THIS ABRIDGED PROSPECTUS ("AP") IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately. All enquiries concerning the Rights Issue should be addressed to our Share Registrar, Symphony Share Registrars Sdn Bhd, at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia.

This AP, together with the notice of provisional allotment ("**NPA**") and rights subscription form ("**RSF**"), (collectively the **"Documents"**) are only to be despatched to the ordinary shareholders of our Company whose names appear in our Record of Depositors and who have a registered address in Malaysia or who have provided our Share Registrar with an address in Malaysia in writing by 5.00 p.m. on 6 May 2013. The Documents are not intended to be (and will not be) issued, circulated or distributed in countries or jurisdictions other than Malaysia and no action has been or will be taken to ensure that the Rights Issue complies with the laws of any countries or jurisdictions other than the laws of Malaysia. Entitled Shareholders and/or their renouncee(s) (if applicable) who are residents in countries or jurisdictions other than Malaysia should therefore immediately consult their legal advisers as to whether the acceptance or renunciation (as the case may be) of their entitlements to the Rights Issue, application for Excess Rights Shares, or the subscription, offer, sale, resale, pledge or other transfer of the Rights Shares would result in the contravention of any laws of such countries or jurisdictions. Neither we nor CIMB and/or other experts shall accept any responsibility or liability in the event that any acceptance and/or renunciation (as the case may be), application for Excess Rights Shares, or the subscription, offer, sale, resale, pledge or other transfer of the Rights Shares made by any Entitled Shareholders and/or their renouncee(s) (if applicable) is or shall become illegal, unenforceable, voidable or void in such countries or jurisdictions in which the said Entitled Shareholders and/or their renouncee(s) (if applicable) are resident.

A copy of this AP has been registered with the Securities Commission Malaysia ("**SC**"). The registration of this AP should not be taken to indicate that the SC recommends the Rights Issue or assumes responsibility for the correctness of any statement made or opinion or report expressed in the AP. The SC has not, in any way, considered the merits of the securities being offered for investment. A copy of this AP, together with the NPA and RSF, has also been lodged with the Registrar of Companies who takes no responsibility for their contents.

Approval for the Rights Issue has been obtained at our EGM held on 5 March 2013. Approval has been obtained from Bursa Securities on 18 December 2012 for the listing of and quotation for the Rights Shares on the Main Market of Bursa Securities. The official listing of and quotation for the Rights Shares will commence after, among others, receipt of confirmation from Bursa Depository that all the CDS accounts of the successful Entitled Shareholders and/or their renouncee(s) (if applicable) have been duly credited and notices of allotment have been despatched to them. Admission of the Rights Shares to the Official List of Bursa Securities and the listing of and quotation for the Rights Shares are in no way reflective of the merits of the Rights Issue. Bursa Securities does not take any responsibility for the correctness of any statement made or opinion expressed in this AP.

Our Board has seen and approved the Documents and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other facts, the omission of which would make any statement in the Documents false or misleading.

CIMB, being the Principal Adviser for the Rights Issue, acknowledges that, based on all available information and to the best of its knowledge and belief, this AP constitutes a full and true disclosure of all material facts concerning the Rights Issue.

All abbreviations used herein shall have the same meaning as those defined in the Definitions section of this AP unless stated otherwise.

MALAYSIAN AIRLINE SYSTEM BERHAD

(Company No. 10601-W)
(Incorporated in Malaysia under the Companies Act, 1965)

RENOUNCEABLE RIGHTS ISSUE OF UP TO 13,368,624,960 NEW ORDINARY SHARES OF RM0.10 EACH IN MALAYSIAN AIRLINE SYSTEM BERHAD ("MAS") ("RIGHTS SHARES") ON THE BASIS OF FOUR (4) RIGHTS SHARES FOR EVERY ONE (1) EXISTING ORDINARY SHARE OF RM0.10 EACH HELD BY THE ENTITLED SHAREHOLDERS OF MAS AT 5.00 P.M. ON 6 MAY 2013, AT AN ISSUE PRICE OF RM0.23 PER RIGHTS SHARE

Principal Adviser

CIMB Investment Bank Berhad (18417-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

IMPORTANT DATES AND TIMES[(a)]

Entitlement and record date	:	Monday, 6 May 2013 at 5:00 PM[(a)]
Last date and time for:		
Sale of provisional allotments of Rights Shares	:	Monday, 13 May 2013 at 5:00 PM[(a)]
Transfer of provisional allotments of Rights Shares	:	Thursday, 16 May 2013 at 4:00 PM[(a)]
Acceptance and payment	:	Tuesday, 21 May 2013 at 5:00 PM[(a)(b)]
Excess applications and payment	:	Tuesday, 21 May 2013 at 5:00 PM[(a)(b)]

[(a)] ***In the event that Monday, 6 May 2013 is a public holiday, the Entitlement Date shall fall on the next market day i.e. 7 May 2013. The last date and time for the important relevant dates above shall also fall on the respective next succeeding market days.***

[(b)] *or such later date and time as our Board of Directors may mutually decide and announce not less than two (2) market days before the stipulated date and time.*

This Abridged Prospectus is dated 6 May 2013

THE SC IS NOT LIABLE FOR ANY NON-DISCLOSURE ON OUR PART AND TAKES NO RESPONSIBILITY FOR THE CONTENTS OF THIS ABRIDGED PROSPECTUS, MAKES NO REPRESENTATION AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS ABRIDGED PROSPECTUS.

YOU SHOULD CAREFULLY READ THIS ABRIDGED PROSPECTUS IN ITS ENTIRETY ON THE MERITS AND RISKS PERTAINING TO AN INVESTMENT IN THE RIGHTS SHARES AND OUR COMPANY BEFORE DECIDING WHETHER TO ACCEPT OR APPLY FOR THE RIGHTS SHARES. YOU SHOULD ALSO CAREFULLY CONSIDER THE CONTENTS OF THIS ABRIDGED PROSPECTUS AND THE RIGHTS ISSUE IN LIGHT OF YOUR PERSONAL CIRCUMSTANCES (INCLUDING FINANCIAL AND TAXATION AFFAIRS).

SHAREHOLDERS/INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE RIGHTS ISSUE AND ANY INVESTMENT IN OUR COMPANY. IN CONSIDERING THE INVESTMENT, SHAREHOLDERS/INVESTORS WHO ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, SHOULD CONSULT THEIR STOCKBROKERS, BANK MANAGERS, SOLICITORS, ACCOUNTANTS OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

INVESTORS ARE ADVISED TO NOTE THAT RECOURSE FOR FALSE AND MISLEADING STATEMENTS OR ACTS MADE IN CONNECTION WITH THE ABRIDGED PROSPECTUS ARE DIRECTLY AVAILABLE THROUGH SECTIONS 248, 249 AND 357 OF THE CAPITAL MARKETS & SERVICES ACT, 2007 ("CMSA").

SECURITIES LISTED ON BURSA SECURITIES ARE OFFERED TO THE PUBLIC PREMISED ON FULL AND ACCURATE DISCLOSURE OF ALL MATERIAL INFORMATION CONCERNING THE RIGHTS ISSUE FOR WHICH ANY OF THE PERSONS SET OUT IN SECTION 236 OF THE CMSA, E.G. DIRECTORS AND ADVISERS, ARE RESPONSIBLE.

THE DELIVERY OF THIS ABRIDGED PROSPECTUS SHALL NOT, UNDER ANY CIRCUMSTANCES, CONSTITUTE A REPRESENTATION OR CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF OUR GROUP SINCE THE DATES HEREOF.

WE AND OUR ADVISERS HAVE NOT AUTHORISED ANYONE TO PROVIDE YOU WITH INFORMATION WHICH IS NOT CONTAINED IN THE DOCUMENTS.

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Abridged Prospectus:

Act	:	Companies Act, 1965, as amended from time to time
Amendment	:	Amendment to the Memorandum and Articles of Association of our Company in relation to the Par Value Reduction
AP	:	This Abridged Prospectus dated 6 May 2013
Board	:	Our Board of Directors
Bursa Depository	:	Bursa Malaysia Depository Sdn Bhd
Bursa Securities	:	Bursa Malaysia Securities Berhad
CDS	:	Central Depository System, the system established and operated by Bursa Depository for the central handling of securities deposited with Bursa Depository
CDS Account	:	Account established by Bursa Depository for a depositor for the recording of deposits of securities and for dealings in such securities by that depositor of securities
CIMB or Principal Adviser	:	CIMB Investment Bank Berhad
Capital Restructuring	:	Collectively, the Par Value Reduction and the reduction of the share premium account of our Company pursuant to Section 60 and Section 64 of the Act
CMSA	:	Capital Markets and Services Act, 2007, as amended from time to time
Corporate Exercises	:	Collectively, the Capital Restructuring, the Rights Issue and the Amendment
Closing Date	:	Being the last date and time for the acceptance, application and payment for the Rights Shares or such later date and time as our Board may mutually decide and announce not later than two (2) Market Days before the stipulated date and time
Director(s)	:	The director(s) of our Company and shall have the meaning given in Section 4 of the Act
EGM	:	Extraordinary general meeting
Entitled Shareholders	:	Shareholders of our Company whose names appear on our Record of Depositors as at the close of business on the Entitlement Date
Entitlement Date	:	5.00 p.m. on 6 May 2013, being the time and date on which the shareholders of our Company must be registered in our Record of Depositors in order to be entitled to the Rights Issue
EBITDA	:	Earnings before interest, taxation, depreciation and amortisation
EPF	:	Employees Provident Fund Board

EPS	:	Earnings per share
Excess Rights Shares	:	Rights Shares which are not taken up or not validly taken up by the Entitled Shareholders and/or their renouncee(s) prior to excess application
Excess Rights Shares Applications	:	Applications for additional Rights Shares in excess of the Provisional Rights Shares as set out in Section 9.5 of this AP
Foreign Addressed Shareholders	:	Our foreign shareholders as at the Entitlement Date who have not provided an address in Malaysia for the service of the AP, NPA and RSF
FPE	:	Financial period ended / ending, as the case may be
FYE	:	Financial year ended / ending, as the case may be
Government	:	Government of Malaysia
High Court	:	High Court of Malaya at Kuala Lumpur
Khazanah	:	Khazanah Nasional Berhad
LPD	:	11 April 2013, being the latest practicable date before the issuance of this AP
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities
Market Day	:	Any day between Monday and Friday, both days inclusive, which is not a public holiday and on which Bursa Securities is open for trading of securities
MAS or our Company	:	Malaysian Airline System Berhad
MAS Group or the Group	:	MAS and its subsidiaries, collectively
MAS Share(s) or Share(s)	:	Ordinary share(s) of RM0.10 each in MAS
Maximum Scenario	:	Scenario assuming that all Entitled Shareholders and/or their renouncee(s) subscribes in full for their Rights Shares entitlements under the Rights Issue
Minimum Scenario	:	Scenario assuming that the Undertaking Shareholder subscribes in full for their Rights Shares entitlements under the Rights Issue of 9,273,911,308 Rights Shares and none of the other Entitled Shareholders and/or their renouncee(s) subscribes for the remaining Rights Shares entitlements under the Rights Issue
MoF	:	Minister of Finance (Incorporated), a body corporate incorporated under the Minister of Finance (Incorporation) Act, 1957
NA	:	Net assets
NPA	:	Notice of provisional allotment

DEFINITIONS *(Cont'd)*

Par Value Reduction	:	The par value reduction via the cancellation of RM0.90 of the par value of every ordinary share of RM1.00 each in the issued and paid-up share capital of MAS pursuant to Section 64 of the Act and the credit arising therefrom to be offset against the accumulated losses of MAS
Provisional Rights Shares	:	Rights Shares provisionally allotted to the Entitled Shareholders
Record of Depositors	:	A record of securities holders established by Bursa Depository under the Rules of Bursa Depository
Rights Issue	:	Renounceable rights issue of up to 13,368,624,960 Rights Shares, on the basis of four (4) Rights Shares for every one (1) existing MAS Share held on the Entitlement Date, at an issue price of RM0.23 per Rights Share
Rights Share(s)	:	New MAS Share(s) to be issued pursuant to the Rights Issue
RCPS 1	:	Our redeemable convertible preference shares of RM0.01 each
RCPS 2	:	Our redeemable convertible preference shares of RM0.10 each
RPS	:	Our redeemable preference shares of RM0.10 each
RSF	:	Rights subscription form
Rules of Bursa Depository	:	The Rules of Bursa Depository including the rules in relation to a central depository as described in Section 2 of the SICDA
SC	:	Securities Commission Malaysia
Shareholder's Undertaking	:	Irrevocable and unconditional written undertaking dated 27 November 2012 from Khazanah to subscribe in full for its entitlement for the Rights Shares
Special Share	:	Special rights redeemable preference share of RM1.00 in our Company which may be held only by or transferred only to the MoF or its successor or any Minister, representative or any person acting on behalf of the Government
Share Registrar	:	Symphony Share Registrars Sdn Bhd
SICDA	:	Securities Industry (Central Depository) Act, 1991, as amended from time to time
TERP	:	Theoretical ex-rights price
Undertaking Shareholder	:	Khazanah
VWAMP	:	Volume-weighted average market price

Currencies

AUD	:	Australian Dollar
HKD	:	Hong Kong Dollar
INR	:	Indian Rupee

DEFINITIONS *(Cont'd)*

RM	:	Ringgit Malaysia
SGD	:	Singapore Dollar
USD	:	United States of America Dollar
Yen	:	Japanese Yen

References to "**we**", "**us**", "**our**", "**ourselves**" are to our Company, and save where the context otherwise requires, our subsidiaries. All references to "**you**" in this AP are to our Entitled Shareholders.

Words denoting the singular number only shall include the plural and also vice-versa and word denoting the masculine gender shall, where applicable, include the feminine gender, neuter gender and vice-versa. Reference to persons shall include corporations.

Any discrepancies in the tables between the amounts listed and the totals in this AP are due to rounding.

Any reference in this AP to any enactment is a reference to that enactment as for the time being amended or re-enacted.

Any reference to time of day in this AP is a reference to Malaysian time, unless otherwise stated.

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CONTENTS

CONTENTS *(Cont'd)*

APPENDICES:

CORPORATE DIRECTORY

MALAYSIAN AIRLINE SYSTEM BERHAD
(Company No. 10601-W)
(Incorporated in Malaysia under the Companies Act, 1965)

BOARD OF DIRECTORS

Name (Designation)	Nationality	Occupation	Address
Tan Sri Md Nor bin Md Yusof (Non-Independent Non-Executive Chairman)	Malaysian	Chairman	67 Lake View, Saujana Resort Seksyen U2 40150 Shah Alam, Selangor Darul Ehsan
Ahmad Jauhari bin Yahya (Non-Independent Executive Director)	Malaysian	Managing Director and Group Chief Executive Officer	9, Lengkok Zaaba 2 Taman Tun Dr Ismail 60000 Kuala Lumpur
Tan Sri Mohamed Azman bin Yahya (Non-Independent Non-Executive Director)	Malaysian	Group Chief Executive of Symphony House Berhad	1 Jalan Setiabakti 2 Damansara Heights 50490 Kuala Lumpur
Tan Sri Tan Boon Seng @ Krishnan (Independent Non-Executive Director)	Malaysian	Executive Deputy Chairman of IJM Corporation Berhad	22 Leboh Tamarind Taman Selatan 41200 Klang Selangor Darul Ehsan
David Lau Nai Pek (Independent Non-Executive Director)	Malaysian	Company Director	B-3-4 Sri Kenny Condo No.28 Jalan Tun Ismail 50480 Kuala Lumpur
Dr. Mohamadon bin Abdullah (Independent Non-Executive Director)	Malaysian	Company Director	No. 1, Jalan Telawi Lapan Bangsar Baru Bangsar 59100 Kuala Lumpur
Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah (Non-Independent Non-Executive Director)	Malaysian	Secretary General of Treasury, Ministry of Finance	26, Jalan P14 A1/1 Presinct 14 62050 Putrajaya
Tan Sri Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani (Independent Non-Executive Director)	Malaysian	State Secretary of Sarawak	381, Jalan Bunga Kasturi Kampung Pinang Jawa 93050 Kuching, Sarawak
Tan Sri Datuk Seri Panglima Sukarti bin Wakiman (Independent Non-Executive Director)	Malaysian	State Secretary of Sabah	No. 9, Kampung Berungis Batu 22, Jalan Tuaran 89208 Tuaran, Sabah

CORPORATE DIRECTORY *(Cont'd)*

Name (Designation)	Nationality	Occupation	Address
Eshah binti Meor Suleiman (Alternate Director to Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah)	Malaysian	Under Secretary Investment, Ministry of Finance	No. 21, Jalan Sekamat Jaya 3 Taman Sekamat Jaya 43000 Kajang Selangor Darul Ehsan

AUDIT COMMITTEE

Name	Designation	Directorship
David Lau Nai Pek	Chairman	Independent Non-Executive Director
Tan Sri Tan Boon Seng @ Krishnan	Member	Independent Non-Executive Director
Dr. Mohamadon bin Abdullah	Member	Independent Non-Executive Director

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CORPORATE DIRECTORY (*Cont'd*)

COMPANY SECRETARY	:	Rizani bin Hassan (LS0009520) B-2-13, Anjung Villa Condominium Jalan 1/48A, Sentul Perdana Bandar Baru Sentul 51000 Kuala Lumpur
REGISTERED OFFICE AND BUSINESS OFFICE	:	3rd Floor, Administration Building 1 MAS Complex A Sultan Abdul Aziz Shah Airport 47200 Subang Selangor Darul Ehsan Tel. No: +603 7840 4550 Fax No: +603 7846 3932 Email: investor@malaysiaairlines.com Website: www.malaysiaairlines.com *(Information in our website does not form any part of this AP)*
PRINCIPAL ADVISER	:	CIMB Investment Bank Berhad 10th Floor, Bangunan CIMB Jalan Semantan Damansara Heights 50490 Kuala Lumpur Tel. No: +603 2084 8888
PRINCIPAL BANKERS	:	CIMB Bank Berhad UL, Wisma Amanah Raya Berhad Jalan Semantan Damansara Heights 50490 Kuala Lumpur Tel. No: +603 2084 8888 Malayan Banking Berhad Menara Maybank 100 Jalan Tun Perak 50050 Kuala Lumpur Tel. No: +603 2070 8833 Citibank Berhad Menara Citibank 165, Jalan Ampang 50450 Kuala Lumpur Tel. No: +603 2383 8885 RHB Bank Berhad Level 10, Tower One RHB Centre, Jalan Tun Razak 50400 Kuala Lumpur Tel. No: +603 9287 8888
AUDITORS AND REPORTING ACCOUNTANTS	:	Ernst & Young (AF0039) Level 23A, Menara Milenium Jalan Damanlela Pusat Bandar Damansara 50490 Kuala Lumpur Tel. No: +603 7495 8000 Fax. No: +603 2095 9076

CORPORATE DIRECTORY *(Cont'd)*

SOLICITORS	:	Adnan, Sundra & Low Level 11, Menara Olympia 8, Jalan Raja Chulan 50200 Kuala Lumpur Tel. No: +603 2070 0466 Fax. No: +603 2078 3382
SHARE REGISTRAR	:	Symphony Share Registrars Sdn Bhd Level 6, Symphony House Pusat Dagangan Dana 1 Jalan PJU 1A/46 47301 Petaling Jaya Selangor Darul Ehsan Tel: +603 7849 0777 (Helpdesk)
STOCK EXCHANGE LISTED AND LISTING SOUGHT	:	Main Market of Bursa Securities

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Company No: 10601-W

MALAYSIAN AIRLINE SYSTEM BERHAD

(Company No. 10601-W)
(Incorporated in Malaysia under the Companies Act, 1965)

Registered Office:

3rd Floor, Administration Building 1
MAS Complex A, Sultan Abdul Aziz Shah Airport
47200 Subang
Selangor Darul Ehsan, Malaysia

6 May 2013

Board of Directors:

Tan Sri Md Nor bin Md Yusof (Non-Independent Non-Executive Chairman)
Ahmad Jauhari bin Yahya (Non-Independent Executive Director, Managing Director/Group Chief Executive Officer)
Tan Sri Mohamed Azman bin Yahya (Non-Independent Non-Executive Director)
Tan Sri Tan Boon Seng @ Krishnan (Independent Non-Executive Director)
David Lau Nai Pek (Independent Non-Executive Director)
Dr. Mohamadon bin Abdullah (Independent Non-Executive Director)
Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah (Non-Independent Non-Executive Director)
Tan Sri Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani (Independent Non-Executive Director)
Tan Sri Datuk Seri Panglima Sukarti bin Wakiman (Independent Non-Executive Director)
Eshah binti Meor Suleiman (alternate Director to Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah)

To: Our Shareholders

Dear Sir/Madam,

RENOUNCEABLE RIGHTS ISSUE OF UP TO 13,368,624,960 RIGHTS SHARES ON THE BASIS OF FOUR (4) RIGHTS SHARES FOR EVERY ONE (1) EXISTING MAS SHARE HELD BY THE ENTITLED SHAREHOLDER, AT AN ISSUE PRICE OF RM0.23 PER RIGHTS SHARE

1. INTRODUCTION

1.1 On 27 November 2012, CIMB announced to Bursa Securities on our behalf that we propose to undertake the Capital Restructuring, Rights Issue and Amendment.

1.2 Bursa Securities had on 18 December 2012 approved the listing of and quotation for the Rights Shares to be issued under the Rights Issue on the Main Market of Bursa Securities, subject to the following conditions:

(i) MAS and its adviser must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Corporate Exercises;

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

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

(iv) MAS to furnish Bursa Securities with a certified true copy of the resolutions passed by shareholders at the EGM for the Corporate Exercises;

(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 PN21-A of the Listing Requirements.

1.3 The conditions imposed by Bursa Securities will be complied with during and, where applicable, after the implementation of the Rights Issue.

1.4 On 5 March 2013, our shareholders had approved, amongst others, the Rights Issue at our EGM. A certified true extract of the resolution pertaining to the Rights Issue passed at the aforesaid EGM is set out in Appendix I of this AP.

1.5 On 9 April 2013, CIMB had, on behalf of our Board announced that the High Court had granted an order sanctioning the Capital Restructuring and the Capital Restructuring was effected on 11 April 2013.

1.6 On 11 April 2013, CIMB had, on behalf of our Board, announced the following:

(i) The issue price of the Rights Shares has been fixed at RM0.23 per Rights Share; and

(ii) The entitlement basis for the Rights Issue has been fixed as four (4) Rights Share for every one (1) existing Share held by the Entitled Shareholders.

1.7 On 11 April 2013, our Company also announced the Entitlement Date, along with the other relevant dates pertaining to the Rights Issue.

No person is authorised to give any information or to make any representation not contained in this AP in connection with the Rights Issue and if so given or made, such information or representation must not be relied upon as having been authorised by us or CIMB in connection with the Rights Issue.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

2. DETAILS OF THE RIGHTS ISSUE

2.1 Details of the Rights Issue

2.1.1 Shareholders whose names appear in our Record of Depositors as at the Entitlement Date are entitled to participate in the Rights Issue. However, only Entitled Shareholders who have an address in Malaysia as stated in our Record of Depositors or who have provided our Share Registrar with an address in Malaysia in writing by the Entitlement Date will receive this AP, together with the NPA and RSF.

2.1.2 As an Entitled Shareholder, you are provisionally allotted the Rights Shares based on your holding of MAS Shares as at the Entitlement Date. The number of Provisional Rights Shares allotted to you, for which you may accept or decline, is specified in the NPA.

2.1.3 If you wish to accept the Provisional Rights Shares (in full or in part) as specified in the NPA and/or apply for Excess Rights Shares, you may do so by completing the RSF. You may also renounce your entitlement to the Rights Shares in full or in part. If you do not wish to participate in the Rights Issue, you do not need to take any action.

2.1.4 Any Rights Shares which are not taken up or not validly taken up by the Entitled Shareholders and/or their renouncee(s) (if applicable) shall be made available for Excess Rights Shares Application. The allocation of the Excess Rights Shares (if any) will be determined by our Board at its discretion in a fair and equitable manner on the basis set out in Section 9.5 of this AP.

2.1.5 In determining the entitlements of the Entitled Shareholders, any fractional entitlement of the Rights Share will be disregarded and shall be dealt with in such manner as our Board shall in their absolute discretion deem fit and expedient, and to be in the best interest in our Company.

2.1.6 Any dealings in our securities will be subject to the provisions of the SICDA, the Rules of Bursa Depository and any other relevant legislation. Accordingly, the Rights Shares to be issued and allotted will be credited directly into the respective CDS Accounts of the successful applicants. No physical share certificates will be issued. The notices of allotment will be despatched to the successful applicants within eight (8) Market Days from the last date for acceptance of and payment for the Rights Shares or such other dates as may be prescribed by Bursa Securities.

2.2 Basis of determining the issue price of the Rights Shares and the entitlement basis of the Rights Issue

2.2.1 The issue price of RM0.23 per Rights Share was arrived at after taking into consideration the 5-day VWAMP of our Shares up to and including 10 April 2013 (being the last trading day immediately preceding the price-fixing date) and the TERP of our Shares (based on the said 5-day VWAMP). The issue price of RM0.23 per Rights Share represents a discount of approximately 34.3% to the TERP of our Shares of RM0.35 and approximately 72.0% to the 5-day VWAMP of our Shares of RM0.82.

2.2.2 The entitlement basis was determined after taking into consideration the issue price of RM0.23 per Rights Share and the total gross proceeds expected to be raised of up to RM3,074.78 million.

