013. We believe that good environmental management is a process of continuous improvement, and our aim for 2013 is to educate and cascade the Environmental Policy to our staff and build on the framework provided by the IEnvA programme.

Domestic, Regional & International Environmental Affairs

Malaysia Airlines takes its environmental responsibility seriously and strongly supports a global framework championed by ICAO as the best solution to address carbon emission without jeopardising the industry and its contribution to the global economy. To ensure our position is taken into account, Malaysia Airlines undertakes lobbying exercises and participates in initiatives under the umbrellas of IATA, Association of Asia Pacific Airlines (AAPA) and the Ministry of Transport.

EU ETS

On 22 February 2012, 23 nations including Malaysia voiced objection to the EU ETS for airlines to surrender carbon allowances equal to their emissions for flights into and out of the EU. As a result of the EU's "Stop the Clock" decision taken on 12 November 2012, the Group's financial exposure to the EU ETS has shrunk to less than 20 intra-EU MASkargo freighter flights – an insignificant financial impact. We continue to comply under protest with the EU ETS requirements and closely follow this issue.

For the Community

When a company makes a financial loss, one of the first things to be cut is likely to be sponsorship and contributions to the community. For Malaysia Airlines, a large annual financial loss reported in the previous year did not deter the Group from continuing to contribute to the community.

Throughout 2012, Malaysia Airlines maintained its Corporate Social Responsibility role, perhaps on a smaller scale compared to prior years, but always with sincerity in wanting to give back to the community. Through a variety of non-monetary ways, and with some creativity, Malaysia Airlines' corporate and employee volunteerism efforts helped thousands of beneficiaries, mainly students, orphans, old folks and the needy.

In 2012, Malaysia Airlines continued its PINTAR (Promoting Intelligence, Nurturing Talent and Advocating Responsibility) school adoption programme that it had been undertaking since 2006. Where previously the Group would adopt no less than 20 schools in a single year, in 2012, the number of schools under the MH PINTAR programme was reduced to just 6.

Our schools, located in Peninsular Malaysia enjoyed MH PINTAR Days in which a team of employee volunteers comprising pilots, technical staff, cabin crew and administration staff would organise career and motivation talks, fun and games, at the schools. This occurred at SK Manjoi 2, SJK Tamil Klebang, SJK Cina Pei Cheng in Ipoh, at SM Sains Selangor, at SK Keruak in Besut, Terengganu, and at SK Jerantut Jaya in Pahang.

Giving exposure to the intriguing world of aviation is a simple inexpensive activity that Malaysia Airlines does very well. Visits for students of all ages, including tertiary colleges, were organised throughout the year to see the Engineering & Maintenance operations at the hangers, Airport Operations at KLIA, to try out the flight simulators, and enter the cabin mock-up area.

Our cabin crew are a lot with big hearts. Through their own employee volunteerism network, the crew's WELKINs (short for Wellness and Kinship) organised a walkathon to raise funds for ailing crew members and participated in an Educare project to provide school items for needy children to prepare for the new school year.

The cabin crew were also active in promoting the collection of spare change from passengers for MERCY Malaysia through the 'Change for Charity' project.

Malaysia Airlines also organised 'Make-a-Wish' events for 2 very special boys who had dreams of becoming a pilot and wanting to fly in an aircraft.

Our subsidiaries and stations around the world were also active in doing their bit for the community. Dhaka station organised a blanket collection for the local community in February. When Firefly launched its new route Subang-Kota Bahru, the team did not forget to celebrate this milestone with children from 3 orphanges and homes. MASwings adopted 2 schools in Sabah in 2012 bringing its total number of schools adopted by the community airline to 5. Activities were held throughout the year involving local needy children and old folks.

MILESTONES 2012

January

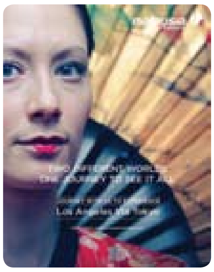
- Malaysia Airlines wins 'World's Leading Airline to Asia' Award at World Travel Awards 2011 for the second year running
- MASkargo's new A330-200F arrives

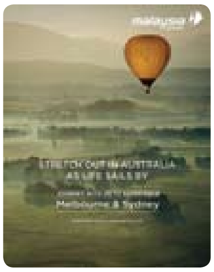
February

- MASwings introduces 3 flights weekly for Tawau-Tarakan; increases frequency to daily for Kuching-Pontianak
- MASkargo launches charter to Papua New Guinea
- Firefly promotes aviation careers to women

March

- Malaysia Airlines's new advertising look & feel unveiled





April

- Malaysia Airlines clinches the Gold Putra Brand Award 2012 in Transportation, Travel & Tourism category
- Firefly named Putra's 'Most Promising Brand of the Year 2012'
- Firefly increases point-to-point traffic: East Coast (Kota Bharu)-Johor Bahru

May

- Malaysia Airlines announces funding plan (perpetual Sukuk, aircraft lease, raising of commercial loans)
- Malaysia Airlines announces code-share with JAL covering 347 weekly flights on 51 sectors
- MASkargo expands charter to Ho Chi Minh and Johannesburg

June

Malaysia Airlines Welcomes the A380

- It is a journey that took 10 years from the start of negotiations, signing of Purchase Agreement, production and finally in June 2012, Malaysia Airlines' first of 6 A380 aircraft arrives at Kuala Lumpur International Airport (KLIA) to a long-awaited Homecoming
- A full flight of 494 passengers of employees, guests, business partners and contest winners participate in the A380 Proving Flight. Included is former Malaysian Prime Minister, Tun Dr Mahathir Mohammed, who was visionary in proposing that Malaysia Airlines invest in a fleet of this new fuel efficient long-range aircraft

July

- Malaysia Airlines A380 inaugural flight Kuala Lumpur - London
- Malaysia Airlines partners with Paypal for faster, safer mobile payment on MHmobile
- Malaysia Airlines wins big at Skytrax - World's 5-star Airline, World's Best Cabin Crew, Best Airline Signature Dish
- MASkargo goes to Colombo, Sri Lanka
- Firefly increases point-to-point traffic: Kota Bharu-Singapore and Penang-Koh Samui

July

- 1 July 2012 - Malaysia's Deputy Prime Minister, Tan Sri Muhyiddin Yassin, gives the thumbs-up at the Launch of the A380 Inaugural commercial flight from Kuala Lumpur to London Heathrow
- 2 July 2012 - VIP guests join Malaysia Airlines Group CEO in the Golden Lounge at Heathrow's T4 to celebrate the Inaugural flight, London - Kuala Lumpur

August

- Malaysia Airlines receives the 75th Boeing 737-800

September

- Malaysia Airlines opens new route Kuala Lumpur - Kathmandu, Nepal

October

- Celebrating 40 years of flying as Malaysia Airlines and Malaysian Hospitality
- Malaysia Airlines reintroduces direct international connectivity for Kota Kinabalu to Perth, Hong Kong, Kansai

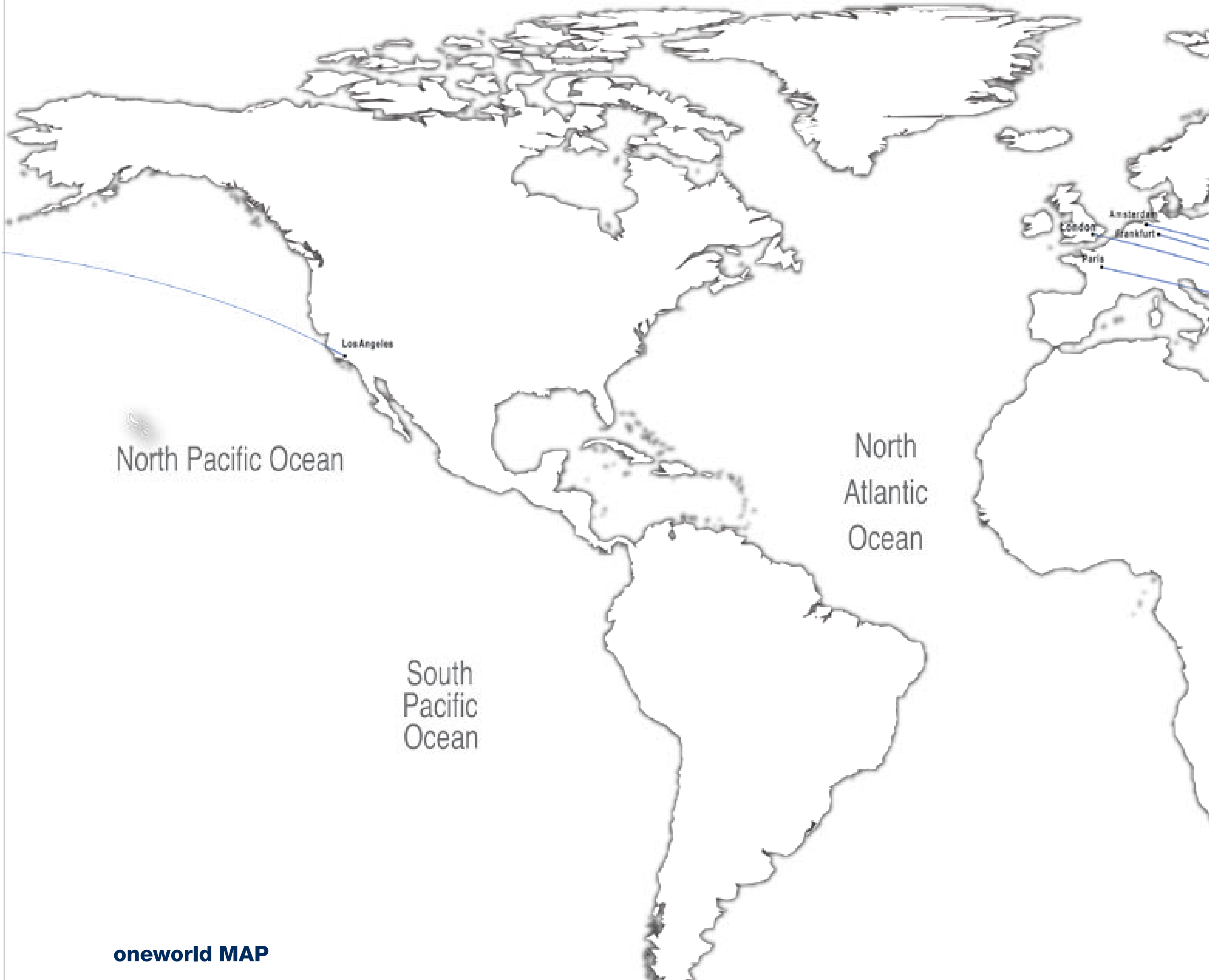
November

- Malaysia Airlines commences double daily Kuala Lumpur - London A380 operations
- Malaysia Airlines announces proposed capital restructuring & Rights Issue
- Enrich announces 'Live the Dream' promotion - its largest redemption offer ever
- MASkargo taps oil & gas sector in Labuan

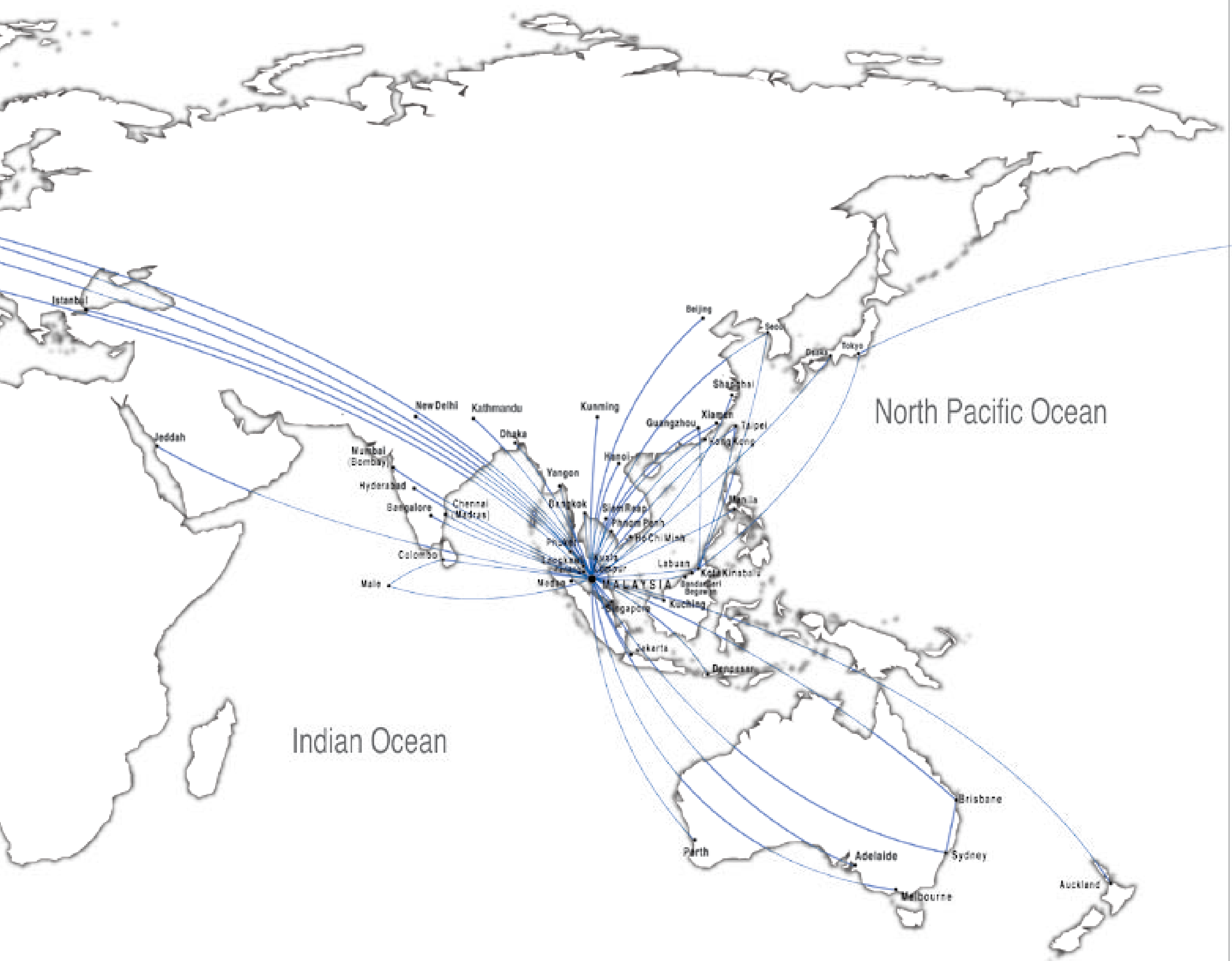
December

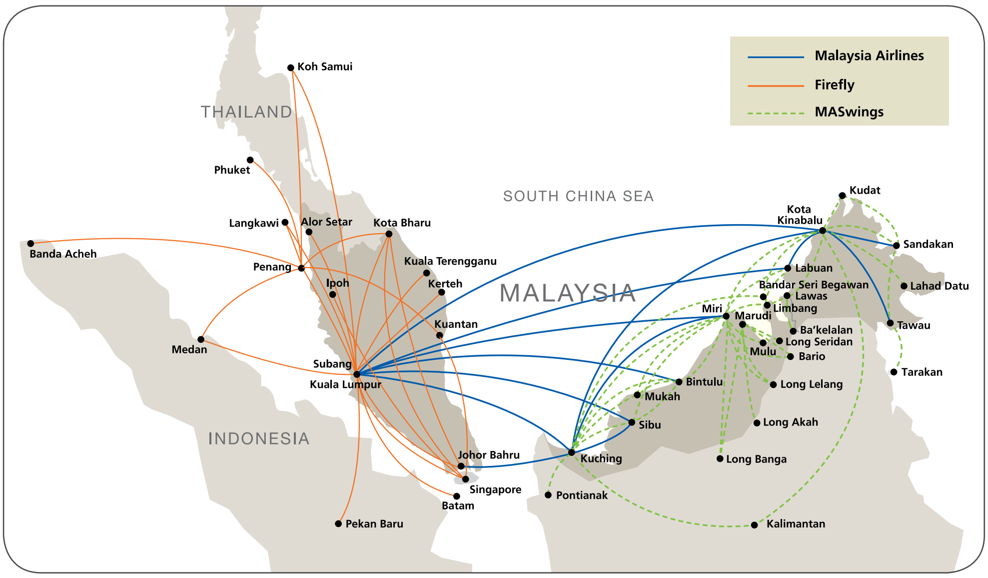
- Unveiled - Malaysia Airlines's retro livery of October 1972
- Purchase of 36 ATR72-600 announced for Firefly and MASwings
- MASkargo expands network to Baku, Azerbaijan

ROUTE NETWORK



oneworld MAP


North Pacific Ocean
Indian Ocean
Istanbul
Jeddah
New Delhi
Kathmandu
Dhaka
Kunming
Beijing
Seoul
Osaka
Tokyo
Shanghai
Xiamen
Guangzhou
Taipei
Hong Kong
Hanoi
Yangon
Mumbai (Bombay)
Hyderabad
Bangalore
Chennai (Madras)
Colombo
Male
Bangkok
Siem Reap
Phnom Penh
Ho Chi Minh
Manila
Phuket
Labuan
Kota Kinabalu
Medan
MALAYSIA
Kuching
Singapore
Jakarta
Denpasar
Brisbane
Perth
Adelaide
Sydney
Melbourne
Auckland


Malaysia Airlines
Firefly
MASwings
THAILAND
SOUTH CHINA SEA
MALAYSIA
INDONESIA
Koh Samui
Phuket
Langkawi
Alor Setar
Kota Bharu
Banda Acheh
Penang
Kuala Terengganu
Ipoh
Kerteh
Kuantan
Medan
Subang
Kuala Lumpur
Johor Bahru
Singapore
Batam
Pekan Baru
Kudat
Kota Kinabalu
Sandakan
Labuan
Lahad Datu
Bandar Seri Begawan
Lawas
Limbang
Miri
Marudi
Tawau
Ba'kelalan
Long Seridan
Mulu
Bario
Tarakan
Bintulu
Long Lelang
Mukah
Sibu
Long Akah
Kuching
Long Banga
Pontianak
Kalimantan

DIRECTORS' PROFILES

TAN SRI MD NOR BIN MD YUSOF

Non-Independent Non-Executive Chairman

Tan Sri Md Nor bin Md Yusof, aged 65, 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 the University of Otago, New Zealand, and is a qualified Chartered Accountant.

He also sits on the Boards of several Malaysian companies and institutions, notably as Chairman of CIMB Banking Group and Chairman of the Executive Committee of Khazanah Nasional Berhad. He has spent a significant amount of his working career with CIMB Group as a Director and more notably as President and Chief Executive Officer of Bank of Commerce Berhad.

He has held several prominent positions including that of Chairman of the Securities Commission and Advisor in the Ministry of Finance.

Tan Sri Md Nor attended all 13 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 58, a Malaysian, was appointed Managing Director/Group Chief Executive Officer of Malaysia Airlines on 19 September 2011. He is a member of the Board Tender Committee and Board Safety and Security Committee and sits on the Boards of various subsidiaries of the Group.

He holds a Bachelor's Degree with Honours in Electrical and Electronic Engineering from University of Nottingham, United Kingdom.

He 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 joined Time Engineering Berhad as Deputy Managing Director in 1992 and was subsequently made Managing Director within the same year. He then served as Managing Director of Malaysian Resources Corporation Berhad and Malakoff Berhad.

He has vast and diverse working experience in oil & gas, publication, engineering, power and energy.

He is also not new in managing organizations on the international front having served as Director and Chairman of the Executive Committee of Central Electricity Generating Company Limited (Jordan) and a Director of Shuaibah Expansion Project Company Limited (Saudi Arabia). He is also the former Honorary President of Penjanabebas (Association of Independent Power Producers in Malaysia).

Ahmad Jauhari attended all 13 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.

DAVID LAU NAI PEK
Senior Independent Non-Executive Director

David Lau Nai Pek, aged 60, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Independent Non-Executive Director on 9 August 2011. He is also the Senior Independent Non-Executive Director of Malaysia Airlines. He serves as Chairman of the Board Audit Committee and Nomination and Remuneration Committee and a member of the Board Hedging Committee.

He holds a Bachelor's Degree with Honours in Commerce from Canterbury University, New Zealand, and is a member of the Malaysian Institute of Accountants and New Zealand Institute of Chartered Accountants.

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

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

David Lau attended 11 out 13 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.

DATO' SRI DR. MOHD IRWAN SERIGAR BIN ABDULLAH
Non-Independent Non-Executive Director

Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah, aged 56, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Non-Independent Non-Executive Director on 22 October 2012.

He holds a PhD in Economics from International Islamic University Malaysia, Masters of Science in Energy, Management and Policy from University of Pennsylvania, USA, and a Bachelor's Degree with Honours in Population Studies from University Malaya.

