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MALAYSIAN AIRLINE SYSTEM BERHAD
(10601-W)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2013

10601-W

Malaysian Airline System Berhad
(Incorporated in Malaysia)

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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 2013.

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	(1,168,839)	(1,248,503)
Attributable to:		
Equity holders of the Company	(1,173,687)	(1,248,503)
Non-controlling interests	4,848	-
	(1,168,839)	(1,248,503)

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 2013.

Malaysian Airline System Berhad
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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
David Lau Nai Pek
Tan Sri Tan Boon Seng @ Krishnan
Dr. Mohamadon bin Abdullah
Tan Sri Dr. Mohd Irwan Serigar bin Abdullah
Tan Sri Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani
Tan Sri Datuk Seri Panglima Sukarti bin Wakiman
Eshah binti Meor Suleiman (alternate to Tan Sri Dr. Mohd Irwan Serigar bin Abdullah)
Mohd Shahazwan bin Mohd Harris (appointed on 17 June 2013)
Tan Sri Mohamed Azman bin Yahya (retired on 14 May 2013)

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 34 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.

Issue of shares

During the financial year, the Capital Restructuring (comprising a reduction of RM0.90 of the par value of each existing ordinary share of RM1.00 each in MAS ("Par Value Reduction") and a reduction of the share premium account pursuant to Sections 64 and 60 of the Companies Act, 1965 in Malaysia took effect with the lodgment of the Court Order with the Companies Commission of Malaysia. Pursuant to the Par Value Reduction, the par value of each existing ordinary share in MAS has been reduced from RM1.00 to RM0.10 each.

Issue of shares (cont'd.)

The Company also issued 13,368,624,960 new ordinary shares of RM0.10 each at an issue price of RM0.23 per rights share on the basis of four (4) rights share for every one (1) existing ordinary share of RM0.10 each held in the Company.

The new ordinary shares issued during the financial year ranked pari passu in all respects with the existing ordinary shares of the Company.

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.

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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 43 to the financial statements.

Subsequent events

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

Auditors

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 18 February 2014.

Tan Sri Md. Nor bin Md. Yusof

Ahmad Jauhari bin Yahya

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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 127 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 2013 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 128, is prepared in all material respects, in accordance with Guidance on Special Matter No.1 Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad.

Signed on behalf of the Board in accordance with a resolution of the directors dated 18 February 2014.

Tan Sri Md. Nor bin Md. Yusof

Ahmad Jauhari bin Yahya

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

I, Mohd Nadziruddin Bin Mohd Basri, 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 128 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 Nadziruddin Bin Mohd Basri at Kuala Lumpur Wilayah Persekutuan on 18 February 2014.

Mohd Nadziruddin Bin Mohd Basri

Before me,

PESURUHJAYA SUMPAH
No: W 626
Nama: HAJJAH JAMILAH ISMAIL
MALAYSIA

Lot 5.30, Tingkat 5
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Independent auditors' report to the members of
Malaysian Airline System Berhad
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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 2013 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 127.

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.

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**Independent auditors' report to the members of
Malaysian Airline System Berhad (cont'd.)
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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 2013 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 128 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.

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Independent auditors' report to the members of Malaysian Airline System Berhad (cont'd.)
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Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
18 February 2014

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

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Malaysian Airline System Berhad
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Income statements
For the financial year ended 31 December 2013

		Group		Company	
	Note	**2013**	**2012**	**2013**	**2012**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Operating revenue	3	14,548,164	13,286,612	13,117,022	11,930,377
Operating expenditure		(15,683,736)	(14,117,447)	(14,442,760)	(12,834,420)
Other operating income		573,040	469,799	627,250	517,947
Loss from operations	4	(562,532)	(361,036)	(698,488)	(386,096)
Fair value change of derivatives	5	20,354	(17,216)	20,354	(17,216)
Unrealised foreign exchange (loss)/gain		(194,426)	189,968	(147,995)	130,833
Finance costs	6	(436,613)	(235,259)	(408,480)	(205,565)
Share of post-tax results from investments accounted for using the equity method		20,429	(1,258)	-	-
Loss before taxation		(1,152,788)	(424,801)	(1,234,609)	(478,044)
Taxation	9	(16,051)	(5,937)	(13,894)	(3,413)
Loss for the year		(1,168,839)	(430,738)	(1,248,503)	(481,457)
Loss attributable to:					
Equity holders of the Company		(1,173,687)	(432,587)	(1,248,503)	(481,457)
Non-controlling interests		4,848	1,849	-	-
		(1,168,839)	(430,738)	(1,248,503)	(481,457)
Loss per share attributable to equity holders of the Company (sen):					
Basic, for loss for the year	10	(8.7)	(6.1)		
Diluted, for loss for the year	10	(8.7)	(6.1)		

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

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Malaysian Airline System Berhad
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Statements of comprehensive income
For the financial year ended 31 December 2013

	Group		Company	
	2013	**2012**	**2013**	**2012**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Loss for the year	(1,168,839)	(430,738)	(1,248,503)	(481,457)
Other comprehensive income:				
Gains on cash flow hedges	98,247	49,628	98,247	49,628
Share of other comprehensive income of an associated company	17,141	-	-	-
Total comprehensive loss for the year	(1,053,451)	(381,110)	(1,150,256)	(431,829)
Total comprehensive loss attributable to:				
Equity holders of the Company	(1,058,299)	(382,959)	(1,150,256)	(431,829)
Non-controlling interests	4,848	1,849	-	-
	(1,053,451)	(381,110)	(1,150,256)	(431,829)

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

Malaysian Airline System Berhad
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Statements of financial position as at 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000 Restated	Company 2013 RM'000	Company 2012 RM'000 Restated
Non-current assets					
Aircraft, property, plant and equipment	11	14,615,157	12,853,554	13,110,736	11,459,733
Investments in subsidiaries	12	-	-	155,372	155,371
Investments in associates	13	152,305	125,044	81,479	83,834
Investment in a joint venture	14	-	-	-	-
Other investments	15	63,437	57,038	63,437	57,038
Intangible assets	16	149,079	153,912	144,421	146,590
Other receivables	18	1,023,137	313,473	1,430,233	782,493
Deferred tax assets	31	1,145	1,021	-	-
Derivative financial instruments	41	24,941	-	24,941	-
		16,029,201	13,504,042	15,010,619	12,685,059
Current assets					
Inventories	17	253,765	331,164	247,007	325,449
Trade and other receivables	18	1,596,152	1,379,965	2,583,206	1,594,113
Tax recoverable		5,076	6,057	4,363	5,554
Derivative financial instruments	41	100,337	42,505	100,337	42,505
Cash and bank balances	19	3,870,622	2,148,478	3,773,316	2,057,506
		5,825,952	3,908,169	6,708,229	4,025,127
Current liabilities					
Sales in advance of carriage	20	2,200,304	1,663,026	2,167,948	1,634,232
Deferred revenue	21	347,670	224,036	347,670	223,644
Trade and other payables	23	2,668,700	2,464,219	3,369,459	2,524,610
Provisions	24	803,988	1,330,001	712,377	1,243,760
Borrowings	25	1,254,388	1,458,237	1,186,005	1,394,390
Derivative financial instruments	41	1,970	13,940	1,970	13,940
Taxation		2,078	533	963	776
		7,279,098	7,153,992	7,786,392	7,035,352
Net current liabilities		(1,453,146)	(3,245,823)	(1,078,163)	(3,010,225)
		14,576,055	10,258,219	13,932,456	9,674,834

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Statements of financial position as at 31 December 2013 (cont'd.)

		Group		Company	
	Note	**2013 RM'000**	**2012 RM'000 Restated**	**2013 RM'000**	**2012 RM'000 Restated**
Financed by:					
Equity attributable to equity holders of the Company:					
Share capital	28	1,671,078	3,342,156	1,671,078	3,342,156
Perpetual Sukuk	29	1,498,190	1,498,190	1,498,190	1,498,190
Reserves	30	864,655	(2,717,202)	769,192	(2,720,708)
		4,033,923	2,123,144	3,938,460	2,119,638
Non-controlling interests		18,208	14,847	-	-
Total equity		4,052,131	2,137,991	3,938,460	2,119,638
Non-current liabilities					
Other payables	23	-	-	17,629	23,381
Borrowings	25	10,517,788	8,090,293	9,970,354	7,502,099
Derivative financial instruments	41	6,013	29,716	6,013	29,716
Deferred tax liabilities	31	123	219	-	-
		10,523,924	8,120,228	9,993,996	7,555,196
		14,576,055	10,258,219	13,932,456	9,674,834

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

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Malaysian Airline System Berhad
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Statements of changes in equity
For the financial year ended 31 December 2013

		Attributable to equity holders of the Company											
				<------------------- Non-Distributable		--------------------->		<Distributable>					
	Note	**Share capital RM'000**	**Perpetual Sukuk RM'000**	**Share premium RM'000**	**Capital redemption reserve RM'000**	**Cash flow hedge reserve RM'000**	**Foreign currency translation reserve 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 2013		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
Loss for the year		-	-	-	-	-	-	-	(1,173,687)	(1,173,687)	(1,173,687)	4,848	(1,168,839)
Other comprehensive income		-	-	-	-	98,247	17,141	-	-	115,388	115,388	-	115,388
Distribution to Perpetual Sukuk holders	29	-	-	-	-	-	-	-	(103,500)	(103,500)	(103,500)	-	(103,500)
Capital reduction	28	(3,007,940)	-	(4,995,970)	-	-	-	-	8,003,910	3,007,940	-	-	-
Transactions with owners													
Dividend by subsidiaries		-	-	-	-	-	-	-	-	-	-	(1,487)	(1,487)
Rights issue	28	1,336,862	-	1,737,921	-	-	-	-	-	1,737,921	3,074,783	-	3,074,783
Rights issue expenses		-	-	(2,205)	-	-	-	-	-	(2,205)	(2,205)	-	(2,205)
Total transactions with owners		1,336,862	-	1,735,716	-	-	-	-	-	1,735,716	3,072,578	(1,487)	3,071,091
At 31 December 2013		1,671,078	1,498,190	1,735,716	41,775	119,653	17,141	459,755	(1,509,385)	864,655	4,033,923	18,208	4,052,131

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Malaysian Airline System Berhad
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Statements of changes in equity
For the financial year ended 31 December 2013 (cont'd.)