2.3 Ranking of the Rights Shares

The Rights Shares will, upon allotment and issuance, rank equally in all respects with the existing MAS Shares, save and except that the Rights Shares will not be entitled to any dividends, rights, allotments and/or any other distributions which entitlement date precedes the date of allotment and issuance of the Rights Shares.

2.4 Last date and time for acceptance, application and payment

The Closing Date is 5.00 p.m. on Tuesday, 21 May 2013, or such later date and time as our Board of Directors may mutually decide and announce not less than two (2) Market Days before the stipulated date and time.

2.5 Other corporate exercises

Save for the Rights Issue, our Company does not have any other intended corporate exercise/scheme which have been announced and approved by the holders of MAS Shares, RPS and Special Share (where relevant) and regulatory authority (where applicable) but pending completion or implementation as at the date of this AP.

2.6 Rights attaching to our securities

Our Company has five (5) classes of shares in our authorised share capital, namely MAS Shares, RPS, RCPS 1, RCPS 2 and Special Share. As at the date of this AP, the RCPS 1 and RCPS 2 have been fully redeemed.

An extract of the relevant provisions of our Articles of Association on the voting rights at the meeting of our Company conferred by, and the rights in respect of capital and dividends attached to the MAS Shares, RPS, RCPS 1, RCPS 2 and Special Share in our authorised share capital, respectively, are set out in Section 2 of Appendix VII of this AP.

3. PURPOSE OF THE RIGHTS ISSUE AND UTILISATION OF PROCEEDS

3.1 Purpose of the Rights Issue

The Rights Issue is undertaken with the following objectives:

(i) to allow us to raise funds without incurring interest cost as well as to minimise any potential cash outflow in respect of interest servicing, as compared to raising funds via bank borrowings;

(ii) to improve our liquidity, gearing and financial flexibility as well as to optimise our capital structure by strengthening our balance sheet;

(iii) to allow us to raise funds through the offering of equity instrument to our ordinary shareholders on a pro-rata basis;

(iv) to provide our ordinary shareholders with an opportunity to subscribe for new MAS Shares at a discount to the prevailing market price; and

(v) to enable our Group to retire part of our borrowings by utilising the proceeds from the Rights Issue and enjoy interest savings thereafter and also to meet our working capital requirements.

3.2 Utilisation of proceeds

The gross proceeds expected to be raised from the Rights Issue and the intended utilisation is as follows:

	Expected timeframe for utilisation	Minimum Scenario RM million	Maximum Scenario RM million
Working capital[(1)]	Within 24 months	367.05	1,308.83
Capital expenditure[(2)]	Within 24 months	986.85	986.85
Repayment of borrowings[(3)]	Within 24 months	777.00	777.00
Estimated expenses for the Corporate Exercises	Within three (3) months	2.10	2.10
		2,133.00	3,074.78

Notes:

* *The actual gross proceeds to be raised cannot be determined at this juncture as it would depend on the level of subscription for the Rights Shares. On the basis that the maximum number of shares to be issued will be 13,368,624,960 Rights Shares, the maximum proceeds raised will be RM3,074.78 million. Any difference between the actual gross proceeds to be raised and the intended gross proceeds will be correspondingly adjusted to the amount allocated for working capital requirements of our Group.*

(1) *Our Company intends to use part of the proceeds raised from the Rights Issue for general working capital purposes of our Group, including but not limited to general corporate purposes, aircraft lease rentals, fuel expenses, aircraft maintenance expenses, payments to creditors and other day-to-day expenses.*

(2) *Our Company intends to use part of the proceeds from the Rights Issue for the pre-delivery progressive payments for the next two (2) years in relation to the remaining Boeing B737-800 aircraft acquired from Boeing in June 2008 and Airbus A330-300 aircraft acquired from Airbus in March 2010.*

(3) *The total borrowings of our Group as at 31 December 2012 is approximately RM9,548.53 million. Our Company intends to use part of the proceeds raised from the Rights Issue to pare down some of our existing borrowings (including interest payable) of up to RM777.00 million. Based on the prevailing interest rate incurred by our Company of between 3.0% to 5.5% per annum, such repayment is expected to result in an interest savings of approximately RM38.36 million per annum.*

Any variation to the amount utilised for capital expenditure, repayment of borrowings and estimated expenses for the Corporate Exercises will be adjusted to the amount allocated for working capital of our Group.

Pending utilisation of the proceeds from the Rights Issue for the above purposes, the proceeds would be placed in deposits with financial institutions or short-term money market instruments.

4. RISK FACTORS

You and/or your renouncee(s) (if applicable) should consider, in addition to other information contained in this AP, the following risk factors (which may not be exhaustive) before subscribing for or investing in the Rights Shares. There may be additional risk factors, which are not disclosed below, that are not presently known to us or that we currently deem to be less significant, which may materially and adversely affect our business, financial condition, results of operations and prospects.

4.1 Risk factors relating to our Group's business

4.1.1 Competition

The aviation industry is highly competitive. Recent key trends observed in the industry include the following:

(a) downward pressure on yields and heavy fare discounting among airlines resulting from economic crisis in various parts of the world;

(b) intense competition and increased capacity from low cost carriers at the regional level which resulted in proliferation of capacity in the market place; and

(c) Association of Southeast Asian Nations (ASEAN) air transport liberalisation and overall less regulated air space that lead to more intense competition.

We acknowledge the competition looming ahead and thus, in anticipation of these challenges, we had in 2011 announced our business plan which sets out MAS' short term and mid to long term targets. Please refer to Section 5.3 of this AP for further details. Notwithstanding our business plan, no assurance can be given that competition within the industry will not have any material and adverse impact on our business, earnings, financial conditions, operations and prospects.

4.1.2 Business risks

Our financial performance is closely related to the global economic performance and is subject to certain risks inherent to the aviation industry. These include adverse changes in the general economic and business conditions, seasonal fluctuations, labour shortages, increase in the costs of labour and materials, particularly jet fuel, foreign exchange fluctuations, equipment failure and reduction in passenger and cargo traffic.

We aim to limit and/or mitigate such aforementioned risks by, among others, improving our competitiveness through:

(a) effective costs control;

(b) implementation of effective marketing strategies such as airline alliances, code sharing, interlining partnerships, joint ventures and other commercial arrangements;

(c) aircraft renewal programmes; and

(d) improving the efficiency of the airline's in-flight and ground services.

However, there is no assurance that the aforementioned business risks can be completely mitigated.

As mentioned in Section 4.1.1, we had in 2011 announced our business plan which sets out MAS' short term and mid to long term targets. Please refer to Section 5.3 of this AP for further details. It is important to note that our business plan aims to improve our Company's performance trends over the longer term and as such, may not yield immediate results.

Our business plan is subject to the business risks as highlighted above. Our ability to achieve our financial targets and other goals are based on a number of underlying assumptions, including assumptions regarding our ability to control cost, the price of jet fuel, overcapacity in the industry and the demand for air travel. If any of these assumptions do not turn out as we had expected or other external factors come into play, the financial results of our Company (whether for the full financial year, or otherwise) may be adversely affected.

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4.1.3 Jet fuel price fluctuations

Fuel cost represents a substantial expense to us. We have entered (and may, in the future, enter) into fuel hedging contracts to hedge against jet fuel price fluctuations. Whilst our hedging activities do mitigate some of the adverse effects of jet fuel price fluctuations, our hedging does not fully eliminate price risks.

Hedging contracts are derivative financial instruments, and are required to be marked-to-market under the applicable accounting standards adopted by our Company. Essentially, this requires the hedging contracts to be accounted for at fair values by measuring the estimated forward fuel prices against the fuel prices transacted under the hedging contracts. As the hedging contracts entered into are to hedge against adverse fluctuation in fuel price, any unfavourable movement in fuel price relative to the price at which we contracted, will result in marked-to-market losses and vice versa. The effect of marking these contracts to market is to recognise the fair value of the benefits gained or losses incurred from the hedging contracts. Such gains or losses will only be realised upon the maturity of the hedging contracts. We do not purchase or hold any derivative instruments for trading purposes.

4.1.4 Political, economic and regulatory risks and health outbreaks

Political and economic conditions and developments, health outbreaks and regulatory developments in Malaysia could have a material effect on the financial performance of our Group. Any adverse developments or uncertainties in the above external factors could materially affect the financial condition and business prospects of our Group. These political, economic, health outbreaks and regulatory uncertainties include (but are not limited to) risks of war, expropriation, nationalisation, changes in political leadership and environment, global economic downturn, epidemics such as the recent avian influenza (H7N9) virus outbreak, social unrests, changes in currency exchange rates and interest rates and unfavourable changes in Government policies such as introduction of new regulations, duties, taxes and tariffs, changes in accounting standards and taxation methods.

While our Group continues to take measures to mitigate these risks including by close monitoring of the Government's plans in respect of long-term economic and development policies so that we can stay ahead as well as capitalise on any regulatory changes in the sectors that our Group operates, there can be no assurance that any changes to the political, economic, health outbreaks and regulatory factors will not have a material and adverse effect on our business, financial condition, results of operations and prospects.

4.1.5 Dependence on key personnel

As in any other businesses, our Group believes that our continued success will depend to a significant extent upon the abilities, skills, experience, competency and continuous efforts of our existing Directors and management team. Our Group has implemented various strategies and will strive to continue attracting and retaining qualified and experienced personnel which are essential to successfully support the operations of our Group.

The loss of the services of any of our Directors and key management personnel without suitable and timely replacement, or the inability of our Group to attract and retain other qualified personnel, could adversely affect our operations and hence, our revenue and profitability. Taking this into consideration, every effort is made to attract, groom, train and retain the management team for succession planning to ensure a smooth transition in the management team, should changes occur.

4.1.6 Interest rate and liquidity risks

Our Group has total borrowings of approximately RM9,548.53 million as at 31 December 2012. Any increase in interest rates may lead to higher borrowing costs and in turn, affect our Group's profitability. Our Management also takes measures to hedge against the adverse effects of interest rate fluctuations. Whilst our hedging activities do mitigate some of the adverse effects of interest rate fluctuations, our hedging policy is not designed to fully eliminate interest rate risks.

Notwithstanding this, our Group actively manages our debt maturity profile, operating cash flows and availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of our cash conservation strategy, our Group maintains sufficient levels of cash or cash equivalent to meet our Group's working capital requirements.

In addition, our Group strives to maintain available banking facilities at a reasonable level to our overall debt position. As far as possible, our Group raises committed funding from both capital markets and financial institutions and targets to prudently balances our portfolio with some short-term funding so as to achieve overall cost effectiveness.

4.1.7 Control by major shareholders

The Government holds one (1) Special Share in MAS via MoF, which enables it to ensure that certain major decisions affecting our operations as a national airline are consistent with its policies. Furthermore, as at the LPD, Khazanah, a Government-controlled entity, holds a direct interest of 69.37% in our Company. Therefore, the Government effectively controls the decisions made by our Company, except in certain instances where the Government (as a shareholder of our Company) and/or their nominated Directors are required by law and/or by the relevant authorities to abstain from voting (e.g. in matters relating to related party transactions) at a shareholders' meeting or a board meeting, as applicable.

4.1.8 Foreign exchange fluctuations

If the currencies of various countries in which we conduct our operations fluctuate relative to the RM (which we use as our reporting currency for our financial statements), these fluctuations may result in higher or lower financial numbers after translation into RM. Possible devaluations or depreciation of any such currencies may result in the reduction of the translated currency in RM. Fluctuations in exchange rates may adversely affect our results of operations and prospects in various ways. We cannot assure you that currency fluctuations would not have a material adverse effect on our business, financial conditions, results of operations and prospects.

Our Management takes measures to hedge against the adverse effects of foreign exchange fluctuations in order to minimise it.

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4.1.9 Our ability to raise funds for capital expenditure

Significant amounts of capital is required to support our fleet renewal programme to replace our existing ageing fleet, which we intend to fund via commercial facilities, guaranteed facilities, internally generated funds, bank borrowings and/or future fund raising exercise (if necessary).

Adequate financing, either on a medium-term or long-term basis, for the fleet renewal programme and airline-related investments may not be available to our Group on terms that are favourable or acceptable by us. Accordingly, we cannot assure you that we will have sufficient capital resources in the medium-term or long-term or that we will not exceed the estimated or forecasted capital expenditure required to improve or expand our business plan to the extent necessary to remain competitive. If adequate financing is not available, our Group's business prospects may be affected. However, we will continuously review and assess our funding needs and available funding options. Although we believe that our expected cashflows from operations, together with cash reserves and existing financing facilities are expected to be adequate in meeting our anticipated liquidity and capital expenditure requirements in the near future, should capital resources be required, we will use reasonable endeavours to procure financing on commercially acceptable terms, and/or raise funds in the capital markets, if necessary.

4.2 Risk factors relating to the Rights Issue

4.2.1 Investment risk

The market price of our Shares is influenced by, among others, the prevailing market sentiments, the volatility of equity markets, movements in interest rates, the outlook of the aviation industry in which we operate and our financial performance. In view of this, there can be no assurance that our Shares will trade at or above the issue price of RM0.23 upon or subsequent to the listing of and quotation for the Rights Shares on the Main Market of Bursa Securities.

There is no assurance that the market price of the Rights Shares upon or subsequent to the listing of and quotation for the Rights Shares will be at a level that meets the specific investment objectives or targets of any holder of the Rights Shares.

4.2.2 Capital market risk

The performance of Bursa Securities is influenced by external factors such as the performance of the regional and world bourses and flow of foreign funds. Sentiments are also largely driven by internal factors such as, among others, the economic and political conditions of the country, interest rates and foreign exchange policies as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volumes on Bursa Securities, thus adding risk to the market price of the Rights Shares.

There is no assurance that the market price of the Rights Shares upon or subsequent to the listing of and quotation for the Rights Shares will be at a level that meets the specific investment objectives or targets of any holder of the Rights Shares.

4.2.3 Failure or delay in implementation of the Rights Issue

As set out in Section 8 of this AP, Khazanah has given its unconditional and irrevocable written undertaking to subscribe in full for their legal entitlement under the Rights Issue. The successful implementation of the Rights Issue is dependent on the fulfilment by Khazanah of its obligations under the Shareholder's Undertaking. In the event the Rights Issue is aborted, the Company will repay without interest all monies received from the applicants in accordance with Section 243 of the CMSA.

4.2.4 Potential dilution

Entitled Shareholders who do not or are not able to accept their Provisional Rights Shares will have their proportionate ownership and voting interests in our Company reduced, and the percentage of our enlarged issued and paid-up ordinary share capital represented by their holdings of MAS Shares will also be reduced accordingly.

4.3 Forward-looking statements

Certain statements in this AP are based on historical data which may not be reflective of the future results, and others which are forward-looking in nature are subject to uncertainties and contingencies. All forward-looking statements contained in this AP are based on estimates and assumptions made by our Company, unless otherwise stated, and although our Board believes that these forward-looking statements to be reasonable at this point given the prevailing circumstances, they are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward-looking statements. Such factors include, but are not limited to, those set out in this AP. In view of this and other uncertainties, the inclusion of any forward-looking statement in this AP should not be regarded as a representation or warranty by us, or our advisers, that our plans and objectives will be achieved.

5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS

Our Group is principally engaged in the business of air transportation and the provision of related services. Our prospects are inherently linked to the outlook of the Malaysian economy and aviation industry.

5.1 Overview of the Malaysian economy

The Malaysian economy registered a robust growth of 6.4% in the fourth quarter of 2012 (third quarter 2012: 5.3%) led by strong performance in all sectors. The services and manufacturing sectors remained the key drivers of growth. The services sector recorded a growth of 6.3% in the fourth quarter of 2012 (third quarter 2012: 7%) spurred by the finance and insurance, wholesale and retail trade as well as communication subsectors. In line with higher Industrial Production Index (IPI), the manufacturing sector expanded 5.8% in the fourth quarter of 2012 (third quarter 2012: 3.3%) driven by the stronger performance of the transport equipment, petroleum and chemical products as well as electrical and electronic subsectors. The agriculture sector recorded a higher growth of 5.6% in the fourth quarter of 2012 (third quarter 2012: 0.5%) mainly attributed to strong growth in the oil palm, livestock and fishing subsectors. Meanwhile, growth in the mining sector rebounded strongly by 4.3% (third quarter 2012: -1.2%) on account of increased production of crude oil and natural gas. For the whole year, the economy expanded 5.6%, surpassing the forecast of 4.5% to 5% in October 2012.

Domestic demand remained strong and expanded 7.5% in the fourth quarter (third quarter 2012: 11.4%), underpinned by robust private consumption and investment activities. Private consumption grew 6.1% during the fourth quarter of 2012 (third quarter 2012: 8.5%) supported by high household spending following stable labour market conditions and a strong stock market performance. In addition, the bonus payment for civil servants as well as the festive season and school holidays further spurred growth of private consumption. The Malaysian Institute of Economic Research (MIER) Consumer Sentiments Index remained firm at 118.7 points above the 100-point threshold in the fourth quarter of 2012 (third quarter 2012:118.3 points), indicating positive household sentiment. Higher consumer spending was reflected by the strong performance of major consumption indicators. These included services and sales tax collections as well as passenger car sales which recorded a double-digit growth of 13.6%, 17% and 11.9% in the fourth quarter of 2012 (third quarter 2012: 23.6%; 12.7% and 0.7%), respectively. Public consumption continued to expand, albeit at a moderate pace of 1.1% in the fourth quarter of

2012 (third quarter 2012: 2.3%) due to lower spending in supplies and services during the fourth quarter of 2012.

Gross Fixed Capital Formation (GFCF) registered an increase of 15% in the fourth quarter (third quarter 2012: 22.7%), maintaining its strong momentum to record a double-digit growth for four (4) consecutive quarters, supported by both private and public sector capital spending. Private investment expanded strongly by 20.2% in the fourth quarter of 2012 (third quarter 2012: 22.9%) underpinned by investment in the manufacturing and services sectors as well as oil and gas industry. Likewise, public investment registered a double-digit growth of 11.1% in the fourth quarter of 2012 (third quarter 2012: 22.4%) on account of higher capital expenditure by the Non-Financial Public Enterprises (NFPEs) mainly in the transport, oil and gas as well as utilities sectors. In addition, major investment indicators such as sales of commercial vehicles, imports of capital goods and bank lending to businesses also recorded a strong performance of 20.3%, 14.5% and 11.3% in the fourth quarter of 2012 (third quarter 2012: 19.6%; 22.6% and 13.1%), respectively, indicating an expansion in private investment activity.

During the fourth quarter of 2012, growth of the services sector remained steadfast expanding 6.3% (third quarter 2012: 7%) and accounting for 55% of Gross Domestic Product (GDP) (third quarter 2012: 54.7%). Growth was led by the intermediate services group, which increased 8.3% in the fourth quarter of 2012 (third quarter 2012: 8.9%) driven by solid expansion of the finance and insurance as well as communication subsectors. Meanwhile, the final services group grew 2.9% in the fourth quarter of 2012 (third quarter 2012: 4.2%) buoyed by the accommodation and restaurant as well as utilities subsectors. For the whole of 2012, the services sector registered a healthy growth of 6.4% (2011: 7%) mainly supported by consumer-related subsectors, which cushioned the effects of slower trade-related activity during the year.

(Source: Malaysian Economy Fourth Quarter 2012, MoF)

5.2 Overview of the aviation sector

During the first half of 2012, growth in the air transport segment was moderate despite sustained demand for passenger travel. Total passenger traffic in airports nationwide expanded 4.1% to 33.2 million (January to June 2011: 12.6%; 31.9 million) partly attributed to increased connectivity following the entry of new airlines to Malaysia such as Mandala Airlines and Bangkok Airways. The total number of passengers on the domestic carriers, however, contracted 7.3% to 18.9 million (January to June 2011: 18.2%; 20.4 million) partly due to the rationalisation of domestic and international routes. Similarly, total air cargo handled at all airports declined slightly by 0.8% to 437,174 tonnes (January to June 2011: 2.5%; 440,626 tonnes) on account of slower electrical and electronics (E&E) exports.

In 2012, the air transport industry is expected to remain challenging due to volatile fuel prices and uncertainties in the global economy. These challenges have prompted the domestic players to transform and become more competitive. MAS introduced the Airbus A380-800 for passengers and Airbus A330-200 for cargo as part of its efforts to reduce operating cost and increase capacity. In addition, the capacity and connectivity of rural air services in Sabah and Sarawak will be enhanced with the purchase of new fleets and expansion to serve the Brunei Darussalam-Indonesia-Malaysia-The Philippines East ASEAN Growth Area (BIMP-EAGA) by MASwings. The construction of KLIA2, the new terminal for low-cost carriers, and upgrading of airports in Bayan Lepas, Kuching and Langkawi are also underway to meet the growing demand for air travel.

(Source: Economic Report 2012/2013, MoF)

5.3 Our prospects and future plans

The Asia Pacific region is expected to be the seat of future growth of the world's aviation sector. With a population base of 4 billion and strong annual Gross Domestic Product (GDP) growth prospects, inter and intra-Asia Pacific travel is projected to be the largest by 2030.

This growth can be seen in new aircraft orders whereby Asia Pacific airlines make up 35% of total orders of the 34,000 new aircraft demand from now until 2031. An estimated 59% of this is for new orders for growth, i.e. capacity expansion of the airlines to meet increased market demand of emerging markets and a growing population base with a high propensity to spend and travel.

The International Air Transport Association (IATA) is projecting 2013 to be moderately better than 2012 due to the adverse impact of high oil prices and slowing world trade growth.

While MAS is located in a future growth region, the airline remains cautiously optimistic in view of a challenging operating environment. Increased demand for air travel will be driven by emerging markets. However, a host of low cost carriers offer value-for-money options and increased competition. These are putting pressure on yields of all airline players. In addition, rising fuel costs, demand shocks, seat over-capacity and business risks continue to bring challenges.

We continue to focus on the implementation of our business plan in order to build on strong foundations and to ensure sustainable profits for the future. Turnaround initiatives are focused on increasing revenue and yields through aggressive marketing and promotions, and better capacity management. The Group is also actively engaged in lowering costs through improved cost management and driving productivity for better efficiency system-wide.

In the short term, we have started implementing strategies aimed at resetting our business model and strengthening our balance sheet fundamentals to enable our Company to fund recovery and growth strategies underpinned by:

(a) building a profitable network by leveraging industry trends effectively, increasing network frequency on key routes and leveraging on our oneworld alliance partnership;

(b) winning back customers via our fleet transformation with improved amenities. We are also seeking to improve our network and sales channels for a better customer experience;

(c) ongoing cost focus via our fleet transformation with a view of improving economics and our focus to build revenue on our existing cost base to improve productivity and efficiency; and

(d) having a funding plan that meets critical funding needs and that recapitalises our balance sheet.

In the mid to long term, our targets are to:

(a) build a robust and sustainable business through continuous improvement; and

(b) remain as a significant and relevant player in the aviation industry

These turnaround initiatives are geared towards contributing to an improvement trend over the long term. Notwithstanding this, our Group's financial earnings are subject to continued volatility from various factors, some of which are beyond our control.

Our fleet renewal plan is essential to maintaining relevance in a competitive market. Apart from being more technologically and fuel efficient, the new aircraft offer improved products and services, and the prospect of better yields. Progressive delivery of new aircraft from 2010 until 2017 will include 22 ATR 72-600, 6 DHC6-400, 45 Boeing B737-800, 15 Airbus A330-300 enhanced aircraft and 6 Airbus A380-800 aircraft. The latter are the flagship of Malaysia Airlines fleet today. Since entry-into-service in July 2012 to the LPD, the Airbus A380-800 has seen high (over 80%) passenger loads on its Kuala Lumpur-London and Paris routes.

MAS became a member of the oneworld alliance in February 2013. Entry into this premier alliance provides stronger customer and business propositions for MAS as we are now able to offer greater connectivity to guests to over 800 destinations worldwide in more than 150 countries and offer more rewards and recognition in frequent flyers programme.

6. EFFECTS OF THE RIGHTS ISSUE

The Rights Issue was approved by our shareholders at our EGM held on 5 March 2013. The basis of entitlement for the Rights Issue of four (4) Rights Shares for every one (1) existing Share and the issue price of RM0.23 per Rights Share were subsequently determined by our Board and announced on 11 April 2013. The Rights Issue is expected to be completed within the second quarter of 2013.

The proforma effects of the Rights Issue on our issued and paid-up ordinary share capital, NA, gearing, earnings and EPS of our Group are as follows:

6.1 Issued and paid-up ordinary share capital

The proforma effects of the Rights Issue on our issued and paid-up ordinary share capital as at the LPD are as follows:

	Minimum Scenario		Maximum Scenario	
	No. of Shares million	RM million	No. of Shares million	RM million
Issued and paid-up ordinary share capital as at the LPD	3,342.16	334.22	3,342.16	334.22
Shares to be issued pursuant to the Rights Issue	9,273.91	927.39	13,368.62	1,336.86
Enlarged issued and paid-up ordinary share capital	**12,616.07**	**1,261.61**	**16,710.78**	**1,671.08**

6.2 NA and gearing

Based on our latest audited consolidated statement of financial position as at 31 December 2012 and on the assumption that the Capital Restructuring and the Rights Issue had been effected on that date, the proforma effects of the Rights Issue on our consolidated NA and gearing are set out below:

	Audited as at 31 December 2012	After the Capital Restructuring[a]	After the Rights Issue	
			Minimum Scenario	Maximum Scenario
Share capital – ordinary	3,342.16	334.22	1,261.61	1,671.08
Perpetual junior sukuk	1,498.19	1,498.19	1,498.19	1,498.19
Share premium	4,995.97	-	[b] 1,203.51	[b] 1,735.82
Reserves	522.94	522.94	522.94	522.94
Accumulated losses	(8,236.11)	(232.20)	(232.20)	(232.20)
Shareholders' equity / NA	**2,123.14**	**2,123.14**	**4,254.05**	**5,195.83**
No. of Shares (million)	3,342.16	3,342.16	12,616.07	16,710.78
NA per Share (sen)	63.53	63.53	33.72	31.09
Total borrowings	9,548.53	9,548.53	8,771.53	8,771.53
Gearing (times)[c]	4.50	4.50	2.06	1.69

Notes:

(a) *The Capital Restructuring was completed on 11 April 2013.*

(b) *After netting off estimated expenses of RM2.1 million.*

(c) *Computed based on total borrowings divided by shareholders' equity.*

6.3 Earnings and EPS

The Rights Issue is not expected to have any immediate material effect on the earnings of our Group but is expected to contribute positively to the future earnings of our Group when the benefit of the utilisation of proceeds are realised.