He also attended the Advanced Management Programme at Harvard Business School, Harvard University, USA. Dato' Sri Dr. Mohd Irwan Serigar has extensive experience working in the Economic Planning Unit of the Prime Minister's Department from 1984 until 2003. He was involved in preparation of the Fifth Malaysia Plan, Action Plan of the First Industrial Master Plan, and setting up of the Energy Division. In 2003, he joined the Ministry of Finance and held various positions, including Principal Assistant Secretary in the Economics and International Division, Head of Econometrics Section, Head of Multi Lateral Relations, Deputy Under Secretary (Macro) of the Economics and International Division, Under Secretary of Economics and International Division and Deputy Secretary General (Policy), before being appointed to his current position, Secretary General of Treasury in 2012.

He currently is Chairman of Kumpulan Wang Amanah Persaraan Diperbadankan (KWAP), Inland Revenue Board (IRB), Cyberview Sdn Bhd, Malaysia Development Holdings Sdn Bhd and GovCo Holdings Berhad. He also sits on the Boards of Mass Rapid Transit Corporation Sdn Bhd, Lembaga Kemajuan Tanah Persekutuan (FELDA), Regional Corridor Development, Felda Global Ventures Holdings Berhad, Petrolium Nasional Berhad (PETRONAS), Bank Negara Malaysia and Prokhas Sdn Bhd.

Dato' Sri Dr. Mohd Irwan attended 2 out of 3 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 MOHAMED AZMAN BIN YAHYA
Non-Independent Non-Executive Director

Tan Sri Mohamed Azman bin Yahya, aged 49, 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 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, which was set up by Bank Negara Malaysia, until its closure in 2002.

He is currently Group Chief Executive and a Board member of Symphony House Berhad, Executive Chairman of Bolton Berhad and Director of Scomi Group Berhad.

Apart from his professional engagements, he is active in public service. He sits on the boards of Khazanah Nasional Berhad, the investment arm of the Malaysian Government, and Ekuiti Nasional Berhad, the Government-linked private equity fund management company. He also serves as a member of the Financial Reporting Foundation and is Chairman of the Motorsports Association of Malaysia.

Tan Sri Mohamed Azman attended 11 out of the 13 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.

TAN SRI KRISHNAN TAN BOON SENG
Independent Non-Executive Director

Tan Sri Krishnan Tan Boon Seng, aged 60, 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 and Security Committee and Board Tender Committee. He is also a member of the Board Audit Committee.

He qualified as a Certified Public Accountant in 1978 after graduating with a Bachelor's Degree with Honours in Economics from University of Malaya in 1975, and holds a Master in Business Administration from Golden Gate University, San Francisco, USA.

He is currently Executive Deputy Chairman of IJM Corporation Berhad. He serves as Director of IJM Plantations Berhad, IJM Land Berhad (Chairman) 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 Chief Executive Officer and Managing Director on 26 February 2004 and served in this position until 31 December 2010.

Tan Sri Krishnan attended 12 out 13 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.

TAN SRI DATUK AMAR HAJI MOHAMAD MORSHIDI BIN ABDUL GHANI
Independent Non-Executive Director

Tan Sri Datuk Amar Haji Mohamad Morshidi, aged 56, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Independent Non-Executive Director on 19 December 2012.

He holds a Bachelor’s Degree in Economics from University Kebangsaan Malaysia and a Master of Science in Human Resource Administration from University of Scranton, Pennsylvania, USA. He started his career as a Management Executive with PETRONAS in 1980. He was Director of Kuching North City Hall from 1988 to 1998. He then went on to hold senior positions in the Chief Minister’s Department that included Director, Human Resource Management and Director, Human Resource Development and Quality from 1998 to 2001.

Tan Sri Datuk Amar Haji Morshidi was later appointed as Permanent Secretary in the Ministry of Social Development and Urbanisation in 2001. He was Director in the State Planning Unit in the Chief Minister’s Department before assuming the position of Deputy State Secretary of Sarawak in 2006. On 2 August 2009, he was appointed as State Secretary of Sarawak.

He also sits on the Board of Sarawak Economic Development Corporation Berhad (SEDC), Sarawak Energy Berhad, Syarikat SESCO Berhad, Regional Corridor Development Authority (RECODA) and Kumpulan Wang Simpanan Pekerja.

Tan Sri Datuk Amar Haji Mohamad Morshidi was appointed in December 2012 and therefore did not attend any Board meeting of the Company 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.

TAN SRI SUKARTI BIN WAKIMAN
Independent Non-Executive Director

Tan Sri Sukarti bin Wakiman, aged 59, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as an Independent Non-Executive Director on 1 February 2013.

He holds a Bachelor’s Degree with Honours in Anthropology and Sociology from University of Malaya.

He began his career as a Manpower Officer in the Ministry of Manpower and Environmental Development, Sabah in 1977. In 1981, he was posted to the Protocol and Ceremonial Division, Chief Minister’s Department, Sabah as a State Protocol and Ceremonial Officer. Subsequently, he assumed the post of Administrative Officer at the State Development Office, Sabah in 1984. In late 1984, he was posted to Istana Negeri as Private Secretary to the Sabah Head of State. In 1994, he was promoted as Permanent Secretary to the State Ministry of Agriculture and Fisheries. He became Permanent Secretary of Ministry of Rural Development, Sabah in 1996, and became Director of the State Public Service Department, Sabah in 1998. In 2000, he was appointed Permanent Secretary to the Ministry of Infrastructure Development, before being transferred back to the State Public Service Department to assume the same post later that year. He was appointed as State Secretary of Sabah on 3 July 2007.

Tan Sri Sukarti sits on the Boards of Borneo Housing Mortgage Finance Berhad, Kumpulan Wang Simpanan Pekerja, Warisan Harta Sabah Sdn Bhd, University Malaysia Sabah and Kumpulan Yayasan Sabah.

Tan Sri Sukarti was appointed to the Board of Malaysia Airlines in February 2013 and therefore did not attend any Board meetings of the Company 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.

DR. MOHAMADON BIN ABDULLAH
Independent Non-Executive Director

Dr. Mohamadon bin Abdullah, aged 65, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Independent Non-Executive Director on 22 June 2012. He is a member of the Board Tender Committee, Board Safety and Security Committee, Board Audit Committee and Nomination and Remuneration Committee.

Dr. Don, as he is known to many, joined Malaysia Airlines as a Management Trainee in June 1972. During his 32 year career, he gained wide hands-on experience in many operational, commercial and support areas of the Company. These included Human Resources, Management Development, Marketing & Sales (Passenger & Cargo), Centralised Purchasing & Procurement, Inflight Catering & Cabin Services, Inflight Services and Flight Operations.

He retired from service on 31 December 2004 as Senior General Manager, Corporate Services where he was responsible for Legal Affairs, Property Management, Corporate Insurance, Human Resource Training & Development, Government Relations & Corporate Communications, Corporate Safety & Security, Crisis Management and Medical Services.

Representing the Company, he also served as Board member of several subsidiaries and associate companies. He is currently a Non-Executive Director of Comintel Corporation and Executive Director of Borneo Isthmus Development Sdn Bhd.

Dr. Don attended 6 out 6 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.

ESHAH BINTI MEOR SULEIMAN
Alternate Director to Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah

Eshah binti Meor Suleiman, aged 58, a Malaysian, was appointed Alternate Director to Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah on 5 November 2012.

She holds a Bachelor's Degree with Honours in Economics 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 a Master in Business Administration (Finance) from Oklahoma City University, USA in 1994.

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

She is also a Director of Malaysia Airports Holdings Berhad, Pos Malaysia Berhad, Global Maritime Ventures Berhad (a subsidiary of Bank Pembangunan Malaysia Berhad) and Alternate Director at Telekom Malaysia Berhad.

Eshah has not attended any Board meeting of the Company held during the financial year on behalf of Dato' Sri Dr. Mohd Irwan Serigar 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

AHMAD JAUHARI BIN YAHYA
Group Chief Executive Officer

DR. HUGH DUNLEAVY
Director of Commercial

CAPTAIN IZHAM ISMAIL
Director of Operations

MOHD SUKRI HUSIN
Director of Corporate Services/Acting Director of Finance

DATO' MOHD SALLEH AHMAD TABRANI
Director of Customer Services

ZAHRAH ZAID
Director of Human Resource

AZHARI MOHD DAHLAN
Chief Executive Officer, Malaysian Aerospace Engineering

MOHD YUNUS IDRIS
Chief Executive Officer, MASkargo

IGNATIUS ONG MING CHOY
Chief Executive Officer, Firefly

DATO' CAPTAIN MOHD NAWAWI HJ AWANG
Chief Executive Officer, MASwings

BOARD OF DIRECTORS' MEETINGS

DATE	NATURE OF MEETING
21 February 2012	Board of Directors' Meeting [No. 01-12]
29 February 2012	Special Board of Directors' Meeting [No. 02-12]
18 April 2012	Special Board of Directors' Meeting [No. 03-12]
2 May 2012	Special Board of Directors' Meeting [No. 04-12]
5 May 2012	Special Board of Directors' Meeting [No. 05-12]
22 May 2012	Board of Directors' Meeting [No. 06-12]
12 June 2012	Special Board of Directors' Meeting [No. 07-12]
17 July 2012	Board of Directors' Meeting [No. 08-12]
14 August 2012	Board of Directors' Meeting [No. 09-12]
4 October 2012	Board of Directors' Meeting [No. 10-12]
6 November 2012	Board of Directors' Meeting [No. 11-12]
27 November 2012	Board of Directors' Meeting [No. 12-12]
2 December 2012	Special Board of Directors' Meeting [No. 13-12]

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 new 2012 Malaysian Code on Corporate Governance ("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. The Board also takes note of the Code and has taken steps to ensure that the new recommendations are being addressed. The Company's efforts on fulfilling its corporate responsibility and promoting sustainability, in particular on safety, at the workplace, towards the environment, and for the community appear on pages 20 to 27 of this Annual Report.

The following Statement on 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.

The appraisal on the independence of its independent directors has been conducted and the Board is constantly reviewing its effectiveness in accordance with the Board Charter.

Board Balance, Structure and Composition

Board structure and composition is the foundation for an effective Board. Our 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. The current Board of MAS comprises nine (9) members which comply with the requirement on Independent Directors of the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (BMSB) and the recommendation of the Code.

Category	Number
Non-Independent and Non-Executive Chairman	1
Executive Director	1
Non-Independent and Non-Executive Directors	2
Independent and Non-Executive Directors	5

A brief profile of each Director appears on pages 32 to 36 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, David Lau Nai Pek.

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 thirteen (13) Board meetings were held during 2012. The Directors' attendance record was as follows:

Director	Meeting Attendance
Tan Sri Md Nor bin Md Yusof Chairman	13/13
Ahmad Jauhari bin Yahya Group Chief Executive Officer	13/13
Tan Sri Mohamed Azman bin Yahya	11/13
Tan Sri Tan Boon Seng @ Krishnan	12/13
David Lau Nai Pek	11/13
Dr. Mohamadon bin Abdullah *(appointed on 22 June 2012)*	6/6

Director	Meeting Attendance
Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah *(appointed on 22 October 2012)*	2/3
Mohammed Rashdan bin Mohd Yusof Group Deputy Chief Executive Officer *(resigned on 1 July 2012)*	7/7
Tan Sri Nik Awang @ Wan Azmi bin Wan Hamzah *(resigned on 21 June 2012)*	6/7
Dato' Rohana binti Tan Sri Datuk Haji Rozhan *(resigned on 7 August 2012)*	8/8
Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah *(resigned on 22 October 2012)*	7/11
Tan Sri Dato' Sri Anthony Francis Fernandes *(resigned on 30 April 2012)*	0/3
Dato' Kamarudin bin Meranun *(resigned on 30 April 2012)*	2/3

Eshah binti Meor Suleiman ceased to be Alternate Director to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah on 22 October 2012 and was re-appointed as Alternate Director to Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah on 5 November 2012.

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.

The Board is constantly looking for the right and suitably experienced and qualified candidates to join the Board regardless of their gender.

Directors' Training

All Directors have attended and successfully completed the Mandatory Accreditation Programme mandated by BMSB. 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 2012 included:

- Khazanah Megatrends Forum 2012
- Briefing on the New Corporate Governance Blueprint & Regulatory Updates
- Malaysian Directors Academy – "Building a winning team – How Cryuff changed the game"
- Airline and Travel Payments Summit Asia
- Invest Malaysia 2012 Conference
- GLC Transformation (GLTC) Programme: The Good, the Bad, Myths, Untold Stories and What's Next.
- Proposed Refinements to the Capital Allocation and Performance Management Framework and Introduction to Supervisory Review and Evaluation process (SREP)
- 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 Director is 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 Director's 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 Director is 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	2,416	223	2,639
Non-Executive Directors	488	-	488
Total	**2,904**	**223**	**3,127**

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

	No. of Directors
Executive Directors:	
Below RM500,000	-
RM500,001 to RM1,000,000	1
RM1,500,001 to RM2,000,000	1
Non-Executive Directors:	
Below RM50,000	10
RM50,001 to RM100,000	2
RM100,001 to RM150,000	-
RM150,001 to RM200,000	1

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 significantly add 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 organizes, 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 ToR 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
- Board Hedging Committee

BOARD AUDIT COMMITTEE (BAC)

A full BAC report detailing its membership, ToR and activities during the year is contained in pages 52 to 56 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 AND REMUNERATION COMMITTEE (NRC)

Chairman	David Lau Nai Pek
Members	Tan Sri Mohamed Azman bin Yahya
	Dr. Mohamadon bin Abdullah

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, as well as nomination of members of Senior Management namely those reporting directly to either the GCEO. The NRC also reviews and recommends the appropriate remuneration packages applicable to them, 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 Deputy GCEO 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
Members	Dr. Mohamadon Abdullah
	Ahmad Jauhari bin Yahya
	Ignatius Ong (Firefly CEO)
	Dato' Capt. Mohd Nawawi bin Awang (MASwings CEO)

Objectives

To provide reasonable 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 to the Company 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 MAS Aerospace Engineering (MAE), MASkargo, 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 Company, and agrees with its programme to safeguard the safety and security of its operations. It endorses the principles of openness and encourages 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 review occurrence reports and trend analysis and ensure corrective actions are taken in a timely manner.
- To periodically review safety and security performance of MAE, MASkargo, 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 within inflight 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	Tan Sri Tan Boon Seng @ Krishnan
Member	Dr. Mohamadon Abdullah
	Ahmad Jauhari bin Yahya

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 Tenders 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.

BOARD HEDGING COMMITTEE (BHC)

Chairman	Tan Sri Mohamed Azman bin Yahya
Member	David Lau Nai Pek

Objective
To assist the Board in fulfilling its oversight responsibilities in relation to risk management relative to the Company's exposure to fluctuations in fuel 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.

Authority
The BHC shall in accordance procedures or processes determined by the Board review the hedging mandates, policy, strategy and hedging position.

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 clear, balanced and meaningful 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.

Statement of Directors' Responsibility in relation to the Financial Statements

In the preparation of the Financial Statements as set out on pages 68 to 163 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 Group and Company, 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 65 of this Annual Report.

Whistle-blowing Policy

The Group's Whistle-blowing Policy provides an internal mechanism for both employees and external parties to raise their concerns responsibly about malpractices, irregularities and negligence affecting MAS, without fear of adverse repercussions. The appropriately managed whistle-blowing 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.

Risk Management Framework and 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 15.25 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 Risk Management and Internal Control on pages 47 to 51 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 28 February 2013.

INTRODUCTION

The Malaysian Code of 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 the Main Market Listing Requirement (MMLR) of Bursa Malaysia Securities Berhad 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 in the monthly performance reports.

- **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.

- **Management**
  Management is responsible for implementing the process for identifying, evaluating, monitoring and reporting of risks and internal control, taking appropriate and timely corrective actions as needed, and for providing assurance to the Board that the processes have been carried out.

  Provides monthly management updates to the Board on financial performance, risk management and other performance indicators.

- **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 and effectiveness of risk management and 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. On a quarterly basis, IAD presents the Internal Audit Report summarising the key audit findings and internal control incidences to the BAC. In 2012, 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 in the Quarterly Internal Audit Report. The function of ensuring the effective and adequate implementation of recommendations and action items are the responsibilities of the Group CEO and Acting Director of Finance, who are permanent invitees to the BAC meetings.

- **Quality Assurance (QA) Functions**
  Fifteen (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 aim to improve Group's services standards and meet 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. Bi-annually, RPAS provides a risk management report to BAC on the status of the Corporate Risk Profile. 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 major realignment of the company structure took effect in 2012, towards an organization that reflects the changing business environment. This was supported by a rigorous review of the roles, responsibilities and accountabilities of corresponding positions to ensure clarity for affected personnel.

B. Conduct

- **Code of Ethics (COE)**
  The Code continues to emphasise 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 Resource Division 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 disclose their interest with respect to having any forms of relationship with external entities that deals with MAS. In addition, the procurement staff must sign a conflict of interest declaration prior to the conduct of any tender exercise. These initiatives are 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 Consequence Management Framework was implemented in quarter two of 2012 to empower five (5) focus areas to issue letters of inquiry for non compliance to the company's policy and procedures. The framework is integrated to the current Human Resource Discipline Procedure.

C. Organisational Values

The Internal Control Enhancement (ICE) Program 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 program is the Control Self Assessment, an approach to instil accountability for business unit owners to conduct assessments on their internal controls and communicate the results to management, known as BACA. All system-wide stations and some key departments at the corporate office have started performing self assessment. Effective Quarter 2 2012, the BACA workshop function was handed over to RPAS. Due to major changes in the organizational structure in 2012, RPAS reviewed the current operational processes and aligned the areas of assessment before conducting the assessment for 2012 in January 2013. IAD will continue 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 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 and tabled to the WIC on a quarterly basis. Appropriate actions are taken based on the strengths and merits of the findings. A status of the investigations and summary of concerns are reported via the Quarterly Internal Audit Report to BAC.

- **Employee Performance Measurement and Competency**
  The Performance Measurement System (PMS) is aligned to Strategies and Key Business Activities set forth in the Corporate Business Plan 2012. 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 program, IAD is also embarking on a job rotation program 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 and 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 was to ensure there were clear accountability given to the part of the officers in duty and empowerment were 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. RPAS assisted several key subsidiaries within the Group to finalise and review 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 and Procedures

- MAS Corporate Policy Framework maintains the platform for consolidating and communicating the 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 RPAS Business Partners (RPBs) 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 AND COMMUNICATION

A. Planning

- Business Plan and Budget are reviewed and approved by the Board on an annual basis. An integrated business plan is produced that is driven by commercial objectives, 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 are conducted on a quarterly basis for staff as an avenue for sharing of operational results, performance and issues.

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 control of actual cost incurred over budget.
- Other than regular reporting of internal control issues to the BAC, the effectiveness of internal control system is monitored through the following:
    - BACA through a questionnaire approach was assessed and rated by head office and stations system-wide on a 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.
    - A People Engagement Survey (PES) was conducted in Quarter 4 2012, whereby 67% of the staff participated in this survey.
    - The Management Development Committee (MDC) was reactivated in 2012 to review and deliberate on leadership development and succession, to support the company's objective of a sustainable talent pipeline.

5. RISK ASSESSMENT

- RPAS continues to lead in the implementation of the Group's Enterprise Risk Management (ERM) Framework, facilitates the risk assessment process, monitors the Group's risk profile and implementation of the risk management action plans identified by the business units. RPAS also provides continuous education and appreciation on ERM updates and best practices to the RPAS business partners (RBPs).
- RPAS Business Partners (RBPs), who are formal appointees by their Heads have been trained and developed to assist respective business units in inculcating risk awareness, identifying risks, action plans and reporting of closure rates.
- 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 Group CEO and attended by all RBPs, RPAS and the Director of Corporate Services.
- The risk escalation channel was also introduced in 2011 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 Europe, South Asia, the Middle East, Australia and New Zealand 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, 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 the formal project risk management assessment in ensuring that the project objectives are achieved. These include Enterprise Resource Planning (ERP), New Crew Management System (New CMS), MH Net Project and A380 entry into service project.
- Reviewed and enhanced the processes in the latest revision of the Group's Corporate Risk Management Manual, published on 1 September 2012, provided periodic training and updates on risk and policy matters to the RBPs.
- MAS Business Continuity Management (BCM) Program for the year continued with the completion of Business Continuity Plans (BCP) for several key stations, including Europe (excluding London which was completed last year) and South Asia stations through prioritisation of scope and urgency. RPAS also conducted a BCP testing for Kuching and Kota Kinabalu to validate the readiness of the team in the event of a crisis, as well as development of an additional scope, i.e. runway closure BCP for Kota Kinabalu.
- In every Board meeting, the Safety Committee provided updates on the safety aspects of the Company's operations and safety issues were deliberated by the Board.
- 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 THE INTERNAL CONTROL SYSTEM

MAS' internal control system does not apply to its associated companies and joint ventures which have not been dealt with as part of 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 received. 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 has received assurance from the Group CEO and Acting Director of Finance, and confirms that the system of risk management and internal control, with the key elements highlighted above, is in place during the financial year. The system is subject to regular review by the Board.