	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 reserve 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
		Attributable to equity holders of the Company												
				<---- Non-Distributable				---->	<Distributable>					
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	29	-	1,498,190	-	-	-	-	-	-	-	-	1,498,190	-	1,498,190
Distribution to Perpetual Sukuk holders	29	-	-	-	-	-	-	-	-	(34,595)	(34,595)	(34,595)	-	(34,595)
Transactions with owners														
Dividend by subsidiaries		-	-	-	-	-	-	-	-	-	-	-	(641)	(641)
Redemption of RCPS	26	-	-	-	(58,076)	-	41,775	-	(41,775)	58,076	-	-	-	-
Expiry of ESOS	22	-	-	-	-	(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

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 2013 (cont'd.)

		<---------- Non-Distributable					----------->	<Distributable>		
	Note	**Share capital RM'000**	**Perpetual Sukuk RM'000**	**Share premium RM'000**	**Capital redemption reserve RM'000**	**Cash flow hedge reserve RM'000**	**General reserve RM'000**	**Accumulated losses RM'000**	**Total reserves RM'000**	**Total RM'000**
Company										
At 1 January 2013		3,342,156	1,498,190	4,995,970	41,775	21,406	458,225	(8,238,084)	(2,720,708)	2,119,638
Loss for the year		-	-	-	-	-	-	(1,248,503)	(1,248,503)	(1,248,503)
Other comprehensive income		-	-	-	-	98,247	-	-	98,247	98,247
Distribution to Perpetual Sukuk holders	29	-	-	-	-	-	-	(103,500)	(103,500)	(103,500)
Capital reduction	28	(3,007,940)	-	(4,995,970)	-	-	-	8,003,910	3,007,940	-
Transactions with owners										
Rights issue	28	1,336,862	-	1,737,921	-	-	-	-	1,737,921	3,074,783
Rights issue expenses		-	-	(2,205)	-	-	-	-	(2,205)	(2,205)
Total transactions with owners		1,336,862	-	1,735,716	-	-	-	-	1,735,716	3,072,578
At 31 December 2013		1,671,078	1,498,190	1,735,716	41,775	119,653	458,225	(1,586,177)	769,192	3,938,460

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Statement of changes in equity
For the financial year ended 31 December 2013 (cont'd.)

				<------------------------------ 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 reserve RM'000**	**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	29	-	1,498,190	-	-	-	-	-	-	-	-	1,498,190
Distribution to Perpetual Sukuk holders	29	-	-	-	-	-	-	-	-	(34,595)	(34,595)	(34,595)
Transactions with owners												
Redemption of RCPS	26	-	-	-	(58,076)	-	41,775	-	(41,775)	58,076	-	-
Expiry of ESOS	22	-	-	-	-	(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

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

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Malaysian Airline System Berhad
(Incorporated in Malaysia)

Statements of cash flows
For the financial year ended 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Cash flows from operating activities					
Loss before taxation		(1,152,788)	(424,801)	(1,234,609)	(478,044)
Adjustments for:					
Fair value change of derivatives	5	(20,354)	17,216	(20,354)	17,216
Aircraft, property, plant and equipment:					
- depreciation	4	858,597	545,449	783,485	464,767
- (gain)/loss on disposal, net	4	(12,517)	42,479	(13,660)	43,967
- (writeback of)/provision for impairment losses, net	4	(87,498)	(31,857)	52,962	(31,857)
- written off, net	4	22,890	2,361	22,905	2,361
Provision for/(writeback of):					
- aircraft maintenance and overhaul costs	24	458,134	730,262	451,264	679,679
- short term accumulating compensated absences		12,721	9,252	12,721	9,252
- unavailed credit on sales in advance of carriage		(371,523)	(210,620)	(362,695)	(200,289)
- doubtful debts, net	4	38,987	13,595	41,644	68,043
- inventories obsolescence, net	4	88,233	15,327	87,413	15,327
- inventories loss	4	(14,151)	7,830	(14,151)	7,830
Amortisation of intangible assets	4	45,627	34,757	42,911	29,644
Operating (loss)/profit before working capital changes carried forward		(133,642)	751,250	(150,164)	627,896

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Malaysian Airline System Berhad
(Incorporated in Malaysia)

Statements of cash flows
For the financial year ended 31 December 2013 (cont'd.)

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Cash flows from operating activities (cont'd.)					
Operating (loss)/profit before working capital changes brought forward		(133,642)	751,250	(150,164)	627,896
Share of post-tax results from investments accounted for using the equity method		(20,429)	1,258	-	-
Unrealised foreign exchange loss/(gain)		194,426	(189,968)	147,995	(130,833)
Interest income	4	(113,691)	(53,620)	(132,966)	(78,229)
Dividend income	4	(8,796)	(22,175)	(37,195)	(36,268)
Finance cost	6	436,613	235,259	408,480	205,565
Operating profit before working capital changes		354,481	722,004	236,150	588,131
Decrease in inventories		3,318	7,946	5,180	5,580
Increase in trade and other receivables		(936,990)	(131,604)	(1,640,660)	(174,769)
Increase in sales in advance of carriage		908,801	167,704	896,411	153,530
Increase in deferred revenue		123,634	18,729	124,026	18,832
Increase/(Decrease) in trade and other payables		122,014	(188,026)	764,471	(181,800)
Decrease in provisions	24	(984,147)	(588,426)	(982,647)	(586,926)
Cash (used in)/generated from operating activities		(408,889)	8,327	(597,069)	(177,422)
Net cash settlement on derivatives		38,599	21,728	38,599	21,728
Finance cost paid		(476,285)	(330,824)	(450,365)	(302,673)
Taxes paid		(13,745)	(4,268)	(12,516)	(5,491)
Net cash used in operating activities		(860,320)	(305,037)	(1,021,351)	(463,858)

Malaysian Airline System Berhad
(Incorporated in Malaysia)

Statements of cash flows
For the financial year ended 31 December 2013 (cont'd.)

		Group		Company	
	Note	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Cash flows from investing activities					
Purchase of:					
- aircraft, property, plant and equipment		(3,823,063)	(4,726,762)	(3,777,813)	(4,938,469)
- intangible assets	16	(40,794)	(36,912)	(40,742)	(36,783)
- investments in joint venture		(9,282)	(23,860)	-	-
- other investments		(9,273)	(2,451)	(9,273)	(2,451)
(Placement)/Withdrawal of:					
- deposits pledged with banks		(110,205)	41,174	(110,205)	41,174
- negotiable instruments of deposits		-	101,073	-	101,073
Proceeds from disposal of:					
- aircraft, property, plant and equipment		1,349,626	822,306	1,350,756	1,317,689
- investment in associate		2,355	-	2,355	-
- other investments		-	12	-	12
Interest received		113,691	31,484	132,965	56,091
Dividend received		26,032	35,336	37,195	36,268
Net cash used in investing activities		(2,500,913)	(3,758,600)	(2,414,762)	(3,425,396)

Malaysian Airline System Berhad
(Incorporated in Malaysia)

Statements of cash flows
For the financial year ended 31 December 2013 (cont'd.)

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Cash flows from financing activities					
Proceeds from:					
- issuance of shares		3,074,783	-	3,074,783	-
- borrowings		2,010,000	8,658,520	2,010,000	8,440,485
- aircraft refinancing		1,439,768	944,609	1,439,768	944,609
- issuance of Perpetual Sukuk		-	1,498,190	-	1,498,190
Repayment of:					
- borrowings		(890,189)	(5,100,000)	(840,000)	(5,100,000)
- finance lease		(553,998)	(312,155)	(537,128)	(261,077)
Redemption of RCPS	26	-	(415,103)	-	(415,103)
Distribution to Perpetual Sukuk holders	29	(103,500)	(34,595)	(103,500)	(34,595)
Rights issue expenses		(2,205)	-	(2,205)	-
Dividends paid to minority shareholders in subsidiaries		(1,487)	(641)	-	-
Net cash generated from financing activities		4,973,172	5,238,825	5,041,718	5,072,509
Net increase in cash and cash equivalents		1,611,939	1,175,188	1,605,605	1,183,255
Cash and cash equivalents at beginning of year		2,134,002	958,814	2,043,030	859,775
Cash and cash equivalents at end of year	19	3,745,941	2,134,002	3,648,635	2,043,030

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

1. Corporate information

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

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 18 February 2014.

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 Changes in accounting policies

On 1 January 2013, the Group and the Company adopted the following new and amended MFRS mandatory for annual financial periods beginning on or after 1 January 2013:

MFRS 3	Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)
MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosure of Interests in Other Entities
MFRS 13	Fair Value Measurement
MFRS 119	Employee Benefits (revised)
MFRS 127	Separate Financial Statements
MFRS 128	Investments in Associates and Joint Ventures
MFRS 127	Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)

2. Significant accounting policies (cont'd.)

2.2 Changes in accounting policies (cont'd.)

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

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

(a) MFRS 10 Consolidated Financial Statements

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

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

MFRS 10 includes detailed guidance to explain when an investor that owns less than 50 per cent of the voting shares in an investee has control over the investee. MFRS 10 requires the investor to take into account all relevant facts and circumstances, particularly the size of the investor’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders.

The adoption of MFRS 10 did not have any financial impact on the financial statements of the Group.

2. Significant accounting policies (cont'd.)

2.2 Changes in accounting policies (cont'd.)

(b) MFRS 11 Joint Arrangements

MFRS 11 replaces MFRS 131 Interests in Joint Ventures and IC Interpretation 113 Jointly-Controlled Entities – Non-monetary Contributions by Venturers.