It should be noted that assuming that the net earnings of our Group remain unchanged, our consolidated EPS will be proportionately reduced by the extent of the increase in the number of Shares upon allotment and issue of the Rights Shares.

7. WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES AND MATERIAL COMMITMENTS

7.1 Working capital

Our Board is of the opinion that, after taking into consideration our internal cash projections, banking facilities and financing options available as well as proceeds to be raised from the Rights Issue, our Group will have sufficient working capital for a period of 12 months from the date of this AP.

7.2 Borrowings

As at 31 March 2013, our Group has total borrowings (all of which are interest bearing) as follows:

	RM million (unaudited)
Short-term borrowings	
Term loans	291.62
Revolving credits	635.28
Finance leases	399.31
Long-term borrowings	
Term loans	6,730.75
Finance leases	3,355.79
Total	11,412.75

As at 31 March 2013, our Group's total outstanding borrowings are denominated in the following currencies:

	RM million (unaudited)
RM denominated borrowings	6,942.52
USD denominated borrowings	3,812.40
JPY denominated borrowings	657.83
Total	11,412.75

As at the LPD, we do not have any non-interest bearing borrowings.

There has been no default on payments of interest and/or principal sums in respect of any borrowings of our Group throughout the past one (1) FYE 31 December 2012, and the subsequent financial period up to the LPD.

7.3 Contingent liabilities

Save as disclosed below and the material litigation involving our Group as set out in Appendix VII of this AP, as at the LPD, our Board, after having made all reasonable enquiries, is not aware of any contingent liabilities, upon becoming enforceable, which may have a material impact on the financial results or position of our Group:

(a) Related to Penerbangan Malaysia Berhad ("**PMB**")

Our Company continues to be the named borrower of term loans which have been unbundled to PMB, a company wholly-owned by Khazanah. As such, the outstanding balance of the borrowings assumed by PMB is included within our Group's contingent liabilities.

	RM million (unaudited)
Loans	15.92

(b) Others

	RM million (unaudited)
Bank guarantees given to third parties	302.39
Performance bonds given to third parties	0.44
	302.83

7.4 Material commitments

Save as disclosed below, as at the LPD, our Board, after having made all reasonable enquiries, is not aware of any material commitments of our Group for capital expenditure:

	RM million (unaudited)
Approved and contracted for	6,892.07
Approved but not contracted for	272.21
	7,164.28

The material commitments for capital expenditure relates to the purchase of aircraft and other expenditure projects. The material commitments are expected to be funded by internally generated funds, bank borrowings and/or fund raising exercises (if necessary).

8. SHAREHOLDER'S UNDERTAKING

The Undertaking Shareholder has provided an irrevocable and unconditional written undertaking to subscribe in full for its entitlement to the Rights Shares.

As at the LPD, the Undertaking Shareholder holds 2,318,477,827 Shares, representing an aggregate of 69.37% of our issued and paid-up ordinary share capital. Premised on such shareholding and the basis of entitlement, the Undertaking Shareholder shall be entitled to 9,273,911,308 Rights Shares under the Rights Issue, which when subscribed will raise gross proceeds of RM2,133.0 million.

In view of the prevailing market conditions, cost considerations, as well as the Shareholder's Undertaking, our Company has decided to proceed with the Rights Issue on a non-underwritten basis. The Undertaking Shareholder's entitlement represents the minimum subscription level for the Rights Issue. In the event the minimum subscription level is not achieved, the Company will not proceed with the implementation of the Rights Issue. All subscription monies received pursuant to the Rights Issue will be immediately returned to the shareholders and renouncees who have subscribed for the Rights Shares.

9. PROCEDURES FOR ACCEPTANCE, APPLICATION AND PAYMENT

As you are an Entitled Shareholder, your CDS Account will be duly credited with the number of Provisional Rights Shares which you are entitled to subscribe for in full or in part under the terms and conditions of the Rights Issue. You will find enclosed with this AP, the NPA notifying you of the crediting of such number of Provisional Rights Shares into your CDS Account and a RSF to enable you to subscribe for such number of Rights Shares that you have been provisionally allotted as well as to apply for excess Rights Shares if you so choose to. The RSF is also available on the website of Bursa Securities (http://www.bursamalaysia.com).

9.1 NPA

The Provisional Rights Shares are prescribed securities under Section 14(5) of the SICDA and therefore, all dealings in the Provisional Rights Shares will be by book entries through CDS Accounts and will be governed by the SICDA, the Securities Industry (Central Depositories) (Amendment) Act 1998 and the Rules of Bursa Depository. As an Entitled Shareholder, you and/or your renouncee(s) (if applicable) are required to have valid and subsisting CDS Accounts when making applications.

9.2 Procedures for acceptance and payment

Acceptance of and payment for the Provisional Rights Shares must be made on the RSF enclosed together with this AP and must be completed in accordance with the notes and instructions contained in these documents. Acceptances which do not conform to the terms and conditions of this AP or the RSF or the notes and instructions contained in these documents or which are illegible, may not be accepted at the absolute discretion of our Board.

FULL INSTRUCTIONS FOR THE ACCEPTANCE OF AND PAYMENT FOR THE PROVISIONAL RIGHTS SHARES AND THE PROCEDURES TO BE FOLLOWED SHOULD YOU WISH TO SELL OR TRANSFER ALL OR ANY PART OF YOUR ENTITLEMENTS ARE SET OUT IN THIS AP AND THE ACCOMPANYING RSF. YOU ARE ADVISED TO READ THIS AP AND THE ACCOMPANYING RSF AND THE NOTES AND INSTRUCTIONS CONTAINED THEREIN CAREFULLY.

If you wish to accept all or part of the Provisional Rights Shares, please complete Parts I and III of the RSF in accordance with the notes and instructions provided therein. Each completed and signed RSF together with the relevant payment must be despatched by **ORDINARY POST** or **DELIVERED BY HAND** in the official envelope provided (at your own risk) to our Share Registrar at the following address:

FOR DELIVERY BY HAND AND/OR COURIER	**FOR ORDINARY POST**
Level 6, Symphony House Pusat Dagangan Dana 1 Jalan PJU 1A/46 47301 Petaling Jaya Selangor Darul Ehsan	Peti Surat 9150 Pejabat Pos Kelana Jaya 46785 Petaling Jaya Selangor Darul Ehsan, Malaysia

Tel: +603 - 7841 8000
Helpdesk Tel: +603 - 7849 0777
Fax: +603 - 7841 8151 / 8152

so as to arrive not later than 5.00 p.m. on 21 May 2013 (or such extended date and time as our Board may decide and announce not later than two (2) Market Days before the stipulated date and time).

If you lose, misplace or for any other reasons require another copy of the RSF, you may obtain additional copies from your stockbrokers, Bursa Securities' website (http://www.bursamalaysia.com), our Share Registrar at the address stated above or our registered office.

One (1) RSF must be used for acceptance of the Provisional Rights Shares standing to the credit of one (1) CDS Account. Separate RSF(s) must be used for the acceptance of Provisional Rights Shares standing to the credit of more than one (1) CDS Account. If successful, the Rights Shares subscribed by you will be credited into the respective CDS Accounts where the Provisional Rights Shares are standing to the credit.

Each completed RSF must be accompanied by the appropriate remittance in RM for the full amount payable for the Rights Shares accepted in the form of Banker's Draft(s) or Cashiers Order(s) or Money Order(s) or Postal Order(s) drawn on a bank or post office in Malaysia and made payable to **"MAS RIGHTS ISSUE ACCOUNT"**, crossed **"ACCOUNT PAYEE ONLY"** and **endorsed on the reverse side with your name, contact number and address in block letters and your CDS Account number**. The payment must be made in the exact amount. Any excess or insufficient payment may be rejected at the absolute discretion of our Board. Cheques or other mode(s) of payment are not acceptable.

NO ACKNOWLEDGEMENT WILL BE ISSUED FOR THE RECEIPT OF THE RSF OR APPLICATION MONIES IN RESPECT OF THE RIGHTS SHARES. HOWEVER, IF YOUR APPLICATION IS SUCCESSFUL, A NOTICE OF ALLOTMENT WILL BE DESPATCHED TO YOU BY ORDINARY POST TO THE ADDRESS AS SHOWN IN OUR RECORD OF DEPOSITORS AT YOUR OWN RISK WITHIN 8 MARKET DAYS FROM THE LAST DAY FOR ACCEPTANCE AND PAYMENT FOR THE RIGHTS SHARES OR SUCH OTHER PERIOD AS MAY BE PRESCRIBED BY BURSA SECURITIES.

APPLICATIONS SHALL NOT BE DEEMED TO HAVE BEEN ACCEPTED BY REASON OF THE REMITTANCE BEING PRESENTED FOR PAYMENT. OUR BOARD RESERVES THE RIGHT NOT TO ACCEPT ANY APPLICATION OR TO ACCEPT ANY APPLICATION IN PART ONLY WITHOUT ASSIGNING ANY REASON.

YOU SHOULD NOTE THAT ALL RSF AND REMITTANCES SO LODGED WITH OUR SHARE REGISTRAR WILL BE IRREVOCABLE AND CANNOT SUBSEQUENTLY BE WITHDRAWN.

IN RESPECT OF UNSUCCESSFUL OR PARTIALLY ACCEPTED APPLICATIONS, THE FULL AMOUNT OR THE SURPLUS APPLICATION MONIES, AS THE CASE MAY BE, WILL BE REFUNDED WITHOUT INTEREST BY ORDINARY POST TO THE ADDRESS AS SHOWN IN OUR RECORD OF DEPOSITORS, AT YOUR OWN RISK, WITHIN 15 MARKET DAYS FROM THE LAST DATE FOR ACCEPTANCE AND PAYMENT FOR THE RIGHT SHARES.

If acceptance and payment for the Provisional Rights Shares allotted to you (whether in full or in part, as the case may be) are not received by our Share Registrar by 5.00 p.m. on 21 May 2013 or such later date and time as our Board in its absolute discretion may decide and announce not less than two (2) Market Days before the stipulated date and time, the provisional entitlement to you or the remainder thereof (as the case may be) will be deemed to have been declined and will be cancelled. Proof of time of postage shall not constitute proof of time of receipt by our Share Registrar.

Our Board will then have the right to allot such Rights Shares not taken up by applicants for Excess Rights Shares in the manner set out in Section 9.5 of this AP.

9.3 Procedures for part acceptance

You are entitled to accept part of your entitlement. The minimum number of Rights Shares that can be accepted or minimum Excess Rights Shares which can be applied for is one (1) Rights Shares. You should note that a trading board lot of the Rights Shares comprises 100 Rights Shares.

You have to complete Part I of the RSF by specifying the number of Rights Shares which you are accepting and Part III of the RSF and deliver the completed and signed RSF together with the relevant payment to our Share Registrar in the manner as set out in Section 9.2 of this AP.

YOU ARE ADVISED TO READ AND ADHERE TO THE RSF AND THE NOTES AND INSTRUCTIONS CONTAINED IN THE RSF.

9.4 Procedures for sale or transfer of Provisional Rights Shares

As the Provisional Rights Shares are prescribed securities, should you wish to sell or transfer all or part of your entitlement to the Rights Shares to one (1) or more persons, you may do so through your stockbrokers for the period up to the last date and time for sale or transfer of the Provisional Rights Shares (in accordance with the Rules of Bursa Depository) without first having to request for a split of the Provisional Rights Shares standing to the credit of your CDS Account. To sell or transfer all or part of your entitlement to the Provisional Rights Shares, you may sell such entitlement on the open market for the period up to the last date and time for sale of the Provisional Rights Shares (in accordance with the Rules of Bursa Depository) or transfer such entitlement to such persons as may be allowed under the Rules of Bursa Depository for the period up to the last date and time for transfer of the Provisional Rights Shares (in accordance with the Rules of Bursa Depository).

IN SELLING OR TRANSFERRING ALL OR PART OF YOUR PROVISIONAL RIGHTS SHARES, YOU NEED NOT DELIVER ANY DOCUMENT TO YOUR STOCKBROKERS. YOU ARE HOWEVER ADVISED TO ENSURE THAT YOU HAVE SUFFICIENT NUMBER OF PROVISIONAL RIGHTS SHARES STANDING TO THE CREDIT OF YOUR CDS ACCOUNTS BEFORE SELLING OR TRANSFERRING.

If you have sold or transferred only part of the Provisional Rights Shares, you may still accept the balance of the Provisional Rights Shares by completing Parts I and III of the RSF. Please refer to Section 9.2 of this AP for the procedures for acceptance and payment.

YOU ARE ADVISED TO READ AND ADHERE TO THE RSF AND THE NOTES AND INSTRUCTIONS CONTAINED IN THE RSF.

Purchasers or transferees or renouncees of the Provisional Rights Shares may obtain a copy of this AP and the RSF from our registered office of our Share Registrar or from Bursa Securities' website at www.bursamalaysia.com.

YOU SHOULD NOTE THAT ALL RSF AND REMITTANCES SO LODGED WITH OUR SHARE REGISTRAR WILL BE IRREVOCABLE AND CANNOT SUBSEQUENTLY BE WITHDRAWN.

9.5 Procedures for Excess Rights Shares Application

If you wish to apply for additional Rights Shares in excess of your entitlement, you may do so by completing Part II of the RSF (in addition to Parts I and III) and forwarding it with a separate remittance for the full amount payable on the Excess Rights Shares applied for, to our Share Registrar not later than 5.00 p.m. on 21 May 2013 or such later date and time as our Board in its absolute discretion may decide and announce not later than two (2) Market Days before the stipulated date and time.

Payment for the Excess Rights Shares applied for should be made in the same manner described in Section 9.2 of this AP except that the Banker's Draft(s) or Cashier's Order(s) or Money Order(s) or Postal Order(s) drawn on a bank or post office in Malaysia should be made payable to **"MAS RIGHTS ISSUE EXCESS ACCOUNT"**, crossed **"ACCOUNT PAYEE ONLY"** and **endorsed on the reverse side with your name, contact number, address and your CDS Account number in block letters to be received by our Share Registrar**. The payment must be made in the exact amount. Any excess or insufficient payment may be rejected at the absolute discretion of our Board. Cheques or other mode(s) of payment are not acceptable.

It is the intention of the Board to allot the Excess Rights Shares, if any, in a fair and equitable manner to the Entitled Shareholders and/or their renouncee(s) and/or transferee(s) who have applied for the Excess Rights Shares in the following priority:

(i) firstly, to minimise the incidence of odd lots;

(ii) secondly, to enhance the public shareholding spread of the Company;

(iii) thirdly, for allocation to Entitled Shareholders who have applied for Excess Rights Shares on a pro-rata basis and in board lots, calculated based on their respective shareholdings as at the Entitlement Date; and

(iv) fourthly, for allocation to renouncee(s) and/or transferee(s) who have applied for Excess Rights Shares on a pro-rata basis and in board lots, calculated based on the quantum of Excess Rights Shares applied for.

Nevertheless the Board reserves the right to allot the Excess Rights Shares applied for under Part II of the RSF in such manner as the Board deems fit and expedient in the best interest of MAS subject always to such allocation being made on a fair and equitable basis, and that the intention of the Board set out above is achieved.

NO ACKNOWLEDGEMENT WILL BE ISSUED FOR THE RECEIPT OF THE EXCESS RIGHTS SHARES APPLICATION OR THE APPLICATION MONIES IN RESPECT THEREOF. HOWEVER, IF YOU ARE SUCCESSFUL, NOTICES OF ALLOTMENT WILL BE DESPATCHED TO YOU BY ORDINARY POST TO THE ADDRESS AS SHOWN IN OUR RECORD OF DEPOSITORS AT YOUR OWN RISK WITHIN 8 MARKET DAYS FROM THE LAST DAY FOR APPLICATION AND PAYMENT FOR THE EXCESS RIGHTS SHARES OR SUCH OTHER PERIOD AS MAY BE PRESCRIBED BY BURSA SECURITIES.

IN RESPECT OF UNSUCCESSFUL OR PARTIALLY SUCCESSFUL EXCESS RIGHTS SHARES APPLICATIONS, THE FULL AMOUNT OR THE SURPLUS APPLICATION MONIES, AS THE CASE MAY BE, WILL BE REFUNDED WITHOUT INTEREST BY ORDINARY POST TO THE ADDRESS AS SHOWN IN OUR RECORD OF DEPOSITORS AT YOUR OWN RISK WITHIN 15 MARKET DAYS FROM THE LAST DAY FOR APPLICATION AND PAYMENT FOR THE EXCESS RIGHTS SHARES.

9.6 Procedures for acceptance by renouncees

As a renouncee, the procedures for acceptance, selling or transferring of Provisional Rights Shares, applying for Excess Rights Shares and/or payment is the same as that which is applicable to the Entitled Shareholders as described in Sections 9.2 to 9.5 of this AP. Please refer to the relevant sections for the procedures to be followed.

If you wish to obtain a copy of this AP and/or the accompanying RSF, you can request for the same from your stockbroker, our Share Registrar, or Bursa Securities' website at www.bursamalaysia.com.

RENOUNCEES ARE ADVISED TO READ AND ADHERE TO THE RSF AND THE NOTES AND INSTRUCTIONS CONTAINED IN THE RSF.

9.7 CDS Accounts

Bursa Securities has already prescribed the Shares listed on the Main Market of Bursa Securities to be deposited with Bursa Depository. Accordingly, the Rights Shares are prescribed securities and as such, all dealings in the Rights Shares shall be subject to the SICDA, the Securities Industry (Central Depositories) Amendment Act 1998 and the Rules of Bursa Depository. You must have a CDS Account in order to subscribe for the Rights Shares.

Your subscription for the Rights Shares shall mean consent to receiving such Rights Shares as deposited securities which will be credited directly into your CDS Account. No physical share certificates will be issued.

If you apply for the Excess Rights Shares, you must state your CDS Account number and if the Rights Shares are subscribed for in full or in part, then such Rights Shares shall be credited directly into your CDS Account.

If you have multiple CDS Accounts into which the Provisional Rights Shares have been credited, you cannot use a single RSF for subscription of all these Provisional Rights Shares. Separate RSFs must be used for separate CDS Accounts. If successful, the Rights Shares that you subscribed for will be credited into the CDS Accounts where the Provisional Rights Shares are standing to the credit.

9.8 Foreign addressed shareholders

This AP, together with the NPA and RSF, are not intended to (and will not be made to) comply with the laws of any country or jurisdiction other than the laws of Malaysia and have not been (and will not be) lodged, registered or approved pursuant to or under any applicable securities legislation of (or with or by any regulatory authority or other relevant bodies of) any country or jurisdiction other than Malaysia.

This AP, together with the NPA and RSF, are not intended to be (and will not be) issued, circulated and distributed and the Rights Issue will not be made or offered or deemed to be made or offered in any country or jurisdiction other than Malaysia.

The Entitled Shareholders and/or their renouncees (if applicable) may only accept or renounce (as the case may be) all or part of their entitlements and exercise any other rights in respect of the Rights Issue to the extent that it would be lawful to do so. Neither our Company, our Board and officers, CIMB nor any other advisers to the Rights Issue would, in connection with the Rights Issue, be responsible for any breach of the laws of any jurisdiction to which the foreign Entitled Shareholders and/or their renouncees (if applicable) are or might be subject to and they shall be solely responsible to seek advice as to the laws of the jurisdictions to which they are or may be subject to. Neither our Company, our Board and officers, CIMB nor any other advisers to the Rights Issue shall accept any responsibility or liability in the event that any acceptance or renunciation made by any foreign Entitled Shareholder and/or their renouncees (if applicable), is or shall become unlawful, unenforceable, voidable or void in any such countries or jurisdictions.

Accordingly, this AP, together with the NPA and RSF, relating to the Rights Issue will not be sent to the Entitled Shareholders who do not have a registered address in Malaysia as stated in our Record of Depositors on the Entitlement Date. The Foreign Addressed Shareholders who do not have a registered address in Malaysia are requested to effect the change of their registered address to an address in Malaysia with our Share Registrar on or prior to the Entitlement Date in order to be able to receive this AP, together with the NPA and RSF, relating to the Rights Issue. However, such Foreign Addressed Shareholders may collect this AP, together with the NPA and RSF, from our Share Registrar, in which case our Share Registrar shall be entitled (but not obligated) to request for such evidence as it deems necessary to satisfy itself as to the identity and authority of the person collecting this AP, together with the NPA and RSF, relating to the Rights Issue.

The foreign Entitled Shareholders and/or their renouncees (if applicable) will be responsible for payment of any issue, transfer or any other taxes or other requisite payments due in such jurisdiction and our Company shall be entitled to be fully indemnified and held harmless by such foreign applicants for any issue, transfer or other taxes or duties as such person may be required to pay. They will have no claims whatsoever against our Company, our Board and officers, CIMB and any other advisers to the Rights Issue in respect of their rights or entitlements under the Rights Issues. Such applicants should consult their professional advisers as to whether they require any governmental, exchange control or other consents or need to comply with any other applicable legal requirement(s) to enable them to accept the Rights Shares.

By signing any of the forms accompanying this AP, the foreign Entitled Shareholders and/or their renouncees (if applicable) are deemed to have represented, acknowledged and declared in favour of (and which representations, acknowledgements and declarations will be relied upon by) our Company, our Board and officers, CIMB and any other advisers to the Rights Issue (or if it is a broker-dealer or custodian acting on behalf of its customer, such customer has confirmed to it that such customer has so acknowledged and declared in respect of itself) that:

(i) we would not, by acting on the acceptance or renunciation in connection with the Rights Issue, be in breach of the laws of any jurisdiction to which that foreign Entitled Shareholders and/or their renouncees (if applicable) are or may be subject to;

(ii) the foreign Entitled Shareholders and/or their renouncees (if applicable) have complied with the laws to which they are or may be subject to in connection with the acceptance or renunciation;

(iii) the foreign Entitled Shareholders and/or their renouncees (if applicable) are not a nominee or agent of a person in respect of whom our Company would, by acting on the acceptance or renunciation, be in breach of the laws of any jurisdiction to which that person is or may be subject to;

(iv) the foreign Entitled Shareholders and/or their renouncees (if applicable) are aware that the Rights Shares can only be transferred, sold or otherwise disposed of, or charged, hypothecated or pledged in accordance with all applicable laws in Malaysia;

(v) the foreign Entitled Shareholder and/or their renouncees (if applicable) have received a copy of this AP, and have had access to such financial and other information and have been given the opportunity to pose such questions to our representatives and received answers thereto as they deem necessary in connection with their decision to subscribe for or purchase the Rights Shares; and

(vi) the foreign Entitled Shareholders and/or their renouncees (if applicable) have sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing for or purchasing the Rights Shares, and are prepared to bear economic and financial risks of investing in and holding the Rights Shares.

Persons receiving this AP, together with the NPA and RSF (including without limitation, custodians, nominees and trustees), must not, in connection with the Rights Issue distribute or send this AP, together with the NPA and RSF, into any jurisdiction where it would or might contravene local securities, exchange control or relevant laws or regulations. If this AP, together with the NPA and RSF, are received by any person in such jurisdiction, or by the agent or nominee of such a person, he must not seek to accept the Rights Issue unless he has complied with and observed the laws of the relevant jurisdiction in connection therewith.

Any person who forwards this AP, together with the NPA and RSF, to any such jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this section, and we reserve the right to reject a purported acceptance of the Rights Shares from any such application by the foreign Entitled Shareholders and/or their renouncees (if applicable) in any jurisdiction other than Malaysia.

We reserve the right, in our absolute discretion, to treat any acceptance as invalid if we believe that such acceptance may violate any applicable legal or regulatory requirement.

10. TERMS AND CONDITIONS

The offer of the Rights Shares under the Rights Issue is governed by the terms and conditions set out in this AP and in the accompanying NPA and RSF.

11. ADDITIONAL INFORMATION

You are requested to refer to the attached appendices for additional information.