This Statement is made in accordance with a resolution of the Board of Directors dated 28 February 2013.

AUDIT COMMITTEE'S REPORT

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 2012.

1. ESTABLISHMENT AND COMPOSITION OF BOARD AUDIT COMMITTEE

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

Directors	Directorship	Meeting Attendance
David Lau Nai Pek (Chairman)	Independent Non-Executive Director	8/8
Tan Sri Krishnan Tan Boon Seng	Independent Non-Executive Director	5/8
Dato' Rohana binti Tan Sri Datuk Haji Rozhan *(Resigned on 7 August 2012)*	Independent Non-Executive Director	6/6
Dr. Mohamadon bin Abdullah *(Appointed on 7 August 2012)*	Independent Non-Executive Director	1/2

Appointment to the BAC is referred to the Nomination and Remuneration Committee 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 32 to 36 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 eight (8) meetings during the financial year, and the attendance record of each member is set out on this page of the Annual Report.

Representatives of Senior Management, Chief Internal Auditor and External Auditors' 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. SUMMARY OF ACTIVITIES OF THE BAC IN THE FINANCIAL YEAR

The activities of the BAC during the financial year 2012 were as follows:

i. 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.

ii. Internal Audit
- Approved the annual Internal Audit Department (IAD) business plan, budget and resource plan for the financial year;
- Reviewed the internal audit reports and the status of implementation of management action plans through IAD's monitoring of the implementation of remedial actions recommended;
- Reviewed the quarterly Internal Control Incident Report covering all key deficiencies in control and control breakdown incidents within the Company, including significant Whistleblower cases; and
- Reviewed the performance of IAD against the IAD scorecard as approved by the BAC and recommend improvements.

iii. 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.

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

v. Annual Reporting
- Reviewed and approved the annual financial statement for the year for inclusion in the Annual Report 2012.
- Reviewed and recommended Statement on Corporate Governance, Statement on Risk Management and Internal Control and Audit Committee's Report to the Board for approval.

vi. 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.

vii. Ad-hoc Reviews
- Requested for ad-hoc studies or review to be carried out where major control weaknesses are identified; e.g. aircraft redeliveries.

5. GROUP INTERNAL AUDIT FUNCTION

The Internal Audit function of MAS Group is performed by IAD that reports directly to the BAC. The 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 ensure 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 2nd Quarter 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 the BACA validation audits to confirm the self assessment performed by Management.

The risk based audit plan approved by the BAC is developed to cover key elements under Revenue Management, Procurement, Cost, Operations, Engineering & Maintenance (E&M), Customer Services and Information Systems 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 corporate vision to be a Preferred Premium Carrier. Assignments have been developed in support of the Business Plan on the Recovery Plan, Game Changers and Foundations.

Internal audit activities covering all the above objectives are undertaken for both passenger and cargo businesses at Corporate Headquarters, stations 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, Internal Audit ceased performing advisory assignments to focus on the core area of assurance to support the organization in enhancing the internal controls.

The BAC receives quarterly reports from the Chief Internal Auditor on the results of activities performed. IAD continuously monitors the execution of the audit recommendations, external and internal through periodic follow up. The function of ensuring the effectiveness implementation of recommendations and action items are the responsibilities of the Group CEO and his management team.

Quality Assurance (QA) collaboration with QA functions in MAS was re-launched in 2012 and IAD had played an active oversight and advisory role on the internal QA functions within the organization to strengthen the reporting structure and effectiveness of the functions.

In line with the International Professional Practices Framework (IPPF) Standard that requires an internal audit function to have a continuous quality assurance and improvement program, an external Quality Assurance Review (QAR) of IAD was conducted by the Institute of Internal Auditors Malaysia (IIAM). The overall assessment by IIAM is that the IAD is in the highest rating of "Generally Conforms" to the Standards in areas of Attribute & Performance Standards as well as the Code of Ethics.

In enhancing the culture of integrity within MAS, a Memorandum of Understanding was signed in October 2012 with the Malaysian Anti Corruption Commission (MACC), to collaborate and leverage on MACC's expertise, experience and resources on education and raising awareness of good conducts. Upon collaboration with MACC, MAS signed the Corporate Integrity Pledge (CIP) in support of MAS initiative to uphold the anti-corruption principles for Corporations in Malaysia.

During the financial year, the IAD had completed and reported 64 audit assignments. The key audits that were completed in 2012 include:

- Revenue assurance
- Distribution channels
- Aircraft redelivery
- Fuel procurement & efficiency
- Service delivery
- A380 aircraft readiness
- Inventory management
- Engineering & Maintenance
- Workforce planning
- Branding & promotion
- Systems review
- Station reviews

The IAD is manned by 37 internal auditors in the Assurance and Integrity Units with approximately 58,000 available man-hours per annum. All the internal auditors have tertiary qualifications and the level of expertise and professionalism within IAD at the end of 2012 are as below:

Expertise Category	Percentage of total auditors
• Finance	41%
• Business/Economics	27%
• IT	19%
• Others	13%

Professional Category	Percentage of total auditors
Professional Certification:	
• Certified Accountants (CPA, ACCA, CA, CIMA)	22%
• Certified Auditors (CIA & CISA)	14%
• Internship of CPA, ACCA, CA, CIMA	3%
• Internship of CIA, CISA, CFE	30%
• Institute of Internal Auditors (IIA) Membership	38%
• Others (IAQA, CCSA)	24%
Post Graduate:	
• MBA and other Masters	19%
• Masters Internship	3%

The Chief Internal Auditor is a Fellow of the Association of Chartered Certified Accountants, a member of the Malaysian Institute of Accountants and a member of the Institute of Internal Auditors Malaysia. MAS is a Corporate Member of the Institute of Internal Auditors. The total expenditure incurred by the IAD for the financial year 2012 is approximately RM6.2 million (2011: RM6 million).

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, the IAD staff had attended 13 training days in 2012.

6. 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 and risk management.

7. 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:

i. 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 MMLR 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.

ii. Duties and Responsibilities

The 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:

a) External Auditor

- 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.

b) 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.

c) 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.

d) 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.

This Statement is made in accordance with a resolution of the Board of Directors dated 28 February 2013.

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. ("AGN") (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 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) Several Agreements dated 28 March 2012 between PMB and Malaysia Airlines such as

(a) Deed of Amendment and Restatement 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 29 March 2013.

(b) Deed of Amendment and Restatement in relation to the lease of one (1) Boeing model aircraft B737-400 bearing Manufacturer's Serial Number 27169 and Malaysian Registration Mark 9M-MMS from PMB to the Company for a period which expires on 29 August 2012.

(c) Deed of Amendment and Restatement 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 December 2016.

(d) Deed of Amendment and Restatement 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.

3. Utilisation of Proceeds from Corporate Proposals

There was no corporate proposal undertaken by the Company during the financial year 2012.

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 2012 is RM575,000.

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 2012 other than the granting of options under the MAS Employees' Share Option Scheme as disclosed in Note 23 to the Financial Statements.

8. American Depository Receipt ("ADR") or Global Depository receipt ("GDR") Programme (as at 31 December 2012)
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 2012.

DIRECTORS' REPORT

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 2012.

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	(430,738)	(481,457)
Attributable to:		
Equity holders of the Company	(432,587)	(481,457)
Non-controlling interests	1,849	-
	(430,738)	(481,457)

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

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

DIVIDENDS

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 2012.

DIRECTORS

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

Tan Sri Md Nor bin Md Yusof
Ahmad Jauhari bin Yahya
Tan Sri Mohamed Azman bin Yahya
Tan Sri Tan Boon Seng @ Krishnan
David Lau Nai Pek
Dr. Mohamadon bin Abdullah *(appointed on 22 June 2012)*
Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah *(appointed on 22 October 2012)*
Tan Sri Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani *(appointed on 19 December 2012)*
Tan Sri Datuk Seri Panglima Sukarti bin Wakiman *(appointed on 1 February 2013)*
Eshah binti Meor Suleiman *(alternate to Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah)*
(appointed on 5 November 2012)
(ceased as alternate to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah on 22 October 2012)
Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah *(resigned on 22 October 2012)*
Dato' Rohana binti Tan Sri Datuk Haji Rozhan *(resigned on 7 August 2012)*
Mohammed Rashdan bin Mohd. Yusof *(resigned on 1 July 2012)*
Tan Sri Nik Awang @ Wan Azmi bin Wan Hamzah *(retired on 21 June 2012)*
Tan Sri Dr. Anthony Francis Fernandes *(resigned on 30 April 2012)*
Dato' Kamarudin bin Meranun *(resigned on 30 April 2012)*

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors 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 35 to the financial statements.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, none of the 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. On 14 May 2012, the ESOS has expired.

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.

OTHER STATUTORY INFORMATION (CONT'D.)

(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

(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 44 to the financial statements.

SUBSEQUENT EVENTS

Details of the subsequent events are disclosed in Note 45 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 28 February 2013.

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 68 to 162 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2012 and of 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 163, 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 28 February 2013.

Tan Sri Md Nor bin Md Yusof

Ahmad Jauhari bin Yahya

STATUTORY DECLARATION

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

I, Mohd Sukri Bin Husin, being the Officer 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 68 to 163 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 Mohd Sukri Bin Husin
at Subang in Selangor on 28 February 2013.

Mohd Sukri Bin Husin

Before me,

PESURUHJAYA SUMPAH
No. B389
NADIMAH BTE HAJI NIK
ADEEB @ MAT ADEEB
MALAYSIA

INDEPENDENT AUDITORS' REPORT

to the members of Malaysian Airline System Berhad (Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Malaysian Airline System Berhad, which comprise statements of financial position as at 31 December 2012 of the Group and of the Company, and 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 information, as set out on pages 68 to 162.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

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

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 48 on page 163 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. 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.

OTHER MATTERS

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

Ernst & Young
AF: 0039
Chartered Accountants

Ismed Darwis Bahatiar
No. 2921/04/14(J)
Chartered Accountant

Kuala Lumpur, Malaysia
28 February 2013

INCOME STATEMENTS

for the financial year ended 31 December 2012

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Operating revenue	3	**13,286,612**	13,653,894	**11,930,377**	11,984,708
Operating expenditure		**(14,117,447)**	(16,197,154)	**(12,788,088)**	(14,396,034)
Other operating income		**469,799**	247,527	**471,615**	261,726
Loss from operations	4	**(361,036)**	(2,295,733)	**(386,096)**	(2,149,600)
Fair value change of derivatives	5	**(17,216)**	60,660	**(17,216)**	60,660
Unrealised foreign exchange gain/(loss)		**189,968**	(129,115)	**130,833**	(96,631)
Finance costs	6	**(235,259)**	(159,424)	**(205,565)**	(154,533)
Share of results of associated companies		**22,602**	25,332	**-**	-
Share of results of jointly controlled entity		**(23,860)**	(14,604)	**-**	-
Loss before taxation		**(424,801)**	(2,512,884)	**(478,044)**	(2,340,104)
Taxation	9	**(5,937)**	(8,441)	**(3,413)**	(4,294)
Loss for the year		**(430,738)**	(2,521,325)	**(481,457)**	(2,344,398)
Loss attributable to:					
Equity holders of the Company		**(432,587)**	(2,523,988)	**(481,457)**	(2,344,398)
Non-controlling interests		**1,849**	2,663	**-**	-
		(430,738)	(2,521,325)	**(481,457)**	(2,344,398)
Loss per share attributable to equity holders of the Company (sen):					
Basic, for loss for the year	10	**(12.9)**	(75.5)		
Diluted, for loss for the year	10	**(12.9)**	(75.5)		

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 2012

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Loss for the year	**(430,738)**	(2,521,325)	**(481,457)**	(2,344,398)
Other comprehensive income:				
Gains on cash flow hedges	**49,628**	41,780	**49,628**	41,780
Total comprehensive loss for the year	**(381,110)**	(2,479,545)	**(431,829)**	(2,302,618)
Total comprehensive loss attributable to:				
Equity holders of the Company	**(382,959)**	(2,482,208)	**(431,829)**	(2,302,618)
Non-controlling interests	**1,849**	2,663	**-**	-
	(381,110)	(2,479,545)	**(431,829)**	(2,302,618)

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

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2012

	Note	Group 2012 RM'000	2011 RM'000	1.1.2011 RM'000
Non-current assets				
Aircraft, property, plant and equipment	11	**12,853,554**	9,073,907	7,663,357
Investments in associates	13	**125,044**	120,043	101,804
Investments in a jointly controlled entity	14	**-**	-	2,360
Other investments	15	**57,038**	54,599	54,604
Intangible assets	16	**153,912**	151,757	137,732
Other receivables	18	**313,473**	343,582	442,575
Deferred tax assets	32	**1,021**	765	3,495
		13,504,042	9,744,653	8,405,927
Current assets				
Inventories	17	**331,164**	362,267	430,849
Trade and other receivables	18	**1,258,872**	1,268,154	1,372,186
Tax recoverable		**6,057**	8,865	19,436
Derivative financial instruments	42	**42,505**	-	-
Negotiable instruments of deposit	19	**-**	101,073	139,206
Cash and bank balances	20	**2,148,478**	1,014,464	2,085,451
		3,787,076	2,754,823	4,047,128
Current liabilities				
Sales in advance of carriage	21	**1,663,026**	1,705,943	1,677,346
Deferred revenue	22	**224,036**	205,307	232,823
Trade and other payables	24	**2,343,126**	2,643,899	2,240,044
Provisions	25	**1,330,001**	1,188,165	934,967
Borrowings	26	**1,458,237**	1,379,411	293,867
Derivative financial instruments	42	**13,940**	9,820	108,080
Taxation		**533**	1,437	3,614
		7,032,899	7,133,982	5,490,741
Net current liabilities		**(3,245,823)**	(4,379,159)	(1,443,613)
		10,258,219	5,365,494	6,962,314
Financed by:				
Equity attributable to equity holders of the Company:				
Share capital	29	**3,342,156**	3,342,156	3,342,156
Perpetual Sukuk	30	**1,498,190**	-	-
Reserves	31	**(2,717,202)**	(2,299,648)	182,010
		2,123,144	1,042,508	3,524,166
Non-controlling interests		**14,847**	13,639	13,078
Total equity		**2,137,991**	1,056,147	3,537,244
Non-current liabilities				
Borrowings	26	**8,090,293**	4,290,583	3,414,913
Derivative financial instruments	42	**29,716**	18,566	10,155
Deferred tax liabilities	32	**219**	198	2
		8,120,228	4,309,347	3,425,070
		10,258,219	5,365,494	6,962,314

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

Statements of Financial Position
as at 31 December 2012

	Note	Company 2012 RM'000	2011 RM'000	1.1.2011 RM'000
Non-current assets				
Aircraft, property, plant and equipment	11	**11,459,733**	7,884,568	7,113,341
Investments in subsidiaries	12	**155,371**	160,345	160,194
Investments in associates	13	**83,834**	88,274	81,274
Other investments	15	**57,038**	54,599	54,604
Intangible assets	16	**146,590**	139,451	129,184
Other receivables	18	**782,493**	898,444	748,285
		12,685,059	9,225,681	8,286,882
Current assets				
Inventories	17	**325,449**	354,186	424,963
Trade and other receivables	18	**1,473,020**	1,398,937	1,433,197
Tax recoverable		**5,554**	3,445	4,726
Derivative financial instruments	42	**42,505**	-	-
Negotiable instruments of deposit	19	**-**	101,073	139,206
Cash and bank balances	20	**2,057,506**	915,425	2,012,667
		3,904,034	2,773,066	4,014,759
Current liabilities				
Sales in advance of carriage	21	**1,634,232**	1,680,991	1,677,346
Deferred revenue	22	**223,644**	204,812	232,823
Trade and other payables	24	**2,403,517**	2,643,548	2,227,900
Provisions	25	**1,243,760**	1,151,007	919,280
Borrowings	26	**1,394,390**	1,328,503	292,817
Derivative financial instruments	42	**13,940**	9,820	108,080
Taxation		**776**	745	2,555
		6,914,259	7,019,426	5,460,801
Net current liabilities		**(3,010,225)**	(4,246,360)	(1,446,042)
		9,674,834	4,979,321	6,840,840
Financed by:				
Share capital	29	**3,342,156**	3,342,156	3,342,156
Perpetual Sukuk	30	**1,498,190**	-	-
Reserves	31	**(2,720,708)**	(2,248,958)	53,110
Total equity		**2,119,638**	1,093,198	3,395,266
Non-current liabilities				
Other payables	24	**23,381**	30,466	24,714
Borrowings	26	**7,502,099**	3,837,091	3,410,705
Derivative financial instruments	42	**29,716**	18,566	10,155
		7,555,196	3,886,123	3,445,574
		9,674,834	4,979,321	6,840,840

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

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 31 December 2012

	Note	Share capital RM'000	Perpetual Sukuk RM'000	Share premium RM'000	Equity component of RCPS RM'000	Employee share option reserve RM'000
				← Non-Distributable		
Group						
At 1 January 2012		3,342,156	-	4,995,970	58,076	88,938
Loss for the year		-	-	-	-	-
Other comprehensive income		-	-	-	-	-
Issuance of Perpetual Sukuk	30	-	1,498,190	-	-	-
Distribution to Perpetual Sukuk holders	30	-	-	-	-	-
Transactions with owners						
Dividend declared		-	-	-	-	-
Redemption of RCPS	27	-	-	-	(58,076)	-
Expiry of ESOS	23	-	-	-	-	(88,938)
Total transactions with owners		-	-	-	(58,076)	(88,938)
At 31 December 2012		**3,342,156**	**1,498,190**	**4,995,970**	**-**	**-**

	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
			← Non-Distributable		→	
At 1 January 2011		3,342,156	4,995,970	58,076	88,388	(70,002)
Loss for the year		-	-	-	-	-
Other comprehensive income		-	-	-	-	41,780
Transactions with owners						
Dividends		-	-	-	-	-
ESOS vested	23	-	-	-	550	-
Total transactions with owners		-	-	-	550	-
At 31 December 2011		3,342,156	4,995,970	58,076	88,938	(28,222)

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

Attributable to equity holders of the Company

---------------------------------------► <Distributable>

Capital redemption 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
-	(28,222)	501,530	(7,915,940)	(2,299,648)	1,042,508	13,639	1,056,147
-	-	-	(432,587)	(432,587)	(432,587)	1,849	(430,738)
-	49,628	-	-	49,628	49,628	-	49,628
-	-	-	-	-	1,498,190	-	1,498,190
-	-	-	(34,595)	(34,595)	(34,595)	-	(34,595)
-	-	-	-	-	-	(641)	(641)
41,775	-	(41,775)	58,076	-	-	-	-
-	-	-	88,938	-	-	-	-
41,775	-	(41,775)	147,014	-	-	(641)	(641)
41,775	**21,406**	**459,755**	**(8,236,108)**	**(2,717,202)**	**2,123,144**	**14,847**	**2,137,991**

Attributable to equity holders of the Company

<Distributable>

General reserve RM'000	Accumulated losses RM'000	Total reserves RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
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
-	-	-	-	(2,102)	(2,102)
-	-	550	550	-	550
-	-	550	550	(2,102)	(1,552)
501,530	(7,915,940)	(2,299,648)	1,042,508	13,639	1,056,147

Statements of Changes in Equity
for the financial year ended 31 December 2012

	Note	Share capital RM'000	Perpetual Sukuk RM'000	Share premium RM'000
Company				
At 1 January 2012		3,342,156	-	4,995,970
Loss for the year		-	-	-
Other comprehensive income		-	-	-
Issuance of Perpetual Sukuk	30	-	1,498,190	-
Distribution to Perpetual Sukuk holders	30	-	-	-
Transactions with owners				
Redemption of RCPS	27	-	-	-
Expiry of ESOS	23	-	-	-
Total transactions with owners		-	-	-
At 31 December 2012		**3,342,156**	**1,498,190**	**4,995,970**

	Note	Share capital RM'000	Non-Distributable Share premium RM'000	Equity component of RCPS RM'000
At 1 January 2011		3,342,156	4,995,970	58,076
Loss for the year		-	-	-
Other comprehensive income		-	-	-
Transactions with owners				
ESOS vested	23	-	-	-
At 31 December 2011		3,342,156	4,995,970	58,076