The classification of joint arrangements under MFRS 11 is determined based on the rights and obligations of the parties to the joint arrangements by considering the structure, the legal form, the contractual terms agreed by the parties to the arrangement and when relevant, other facts and circumstances. Under MFRS 11, joint arrangements are classified as either joint operations or joint ventures.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

MFRS 11 removes the option to account for jointly controlled entities (“JCE”) using proportionate consolidation. Instead, JCE that meet the definition of a joint venture must be accounted for using the equity method.

The application of this new standard does not affect the financial position of the Group. MAS-GMR Aerospace Engineering Pte. Ltd. is treated as a joint venture and has been accounted for using the equity method.

(c) MFRS 12 Disclosures of Interests in Other Entities

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

(d) MFRS 13 Fair value measurement

MFRS 13 establishes a single source of guidance under MFRS for all fair value measurements. MFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under MFRS. The adoption of MFRS 13 did not have any financial impact on the Group.

(e) MFRS 127 Separate Financial Statements

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

2. Significant accounting policies (cont'd.)

2.2 Changes in accounting policies (cont'd.)

(f) MFRS 128 Investments in Associates and Joint Ventures

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

2.3 New and revised pronouncements yet in effect

The following new and amended MFRSs (collectively referred to as “pronouncements”) that have been issued by the Malaysian Accounting Standards Board ("MASB") 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 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
Amendments to MFRS 136	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to MFRS 139	Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting

Effective for annual periods beginning on or after 1 July 2014

Amendments to MFRS 119	Defined Benefit Plans - Employee Contributions

Annual Improvements to MFRSs 2010–2012 Cycle
Annual Improvements to MFRSs 2011–2013 Cycle

Effective for annual periods to be announced by MASB

MFRS 9	Financial Instruments (2009)
MFRS 9	Financial Instruments (2010)
MFRS 9	Financial Instruments - Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139

2. Significant accounting policies (cont'd.)

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

The directors expect that the adoption of the above standards and amendments will have no material impact on the financial statements in the period of initial application except as discussed below:

MFRS 9 Financial Instruments

MFRS 9 reflects the first phase of work on the replacement of MFRS 139 and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to MFRS 9: Mandatory Effective Date of MFRS 9 and Transition Disclosures, issued in March 2012, moved the mandatory effective date to 1 January 2015. Subsequently, on 14 February 2014, it was announced that the new effective date will be decided when the project is closer to completion. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

2.4 Significant accounting estimates and judgements

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

(a) Critical judgements made in applying accounting policies

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

(i) Contingent liabilities - litigations

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

(ii) Operating lease commitments

The Group entered into commercial lease arrangements with its related parties 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.

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 31.

(vii) Unutilised tickets

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

(viii) Frequent flyer programme

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

(ix) Fair value of financial instruments

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

2. 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.

2. Significant accounting policies (cont'd.)

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

(b) Subsidiaries and basis of consolidation

(i) Subsidiaries

A subsidiary is an entity over which the Group has power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from its investment with the investee; and the ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting rights of an investee, the Company considers the following in assessing whether or not the Company's voting rights in an investee are sufficient to give it power over the investee:

1. The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

2. Potential voting rights held by the Company, other vote holders or other parties;

3. Rights arising from other contractual arrangements; and

4. Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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 used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company.

Subsidiaries are consolidated when the Group obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. All intra-group balances, income and expenses and unrealised gains or losses resulting from intra-group transactions are eliminated in full. Uniform accounting policies are applied in the financial statements for like transactions and events in similar circumstances.

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.)

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Transaction costs incurred are expensed and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS.

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. Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

(c) Associates

Associates are entities in which the Group has significant influence. 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.

On acquisition of an investment in associate, any excess of the cost of investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill and included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the associate's identifiable assets and 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 for the period in which the investment is acquired.

2. Significant accounting policies (cont'd.)

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

(c) Associates

Investments in associates are accounted for in the financial statements using the equity method of accounting from the date on which the investee becomes an associate.

Under the equity method, on initial recognition 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. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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 applies MFRS 139 Financial Instruments: Recognition and Measurement to determine whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with MFRS 136 Impairment of Assets as a single asset, by comparing its recoverable amount with its carrying amount. Any impairment loss is recognised in profit or loss. Reversal of an impairment loss is recognised to the extent that the recoverable amount of investment subsequently increases.

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.

2. Significant accounting policies (cont'd.)

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

(d) Joint venture

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

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

(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 7 to 18 years.

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

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.)

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

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

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

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

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

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

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

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

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

2. Significant accounting policies (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.

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.

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.

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.

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.

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.

2. Significant accounting policies (cont'd.)

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

(k) Income tax (cont'd.)

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

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

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

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

(l) Employee benefits

(i) Short term benefits

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

(ii) Defined contribution plans

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

2. Significant accounting policies (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.

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.

2. Significant accounting policies (cont'd.)

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

(s) 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.

2. Significant accounting policies (cont'd.)

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

(s) 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.

2. Significant accounting policies (cont'd.)

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

(s) 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.

2. Significant accounting policies (cont'd.)

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

(t) 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.)

(t) 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.

(u) Impairment of financial assets

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

(i) Financial assets carried at amortised cost

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

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

2. Significant accounting policies (cont'd.)

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

(u) 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.

2. Significant accounting policies (cont'd.)

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

(v) 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.

(w) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

For financial instruments where there is no active market, fair value is determined using valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

(x) 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.

(y) 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.

2. Significant accounting policies (cont'd.)

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

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

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

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

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

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

(i) Cash flow hedges

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

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

2. Significant accounting policies (cont'd.)

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

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

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

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.

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.

(z) Segment reporting

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

3. Operating revenue

	Group		Company	
	2013	**2012**	**2013**	**2012**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Passenger revenue	11,663,494	10,573,062	11,064,279	9,962,274
Cargo revenue	1,661,861	1,681,432	875,159	896,808
Other revenue:				
Lease of aircraft and engines	124,950	63,031	191,638	156,467
Airport handling and engineering services	256,857	212,616	254,335	207,702
Intercompany engineering services	-	-	286,680	255,115
Charter services	250,387	267,747	205,019	228,867
Others*	590,615	488,724	239,912	223,144
	14,548,164	13,286,612	13,117,022	11,930,377

* Included herein are revenues from warehousing services, passenger handling services, provision of computerised reservation services, trucking and retailing of goods.

4. Loss from operations

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

	Group		Company	
	2013	**2012**	**2013**	**2012**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Fuel and oil	5,869,692	5,327,703	5,291,782	4,765,100
Employee benefits expenses (Note 7)	2,327,315	2,515,555	1,977,094	2,194,181
Handling, Landing, parking, enroute charges, catering and other related costs	2,011,138	1,580,848	1,867,053	1,464,934
Hire of aircraft, operating plant and equipment	1,347,477	1,515,826	1,273,550	1,459,677
Aircraft maintenance and overhaul	1,145,210	975,932	1,184,524	994,247

4. Loss from operations (cont'd.)

	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Selling and marketing	1,020,678	709,570	980,925	664,340
Aircraft, property, plant and equipment:				
- depreciation (Note 11)	858,597	545,449	783,485	464,767
- (gain)/loss on disposal, net	(12,517)	42,479	(13,660)	43,967
- (writeback of)/provision for impairment losses, net	(87,498)	(31,857)	52,962	(31,857)
- written off	22,890	2,361	22,905	2,361
Rental of land and buildings	170,423	158,548	161,469	149,073
Provision for/(Writeback of):				
- doubtful debts, net	38,987	13,595	41,644	68,043
- inventories obsolescence, net	88,233	15,327	87,413	15,327
- inventories loss	(14,151)	7,830	(14,151)	7,830
Amortisation of intangible assets	45,627	34,757	42,911	29,644
Directors' remuneration (Note 8)	2,431	3,127	2,431	3,127
Auditors' remuneration:				
- audit fees				
- current year	953	947	551	551
- over provision in prior year	-	(54)	-	-
- other professional fees	3,261	825	3,261	825
Realised foreign exchange losses/(gain)	4,774	(18,864)	2,448	(19,118)
Interest income:				
- third parties	(113,691)	(53,620)	(112,838)	(52,926)
- subsidiary	-	-	(20,128)	(25,303)
Rental income	(62,538)	(71,022)	(67,174)	(76,435)
Dividend income				
- subsidiaries	-	-	(11,163)	(932)
- associated companies	-	-	(17,236)	(13,161)
- unquoted shares	(8,796)	(22,175)	(8,796)	(22,175)

Included in loss from operations of the Group and of the Company are the operating inventories used of RM201,414,000 and RM192,911,000 (2012: RM256,300,000 and RM243,211,000) respectively.

5. Fair value change of derivatives

	Group and Company 2013 RM'000	2012 RM'000
Gain/(Loss) from fuel hedging contracts	7,098	(3,393)
Loss from foreign currency hedging contracts	(141)	-
Gain/(Loss) from interest rate hedging contracts	13,397	(13,823)
	20,354	(17,216)

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

6. Finance costs

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Finance cost	506,251	308,145	478,118	278,451
Interest expense capitalised	(69,638)	(72,886)	(69,638)	(72,886)
	436,613	235,259	408,480	205,565

7. Employee benefits expenses

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Salaries, wages and allowances	1,821,933	2,015,029	1,562,732	1,773,767
Defined contribution plan	208,706	191,418	181,687	166,872
Other staff related expenses	296,676	309,108	232,675	253,542
Total (Note 4)	2,327,315	2,515,555	1,977,094	2,194,181

Included in employee benefits expense of the Group and of the Company are executive directors' remuneration of RM1,929,000 (2012: RM2,639,000) as further disclosed in Note 8.