Yours faithfully
For and on behalf of the Board of Directors of
MALAYSIAN AIRLINE SYSTEM BERHAD

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

CERTIFIED TRUE EXTRACT OF THE RESOLUTION PERTAINING TO THE RIGHTS ISSUE PASSED AT OUR EGM HELD ON 5 MARCH 2013

malaysia airlines

oneworld

MALAYSIAN AIRLINE SYSTEM BERHAD
(Company No. 10601-W)
(Incorporated in Malaysia)

EXTRACT OF THE MINUTES OF THE EXTRAORDINARY GENERAL MEETING OF THE COMPANY DULY HELD ON 5 MARCH, 2013

IT WAS RESOLVED :-

ORDINARY RESOLUTION 1

PROPOSED RENOUNCEABLE RIGHTS ISSUE OF NEW ORDINARY SHARES OF RM0.10 EACH IN MAS TO RAISE GROSS PROCEEDS OF UP TO RM3,100 MILLION AFTER THE PROPOSED CAPITAL RESTRUCTURING AND PROPOSED SHARE PREMIUM ACCOUNT REDUCTION, ON AN ENTITLEMENT DATE TO BE DETERMINED LATER

"**THAT** subject to the passing of Special Resolutions 1, 2 and 3 and all requisite consents/approvals being obtained from the relevant authorities or persons for the Proposed Rights Issue and upon completion of the Proposed Par Value Reduction and Proposed Share Premium Account Reduction, approval be and is hereby given to the Board to allot (whether provisionally or otherwise) and issue by way of a renounceable rights issue such number of Rights Shares to raise gross proceeds of up to RM3,100 million, to the ordinary shareholders of the Company, whose name appears in the Record of Depositors of the Company at the close of business on an entitlement date to be determined and announced later by the Board, or their renouncee(s), on an entitlement basis and at an issue price to be determined and announced by the Board;

THAT the Rights Shares shall, upon allotment and issue, rank equally in all respects with the existing ordinary shares, except that they shall not be entitled to any dividend, right, allotment and/or other distributions, the entitlement date of which precedes the date of allotment and issue of the Rights Shares;

THAT any Rights Shares which are not validly taken up shall be made available for excess applications in such manner as the Board shall determine in a fair and equitable manner;

THAT approval be and is hereby given to the Board to deal with any fractional entitlement that may arise from the Proposed Rights Issue in such manner as the Board shall in its absolute discretion deem fit or expedient and in the best interest of the Company;

THAT approval be and is hereby given to the Board to utilise the proceeds of the Proposed Rights Issue for the purposes as set out in Section 2.2.5 of the circular to shareholders dated 6 February 2013, and that the Board be authorised with full powers to vary the manner and/or purpose of the utilisation of such proceeds in such manner as the Board may deem fit, necessary, expedient and/or appropriate and in the best interest of the Company, subject to the approval of the relevant authorities being obtained (if required);

CERTIFIED TRUE EXTRACT OF THE RESOLUTION PERTAINING TO THE RIGHTS ISSUE PASSED AT OUR EGM HELD ON 5 MARCH 2013 (Cont'd)

malaysia airlines oneworld

Page 2

AND THAT in order to implement, complete and give full effect to the Proposed Rights Issue, approval be and is hereby given to the Board to do or to procure to be done all acts, deeds and things and to execute, sign and deliver on behalf of the Company, all such documents as it may deem necessary, expedient and/or appropriate to implement, give full effect to and complete the Proposed Rights Issue, with full powers to assent to any condition, modification, variation and/or amendment thereto as the Board may deem fit in connection with the Proposed Rights Issue."

CERTIFIED TRUE COPY:-

RIZANI BIN HASSAN
Company Secretary
(LS0009520)

Dated: 23 April 2013

INFORMATION ON OUR COMPANY

1. HISTORY AND PRINCIPAL ACTIVITIES

We were incorporated as a public company in Malaysia under the Act on 3 April 1971 under the name of Malaysia Airlines Berhad. On 30 November 1971, we changed our name to our present name.

We were listed on the Main Market of Bursa Securities (previously the Main Board of Kuala Lumpur Stock Exchange) on 16 December 1985.

We are principally engaged in the business of air transportation and provision of related services. The principal activities of each of our subsidiaries, jointly controlled entity and associated companies are set out in Section 5 of this Appendix.

2. SHARE CAPITAL AND MOVEMENTS IN SHARE CAPITAL

2.1 Authorised and issued and paid-up share capital

Our authorised and issued and paid-up share capital as at the LPD are as follows:

	No. of shares	Par value (RM)	Total (RM)
Authorised share capital			
Shares	90,000,000,000	0.10	9,000,000,000
RPS	1,000,000	0.10	100,000
RCPS 1	100,000,000,000	0.01	1,000,000,000
RCPS 2	418,000,000	0.10	41,800,000
Special Share	1	1.00	1
			10,041,900,001
Issued and paid-up share capital			
Shares	3,342,156,240	0.10	334,215,624
RPS(1)	500	0.10	50
Special Share(2)	1	1.00	1
			334,215,675

Notes:

(1) Issued on 31 January 2007.

(2) Issued on 12 September 1985.

INFORMATION ON OUR COMPANY (Cont'd)

2.2 Changes in our authorised share capital

Save as disclosed below, there has been no change in our authorised share capital for the last three (3) years up to the LPD:

Date of change	No. of shares	Par value (RM)	Consideration/ type of issue	Cumulative authorised share capital (RM)
Shares				
11.04.2013	90,000,000,000	0.10	Reduction in par value by RM0.90	10,041,900,001

2.3 Changes in our issued and paid-up share capital

Details of the changes in our issued and paid-up share capital for the last three (3) years up to the LPD are as follows:

Date of allotment/ conversion	No. of shares	Par value (RM)	Consideration/ type of issue	Cumulative issued and paid-up share capital (RM)
Shares				
11.03.2010	1,671,078,120	1.00	Cash	3,342,156,240
11.04.2013	3,342,156,240	0.10	Reduction in par value by RM0.90	334,215,624
RCPS 2				
14.01.2010	(810,000)[(1)]	0.10	Cash	41,525,015.50
14.01.2010	(123,000)[(1)]	0.10	Cash	41,512,715.50
24.10.2012	(667)[(1)]	0.10	Cash	41,512,648.80
24.10.2012	(667)[(1)]	0.10	Cash	41,512,582.10
1.11.2012	(333)[(1)]	0.10	Cash	41,512,548.80
1.11.2012	(13,500)[(1)]	0.10	Cash	41,511,198.80
20.11.2012	(333)[(1)]	0.10	Cash	41,511,165.50
20.11.2012	(667)[(1)]	0.10	Cash	41,511,098.80
20.11.2012	(1,333)[(1)]	0.10	Cash	41,510,965.50
20.11.2012	(600)[(1)]	0.10	Cash	41,510,905.50
20.11.2012	(333)[(1)]	0.10	Cash	41,510,872.20
20.11.2012	(3,528)[(1)]	0.10	Cash	41,510,519.40
20.11.2012	(47)[(1)]	0.10	Cash	41,510,514.70
20.11.2012	(333)[(1)]	0.10	Cash	41,510,481.40
20.11.2012	(2,000)[(1)]	0.10	Cash	31,510,281.40
30.11.2012	(415,102,814)[(2)]	0.10	Cash	-

Notes:

(1) *Cash settlement option by the holder.*

(2) *Redemption by way of cash settlement by the Company.*

INFORMATION ON OUR COMPANY (Cont'd)

3. SUBSTANTIAL SHAREHOLDERS

The proforma effects of the Rights Issue on the shareholdings of our substantial shareholders based on our Company's Record of Depositors as at the LPD are as follows:

					After the Rights Issue							
	As at the LPD				Minimum Scenario				Maximum Scenario			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares million	%	No. of Shares million	%	No. of Shares million	%	No. of Shares million	%	No. of Shares million	%	No. of Shares million	%
Khazanah	2,318.48	69.37	-	-	11,592.39	91.89*	-	-	11,592.39	69.37	-	-
EPF	230.27	6.89	-	-	230.27	1.83	-	-	1,151.35	6.89	-	-

Note:

* *Based on the Minimum Scenario, the equity interest of Khazanah in our Company will increase to more than 75% of the enlarged issued and paid-up ordinary share capital after the Rights Issue. In such an event, our Company will not meet the public shareholding spread requirements under Paragraph 8.02 of the Listing Requirements, which requires at least 25% of the total listed shares of a listed issuer to be in the hands of public shareholders. If such a situation occurs, our Company will endeavour to rectify the shortfall in the public shareholding spread of our Company within the timeframe allowed by the relevant authorities. However, the actual course of action will depend on, amongst others, the prevailing market conditions at the relevant time.*

INFORMATION ON OUR COMPANY (Cont'd)

4. DIRECTORS

The particulars of our Directors as at the LPD are set out below:

Directors	Age	Nationality	Occupation	Designation	Address
Tan Sri Md Nor bin Md Yusof	65	Malaysian	Chairman	Non-Independent Non-Executive Chairman	67 Lake View Saujana Resort Seksyen U2 40150 Shah Alam Selangor Darul Ehsan
Ahmad Jauhari bin Yahya	58	Malaysian	Managing Director and Group Chief Executive Officer	Non-Independent Executive Director	9, Lengkok Zaaba 2 Taman Tun Dr Ismail 60000 Kuala Lumpur
Tan Sri Mohamed Azman bin Yahya	49	Malaysian	Group Chief Executive of Symphony House Berhad	Non-Independent Non-Executive Director	1 Jalan Setiabakti 2 Damansara Heights 50490 Kuala Lumpur
Tan Sri Tan Boon Seng @ Krishnan	60	Malaysian	Executive Deputy Chairman of IJM Corporation Berhad	Independent Non-Executive Director	22 Leboh Tamarind Taman Selatan 41200 Klang Selangor Darul Ehsan
David Lau Nai Pek	60	Malaysian	Company Director	Independent Non-Executive Director	B-3-4 Sri Kenny Condo No.28 Jalan Tun Ismail 50480 Kuala Lumpur
Dr. Mohamadon bin Abdullah	65	Malaysian	Company Director	Independent Non-Executive Director	No. 1, Jalan Telawi Lapan Bangsar Baru Bangsar 9100 Kuala Lumpur

INFORMATION ON OUR COMPANY (Cont'd)

Directors	Age	Nationality	Occupation	Designation	Address
Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah	56	Malaysian	Secretary General of Treasury, Ministry of Finance	Non-Independent Non-Executive Director	26, Jalan P14 A1/1 Presinct 14 62050 Putrajaya
Tan Sri Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani	56	Malaysian	State Secretary of Sarawak	Independent Non-Executive Director	381, Jalan Bunga Kasturi Kampung PinangJawa 93050 Kuching Sarawak
Tan Sri Datuk Seri Panglima Sukarti bin Wakiman	59	Malaysian	State Secretary of Sabah	Independent Non-Executive Director	No. 9, Kampung Berungis Batu 22, Jalan Tuaran 89208 Tuaran Sabah
Eshah binti Meor Suleiman (Alternate Director to Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah)	58	Malaysian	Under Secretary Investment, Ministry of Finance	Alternate director to Dato' Sri Dr. Mohd Irwan Seringar bin Abdullah	No. 21, Jalan Sekamat Jaya 3 Taman Sekamat Jaya 43000 Kajang Selangor Darul Ehsan

As at the LPD, none of the Directors have any shareholdings (direct or indirect) in the Company.

INFORMATION ON OUR COMPANY (Cont'd)

5. SUBSIDIARIES, JOINTLY CONTROLLED ENTITY AND ASSOCIATED COMPANIES

The details of the subsidiaries, jointly controlled entity and associated companies of our Company as at the LPD are as follows:

Name	Date / Place of incorporation	Issued and paid-up share capital	Effective equity interest held	Principal activities
		RM (unless stated otherwise)	%	
Delima Insurance (Labuan) Limited	27.10.2011 / Labuan, Malaysia	USD94,000	100	Trading - licensed captive insurer
FlyFirefly Sdn Bhd (formerly known as MAS Sdn Bhd)	13.06.1995 / Malaysia	15,000,000	100	Engaged in the business of air transportation and the provision of related services
FlyFirefly Holiday Sdn Bhd	07.07.2007 / Malaysia	300,000	100	Business of tour and travel related operations
Kelip-Kelip Labuan Limited	22.09.2008 / Labuan, Malaysia	USD1	100	Leasing of aircraft
Kelip-Kelip II Labuan Limited	21.05.2009 / Labuan, Malaysia	USD1	100	To carry on business of purchase, sale, lease, obtaining lease finance and refinancing of commercial aircraft
Kelip-Kelip III Labuan Limited	11.05.2010 / Labuan, Malaysia	USD1	100	To carry on business of purchase, sale, lease finance and refinancing of commercial aircraft
Kelip-Kelip II Cayman Limited	30.04.2009 / Cayman Islands	USD250	100	Leasing business
Malaysia Airlines Capital (L) Limited	19.05.1997 / Labuan, Malaysia	USD1	100	To carry on business of purchase, sale, lease, obtaining lease finance and refinancing of commercial aircraft
Malaysia Airlines Capital II (L) Limited	20.10.2010 / Labuan, Malaysia	USD1	100	Labuan leasing
Malaysia Airlines Capital III (L) Limited	08.11.2010 / Labuan, Malaysia	USD1	100	Leasing of aircraft
Malaysia Airlines Capital IV (L) Limited	10.01.2012 / Labuan, Malaysia	USD1	100	Trading – to lease and sublease aircraft
MAS Aerotechnologies Sdn Bhd	22.09.1994 / Malaysia	25,000,000	100	The company has ceased operations

INFORMATION ON OUR COMPANY (Cont'd)

Name	Date / Place of incorporation	Issued and paid-up share capital	Effective equity interest held	Principal activities
		RM (unless stated otherwise)	%	
MAS Academy Sdn Bhd	22.09.1994 Malaysia	40,000	100	Has not commenced operations
MAS Airline System Sdn Bhd	30.12.1994 / Malaysia	2	100	Dormant
MAS Golden Boutiques Sdn Bhd	22.09.1994 / Malaysia	15,000,000	100	Carries on the business related to travel retail and mail order
MAS Golden Holidays Sdn Bhd	22.09.1994 / Malaysia	5,000,000	100	Ceased operations
MASkargo Sdn Bhd	06.10.1994 / Malaysia	125,000,000	100	Business of air cargo operations, charter freighter and all warehousing activities relating to air cargo operations
MASkargo Logistics Sdn Bhd	05.03.1981 / Malaysia	2,300,000	100	Providing trucking, clearance and warehousing services
MASwings Sdn Bhd	17.05.2007 / Malaysia	250,000	100	Engaged in the business of air transportation and the provision of related services
Malaysian Aerospace Engineering Sdn Bhd	30.05.2007 Malaysia	2	100	Engaged in the business of maintaining, repairing, overhauling and testing of aeroplanes, helicopters and aircraft
MH Loyalty Programme Sdn Bhd	04.07.2011 / Malaysia	2	100	Dormant
Macnet CCN (M) Sdn Bhd (under members voluntary winding up)	05.10.1994 / Malaysia	5,000,000	100	Dormant
Malaysia Airlines Capital IV Cayman Limited	23.12.2011 / Cayman Islands	USD250	100	Leasing business
MAE Aero Services Pte Ltd	07.01.2011 / Singapore	SGD1	100	Airline agencies (freight)
Malaysia Airlines A330 Capital Labuan Limited	02.07.2012 / Labuan, Malaysia	USD1	100	To facilitate aircraft leasing and financing activities
Malaysia Airlines Capital V Cayman Limited	14.02.2013 / Cayman Islands	USD250	100	Trading - Leasing business

INFORMATION ON OUR COMPANY (Cont'd)

Name	Date / Place of incorporation	Issued and paid-up share capital	Effective equity interest held	Principal activities
		RM (unless stated otherwise)	%	
Abacus Distribution Systems (Malaysia) Sdn Bhd	04.04.1989 / Malaysia	5,000,000	80	Promotion, development, operation and marketing of computerized reservations systems and other related services
MAS Awana Services Sdn Bhd	02.01.1996 / Malaysia	2,000,000	60	Provision of catering and cabin handling services
Aerokleen Services Sdn Bhd	28.09.1993 / Malaysia	2,500,000	51	Providing laundry and cleaning services
Jointly controlled company				
MAS GMR Aerospace Engineering Company Private Limited	29.02.2008 / India	**Issued Capital:** INR 177,00,00,000 **Paid up capital:** INR 160,40,00,000	50	Aircraft maintenance, repair and overhaul
Associated companies				
Hamilton Sundstrand Customer Support Centre (M) Sdn Bhd	27.05.1994 / Malaysia	22,500,000	49	Repair and overhaul of selected aircraft environmental control systems, aircraft pneumatic components and propeller system
GE Engine Services Malaysia Sdn Bhd	19.03.1997 / Malaysia	257,379,177	30	Repairing and overhaul of aircraft engines
Honeywell Aerospace Services (M) Sdn Bhd (under members voluntary winding up)	02.07.1998 / Malaysia	17,100,002	30	Repairing, servicing, overhauling and testing of aircraft auxiliary power units
Brahim's Airline Catering Sdn Bhd (formerly known as LSG Sky Chefs-Brahim's Sdn Bhd)	23.09.1994 / Malaysia	78,000,000	30	Carry on airline catering and catering related services
Pan Asia Pacific Aviation Services Limited	22.03.1994 / Hong Kong	HKD61,200,000	24	Provision of aircraft maintenance services
Taj Madras Flight Kitchen Limited	29.03.1995 / India	INR158,881,650	20	Inflight catering of food and beverages

INFORMATION ON OUR COMPANY (Cont'd)

6. PROFIT AND DIVIDEND RECORD

Our profit record based on our audited consolidated financial statements for FYE 31 December 2012, 2011 and 2010 are as follows:

	<------------------ Audited FYE 31 December ------------------>		
	2012 RM'000	2011 RM'000	2010 RM'000
Operating revenue	13,286,612	13,653,894	12,978,396
Operating expenditure	(14,117,447)	(16,197,154)	(13,409,127)
Other operating income	469,799	247,527	607,163
(Loss)/profit from operations	(361,036)	(2,295,733)	176,432
Fair value change of derivatives	(17,216)	60,660	164,251
Unrealised foreign exchange gain/(loss)	189,968	(129,115)	62,174
Finance costs	(235,259)	(159,424)	(138,402)
Share of results of associated companies	22,602	25,332	27,728
Share of results of jointly controlled entity	(23,860)	(14,604)	(10,147)
(Loss)/profit before taxation	(424,801)	(2,512,884)	282,036
Taxation	(5,937)	(8,441)	(44,690)
(Loss)/profit for the year	(430,738)	(2,521,325)	237,346
(Loss)/profit attributable to:			
Equity holders of the Company	(432,587)	(2,523,988)	234,469
Non-controlling interests	1,849	2,663	2,877
	(430,738)	(2,521,325)	237,346
Gross loss [(a)]	(830,835)	(2,543,260)	(430,731)
EBITDA	390,664	(1,896,467)	820,356
Gross loss margin (%)	(6.3)	(18.6)	(3.3)
(Loss)/profit after tax margin (%)	(3.2)	(18.5)	1.8
Weighted average no. of Shares in issue ('000)	3,342,156	3,342,156	3,234,778
Basic earnings/(loss) per Share (sen)[(b)]	(12.9)	(75.5)	7.2
Diluted earnings/(loss) per Share (sen)[(c)]	(12.9)	(75.5)	7.2

INFORMATION ON OUR COMPANY (Cont'd)

Notes:

(a) *Operating revenue less operating expenditure.*

(b) *Calculated by dividing the net (loss)/profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the financial year.*

(c) *Calculated by dividing the net (loss)/profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the financial year adjusted for the dilutive effects of all potential ordinary shares i.e. RCPS 2 and share options granted to employees.*

Our Company has not paid any dividends in the past 3 FYE 31 December 2010, 31 December 2011 and 31 December 2012.

Commentary:

FYE 31 December 2010

For the FYE 31 December 2010, our Group reported a net profit of RM0.23 billion. Operating revenue stood at RM12.98 billion as a result of improvements in passenger and cargo traffic demand. Improvements in efficiency saw our Group's non-fuel cost per available seat kilometre (CASK) drop 2.0% to 17.6 sen. However, fuel remained the biggest component of expenditure, which saw prices increasing by 25.4% compared to the preceding year.

FYE 31 December 2011

For the FYE 31 December 2011, our Group's operating revenue increased by RM0.68 billion or about 5.2% to RM13.65 billion from RM12.98 billion in the preceding year. Operating expenditure however increased 20.8% to RM16.20 billion compared to RM13.41 billion in the previous year. This steep increase was largely attributed to high fuel costs and substantial provisions amounting to RM1.09 billion. These provisions were made in respect of early re-delivery of aircraft, the impairment of aircraft and inventory obsolescence. These led to a total net loss of RM2.52 billion for the full year.

FYE 31 December 2012

For the FYE 31 December 2012, our Group reported a lower loss attributable to equity holders of RM0.43 billion compared to RM2.52 billion loss for the FYE 31 December 2011. Without the one-off provisions made in FYE 31 December 2011, our FYE 31 December 2012 results showed a RM1.0 billion improvement. A key contributor to the positive trend in the financial performance at the operating level was the route rationalisation programme which saw an overall 6.1% reduction in available seat kilometre (ASK) over 2012. This was matched by a marginal 1.0% reduction in revenue to RM13.76 billion in 2012 and seat factor holding at 74.7%. The reduced ASK also helped our Group to register a corresponding 12.8% decrease in expenditure.

INFORMATION ON OUR COMPANY (Cont'd)

7. HISTORICAL SHARE PRICES

The monthly highest and lowest market prices of our Shares as traded on Bursa Securities for the past 12 months from May 2012 to April 2013 are set out below:

	High	Low
	RM	RM
2012		
May	1.34	1.02
June	1.19	1.07
July	1.14	1.05
August	1.13	1.02
September	1.07	1.00
October	1.13	1.00
November	1.05	0.80
December	0.86	0.68
2013		
January	0.78	0.69
February	0.74	0.67
March	0.78	0.68
April	0.88	0.68

Last transacted price of our Shares on 26 November 2012, being the Market Day prior to the date of announcement of the Rights Issue on 27 November 2012	1.01
Last transacted price of our Shares on the LPD	0.83
Last transacted price of our Shares on 30 April 2013, being the Market Day prior to the ex-date for the Rights Issue	0.68

(Source: Bloomberg Finance L.P.)

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON

(Prepared for inclusion in this AP)

ERNST & YOUNG

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REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION INCLUDED IN THE ABRIDGED PROSPECTUS
(Prepared for inclusion in the Abridged Prospectus to be dated 6 May 2013)

25 April 2013

The Board of Directors
Malaysian Airline System Berhad
3rd Floor, Admin Building 1, MAS Complex A
Sultan Abdul Aziz Shah Airport
47200 Subang
Selangor Darul Ehsan

Dear Sirs,

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION ("PCSOFP)

RENOUNCEABLE RIGHTS ISSUE OF UP TO 13,368,624,960 NEW ORDINARY SHARES OF RM0.10 EACH IN MALAYSIAN AIRLINE SYSTEM BERHAD ("MAS") ("RIGHTS SHARES") ON THE BASIS OF FOUR (4) RIGHTS SHARES FOR EVERY ONE (1) EXISTING ORDINARY SHARE OF RM0.10 EACH HELD BY THE ENTITLED SHAREHOLDERS OF MAS AT 5.00P.M. ON 6 MAY 2013, AT AN ISSUE PRICE OF RM0.23 PER RIGHTS SHARE ("RIGHTS ISSUE")

We have completed our assurance engagement to report on the compilation of PCSOFP of MAS (the "Company") and its subsidiaries (collectively known as "MAS Group" or the "Group") as at 31 December 2012 prepared by the Board of Directors of MAS (the "Directors") as set out in Appendix III of the Abridged Prospectus to be issued by the Company.

The basis of which the Directors have compiled the PCSOFP are as specified in the Prospectus Guidelines - Abridged Prospectus, Appendix 4: Proforma Balance Sheet as issued by the Securities Commission Malaysia and as described in notes to the PCSOFP ("the Applicable Criteria").

The PCSOFP have been compiled by the Directors to illustrate the impact of the Rights Issue on MAS Group's financial position as at 31 December 2012.

ERNST & YOUNG

As part of this process, information about the financial position has been extracted by the Directors from the financial statements for the year ended 31 December 2012, on which audit reports have been published.

The Directors' Responsibility for the PCSOFP

The Directors are responsible for compiling the PCSOFP on the basis of the Applicable Criteria.

Our Responsibilities

Our responsibility is to express an opinion as required by the Securities Commission Malaysia about whether the PCSOFP has been compiled, in all material respects, by the Directors on the basis of the Applicable Criteria.

We conducted our engagement in accordance with the Malaysian Approved Standard on Assurance Engagements, ISAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the PCSOFP on the basis of the Applicable Criteria.

The purpose of PCSOFP included in the prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction would have been as presented.

A reasonable assurance engagement to report on whether the PCSOFP has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of PCSOFP provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The PCSOFP reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgment, having regard to our understanding of the nature of the Group, the event or transaction in respect of which the PCSOFP has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the PCSOFP.

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

ERNST & YOUNG

Our Responsibilities (cont'd.)

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

Opinion

In our opinion:

(i) the pro forma financial information of the Company, which have been prepared by the directors of the Company, have been properly prepared on the basis of the Applicable Criteria using financial statements prepared in accordance with Malaysian Financial Reporting Standards in Malaysia and in a manner consistent with both the format of the financial statements and the accounting policies adopted by the Company; and

(ii) each material adjustment made to the information used in the preparation of the PCSOFP is appropriate for the purposes of preparing the PCSOFP.