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

Non-Distributable				<Distributable>			
Equity component of RCPS RM'000	Employee share option reserve RM'000	Capital redemption reserve RM'000	Cash flow hedge reserves RM'000	General reserve RM'000	Accumulated losses RM'000	Total reserves RM'000	Total RM'000
58,076	88,938	-	(28,222)	500,000	(7,863,720)	(2,248,958)	1,093,198
-	-	-	-	-	(481,457)	(481,457)	(481,457)
-	-	-	49,628	-	-	49,628	49,628
-	-	-	-	-	-	-	1,498,190
-	-	-	-	-	(34,595)	(34,595)	(34,595)
(58,076)	-	41,775	-	(41,775)	58,076	-	-
-	(88,938)	-	-	-	83,612	(5,326)	(5,326)
(58,076)	(88,938)	41,775	-	(41,775)	141,688	(5,326)	(5,326)
-	**-**	**41,775**	**21,406**	**458,225**	**(8,238,084)**	**(2,720,708)**	**2,119,638**

		<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
88,388	(70,002)	500,000	(5,519,322)	53,110	3,395,266
-	-	-	(2,344,398)	(2,344,398)	(2,344,398)
-	41,780	-	-	41,780	41,780
550	-	-	-	550	550
88,938	(28,222)	500,000	(7,863,720)	(2,248,958)	1,093,198

STATEMENTS OF CASH FLOWS

for the financial year ended 31 December 2012

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Cash flows from operating activities					
Loss before taxation		**(424,801)**	(2,512,884)	**(478,044)**	(2,340,104)
Adjustments for:					
Fair value change of derivatives	5	**17,216**	(60,660)	**17,216**	(60,660)
Aircraft, property, plant and equipment:					
- depreciation	4	**545,449**	423,573	**464,767**	376,871
- loss on disposal, net	4	**42,479**	56,429	**43,967**	56,513
- (writeback of)/provision for impairment losses, net	4	**(31,857)**	426,558	**(31,857)**	337,004
- written off, net	4	**2,361**	25,462	**2,361**	25,458
Provision for/(Writeback of):					
- aircraft maintenance and overhaul costs	25	**730,262**	928,469	**679,679**	905,111
- short term accumulating compensated absences	7	**9,252**	17,037	**9,252**	17,037
- unavailed credit on sales in advance of carriage	3	**(210,620)**	(186,337)	**(200,289)**	(175,734)
- doubtful debts, net	4	**13,595**	39,428	**68,043**	41,049
- inventories obsolescence, net	4	**15,327**	46,810	**15,327**	46,810
- inventories loss	4	**7,830**	42,119	**7,830**	42,119
- impairment losses for: associates, net	4	**-**	-	**-**	(7,000)
Amortisation of intangible assets	4	**34,757**	33,420	**29,644**	27,006
Operating profit/(loss) before working capital changes carried forward		**751,250**	(720,576)	**627,896**	(708,520)
ESOS expense	7	**-**	550	**-**	550
Share of results of:					
- associated companies		**(22,602)**	(25,332)	**-**	-
- jointly controlled entity		**23,860**	14,604	**-**	-
Unrealised foreign exchange (gain)/loss		**(189,968)**	129,115	**(130,833)**	96,631
Interest income	4	**(53,620)**	(28,830)	**(78,229)**	(49,632)
Dividend income	4	**(22,175)**	(18,292)	**(36,268)**	(29,664)
Interest expense	6	**235,259**	159,311	**205,565**	154,533
Operating profit/(loss) before working capital changes		**722,004**	(489,450)	**588,131**	(536,102)
Decrease/(Increase) in inventories		**7,946**	(20,347)	**5,580**	(18,152)
(Increase)/Decrease in trade and other receivables		**(10,511)**	164,080	**(53,676)**	(270,586)
Increase in sales in advance of carriage		**167,704**	214,934	**153,530**	179,379
Increase/(Decrease) in deferred revenue		**18,729**	(27,516)	**18,832**	(28,011)
(Decrease)/Increase in trade and other payables		**(309,119)**	564,636	**(302,893)**	683,411
Decrease in provisions	25	**(588,426)**	(675,271)	**(586,926)**	(673,384)
Cash used in operating activities		**8,327**	(268,934)	**(177,422)**	(663,445)
Net cash settlement on derivatives		**21,728**	(102,080)	**21,728**	(102,080)
Premium paid on derivatives		**-**	(24,886)	**-**	(24,886)
Interest paid		**(330,824)**	(203,598)	**(302,673)**	(164,777)
Taxes (paid)/refunded		**(4,268)**	2,879	**(5,491)**	(4,823)
Net cash used in operating activities		**(305,037)**	(596,619)	**(463,858)**	(960,011)

Statements of Cash Flows
for the financial year ended 31 December 2012

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Cash flows from investing activities					
Purchase of:					
- aircraft, property, plant and equipment		**(4,726,762)**	(3,516,585)	**(4,938,469)**	(3,386,370)
- intangible assets	16	**(36,912)**	(47,445)	**(36,783)**	(37,273)
- investments in jointly controlled entity		**(23,860)**	(12,244)	**-**	-
- other investments		**(2,451)**	-	**(2,451)**	-
- investment in subsidiary		**-**	-	**-**	(293)
Withdrawal of:					
- negotiable instruments of deposits		**101,073**	35,000	**101,073**	35,000
- deposits pledged with banks		**41,174**	106,024	**41,174**	106,024
Proceeds from disposal of:					
- aircraft, property, plant and equipment		**822,306**	1,216,076	**1,317,689**	1,861,360
- other investments		**12**	5	**12**	5
Interest received		**31,484**	29,429	**56,091**	50,231
Dividend received		**35,336**	25,385	**36,268**	29,664
Net cash used in investing activities		**(3,758,600)**	(2,164,355)	**(3,425,396)**	(1,341,652)
Cash flows from financing activities					
Proceeds from:					
- borrowings		**8,658,520**	1,160,418	**8,440,485**	673,892
- aircraft refinancing		**944,609**	1,033,879	**944,609**	1,033,879
- issuance of Perpetual Sukuk		**1,498,190**	-	**1,498,190**	-
Repayment of:					
- borrowings		**(5,100,000)**	(277,390)	**(5,100,000)**	(250,000)
- finance lease		**(312,155)**	(106,340)	**(261,077)**	(134,872)
Redemption of RCPS	27	**(415,103)**	-	**(415,103)**	-
Distribution to Perpetual Sukuk holders	30	**(34,595)**	-	**(34,595)**	-
Dividends paid to:					
- RCPS holders	27	**-**	(12,454)	**-**	(12,454)
- minority shareholders in subsidiaries		**(641)**	(2,102)	**-**	-
Net cash generated from financing activities		**5,238,825**	1,796,011	**5,072,509**	1,310,445
Net increase/(decrease) in cash and cash equivalents		**1,175,188**	(964,963)	**1,183,255**	(991,218)
Cash and cash equivalents at beginning of year		**958,814**	1,923,777	**859,775**	1,850,993
Cash and cash equivalents at end of year	20	**2,134,002**	958,814	**2,043,030**	859,775

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

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.

The holding company is Khazanah Nasional Berhad ("KNB"), which is incorporated and domiciled in Malaysia.

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 28 February 2013.

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 Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

2.2 First-time adoption of MFRS

These are the Group's and the Company's first financial statements prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards has been applied.

Accordingly, the Group and the Company have prepared financial statements which comply with MFRS applicable for periods ending on or after 31 December 2012, together with the comparative period data as at and for the period ended 31 December 2011, as described in the accounting policies. In preparing these financial statements, the Group and the Company's opening statements of financial position were prepared as at 1 January 2011, the Group and the Company's date of transition to MFRS.

In the previous years, the financial statements of the Group and the Company were prepared in accordance with Financial Reporting Standards ("FRSs") in Malaysia. Except for certain differences, the requirements under FRS and MFRS are similar. The significant accounting policies adopted in preparing the current year financial statements are consistent with those of the audited financial statements for the year ended 31 December 2011 except as discussed below:

Property, plant and equipment

The Group has previously adopted the transitional provisions available on the first application of the MASB Approved Accounting Standard IAS 16 (Revised) Property, Plant and Equipment which was effective for period ending on or after 1 September 1998. By virtue of this transitional provision, the Group has recorded certain buildings at revalued amounts but had not adopted a policy of revaluation and continued to carry those buildings on the basis of their previous revaluations subject to continuity in its depreciation policy and requirement to write down the assets to their recoverable amounts for impairment adjustments. Upon transition to MFRS, the Group has elected to measure all its property, plant and equipment using the cost model under MFRS 116 Property, Plant and Equipment, where there is no change to net assets.

The transition from FRS to MFRS has no significant impact on the Group and Company's statement of financial position, statements of comprehensive income and statements of cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 New and revised pronouncements yet in effect

The following new and revised MFRSs, amendments and IC interpretations (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standards Board will become effective in future financial reporting periods and have not been adopted by the Group and the Company:

Effective for annual periods beginning on or after 1 July 2012

MFRS 101	Presentation of Items of Other Comprehensive Income (Amendments to MFRS 101)

Effective for annual periods beginning on or after 1 January 2013

MFRS 3	Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)
MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosure of Interests in Other Entities
MFRS 13	Fair Value Measurement
MFRS 119	Employee Benefits (revised)
MFRS 127	Separate Financial Statements
MFRS 128	Investments in Associates and Joint Ventures
MFRS 127	Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)
Amendments to MFRS 1	First–time Adoption of Malaysian Financial Reporting Standards - Government Loans
Amendments to MFRS 1	First–time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)
Amendments to MFRS 101	Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)
Amendments to MFRS 116	Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)
Amendments to MFRS 132	Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)
Amendments to MFRS 134	Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)
Amendments to MFRS 10	Consolidated Financial Statements: Transition Guidance
Amendments to MFRS 11	Joint Arrangements: Transition Guidance
Amendments to MFRS 12	Disclosure of Interests in Other Entities: Transition Guidance

Effective for annual periods beginning on or after 1 January 2014

Amendments to MFRS 132	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 10, MFRS 12 and MFRS 127	Investment Entities

Effective for annual periods beginning on or after 1 January 2015

MFRS 9	Financial Instruments

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 New and revised pronouncements yet in effect (continued)

Initial application of these pronouncements for the Group and the Company will be effective from the annual period beginning:

- 1 January 2013 for pronouncements that are effective for annual periods beginning on or after 1 January 2013, except for IC Intepretation 20 and Amendment to IC Intepretation 2 which are not applicable to the Group and the Company.
- 1 January 2014 for pronouncements that are effective for annual period beginning on or after 1 January 2014.
- 1 January 2015 for those pronouncements that are effective for annual period beginning on or after 1 January 2015.

The adoption of the above pronouncements is not expected to have material impact on the financial statements of the Group and the Company in the period of 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 37, 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 judgement (continued)

(b) Key sources of estimation uncertainty (continued)

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

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 and fair value less cost to sell. 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.

(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.

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Significant accounting estimates and judgement (continued)

(b) Key sources of estimation uncertainty (continued)

(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 32.

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(a) Revenue recognition (continued)

(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.

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 acquistion method. Identifiable assets acquired and liabilities assumed in a business combination are measured intially at their fair values at the acquistion date. Acquistion- related costs are recognised as expense in the periods in which the costs are incurred and the services are received.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(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 are stated at cost less accumulated depreciation and any accumulated impairment losses.

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) Leasehold land and buildings are depreciated over periods ranging from 5 to 40 years.

(viii) Operating plant and equipment, office furniture and 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(j) Leases (continued)

(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 present value of the lease payment and 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(k) Income tax (continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(l) Employee benefits (continued)

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(o) Frequent flyer programme (continued)

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.

(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 and distribution on Perpetual Sukuk 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.

The conversion rights of the RCPS have expired on 30 October 2012 being the redemption date. The RCPS have been redeemed by the Company at the issue price of RM1.00 each, within thirty days after the Conversion Period ends.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(t) Financial assets (continued)

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(u) Financial liabilities (continued)

(i) Financial liabilities at fair value through profit or loss (continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(v) Impairment of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(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.

(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 34, including the factors used to identify the reportable segments and the measurement basis of segment information.

3. OPERATING REVENUE

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Traffic revenue:				
Scheduled services				
- passenger and baggage	**7,620,841**	8,397,702	**7,163,616**	7,914,874
- cargo and mail	**1,079,523**	1,234,634	**896,807**	821,397
	8,700,364	9,632,336	**8,060,423**	8,736,271
Non-scheduled services	**24,647**	14,634	**24,296**	14,634
	8,725,011	9,646,970	**8,084,719**	8,750,905
Fuel surcharge	**2,763,772**	2,284,588	**2,166,593**	1,710,560
Insurance surcharge	**206,998**	223,732	**204,148**	213,862
Security surcharge	**76,187**	90,226	**-**	-
Administration fees	**289,952**	255,677	**221,379**	170,736
Unavailed credits	**210,620**	186,337	**200,289**	175,734
	12,272,540	12,687,530	**10,877,128**	11,021,797
Other revenue:				
Lease of aircraft and engines	**63,031**	62,607	**156,467**	183,177
Airport handling and engineering services	**207,286**	256,989	**202,865**	232,744
Catering and cleaning services	**5,330**	6,024	**4,837**	6,106
Intercompany engineering services	**-**	-	**255,115**	244,645
Charter services	**249,701**	208,498	**210,821**	169,403
Others*	**488,724**	432,246	**223,144**	126,836
	13,286,612	13,653,894	**11,930,377**	11,984,708

* 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 FROM OPERATIONS

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

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Fuel and oil	**5,327,703**	5,845,586	**4,765,100**	5,108,558
Employee benefits expenses (Note 7)	**2,515,555**	2,347,725	**2,194,181**	2,030,667
Handling, enroute charges, catering and other related costs	**1,325,988**	1,422,721	**1,243,132**	1,325,732
Hire of aircraft, operating plant and equipment	**1,515,826**	1,683,199	**1,459,677**	1,536,168
Aircraft maintenance and overhaul:				
- maintenance costs	**975,932**	1,100,653	**994,247**	1,086,681
- provision for early aircraft redelivery cost	**-**	602,000	**-**	602,000
Landing, parking and other related costs	**254,860**	246,816	**221,802**	209,767
Aircraft, property, plant and equipment:				
- depreciation (Note 11)	**545,449**	423,573	**464,767**	376,871
- loss on disposal, net	**42,479**	56,429	**43,967**	56,513
- (writeback of)/provision for impairment losses, net	**(31,857)**	426,558	**(31,857)**	337,004
- written off	**2,361**	25,462	**2,361**	25,458

4. LOSS FROM OPERATIONS (CONTINUED)

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Sales commission and incentives	**428,637**	499,920	**410,692**	468,678
Realised foreign exchange (gain)/losses	**(18,864)**	85,242	**(19,118)**	82,718
Advertising and promotions	**85,057**	134,088	**68,723**	114,575
Computerised reservation system booking fees	**195,876**	201,587	**184,925**	187,167
Rental of land and buildings	**158,548**	167,351	**149,073**	160,083
Provision for/(Writeback of):				
- doubtful debts, net	**13,595**	39,428	**68,043**	41,049
- inventories obsolescence, net	**15,327**	46,810	**15,327**	46,810
- inventories loss	**7,830**	42,119	**7,830**	42,119
- impairment losses for associates, net	**-**	-	**-**	(7,000)
Amortisation of intangible assets	**34,757**	33,420	**29,644**	27,006
Other engineering expenses	**59,350**	93,778	**72,573**	75,319
Hull and legal liability insurance	**28,187**	48,781	**18,732**	39,156
Directors' remuneration (Note 8)	**3,127**	4,434	**3,127**	4,434
Auditors' remuneration:				
- audit fees				
- current year	**947**	997	**551**	551
- over provision in prior year	**(54)**	-	**-**	-
- other professional fees	**575**	158	**560**	158
Interest income:				
- third parties	**(53,620)**	(28,830)	**(52,926)**	(28,098)
- subsidiary	**-**	-	**(25,303)**	(21,534)
Rental income	**(71,022)**	(74,212)	**(76,435)**	(44,673)
Dividend income				
- subsidiaries	**-**	-	**(932)**	(4,279)
- associated companies	**-**	-	**(13,161)**	(7,093)
- unquoted shares	**(22,175)**	(18,292)	**(22,175)**	(18,292)

Included in loss from operations of the Group and of the Company are the operating inventories used of RM256,300,000 and RM243,211,000 (2011: RM319,437,000 and RM301,172,000) respectively.

5. FAIR VALUE CHANGE OF DERIVATIVES

	Group and Company	
	2012 RM'000	2011 RM'000
(Loss)/Gain from fuel hedging contracts	**(3,393)**	72,550
Loss from foreign currency hedging contracts	**-**	(1,626)
Loss from interest rate hedging contracts	**(13,823)**	(10,264)
	(17,216)	60,660

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 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Interest expense on:				
- Revolving credit	**20,224**	7,468	**20,224**	7,468
- Term loans	**126,976**	51,223	**97,287**	39,201
- RCPS (Note 27)	**(4,517)**	24,966	**(4,517)**	24,966
- Finance leases				
- third party	**105,830**	66,602	**17,794**	8,952
- subsidiaries	**-**	-	**88,031**	64,894
- a related party	**59,632**	51,115	**59,632**	51,115
	308,145	201,374	**278,451**	196,596
Interest expense capitalised	**(72,886)**	(42,063)	**(72,886)**	(42,063)
	235,259	159,311	**205,565**	154,533
Other finance costs	**-**	113	**-**	-
	235,259	159,424	**205,565**	154,533

7. EMPLOYEE BENEFITS EXPENSES

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Salaries and wages	**1,712,826**	1,420,644	**1,495,914**	1,248,641
Contribution to defined contribution plan	**191,418**	185,497	**166,872**	167,425
Social security contributions	**10,452**	9,995	**8,495**	8,151
Share options granted under ESOS (Note 23)	**-**	550	**-**	550
Provision for short term accumulating compensated absences	**9,252**	17,037	**9,252**	17,037
Subsistence allowance	**302,203**	335,518	**277,853**	283,900
Other staff related expenses	**289,404**	378,484	**235,795**	304,963
Total (Note 4)	**2,515,555**	2,347,725	**2,194,181**	2,030,667

Included in employee benefits expense of the Group and of the Company are executive directors' remuneration of RM2,639,000 (2011: RM3,713,000) as further disclosed in Note 8.

8. DIRECTORS' REMUNERATION

	Group and Company	
	2012 RM'000	2011 RM'000
Executive directors' remuneration:		
Salaries and other emoluments	**2,416**	2,726
Bonus	**-**	50
Defined contribution plan	**223**	387
Share options vested	**-**	550
	2,639	3,713
Non-executive directors' remuneration:		
Fees	**376**	467
Other allowances	**112**	254
	488	721
Total directors' remuneration (Note 4)	**3,127**	4,434
Estimated money value of benefits-in-kind	**-**	42
Total directors' remuneration including benefits-in-kind	**3,127**	4,476

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	
	2012	2011
Executive directors:		
Below RM500,000	**-**	1
RM500,001 to RM1,000,000	**1**	1
RM1,500,001 to RM2,000,000	**1**	-
RM2,500,001 to RM3,000,000	**-**	1
Non-executive directors:		
Below RM50,000	**10**	19
RM50,001 to RM100,000	**2**	3
RM100,001 to RM150,000	**-**	2
RM150,001 to RM200,000	**1**	-

9. TAXATION

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

	Group		Company	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current income tax:				
Malaysian income tax	**3,139**	2,173	**-**	-
Foreign tax	**4,045**	4,512	**4,045**	4,512
	7,184	6,685	**4,045**	4,512
Over provision in prior years:				
Malaysian income tax	**(380)**	(952)	**-**	-
Foreign tax	**(632)**	(218)	**(632)**	(218)
	6,172	5,515	**3,413**	4,294
Deferred taxation (Note 32):				
Relating to origination and reversal of temporary differences	**(681)**	(1,951)	**-**	-
Under provision in prior years	**446**	4,877	**-**	-
	(235)	2,926	**-**	-
Total income tax expense	**5,937**	8,441	**3,413**	4,294

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 2012, the Company has tax-exempt income account balances of approximately RM12,271,868,000 (2011: RM12,245,796,000). The tax-exempt accounts mainly arising from income exempted under paragraph 127(3b) & 127 (3A) of the Income Tax Act, 1967 and tax-exempt dividends received under Paragraph 5(3) Schedule 7A of the Income Tax Act, 1967, are available for distribution as tax-exempt dividends subject to agreement with the Inland Revenue Board.

Domestic current income tax is calculated at the Malaysian statutory tax rate of 25% (2011: 25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rate prevailing in the respective jurisdictions.