8. Directors' remuneration

	Group and Company 2013 RM'000	Group and Company 2012 RM'000
Executive directors' remuneration:		
Salaries and other emoluments	1,780	2,416
Defined contribution plan	149	223
	1,929	2,639
Non-executive directors' remuneration:		
Fees	396	376
Other allowances	106	112
	502	488
Total directors' remuneration (Note 4)	2,431	3,127

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 2013	Number of directors 2012
Executive directors:		
RM500,001 to RM1,000,000	-	1
RM1,500,001 to RM2,000,000	1	1
Non-executive directors:		
Below RM50,000	6	10
RM50,001 to RM100,000	3	2
RM150,001 to RM200,000	1	1

9. Taxation

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

	Group		Company	
	2013	**2012**	**2013**	**2012**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current income tax:				
Malaysian income tax	3,825	3,139	-	-
Foreign tax	15,054	4,045	15,054	4,045
	18,879	7,184	15,054	4,045
(Over)/Under provision in prior years:				
Malaysian income tax	(1,448)	(380)	-	-
Foreign tax	(1,160)	(632)	(1,160)	(632)
	16,271	6,172	13,894	3,413
Deferred taxation (Note 31):				
Relating to origination and reversal of temporary differences	(220)	(681)	-	-
Under provision in prior years	-	446	-	-
	(220)	(235)	-	-
Total income tax expense	16,051	5,937	13,894	3,413

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 2013, the Company has tax-exempt income account balances of approximately RM12,434,939,000 (2012: RM12,304,490,000) 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% (2012: 25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rate prevailing in the respective jurisdictions.

9. Taxation (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:

	2013 RM'000	2012 RM'000
Group		
Loss before taxation	(1,152,788)	(424,801)
Taxation at Malaysian statutory tax rate of 25% (2012: 25%)	(288,197)	(106,200)
Tax effects of:		
- Share of results from investments accounted for using the equity method	(5,107)	314
- Foreign income tax	15,054	4,045
- Tax exemption status	(37,508)	(8,065)
- Income not subject to tax	(83,091)	(47,012)
- Expenses not deductible for tax purposes	123,400	2,703
Deferred tax not recognised on unused tax losses and unabsorbed capital allowances	305,342	213,798
Utilisation of previously unused tax losses and unabsorbed capital allowances	(11,234)	-
Utilisation of current year's investment allowances	-	(53,080)
Under provision of deferred tax in prior years	-	446
Under/(Over) provision of tax expense in prior years	(2,608)	(1,012)
Tax expense for the year	16,051	5,937
Company		
Loss before taxation	(1,234,609)	(478,044)
Taxation at Malaysian statutory tax rate of 25% (2012: 25%)	(308,652)	(119,511)
Tax effects of:		
- Foreign income tax	15,054	4,045
- Tax exemption status	(37,508)	(8,065)
- Income not subject to tax	(2,502)	(34,705)
- Expenses not deductible for tax purposes	70,890	18,062
Deferred tax not recognised on unused tax losses and unabsorbed capital allowances	277,772	144,219
Over provision of tax expense in prior years	(1,160)	(632)
Tax expense for the year	13,894	3,413

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 2013	2012
Loss attributable to equity holders of the Company (RM'000)	(1,173,687)	(432,587)
Weighted average number of ordinary shares in issue ('000)	13,507,881	7,102,082
Basic loss per share for (sen):	(8.7)	(6.1)

(b) Diluted

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

11. Aircraft, property, plant and equipment

Group	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000	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 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
At 1 January 2013	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
Additions	-	4,785	3,121,360	194,429	190,299	40,276	11,542	2,188	327,822	3,892,701
Disposals	-	-	(1,155,304)	(170,523)	(32,202)	(53,099)	(8,628)	(685)	-	(1,420,441)
Write-offs	-	-	-	-	(36,692)	-	(110)	-	-	(36,802)
Reclassifications	-	-	1,759,889	-	-	-	-	-	(1,759,889)	-
At 31 December 2013	18,543	1,084,486	13,569,403	410,985	2,133,865	944,544	383,389	32,454	1,137,405	19,715,074

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 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
At 1 January 2013	1,878	533,042	921,017	158,175	1,618,388	798,202	367,488	27,872	-	4,426,062
Charge for the year	189	28,896	643,842	51,569	82,374	37,333	13,124	1,270	-	858,597
(Write back of)/Provision for impairment losses	-	-	(153,758)	1,323	64,937	-	-	-	-	(87,498)
Disposals	-	-	(1,297)	(7,228)	(19,053)	(46,453)	(8,616)	(685)	-	(83,332)
Write-offs	-	-	-	-	(13,802)	-	(110)	-	-	(13,912)
At 31 December 2013	2,067	561,938	1,409,804	203,839	1,732,844	789,082	371,886	28,457	-	5,099,917
Net book value										
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
At 31 December 2013	16,476	522,548	12,159,599	207,146	401,021	155,462	11,503	3,997	1,137,405	14,615,157

Malaysian Airline System Berhad
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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 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
At 1 January 2013	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
Additions	-	101	3,121,361	194,356	190,299	35,842	8,384	353	296,755	3,847,451
Disposals	-	-	(1,155,305)	(170,523)	(32,187)	(39,004)	(7,346)	(491)	-	(1,404,856)
Write-offs	-	-	-	-	(36,707)	-	(110)	-	-	(36,817)
Reclassifications	-	-	1,759,889	-	-	-	-	-	(1,759,889)	-
At 31 December 2013	16,503	1,059,714	11,880,961	408,984	2,133,652	623,480	310,288	21,988	1,081,439	17,537,009

Malaysian Airline System Berhad
(Incorporated in Malaysia)

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 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
At 1 January 2013	1,473	527,078	617,480	120,770	1,618,177	470,151	295,172	21,197	-	3,671,498
Charge for the year	168	26,252	616,427	14,054	82,372	33,393	10,398	421	-	783,485
(Write back of)/Provision for impairment losses	-	-	(13,298)	1,323	64,937	-	-	-	-	52,962
Disposals	-	-	(1,297)	(7,228)	(19,053)	(32,357)	(7,334)	(491)	-	(67,760)
Write-offs	-	-	-	-	(13,802)	-	(110)	-	-	(13,912)
At 31 December 2013	1,641	553,330	1,219,312	128,919	1,732,631	471,187	298,126	21,127	-	4,426,273
Net book value										
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
At 31 December 2013	14,862	506,384	10,661,649	280,065	401,021	152,293	12,162	861	1,081,439	13,110,736

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 RM3,892,701,000 (2012: RM5,160,385,000) and RM3,847,451,000 (2012: RM5,372,092,000) of which RM Nil (2012: RM360,737,000) were finance lease liabilities as a result of exercising the option to purchase the aircraft at the end of lease and RM1,697,386,000 (2012: RM1,621,011,000) 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	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
	5,953,390	4,531,976	5,524,298	4,076,018

The net carrying amounts of aircraft, property, plant and equipment pledged as securities for term loan (Note 25) are as follows:

	Group and Company	
	2013	2012
	RM'000	RM'000
Aircraft	5,928,142	4,389,351

(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 6.5% (2012: 3.4%) per annum.

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

	Group and Company	
	2013	2012
	RM'000	RM'000
Cost	69,638	72,886

12. Investments in subsidiaries

	Company 2013 RM'000	Company 2012 RM'000
Unquoted shares, at cost	172,523	172,522
Less: Accumulated impairment losses	(17,151)	(17,151)
	155,372	155,371

Details of the subsidiaries are as follows:

Name of Company	Country of incorporation	Effective interest 2013 %	Effective interest 2012 %	Principal activities
Held by the Company:				
Abacus Distribution Systems (Malaysia) Sdn. Bhd.	Malaysia	80	80	Promotion, development, operation and marketing of computerised reservations systems and other related services
Aerokleen Services Sdn. Bhd.	Malaysia	51	51	Provision of laundry and cleaning related services
Delima Insurance (Labuan) Limited	Malaysia	100	100	Captive insurance business
FlyFirefly Sdn. Bhd. ("Firefly")	Malaysia	100	100	Air transportation and the provision of related services
MASkargo Sdn. Bhd.	Malaysia	100	100	Air cargo operations, charter freighter and all warehousing activities relating to air cargo operations

12. Investments in subsidiaries (cont'd.)

Name of Company	Country of incorporation	Effective interest 2013 %	Effective interest 2012 %	Principal activities
Held by the Company: (cont'd.)				
MASkargo Logistics Sdn. Bhd.	Malaysia	100	100	Providing trucking, clearance and warehousing services
MASwings Sdn. Bhd.	Malaysia	100	100	Air transportation and the provision of related services
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
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	100	Labuan leasing business
Kelip-Kelip Labuan Limited	Malaysia	100	100	Labuan leasing business

12. Investments in subsidiaries (cont'd.)

Name of Company	Country of incorporation	Effective interest 2013 %	2012 %	Principal activities
Held by the Company: (cont'd.)				
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	100	Labuan leasing business
Malaysia Airlines B738 Capital Labuan Limited	Malaysia	100	-	Labuan leasing business
Malaysia Airlines B738 II 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	100	Leasing business
Malaysia Airlines Capital V Cayman Limited	Cayman Islands	100	-	Leasing business

12. Investments in subsidiaries (cont'd.)

Name of Company	Country of incorporation	Effective interest 2013 %	2012 %	Principal activities
Held by the Company: (cont'd.)				
MAS Academy Sdn. Bhd.	Malaysia	100	100	Dormant
Malaysian Aerospace Engineering Sdn. Bhd. ("MAE")	Malaysia	100	100	Dormant
MAS Aerotechnologies Sdn. Bhd.	Malaysia	100	100	Dormant
MAS Golden Holidays Sdn. Bhd.	Malaysia	100	100	Dormant
MH Loyalty Programme Sdn. Bhd.	Malaysia	100	100	Dormant
Macnet CCN (M) Sdn. Bhd.	Malaysia	100	100	Under members' voluntary winding up
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.

12. Investments in subsidiaries (cont'd.)

Subscription of shares in subsidiaries

(i) On 5 August 2013, the Company has incorporated an off-shore company, Malaysia Airlines B738 II Capital Labuan Limited with a paid-up capital of USD1.00 (equivalent to RM3.18). With effect from that date, Malaysia Airlines B738 II Capital Labuan Limited became a wholly-owned subsidiary of the Company.