Other matters

This letter is issued for the sole purpose of complying with the the Prospectus Guidelines - Abridged Prospectus issued by the Securities Commission Malaysia in connection with the Rights Issue. Our work had been carried out in accordance with Malaysian Approved Standards on Assurance Engagements and accordingly should not be relied upon as if it had been carried out in accordance with standards and practices in other jurisdictions. Therefore, this letter is not appropriate in other jurisdictions and should not be used or relied upon for any purpose other than the Rights Issue described above. We accept no duty or responsibility to and deny any liability to any party in respect of any use of, or reliance upon, this letter in connection with any type of transaction, including the sale of securities other than the aforementioned Rights Issue.

Yours faithfully,

Ernst & Young	Ismed Darwis bin Bahatiar
AF: 0039	No. 2921/04/14(J)
Chartered Accountants	Chartered Accountant

Kuala Lumpur, Malaysia

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

MALAYSIAN AIRLINE SYSTEM BERHAD
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

Maximum Scenario:
Full subscription of the Rights Shares in the event all the entitled shareholders and/or their renouncee(s) fully subscribe for their Rights Shares entitlements under the Rights Issue

ERNST & YOUNG (AF: 0039)
Chartered Accountants, Kuala Lumpur
For identification purposes only

	MAS Group as at 31 December 2012 (Audited) RM'000	Capital Restructuring RM'000	After the Capital Restructuring RM'000	Rights Issue RM'000	After the Rights Issue RM'000
NON CURRENT ASSETS					
Aircraft, property, plant and equipment	12,853,554	-	12,853,554	986,850	13,840,404
Investments in associates	125,044	-	125,044	-	125,044
Investments in a jointly controlled entity	-	-	-	-	-
Other investments	57,038	-	57,038	-	57,038
Intangible assets	153,912	-	153,912	-	153,912
Other receivables	313,473	-	313,473	-	313,473
Deferred tax assets	1,021	-	1,021	-	1,021
	13,504,042	-	13,504,042	986,850	14,490,892
CURRENT ASSETS					
Inventories	331,164	-	331,164	-	331,164
Trade and other receivables	1,258,872	-	1,258,872	-	1,258,872
Tax recoverable	6,057	-	6,057	-	6,057
Derivative financial instruments	42,505	-	42,505	-	42,505
Cash and bank balances	2,148,478	-	2,148,478	1,308,833	3,457,311
	3,787,076	-	3,787,076	1,308,833	5,095,909
CURRENT LIABILITIES					
Sales in advance of carriage	(1,663,026)	-	(1,663,026)	-	(1,663,026)
Deferred revenue	(224,036)	-	(224,036)	-	(224,036)
Trade and other payables	(2,343,126)	-	(2,343,126)	-	(2,343,126)
Provisions	(1,330,001)	-	(1,330,001)	-	(1,330,001)
Borrowings	(1,458,237)	-	(1,458,237)	777,000	(681,237)
Derivative financial instruments	(13,940)	-	(13,940)	-	(13,940)
Taxation	(533)	-	(533)	-	(533)
	(7,032,899)	-	(7,032,899)	777,000	(6,255,899)
NET CURRENT (LIABILITIES)/ASSETS	(3,245,823)	-	(3,245,823)	2,085,833	(1,159,990)
	10,258,219	**-**	**10,258,219**	**3,072,683**	**13,330,902**
FINANCED BY:					
Share capital	3,342,156	(3,007,940)	334,216	1,336,862	1,671,078
Perpetual Sukuk	1,498,190	-	1,498,190	-	1,498,190
Share premium	4,995,970	(4,995,970)	-	1,735,821	1,735,821
Accumulated losses	(8,236,108)	8,003,910	(232,198)	-	(232,198)
Cash flow hedge reserve	21,406	-	21,406	-	21,406
General reserve	459,755	-	459,755	-	459,755
Capital redemption reserve	41,775	-	41,775	-	41,775
Equity attributable to equity holders of the Company	2,123,144	-	2,123,144	3,072,683	5,195,827
Non-controlling interests	14,847	-	14,847	-	14,847
Total equity	2,137,991	-	2,137,991	3,072,683	5,210,674
NON CURRENT LIABILITIES					
Borrowings	8,090,293	-	8,090,293	-	8,090,293
Derivatives financial instruments	29,716	-	29,716	-	29,716
Deferred tax liabilities	219	-	219	-	219
	10,258,219	**-**	**10,258,219**	**3,072,683**	**13,330,902**
Net Assets ("NA") per share (sen)^	63.53		63.53		31.09
Net Tangible Assets ("NTA") per share (sen)^	58.92		58.92		30.17
Gearing (times) *	4.50		4.50		1.69

^ NA or NTA attributable to equity holders of the Company
** Computed based on total short term and long term borrowings divided by equity attributable to equity holders of the Company*

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

MALAYSIAN AIRLINE SYSTEM BERHAD
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

Minimum Scenario:
Only the undertaking shareholder, Khazanah subscribes in full for their Rights Shares entitlements under the Rights Issue of 9,273,911,308 Rights Shares and none of the other entitled shareholders and/or their renouncee(s) subscribe for the remaining Rights Shares entitlements under the Rights Issue

ERNST & YOUNG (AF: 0039)
Chartered Accountants, Kuala Lumpur
For identification purposes only

	MAS Group As at 31 December 2012 (Audited) RM'000	Capital Restructuring RM'000	After the Capital Restructuring RM'000	Rights Issue RM'000	After the Rights Issue RM'000
NON CURRENT ASSETS					
Aircraft, property, plant and equipment	12,853,554	-	12,853,554	986,850	13,840,404
Investments in associates	125,044	-	125,044	-	125,044
Investments in a jointly controlled entity	-	-	-	-	-
Other investments	57,038	-	57,038	-	57,038
Intangible assets	153,912	-	153,912	-	153,912
Other receivables	313,473	-	313,473	-	313,473
Deferred tax assets	1,021	-	1,021	-	1,021
	13,504,042	-	13,504,042	986,850	14,490,892
CURRENT ASSETS					
Inventories	331,164	-	331,164	-	331,164
Trade and other receivables	1,258,872	-	1,258,872	-	1,258,872
Tax recoverable	6,057	-	6,057	-	6,057
Derivative financial instruments	42,505	-	42,505	-	42,505
Cash and bank balances	2,148,478	-	2,148,478	367,049	2,515,527
	3,787,076	-	3,787,076	367,049	4,154,125
CURRENT LIABILITIES					
Sales in advance of carriage	(1,663,026)	-	(1,663,026)	-	(1,663,026)
Deferred revenue	(224,036)	-	(224,036)	-	(224,036)
Trade and other payables	(2,343,126)	-	(2,343,126)	-	(2,343,126)
Provisions	(1,330,001)	-	(1,330,001)	-	(1,330,001)
Borrowings	(1,458,237)	-	(1,458,237)	777,000	(681,237)
Derivative financial instruments	(13,940)	-	(13,940)	-	(13,940)
Taxation	(533)	-	(533)	-	(533)
	(7,032,899)	-	(7,032,899)	777,000	(6,255,899)
NET CURRENT (LIABILITIES)/ASSETS	(3,245,823)	-	(3,245,823)	1,144,049	(2,101,774)
	10,258,219	**-**	**10,258,219**	**2,130,899**	**12,389,118**
FINANCED BY:					
Share capital	3,342,156	(3,007,940)	334,216	927,391	1,261,607
Perpetual Sukuk	1,498,190	-	1,498,190	-	1,498,190
Share premium	4,995,970	(4,995,970)	-	1,203,508	1,203,508
Accumulated losses	(8,236,108)	8,003,910	(232,198)	-	(232,198)
Cash flow hedge reserve	21,406	-	21,406	-	21,406
General reserve	459,755	-	459,755	-	459,755
Capital redemption reserve	41,775	-	41,775	-	41,775
Equity attributable to equity holders of the Company	2,123,144	-	2,123,144	2,130,899	4,254,043
Non-controlling interests	14,847	-	14,847	-	14,847
Total equity	2,137,991	-	2,137,991	2,130,899	4,268,890
NON CURRENT LIABILITIES					
Borrowings	8,090,293	-	8,090,293	-	8,090,293
Derivatives financial instruments	29,716	-	29,716	-	29,716
Deferred tax liabilities	219	-	219	-	219
	10,258,219	**-**	**10,258,219**	**2,130,899**	**12,389,118**
Net Assets ("NA") per share (sen)^	63.53		63.53		33.72
Net Tangible Assets ("NTA") per share (sen)^	58.92		58.92		32.50
Gearing (times) *	4.50		4.50		2.06

^ NA or NTA attributable to equity holders of the Company
** Computed based on total short term and long term borrowings divided by equity attributable to equity holders of the Company*

MALAYSIAN AIRLINE SYSTEM BERHAD
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

1. The Pro forma Consolidated Statement of Financial Position ("PCSOFP"), for which the Directors of MAS are solely responsible, have been prepared for illustrative purposes, based on the audited consolidated statement of financial position of Malaysian Airline System Berhad ("MAS") and its subsidiaries (collectively known as "MAS Group" or the "Group") as at 31 December 2012 to show the effects of the renounceable rights issue of up to 13,368,624,960 new ordinary shares of RM0.10 each in MAS ("Rights Shares") on the basis of four (4) Rights Shares for every one (1) existing ordinary share of RM0.10 each held by the entitled shareholders of MAS at 5.00p.m. on 6 May 2013, at an issue price of RM0.23 per Rights Share ("Rights Issue"), had the Rights Issue been completed as at 31 December 2012, and should be read in conjunction with the following notes below.

2. The PCSOFP have been prepared based on the accounting principles and bases consistent with those adopted in the preparation of the audited consolidated financial statements of MAS Group for the financial year ended 31 December 2012, after adjusting for the Capital Restructuring as described in Note 3.

3. **Capital Restructuring**

The capital restructuring comprises of:

- The par value reduction via the cancellation of RM0.90 of the par value of every ordinary share of RM1.00 each in the issued and paid-up share capital of MAS persuant to Section 64 of the Companies Act, 1965 ("Act") and the credit arising therefrom to be offset against the accumulated losses of MAS.

- The reduction of the share premium account of MAS pursuant to Section 60 and Section 64 of the Act and the credits arising therefrom to be offset against the accumulated losses of MAS.

(Collectively referred to as the "Capital Restructuring")

On 9 April 2013, the High Court had granted an order sanctioning the Capital Restructuring, which was subsequently effected on 11 April 2013.

The audited consolidated statement of financial position of MAS Group as at 31 December 2012 has been adjusted for the Capital Restructuring accordingly. The Capital Restructuring has resulted in decrease in the share capital and share premium account by RM3,007,940,616 and RM4,995,969,788 respectively. Correspondingly, the credits arising from the par value reduction and reduction of share premium account totalling RM8,003,910,404 are used to offset the accumulated losses of MAS.

MALAYSIAN AIRLINE SYSTEM BERHAD
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2012 (CONT'D.)

4. Rights Issue

Maximum Scenario

The Rights Issue entails the issuance of a maximum of 13,368,624,960 Rights Shares, on the basis of four (4) Rights Share for every one (1) MAS Share held on 6 May 2013 in the event all the Entitled Shareholders and/or their renouncee(s) fully subscribe for their entitlements under the Rights Issue.

The Rights Shares with par value of RM0.10 per share are offered at an issue price of RM0.23 per Rights Share. The estimated expenses of RM2,100,000 relating to the issuance of Rights Issue are set off against the share premium account.

The effects after the Rights Issues (which also encompassess the effects after the Capital Restructuring) increases the share capital by RM1,336,862,496 after the issuance of the Rights Shares with par value of RM0.10. The difference between the issue price of the Rights Share and the par value of the Rights Share, net of estimated expenses of RM2,100,000 will increase the share premium account by RM1,735,821,245. The proceeds will be used for the pre-delivery progressive payments for aircraft of approximately RM986,850,000, repayment of borrowings of approximately RM777,000,000 and for working capital purposes amounting to approximately RM1,308,833,741.

Minimum Scenario

Under the minimum scenario, MAS assumes that only the undertaking shareholder, Khazanah Nasional Berhad ("Khazanah") subscribes in full for their Rights Shares entitlements and none of the other entitled shareholders and/or their renouncee(s) subscribe for the remaining Rights Shares entitlements under the Rights Issue. As a result, the Rights Issue will entail the issuance of 9,273,911,308 Rights Shares at an issue price of RM0.23 per Rights Share.

The estimated expenses of RM2,100,000 relating to the issuance of Rights Issue are set off against the share premium account.

The effects after the Rights Issues (which also encompassess the effects after the Capital Restructuring) increases the share capital by RM927,391,131 after the issuance of the Rights Shares with par value of RM0.10. The difference between the issue price of the Rights Share and the par value of the Rights Share, net of estimated expenses of RM2,100,000 will increase the share premium account by RM1,203,508,470. The proceeds will be used for the pre-delivery progressive payments for aircraft of approximately RM986,850,000, repayment of borrowings of approximately RM777,000,000 and for working capital purposes amounting to approximately RM1,308,833,741.

ERNST & YOUNG (AF: 0039)
Chartered Accountants, Kuala Lumpur
For identification purposes only

Company No: 10601-W

APPENDIX IV

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012

CERTIFIED TRUE COPY

RIZANI HASSAN
SECRETARY
LS 0009520

ERNST & YOUNG

MALAYSIAN AIRLINE SYSTEM BERHAD

(10601-W)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements

31 December 2012

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
(Incorporated in Malaysia)

Contents

Malaysian Airline System Berhad
(Incorporated in Malaysia)

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.

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
(Incorporated in Malaysia)

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.

Malaysian Airline System Berhad
(Incorporated in Malaysia)

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.

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
(Incorporated in Malaysia)

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

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
(Incorporated in Malaysia)

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 10 to 139 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 140, 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

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
(Incorporated in Malaysia)

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 10 to 140 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

MALAYSIAN AIRLINE SYSTEM BERHAD.
3RD FLOOR,
ADMINISTRATION BUILDING 1,
MAS COMPLEX A,
SULTAN ABDUL AZIZ SHAH AIRPORT,
47200 SUBANG,
SELANGOR.

ERNST & YOUNG

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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 10 to 139.

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.

ERNST & YOUNG

Independent auditors' report to the members of
Malaysian Airline System Berhad (cont'd.)
(Incorporated in Malaysia)

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 140 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.

ERNST & YOUNG

Independent auditors' report to the members of
Malaysian Airline System Berhad (cont'd.)
(Incorporated in Malaysia)

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	Ismed Darwis Bahatiar
AF: 0039	No. 2921/04/14(J)
Chartered Accountants	Chartered Accountant

Kuala Lumpur, Malaysia
28 February 2013

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
(Incorporated in Malaysia)

Income statements
For the financial year ended 31 December 2012

		Group		Company	
	Note	**2012**	**2011**	**2012**	**2011**
		RM'000	**RM'000**	**RM'000**	**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.

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
(Incorporated in Malaysia)

Statements of comprehensive income
For the financial year ended 31 December 2012

	Group		Company	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**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.

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
(Incorporated in Malaysia)

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

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
(Incorporated in Malaysia)

Statements of financial position as at 31 December 2012 (cont'd.)

	Note	Group 2012 RM'000	Group 2011 RM'000	Group 1.1.2011 RM'000
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.

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2012

	Note	2012 RM'000	Company 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

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2012 (cont'd.)

	Note	2012 RM'000	Company 2011 RM'000	1.1.2011 RM'000
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.

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
(Incorporated in Malaysia)

Statements of changes in equity
For the financial year ended 31 December 2012

		Attributable to equity holders of the Company												
				<—— Non-Distributable ——>					<Distributable>					
	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	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
Group														
At 1 January 2012		3,342,156	-	4,995,970	58,076	88,938	-	(28,222)	501,530	(7,915,940)	(2,299,648)	1,042,508	13,639	1,056,147
Loss for the year		-	-	-	-	-	-	-	-	(432,587)	(432,587)	(432,587)	1,849	(430,738)
Other comprehensive income		-	-	-	-	-	-	49,628	-	-	49,628	49,628	-	49,628
Issuance of Perpetual Sukuk	30	-	1,498,190	-	-	-	-	-	-	-	-	1,498,190	-	1,498,190
Distribution to Perpetual Sukuk holders	30	-	-	-	-	-	-	-	-	(34,595)	(34,595)	(34,595)	-	(34,595)
Transactions with owners														
Dividend declared		-	-	-	-	-	-	-	-	-	-	-	(641)	(641)
Redemption of RCPS	27	-	-	-	(58,076)	-	41,775	-	(41,775)	58,076	-	-	-	-
Expiry of ESOS	23	-	-	-		(88,938)	-	-	-	88,938	-	-	-	-
Total transactions with owners		-	-	-	(58,076)	(88,938)	41,775	-	(41,775)	147,014	-	-	(641)	(641)
At 31 December 2012		3,342,156	1,498,190	4,995,970	-	-	41,775	21,406	459,755	(8,236,108)	(2,717,202)	2,123,144	14,847	2,137,991

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
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Statements of changes in equity
For the financial year ended 31 December 2012 (cont'd.)

		Attributable to equity holders of the Company										
		<------ Non-Distributable			------>	<Distributable>						
	Note	Share capital RM'000	Share premium RM'000	Equity component of RCPS RM'000	Employee share option reserve RM'000	Cash flow hedge reserves RM'000	General reserve RM'000	Accumulated losses RM'000	Total reserves RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
Group												
At 1 January 2011		3,342,156	4,995,970	58,076	88,388	(70,002)	501,530	(5,391,952)	182,010	3,524,166	13,078	3,537,244
Loss for the year		-	-	-	-	-	-	(2,523,988)	(2,523,988)	(2,523,988)	2,663	(2,521,325)
Other comprehensive income		-	-	-	-	41,780	-	-	41,780	41,780	-	41,780
Transactions with owners												
Dividends		-	-	-	-	-	-	-	-	-	(2,102)	(2,102)
ESOS vested	23	-	-	-	550	-	-	-	550	550	-	550
Total transactions with owners		-	-	-	550	-	-	-	550	550	(2,102)	(1,552)
At 31 December 2011		3,342,156	4,995,970	58,076	88,938	(28,222)	501,530	(7,915,940)	(2,299,648)	1,042,508	13,639	1,056,147

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

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Statement of changes in equity
For the financial year ended 31 December 2012 (cont'd.)

	Note	Share capital RM'000	Perpetual Sukuk RM '000	<----- Non-Distributable Share premium RM'000	Equity component of RCPS RM'000	Employee share option reserve RM'000	Capital redemption reserve RM'000	Cash flow hedge reserves RM'000 ----->	<Distributable> General reserve RM'000	Accumulated losses RM'000	Total reserves RM'000	Total RM'000
Company												
At 1 January 2012		3,342,156	-	4,995,970	58,076	88,938	-	(28,222)	500,000	(7,863,720)	(2,248,958)	1,093,198
Loss for the year		-	-	-	-	-	-	-	-	(481,457)	(481,457)	(481,457)
Other comprehensive income		-	-	-	-	-	-	49,628	-	-	49,628	49,628
Issuance of Perpetual Sukuk	30	-	1,498,190	-	-	-	-	-	-	-	-	1,498,190
Distribution to Perpetual Sukuk holders	30	-	-	-	-	-	-	-	-	(34,595)	(34,595)	(34,595)
Transactions with owners												
Redemption of RCPS	27	-	-	-	(58,076)	-	41,775	-	(41,775)	58,076	-	-
Expiry of ESOS	23	-	-	-	-	(88,938)		-		83,612	(5,326)	(5,326)
Total transactions with owners		-	-	-	(58,076)	(88,938)	41,775	-	(41,775)	141,688	(5,326)	(5,326)
At 31 December 2012		3,342,156	1,498,190	4,995,970	-	-	41,775	21,406	458,225	(8,238,084)	(2,720,708)	2,119,638

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Statement of changes in equity
For the financial year ended 31 December 2012 (cont'd.)

	Note	<------ Non-Distributable			------>	<Distributable>			
		Share capital RM'000	Share premium RM'000	Equity component of RCPS RM'000	Employee share option reserve RM'000	Cash flow hedge reserves RM'000	General reserve RM'000	Accumulated losses RM'000	Total reserves RM'000	Total RM'000
Company										
At 1 January 2011		3,342,156	4,995,970	58,076	88,388	(70,002)	500,000	(5,519,322)	53,110	3,395,266
Loss for the year		-	-	-	-	-	-	(2,344,398)	(2,344,398)	(2,344,398)
Other comprehensive income		-	-	-	-	41,780	-	-	41,780	41,780
Transactions with owners										
ESOS vested	23	-	-	-	550	-	-	-	550	550
At 31 December 2011		3,342,156	4,995,970	58,076	88,938	(28,222)	500,000	(7,863,720)	(2,248,958)	1,093,198

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

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
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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)

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
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Statements of cash flows
For the financial year ended 31 December 2012 (cont'd.)

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Cash flows from operating activities (cont'd.)					
Operating profit/(loss) before working capital changes brought 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)

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Malaysian Airline System Berhad
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Statements of cash flows
For the financial year ended 31 December 2012 (cont'd.)

	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)

Malaysian Airline System Berhad
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Statements of cash flows
For the financial year ended 31 December 2012 (cont'd.)

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
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.

Malaysian Airline System Berhad
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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.

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2. Significant accounting policies (cont'd.)

2.2 First-time adoption of MFRS (cont'd.)

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.

2.3 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)

OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 31 DECEMBER 2012 (Cont'd)

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2. Significant accounting policies (cont'd.)

2.3 New and revised pronouncements yet in effect (cont'd.)

Effective for annual periods beginning on or after 1 January 2013 (cont'd.)

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 (2009)

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2. Significant accounting policies (cont'd.)

2.3 New and revised pronouncements yet in effect (cont'd.)

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 Interpretation 20 and Amendment to IC Interpretation 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.

2. Significant accounting policies (cont'd.)

2.4 Significant accounting estimates and judgements (cont'd.)

(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.

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.

2. Significant accounting policies (cont'd.)

2.4 Significant accounting estimates and judgements (cont'd.)

(b) Key sources of estimation uncertainty (cont'd.)

(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.

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2. Significant accounting policies (cont'd.)

2.4 Significant accounting estimates and judgements (cont'd.)

(b) Key sources of estimation uncertainty (cont'd.)

(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.

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2. Significant accounting policies (cont'd.)

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.

(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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(b) Subsidiaries and basis of consolidation (cont'd.)

(ii) Basis of consolidation (cont'd.)

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and is present 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.

(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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(c) Associates (cont'd.)

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 (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(e) Aircraft, property, plant and equipment and depreciation (cont'd.)

(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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(g) Impairment of Non-Financial Assets (cont'd.)

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.

(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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(h) Foreign currencies (cont'd.)

(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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(j) Leases

(i) Classification

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

(ii) Finance leases - As lessee

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

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

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

(iii) Finance leases - As lessor

When assets are leased out under finance lease, the present value of the lease payments is recognised as a receivable. The difference between the 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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(j) Leases (cont'd.)

(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.

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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(k) Income tax (cont'd.)

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.

2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(l) Employee benefits (cont'd.)

(ii) Defined contribution plans

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

(iii) Share-based compensation

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

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

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

2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(m) Provisions for liabilities

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

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

(n) Aircraft maintenance and overhaul costs

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

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

(o) Frequent flyer programme

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

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

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(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).

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(s) Redeemable convertible preference shares ("RCPS") (cont'd.)

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.

(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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(t) Financial assets (cont'd.)

(i) Financial assets at fair value through profit or loss (cont'd.)

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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(t) Financial assets (cont'd.)

(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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(u) Financial liabilities

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

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

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

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

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

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

(ii) Other financial liabilities

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

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

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.

2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(u) Financial liabilities (cont'd.)

(ii) Other financial liabilities (cont'd.)

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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(v) Impairment of financial assets (cont'd.)

(i) Financial assets carried at amortised cost (cont'd.)

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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(w) Offsetting of financial instruments

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

(x) Fair value of financial instruments

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

(y) Amortised cost of financial instruments

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

(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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(z) Derivative of financial instruments and hedge accounting (cont'd.)

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.

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2. Significant accounting policies (cont'd.)

2.5 Summary of significant accounting policies (cont'd.)

(z) Derivative of financial instruments and hedge accounting (cont'd.)

(i) Cash flow hedges (cont'd.)

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.

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3. Operating revenue

	Group		Company	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**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.

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4. Loss from operations

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

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	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
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)

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4. Loss from operations (cont'd.)

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'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.

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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.

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8. Directors' remuneration

	Group and Company	
	2012	2011
	RM'000	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	-

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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.

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9. Taxation (cont'd.)

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	(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

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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.

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11. Aircraft, property, plant and equipment

Group	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000	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
Cost										
At 1 January 2011	18,543	1,070,755	2,777,711	335,700	2,141,125	825,282	375,891	36,128	3,452,032	11,033,167
Additions	-	4,396	536,770	29,840	111,838	123,314	6,528	2,048	2,743,914	3,558,648
Disposals	-	-	(1,259,510)	-	(993)	(46,001)	(14,567)	(7,086)	-	(1,328,157)
Write-offs	-	-	-	-	(71,571)	(3)	(7)	-	-	(71,581)
Reclassifications	-	2,285	2,315,648	-	-	20,857	11,453	-	(2,350,243)	-
At 31 December 2011	18,543	1,077,436	4,370,619	365,540	2,180,399	923,449	379,298	31,090	3,845,703	13,192,077
At 1 January 2012	18,543	1,077,436	4,370,619	365,540	2,180,399	923,449	379,298	31,090	3,845,703	13,192,077
Additions	-	2,265	3,504,914	21,539	34,768	39,545	3,252	493	1,553,609	5,160,385
Disposals	-	-	(861,915)	-	(102,331)	(4,981)	(1,120)	(562)	-	(970,909)
Write-offs	-	-	-	-	(100,376)	(646)	(845)	(70)	-	(101,937)
Reclassifications	-	-	2,829,840	-	-	-	-	-	(2,829,840)	-
At 31 December 2012	18,543	1,079,701	9,843,458	387,079	2,012,460	957,367	380,585	30,951	2,569,472	17,279,616

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11. Aircraft, property, plant and equipment (cont'd.)