9. TAXATION (CONTINUED)

A reconciliation of income tax expense applicable to loss 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:

	2012 RM'000	2011 RM'000
Group		
Loss before taxation	**(424,801)**	(2,512,884)
Taxation at Malaysian statutory tax rate of 25% (2011: 25%)	**(106,200)**	(628,221)
Tax effects of:		
- Share of profits of associates	**(5,651)**	(6,333)
- Share of loss of jointly controlled entity	**5,965**	3,651
- Foreign income tax	**4,045**	4,512
- Tax exemption status	**(8,065)**	(5,837)
- Income not subject to tax	**(47,012)**	(36,556)
- Expenses not deductible for tax purposes	**2,703**	223,665
Deferred tax not recognised on unused tax losses and unabsorbed capital allowances	**213,798**	449,853
Utilisation of current year's investment allowances not recognised	**(53,080)**	-
Under provision of deferred tax in prior years	**446**	4,877
Over provision of tax expense in prior years	**(1,012)**	(1,170)
Tax expense for the year	**5,937**	8,441
Company		
Loss before taxation	**(478,044)**	(2,340,104)
Taxation at Malaysian statutory tax rate of 25% (2011: 25%)	**(119,511)**	(585,026)
Tax effects of:		
- Foreign income tax	**4,045**	4,512
- Tax exemption status	**(8,065)**	(5,837)
- Income not subject to tax	**(34,705)**	(18,111)
- Expenses not deductible for tax purposes	**18,062**	191,668
Deferred tax not recognised on unused tax losses and unabsorbed capital allowances	**144,219**	417,306
Over provision of tax expense in prior years	**(632)**	(218)
Tax expense for the year	**3,413**	4,294

10. LOSS PER SHARE

(a) Basic

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

	Group	
	2012	2011
Loss attributable to equity holders of the Company (RM'000)	**(432,587)**	(2,523,988)
Weighted average number of ordinary shares in issue ('000)	**3,342,156**	3,342,156
Basic loss per share for (sen):	**(12.9)**	(75.5)

(b) Diluted

The Company does not have any potential dilutive ordinary shares for the current and previous financial year end.

11. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000
Cost				
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
At 1 January 2012	**18,543**	**1,077,436**	**4,370,619**	**365,540**
Additions	**-**	**2,265**	**3,504,914**	**21,539**
Disposals	**-**	**-**	**(861,915)**	**-**
Write-offs	**-**	**-**	**-**	**-**
Reclassifications	**-**	**-**	**2,829,840**	**-**
At 31 December 2012	**18,543**	**1,079,701**	**9,843,458**	**387,079**
Accumulated depreciation and impairment loss				
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
At 1 January 2012	**1,676**	**505,318**	**555,142**	**111,095**
Charge for the year	**202**	**27,724**	**289,583**	**47,080**
Write back of impairment losses	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**(13,303)**	**-**
Write-offs	**-**	**-**	**-**	**-**
Reclassifications	**-**	**-**	**89,595**	**-**
At 31 December 2012	**1,878**	**533,042**	**921,017**	**158,175**
Net book value				
At 31 December 2011	16,867	572,118	3,815,477	254,445
At 31 December 2012	**16,665**	**546,659**	**8,922,441**	**228,904**

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
2,141,125	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
2,180,399	**923,449**	**379,298**	**31,090**	**3,845,703**	**13,192,077**
34,768	**39,545**	**3,252**	**493**	**1,553,609**	**5,160,385**
(102,331)	**(4,981)**	**(1,120)**	**(562)**	**-**	**(970,909)**
(100,376)	**(646)**	**(845)**	**(70)**	**-**	**(101,937)**
-	**-**	**-**	**-**	**(2,829,840)**	**-**
2,012,460	**957,367**	**380,585**	**30,951**	**2,569,472**	**17,279,616**
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
1,703,438	**768,474**	**356,768**	**26,664**	**89,595**	**4,118,170**
134,921	**31,893**	**12,457**	**1,589**	**-**	**545,449**
(31,857)	**-**	**-**	**-**	**-**	**(31,857)**
(89,528)	**(2,049)**	**(895)**	**(349)**	**-**	**(106,124)**
(98,586)	**(116)**	**(842)**	**(32)**	**-**	**(99,576)**
-	**-**	**-**	**-**	**(89,595)**	**-**
1,618,388	**798,202**	**367,488**	**27,872**	**-**	**4,426,062**
476,961	154,975	22,530	4,426	3,756,108	9,073,907
394,072	**159,165**	**13,097**	**3,079**	**2,569,472**	**12,853,554**

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

Company	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000
Cost				
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
At 1 January 2012	**16,503**	**1,057,939**	**3,041,348**	**365,540**
Additions	**-**	**1,674**	**3,734,256**	**19,611**
Disposals	**-**	**-**	**(1,448,492)**	**-**
Write-offs	**-**	**-**	**-**	**-**
Reclassifications	**-**	**-**	**2,827,904**	**-**
At 31 December 2012	**16,503**	**1,059,613**	**8,155,016**	**385,151**
Accumulated depreciation and impairment loss				
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
At 1 January 2012	**1,306**	**500,696**	**376,340**	**111,095**
Charge for the year	**167**	**26,382**	**254,443**	**9,675**
Write back of impairment losses	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**(102,673)**	**-**
Write-offs	**-**	**-**	**-**	**-**
Reclassifications	**-**	**-**	**89,370**	**-**
At 31 December 2012	**1,473**	**527,078**	**617,480**	**120,770**
Net book value				
At 31 December 2011	15,197	557,243	2,665,008	254,445
At 31 December 2012	**15,030**	**532,535**	**7,537,536**	**264,381**

	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
	2,141,125	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
	2,180,399	**585,243**	**302,554**	**22,382**	**3,844,380**	**11,416,288**
	34,555	**45,376**	**8,417**	**106**	**1,528,097**	**5,372,092**
	(102,331)	**(3,331)**	**(765)**	**(292)**	**-**	**(1,555,211)**
	(100,376)	**(646)**	**(846)**	**(70)**	**-**	**(101,938)**
	-	**-**	**-**	**-**	**(2,827,904)**	**-**
	2,012,247	**626,642**	**309,360**	**22,126**	**2,544,573**	**15,131,231**
	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
	1,703,438	**443,010**	**285,698**	**20,767**	**89,370**	**3,531,720**
	134,710	**27,657**	**11,030**	**703**	**-**	**464,767**
	(31,857)	**-**	**-**	**-**	**-**	**(31,857)**
	(89,528)	**(400)**	**(714)**	**(240)**	**-**	**(193,555)**
	(98,586)	**(116)**	**(842)**	**(33)**	**-**	**(99,577)**
	-	**-**	**-**	**-**	**(89,370)**	**-**
	1,618,177	**470,151**	**295,172**	**21,197**	**-**	**3,671,498**
	476,961	142,233	16,856	1,615	3,755,010	7,884,568
	394,070	**156,491**	**14,188**	**929**	**2,544,573**	**11,459,733**

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 RM5,160,385,000 (2011: RM3,558,648,000) and RM5,372,092,000 (2011: RM3,428,433,000) of which RM360,737,000 (2011: RM nil) were finance lease liabilities as a result of exercising the option to purchase the aircraft at the end of lease and RM1,621,011,000 (2011: RM1,024,036,000) were acquired by means of finance lease arrangements.

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

	Group		Company	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
	4,531,976	3,027,177	**4,076,018**	2,546,259

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

	Group and Company	
	2012 RM'000	**2011 RM'000**
Aircraft	**4,389,351**	767,111

(a) Capitalisation of borrowing costs

The Group's and the Company'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 3.4% (2011: 3.0%) per annum.

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

	Group and Company	
	2012 RM'000	**2011 RM'000**
Cost	**72,886**	42,063

(b) Impairment

Management carried out a review of the recoverable amount of the aircraft, property, plant and equipment of the Group and of the Company because of losses in the freighter business segment. This review led to the recognition of an impairment loss of RM nil (2011: RM427 million) and RM nil (2011: RM337 million) for the Group and the Company respectively.

12 INVESTMENTS IN SUBSIDIARIES

	Company	
	2012 RM'000	**2011 RM'000**
Unquoted shares, at cost	**172,522**	177,496
Less: Accumulated impairment losses	**(17,151)**	(17,151)
	155,371	160,345

12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows:

Name of Company	Country of incorporation	Effective interest 2012 %	Effective interest 2011 %	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") (formerly known as MAS Sdn. Bhd.)	Malaysia	**100**	100	Air transportation and the provision of related services
MASkargo Sdn. Bhd.	Malaysia	**100**	100	Air cargo operations, charter freighter and all warehousing activities relating to air cargo operations
MAS Awana Services 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
Malaysia Airlines Capital IV (L) Limited	Malaysia	**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
Malaysia Airlines A330 Capital Labuan Limited	Malaysia	**100**	-	Labuan leasing business

12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Country of incorporation	Effective interest 2012 %	2011 %	Principal activities
Held by the Company: (continued)				
Kelip-Kelip II Cayman Limited	Cayman Islands	**100**	100	Leasing business
Malaysia Airlines Capital IV Cayman Limited	Cayman Islands	**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**	100	Dormant
Delima Insurance (Labuan) Limited	Malaysia	**100**	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
MAS Airline System Sdn. Bhd.	Malaysia	**100**	-	Dormant
Held through a subsidiary:				
FlyFirefly Holiday Sdn. Bhd.*	Malaysia	**100**	100	Tour and travel related operations
MAE Aero Services Pte. Ltd.**	Singapore	**100**	100	Dormant

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

Subscription of shares in subsidiaries

(i) On 2 July 2012, the Company has incorporated an off-shore company, Malaysia Airlines A330 Capital Labuan Limited with a paid-up capital of USD1.00 (equivalent to RM3.16). With effect from that date, Malaysia Airlines A330 Capital Labuan Limited became a wholly-owned subsidiary of the Company.

(ii) On 10 January 2012, the Company subscribed for two (2) 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.

(iii) On 10 January 2012, the Company has 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.

12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Subscription of shares in subsidiaries (continued)

(iv) 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.

13 INVESTMENTS IN ASSOCIATES

	Group		Company	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Unquoted shares, at cost	**120,234**	124,674	**120,234**	124,674
Less: Accumulated impairment losses	**-**	-	**(36,400)**	(36,400)
	120,234	124,674	**83,834**	88,274
Share of post acquisition profit/(losses)	**4,810**	(4,631)	**-**	-
	125,044	120,043	**83,834**	88,274

Details of the associated companies are:

Name of Company [Financial year end]	Country of Incorporation	Effective interest 2012 %	Effective interest 2011 %	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
Honeywell Aerospace Services (M) Sdn. Bhd. ("Honeywell") [31 December]	Malaysia	**30**	30	Ceased operations and under members' voluntary liquidation
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 2012 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 December 2012.

13 INVESTMENTS IN ASSOCIATES (CONTINUED)

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

	2012 RM'000	2011 RM'000
Assets and liabilities		
Current assets	**536,235**	600,046
Non-current assets	**214,989**	215,422
Total assets	**751,224**	815,468
Current liabilities	**321,631**	442,519
Non-current liabilities	**6,851**	2,689
Total liabilities	**328,482**	445,208
Results		
Revenue	**1,276,351**	1,405,929
Profit for the year	**69,390**	74,512

14. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group	
	2012 RM'000	2011 RM'000
Unquoted shares, at cost	**50,352**	26,492
Less: Share of post acquisition losses	**(50,352)**	(26,492)
	-	-

Details of the jointly controlled entity are as follows:

Name of Company	Country of incorporation	Effective interest 2012 %	Effective interest 2011 %	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 2012 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 December 2012.

14. INVESTMENT IN A JOINTLY CONTROLLED ENTITY (CONTINUED)

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	
	2012 RM'000	2011 RM'000
Assets and liabilities		
Current assets	**6,751**	26,885
Non-current assets	**53,670**	62,873
Total assets	**60,421**	89,758
Current liabilities	**8,339**	26,482
Non-current liabilities	**64,745**	69,252
Total liabilities	**73,084**	95,734
Results		
Revenue	**2,757**	1,428
Loss for the year	**(23,860)**	(14,604)

15. OTHER INVESTMENTS

	Group and Company	
	2012 RM'000	2011 RM'000
Unquoted shares, at cost:		
- in Malaysia	**10,825**	10,825
- outside Malaysia	**46,213**	43,774
Total	**57,038**	54,599

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

	Software and related costs RM'000	Landing slots RM'000	Total RM'000
Group			
At 31 December 2012			
Costs			
At 1 January 2012	**259,632**	**25,314**	**284,946**
Additions	**36,912**	**-**	**36,912**
At 31 December 2012	**296,544**	**25,314**	**321,858**
Accumulated amortisation			
At 1 January 2012	**133,189**	**-**	**133,189**
Charge for the year (Note 4)	**34,757**	**-**	**34,757**
At 31 December 2012	**167,946**	**-**	**167,946**
Net book value	**128,598**	**25,314**	**153,912**
At 31 December 2011			
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

16. INTANGIBLE ASSETS (CONTINUED)

	Software and related costs RM'000	Landing slots RM'000	Total RM'000
Company			
At 31 December 2012			
Costs			
At 1 January 2012	**217,695**	**25,314**	**243,009**
Additions	**36,783**	**-**	**36,783**
At 31 December 2012	**254,478**	**25,314**	**279,792**
Accumulated amortisation			
At 1 January 2012	**103,558**	**-**	**103,558**
Charge for the year (Note 4)	**29,644**	**-**	**29,644**
At 31 December 2012	**133,202**	**-**	**133,202**
Net book value	**121,276**	**25,314**	**146,590**
At 31 December 2011			
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

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 2012 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	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
At cost:				
Catering and general stores	**601**	732	**530**	-
Consumable aircraft spares	**8,926**	8,926	**8,926**	8,926
	9,527	9,658	**9,456**	8,926
At net realisable value:				
Catering and general stores	**52,130**	46,442	**46,486**	39,093
Consumable aircraft spares	**269,507**	306,167	**269,507**	306,167
	321,637	352,609	**315,993**	345,260
	331,164	362,267	**325,449**	354,186

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Current				
Trade				
Trade receivables (Note a)	**1,175,642**	1,279,988	**1,104,181**	1,156,815
Less: Provision for doubtful debts	**(435,382)**	(423,583)	**(403,165)**	(395,029)
	740,260	856,405	**701,016**	761,786
Non-trade				
Prepayments to				
- fellow subsidiaries (Note b)	**27,133**	-	**27,133**	-
- related parties (Note c)	**44,596**	69,418	**44,596**	69,418
Lease receivables (Note d)	**-**	-	**41,103**	41,135
Deferred maintenance costs (Note e)	**512**	11,394	**512**	11,394
Staff loans (Note f)	**9,495**	8,952	**9,495**	8,952
Security deposits				
- refundable (Note g)	**28,139**	32,932	**28,139**	32,932
- others	**23,299**	7,104	**21,711**	6,179
Prepayments	**126,466**	56,466	**134,567**	55,956
Due from:				
- subsidiaries, net (Note h)	**-**	-	**363,073**	291,038
- associates (Note h)	**109,871**	1,610	**25,685**	1,610
Sundry receivables	**169,343**	242,319	**153,041**	135,681
Less: Provision for doubtful debts	**(20,242)**	(18,446)	**(77,051)**	(17,144)
	518,612	411,749	**772,004**	637,151
	1,258,872	1,268,154	**1,473,020**	1,398,937

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Non Current				
Non-trade				
Prepayments to				
- fellow subsidiaries (Note b)	**81,467**	-	**81,467**	-
- related parties (Note c)	**35,875**	188,966	**35,875**	188,966
Lease receivables (Note d)	**-**	-	**477,394**	554,862
Deferred maintenance costs (Note e)	**7,725**	19,198	**7,725**	19,198
Staff loans (Note f)	**92,006**	96,896	**92,006**	96,896
Refundable security deposits (Note g)	**38,522**	38,522	**38,522**	38,522
Prepayment	**57,878**	-	**49,504**	-
	313,473	343,582	**782,493**	898,444

(a) Trade receivables

Trade receivables are non-interest bearing and are generally on 14 to 30 (2011: 14 to 30) days 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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Neither past due nor impaired	**530,973**	515,881	**517,810**	454,538
1 to 30 days past due not impaired	**154,508**	145,567	**139,519**	143,690
31 to 60 days past due not impaired	**16,730**	32,818	**14,966**	31,738
61 to 90 days past due not impaired	**13,303**	14,685	**9,914**	14,043
91 to 120 days past due not impaired	**8,589**	22,604	**3,775**	19,154
More than 121 days past due not impaired	**16,105**	124,724	**15,032**	98,623
	209,235	340,398	**183,206**	307,248
	740,208	856,279	**701,016**	761,786

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables (continued)

(i) Ageing analysis of trade receivables (continued)

	Group		Company	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Trade receivables				
- individually assessed	**435,434**	423,709	**403,165**	395,029
Less: Provision for doubtful debts	**(435,382)**	(423,583)	**(403,165)**	(395,029)
	52	126	**-**	-
	740,260	856,405	**701,016**	761,786

(ii) Receivables that are impaired

Movements on the provision for doubtful debts are as follows:

	Group		Company	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
At 1 January	**423,583**	385,459	**395,029**	354,455
Charge for the year	**16,615**	58,524	**12,914**	58,072
Write-offs	**(27)**	(1,392)	**-**	(475)
Reversal	**(4,789)**	(19,008)	**(4,778)**	(17,023)
At 31 December	**435,382**	423,583	**403,165**	395,029

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 RM40,925,000 (2011: RM19,950,000).

(b) Prepayment to a fellow subsidiary

	Group and Company	
	2012 RM'000	**2011 RM'000**
Current		
Due not later than one year	**27,133**	-
Non Current		
Due later than one year and not later than five years	**81,467**	-
	108,600	-

The prepayment of RM108,600,000 (2011: RM135,733,000) to a fellow subsidiary represents prepaid operating lease rentals and is amortised over the lease term.

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

(c) Prepayment to related parties

	Group and Company 2012 RM'000	Group and Company 2011 RM'000
Current		
Due not later than one year	**44,596**	69,418
Non Current		
Due later than one year and not later than five years	**35,875**	188,966
	80,471	258,384

On 2 May 2012, KNB became the immediate holding company of the Company. Hence, prepayments to a related party is now disclosed as prepayment to a fellow subsidiary (Note 18b).

The prepayment of RM80,471,000 (2011: RM122,651,000) to a related party represents prepaid lease rentals. It is unsecured, interest free and will expire on 28 May 2014.

(d) Lease receivables

	Company 2012 RM'000	Company 2011 RM'000
Current		
Due not later than one year	**41,103**	41,135
Non Current		
Due later than one year and not later than five years	**311,750**	247,810
Due later than five years	**165,644**	307,052
	477,394	554,862
	518,497	595,997

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 2.3% to 5.5% per annum (2011: 3.0% to 5.5% per annum) and will expire between 31 December 2017 to 19 November 2019.

(e) Deferred maintenance costs

	Group and Company 2012 RM'000	Group and Company 2011 RM'000
Current		
Due not later than one year	**512**	11,394
Non Current		
Due later than one year and not later than five years	**7,725**	10,124
Due later than five years	**-**	9,074
	7,725	19,198
	8,237	30,592

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

(e) Deferred maintenance costs (continued)

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.

(f) Staff loans

	Group and Company	
	2012	**2011**
	RM'000	**RM'000**
Current		
Due not later than one year	**9,495**	8,952
Non Current		
Due later than one year and not later than five years	**36,304**	26,392
Due later than five years	**55,702**	70,504
	92,006	96,896
	101,501	105,848

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

(g) Refundable security deposits

	Group and Company	
	2012	**2011**
	RM'000	**RM'000**
Current		
Due not later than one year	**28,139**	32,932
Non Current		
Due later than one year and not later than five years	**37,745**	37,745
Due later than five years	**777**	777
	38,522	38,522
	66,661	71,454

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

(h) Due from intercompanies

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

During the current financial year, a provision for doubtful debts was made for an amount due from a subsidiary amounting to RM59,908,000.

19. NEGOTIABLE INSTRUMENTS OF DEPOSIT

	Group and Company 2012 RM'000	Group and Company 2011 RM'000
Negotiable instruments of deposit	**-**	101,073

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. 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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash on hand and at banks	**795,122**	564,114	**724,295**	493,161
Term deposits with:				
- Licensed banks	**1,353,304**	390,446	**1,333,159**	362,360
- Other financial institutions	**52**	59,904	**52**	59,904
Cash and bank balances	**2,148,478**	1,014,464	**2,057,506**	915,425
Less: Deposits pledged with banks	**(14,476)**	(55,650)	**(14,476)**	(55,650)
	2,134,002	958,814	**2,043,030**	859,775

Included in cash and bank balances as at 31 December 2012 is RM14,476,000 (2011: RM55,650,000) 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 2012 is disclosed in Note 39(b).

The range of remaining maturities of the term deposits as at 31 December 2012 for the Group and the Company is 2 to 365 (2011: 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 2012.

23. EMPLOYEE BENEFITS

Employee share options scheme ("ESOS")

The MAS ESOS was 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. Hence, the ESOS has expired in May 2012.

(a) The salient details of the ESOS were as follows:

(i) Offer

The offer was made to any eligible employee selected based on the criteria of allocation at the discretion of the ESOS Committee. Each offer was made in writing and was personal to the eligible employee and was non-assignable and non-transferable.

(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 was 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 was 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 was not 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 was in force for a period of 5 years from the effective date of the scheme. The ESOS Committee had 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.