(ii) On 25 June 2013, the Company has incorporated an off-shore company, Malaysia Airlines B738 Capital Labuan Limited with a paid-up capital of USD1.00 (equivalent to RM3.18). With effect from that date, Malaysia Airlines B738 Capital Labuan Limited became a wholly-owned subsidiary of the Company.

(iii) On 20 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.

13. Investments in associates

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Unquoted shares, at cost	117,879	120,234	117,879	120,234
Less: Accumulated impairment losses	-	-	(36,400)	(36,400)
	117,879	120,234	81,479	83,834
Share of post acquisition profit	17,285	4,810	-	-
Share of forex translation reserve	17,141	-	-	-
	152,305	125,044	81,479	83,834

Details of the associated companies are:

Name of Companies [Financial year end]	Country of Incorporation	Effective interest 2013 %	2012 %	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

13. Investments in associates (cont'd.)

Name of Companies [Financial year end]	Country of Incorporation	Effective interest 2013 %	2012 %	Principal activities
Brahim’s Airline Catering Sdn. Bhd. ("BAC") (formerly known as 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 2013 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 December 2013.

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:

	2013 RM'000	2012 RM'000
Assets and liabilities		
Current assets	488,331	536,235
Non-current assets	246,821	214,989
Total assets	735,152	751,224
Current liabilities	266,265	321,631
Non-current liabilities	5,977	6,851
Total liabilities	272,242	328,482
Results		
Revenue	1,453,649	1,276,351
Profit for the year	101,213	69,390

14. Investment in a joint venture

	Group 2013 RM'000	Group 2012 RM'000
Unquoted shares, at cost	59,634	50,352
Less: Share of post acquisition losses	(59,634)	(50,352)
	-	-

Details of the joint venture are as follows:

Name of Company	Country of Incorporation	Effective interest 2013 %	Effective interest 2012 %	Principal activities
Held through a subsidiary:				
MAS GMR Aerospace Engineering Pte.Ltd.#	India	50	50	Aircraft maintenance, repair and overhaul

MAE owns 50% in MAS GMR Aerospace Engineering Pte. Ltd.

14. Investment in a joint venture (cont'd.)

The financial statements of the above joint venture 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 joint venture for the financial period ended 31 December 2013 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 December 2013.

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 joint venture is as follows:

	Group	
	2013	2012
	RM'000	RM'000
Assets and liabilities		
Current assets	11,796	6,751
Non-current assets	48,103	53,670
Total assets	59,899	60,421
Current liabilities	22,008	8,339
Non-current liabilities	59,535	64,745
Total liabilities	81,543	73,084
Results		
Revenue	10,931	2,757
Loss for the year	(9,282)	(23,860)

15. Other investments

	Group and Company	
	2013	2012
	RM'000	RM'000
Unquoted shares, at cost:		
- in Malaysia	10,825	10,825
- outside Malaysia	52,612	46,213
Total	63,437	57,038

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

16. Intangible assets

	Software and related costs RM'000	Landing slots RM'000	Total RM'000
Group			
At 31 December 2013			
Costs			
At 1 January 2013	296,544	25,314	321,858
Additions	40,794	-	40,794
At 31 December 2013	337,338	25,314	362,652
Accumulated amortisation			
At 1 January 2013	167,946	-	167,946
Charge for the year (Note 4)	45,627	-	45,627
At 31 December 2013	213,573	-	213,573
Net book value	123,765	25,314	149,079
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

16. Intangible assets (cont'd.)

	Software and related costs RM'000	Landing slots RM'000	Total RM'000
Company			
At 31 December 2013			
Costs			
At 1 January 2013	254,478	25,314	279,792
Additions	40,742	-	40,742
At 31 December 2013	295,220	25,314	320,534
Accumulated amortisation			
At 1 January 2013	133,202	-	133,202
Charge for the year (Note 4)	42,911	-	42,911
At 31 December 2013	176,113	-	176,113
Net book value	119,107	25,314	144,421
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

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 2013 is derived from present value of future cash flows expected to be derived from the landing slots or budgeted route results which have been extrapolated using certain estimates and reasonable approximations.

17. Inventories

	Group		Company	
	2013	**2012**	**2013**	**2012**
	RM'000	**RM'000**	**RM'000**	**RM'000**
At cost:				
Catering and general stores	1,443	601	1,259	530
Consumable aircraft spares	8,926	8,926	8,926	8,926
	10,369	9,527	10,185	9,456
At net realisable value:				
Catering and general stores	52,167	52,130	45,594	46,486
Consumable aircraft spares	191,229	269,507	191,228	269,507
	243,396	321,637	236,822	315,993
	253,765	331,164	247,007	325,449

18. Trade and other receivables

	Group		Company	
	2013	**2012**	**2013**	**2012**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current				
Trade				
Trade receivables (Note a)	933,083	1,175,642	871,178	1,104,181
Less: Provision for doubtful debts	(133,933)	(435,382)	(114,662)	(403,165)
	799,150	740,260	756,516	701,016

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

	Group		Company	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
		Restated		Restated
Non-trade				
Prepayments (Note b)	288,230	198,195	262,193	206,296
Lease receivables (Note c)	-	-	44,155	41,103
Deferred maintenance costs (Note d)	30,043	512	14,534	512
Staff loans (Note e)	9,420	9,495	9,420	9,495
Security deposits				
- refundable (Note f)	34,472	28,139	34,472	28,139
- others	32,098	23,299	18,670	21,711
Due from:				
- a fellow subsidiary, net (Note g)	12,447	-	11,092	-
- subsidiaries, net (Note g)	-	-	1,223,446	363,073
- associates (Note g)	4,652	25,685	4,647	25,685
Sundry receivables	409,465	374,622	281,112	274,134
Less: Provision for doubtful debts	(23,825)	(20,242)	(77,051)	(77,051)
	797,002	639,705	1,826,690	893,097
	1,596,152	1,379,965	2,583,206	1,594,113

Non Current

	Group 2013 RM'000	Group 2012 RM'000 Restated	Company 2013 RM'000	Company 2012 RM'000 Restated
Non-trade				
Prepayments (Note b)	776,121	175,220	776,121	166,846
Lease receivables (Note c)	-	-	442,211	477,394
Deferred maintenance costs (Note d)	130,470	7,725	95,355	7,725
Staff loans (Note e)	86,381	92,006	86,381	92,006
Refundable security deposits (Note f)	30,165	38,522	30,165	38,522
	1,023,137	313,473	1,430,233	782,493

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

(a) Trade receivables

Trade receivables are non-interest bearing and generally range from 14 to 30 (2012: 14 to 30) days. 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.

(i) Ageing analysis of trade receivables

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Neither past due nor impaired	586,386	530,973	577,591	517,810
1 to 30 days past due not impaired	122,838	154,508	115,860	139,519
31 to 60 days past due not impaired	29,471	16,730	24,388	14,966
61 to 90 days past due not impaired	9,833	13,303	7,335	9,914
91 to 120 days past due not impaired	23,805	8,589	17,251	3,775
More than 121 days past due not impaired	26,817	16,105	14,091	15,032
	212,764	209,235	178,925	183,206
	799,150	740,208	756,516	701,016
Trade receivables - individually assessed	133,933	435,434	114,662	403,165
Less: Provision for doubtful debts	(133,933)	(435,382)	(114,662)	(403,165)
	-	52	-	-
	799,150	740,260	756,516	701,016

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

(a) Trade receivables (cont'd.)

(ii) Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

(iii) Receivables that are impaired

Movements on the provision for doubtful debts are as follows:

	Group		Company	
	2013	**2012**	**2013**	**2012**
	RM'000	**RM'000**	**RM'000**	**RM'000**
At 1 January	435,382	423,583	403,165	395,029
Charge for the year	44,131	16,615	44,081	12,914
Write-offs	(336,853)	(27)	(330,147)	-
Reversal	(8,727)	(4,789)	(2,437)	(4,778)
At 31 December	133,933	435,382	114,662	403,165

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 RM59,221,000 (2012: RM40,925,000).

(b) Prepayments

The prepayments of the Group and the Company in respect of prepayment to a fellow subsidiary is RM553,819,000 (2012: RM108,600,000) and prepayment to a related party is RM19,372,000 (2012: RM80,471,000).

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

(c) Lease receivables

	Company 2013 RM'000	Company 2012 RM'000
Current		
Due not later than one year	44,155	41,103
Non Current		
Due later than one year and not later than five years	312,475	311,750
Due later than five years	129,736	165,644
	442,211	477,394
	486,366	518,497

The lease receivables of the Company is in respect of amount due from a certain subsidiary for aircraft lease rental. It is secured by certain aircraft, subject to interest ranging from 3.0% to 5.5% per annum (2012: 2.3% to 5.5% per annum) and will expire between 2017 to 2019.

(d) Deferred maintenance costs

Included in deferred maintenance costs is 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.

(e) Staff loans

	Group and Company 2013 RM'000	Group and Company 2012 RM'000
Current		
Due not later than one year	9,420	9,495
Non Current		
Due later than one year and not later than five years	43,334	36,304
Due later than five years	43,047	55,702
	86,381	92,006
	95,801	101,501

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

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

(f) Refundable security deposits

	Group and Company	
	2013	2012
	RM'000	RM'000
Current		
Due not later than one year	34,472	28,139
Non Current		
Due later than one year and not later than five years	17,954	37,745
Due later than five years	12,211	777
	30,165	38,522
	64,637	66,661

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

(g) Due from related companies

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

During the financial year, a provision for doubtful debts was made for an amount due from subsidiary amounting to RM Nil (2012: RM59,908,000).

19. Cash and bank balances

	Group		Company	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Cash on hand and at banks	1,021,812	795,122	941,151	724,295
Term deposits	2,848,810	1,353,356	2,832,165	1,333,211
Cash and bank balances	3,870,622	2,148,478	3,773,316	2,057,506
Less: Deposits pledged with banks	(124,681)	(14,476)	(124,681)	(14,476)
	3,745,941	2,134,002	3,648,635	2,043,030

19. Cash and bank balances (cont'd.)

Included in cash and bank balances as at 31 December 2013 is RM124,681,000 (2012: RM14,476,000) 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 2013 is disclosed in Note 38(b).