Group	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000	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
Accumulated depreciation and impairment loss										
At 1 January 2011	1,488	477,121	167,710	96,907	1,490,052	749,371	355,230	31,931	-	3,369,810
Charge for the year	188	28,197	163,343	14,188	147,427	52,559	15,911	1,760	-	423,573
Provision for impairment losses	-	-	224,089	-	112,874	-	-	-	89,595	426,558
Disposals	-	-	-	-	(802)	(33,455)	(14,368)	(7,027)	-	(55,652)
Write-offs	-	-	-	-	(46,113)	(1)	(5)	-	-	(46,119)
At 31 December 2011	1,676	505,318	555,142	111,095	1,703,438	768,474	356,768	26,664	89,595	4,118,170
At 1 January 2012	1,676	505,318	555,142	111,095	1,703,438	768,474	356,768	26,664	89,595	4,118,170
Charge for the year	202	27,724	289,583	47,080	134,921	31,893	12,457	1,589	-	545,449
Write back of impairment losses	-	-	-	-	(31,857)	-	-	-	-	(31,857)
Disposals	-	-	(13,303)	-	(89,528)	(2,049)	(895)	(349)	-	(106,124)
Write-offs	-	-	-	-	(98,586)	(116)	(842)	(32)	-	(99,576)
Reclassifications	-	-	89,595	-	-	-	-	-	(89,595)	-
At 31 December 2012	1,878	533,042	921,017	158,175	1,618,388	798,202	367,488	27,872	-	4,426,062
Net book value										
At 31 December 2011	16,867	572,118	3,815,477	254,445	476,961	154,975	22,530	4,426	3,756,108	9,073,907
At 31 December 2012	16,665	546,659	8,922,441	228,904	394,072	159,165	13,097	3,079	2,569,472	12,853,554

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11. Aircraft, property, plant and equipment (cont'd.)

Company	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000	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
Cost										
At 1 January 2011	16,503	1,054,822	2,191,499	335,700	2,141,125	471,890	296,214	28,022	3,464,411	10,000,186
Additions	-	832	439,230	29,840	111,838	112,437	3,043	1,001	2,730,212	3,428,433
Disposals	-	-	(1,905,029)	-	(993)	(19,941)	(8,156)	(6,641)	-	(1,940,760)
Write-offs	-	-	-	-	(71,571)	-	-	-	-	(71,571)
Reclassifications	-	2,285	2,315,648	-	-	20,857	11,453	-	(2,350,243)	-
At 31 December 2011	16,503	1,057,939	3,041,348	365,540	2,180,399	585,243	302,554	22,382	3,844,380	11,416,288
At 1 January 2012	16,503	1,057,939	3,041,348	365,540	2,180,399	585,243	302,554	22,382	3,844,380	11,416,288
Additions	-	1,674	3,734,256	19,611	34,555	45,376	8,417	106	1,528,097	5,372,092
Disposals	-	-	(1,448,492)	-	(102,331)	(3,331)	(765)	(292)	-	(1,555,211)
Write-offs	-	-	-	-	(100,376)	(646)	(846)	(70)	-	(101,938)
Reclassifications	-	-	2,827,904	-	-	-	-	-	(2,827,904)	-
At 31 December 2012	16,503	1,059,613	8,155,016	385,151	2,012,247	626,642	309,360	22,126	2,544,573	15,131,231

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11. Aircraft, property, plant and equipment (cont'd.)

Company	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000	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
Accumulated depreciation and impairment loss										
At 1 January 2011	1,140	473,396	116,459	96,907	1,490,052	401,654	280,653	26,584	-	2,886,845
Charge for the year	166	27,300	125,121	14,188	147,427	48,829	13,017	823	-	376,871
Provision for impairment losses	-	-	134,760	-	112,874	-	-	-	89,370	337,004
Disposals	-	-	-	-	(802)	(7,473)	(7,972)	(6,640)	-	(22,887)
Write-offs	-	-	-	-	(46,113)	-	-	-	-	(46,113)
At 31 December 2011	1,306	500,696	376,340	111,095	1,703,438	443,010	285,698	20,767	89,370	3,531,720
At 1 January 2012	1,306	500,696	376,340	111,095	1,703,438	443,010	285,698	20,767	89,370	3,531,720
Charge for the year	167	26,382	254,443	9,675	134,710	27,657	11,030	703	-	464,767
Write back of impairment losses	-	-	-	-	(31,857)	-	-	-	-	(31,857)
Disposals	-	-	(102,673)	-	(89,528)	(400)	(714)	(240)	-	(193,555)
Write-offs	-	-	-	-	(98,586)	(116)	(842)	(33)	-	(99,577)
Reclassifications	-	-	89,370	-	-	-	-	-	(89,370)	-
At 31 December 2012	1,473	527,078	617,480	120,770	1,618,177	470,151	295,172	21,197	-	3,671,498
Net book value										
At 31 December 2011	15,197	557,243	2,665,008	254,445	476,961	142,233	16,856	1,615	3,755,010	7,884,568
At 31 December 2012	15,030	532,535	7,537,536	264,381	394,070	156,491	14,188	929	2,544,573	11,459,733

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11. Aircraft, property, plant and equipment (cont'd.)

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	2011	2012	2011
	RM'000	RM'000	RM'000	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	2011
	RM'000	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	2011
	RM'000	RM'000
Cost	72,886	42,063

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11. Aircraft, property, plant and equipment (cont'd.)

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

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

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12. Investments in subsidiaries (cont'd.)

Name of Company	Country of incorporation	Effective interest 2012 %	2011 %	Principal activities
Held by the Company: (cont'd.)				
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

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12. Investments in subsidiaries (cont'd.)

Name of Company	Country of incorporation	Effective interest 2012 %	2011 %	Principal activities
Held by the Company: (cont'd.)				
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
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

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12. Investments in subsidiaries (cont'd.)

Name of Company	Country of incorporation	Effective interest 2012 %	2011 %	Principal activities
Held by the Company: (cont'd.)				
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.

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12. Investments in subsidiaries (cont'd.)

Subscription of shares in subsidiaries (cont'd.)

(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.

(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	2011	2012	2011
	RM'000	RM'000	RM'000	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 Companies [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

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13. Investments in associates (cont'd.)

Name of Companies [Financial year end]	Country of Incorporation	Effective interest 2012 %	Effective interest 2011 %	Principal activities
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.

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13. Investments in associates (cont'd.)

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

	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	Group 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.

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14. Investment in a jointly controlled entity (cont'd.)

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.

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	**2011**
	RM'000	**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	**2011**
	RM'000	**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.

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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

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16. Intangible assets (cont'd.)

	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.

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17. Inventories

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 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 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 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

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18. Trade and other receivables (cont'd.)

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
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
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

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18. Trade and other receivables (cont'd.)

(a) Trade receivables

Trade receivables are non-interest bearing and are generally on 14 to 30 (2011: 14 to 30) day's terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

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

(i) Ageing analysis of trade receivables

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

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	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

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18. Trade and other receivables (cont'd.)

(a) Trade receivables (cont'd.)

(i) Ageing analysis of trade receivables (cont'd.)

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 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 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 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).

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18. Trade and other receivables (cont'd.)

(b) Prepayment to a fellow subsidiary

	Group and Company	
	2012	**2011**
	RM'000	**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.

(c) Prepayment to related parties

	Group and Company	
	2012	**2011**
	RM'000	**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.

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18. Trade and other receivables (cont'd.)

(d) Lease receivables

	Company	
	2012	2011
	RM'000	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	2011
	RM'000	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

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.

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18. Trade and other receivables (cont'd.)

(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 subsidiary amounting to RM59,908,000.

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19. Negotiable instruments of deposit

	Group and Company 2012 RM'000	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.

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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.

23. Employee benefits (cont'd.)

Employee share options scheme (cont'd.)

(a) The salient details of the ESOS are as follows (cont'd.):

(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.

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23. Employee benefits (cont'd.)

Employee share options scheme (cont'd.)

(a) The salient details of the ESOS are as follows (cont'd.):

(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%

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23. Employee benefits (cont'd.)

Employee share options scheme (cont'd.)

(a) The salient details of the ESOS are as follows: (cont'd.)

(ix) Rights attaching to the new MAS shares

The new MAS Shares to be allotted upon the exercise of an option shall, upon allotment and issue, rank pari passu in all respects with the existing ordinary shares of the Company, save and except that the new MAS Shares will not be entitled to any dividends, rights and allotments and/or other distributions which entitlement date precedes the date of allotment of the said shares.

(x) Alteration of share capital

In the event of any alteration in the capital structure of the Company during the option period, whether by way of a rights issue*, bonus issue or other capitalisation issue, consolidation or subdivision of MAS Shares or reduction of capital or any other variation of capital, the Company shall adjust the number of MAS Shares which a grantee is entitled to subscribe for upon the exercise of each option and/or the subscription price.

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.

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23. Employee benefits (cont'd.)

Employee share options scheme (cont'd.)

(a) **The salient details of the ESOS are as follows: (cont'd.)**

(x) **Alteration of share capital (cont'd.)**

* 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.

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

		Number of share options ('000)				
	WAEP RM	**At 1 January**	**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

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23. Employee benefits (cont'd.)

Employee share options scheme (cont'd.)

(a) The salient details of the ESOS are as follows: (cont'd.)

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 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 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

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24. Trade and other payables (contd.)

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Current				
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	2011	2012	2011
	RM'000	RM'000	RM'000	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

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25. Provisions (cont'd.)

Provisions of the Group and the 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	2011	2012	2011
	RM'000	RM'000	RM'000	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 loan	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 loan	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 loan is an amount drawndown from Turus Pesawat Sdn. Bhd. amounting to RM3.416 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).

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26. Borrowings (cont'd.)

The secured term loan and finance leases of the Group and the Company are secured by certain aircraft of the Group and the Company as disclosed in Note 11.

27. Redeemable convertible preference shares ("RCPS")

On 31 October 2007, the Company issued 417,747,955 RCPS of RM0.10 each at an issue price of RM1.00 each. The total proceeds received from the issuance of the RCPS is split between a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated by discounting the future estimated cash flows at the prevailing market interest rate available to the Group then. The difference between the total proceeds received from the issuance of the RCPS and the fair value assigned to the liability component, representing the conversion option is accounted for in shareholders' equity.

The liability component of the RCPS is thereafter measured and accounted for under the effective interest rate method, whereby an annual interest is accrued at the same rate as the discount rate used in estimating the fair value of the liability component mentioned above. The accrued interest is recognised in the profit or loss.

The 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

27. Redeemable Convertible Preference Shares ("RCPS") (cont'd.)

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.

(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.

27. Redeemable Convertible Preference Shares ("RCPS") (cont'd.)

(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	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**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

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28. Finance lease liabilities (cont'd.)

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

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29. Share capital (cont'd.)

	Number of shares		Amount	
	2012	**2011**	**2012**	**2011**
	'000	**'000**	**RM'000**	**RM'000**
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

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.

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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);

(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.

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31. Reserves (cont'd.)

(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.

(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)

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32. Deferred taxation (cont'd.)

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

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)

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32. Deferred taxation (cont'd.)

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

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	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.

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	2011
	RM'000	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

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33. Operating lease arrangements (cont'd.)

(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.

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34. Segmental information (cont'd.)

(a) Business segments (cont'd.)

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

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34. Segmental information (cont'd.)

(a) Business segments (cont'd.)

31 December 2011	Airline operations RM'000	Cargo services RM'000	Others RM'000	Elimination RM'000	Total RM'000
Revenue					
External sales	11,540,406	2,053,125	60,363	-	13,653,894
Inter-segment sales	1,210,970	-	44,210	(1,255,180)	-
Total revenue	12,751,376	2,053,125	104,573	(1,255,180)	13,653,894
Results					
Segment results	(2,360,027)	(12,956)	16,679	(7,884)	(2,364,188)
Finance costs					(159,424)
Share of results of associates					25,332
Share of results of jointly controlled entity					(14,604)
Loss before taxation					(2,512,884)
Taxation					(8,441)
Net loss for the year					(2,521,325)
Assets					
Segment assets	12,524,178	732,570	976,674	(1,854,754)	12,378,668
Investments in associates	120,043	-	-	-	120,043
Unallocated assets					765
Consolidated total assets					12,499,476

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34. Segmental information (cont'd.)

(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.

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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
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

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35. Significant related party transactions (cont'd.)

(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. (cont'd.)

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Expenses (cont'd.)				
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	-

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35. Significant related party transactions (cont'd.)

(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. (cont'd.)

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	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.

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35. Significant related party transactions (cont'd.)

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

Total KMPs' remuneration (including Board of Directors)

	Group and Company 2012 RM'000	Group and Company 2011 RM'000
Total	10,585	6,518

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 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 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

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36. Capital commitments (cont'd.)

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
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 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 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 RM'000	Group and Company 2011 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

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37. Contingent liabilities (cont'd.)

(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.

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37. Contingent liabilities (cont'd.)

(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.

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37. Contingent liabilities (cont'd.)

(f) On 15 December 2008, the Company was served with a "Statement of Claim" from the Commerce Commission of New Zealand in relation to its air freight investigation under Section 27 of the Commerce Act. The Statement of Claim does not indicate any quantum of fines that might be ultimately imposed.

The Company filed its defence on 11 December 2009. The trial of the case has started on 11 May 2011 and is ongoing.

(g) On 16 February 2010, the Company at its offices in the United States, was served with a complaint filed in the United States District Court for the Eastern District of New York on behalf of Benchmark Export Services and six other plaintiffs against the Company and eleven other defendants. The case involves allegations of price fixing on airfreight shipping services and related surcharges.

The Company on 11 July 2011 entered into a Settlement Agreement with the plaintiffs by which the Company is to pay a total sum of USD3.35 million as settlement to the plaintiffs. The settlement sum is apparently the lowest to date among the related actions. No admission of any infringement is made under the settlement and the settlement was entered into for the purpose of avoiding more legal costs that would otherwise have been incurred and treble damages that might be awarded by the court under the US antitrust laws had the plaintiffs won.

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

(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).

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39. Financial risk management objectives and policies (cont'd.)

(a) Fuel price risk (cont'd.)

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 tables sets out the carrying amounts of assets/(liabilities), the range of interest rates per annum as at the reporting date and the remaining maturities of the Group's and the Company's financial instruments that are exposed to interest rate risk.

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39. Financial risk management objectives and policies (cont'd.)

(b) Interest rate risk (cont'd.)

	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

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39. Financial risk management objectives and policies (cont'd.)

(b) Interest rate risk (cont'd.)

2011	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
Group									
Fixed rate:									
Term deposits									
Term loans	20	2.74 - 4.99	450,350	-	-	-	-	-	450,350
Finance leases	26	2.98 - 3.02	23,706	24,427	25,171	25,937	26,727	73,390	199,358
	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									
Term deposits	18	3.64 - 5.27	41,135	43,755	45,695	116,161	42,199	307,052	595,997
Finance leases	20	3.35 - 4.99	422,264	-	-	-	-	-	422,264
	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

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39. Financial risk management objectives and policies (cont'd.)

(b) Interest rate risk (cont'd.)

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.

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39. Financial risk management objectives and policies (cont'd.)

(c) Foreign exchange risk (cont'd.)

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.

	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

39. Financial risk management objectives and policies (cont'd.)

(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.

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39. Financial risk management objectives and policies (cont'd.)

(d) Liquidity risk (cont'd.)

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)

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39. Financial risk management objectives and policies (cont'd.)

(d) Liquidity risk (cont'd.)

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)

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39. Financial risk management objectives and policies (cont'd.)

(d) Liquidity risk (cont'd.)

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)

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39. Financial risk management objectives and policies (cont'd.)

(d) Liquidity risk (cont'd.)

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.

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39. Financial risk management objectives and policies (cont'd.)

(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.

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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.

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40. Financial instruments (cont'd.)

	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.

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40. Financial instruments (cont'd.)

	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.

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40. Financial instruments (cont'd.)

	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.

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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)

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

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41. Fair value of financial instruments (cont'd.)

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.

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42. Derivative financial instruments and hedging activities

Group and Company	2012 Notional Value	2012 Fair value Assets/ (Liabilities) RM'000	2011 Notional Value	2011 Fair value Liabilities RM'000
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.

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42. Derivative financial instruments and hedging activities (cont'd.)

(a) Fuel hedging contracts (cont'd.)

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.

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).

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42. Derivative financial instruments and hedging activities (cont'd.)

(c) Foreign currency hedging (cont'd.)

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 RM'000	2011 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.

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43. Capital management (cont'd.)

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

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	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.

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44. Significant events (cont'd.)

(b) 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;

(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 RM5.311 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.

Malaysian Airline System Berhad
(Incorporated in Malaysia)

44. Significant events (cont'd.)

(d) 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 Redeemable Convertible Preference Shares (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.

Malaysian Airline System Berhad
(Incorporated in Malaysia)

45. Subsequent events (cont'd.)

(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.

Malaysian Airline System Berhad
(Incorporated in Malaysia)

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.

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012

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RIZANI HASSAN
SECRETARY
LS 0009520

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MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT ON THE FOURTH QUARTER ENDED 31 DECEMBER 2012

ANNOUNCEMENT

The Board of Directors of Malaysian Airline System Berhad ("MAS" or "the Company") would like to announce the following unaudited consolidated results for the fourth quarter ended 31 December 2012. This announcement should be read in conjunction with the audited annual financial statements for the year ended 31 December 2011 and the accompanying explanatory notes attached to the quarterly condensed financial report.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		Quarter ended	Quarter ended	Year ended	Year ended
		31/12/2012	31/12/2011	31/12/2012	31/12/2011
	Note	RM '000	RM '000	RM '000	RM '000
Operating revenue		3,662,231	3,611,570	13,286,612	13,653,894
Operating expenses		(3,822,525)	(4,998,766)	(14,117,447)	(16,197,154)
Other operating income		204,101	66,606	469,799	247,527
Profit/(Loss) from operations		**43,807**	**(1,320,590)**	**(361,036)**	**(2,295,733)**
Fair value change of derivatives	Part B,3	14,570	27,691	(17,216)	60,660
Unrealised foreign exchange gain/(loss)		69,472	21,730	189,968	(129,115)
Finance costs		(78,005)	(43,938)	(235,259)	(159,424)
Share of results from associated companies		13,274	14,216	22,602	25,332
Share of results from jointly controlled entity		(9,955)	(2,792)	(23,860)	(14,604)
Profit/(Loss) before taxation		**53,163**	**(1,303,683)**	**(424,801)**	**(2,512,884)**
Taxation		(1,351)	26,818	(5,937)	(8,441)
Profit/(Loss) for the period		**51,812**	**(1,276,865)**	**(430,738)**	**(2,521,325)**
Profit/(Loss) attributable to:					
Equity holders of the Company		51,373	(1,277,384)	(432,587)	(2,523,988)
Non-controlling interest		439	519	1,849	2,663
Profit/(Loss) for the period		**51,812**	**(1,276,865)**	**(430,738)**	**(2,521,325)**
Earnings/(Loss) per share attributable to equity holders of the Company					
Basic (sen)		1.54	(38.22)	(12.94)	(75.52)
Diluted (sen)		N/A	N/A	N/A	N/A

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT ON THE FOURTH QUARTER ENDED 31 DECEMBER 2012

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		Quarter ended 31/12/2012 RM '000	Quarter ended 31/12/2011 RM '000	Year ended 31/12/2012 RM '000	Year ended 31/12/2011 RM '000
Profit/(Loss) for the period		**51,812**	**(1,276,865)**	**(430,738)**	**(2,521,325)**
Other comprehensive income:	Part B,4				
(Loss)/Gain from cash flow hedges		(13,365)	12,570	49,628	41,780
Total comprehensive income/(loss) for the period		**38,447**	**(1,264,295)**	**(381,110)**	**(2,479,545)**
Total comprehensive income/(loss) attributable to:					
Equity holders of the Company		38,008	(1,264,814)	(382,959)	(2,482,208)
Non-controlling interest		439	519	1,849	2,663
Total comprehensive income/(loss) for the period		**38,447**	**(1,264,295)**	**(381,110)**	**(2,479,545)**

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31/12/2012 RM '000	As at 31/12/2011 RM '000	As at 1/1/2011 RM '000
Non current assets				
Aircraft, property, plant and equipment		12,853,554	9,073,907	7,663,357
Investment in associates		125,044	120,043	101,804
Investment in a jointly controlled entity		-	-	2,360
Other investments		57,038	54,599	54,604
Intangible assets		153,912	151,757	137,732
Other receivables		255,595	343,582	442,575
Deferred tax assets		1,021	765	3,495
		13,446,164	**9,744,653**	**8,405,927**
Current assets				
Inventories		331,164	362,267	430,849
Trade and other receivables		1,316,750	1,268,154	1,372,186
Tax recoverable		6,057	8,865	19,436
Derivative financial instruments	Part B,11	42,505	-	-
Negotiable instruments of deposit		-	101,073	139,206
Cash and bank balances		2,148,478	1,014,464	2,085,451
		3,844,954	**2,754,823**	**4,047,128**
Current liabilities				
Trade and other payables		2,343,126	2,643,899	2,240,044
Provision		1,330,001	1,188,165	934,967
Borrowings	Part B,10	1,338,748	1,379,411	293,867
Taxation		533	1,437	3,614
Derivative financial instruments	Part B,11	13,940	9,820	108,080
Sales in advance of carriage		1,663,026	1,705,943	1,677,346
Deferred revenue		224,036	205,307	232,823
		6,913,410	**7,133,982**	**5,490,741**
Net current liabilities		**(3,068,456)**	**(4,379,159)**	**(1,443,613)**
		10,377,708	**5,365,494**	**6,962,314**
Financed by:				
Equity attributable to equity holders of the Company:				
Share capital		3,342,156	3,342,156	3,342,156
Perpetual Sukuk		1,498,190	-	-
Reserves		(2,717,202)	(2,299,648)	182,010
		2,123,144	**1,042,508**	**3,524,166**
Non-controlling interest		14,847	13,639	13,078
Total equity		**2,137,991**	**1,056,147**	**3,537,244**
Non current liabilities				
Borrowings	Part B,10	8,209,782	4,290,583	3,414,913
Derivative financial instruments	Part B,11	29,716	18,566	10,155
Deferred tax liabilities		219	198	2
		8,239,717	**4,309,347**	**3,425,070**
		10,377,708	**5,365,494**	**6,962,314**
Net assets per share (RM)		0.64	0.32	1.06

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Attributable to equity holders of the Company												
			<— Non-Distributable			—>	Distributable						
	Share capital RM '000	Perpetual Sukuk RM '000	Equity component of RCPS RM '000	Share premium RM '000	Employee share option reserves RM '000	Cash Flow Hedge reserves RM '000	Capital redemption reserve RM '000	General reserves RM '000	Accumulated losses RM '000	Total reserves RM '000	Total RM '000	Non-controlling Interest RM '000	Total Equity RM '000
At 1 January 2012	3,342,156	-	58,076	4,995,970	88,938	(28,222)	-	501,530	(7,915,940)	(2,299,648)	1,042,508	13,639	1,056,147
Loss for the year	-	-	-	-	-	-	-	-	(432,587)	(432,587)	(432,587)	1,849	(430,738)
Other comprehensive income	-	-	-	-	-	49,628	-	-	-	49,628	49,628	-	49,628
Issuance of Perpetual Sukuk	-	1,498,190	-	-	-	-	-	-	-	-	1,498,190	-	1,498,190
Distribution to Perpetual Sukuk holders	-	-	-	-	-	-	-	-	(34,595)	(34,595)	(34,595)	-	(34,595)
Redemption of RCPS	-	-	(58,076)	-	-	-	41,775	(41,775)	58,076	-	-	-	-
Expiry of ESOS	-	-	-	-	(88,938)	-	-	-	88,938	-	-	-	-
Dividend declared	-	-	-	-	-	-	-	-	-	-	-	(641)	(641)
At 31 December 2012	3,342,156	1,498,190	-	4,995,970	-	21,406	41,775	459,755	(8,236,108)	(2,717,202)	2,123,145	14,847	2,137,991

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

	Attributable to equity holders of the Company										
		<— Non-Distributable			—>	Distributable					
	Share capital RM '000	Equity component of RCPS RM '000	Share premium RM '000	Employee share option reserves RM '000	Cash Flow Hedge reserves RM '000	General reserves RM '000	Accumulated losses RM '000	Total reserves RM '000	Total RM '000	Non-controlling Interest RM '000	Total Equity RM '000
At 1 January 2011	3,342,156	58,076	4,995,970	88,388	(70,002)	501,530	(5,391,952)	182,010	3,524,166	13,078	3,537,244
Loss for the year	-	-	-	-	-	-	(2,523,988)	(2,523,988)	(2,523,988)	2,663	(2,521,325)
Other comprehensive income	-	-	-	-	41,780	-	-	41,780	41,780	-	41,780
Grant of ESOS	-	-	-	550	-	-	-	550	550	-	550
Dividend declared	-	-	-	-	-	-	-	-	-	(2,102)	(2,102)
At 31 December 2011	3,342,156	58,076	4,995,970	88,938	(28,222)	501,530	(7,915,940)	(2,299,648)	1,042,508	13,639	1,056,147