23. EMPLOYEE BENEFITS (CONTINUED)

Employee share options scheme ("ESOS") (continued)

(a) The salient details of the ESOS were as follows (continued):

(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.

(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.

23. EMPLOYEE BENEFITS (CONTINUED)

Employee share options scheme ("ESOS") (continued)

(a) The salient details of the ESOS were as follows (continued):

(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.

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 2011. 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.

23. EMPLOYEE BENEFITS (CONTINUED)

Employee share options scheme ("ESOS") (continued)

(a) The salient details of the ESOS were as follows (continued):

(xi) Utilisation of proceeds (continued)

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the financial year:

	WAEP RM	Number of share options ('000) At 1 January	Expired	Cancelled	At 31 December	Exercisable at 31 December
2012						
2007 Options	**3.88**	**29,939**	**(29,939)**	**-**	**-**	**-**
2008 Options	**2.83**	**127,292**	**(127,292)**	**-**	**-**	**-**
2010 Options	**2.44**	**2,893**	**(2,893)**	**-**	**-**	**-**
		160,124	**(160,124)**	**-**	**-**	**-**
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

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 2012	
At 1 January	**88,938**
Expired during the year	**(88,938)**
At 31 December	**-**
At 31 December 2011	
At 1 January	88,388
Vested during the year	550
At 31 December	88,938

24. TRADE AND OTHER PAYABLES

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current				
Trade				
Trade payables	**1,647,322**	1,860,070	**1,608,965**	1,734,614
Due to a fellow subsidiary	**39,427**	-	**39,425**	-
Due to a related party	**-**	14,149	**-**	14,149
Due to subsidiaries	**-**	-	**235,488**	277,612
Due to associates	**36,574**	68,773	**36,078**	68,773
	1,723,323	1,942,992	**1,919,956**	2,095,148
Non-trade				
Other payables	**198,351**	435,120	**102,893**	291,208
Accruals	**421,452**	265,787	**380,668**	257,192
	619,803	700,907	**483,561**	548,400
	2,343,126	2,643,899	**2,403,517**	2,643,548
Non-current				
Non-trade				
Other payables	**-**	-	**23,381**	30,466

The normal trade credit terms granted to the Group and the Company ranges from 7 to 90 (2011: 7 to 90) days.

The amounts due to a fellow subsidiary and a related party are unsecured, interest free and 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 (2011: RM500).

25. PROVISIONS

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At 1 January	**1,188,165**	934,967	**1,151,007**	919,280
Additional provisions	**730,262**	928,469	**679,679**	905,111
Utilisation of provisions	**(588,426)**	(675,271)	**(586,926)**	(673,384)
At 31 December	**1,330,001**	1,188,165	**1,243,760**	1,151,007

25. PROVISIONS (CONTINUED)

Provisions of the Group and Company are mainly in respect of aircraft maintenance and overhaul costs of RM1,303,431,000 (2011: RM1,163,561,000) and RM1,243,760,000 (2011: RM1,151,007,000) respectively. In 2011, the provision included a provision for aircraft early redelivery cost of RM602,000,000. 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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current				
Unsecured				
Revolving credit	**628,902**	581,360	**628,902**	581,360
Term loans	**175,000**	121,490	**175,000**	121,490
RCPS Liability Component (Note 27)	**-**	419,628	**-**	419,628
Secured				
Term loans	**104,500**	73,633	**16,246**	-
Finance leases (Note 28)	**549,835**	183,300	**574,242**	206,025
	1,458,237	1,379,411	**1,394,390**	1,328,503
Non-current				
Unsecured				
Term loans	**510,057**	701,663	**510,057**	701,663
Secured				
Term loans	**4,133,246**	625,796	**3,400,000**	-
Finance leases (Note 28)	**3,446,990**	2,963,124	**3,592,042**	3,135,428
	8,090,293	4,290,583	**7,502,099**	3,837,091
	9,548,530	5,669,994	**8,896,489**	5,165,594

Included in Secured term loans is an amount drawndown from Turus Pesawat Sdn. Bhd. amounting to RM3.4 billion. The details are as disclosed in Note 44(d).

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 39(b).

The secured term loans 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 conversion rights of the RCPS have expired on 30 October 2012 being the redemption date. The RCPS have been redeemed by the Company at the issue price of RM1.00 each, within thirty days after the Conversion Period ends.

The RCPS are accounted for in the statements of financial position of the Group and of the Company as follows:

	Group and Company	
	2012	**2011**
	RM'000	**RM'000**
RCPS - liability component		
At 1 January	**419,628**	407,116
Interest (reversal)/accrued- Recognised in the profit or loss (Note 6)	**(4,517)**	24,966
Cash settlement	**(8)**	-
Dividend paid	**-**	(12,454)
Redemption	**(415,103)**	-
At 31 December	**-**	419,628
RCPS - equity component		
At 1 January/31 December	**-**	58,076

The following were 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 in 2010 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)

(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	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Future minimum lease payments:				
Not later than one year	**725,164**	345,629	**754,815**	375,047
Later than one year and not later than five years	**2,001,376**	1,622,410	**2,114,443**	1,740,083
Later than five years	**2,151,663**	2,109,496	**2,196,922**	2,186,015
Total minimum future lease payments	**4,878,203**	4,077,535	**5,066,180**	4,301,145
Less: Future finance charges	**(881,378)**	(931,111)	**(899,896)**	(959,692)
Present value of finance lease liabilities	**3,996,825**	3,146,424	**4,166,284**	3,341,453
Analysis of present value of finance lease liabilities:				
Not later than one year	**549,835**	183,300	**574,242**	206,025
Later than one year and not later than five years	**1,478,050**	1,114,694	**1,578,829**	1,214,200
Later than five years	**1,968,940**	1,848,430	**2,013,213**	1,921,228
	3,996,825	3,146,424	**4,166,284**	3,341,453
Less: Amount due within twelve months	**(549,835)**	(183,300)	**(574,242)**	(206,025)
Amount due after twelve months	**3,446,990**	2,963,124	**3,592,042**	3,135,428

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.

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 (2011: 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 39(b).

The finance lease of the Company in respect of amount due to certain subsidiaries is RM3,035,971,000 (2011: RM2,195,896,000) and to a fellow subsidiary is RM887,731,000 (2011: RM975,606,000).

29. SHARE CAPITAL

	Number of shares		Amount	
	2012	2011	2012	2011
	'000	'000	RM'000	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:				
At 1 January/31 December Ordinary shares of RM1.00 each	**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

(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.

30. PERPETUAL SUKUK

On 12 June 2012, the Company has issued the first tranche of the Perpetual Sukuk at par value amounting to RM1 billion as part of the Perpetual Sukuk Programme which was approved by the Securities Commission on 24 May 2012. On 18 September 2012, the Company has issued the second tranche of the Perpetual Sukuk at par value amounting to RM0.5 billion.

The salient features of the Perpetual Sukuk are as follows:

(i) The Perpetual Sukuk is issued under the Islamic principle of Musharakah, while the principle of Commodity Musawamah will be employed to effect the deferral of the periodic distributions, if any;

(ii) The periodic distribution up to year 10 is 6.9% per annum. If MAS does not exercise its option to redeem at the end of the 10th year, the periodic distribution increases by 2.5% per annum;

(iii) Deferred periodic distribution, if any, will be cumulative but will not earn additional profits (i.e. there will be no compounding);

(iv) Perpetual in tenure, where MAS has a call option to redeem the Perpetual Sukuk at the end of the tenth year and on each periodic distribution date thereafter;

(v) MAS also has the option to redeem the Perpetual Sukuk if there is a change in accounting standards resulting in the Perpetual Sukuk no longer being recognised as equity capital;

(vi) Payment obligations on the Perpetual Sukuk will at all times, rank ahead of other share capital instruments for the time being outstanding, but junior to the claims of present and future creditor of MAS (other than obligations ranking pari passu with the Perpetual Sukuk); and

(vii) The Perpetual Sukuk is not rated; and

(viii) The Perpetual Sukuk is unsecured.

31. 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 represented 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 represented the equity-settled share options granted to employees. This reserve was made up of the cumulative value of services received from employees recorded on grant of share options.

(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.

31. RESERVES (CONTINUED)

(e) Capital redemption reserve

This represents the nominal amount of the RCPS redeemed pursuant to Section 61(5) of the Companies Act, 1965.

(f) General reserve

The general reserve relates to transfers made from retained profits in prior years.

32. DEFERRED TAXATION

	Group	
	2012 RM'000	2011 RM'000
At 1 January	**(567)**	(3,493)
Recognised in the profit or loss (Note 9)	**(235)**	2,926
At 31 December	**(802)**	(567)
Presented after appropriate offsetting as follows:		
Deferred tax assets	**(1,021)**	(765)
Deferred tax liabilities	**219**	198
	(802)	(567)

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 2012	**30,666**	**-**	**30,666**
Recognised in the profit or loss	**(29,711)**	**-**	**(29,711)**
At 31 December 2012	**955**	**-**	**955**
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

32. 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 2012	**(31,043)**	**(190)**	**(31,233)**
Recognised in the profit or loss	**30,241**	**(765)**	**29,476**
At 31 December 2012	**(802)**	**(955)**	**(1,757)**
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)

The tax losses, capital allowances and investment allowance not utilised as at year-end are as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Unused tax losses	**1,587,243**	1,416,653	**1,428,708**	1,298,193
Unabsorbed capital allowances	**2,214,196**	307,813	**2,095,736**	252,492
Unutilised investment allowance	**512,287**	337,185	**-**	-
Other deductible temporary differences	**(2,603,458)**	(1,206,576)	**(2,603,458)**	(1,206,576)
	1,710,268	855,075	**920,986**	344,109

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 has not been recognised in respect of the unused tax losses, unabsorbed capital allowances and other deductible temporary differences.

33. 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 8 years.

33. OPERATING LEASE ARRANGEMENTS (CONTINUED)

(a) The Company as lessor (continued)

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	
	2012 RM'000	2011 RM'000
Due not later than one year	**193,514**	197,608
Due later than one year and not later than five years	**249,419**	258,509
Due later than five years	**104,444**	172,878
	547,377	628,995

(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 1 to 12 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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Due not later than one year	**1,273,405**	1,386,471	**1,267,382**	1,357,412
Due later than one year and not later than five years	**3,150,668**	2,930,663	**3,146,533**	2,877,118
Due later than five years	**5,927,908**	5,643,017	**5,927,908**	5,643,017
	10,351,981	9,960,151	**10,341,823**	9,877,547

34. 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.

34. SEGMENTAL INFORMATION (CONTINUED)

(a) Business segments (continued)

31 December 2012	Airline operations RM'000	Cargo services RM'000	Others RM'000	Elimination RM'000	Total RM'000
Revenue					
External sales	**11,335,819**	**1,863,333**	**87,460**	**-**	**13,286,612**
Inter-segment sales	**1,306,468**	**-**	**47,169**	**(1,353,637)**	**-**
Total revenue	**12,642,287**	**1,863,333**	**134,629**	**(1,353,637)**	**13,286,612**
Results					
Segment results	**(188,616)**	**(48,758)**	**12,680**	**36,410**	**(188,284)**
Finance costs					**(235,259)**
Share of results of associates					**22,602**
Share of results of jointly controlled entity					**(23,860)**
Loss before taxation					**(424,801)**
Taxation					**(5,937)**
Net loss for the year					**(430,738)**
Assets					
Segment assets	**17,919,052**	**6,070,644**	**1,322,692**	**(8,147,335)**	**17,165,053**
Investments in associates	**125,044**	**-**	**-**	**-**	**125,044**
Unallocated assets					**1,021**
Consolidated total assets					**17,291,118**
31 December 2011					
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

34. SEGMENTAL INFORMATION (CONTINUED)

(b) Geographical segments

The following table provides an analysis of the Group's revenue by geographical segment:

	2012 RM'000	2011 RM'000
Revenue		
Orient and North America	**2,488,853**	2,526,257
Europe and Middle East	**2,987,340**	3,442,401
Australia and New Zealand	**2,114,338**	2,110,164
Malaysia	**3,136,863**	2,946,989
Asia	**2,533,958**	2,315,934
Africa and South America	**25,260**	312,149
	13,286,612	13,653,894

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.

35. 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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Expenses				
Expenses charged by subsidiaries:				
- Trucking, clearance and warehousing services	**-**	-	**46,457**	49,660
- Other inflight services	**-**	-	**15,600**	12,926
- Hire of aircraft	**-**	-	**-**	2,017
- Inflight meals	**-**	-	**8,544**	8,441
- Rental of premises	**-**	-	**4,062**	3,078
- Handling and cleaning services	**-**	-	**2,043**	2,356
GEESM, an associate				
- Engine maintenance services rendered and purchase of aircraft spares and equipment	**356,083**	429,695	**356,083**	429,695
LSG, an associate				
- Purchase of meals and beverages	**234,802**	234,240	**234,802**	234,240
Abacus International Holding Limited, a company in which the Company has equity interest				
- Computer reservation system access fee	**35,967**	24,954	**35,967**	24,954

35. 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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Expenses (continued)				
Hamilton, an associate				
- Aircraft maintenance services	**3,866**	10,299	**3,866**	10,299
Evergreen Sky Catering Corporation, a company in which the Company has equity interest				
- Catering services	**3,348**	5,024	**3,348**	5,024
Honeywell, an associate				
- Aircraft maintenance services	**1,572**	4,206	**1,572**	4,206
PAPAS, an associate				
- Transit and cabin services	**4,307**	4,240	**4,307**	4,240
Penerbangan Malaysia Berhad ("PMB"), a related party:				
- Lease rental paid/payable	**-**	240,053	**-**	240,053
PMB, a fellow subsidiary:				
- Lease rental paid/payable	**220,094**	-	**220,094**	-
Aircraft Business Malaysia Sdn. Bhd., a related party:				
- Lease rental paid/payable	**241,980**	278,680	**241,980**	278,680
QPR Holdings Limited, a club substantially owned by certain directors of the Company				
- Sponsorship deals	**3,936**	5,983	**3,936**	5,983
AirAsia X Sdn. Bhd., a related party:				
- passenger re-accommodation agreement	**11,710**	-	**11,710**	-

35. 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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Income				
Dividend received from:				
- associated companies	**-**	-	**13,161**	7,093
- subsidiaries	**-**	-	**932**	4,279
Income received from subsidiaries:				
- hire of belly space	**-**	-	**898,880**	821,611
- aircraft maintenance and overhaul	**-**	-	**223,688**	234,705
- hire of aircraft	**-**	-	**97,493**	90,755
- fuel and oil	**-**	-	**79,895**	157,240
- rental of premises	**-**	-	**33,385**	41,391
- administrative charges	**-**	-	**23,994**	27,874
- interest income on finance lease	**-**	-	**24,618**	23,353
- handling and cleaning services	**-**	-	**9,663**	6,770
- information technology support	**-**	-	**9,294**	16,405
- aircraft insurance	**-**	-	**5,251**	6,172
LSG				
- Rental and shared services income received	**19,552**	19,593	**19,552**	19,593
GEESM				
- Rental and shared services income received	**12,543**	13,454	**12,543**	13,454

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	
	2012 RM'000	2011 RM'000
Total	**10,585**	6,518

35. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Compensation of key management personnel ("KMP") (continued)

KMPs' remuneration (excluding Board of Directors)

	Group and Company 2012 RM'000	Group and Company 2011 RM'000
Salaries and other emoluments	**6,517**	1,682
Bonus	**-**	97
Defined contribution plan	**941**	263
	7,458	2,042

For the details of Board of Directors' remuneration, please refer to Note 8.

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.

36. CAPITAL COMMITMENTS

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Due not later than one year				
- approved and contracted for	**3,830,918**	5,261,344	**3,773,392**	5,208,277
Due later than one year				
- approved and contracted for	**4,638,315**	5,502,869	**4,638,315**	5,474,216
- approved but not contracted for	**264,367**	13,994	**264,367**	13,994
	4,902,682	5,516,863	**4,902,682**	5,488,210
Total capital commitments				
- approved and contracted for	**8,469,233**	10,764,213	**8,411,707**	10,682,493
- approved but not contracted for	**264,367**	13,994	**264,367**	13,994
	8,733,600	10,778,207	**8,676,074**	10,696,487

The outstanding capital commitments of the Group and the Company are as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Purchase of aircraft	**7,797,041**	9,936,377	**7,797,041**	9,936,377
Others	**936,559**	841,830	**879,033**	760,110
	8,733,600	10,778,207	**8,676,074**	10,696,487

37. CONTINGENT LIABILITIES

(a) Guarantees (unsecured)

	Group and Company	
	2012	**2011**
	RM'000	**RM'000**
Bank guarantee given to third parties in respect of services provided, and derivatives contracts acquired	**322,999**	347,021
Bank guarantee given to PMB on aircraft lease	**-**	25,369
Performance bonds given in respect of services provided to third party	**439**	1,654
	323,438	374,044

(b) Liabilities assumed from PMB

	Group and Company	
	2012	**2011**
	RM'000	**RM'000**
Term loan		
- unsecured	**22,359**	35,365

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:

	2012	**2011**
	RM'000	**RM'000**
Due not later than one year	**12,461**	12,656
Due later than one year and not later than five years	**9,898**	22,709
	22,359	35,365

(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 22 June 2012, this legal suit was settled out of court.

The salient terms of the settlement are essentially:

i) The parties in KLHC Suit No: S3-22-634-2006 will complete the Sale and Purchase Agreement dated 16 September 1997 ("SPA") in which the remaining land purchased (a 21 acre portion of the land held under HS(D) 623, Mukim Ayer Hangat, Daerah Langkawi) to be effectively transferred to the Company upon payment of the agreed balance purchase price of RM4.0 million that is still outstanding under the SPA;

ii) All Counter-claims in KLHC Suit No: S3-22-634-2006, SAHC Civil Suit No: MT3-22-365-2006 and this legal suit are to be withdrawn against the Company and parties related; and

iii) The Company and parties related will withdraw its claims in the above legal suits.

37. CONTINGENT LIABILITIES (CONTINUED)

(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 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.

On 22 June 2012, this legal suit was settled out of court as part of the global settlement as mentioned in (c) above.

(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.

(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 USD3.4 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.

The Court finally approved the Settlement Agreement on 2 August 2012.

37. CONTINGENT LIABILITIES (CONTINUED)

(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 case has been settled with ACCC on 14 June 2012. Under the settlement, MASkargo will pay a penalty of AUD6.0 million plus contribution towards ACCC's costs of AUD0.5 million over a period of 24 months.

(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 and the motion was dismissed by the court on 11 May 2012.

On 5 September 2012, the Court granted the Company's motion to dismiss, and dismissed the Plaintiff's claims against the Company.

38. 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.

39. 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.

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 2012, the Company has entered into various fuel hedging transactions for periods up to 31 December 2013 in lots totalling 1,950,000 barrels (2011: 1,350,000 barrels).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Fuel price risk (continued)

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 42. At the reporting date, if fuel price increases or decreases by USD10 per barrel, the effects are as follows:

	Increase/(Decrease)			
	2012		2011	
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	**90,442**	**11,835**	21,257	4,601
Decrease in USD10 per barrel	**(14,971)**	**(1,959)**	(11,818)	(2,558)

(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 table 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.

39. 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
2012									
Group									
Fixed rate:									
Term deposits	20	1.90 - 3.47	1,353,356	-	-	-	-	-	1,353,356
Term loans	26	2.98 - 5.42	41,064	41,373	41,799	42,503	43,329	168,121	378,189
Finance leases	28	2.55 - 9.91	112,343	120,854	191,923	126,806	280,086	1,243,372	2,075,384
Floating rate:									
Revolving credit	26	4.50 - 4.70	628,902	-	-	-	-	-	628,902
Term loans	26	3.55 - 5.65	238,436	558,781	49,820	50,471	50,851	3,596,255	4,544,614
Finance leases	28	2.83 - 6.63	437,492	435,511	104,959	107,595	110,316	725,568	1,921,441
Company									
Fixed rate:									
Lease rental from a subsidiary	18	3.64 - 5.27	41,103	42,929	110,871	39,459	118,491	165,644	518,497
Term deposits	20	3.10 - 3.47	1,333,211	-	-	-	-	-	1,333,211
Finance leases	28	2.55 - 9.91	136,750	144,875	216,711	152,379	306,483	1,287,645	2,244,843
Floating rate:									
Revolving credit	26	4.50 - 4.70	628,902	-	-	-	-	-	628,902
Term loans	26	3.74 - 5.05	191,246	510,057	-	-	-	3,400,000	4,101,303
Finance leases	28	2.83 - 6.63	437,492	435,511	104,959	107,595	110,316	725,568	1,921,441

39. 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 deposits	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 deposits	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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Interest rate risk (continued)

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 point 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 42. If the interest rate decreases by 25 basis point, the profit net of tax and equity would change by the same amount in an inversed manner.