The range of maturities of the term deposits that are readily convertible to cash as at 31 December 2013 for the Group and the Company is 2 to 365 (2012: 2 to 365) days.

20. Sales in advance of carriage

Sales in advance of carriage represents the value of unutilised tickets up to 12 months.

21. Deferred revenue

Deferred revenue represents the fair value allocated to the mileage awards as at 31 December 2013.

22. 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.

Movements in share option reserve on share options granted under ESOS during the previous financial year were as follows:

	Group and Company RM'000
At 1 January 2012	88,938
Expired during the year	(88,938)
At 31 December 2012	-

23. Trade and other payables

	Group		Company	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Current		Restated		Restated
Trade				
Trade payables	1,937,837	1,647,322	1,848,242	1,608,965
Due to a related party	1,546	5,218	1,546	5,218
Due to a fellow subsidiary	-	34,209	-	34,209
Due to subsidiaries	-	-	859,125	235,488
Due to associates	61,644	36,574	61,148	36,078
	2,001,027	1,723,323	2,770,061	1,919,958
Non-trade				
Other payables	284,773	319,444	263,837	223,984
Accruals	382,900	421,452	335,561	380,668
	667,673	740,896	599,398	604,652
	2,668,700	2,464,219	3,369,459	2,524,610
Non-current				
Non-trade				
Other payables	-	-	17,629	23,381

The normal trade credit terms granted to the Group and the Company ranges from 7 to 90 (2012: 7 to 90) days.

The amount due to a related party and a fellow subsidiary are unsecured, interest free and repayable upon demand.

The amount 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 (2012: RM500).

24. Provisions

	Group		Company	
	2013	**2012**	**2013**	**2012**
	RM'000	**RM'000**	**RM'000**	**RM'000**
At 1 January	1,330,001	1,188,165	1,243,760	1,151,007
Additional provisions	458,134	730,262	451,264	679,679
Utilisation of provisions	(984,147)	(588,426)	(982,647)	(586,926)
At 31 December	803,988	1,330,001	712,377	1,243,760

Provisions of the Group and the Company are mainly in respect of aircraft maintenance and overhaul costs of RM775,508,000 (2012: RM1,303,431,000) and RM712,377,000 (2012: RM1,243,760,000) respectively. 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.

25. Borrowings

	Group		Company	
	2013	**2012**	**2013**	**2012**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current				
Unsecured				
Revolving credit	66,565	628,902	66,565	628,902
Term loans	356,998	175,000	356,998	175,000
Secured				
Term loan	185,117	104,500	43,733	16,246
Finance leases (Note 27)	645,708	549,835	718,709	574,242
	1,254,388	1,458,237	1,186,005	1,394,390

25. Borrowings (cont'd.)

	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Non-current				
Unsecured				
Term loans	178,107	510,057	178,107	510,057
Secured				
Term loan	6,409,017	4,133,246	5,310,000	3,400,000
Finance leases (Note 27)	3,930,664	3,446,990	4,482,247	3,592,042
	10,517,788	8,090,293	9,970,354	7,502,099
	11,772,176	9,548,530	11,156,359	8,896,489

Included in secured term loan is an amount drawndown from Turus Pesawat Sdn. Bhd. amounting to RM5.3 billion.

The range of interest rates as at the reporting date and the maturity profile of the above interest-bearing loans and borrowings are disclosed in Note 38(b).

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

26. 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 conversion rights of the RCPS 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 ended.

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

	Group and Company 2012 RM'000
RCPS - liability component	
At 1 January	419,628
Interest reversal- Recognised in the profit or loss (Note 6)	(4,517)
Cash settlement	(8)
Redemption	(415,103)
At 31 December	-
RCPS - equity component	
At 1 January	58,076
Redemption	(58,076)
At 31 December	-

27. Finance lease liabilities

	Group		Company	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Future minimum lease payments:				
Not later than one year	854,086	725,164	954,259	754,815
Later than one year and not later than five years	2,447,247	2,001,376	2,824,661	2,114,443
Later than five years	2,308,777	2,151,663	2,584,778	2,196,922
Total minimum future lease payments	5,610,110	4,878,203	6,363,698	5,066,180
Less: Future finance charges	(1,033,738)	(881,378)	(1,162,742)	(899,896)
Present value of finance lease liabilities	4,576,372	3,996,825	5,200,956	4,166,284
Analysis of present value of finance lease liabilities:				
Not later than one year	645,708	549,835	718,709	574,242
Later than one year and not later than five years	1,864,392	1,478,050	2,166,562	1,578,829
Later than five years	2,066,272	1,968,940	2,315,685	2,013,213
	4,576,372	3,996,825	5,200,956	4,166,284
Less: Amount due within twelve months	(645,708)	(549,835)	(718,709)	(574,242)
Amount due after twelve months	3,930,664	3,446,990	4,482,247	3,592,042

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 leases of the Group and the Company has tenure ranging between 5 to 12 years (2012: 5 to 12 years). Details of the range of interest rate as at the reporting date and the maturity profile of the finance lease are disclosed in Note 38(b).

The finance leases of the Company in respect of amount due to certain subsidiaries is RM3,991,100,000 (2012: RM3,035,971,000) and to a fellow subsidiary is RM890,362,000 (2012: RM887,731,000).

28. Share capital

	Number of shares 2013 '000	Number of shares 2012 '000	Amount 2013 RM'000	Amount 2012 RM'000
Group and Company				
Authorised:				
At 1 January/31 December Ordinary shares of RM0.10 (2012: RM1.00) each (Note a)	90,000,000	9,000,000	9,000,000	9,000,000
One Special Rights Redeemable Preference Share of RM1.00 each (Note c)	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
	190,419,000	109,419,000	10,041,900	10,041,900
Issued and fully paid:				
Ordinary shares of RM0.10 (2012: RM1.00) each				
At 1 January	3,342,156	3,342,156	3,342,156	3,342,156
Capital reduction (Note a)	-	-	(3,007,940)	-
Rights issue (Note b)	13,368,624	-	1,336,862	-
At 31 December	16,710,780	3,342,156	1,671,078	3,342,156
One Special Rights Redeemable Preference Share of RM1.00 each (Note c)				
At 1 January/31 December	1 Share	1 Share	RM1	RM1
	16,710,780	3,342,156	1,671,078	3,342,156

28. Share capital (cont'd.)

(a) Capital reduction

On 11 April 2013, the Capital Restructuring (comprising a reduction of RM0.90 of the par value of each existing ordinary share of RM1.00 each in MAS ("Par Value Reduction") and a reduction of the share premium account pursuant to Sections 64 and 60 of the Companies Act, 1965 in Malaysia) took effect with the lodgment of the Court Order with the Companies Commission of Malaysia. Pursuant to the Par Value Reduction, the par value of each existing ordinary share in MAS has been reduced from RM1.00 to RM0.10 each.

(b) Rights issue

During the financial year, the Company issued 13,368,624,960 new ordinary shares of RM0.10 each at an issue price of RM0.23 per rights share on the basis of four (4) rights share for every one (1) existing ordinary share of RM0.10 each held in the Company.

(c) 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.

29. 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.

30. Reserves

The nature and purpose of each category of reserves are as follows:

(a) Share premium reserve

The share premium reserve relates to the amount paid by shareholders for shares in excess of the nominal value.

(b) Capital redemption reserve

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

(c) 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.

(d) Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of an associate whose functional currency is different from that of the Group's functional currency.

(e) General reserve

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

31. Deferred taxation

	Group	
	2013	**2012**
	RM'000	**RM'000**
At 1 January	(802)	(567)
Recognised in the profit or loss (Note 9)	(220)	(235)
At 31 December	(1,022)	(802)
Presented after appropriate offsetting as follows:		
Deferred tax assets	(1,145)	(1,021)
Deferred tax liabilities	123	219
	(1,022)	(802)

31. 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	Total RM'000
At 1 January 2013	955	955
Recognised in the profit or loss	89,047	89,047
At 31 December 2013	90,002	90,002
At 1 January 2012	30,666	30,666
Recognised in the profit or loss	(29,711)	(29,711)
At 31 December 2012	955	955

Deferred tax assets of the Group:

	Unused tax losses and unabsorbed capital allowances RM'000	Provisions RM'000	Total RM'000
At 1 January 2013	(802)	(955)	(1,757)
Recognised in the profit or loss	(88,915)	(352)	(89,267)
At 31 December 2013	(89,717)	(1,307)	(91,024)
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)

31. Deferred taxation (cont'd.)

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Unused tax losses	1,987,733	804,884	1,819,473	708,385
Unabsorbed capital allowances	244,982	251,401	-	-
	2,232,715	1,056,285	1,819,473	708,385

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.

32. Operating lease arrangements

(a) The Company as lessor

The Company has entered into non-cancellable operating lease agreements on lease of aircraft and building. These leases have remaining non-cancellable lease terms of between 1 to 10 years.

The future minimum lease payments receivable under non-cancellable operating leases contracted as at reporting date but not recognised as receivables, are as follows:

	Company	
	2013 RM'000	2012 RM'000
Due not later than one year	259,005	193,514
Due later than one year and not later than five years	387,186	249,419
Due later than five years	198,153	104,444
	844,344	547,377

32. 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	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Due not later than one year	1,176,203	1,273,405	1,172,659	1,267,382
Due later than one year and not later than five years	3,592,083	3,150,668	3,592,083	3,146,533
Due later than five years	8,325,806	5,927,908	8,325,806	5,927,908
	13,094,092	10,351,981	13,090,548	10,341,823

33. Segmental information

(a) Business segments

The Group operates predominantly in two business segments, being airline operations and cargo services:

(i) Airline operations - operation of aircraft for passenger
(ii) Cargo services - operation of aircraft for cargo and mail services

Other business segments include, catering, engineering, computerised reservation services, trucking and warehousing services, retailing of goods, terminal charges and tour and travel related activities, none of which are of a sufficient size to be reported separately.