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31/12/2012 RM '000	Year ended 31/12/2011 RM '000
Cash Flows From Operating Activities		
Loss before taxation	**(424,801)**	**(2,512,884)**
Adjustments for:		
Provision for/(Writeback of):		
- aircraft maintenance and overhaul costs	730,262	928,469
- doubtful debts, net	13,595	39,428
- short term accumulating compensated absences, net	9,253	17,037
- inventories obsolescence, net	15,327	46,810
- stock loss	7,830	42,119
- unavailed credits on sales in advance of carriage	(210,620)	(186,337)
Aircraft, property, plant and equipment:		
- depreciation	545,448	423,573
- written off	2,362	25,462
- (writeback)/provision of impairment losses, net	(31,858)	426,558
- loss on disposal, net	42,478	56,429
Amortisation of intangible assets	32,570	33,420
Share of results of:		
- jointly-controlled entity	23,860	14,604
- associated companies	(22,602)	(25,332)
Interest expenses	235,259	153,486
Fair value change of derivatives	17,216	(60,660)
ESOS expense	-	550
Unrealised foreign exchange (gain)/loss	(189,968)	129,115
Interest income	(53,620)	(28,830)
Dividend income	(24,195)	(18,292)
Operating profit/(loss) before working capital changes	**717,796**	**(495,275)**
Decrease/(Increase) in inventories	7,944	(20,347)
(Increase)/Decrease in trade and other receivables	(10,513)	164,080
(Decrease)/Increase in trade and other payables	(354,364)	564,636
Decrease in provision	(588,426)	(675,271)
Increase in sales in advance of carriage	167,703	214,934
Increase/(Decrease) in deferred revenue	18,728	(27,516)
Cash used in operating activities	**(41,132)**	**(274,759)**
Net cash settlement on derivatives	21,728	(102,080)
Premium paid on derivatives	-	(24,886)
Interest paid	(236,176)	(197,773)
Taxes (paid)/refund	(4,269)	2,879
Net cash used in operating activities	**(259,849)**	**(596,619)**
Cash Flows From Investing Activities		
Purchase of:		
- aircraft, property, plant and equipment	(4,981,210)	(3,516,585)
- intangible assets	(34,724)	(47,445)
- investment in a jointly controlled entity	(23,860)	(12,244)
- other investment	(2,451)	-
Withdrawal of:		
- negotiable instruments of deposit	101,073	35,000
- deposits pledged with banks	41,173	106,024
Proceeds from:		
- disposal of aircraft, property, plant and equipment	1,003,872	1,216,076
- other investment	-	5
Interest received	31,484	29,429
Dividend received	37,356	25,385
Net cash used in investing activities	**(3,827,287)**	**(2,164,355)**

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

malaysia airlines

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31/12/2012 RM '000	Year ended 31/12/2011 RM '000 (Restated)
Cash Flows From Financing Activities		
Proceeds from:		
- aircraft refinancing	914,724	1,033,879
- borrowings	8,658,520	1,160,418
- issuance of Perpetual Sukuk	1,498,190	-
Repayment of:		
- borrowings	(5,100,000)	(277,390)
- finance lease	(258,771)	(106,340)
RCPS		
- dividend paid	-	(12,454)
- redemption	(415,103)	-
Distribution to Perpetual Sukuk holders	(34,595)	-
Dividend paid to minority shareholders in subsidiaries	(641)	(2,102)
Net cash generated from financing activities	**5,262,324**	**1,796,011**
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	**1,175,188**	**(964,963)**
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	**958,814**	**1,923,777**
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**2,134,002**	**958,814**
Cash and cash equivalents comprise:		
Cash on hand and at banks	795,122	564,115
Short term deposits	1,353,356	450,349
Cash and bank balances	2,148,478	1,014,464
Less: Deposits pledged with banks	(14,476)	(55,650)
Cash and cash equivalents as at 31 December	**2,134,002**	**958,814**

PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16

1. ACCOUNTING POLICIES

The quarterly condensed financial report has been prepared in accordance with:

(i) The requirement of the Malaysian Financial Reporting Standards ("MFRS") Standard 134: Interim Financial Reporting; and

(ii) Paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad;

and should be read in conjunction with the audited financial statements for the financial year ended 31 December 2011 and the accompanying explanatory notes attached to the quarterly condensed financial report. These explanatory notes attached to the quarterly condensed financial report provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2011.

2. FIRST-TIME ADOPTION OF MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS")

The audited financial statements of the Group for the year ended 31 December 2011 were prepared in accordance with FRS. Except for certain differences, the requirements under FRS and MFRS are similar. The significant accounting policies adopted in preparing the condensed quarterly financial report 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's statement of financial position, financial performance and cash flows.

3. QUALIFICATION OF PRECEDING AUDITED ANNUAL FINANCIAL STATEMENTS

There was no qualification of the Group's Audited Financial Statements for the financial year ended 31 December 2011.

4. SEASONALITY OR CYCLICAL NATURE OF OPERATIONS

The Group is principally engaged in the business of air transportation and provision of related services. The demand for the Group's services is generally influenced by the growth performance of the Malaysian economy and the economies of the countries in which the Group operates as well as seasonal, health and security factors.

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

malaysia airlines

PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16 (CONTINUED)

5. UNUSUAL ITEMS

There were no unusual items for the financial year ended 31 December 2012.

6. MATERIAL CHANGES IN ESTIMATES OF AMOUNTS REPORTED

There was no material changes in estimates of amount reported for the financial year ended 31 December 2012.

7. SIGNIFICANT EVENTS

(i) 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. Of the thirty six (36) ordered, Firefly will take on twenty (20) new aircraft whilst sixteen (16) will be inducted into the fleet of its sister company MASwings.

(ii) 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.

(iii) 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 RM5.311 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.

The Financing Facilities are secured against the Aircraft.

(iv) 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.

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

8. ISSUANCE, CANCELLATION, REPURCHASE, RESALE AND REPAYMENTS OF DEBTS AND EQUITY

(i) On 28 September 2012, the Company announced a notice to holders of Redeemable Convertible Preference Shares (RCPS) of RM0.10 each in relation to the conversion and maturity of the RCPS on 30 October 2012. The RCPS have been redeemed by the Company at the issue price of RM1 each within 30 days from the maturity date.

(ii) 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. On 18 September 2012, the Company has issued the second tranche of the Perpetual Sukuk

(a) 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;

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

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

(d) 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;

(e) 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;

(f) 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

(g) The Perpetual Sukuk is not rated.

There was no other issuance, cancellation, repurchase, resale or repayments of debts or equity securities for the financial year ended 31 December 2012.

9. DIVIDEND PAID

There was no dividend paid during the financial year ended 31 December 2012.

10. SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on their services, and has three reportable segments as follows:

(i) Airlines operations segment engages in the business of air transportation and the provision of related services.

(ii) Cargo services segment engages in the business of air cargo operations, charter freighter and all warehousing activities relating to air cargo operations.

(iii) Others segment engages in the provision of computerised reservations services, retailing of goods, catering and cleaning related services.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16 (CONTINUED)

10. SEGMENTAL INFORMATION (CONTINUED)

The following tables present revenue and profit information regarding the Group's operating segments for the financial year ended 31 December 2012 and 2011, respectively.

	Airlines Operations RM'000	Cargo Services RM'000	Others RM'000	Adjustments and eliminations RM'000	Total RM'000
For the year ended 31 December 2012					
Revenue					
External revenue	11,335,819	1,863,333	87,460	-	13,286,612
Inter-segment revenue *	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 loss before tax	(329,825)	(73,847)	(19,871)	(1,258)	(424,801)

	Airlines Operations RM'000	Cargo Services RM'000	Others RM'000	Adjustments and eliminations RM'000	Total RM'000
For the year ended 31 December 2011					
Revenue					
External revenue	11,540,405	2,053,125	60,364	-	13,653,894
Inter-segment revenue *	1,210,970	-	44,210	(1,255,180)	-
Total revenue	12,751,375	2,053,125	104,574	(1,255,180)	13,653,894
Results					
Segment (loss)/profit before tax	(2,515,284)	(18,782)	10,454	10,728	(2,512,884)
Segment assets **					
At 31 December 2012	17,919,052	6,070,644	1,323,712	(8,147,334)	17,166,074
At 31 December 2011	12,555,805	732,648	950,869	(1,859,889)	12,379,433

* Inter-segment revenues are eliminated on consolidation.

** Segment assets do not include investment in associates (Dec '12: RM125.0 million, Dec'11: RM120.0 million) and investment in jointly-controlled entity (Dec'12: RM Nil, Dec'11: RM nil) as these assets are managed on a group basis.

PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16 (CONTINUED)

11. VALUATION OF ASSETS

There was no valuation of aircraft, property, plant and equipment for the financial year ended 31 December 2012.

12. SUBSEQUENT EVENT

(i) 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.

(ii) 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.

(iii) 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 & Sarawak, will replace the existing old aircraft.

(iv) 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.

13. CHANGES IN THE COMPOSITION OF THE GROUP

(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 19 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.

(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.

There were no changes in the composition of the Group for the financial year ended 31 December 2012.

PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16 (CONTINUED)

14. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(i) Contingent liabilities

(a) Related to Penerbangan Malaysia Berhad ("PMB")

MAS continues to be the named borrower of term loans which have been unbundled to PMB, a company wholly owned by Khazanah Nasional Berhad. As such, the outstanding balance of the borrowings assumed by PMB is included within the Group's contingent liabilities.

		22/2/2013 RM '000
1.	Loans	
	- Unsecured	22,728
2.	Tenure	
	Loans due within one year	12,667
	Loans due later than one year and not later than five years	10,061
		22,728
3.	Loans by currency denomination	
	Euro	22,728

(b) Others

Bank guarantees given to third parties	340,671
Performance bonds given to third parties	439
	341,110

(ii) 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.

15. CAPITAL COMMITMENT

	As at 31/12/2012 RM '000	As at 31/12/2011 RM '000 (Audited)
Approved and contracted for	8,312,620	10,764,213
Approved but not contracted for	269,212	13,994
	8,581,832	10,778,207

The outstanding capital commitments relate to purchase of aircraft and other expenditure projects.

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

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PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16 (CONTINUED)

16. SIGNIFICANT RELATED PARTY DISCLOSURES

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/12/2012 RM '000	Quarter ended 31/12/2011 RM '000	Year ended 31/12/2012 RM '000	Year ended 31/12/2011 RM '000
LSG Sky Chefs-Brahim's Sdn. Bhd., an associate:				
- Catering and other services paid/payable	61,273	54,319	234,802	234,240
- Rental income and others	(4,888)	(4,898)	(19,552)	(19,592)
GE Engine Services (M) Sdn. Bhd., an associate:				
- Engine maintenance services rendered	86,346	128,876	356,083	429,695
- Rental income and others	(8,394)	(4,219)	(12,543)	(13,454)
Pan Asia Pacific Aviation Services Ltd., an associate:				
- Line maintenance and aircraft interior cleaning services paid/payable	733	1,078	4,307	4,240
Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd., an associate:				
- Aircraft component repair services paid/payable	770	2,865	3,866	10,299
Honeywell Aerospace Services (M) Sdn. Bhd., an associate:				
- Aircraft power plant unit overhaul services paid/payable	-	1,288	1,572	4,206
Abacus International Holding Ltd., a company in which the Company has equity interest:				
- Computer reservation system access fee paid/payable	12,081	7,127	35,967	24,954
Evergreen Sky Catering Corporation, a company in which the Company has equity interest:				
- Catering services paid/ payable	667	1,224	3,348	5,024
PMB, a fellow subsidiary:				
- Hire of aircraft paid/payable	46,003	-	220,094	-
PMB, holding company:				
- Hire of aircraft paid/payable	-	57,409	-	271,805
Aircraft Business Malaysia Sdn. Bhd., a related party:				
- Aircraft lease rental paid/payable	60,512	-	241,980	-
Aircraft Business Malaysia Sdn. Bhd., a fellow subsidiary:				
- Aircraft lease rental paid/payable	-	70,409	-	248,211
QPR Holdings Limited, a Club substantially owned by certain Directors of the Company:				
- sponsorship deals	-	5,983	3,936	5,983
AirAsia X Sdn. Bhd., a related party:				
- passenger re-accomodation agreement	-	-	11,710	-

PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16 (CONTINUED)

17. SIGNIFICANT RELATED PARTY BALANCES

	As at 31/12/2012 RM '000	As at 31/12/2011 RM '000 (Audited)
Amount owing to fellow subsidiary	(34,208)	-
Amount owing by related party		
- due within one year	52,024	30,936
- due after one year	35,918	80,366
Amount owing by associated companies	25,685	-
Amount owing to associated companies	(60,374)	(68,773)

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

PART B - EXPLANATORY NOTES PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS UNDER PART A OF APPENDIX 9B

1. REVIEW OF PERFORMANCE

The Group recorded an operating profit of RM43.8 million for the fourth quarter ended 31 December 2012 as compared to RM1,320.6 million loss for the quarter ended 31 December 2011.

The Group recorded a profit after tax of RM51.8 million for the fourth quarter ended 31 December 2012, compared to RM1,276.9 million loss after tax in the same quarter last year. The profit after tax is inclusive of unrealised foreign exchange gain of RM69.5 million (Quarter ended 31 December 2011: RM21.7 million gain), finance costs of RM78.0 million (Quarter ended 31 December 2011: RM43.9 million) and fair value change of derivative of RM14.6 million gain (Quarter ended 31 December 2011: RM27.7 million gain).

Total operating revenue has increased by 1% to RM3,662.2 million for the current quarter this year compared to the same quarter last year. The operating revenue for Airline Operations has increased by 1% to RM3,472.0 million and Cargo Services has decreased by 6% to RM491.0 million. The increase in Airline Operations revenue was mainly due to increase in traffic by 7%. However, yield decreased by 2%. The decrease in operating revenue for Cargo Services was due to 3% decrease in load tonnage and capacity.

Total operating expenditure has reduced by 23% to RM3,822.5 million for the current quarter compared to the same quarter last year. Operating expenditure in Airline Operations decreased by 23% to RM3,342.6 million and operating expenditure in Cargo Services has decreased by 23% to RM479.9 million for the quarter. The decrease in operating expenditure in Airline Operations was due to lower non-fuel cost by 32% to RM2,040.6 million mainly from one off provisions made in 2011 for impairment and obsolescence of engineering spares of RM179 million, provision for aircraft redelivery cost of RM602 million, and impairment of aircraft of RM224 million. The decrease in operating expenditure in Cargo Services was mainly from decrease in non-fuel cost by 28% to RM362.5 million. The decrease in non fuel cost was mainly due to impairment for freighter aircraft of RM90 million made in corresponding quarter last year .

2. PROFIT/(LOSS) FROM OPERATIONS

On 22 September 2011, Bursa Malaysia Securities Berhad ("Bursa Malaysia") has amended the Main Market Listing Requirements ("Main LR") in various key areas. In accordance to the amendments of the Main LR, the following amounts have been (credited)/debited in arriving at profit/(loss) from operations:

	Quarter ended 31/12/2012 RM '000	Quarter ended 31/12/2011 RM '000	Year ended 31/12/2012 RM '000	Year ended 31/12/2011 RM '000
Provision for/(Writeback of):				
- doubtful debts, net	7,654	125	13,595	39,428
- inventories obsolescence, net	209	22,753	15,327	46,810
Aircraft, property, plant and equipment:				
- depreciation	145,647	120,293	545,448	423,573
- (writeback)/provision of impairment loss	(29,396)	425,635	(31,858)	426,558
- loss/(gain) on disposal, net	37,428	(5,774)	42,478	56,429
Amortisation of intangible assets	17,780	8,732	32,570	33,420
Interest expense	78,005	37,999	235,259	153,486
Interest income	(35,011)	(4,519)	(53,620)	(28,830)

Other than the items highlighted above, there were no disposal of unquoted investment and properties during the quarter and financial year ended 31 December 2012.

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

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PART B - EXPLANATORY NOTES PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS UNDER PART A OF APPENDIX 9B (CONTINUED)

3. FAIR VALUE CHANGE OF DERIVATIVES

This represents the movement of mark-to-market (MTM) of the ineffective portion of cash flow hedges for the remaining hedging contracts as at 31 December 2012 as compared to 1 January 2012 which comprised the following:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/12/2012 RM '000	Quarter ended 31/12/2011 RM '000	Year ended 31/12/2012 RM '000	Year ended 31/12/2011 RM '000
(i) Gain/(Loss) from fuel hedging contracts	6,357	26,317	(3,393)	72,550
(ii) Loss from foreign currency hedging contracts	(7,036)	(181)	-	(1,626)
(iii) Gain/(Loss) from interest rate hedging contracts	15,249	1,555	(13,823)	(10,264)
	14,570	27,691	(17,216)	60,660

4. OTHER COMPREHENSIVE INCOME

This represents the movement of mark-to-market (MTM) of the effective portion of cash flow hedges for the remaining contracts as at 31 December 2012 as compared to 1 January 2012 which comprised the following:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/12/2012 RM '000	Quarter ended 31/12/2011 RM '000	Year ended 31/12/2012 RM '000	Year ended 31/12/2011 RM '000
(i) (Loss)/Gain from fuel hedging contracts	(11,507)	10,209	55,781	(15,564)
(ii) Gain/(Loss) from foreign currency hedging contracts	34	3,698	(1,077)	70,562
(iii) Loss from interest rate hedging contracts	(1,892)	(1,337)	(5,076)	(13,218)
	(13,365)	12,570	49,628	41,780

5. COMPARISON WITH PRECEDING QUARTER'S RESULTS

The Group's operating profit of RM43.8 million is RM39.8 million favourable when compared to the preceding quarter profit of RM4.0 million.The Group's profit after tax for the quarter of RM51.8 million is RM14.3 million favourable when compared to the preceding quarter profit of RM37.5 million.

Total operating revenue increased by 10% to RM3,662.2 million when compared to the previous quarter mainly from increase in passenger load and higher recovery of surcharges.

Total operating expenditure increased by10% to RM3,822.5 million mainly due to passenger and aircraft realated expenses. Fuel cost has increased by 7% to RM1,419.4 million over the preceding quarter.

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

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PART B - EXPLANATORY NOTES PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS UNDER PART A OF APPENDIX 9B (CONTINUED)

6. CURRENT YEAR PROSPECTS

Malaysia Airlines expects 2013 to continue to remain challenging. Fuel prices remain high, edging towards the higher-end of the price range seen over the last 2 years. Competition from excess fleet capacity in the South East Asia region remains. Meantime, economic uncertainty in the Eurozone, US and China markets continues.

The International Air Transport Association (IATA) describes entering the new year 2013 with guarded optimism. While business confidence is up and the Eurozone situation is more stable than 12 months ago and the US has avoided the fiscal cliff, IATA forecasts significant headwinds ahead. Fuel prices continue to remain high and global GDP growth is projected at just 2.3%. However, the improved business confidence should help cargo markets to recover in 2013. Overall, IATA projects 2013 to see 4.5% growth in passenger markets and 1.4% growth in cargo demand. This is expected to contribute to a marginal improvement in net profit margins at 1.3% in 2013 from 1.0% in 2012.

Within this environment, Malaysia Airlines continues to accelerate implementation of its Business Plan to increase revenue and yields and reduce costs. Aggressive marketing and promotions, better capacity management, improved cost management and driving productivity for better efficiencies system-wide remains the focus area.

Delivery of more new fuel efficient wide-body A330-300 and narrow-body B737-800 aircraft as part of Malaysia Airlines' fleet renewal programme continues in 2013. In February 2013, Malaysia Airlines joined the premier oneworld airline alliance, offering a wider global network and a host of rewards for Enrich frequent flyers. The arrival of the 5th and 6th A380 aircraft into the fleet by end-March 2013 will put the A380s exclusively for the popular Kuala Lumpur-London and Paris routes. These efforts will contribute towards better products, thus improving the airline's performance.

7. PROFIT FORECAST OR PROFIT GUARANTEE

The Group has not provided any profit forecast or profit guarantee in respect of the financial year ended 31 December 2012.

8. TAXATION

Taxation charge for the Group comprised the following: -

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/12/2012 RM '000	Quarter ended 31/12/2011 RM '000	Year ended 31/12/2012 RM '000	Year ended 31/12/2011 RM '000
Current period				
- Malaysian taxation	858	1,785	3,139	2,173
- Foreign taxation	764	986	4,045	4,512
	1,622	2,771	7,184	6,685
(Over)/Under provision in prior period	(271)	(1,053)	(1,012)	(1,170)
Deferred taxation	-	(28,536)	(235)	2,926
Total	1,351	(26,818)	5,937	8,441

The Group provided foreign taxation for the Company's overseas operations and Malaysian taxation for its subsidiaries. The Company was granted an extension of the tax exemption status by the Ministry of Finance on its chargeable income in respect of all sources of income up to year of assessment 2015.

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

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PART B - EXPLANATORY NOTES PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS UNDER PART A OF APPENDIX 9B (CONTINUED)

9. CORPORATE PROPOSALS

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

(a) 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;

(b) Proposed Renounceable Rights Issue of new ordinary shares of RM0.10 each in MAS to raise gross proceeds of up to RM3,100 million after the Proposed Capital Restructuring; and

(c) 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' application has been submitted to Bursa Malaysia Securities Berhad ("Bursa") on 5 December 2012. On 18 December 2012, Bursa has approved the listing and quotation subject to the following conditions:

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

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

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

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

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

(f) Confirmation from the principal adviser that the Company 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.

On 7 January 2013, the Company made application for an extension until 14 February 2013 to issue circular in relation to the Proposals to shareholders. On 15 January 2013, approval has been received for the extension. On 6 February 2013, the circular was issued.

10. GROUP BORROWINGS

	As at 31/12/2012 RM '000	As at 31/12/2011 RM '000 (Audited)
(i) Short term borrowings		
Unsecured		
- Revolving Credit	628,902	581,360
- Term Loan	100,000	121,490
- Redeemable Cumulative Preference Shares ("RCPS")	-	419,628
Secured		
- Term Loan	104,500	73,633
- Finance Lease	505,346	183,300
	1,338,748	1,379,411

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

PART B - EXPLANATORY NOTES PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS UNDER PART A OF APPENDIX 9B (CONTINUED)

10. GROUP BORROWINGS (CONTINUED)

	As at 31/12/2012 RM '000	As at 31/12/2011 RM '000 (Audited)
(ii) Long term borrowings		
Unsecured		
- Term Loan	585,057	701,663
Secured		
- Term Loan	4,133,246	625,796
- Finance Lease	3,491,479	2,963,124
	8,209,782	4,290,583
Total	9,548,530	5,669,994
(iii) Currency denominations		
Ringgit Malaysia	5,046,369	2,182,589
US Dollars	3,779,999	2,624,380
Japanese Yen	722,162	863,025
	9,548,530	5,669,994

11. DERIVATIVE FINANCIAL INSTRUMENTS

Type of derivatives	Notional Value as at 31/12/2012	Fair Value as at 31/12/2012 Assets/ (Liabilities)
(i) Fuel Hedging Contracts	Barrels 'Mil	RM 'Mil
Less than 1 year	2.0	42.5
(ii) Interest Rate Hedging Contracts	RM 'Mil	
Less than 1 year	566.1	(14.6)
1 year to 3 years	496.1	(9.0)
More than 3 years	923.3	(20.1)
	1,985.5	(43.7)
Total		(1.2)

There is no change to the related accounting policies, cash requirements of the derivatives, risks associated with the derivatives and policies to mitigate those risks since the previous financial year.

PART B - EXPLANATORY NOTES PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS UNDER PART A OF APPENDIX 9B (CONTINUED)

12. DISCLOSURE ON REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of unappropriated profits/(accumulated losses) of the Group as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows:

	Company and and Subsidiaries RM'000	Associated Companies RM'000	Jointly Controlled Entity RM'000	Consolidation Adjustments RM'000	Group Accumulated Losses RM'000
As at 31 December 2012					
Realised (losses)/profit	(8,557,191)	6,952	(76,082)	200,574	(8,425,747)
Unrealised profit/(losses)	191,822	(2,143)	(40)	-	189,639
	(8,365,369)	4,809	(76,122)	200,574	(8,236,108)
As at 31 December 2011					
Realised losses	(7,935,462)	(3,955)	(26,317)	67,537	(7,898,197)
Unrealised losses	(16,646)	(922)	(175)	-	(17,743)
	(7,952,108)	(4,877)	(26,492)	67,537	(7,915,940)

The determination of realised and unrealised profits 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 Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements as stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

13. MATERIAL LITIGATION

(a) MAS and MASkargo vs Tan Sri Tajudin bin Ramli, Ralph Manfred Gotz, Uwe Juergen Beck and Wan Aishah binti Wan Hamid (collectively, the "Defendants")

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 (3) other Defendants. The claim against the Defendants is for 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.

13. MATERIAL LITIGATION (CONTINUED)

(b) **MAS, MAS Golden Holidays Sdn Bhd and MAS Hotels and Boutiques Sdn Bhd (collectively, the "Plaintiffs"), vs Tan Sri Tajudin bin Ramli, Naluri Corporation Berhad, Promet (Langkawi) Resorts Sdn Bhd ("Promet"), Kauthar Venture Capital Sdn Bhd ("Kauthar") and Pakatan Permai Sdn Bhd (collectively the "Defendants")**

On 26 May 2006, the Plaintiffs 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 (4) 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 and Kauthar had on 9 October 2006 jointly filed and served a defence and counterclaim ("Counter Claim") on the Plaintiffs, the Company's 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 (a) above.