	Increase/(Decrease)			
	2012		2011	
	Equity RM'000	Profit net of tax RM'000	Equity RM'000	Profit net of tax RM'000
Group				
Increase in 25 basis points in market interest rates	**(255)**	**(15,487)**	(278)	(7,598)
Company				
Increase in 25 basis points in market interest rates	**(255)**	**(14,378)**	(278)	(6,348)

(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 54% (2011: 58%) of the Group's sales and almost 55% (2011: 65%) 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 42. 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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Foreign exchange risk (continued)

Sensitivity analysis for foreign currency risk (continued)

	Increase/(Decrease)			
	Group		Company	
	Equity RM'000	Profit net of tax RM'000	Equity RM'000	Profit net of tax RM'000
2012				
USD	**-**	**(35,717)**	**-**	**(25,665)**
EUR	**-**	**(211)**	**-**	**11**
GBP	**-**	**589**	**-**	**589**
JPY	**-**	**71**	**-**	**194**
AUD	**-**	**1,110**	**-**	**1,195**
2011				
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

(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.

As at 31 December 2012, the Group and the Company are at a net current liabilities position of RM3,245,823,000 (2011: RM4,379,159,000) and RM3,010,225,000 (2011: RM4,246,360,000) respectively. Nonetheless, the Group and the Company have met their financial obligations when they fell due during the financial year.

The Group and Company have already taken a number of significant positive actions to ensure that they will continue to have sufficient funds to meet all their operational and financial obligations as and when they fall due in the coming financial year. These initiatives, inter alia, include the following:

i. Undertake capital restructuring and a renounceable rights issue. The details are as disclosed in Note 44(b).

ii. Issuance of remaining Perpetual Sukuk up to RM1 billion subject to subscription by sukukholders. The details are as disclosed in Note 30.

iii. 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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk (continued)

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.

2012 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	**2,343,126**	**-**	**-**	**-**	**-**	**-**	**2,343,126**	**2,343,126**
Term loan	26	**460,729**	**629,347**	**438,790**	**258,587**	**254,233**	**5,391,870**	**7,433,556**	**4,922,803**
Finance lease	28	**725,164**	**713,311**	**425,786**	**348,417**	**499,060**	**2,165,997**	**4,877,735**	**3,996,825**
Revolving credit	26	**640,583**	**-**	**-**	**-**	**-**	**-**	**640,583**	**628,902**
		4,169,602	**1,342,658**	**864,576**	**607,004**	**753,293**	**7,557,867**	**15,295,000**	**11,891,656**
Derivative financial assets/(liabilities)									
Fuel hedging contracts	42	**42,673**	**-**	**-**	**-**	**-**	**-**	**42,673**	**42,673**
Interest rate hedging contracts	42	**(14,108)**	**(4,494)**	**(4,494)**	**(4,289)**	**(3,772)**	**(12,667)**	**(43,824)**	**(43,824)**
		28,565	**(4,494)**	**(4,494)**	**(4,289)**	**(3,772)**	**(12,667)**	**(1,151)**	**(1,151)**

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk (continued)

2012 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	2,403,517	23,381	-	-	-	-	2,426,898	2,426,898
Term loan	26	338,295	508,479	319,939	142,350	140,803	4,983,563	6,433,429	4,101,303
Finance lease	28	754,815	741,695	454,170	376,800	527,444	2,211,256	5,066,180	4,166,284
Revolving credit	26	640,583	-	-	-	-	-	640,583	628,902
		4,137,210	1,273,555	774,109	519,150	668,247	7,194,819	14,567,090	11,323,387
Derivative financial assets/(liabilities)									
Fuel hedging contracts	42	42,673	-	-	-	-	-	42,673	42,673
Interest rate hedging contracts	42	(14,108)	(4,494)	(4,494)	(4,289)	(3,772)	(12,667)	(43,824)	(43,824)
		28,565	(4,494)	(4,494)	(4,289)	(3,772)	(12,667)	(1,151)	(1,151)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk (continued)

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	42	5,246	-	-	-	-	-	5,246	5,246
Interest rate hedging contracts	42	(15,895)	(11,526)	(1,693)	(1,733)	(1,817)	(1,797)	(34,461)	(34,461)
Foreign currency hedging contracts	42	829	-	-	-	-	-	829	829
		(9,820)	(11,526)	(1,693)	(1,733)	(1,817)	(1,797)	(28,386)	(28,386)

39. 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	42	5,246	-	-	-	-	-	5,246	5,246
Interest rate hedging contracts	42	(15,895)	(11,526)	(1,693)	(1,733)	(1,817)	(1,797)	(34,461)	(34,461)
Foreign currency hedging contracts	42	829	-	-	-	-	-	829	829
		(9,820)	(11,526)	(1,693)	(1,733)	(1,817)	(1,797)	(28,386)	(28,386)

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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(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.

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.

40. 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
2012						
Group						
Assets						
Investments in associates	13	-	125,044	-	-	125,044
Other investments	15	-	57,038	-	-	57,038
Trade and other receivables*	18	1,190,693	-	-	-	1,190,693
Cash and bank balances	20	2,148,478	-	-	-	2,148,478
Derivative financial instruments	42	-	-	-	42,505	42,505
Total financial assets		3,339,171	182,082	-	42,505	3,563,758
Total non-financial assets						13,727,360
Total assets						17,291,118
Liabilities						
Trade and other payables	24	-	-	2,343,126	-	2,343,126
Borrowings	26	-	-	9,548,530	-	9,548,530
Derivative financial instruments	42	-	-	-	43,656	43,656
Total financial liabilities		-	-	11,891,656	43,656	11,935,312
Total non-financial liabilities						3,217,815
Total liabilities						15,153,127

* Trade and other receivables exclude prepayments and deferred maintenance costs.

40. 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
2012						
Company						
Assets						
Investments in subsidiaries	12	-	155,371	-	-	155,371
Investments in associates	13	-	83,834	-	-	83,834
Other investments	15	-	57,038	-	-	57,038
Trade and other receivables*	18	1,874,134	-	-	-	1,874,134
Cash and bank balances	20	2,057,506	-	-	-	2,057,506
Derivative financial instruments	42	-	-	-	42,505	42,505
Total financial assets		3,931,640	296,243	-	42,505	4,270,388
Total non-financial assets						12,318,705
Total assets						16,589,093
Liabilities						
Trade and other payables	24	-	-	2,426,898	-	2,426,898
Borrowings	26	-	-	8,896,489	-	8,896,489
Derivative financial instruments	42	-	-	-	43,656	43,656
Total financial liabilities		-	-	11,323,387	43,656	11,367,043
Total non-financial liabilities						3,102,412
Total liabilities						14,469,455

* Trade and other receivables exclude prepayments and deferred maintenance costs.

40. 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						
Investments in associates	13	-	120,043	-	-	120,043
Other investments	15	-	54,599	-	-	54,599
Trade and other receivables*	18	1,266,294	-	-	-	1,266,294
Negotiable instruments of deposit	19	101,073	-	-	-	101,073
Cash and bank balances	20	1,014,464	-	-	-	1,014,464
Total financial assets		2,381,831	174,642	-	-	2,556,473
Total non-financial assets						9,943,003
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	42	-	-	-	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

* Trade and other receivables exclude prepayments and deferred maintenance costs.

40. 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						
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	1,952,449	-	-	-	1,952,449
Negotiable instruments of deposit	19	101,073	-	-	-	101,073
Cash and bank balances	20	915,425	-	-	-	915,425
Total financial assets		2,968,947	303,218	-	-	3,272,165
Total non-financial assets						8,726,582
Total assets						11,998,747
Liabilities						
Trade and other payables	24	-	-	2,674,014	-	2,674,014
Borrowings	26	-	-	5,165,594	-	5,165,594
Derivative financial instruments	42	-	-	-	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

* Trade and other receivables exclude prepayments and deferred maintenance costs.

41. 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)

41. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments measured at fair value (continued)

The fair value of financial instruments, by valuation method, are summarised in the table below:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2012				
Unquoted investments	**-**	**-**	**57,038**	**57,038**
Derivative financial instruments	**-**	**1,151**	**-**	**1,151**
Net financial instruments measured at fair value	**-**	**1,151**	**57,038**	**58,189**
2011				
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

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 2012.

	Group		Company	
	Carrying amount 2012 RM'000	Fair value 2012 RM'000	Carrying amount 2012 RM'000	Fair value 2012 RM'000
Financial assets:				
- Staff loans	**101,501**	**63,166**	**101,501**	**63,166**
- Refundable deposits	**66,661**	**61,419**	**66,661**	**61,419**
Financial liabilities:				
- Term loans	**4,922,803**	**5,003,490**	**4,101,303**	**4,101,303**

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	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.

42. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

	2012		2011	
	Notional Value	Fair value Assets/ (Liabilities) RM'000	Notional Value	Fair value Assets/ (Liabilities) RM'000
Group and Company				
Cash flow hedges				
Fuel hedging contracts (Barrels'000)	**1,950**	**42,673**	1,350	5,246
Interest rate hedging contracts (RM'000)	**1,985,514**	**(43,824)**	1,702,245	(34,461)
Foreign currency hedging contracts (RM'000)	**-**	**-**	350,732	829
		(1,151)		(28,386)
Analysed as:				
Current		**28,565**		(9,820)
Non-current		**(29,716)**		(18,566)
		(1,151)		(28,386)

The fair value of the hedging contracts above are based on forward curve/prices as at 31 December 2012 and 31 December 2011 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 2012 are expected to mature and affect the profit or loss by a gain of RM42,937,000 (2011: loss of RM12,840,000) in 2013.

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 2012, a net unrealised gain of RM67,750,000 (2011: net unrealised loss of RM6,330,000) was included in other comprehensive income in respect of these contracts.

The amount removed from other comprehensive income during the financial year and included in profit or loss is RM11,973,000 (2011: RM9,230,000).

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 2012, the Group and the Company have interest rate caps and swaps at contracted interest rates varying from 2.1% to 5.0% (2011: 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 2012 are expected to mature and affect the profit or loss by a loss of RM21,531,000 (2011: loss of RM16,460,000) between 2013 to 2024.

42. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

(b) Interest rate hedging contracts (continued)

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 2012, a net unrealised loss of RM17,521,000 (2011: net unrealised loss of RM13,220,000) was included in other comprehensive income in respect of these contracts.

The amount removed from other comprehensive income during the financial year and included in profit or loss is RM12,450,000 (2011: RM nil).

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 2012 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 2012 are expected to mature and affect the profit or loss by RM nil (2011: gain of RM1,080,000).

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 gain of RM6,000,000 (2011: net unrealised loss of RM56,105,000) 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	
	2012	**2011**
	RM'000	**RM'000**
Profit or loss	**(7,079)**	107,990
Carrying amount of hedging items	**-**	18,680

43. 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.

43. CAPITAL MANAGEMENT (CONTINUED)

The gearing ratio as at 31 December 2012 and 2011 were as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Total Debt	**9,548,530**	5,669,994	**8,896,489**	5,165,594
Total Equity	**2,137,991**	1,056,147	**2,119,638**	1,093,198
Gearing ratio (times)	**4.5**	5.4	**4.2**	4.7

The Group did not breach any gearing requirements during the financial years ended 31 December 2012 and 31 December 2011.

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 2012 and 31 December 2011.

44. SIGNIFICANT EVENTS

(a) On 18 December 2012, the Company entered into Memorandum of Understanding with ATR for the purchase of thirty six (36) brand new ATR72-600 aircraft worth RM3.0 billion. Twenty (20) aircraft will be taken by Firefly and sixteen (16) will be taken by MASwings.

(b) On 27 November 2012, the Company announced that it proposes to undertake the following Proposals:

(i) Proposed Capital Restructuring comprising:

1. Proposed reduction of RM0.90 of the par value of each existing ordinary share of RM1.00 each in MAS pursuant to Section 64 of the Companies Act, 1965 ("Act")("Proposed Par Value Reduction"); and

2. Proposed reduction of the share premium account of MAS pursuant to Sections 64 and 60 of the Act;

(ii) Proposed Renounceable Rights Issue of new ordinary shares of RM0.10 each in MAS ("Share(s)") to raise gross proceeds of up to RM3.1 billion after the Proposed Capital Restructuring; and

(iii) Proposed amendment to the Memorandum and Articles of Association of MAS ("M&A") to facilitate the implementation of the Proposed Par Value Reduction.

The Proposals are expected to be completed by the second quarter of 2013.

On 18 December 2012, Bursa Malaysia Securities Berhad ("Bursa Securities") approved the listing and quotation for such number of Shares to be issued pursuant to the Proposed Rights Issue subject to the following conditions:

(i) MAS and its adviser must fully comply with the relevant provisions under the Main Market Listing Requirements of Bursa Securities ("Listing Requirements") pertaining to the implementation of the Proposals;

(ii) MAS and its adviser to inform Bursa Securities upon the completion of the Proposals;

(iii) MAS to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposals are completed;

44. SIGNIFICANT EVENTS (CONTINUED)

(b) (continued)

(iv) MAS to furnish Bursa Securities with a certified true copy of the resolution passed by shareholders at extraordinary general meeting for the Proposals;

(v) Payment of the balance of the processing fees together with a detailed computation of processing fees payable; and

(vi) Confirmation from the principal adviser that MAS complies with the public shareholding spread requirement pursuant to Paragraph 8.02(1) of the Listing Requirements and a certificate of distribution of the shares in the format contained in Part B(1)(d) of Annexure Practice Note 21-A of the Listing Requirements.

The Company's Extraordinary General Meeting will be held on 5 March 2013.

(c) On 27 November 2012, the Company entered into Aircraft Sale Agreement with Bank of Utah for buyback acquisition of ten (10) used B737-400 aircraft.

The Company has decided to buyback the leased aircraft that are scheduled to be returned ("End of Lease") in 2012. The agreed purchase price for each aircraft is USD6.4 million.

(d) On 19 November 2012, the Directors of the Company executed a Master Facility Agreement with Turus Pesawat Sdn. Bhd. ("Turus Pesawat") in respect of a Bai' Bithaman Ajil Islamic financing arrangement of up to RM5.3 billion ("Financing Facilities").

Turus Pesawat is incorporated in Malaysia as a special purpose company, wholly-owned by the Ministry of Finance, Inc, in order to provide the Financing Facilities.

The Financing Facilities are to be utilised to finance the purchase of eight (8) aircraft comprising six (6) Airbus A380-800, one (1) Airbus A330-200F and one (1) Airbus A330-300 ("Aircraft") and other expenses in relation to the purchase thereof.

The tenure of the Financing Facilities shall be for a period of up to twenty (20) years from the date of each disbursement under the Financing Facilities, with interest rate ranged from 3.74% to 4.26% per annum.

The Financing Facilities are secured against the Aircraft.

(e) On 28 September 2012, the Company announced a notice to holders of RCPS of RM0.10 each in relation to the conversion and maturity of the RCPS on 30 October 2012.

(f) On 12 June 2012, the Company has issued the first tranche of the Perpetual Sukuk at par value amounting to RM1 billion as part of the Junior Sukuk Programme which was approved by the Securities Commission on 24 May 2012. The details are as disclosed in Note 30.

(g) On 2 May 2012, the Company announced that it has entered into a Supplementary Agreement to vary the terms and scope of the Collaboration Agreement between the Company, AirAsia Berhad ("AirAsia") and AirAsia X Sdn Bhd ("AAX").

There was no other significant event for the financial year ended 31 December 2012.

45. SUBSEQUENT EVENTS

(a) On 22 February 2013, the Company has acquired 250 ordinary shares of USD1.00 each in Malaysia Airlines Capital V Cayman Limited, an off-shore company for a consideration of USD250 (equivalent of RM775) for cash. With effect from that date, Malaysia Airlines Capital V Cayman Limited became a wholly-owned subsidiary of the Company.

(b) On 19 February 2013, in relation to the Memorandum of Understanding signed between MAS and ATR on 18 December 2012, the Company has entered into a Sale and Purchase Agreement with ATR for the purchase of twenty (20) firm and sixteen (16) option ATR72-600 aircraft.

(c) On 8 February 2013, the Company has entered into a Sale and Purchase Agreement with Viking Air Limited to purchase six (6) DHC6-400 aircraft worth approximately RM128 million. The aircraft which will be operated by MASwings for the Rural Air Services operations in Sabah and Sarawak, will replace the existing old aircraft.

(d) On 1 February 2013, the Company joined the premier oneworld airline alliance, offering a wider global network and a host of rewards for Enrich frequent flyers.

There was no other material subsequent event for the financial year ended 31 December 2012.

46. 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 2012.

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 2012 and 31 December 2011, 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 2012					
Realised losses	**(8,557,191)**	**6,952**	**(76,082)**	**200,574**	**(8,425,747)**
Unrealised losses	**191,822**	**(2,143)**	**(40)**	**-**	**189,639**
	(8,365,369)	**4,809**	**(76,122)**	**200,574**	**(8,236,108)**
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)

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.

LIST OF COMPANY PROPERTIES

No.	Location	Description	Tenure	Approx. Area (sq. feet)	Approx. Age (years)	Net Book Value As at 31 Dec 2012 (RM)
1	State of Selangor	32 office and workshop buildings forming MAS office complex at Sultan Abdul Aziz Shah Airport, 47200 Subang & 1 Pedestrian Bridge	Occupation of Federal land	Land: 4,617,360 Built-Up: 2,284,309	14-41	210,575,349
		Industrial land at PT 44562 Mukim Sg. Buloh, 47200 Subang	Leasehold 99 years expiring 2102	10,972 acres	9	14,997,302
		Hangar 6	Agreement with MAB on the land lease 29 years 9 months expiring 31 December 2033	Built-Up: 41,058 sq metre	6	259,298,243
2	State of Penang	13 units of shoplots A1.04-07 & A1.11-14 Level 1, A4.05-08 & B114.03 Level 4, Kompleks KOMTAR, Jalan Penang, George Town, 10000 Pulau Pinang	Leasehold 99 years expiring 2075	Built-Up: 8,690	36	485,946
		8 buildings at Penang International Airport, 11900 Bayan Lepas, Penang	Monthly tenancy from MAB with effect 1 August 2006	Built-Up: 331,154	43	23,188,131
3	State of Perak	4 shoplots Lot G-01, 1-06, 1-07 & 1-08, Bangunan Sri Kinta, Jalan Sultan Idris Shah, 30000 Ipoh	Freehold	Built-Up: 4,102	32	67,593
4	State of Pahang	Vacant land Lot 51, Taman Bukit Kayangan, 49000 Bukit Fraser	Leasehold 60 years expiring 2041	Land: 52,816	32	32,189
		2 units condominium at K67 & B16 Pine Resort, 49000 Bukit Fraser	Leasehold 99 years expiring 2082	Built-Up: 5,226	27	196,825
5	State of Terengganu	1 engineering workshop at Sultan Mahmud Airport, 21300 Kuala Terengganu	Monthly tenancy from MAB with effect 1 August 2006	Built-Up: 4,500	21	1

List of Company properties

No.	Location	Description	Tenure	Approx. Area (sq. feet)	Approx. Age (years)	Net Book Value As at 31 Dec 2012 (RM)
6	State of Kedah	1 engineering building at Sultan Abdul Halim Airport, 06200 Alor Setar	Monthly tenancy from MAB with effect 1 August 2006	Land: 2,065 Built-Up: 5,950	21	94,459
		1 cargo store at Langkawi International Airport, 07100 Padang Matsirat, Langkawi	Monthly tenancy from MAB with effect 1 August 2006	Built-Up: 1,632	18	1
7	State of Johor	1 engineering workshop at Sultan Ismail Airport, Senai, 81250 Johor Bahru	Tenancy commencing 1 November 2008 and expiring 31 October 2011	Land: 16,000	21	329,951
		1 cargo building at Sultan Ismail Airport, Senai, 81250 Johor Bahru	Tenancy commencing 1 November 2008 and expiring 31 October 2011	Built-Up: 10,911	20	4
8	State of Negri Sembilan	5 units condominium 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	Leasehold 99 years expiring 2086	Built-Up: 5,657	25	388,847
9	State of Sabah	Hangar and cargo and administration buildings at Kota Kinabalu International Airport, 88100 Kota Kinabalu	Engineering and Cargo: Leasehold expiring 2044	Land: 152,460 Built-Up: 118,207	23	4,378,742
			Admistration Building: Monthly tenancy from MAB with effect 1 October 2006	Land: 16,000 Built-Up: 31,104	32	1,056,717
		1 hangar/cargo building at Tawau Airport, 91000 Tawau	Monthly tenancy from MAB with effect 30 November 2006	Built-Up: 16,625	11	2,025,802