The Directors are of the opinion that all inter-segment transactions have been entered into in the normal course of business. Belly space charges from Airline to Cargo are based on an internal pricing policy, which is supported and reviewed by external studies prepared by an industry expert. All other inter-segment transactions have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties. These transactions are eliminated on consolidation.

33. Segmental information (cont'd.)

(a) Business segments (cont'd.)

31 December 2013	Airline operations RM'000	Cargo services RM'000	Others RM'000	Elimination RM'000	Total RM'000
Revenue					
External sales	12,560,121	1,900,968	87,075	-	14,548,164
Inter-segment sales	1,335,193	-	54,699	(1,389,892)	-
Total revenue	13,895,314	1,900,968	141,774	(1,389,892)	14,548,164
Results					
Segment results	(829,017)	5,395	53,977	33,041	(736,604)
Finance costs					(436,613)
Share of post-tax results from investments accounted for using the equity method					20,429
Loss before taxation					(1,152,788)
Taxation					(16,051)
Net loss for the year					(1,168,839)
Assets					
Segment assets	22,935,715	1,315,933	2,476,057	(5,026,002)	21,701,703
Investments in associates					152,305
Unallocated assets					1,145
Consolidated total assets					21,855,153

33. 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 post-tax results from investments accounted for using the equity method					(1,258)
Loss before taxation					(424,801)
Taxation					(5,937)
Net loss for the year					(430,738)
Assets					
Segment assets	18,040,145	6,070,644	1,322,692	(8,147,335)	17,286,146
Investments in associates					125,044
Unallocated assets					1,021
Consolidated total assets					17,412,211

33. Segmental information (cont'd.)

(b) Geographical segments

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

	2013 RM'000	2012 RM'000
Revenue		
Orient and North America	2,598,296	2,488,853
Europe and Middle East	3,610,582	2,987,340
Australia and New Zealand	2,171,694	2,114,338
Malaysia	3,292,491	3,136,863
Asia	2,875,101	2,533,958
Africa and South America	-	25,260
	14,548,164	13,286,612

The Group's revenue by geographical segment is based on route flown revenue.

Assets, which consist principally of flight and ground equipment that support the entire worldwide transportation system, are mainly located in Malaysia. An analysis of assets and capital expenditure of the Group by geographical distribution is therefore not included.

34. Significant related party transactions

(a) In addition to transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year.

	Group		Company	
	2013 RM'000	**2012 RM'000**	**2013 RM'000**	**2012 RM'000**
Expenses				
Expenses charged by subsidiaries:				
- Trucking, clearance and warehousing services	-	-	51,738	46,457
- Other inflight services	-	-	12,546	15,600
- Inflight meals	-	-	30,139	8,544
GEESM, an associate				
- Engine maintenance services rendered and purchase of aircraft spares and equipment	299,972	356,083	299,972	356,083
BAC, an associate				
- Purchase of meals and beverages	270,782	234,802	270,782	234,802
Abacus International Holding Limited, a company in which the Company has equity interest				
- Computer reservation system access fee	24,696	35,967	24,696	35,967
Hamilton, an associate				
- Aircraft maintenance services	6,618	3,866	6,618	3,866
Evergreen Sky Catering Corporation, a company in which the Company has equity interest				
- Catering services	3,695	3,348	3,695	3,348

34. 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	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Expenses (cont'd.)				
Honeywell, an associate				
- Aircraft maintenance services	-	1,572	-	1,572
PAPAS, an associate				
- Transit and cabin services	4,778	4,307	4,778	4,307
PMB, a fellow subsidiary:				
- aircraft lease rental	114,922	220,094	114,922	220,094
Aircraft Business Malaysia Sdn. Bhd., a related party:				
- aircraft lease rental	115,664	241,980	115,664	241,980
Turus Pesawat Sdn. Bhd., a related party:				
- finance cost	226,525	16,247	226,525	16,247

34. 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 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Income				
Dividend received from:				
- associated companies	-	-	17,236	13,161
- subsidiaries	-	-	11,163	932
Income received from subsidiaries:				
- hire of belly space	-	-	875,159	898,880
- aircraft maintenance and overhaul	-	-	278,363	223,688
- hire of aircraft	-	-	115,440	97,493
- fuel and oil	-	-	87,436	79,895
- rental of premises	-	-	37,959	33,385
- administrative charges	-	-	27,032	23,994
- interest income on finance lease	-	-	26,856	24,618
BAC				
- Rental and shared services income received	17,922	19,552	17,922	19,552
GEESM				
- Rental and shared services income received	6,600	12,543	6,600	12,543
PMB, a fellow subsidiary:				
- residual value sharing on sale of aircraft	96,149	-	96,149	-

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.

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

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

Total KMPs' remuneration (including Board of Directors)

	Group and Company	
	2013	**2012**
	RM'000	**RM'000**
Total	10,329	10,585

KMPs' remuneration (excluding Board of Directors)

	Group and Company	
	2013	**2012**
	RM'000	**RM'000**
Salaries and other emoluments	6,925	6,517
Defined contribution plan	973	941
	7,898	7,458

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.

35. Capital commitments

	Group		Company	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Due not later than one year				
- approved and contracted for	2,472,859	3,830,918	2,431,881	3,773,392
Due later than one year				
- approved and contracted for	3,183,855	4,638,315	3,183,855	4,638,315
- approved but not contracted for	84,919	264,367	84,919	264,367
	3,268,774	4,902,682	3,268,774	4,902,682
Total capital commitments				
- approved and contracted for	5,656,714	8,469,233	5,615,736	8,411,707
- approved but not contracted for	84,919	264,367	84,919	264,367
	5,741,633	8,733,600	5,700,655	8,676,074

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

	Group		Company	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Purchase of aircraft	4,575,080	7,797,041	4,575,080	7,797,041
Others	1,166,553	936,559	1,125,575	879,033
	5,741,633	8,733,600	5,700,655	8,676,074

36. Contingent liabilities

(a) Guarantees (unsecured)

	Group and Company	
	2013	2012
	RM'000	RM'000
Bank guarantees given to third parties	333,836	322,999
Performance bonds given to third parties	803	439
	334,639	323,438

36. Contingent liabilities (cont'd.)

(b) Liabilities assumed from PMB

	Group and Company	
	2013	**2012**
	RM'000	**RM'000**
Unsecured term loan	11,066	22,359

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:

	2013	**2012**
	RM'000	**RM'000**
Due not later than one year	8,334	12,461
Due later than one year and not later than five years	2,732	9,898
	11,066	22,359

(c) (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 involved allegations of price fixing for transpacific fares and related surcharges.

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 defense 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 rulings have, according to the Company’s US lawyers, significantly reduced the potential amount of claims. The Company entered into a settlement agreement amounting to USD950,000 which is subject to Court approval.

36. Contingent liabilities (cont'd.)

(d) 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.

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, MASkargo 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 judgement was issued on 22 April 2013. The Court has ordered in the judgement that MASkargo pays a penalty of NZD2.6 million plus contribution towards Commerce Commission’s costs of NZD0.7 million, payable in four instalments over 18 months. This represents a settlement of approximately RM8.4 million (applying the exchange rate of NZD1=RM2.564) in total, with payment guaranteed by MAS.

(e) On 6 September 2013, the Company was served with a Notice of Proposed Decision by the Malaysia Competition Commission ("MyCC") pursuant to Section 36 of the Competition Act 2010.

The decision is premised on an alleged breach by the Company of Section 4(2)(b) of the Competition Act 2010 in entering into the Comprehensive Collaboration Framework of 9 August 2011, an agreement that allegedly has as its object the sharing of markets in air transport services sector within Malaysia. The particular routes under scrutiny were the Kuala Lumpur-Kuching, Kuala Lumpur-Kota Kinabalu, Kuala Lumpur-Sandakan and Kuala Lumpur-Sibu routes.

As further provided under the Competition Act, a proposed financial penalty of RM10 million has been imposed on the Company on the alleged infringement.

The Company submitted its written representation to the MyCC on 17 October 2013 and the oral representation took place on 15 January 2014. MyCC has indicated that it will provide its decision to MAS and Air Asia in 2 to 3 months time.

37. Contingent assets

The Company has the right to receive from PMB, 80% of the profit arising from the eventual realisation of aircraft unbundled to PMB under the widespread asset unbundling agreement ("WAU Agreement"). The profit will be computed based on the excess of the value realised over the decayed net book value of the aircraft and maintenance costs required in accordance with the contractual redelivery terms. The decayed net book value for each aircraft at future dates is stipulated in the WAU Agreement.

38. Financial risk management objectives and policies

The Group operates globally and generates revenue in various currencies. The Group's airline operations carry certain financial and commodity risks, including the effects of changes in fuel prices, foreign currency exchange rates and interest rates. The Group's overall risk management approach is to mitigate the effects of such volatility on its financial performance and reflect an inclination towards risk averse policies. The Board periodically reviews and agrees on policies in managing each of these risks.

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 and options. 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 2013, the Company has entered into various fuel hedging transactions for periods up to 31 December 2015 in lots totalling 3,450,000 barrels (2012: 1,950,000 barrels).

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

	Increase/(Decrease)			
	2013		2012	
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	105,844	7,264	52,707	6,897
Decrease in USD10 per barrel	(105,844)	(7,264)	(52,707)	(6,897)

(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 options and swaps.