(c) (i) **Meor Adlin vs MAS**
(ii) **Stephen Gaffigan vs MAS**
(iii) **Micah Abrams vs MAS**
(iv) **Donald Wortman vs MAS**
(v) **Bruce Hut vs MAS**
(vi) **Dickson Leung vs 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 involved allegations of price fixing for transpacific 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 case is proceeding.

(d) **Statement of Claim from Commerce Commission of New Zealand**

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.

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

malaysia airlines

PART B - EXPLANATORY NOTES PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS UNDER PART A OF APPENDIX 9B (CONTINUED)

13. MATERIAL LITIGATION (CONTINUED)

(e) **Benchmark Export Services and Six Other Plaintiffs vs MAS**

On 16 February 2010, the Company at its offices in the United States, was served with a complaint filed in the United States District Court for the Eastern District of New York on behalf of Benchmark Export Services and six other plaintiffs against the Company and eleven other defendants. The case involves allegations of price fixing on airfreight shipping services and related surcharges.

The Company on 11 July 2011 entered into a Settlement Agreement with the plaintiffs by which the Company is to pay a total sum of USD3.35 million as settlement to the plaintiffs. The settlement sum is apparently the lowest to date among the related actions. No admission of any infringement is made under the settlement and the settlement was entered into for the purpose of avoiding more legal costs that would otherwise have been incurred and treble damages that might be awarded by the court under the US antitrust laws had the plaintiffs won.

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

(f) **Application and Statement of Claim from Australian Competition and Consumer Commission**

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.

(g) **Giro-Warranty House International, Inc vs MAS**

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.

14. DIVIDENDS

The directors do not recommend any dividend for the financial year ended 31 December 2012.

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

malaysia airlines

PART B - EXPLANATORY NOTES PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS UNDER PART A OF APPENDIX 9B (CONTINUED)

15. EARNINGS/(LOSS) PER SHARE

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/12/2012	Quarter ended 31/12/2011	Year ended 31/12/2012	Year ended 31/12/2011
(a) Basic earnings/(loss) per share				
Profit/(Loss) attributable to equity holders of the Company (RM'000)	51,373	(1,277,384)	(432,587)	(2,523,988)
Number of ordinary shares in issue ('000)	3,342,156	3,342,156	3,342,156	3,342,156
Earnings/(Loss) per share (sen)	1.54	(38.22)	(12.94)	(75.52)

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the number of ordinary shares in issue during the financial year ended 31 December 2012.

(b) **Diluted earnings/(loss) per share**

The Company does not have any potential dilutive ordinary shares as at reporting date.

16. AUTHORISATION FOR ISSUE

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Board on 28 February 2013.

By Order of the Board

Rizani bin Hassan (LS 0009520)
Company Secretary
Selangor Darul Ehsan
28 February 2013

OUR UNAUDITED CONSOLIDATED RESULTS FOR THE 12-MONTH FPE 31 DECEMBER 2012 (Cont'd)

malaysia airlines

PART C - ADDITIONAL INFORMATION

1. SUMMARY OF KEY FINANCIAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/12/2012 RM '000	Quarter ended 31/12/2011 RM '000	Year ended 31/12/2012 RM '000	Year ended 31/12/2011 RM '000
(a) Revenue	3,866,332	3,678,176	13,756,411	13,901,421
(b) Profit/(Loss) from operations	43,807	(1,320,590)	(361,036)	(2,295,733)
(c) Profit/(Loss) before tax	53,163	(1,303,683)	(424,801)	(2,512,884)
(d) Profit/(Loss) for the period	51,812	(1,276,865)	(430,738)	(2,521,325)
(e) Profit/(Loss) for the period attributable to ordinary equity holders of the Company	51,373	(1,277,384)	(432,587)	(2,523,988)
(f) Basic earnings/(loss) per share (sen)	1.54	(38.22)	(12.94)	(75.52)
Diluted earnings/(loss) per share (sen)	N/A	N/A	N/A	N/A

	AS AT 31/12/2012	AS AT 31/12/2011 (Audited)
(a) Net assets per share attributable to ordinary equity holders of the Company (RM)	0.64	0.32

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/12/2012 RM '000	Quarter ended 31/12/2011 RM '000	Period ended 31/12/2012 RM '000	Period ended 31/12/2011 RM '000
(a) Gross interest income	35,011	4,519	53,620	28,830
(b) Gross interest expense	(78,005)	(37,999)	(235,259)	(153,486)

DIRECTORS' REPORT

(Prepared for inclusion in this AP)

malaysia airlines

oneworld

Registered Office:

3rd Floor, Administration Building 1
MAS Complex A
Sultan Abdul Aziz Shah Airport
47200 Subang
Selangor Darul Ehsan

Date: 25 APR 2013

To: The Shareholders of Malaysian Airline System Berhad ("MAS")

Dear Sir/Madam,

On behalf of the Board of Directors of MAS, I report after due enquiries that during the period from 31 December 2012 (being the date to which the last audited financial statements of MAS and its subsidiaries ("**MAS Group**") have been made up) to the date hereof (being a date not earlier than 14 days before the date of issue date of this Abridged Prospectus) that:

(i) the business of the MAS Group has, in the opinion of the Directors, been satisfactorily maintained;

(ii) in the opinion of the Directors, no circumstances have arisen since the last audited financial consolidated statements of MAS Group which have adversely affected the trading or the value of the assets of MAS Group;

(iii) the current assets of the MAS Group appear in the books at values which are believed to be realisable in the ordinary course of business;

(iv) save as disclosed in Section 7.3(b) of the Abridged Prospectus, there are no contingent liabilities which have arisen by reason of any guarantees or indemnities given by the MAS Group;

(v) since the last audited financial statements of the MAS Group, there has been no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which the Directors are aware of; and

(vi) save as disclosed in the Abridged Prospectus, there have been no material changes in the published reserves or any unusual factors affecting the profits of the MAS Group since the last audited financial statements of the MAS Group.

Yours faithfully
for and on behalf of the Board of Directors of
MALAYSIAN AIRLINE SYSTEM BERHAD

Ahmad Jauhari bin Yahya
Managing Director/Group Chief Executive Officer

FURTHER INFORMATION

1. SHARE CAPITAL

1.1 No securities in our Company will be allotted or issued on the basis of this AP later than 12 months after the date of issue of this AP.

1.2 As at the date of this AP, save for the Entitled Shareholders who will be provisionally allotted the Rights Shares under the Rights Issue, no person has been or is entitled to be granted an option to subscribe for any securities of our Company and no capital of our Group is under any option or agreed conditionally or unconditionally to be put under any option.

2. RIGHTS ATTACHING TO SECURITIES

As at the date of this AP, our Company has five (5) classes of shares in our authorised share capital, namely Shares, Special Share, RPS, RCPS 1 and RCPS 2.

An extract of the relevant provisions of our Articles of Association on the rights of voting at the meetings of our Company conferred by, and the rights in respect of capital and dividends attached to each of the five (5) classes of shares in our authorised share capital are set out below.

2.1 Shares

Article 92 – Member's right to appoint proxy

"In every notice calling a meeting there shall appear with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him."

Article 106 – Vote of members

"Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held, on a show of hands every member present in person or by proxy shall have one (1) vote and upon a poll every member present in person or by proxy shall have one vote (1) for every share held by him. Subject to Article 108, a member shall be entitled to appoint any person as his proxy and such person need not be an advocate, an approved company auditor or a person approved by the Registrar."

Article 107 – Voting rights

"(1) A holder may appoint more than two (2) proxies to attend the same meeting.

Where a holder appoints two (2) or more proxies, he shall specify the proportion of his shareholding to be represented by each proxy.

(2) Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) security account ("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.

(3) Where the capital of a Company consists of shares of different monetary denominations, voting rights shall be prescribed in such a manner that a unit of capital in each class, when reduced to a common denominator, shall carry the same voting power when such right is exercisable."

Article 71 – Company may alter its capital in certain ways

"The Company may so far alter the conditions of its Memorandum of Association by Ordinary Resolution:

(1) to consolidate and divide its share capital into shares of larger amount than its existing shares; or

(2) to cancel any shares not taken or agreed to be taken by any person; or

(3) to divide its share capital or any part thereof into shares of smaller amount than is fixed by its Memorandum of Association by subdivision of its existing shares or any of them, subject nevertheless to the provisions of the Act and so that as between the resulting shares, one (1) or more of such shares may by the resolution by which such subdivision is effected be given any preference or advantage as regards dividend, capital, voting or otherwise over the others or any of the such shares.

and by Special Resolution:

(4) to reduce its capital and any capital redemption reserve fund or any share premium account in any manner authorised and subject to any conditions prescribed by the Act."

Article 72 – Company may increase its capital

"The Company in general meeting may from time to time, whether all the shares for the time being authorised shall have been issued or all the shares for the time being issued shall have been fully called up or not, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts and (subject to any special rights for the time being attached to any existing class of shares) to carry such preferential, deferred or other special rights (if any), or to be subject to such condition or restriction (if any) in regard to dividend, return of capital, voting or otherwise, as the general meeting resolving upon such increase directs."

Article 159 – Profits of Company which are to be distributed by way of dividend

"Subject to any rights or privileges for the time being attached to any shares in the capital of the Company having preferential or special rights in regards to dividend and to the provisions of these Articles as to the reserve and depreciation funds, the profits of the Company which it shall from time to time be determined to distribute by way of dividend, shall be applied in payment of dividends upon the ordinary shares of the Company in proportion to the amounts respectively paid up thereon or credited as paid up thereon at the end of the period in respect of which the dividend is declared, other than the amounts paid in advance of calls."

Article 160 – Dividends

"The Company in general meeting may declare a dividend to be paid to the members according to their rights and interest in the profits and may fix the time for the payment of such dividend."

FURTHER INFORMATION (Cont'd)

Article 203 – Distribution of assets

"If the Company shall be wound up and the assets available for distribution among the members shall be insufficient to pay the whole of the paid up capital, such assets shall be distributed so that as nearly as may be the losses shall be borne by the members in proportion to the capital paid up or which ought to have been paid up at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution among the members shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the assets shall be distributed among the members in proportion to the capital at the commencement of the winding up paid up, or which ought to have been paid up, on the shares held by them respectively, but this Article is to be without prejudice to the rights of the holders of shares issued upon special terms and conditions."

2.2 Special Share

Article 5(3) – Right to attend and speak at General Meetings

"The Special Shareholder or any person acting on behalf of the Special Shareholder shall be entitled to receive notice of and to attend and speak at all general meetings or any other meeting of any class of shareholders of the Company, but the Special Share shall carry no right to vote nor any other rights at any such meeting."

Article 5(5) – Rights of redemption and repayment of Capital

"The Special Shareholder may subject to the provisions of the Act, require the Company to redeem the Special Share at par at any time by serving written notice upon the Company and delivering the relevant share certificate. In a distribution of capital in a winding up of the Company, the Special Shareholder shall be entitled to repayment of the capital paid up on the Special Share in priority to any repayment of capital to any other Member. The Special Share shall confer no other right to participate in the capital or profits of the Company."

Article 5(4) – No rights to dividends

"The Special Share shall confer no rights to any dividend at any time."

2.3 RCPS 1

Article 7A(1) – Rights of redeemable convertible preference shareholder

"Holders of the RCPS shall have the same rights as ordinary shareholders as regards receiving notices, reports and audited accounts and attending general meetings of the Company PROVIDED always that holders of the RCPS each shall not have the right to vote or to move or second any resolution at any general meeting of the Company except on each of the following circumstances:

(a) on a proposal to reduce or increase the Company's share capital;

(b) on a proposal for the disposal of the whole of the Company's property, business and undertakings;

(c) on a proposal that directly or indirectly varies or affects rights, privileges or conditions attached to the RCPS, or the exercise of any of those rights, privileges or conditions;

(d) on a proposal to wind up the Company; and

(e) during the winding up of the Company.

In any such case a holder shall have one (1) vote for each RCPS held. Any holder may demand a poll at a general meeting of the Company on any resolution on which that holder may vote."

Article 7A(2) – Rights of redeemable convertible preference shareholder

"Each RCPS shall on a winding-up or upon a reduction of capital or other return capital (other than on the redemption or conversion of the RCPS) rank pari passu with each other and confer on the holder thereof the right to receive, in priority to the holders of any other class of shares in the capital of the Company the cash repayment in full of the nominal amount (and premium payable) of that RCPS after the payment and discharge of all debts and liabilities of the Company and the costs of winding up or such capital reduction exercise."

Article 7A(3) – Rights of redeemable convertible preference shareholder

"The RCPS shall not be entitled to receive any dividends out of the profits of the Company or to participate in the profits of the Company."

2.4 RPS

Article 7B(1) – Rights of redeemable preference shareholder

"Holders of the RPS shall have the same rights as ordinary shareholders as regards receiving notices, reports and audited accounts and attending general meetings of the Company PROVIDED always that holders of the RPS shall not have the right to vote or to move or second any resolution at any general meeting of the Company except on each of the following circumstances:

(a) on a proposal to reduce the Company's share capital;

(b) on a proposal for the disposal of the whole of the Company's property, business and undertaking;

(c) on a proposal that directly or indirectly varies or affects rights, privileges or conditions attached to the RPS, or the exercise of any of those rights, privileges or conditions;

(d) on a proposal to wind up the Company; and

(e) during the winding up of the Company.

In any such case a holder shall have one (1) vote for each RPS held. Any holder may demand a poll at a general meeting of the Company on any resolution on which that holder may vote."

Article 7B(2) – Rights of redeemable preference shareholder

"Each RPS shall on winding-up or upon a reduction of capital or other return capital (other than on the redemption of the RPS) rank pari passu with each other and confer on the holder thereof the right to receive, in priority to the holders of any other class of shares (except for Special Share and RCPS) in the capital of the Company the cash repayment in full of the nominal amount (and premium payable, and the amount of any dividend in arrears) of that RPS after the payment and discharge of all debts and liabilities of the Company and the costs of winding up or such capital reduction exercise."

FURTHER INFORMATION (Cont'd)

Article 7B(3) – Rights of redeemable preference shareholder

"The RPS shall be, at the option of the Company, entitled to a non-cumulative Cash Dividend at the end of every six (6) month period or any other period to be determined by the Board and the lender commencing from the date of issue of the RPS.

"Cash Dividend" refers to the tax exempt cash dividend payable for each six (6) month period or any other period to be determined by the Board and the lender(s) which shall be equal to the outstanding principal amount of borrowings packaged together with the RPS to be raised by MAS x A/365 x [MDIR – (MDIR x prevailing Malaysian corporate income tax rate x B)].

"A" refers to the number of calendar days elapsed in that six (6) month period or any other period to be determined by the Board and the lender(s).

"MDIR" refers to the interest rate per annum based on prevailing market conditions and determined by the Board and the lender(s) prior to the drawdown of such borrowings packaged together with the RPS by the Company.

"B" refers to the appropriate ratio between 70% and 100% as determined by the Board and the lender(s) prior to the drawdown of such borrowings packaged together with the RPS by the Company."

2.5 RCPS 2

Article 7C(1) – As regards voting rights

"The holders of the RCPS of RM0.10 each shall have the same rights as any holder of the Ordinary Shares as regards receiving notices, reports and audited accounts and attending general meetings of the Company but shall not be entitled to any voting right at any general meeting of the Company except on any of the following circumstances:

(a) on a proposal to reduce or increase the Company's share capital;

(b) on a proposal for the disposal of the whole of the Company's property, business and undertaking;

(c) on a proposal that directly or indirectly varies or affects the rights, privileges or conditions attached to the RCPS of RM0.10 each, or the exercise of any of those rights, privileges or conditions;

(d) on a proposal to wind up the Company; and

(e) during the winding up of the Company.

In any such case a holder of RCPS of RM0.10 each shall have one (1) vote for each RCPS of RM0.10 each held. Any holder of the RCPS of RM0.10 each may demand a poll at a general meeting of the Company on any resolution on which that holder may vote."

Article 7(C)(2) – As regards return of capital

"Each RCPS of RM0.10 each shall, on 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 pursuant to the terms herein) rank pari passu with each other and confer on the holder thereof the right to receive, in priority to the holders of any other class of shares (except for the Special Share, the RCPS of RM0.01 each and the RPS) in the capital of the Company the 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 of RM0.10 each after the payment and discharge of all debts and liabilities of the Company and the costs of winding-up of such capital reduction exercise."

Article 7(C)(3) – As regards dividend

"(a) Until the RCPS of RM0.10 each shall have been converted in accordance with these Articles or redeemed or be subject to the Cash Settlement Option, the RCPS of RM0.10 each will confer on the holders and to the extent that there are sufficient net profits after taxation available for distribution for the relevant financial year (including any retained profits and distributable reserves brought forward) as may be determined by the Directors in their discretion, and in priority to all other classes of shares in the capital of the Company (save for the RPS), a non-cumulative preferential dividend of thirty per cent (30%) per annum, calculated based on the par value of the RCPS of RM0.10 each.

(b) The dividends, if any, shall be paid within ten (10) Market Days from every anniversary of the Issue Date for a period of five (5) years or at such other time or times as may be determined by the Directors."

3. REMUNERATION OF DIRECTORS

An extract of the provisions of our Articles of Association relating to the remuneration of our Directors are as follows:

Article 120

The Directors shall be paid by way of remuneration for their services such fixed sum (if any) as shall from time to time be determined by the Company in general meeting and such remuneration shall be divided among the Directors in such proportions and manner as the Directors may determine. Provided always that:

(a) fees payable to Directors who hold no executive office in the Company shall be paid by a fixed sum and not by a commission on or percentage of profits or turnover.

(b) salaries payable to Directors who do hold an executive office in the Company may not include a commission on or percentage of turnover.

(c) fees payable to Directors shall not be increased except pursuant to a resolution passed at a general meeting where notice of the proposed increase has been given in the notice convening the meeting.

(d) any fee paid to an alternate Director shall be agreed between himself and the Director nominating him and shall be paid out of the remuneration of the latter.

Article 121

If any Director being willing shall be called upon to perform extra services or to make any special exertions in going or residing away from his usual place of business or residence for any of the purpose of the Company or in giving special attention to the business of the Company as a member of a Committee of Directors, the Company may pay the Director remuneration and expenses therefore either by a fixed sum or otherwise (other than by a sum to include a commission on or percentage or turnover) as may be determined by the Company in general meeting and such remuneration and expenses may be either in addition to or in substitution for his or their share in the remuneration from time to time provided for the Directors.

Article 122

The Directors shall also be entitled to be repaid all reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors, including any expenses incurred in attending meetings of the Directors or of a Committee of Directors or general meetings.

4. MATERIAL CONTRACTS

Save as disclosed below neither we nor our subsidiaries have entered into any material contracts (not being contracts in the ordinary course of business) during the two (2) years immediately preceding the date of this AP:

(a) On 16 May 2011, MASKargo Sdn Bhd entered into a memorandum of understanding with Yangtze River Express Co., LTD in relation to, amongst others, a joint cooperation in warehouse construction and cargo handling operations at Shanghai Pudong International Airport.

(b) On 9 August 2011, our Company entered into a collaboration agreement with AirAsia Berhad ("**AirAsia**") and AirAsia X Sdn Bhd ("**AirAsia X**"). in which we agreed to operate an airline business as a full-service carrier, while AirAsia and AirAsia X have agreed to operate airline businesses as low-cost carriers. On 2 May 2012, AirAsia, AirAsia X and our Company entered into a supplementary deed in relation to, amongst others, the conclusion of the review of the joint collaboration committee and the disbanding of the said committee.

(c) On 21 October 2011, our Company entered into an agreement with AirAsia for the issuance of 274,056,812 warrants of our Company, for free to shareholders of AirAsia and the issuance of 111,060,240 warrants of AirAsia, for free to shareholders of our Company. This agreement was mutually terminated on 17 May 2012.

5. MATERIAL LITIGATIONS

As at the date of this AP, save as disclosed below, our Group is not engaged in any other material litigations, claims or arbitration, either as plaintiff or defendant and our Directors do not have any knowledge of any proceedings pending or threatened, or any facts which is likely to give rise to any proceedings which may materially and adversely affect the financial position or business of our Group.

(a) **(i) Meor Adlin vs MAS**

(ii) Stephen Gaffigan vs MAS

(iii) Micah Abrams vs MAS

(iv) Donald Wortman vs MAS

(v) Bruce Hut vs MAS

(vi) Dickson Leung vs MAS

Between 18 January 2008 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 involved allegations of price fixing for transpacific 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 also dismissed portions of the claims relating to flights originating in Asia on the basis of lack of jurisdiction. These two (2) rulings have, according to the Company's US lawyers, significantly reduced the potential amount of claims. The case is proceeding.

According to the solicitors handling the matter, it is not possible to determine the likely outcome of this matter at this juncture.

(b) **Statement of Claim from Commerce Commission of New Zealand**

On 15 December 2008, the Company was served with a "Statement of Claim" from the Commerce Commission of New Zealand ("**Commerce Commission**") in relation to its air freight investigation under Section 27 of the New Zealand Commerce Act. On 31 January 2013, the Company and MASkargo entered into a confidential settlement agreement ("**Settlement Agreement**") with the Commerce Commission in relation to the proceedings. Following entry into the Settlement Agreement, the proceedings were discontinued against the Company on 19 February 2013 and the Company has made no admission of liability in relation to the proceedings and the Company's wholly owned cargo subsidiary Malaysia Airlines Cargo Sdn Bhd ("**MASkargo**") was added as a second defendant to the proceedings on 15 February 2013 and made certain limited admissions in relation to the proceedings. A hearing was held in the New Zealand High Court ("**Court**") in relation to the penalty to be imposed against MASkargo in relation to the proceedings on 19 February 2013, and a judgment was issued on 22 April 2013. The Court has ordered in the judgment that MASkargo pays a penalty of NZ$2.6 million, payable in four instalments over 18 months, and that it contributes NZ$259,079.18 to the Commerce Commission's court costs. MASkargo must also contribute NZ$400,000 to the Commerce Commission's investigation costs, payable in four instalments over 18 months.

FURTHER INFORMATION (Cont'd)

(c) Application and Statement of Claim from Australian Competition and Consumer Commission

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 in 2012. Under the settlement, MASkargo Sdn Bhd will pay a penalty of AUD6.0 million plus contribution towards ACCC's costs of AUD0.5 million over a period of 24 months.

6. GENERAL

6.1 There are no existing or proposed service contracts between our Group and our Directors and key management excluding contracts expiring or determinable by the employing company without payment or compensation (other than statutory compensation) within a year from the date of this AP.

6.2 Save as disclosed in this AP, our Board, after having made all reasonable enquiries, is not aware of any material information, including all special trade factors or risks which are unlikely to be known or anticipated by the general public and which could materially affect our Group's results.

6.3 Save as disclosed in this AP, the financial condition and operations of our Group are not likely to be affected by any of the following:

(i) known trends, demands, commitments, events or uncertainties that will or are likely to materially increase or decrease the liquidity of our Group;

(ii) material commitments for capital expenditure of our Group;

(iii) unusual, infrequent events or transactions or any significant economic changes which materially affected the amount of reported income from our operations; and

(iv) known trends or uncertainties which have had, or that our Group reasonably expects will have, a material favourable or unfavourable impact on revenues or operating income.

7. CONSENTS

7.1 The written consents of the Principal Adviser, Solicitors, Share Registrar, Principal Bankers, IATA, Company Secretary and Bloomberg Finance L.P. for the inclusion in this AP of their names and all references thereto in the form and context in which they appear have been given before the issuance of this AP and have not subsequently been withdrawn.

7.2 The written consent of our Auditors and Reporting Accountants for the inclusion in this AP of their name and the letter relating to the proforma consolidated statements of financial position of MAS as at 31 December 2012 together with the Reporting Accountants' letter and all references thereto in the form and context in which they appear have been given before the issuance of this AP and have not subsequently been withdrawn.

FURTHER INFORMATION (Cont'd)

8. DOCUMENTS FOR INSPECTION

Copies of the following documents may be inspected at our registered office at 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan, from Mondays to Fridays during normal business hours (except public holidays) for a period of 12 months from the date of this AP:

(i) our Memorandum and Articles of Association;

(ii) our proforma consolidated statements of financial position as at 31 December 2012 together with the Reporting Accountants' letter thereon as set out in Appendix III of this AP;

(iii) our audited consolidated financial statements for the FYE 31 December 2011 and FYE 31 December 2012;

(iv) our unaudited consolidated results for the 12-month FPE ended 31 December 2012 as set out in Appendix V of this AP;

(v) our Directors' Report as set out in Appendix VI of this AP;

(vi) the material contracts and/or documents referred to in Section 4 of Appendix VII of this AP;

(vii) cause papers in respect of the material litigations referred to in Section 5 of Appendix VII of this AP;

(viii) the letters of consent referred to in Section 7 of Appendix VII of this AP; and

(ix) the letter of undertaking from the Undertaking Shareholder as referred to in Section 8 of this AP.

9. RESPONSIBILITY STATEMENTS

Our Board has seen and approved this AP together with the accompanying NPA and RSF. They collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable enquiries, that to the best of their knowledge and belief, there are no false or misleading statements or other facts which if omitted would make the statements in this AP together with the accompanying NPA and RSF, false or misleading.

CIMB, being the Principal Adviser, acknowledges that, based on all available information, and to the best of its knowledge and belief, this AP constitutes a full and true disclosure of all material facts concerning the Rights Issue.