List of Company properties

No.	Location	Description	Tenure	Approx. Area (sq. feet)	Approx. Age (years)	Net Book Value As at 31 Dec 2012 (RM)
10	State of Sarawak	Catering and workshop building at Kuching International Airport, 93250 Kuching	Monthly tenancy from MAB with effect 1 August 2006	Land: 67,662 Built-Up: 25,171	23-31	496,444
		1 cargo warehouse/engineering buiding at Miri Airport, 98000 Miri	Monthly tenancy from MAB with effect 1 August 2006	Land: 40,864 Built-Up: 19,588	27	531,563
		1 cargo/engieering building at Bintulu Airport, Jalan Bintulu, 97000 Bintulu	Monthly tenancy from MAB with effect 1 Janaury 2007	Land: 52,474	9	1,978,505
		1 cargo/engineering building at Sibu Airport, 23KM Sibu/Durin Road, 96000 Sibu	Monthly tenancy from MAB with effect 1 August 2006	Land: 39,654 Built-Up: 10,926	19	771,541
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	33	1,033,302
12	United Kingdom	7-storey office building at No. 247-249, Cromwell Road, London SW5 9GA	Freehold	Land: 29,977 Built-Up: 24,169	17	23,189,479

ANALYSIS OF SHAREHOLDINGS

STATEMENT OF SHAREHOLDINGS AS AT 18 MARCH 2013

SHARE CAPITAL

Our authorized, and issued and fully paid-up share capital as at 18 March 2013 is as follows:

Type	No. of shares	Par value RM	Total RM
Authorised			
Ordinary Shares	9,000,000,000	1.00	9,000,000,000.00
Special Rights Redeemable Preference Share	1	1.00	1.00
Redeemable Convertible Preference Shares - Redeemed	100,000,000,000	0.01	1,000,000,000.00
Redeemable Preference Shares	1,000,000	0.10	100,000.00
Redeemable Convertible Preference Shares - Redeemed	418,000,000	0.10	41,800,000.00
Total			10,041,900,001.00
Issued and paid-up			
Ordinary Shares	3,342,156,240	1.00	3,342,156,240.00
Special Rights Redeemable Preference Share	1	1.00	1.00
Redeemable Preference Shares	500	0.10	50.00
Total			3,342,156,291.00

STATEMENT OF SHAREHOLDINGS AS AT 18 MARCH 2013 (Continued)

CHANGES IN OUR SHARE CAPITAL

The changes in our issued and paid-up share capital since the date of incorporation up to 18 March 2013 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 AS AT 18 MARCH 2013 (Continued)

CHANGES IN OUR SHARE CAPITAL (Continued)

The changes in our issued and paid-up share capital since the date of incorporation up to 18 March 2013 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
Share (Continued)				
15.01.03	483,243,865	1.00	In satisfaction of the surplus of the liabilities unbundled byMAS to PMB over the total aggregate value of the aircraft assets to be unbundled by MAS to PMB at RM3.85 per share	1,253,243,865.00
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	1,670,991,820.00
06.08.08	2,000	1.00	By way of MAS ESOS allotment	1,670,993,820.00
20.08.08	8,300	1.00	By way of MAS ESOS allotment	1,671,002,120.00
04.02.09	60,000	1.00	Allotment of shares by way of RCPS conversion	1,671,062,120.00
13.07.09	16,000	1.00	Allotment of shares by way of RCPS conversion	1,671,078,120.00
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	3,342,156,240.00
Special Rights Redeemable Preference Share (SRRPS)				
12.09.85	1	1.00	Special Share - Issued to MoF for cash	1.00
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 AS AT 18 MARCH 2013 (Continued)

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
24.10.12	(1,334)	0.10	Redemption by way of cash settlement	41,512,582.10
01.11.12	(13,833)	0.10	Redemption by way of cash settlement	41,511,198.80
20.11.12	(9,174)	0.10	Redemption by way of cash settlement	41,510,281.40
30.11.12	(415,102,814)	0.10	RCPS - Redeemed	-
Redeemable Preference Shares (RPS)				
31.01.07	500	0.10	RPS - Issued at RM1.00 each to CIMB Bank Berhad	50.00

30 LARGEST SHAREHOLDERS AS AT 18 MARCH 2013

No.	Name	No. of Shares	%
1	KHAZANAH NASIONAL BERHAD	2,318,477,827	69.37
2	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. <EMPLOYEES PROVIDENT FUND BOARD>	223,148,940	6.68
3	AMANAHRAYA TRUSTEES BERHAD <SKIM AMANAH SAHAM BUMIPUTERA>	55,610,967	1.66
4	WARISAN HARTA SABAH SDN. BHD.	50,302,884	1.51
5	STATE FINANCIAL SECRETARY SARAWAK	45,833,333	1.37
6	CHIEF MINISTER, STATE OF SABAH	29,809,116	0.89
7	MAYBANK NOMINEES (TEMPATAN) SDN. BHD. <MAYBANK TRUSTEES BERHAD FOR PUBLIC REGULAR SAVINGS FUND (N14011940100)>	17,466,000	0.52
8	AMANAHRAYA TRUSTEES BERHAD <PUBLIC SECTOR SELECT FUND>	10,134,900	0.30
9	MOHAMED FAROZ BIN MOHAMED JAKEL	8,474,000	0.25
10	MEGA FIRST HOUSING DEVELOPMENT SDN BHD	6,369,800	0.19
11	CITIGROUP NOMINEES (ASING) SDN. BHD. <CBNY FOR DIMENSIONAL EMERGING MARKETS VALUE FUND>	5,595,100	0.17
12	MOHAMED FAROZ BIN MOHAMED JAKEL	5,488,800	0.16
13	CITIGROUP NOMINEES (ASING) SDN. BHD. <CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES>	5,466,900	0.16
14	TAN KAH HOCK	5,400,000	0.16
15	ECML NOMINEES (ASING) SDN. BHD. <DMG & PARTNERS SECURITIES PTE LTD FOR KEEN CAPITAL INVESTMENTS LTD (N2-60391) (009)>	4,150,000	0.12

30 LARGEST SHAREHOLDERS AS AT 18 MARCH 2013 (Continued)

No.	Name	No. of Shares	%
16	HSBC NOMINEES (ASING) SDN. BHD. <EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A.)>	3,988,800	0.12
17	RCI VENTURES SDN. BHD.	3,935,000	0.12
18	CITIGROUP NOMINEES (ASING) SDN. BHD. <CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC>	3,266,266	0.10
19	EMPLOYEES PROVIDENT FUND BOARD	3,000,000	0.09
20	PUBLIC NOMINEES (ASING) SDN. BHD. <PLEDGED SECURITIES ACCOUNT FOR CHUA KEE TEE (E-JBU/SKI)>	3,000,000	0.09
21	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN. BHD. <PLEDGED SECURITIES ACCOUNT FOR MOHD NOOR BIN MOHD IDRIS (REM 822)>	2,890,000	0.09
22	OSK INVESTMENT BANK BERHAD <IVT "SW BOOK 1">	2,866,500	0.09
23	CITIGROUP NOMINEES (ASING) SDN. BHD. <CIPLC FOR ASIA PACIFIC PERFORMANCE FUND>	2,688,000	0.08
24	CITIGROUP NOMINEES (TEMPATAN) SDN. BHD. <EMPLOYEES PROVIDENT FUND BOARD (AM INV)>	2,630,000	0.08
25	HSBC NOMINEES (ASING) SDN. BHD. <BNY BRUSSELS FOR CITY OF NEW YORK GROUP TRUST>	2,624,900	0.08
26	CARTABAN NOMINEES (ASING) SDN. BHD. <EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)>	2,565,400	0.08
27	CARTABAN NOMINEES (ASING) SDN. BHD. <SSBT FUND J728 FOR SPDR S&P EMERGING ASIA PACIFIC ETF>	2,399,566	0.07
28	CIMSEC NOMINEES (TEMPATAN) SDN. BHD. <CIMB BANK FOR TENG EE TUAN (MP0205)>	2,355,900	0.07
29	MAYBANK NOMINEES (TEMPATAN) SDN. BHD. <PLEDGED SECURITIES ACCOUNT FOR TAY ONG NGO @ TAY BOON FANG>	2,350,000	0.07
30	CARTABAN NOMINEES (ASING) SDN. BHD. <SSBT FUND NT6P FOR CANADA PENSION PLAN INVESTMENT BOARD>	2,198,000	0.07

AS AT 18 MARCH 2013

Category	Shareholders	%	Shareholdings	%
Less than 100	149	0.52	2,911	0.00
100 to 1,000	3,574	12.46	3,207,321	0.10
1,001 to 10,000	17,479	60.95	87,784,042	2.63
10,001 to 100,000	6,798	23.70	210,635,474	6.30
100,001 to less than 5% of issued shares	676	2.36	498,899,725	14.93
5% and above of issued shares	2	0.01	2,541,626,767	76.04
TOTAL	28,678	100.00	3,342,156,240	100.00

LIST OF SUBSTANTIAL SHAREHOLDERS (5% AND ABOVE) AS AT 18 MARCH 2013

		Shares Held		Percentage (%)	
No.	Name	Direct	Indirect	Direct	Indirect
1	KHAZANAH NASIONAL BERHAD	2,318,477,827	-	69.37	-
2	EMPLOYEES PROVIDENT FUND BOARD Registered under :				
	Citigroup Nominees (Tempatan) Sdn. Bhd. Employees Provident Fund Board	223,148,940	-	6.68	-
	Employees Provident Fund Board	3,000,000	-	0.09	-
	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (AM Inv)	2,630,000	-	0.08	-

DIRECTORS' DIRECT AND DEEMED INTERESTS IN THE COMPANY AS AT 18 MARCH 2013

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	AHMAD JAUHARI BIN YAHYA	-	-	0.00
3	DAVID LAU NAI PEK	-	-	0.00
4	DATO' SRI DR. MOHD IRWAN SERIGAR BIN ABDULLAH	-	-	0.00
5	TAN SRI MOHAMED AZMAN BIN YAHYA	-	-	0.00
6	TAN SRI KRISHNAN TAN BOON SENG	-	-	0.00
7	TAN SRI DATUK AMAR HAJI MOHAMAD MORSHIDI BIN ABDUL GHANI	-	-	0.00
8	TAN SRI SUKARTI BIN WAKIMAN	-	-	0.00
9	DR. MOHAMADON BIN ABDULLAH	-	-	0.00
10	ESHAH BINTI MEOR SULEIMAN (Alternate Director to DATO' SRI DR. MOHD IRWAN SERIGAR BIN ABDULLAH)	-	-	0.00

CORPORATE DIRECTORY

Malaysian Airline System Berhad
Head Office
Administration Building 1
MAS Complex A, Sultan Abdul Aziz Shah Airport
47200 Subang, Selangor Darul Ehsan
Malaysia

General Enquiries
Reservations and Ticketing
T : +1 300 88 3000 (Within Malaysia)
+603 7843 3000 (Outside Malaysia)

KL Sentral
T : +603 2272 4248

KL International Airport
T : +603 8776 4321 / 8776 4300

Skypark Subang
T : +603 7842 4353

Putrajaya
T : +603 8888 6324 / 8888 6237

REGIONAL OFFICES

Malaysia & ASEAN
Ground Floor, Administration Building 3B
MAS Complex B, Sultan Abdul Aziz Shah Airport
47200 Subang, Selangor Darul Ehsan
Malaysia
T : +603 7863 4930
F : +603 7842 4304

Australia/New Zealand/South West Pacific
Level 7, 16 Spring Street
Sydney, N.S.W. 2000, Australia
T : +61 2 9364 3502
F : +61 2 9364 3566

China & SAR
Unit 1008B, 10th Floor, Tower B
Pacific Century Place
2A Gong Ti Bei Lu
Chaoyang District,
Beijing 100027, China
T : +86 10 6505 0341
F : +86 10 6539 2905

North Asia
2nd Floor, No. 29, Mori Building, 4-2-1
Shinbashi, Minato-ku
Tokyo 105-004, Japan
T : +81 3 3432 8505
F : +81 3 3432 1716

Americas
100 North Sepulveda Boulevard,
Suite 1710, El Segundo
California 90245, U.S.A.
T : +1 310 726 6201
F : +1 310 535 9185

South Asia & Middle East
16th Floor, Dr Gopal Das Bhawan
28 Barakhamba Road
New Delhi 110 001, India
T : +91 11 2370 4040
F : +91 11 2335 8834

Continental Europe & United Kingdom
World Trade Centre
Tower D, 9th Floor
Schiphol Boulevard 155
1118 Schiphol Airport, Amsterdam
The Netherlands
T : +31 20 521 6252
F : +31 20 521 6251

SUBSIDIARIES

FlyFirefly Sdn. Bhd.
3rd Floor, Administration Building 1
MAS Complex A, Sultan Abdul Aziz Shah Airport
47200 Subang, Selangor Darul Ehsan
Malaysia
T : +603 7840 4241 (General Line)
+603 7845 4543 (Call Centre)
F : +603 7846 6461
W: www.fireflyz.com.my

MASkargo Sdn. Bhd.
1M Zone C, Core 2, Advanced Cargo Centre
KLIA Free Commercial Zone
64000 Sepang, Selangor Darul Ehsan
Malaysia

MASwings Sdn. Bhd.
1st Floor, Administration Building
Kota Kinabalu International Airport
Jalan Petagas
88100 Kota Kinabalu
Malaysia
T : +6088 515 450
+6088 312 255
E : info@maswings.com.my
W: www.maswings.com.my

MASholidays (MAS Golden Holidays Sdn. Bhd.)
Ground Floor, Administration Building 3B
MAS Complex B, Sultan Abdul Aziz Shah Airport
47200 Subang, Selangor Darul Ehsan
Malaysia
T : +603 7863 4000
E : masholidays@malaysiaairlines.com
W: holiday.malaysiaairlines.com

OTHERS

Enrich/Grads Customer Service Centre
Unit DH6, Departure Hall
Kuala Lumpur Sentral Station
50470 Kuala Lumpur
Malaysia
T : 1 300 88 3000 (Within Malaysia)
+603 7843 3000 (Outside Malaysia)
F : +603 2163 3689
E : enrich@malaysiaairlines.com
enrichweb@malaysiaairlines.com

Grads Kuching
Ground Floor, MAS Building
Song Thian Cheok Road
93100 Kuching, Sarawak,
Malaysia
T : +6082 220617
F : +6082 411767

Grads Kota Kinabalu
Corporate Travel Department
1st Floor, Admin Building
Kota Kinabalu International Airport
Jalan Petagas
88802 Kota Kinabalu, Sabah
T : +6088 515 530
F : +6088 231 929

Corporate Sales & Relationship
Mezzanine Floor, Administration Building 3A
MAS Complex B, Sultan Abdul Aziz Shah Airport
47200 Subang, Selangor Darul Ehsan
Malaysia
T : +603 7863 2639
F : +603 7846 1650

Government & Student Travel Department
(Jabatan Perjalanan Kerajaan & Pelajar)
R 26, Mezzanine Floor
Kompleks Perbadanan Putrajaya
Pusat Pentadbiran Kerajaan Persekutuan
Presint 3, 62050 Putrajaya, Malaysia
T : 1 300 88 3000 (Within Malaysia)
+603 8888 6327 (Outside Malaysia)
E : gomsdz@malaysiaairlines.com

Government Support Unit:
T : +603 8888 6331
+603 8888 6329
+603 8890 3702

Ground Handling Management
2nd Floor, Administration Building
Southern Support Zone
KL International Airport
64000 Sepang, Selangor Darul Ehsan
Malaysia
T : +603 8777 9514 / 9513 / 2995
F : +603 8777 2738

Malaysia Airlines Academy
Human Potential Development
No. 2, Jalan SS7/13 Kelana Jaya
47301 Petaling Jaya, Selangor Darul Ehsan
Malaysia
T : +603 7800 7500
F : +603 7804 3144
E : mktg_maa@malaysiaairlines.com

Engineering & Maintenance Division
4th Floor, Hangar 3
MAS Complex A, Sultan Abdul Aziz Shah Airport
47200 Subang, Selangor Darul Ehsan
Malaysia
T : +603 7840 2821
F : +603 7846 7103

Engineering Commercial Department
4th Floor, Hangar 3
MAS Complex A, Sultan Abdul Aziz Shah Airport
47200 Subang, Selangor Darul Ehsan
Malaysia
T : +603 7840 4267
F : +603 7846 3797

MASkargo Animal Hotel
1M Floor, Zone D
Advanced Cargo Centre
KLIA Free Commercial Zone
64000 Sepang, Selangor Darul Ehsan
Malaysia
T : +603 8777 2193 (Admin Officer)
+603 8777 2133 (Warehouse/ Supervisor)
+603 8777 1847 (Counter)
F : +603 8777 1848
W: www.maskargo.com

Flight Simulator Sales & Marketing
Level 2, Simulator Building
MAS Complex A, Sultan Abdul Aziz Shah Airport
47200 Subang, Selangor Darul Ehsan
Malaysia
F : +603 7847 3903
E : aviatrng@malaysiaairlines.com
simexperience@malaysiaairlines.com

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 42nd 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 Tuesday, 14 May 2013 at 10.00 am for the following purposes:

ORDINARY BUSINESS

Resolution 1
1. To receive the Audited Financial Statements for the financial year ended 31 December 2012 and the Reports of the Directors and Auditors thereon.

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, offers himself for re-election:-

Resolution 2
(i) Tan Sri Md Nor bin Md Yusof

Tan Sri Mohamed Azman bin Yahya who retires pursuant to Article 139 of the Company's Articles of Association, has expressed his intention not to seek re-election. Hence, he will retain office until the close of the 42nd Annual General Meeting.

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:-

Resolution 3 (i) Dr. Mohamadon bin Abdullah
Resolution 4 (ii) Tan Sri Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani
Resolution 5 (iii) Tan Sri Sukarti bin Wakiman
Resolution 6 (iv) Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah

Resolution 7
4. To approve the payment of Directors' fees amounting to RM376,000 per annum in respect of the financial year ended 31 December 2012.

Resolution 8
5. To re-appoint Messrs. Ernst & Young as Auditors of the Company for the financial year ending 31 December 2013 and authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

To consider and if thought fit, to pass the following Ordinary Resolution:-

Resolution 9
6. Authority to Allot and Issue Shares

"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."

Resolution 10
7. To transact any other ordinary business for which due notice has been given.

By Order of the Board

Rizani bin Hassan
(LS 0009520)
Company Secretary

Selangor Darul Ehsan
22 April 2013

EXPLANATORY NOTES ON ORDINARY BUSINESS

Resolutions 3, 4 and 5 – Assessment of Independence of Independent Directors

The independence of Dr. Mohamadon bin Abdullah, Tan Sri Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani and Tan Sri Sukarti bin Wakiman who have served as Independent Non-Executive Directors have been assessed.

EXPLANATORY NOTES ON SPECIAL BUSINESS

Resolution 9 - Authority to Allot and Issue Shares

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 41st Annual General Meeting held on 21 June 2012. 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 41st Annual General Meeting and thus no proceeds were raised from the previous mandate.

The Ordinary Resolution 9 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.

Notes:

1. In respect of deposited securities, only members whose names appear on the Record of Depositors as at 7 May 2013 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.

STATEMENT ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

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 42nd 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 Md Nor bin Md Yusof

(ii) The Directors retiring pursuant Article 137 of the Company's Articles of Association and seeking re-election are as follows:

- Dr. Mohamadon bin Abdullah
- Tan Sri Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani
- Tan Sri Sukarti bin Wakiman
- Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah

The details of the above Directors seeking re-election or re-appointment are set out on the following pages of this Annual Report:

page 32 - 36 – Directors' Profile

page 173 – Directors' Direct and Deemed Interests in the Company as at 18 March 2013

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 42nd 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 Tuesday, 14 May 2013 at 10.00 a.m. and at any adjournment thereof, on the following resolutions referred to in the Notice of the 42nd 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 2012 and the Reports of the Directors and Auditors.		
Resolution 2	Re-election of Tan Sri Md Nor bin Md Yusof as Director		
Resolution 3	Re-election of Dr. Mohamadon bin Abdullah as Director		
Resolution 4	Re-election of Tan Sri Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani as Director		
Resolution 5	Re-election of Tan Sri Sukarti bin Wakiman as Director		
Resolution 6	Re-election of Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah as Director		
Resolution 7	Approval of Payment Directors' fees amounting to RM376,000 per annum in respect of the financial year ended 31 December 2012		
Resolution 8	Re-appointment of Messrs Ernst & Young as Auditors and to authorize the Directors to fix the Auditors' remuneration		
Resolution 9	Authority under Section 132D of the Companies Act, 1965 for Directors to issue shares.		

For appointment of two proxies, percentage of shareholdings to be represented by the proxies:-

	No. of shares	Percentage (%)
Proxy 1		
Proxy 2		
TOTAL		100

As witness my/our hands this .... day of 2013

....
Signature of Member/Common Seal

Notes:

1. Only members whose names appear on the Record of Depositors as at 7 May 2013 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

Affix Stamp

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

Malaysian Airline System Berhad (10601-W)
3rd Floor
Administration Building 1
MAS Complex A
Sultan Abdul Aziz Shah Airport
47200 Subang
Selangor Darul Ehsan
Malaysia

www.**malaysiaairlines**.com