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

38. Financial risk management objectives and policies (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
2013									
Group									
Fixed rate:									
Term deposits	19	1.90 - 3.47	2,848,810	-	-	-	-	-	2,848,810
Fixed rate:									
Term loans	25	2.98 - 5.42	134,685	93,329	93,960	95,013	95,813	5,671,517	6,184,317
Finance leases	27	2.55 - 9.91	231,409	306,973	246,508	258,703	709,339	1,837,874	3,590,806
Floating rate:									
Revolving credit	25	1.99	66,565	-	-	-	-	-	66,565
Term loans	25	3.55 - 5.65	407,430	229,714	52,304	52,714	52,883	149,877	944,922
Finance leases	27	3.00 - 4.90	414,299	60,872	63,124	131,502	87,370	228,399	985,566
Company									
Fixed rate:									
Lease rental from a subsidiary	18	3.64 - 5.27	44,155	116,952	40,273	124,959	30,291	129,736	486,366
Term deposits	19	3.15 - 3.90	2,832,165	-	-	-	-	-	2,832,165
Fixed rate:									
Term loans	25	3.74 - 4.37	43,733	-	-	-	-	5,310,000	5,353,733
Finance leases	27	2.55 - 9.91	304,410	380,948	321,510	334,772	786,464	2,087,286	4,215,390
Floating rate:									
Revolving credit	25	1.99	66,565	-	-	-	-	-	66,565
Term loans	25	4.50 - 5.05	356,998	178,107	-	-	-	-	535,105
Finance leases	27	3.00 - 4.90	414,299	60,872	63,124	131,502	87,370	228,399	985,566

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

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

2012	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	19	1.90 - 3.47	1,353,356	-	-	-	-	-	1,353,356
Fixed rate:									
Term loans	25	2.98 - 5.42	41,064	41,373	41,799	42,503	43,329	168,121	378,189
Finance leases	27	2.55 - 9.91	112,343	120,854	191,923	126,806	280,086	1,243,372	2,075,384
Floating rate:									
Revolving credit	25	4.50 - 4.70	628,902	-	-	-	-	-	628,902
Term loans	25	3.55 - 5.65	238,436	558,781	49,820	50,471	50,851	3,596,255	4,544,614
Finance leases	27	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	19	3.10 - 3.47	1,333,211	-	-	-	-	-	1,333,211
Fixed rate:									
Finance leases	27	2.55 - 9.91	136,750	144,875	216,711	152,379	306,483	1,287,645	2,244,843
Floating rate:									
Revolving credit	25	4.50 - 4.70	628,902	-	-	-	-	-	628,902
Term loans	25	3.74 - 5.05	191,246	510,057	-	-	-	3,400,000	4,101,303
Finance leases	27	2.83 - 6.63	437,492	435,511	104,959	107,595	110,316	725,568	1,921,441

38. 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 41. 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)			
	2013		2012	
	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	(243)	(5,466)	(255)	(15,487)
Company				
Increase in 25 basis points in market interest rates	(243)	(4,442)	(255)	(14,378)

(c) Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of the Group will fluctuate because of changes in foreign exchange rates.

The Group is exposed to the effects of foreign exchange rate fluctuations because of its foreign currency denominated operating revenues and expenses. The Group's largest exposures are from United States Dollar ("USD"), Euro ("EUR"), Great Britain Pound ("GBP"), Japanese Yen ("JPY") and Australian Dollar ("AUD").

Approximately 58% (2012: 54%) of the Group’s sales and almost 73% (2012: 74%) 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.

38. 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% of respective foreign currencies against the functional currency, with all other variables held constant. The sensitivity analysis includes significant outstanding foreign currency denominated monetary items with their translation at period end adjusted for a 1% change in foreign exchange rates and foreign currency hedging contracts that are still outstanding as at the end of the financial year, as disclosed in Note 41.

	Increase/(Decrease)			
	Group		Company	
	Equity RM'000	Profit net of tax RM'000	Equity RM'000	Profit net of tax RM'000
2013				
Increase by 1%				
USD	3,514	(41,182)	3,514	(40,933)
EUR	-	746	-	1,076
GBP	-	647	-	645
JPY	-	2,094	-	2,183
AUD	-	926	-	1,075
Decrease by 1%				
USD	(3,492)	41,195	(3,492)	40,945
EUR	-	(746)	-	(1,076)
GBP	-	(647)	-	(645)
JPY	-	(2,094)	-	(2,183)
AUD	-	(926)	-	(1,075)

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

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

Sensitivity analysis for foreign currency risk (cont'd.)

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

(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. The Group also has various options of financing, including but not limited to bank borrowings and aircraft financing.

Surplus funds are mainly placed in high quality short term liquid instruments, usually term deposits.

38. 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.

2013 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	23	2,668,700	-	-	-	-	-	2,668,700	2,668,700
Term loan	25	812,764	617,983	434,776	426,864	420,095	8,133,134	10,845,616	7,129,239
Finance lease	27	854,086	540,639	465,423	536,009	905,176	2,308,777	5,610,110	4,576,372
Revolving credit	25	66,565	-	-	-	-	-	66,565	66,565
		4,402,115	1,158,622	900,199	962,873	1,325,271	10,441,911	19,190,991	14,440,876
Derivative financial assets									
Fuel hedging contracts	41	87,632	3,296	-	-	-	-	90,928	90,927
Interest rate hedging contracts	41	624	623	827	1,269	1,417	11,496	16,256	16,256
Foreign currency hedging contracts	41	10,112	-	-	-	-	-	10,112	10,112
		98,368	3,919	827	1,269	1,417	11,496	117,296	117,295

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

(d) Liquidity risk (cont'd.)

2013 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	23	3,369,459	17,629	-	-	-	-	3,387,088	3,387,088
Term loan	25	586,742	397,294	220,000	218,334	218,029	7,405,354	9,045,753	5,888,838
Finance lease	27	954,259	638,480	560,947	629,215	996,018	2,584,779	6,363,698	5,200,956
Revolving credit	25	66,565	-	-	-	-	-	66,565	66,565
		4,977,025	1,053,403	780,947	847,549	1,214,047	9,990,133	18,863,104	14,543,447
Derivative financial assets									
Fuel hedging contracts	41	87,632	3,296	-	-	-	-	90,928	90,927
Interest rate hedging contracts	41	624	623	827	1,269	1,417	11,496	16,256	16,256
Foreign currency hedging contracts	41	10,112	-	-	-	-	-	10,112	10,112
		98,368	3,919	827	1,269	1,417	11,496	117,296	117,295

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

(d) Liquidity risk (cont'd.)

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	23	2,464,219	-	-	-	-	-	2,464,219	2,464,219
Term loan	25	460,729	629,347	438,790	258,587	254,233	5,391,870	7,433,556	4,922,803
Finance lease	27	725,164	713,311	425,786	348,417	499,060	2,165,997	4,877,735	3,996,825
Revolving credit	25	640,583	-	-	-	-	-	640,583	628,902
		4,290,695	1,342,658	864,576	607,004	753,293	7,557,867	15,416,093	12,012,749
Derivative financial assets/(liabilities)									
Fuel hedging contracts	41	42,673	-	-	-	-	-	42,673	42,673
Interest rate hedging contracts	41	(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)

38. 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	23	2,524,610	23,381	-	-	-	-	2,547,991	2,547,991
Term loan	25	338,295	508,479	319,939	142,350	140,803	4,983,563	6,433,429	4,101,303
Finance lease	27	754,815	741,695	454,170	376,800	527,444	2,211,256	5,066,180	4,166,284
Revolving credit	25	640,583	-	-	-	-	-	640,583	628,902
		4,258,303	1,273,555	774,109	519,150	668,247	7,194,819	14,688,183	11,444,480
Derivative financial assets/(liabilities)									
Fuel hedging contracts	41	42,673	-	-	-	-	-	42,673	42,673
Interest rate hedging contracts	41	(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)

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.

38. 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.

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position, including derivatives with positive fair values.

Trade receivables mainly consist of passenger and freight sales due from agencies and other airlines (for interline services provided).

Most of the agencies are accredited by the International Air Transport Association (“IATA”) and connected to the IATA settlement systems. IATA checks the creditworthiness of such agencies and collects collateral according to local industry practices, when required. As a result of the broad diversification worldwide also, the credit risk for these agencies are relatively low.

Receivables and payables between airlines are generally settled bilaterally or through the IATA Clearing House, unless expressly specified otherwise in the contract. The weekly settlement of these balances leads to a significant reduction in default risk.

For all other service contracts, depending on the type and volume of the contracts involved, collateral is required subject to credit verification procedures to avoid defaults in payment.

Deposits with banks and other financial institutions and derivatives are placed with or entered with reputable financial institutions with no history of default.

39. Financial instruments

The accounting policies in Note 2.5(s) and Note 2.5(t) 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
2013						
Group						
Assets						
Investments in associates	13	-	152,305	-	-	152,305
Other investments	15	-	63,437	-	-	63,437
Trade and other receivables*	18	1,394,425	-	-	-	1,394,425
Cash and bank balances	19	3,870,622	-	-	-	3,870,622
Derivative financial instruments	41	-	-	-	125,278	125,278
Total financial assets		5,265,047	215,742	-	125,278	5,606,067
Total non-financial assets						16,249,086
Total assets						21,855,153
Liabilities						
Trade and other payables	23	-	-	2,668,700	-	2,668,700
Borrowings	25	-	-	11,772,176	-	11,772,176
Derivative financial instruments	41	-	-	-	7,983	7,983
Total financial liabilities		-	-	14,440,876	7,983	14,448,859
Total non-financial liabilities						3,354,163
Total liabilities						17,803,022

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

39. 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
2013						
Company						
Assets						
Investments in subsidiaries	12	-	155,372	-	-	155,372
Investments in associates	13	-	81,479	-	-	81,479
Other investments	15	-	63,437	-	-	63,437
Trade and other receivables*	18	2,865,236	-	-	-	2,865,236
Cash and bank balances	19	3,773,316	-	-	-	3,773,316
Derivative financial instruments	41	-	-	-	125,278	125,278
Total financial assets		6,638,552	300,288	-	125,278	7,064,118
Total non-financial assets						14,654,730
Total assets						21,718,848
Liabilities						
Trade and other payables	23	-	-	3,387,088	-	3,387,088
Borrowings	25	-	-	11,156,359	-	11,156,359
Derivative financial instruments	41	-	-	-	7,983	7,983
Total financial liabilities		-	-	14,543,447	7,983	14,551,430
Total non-financial liabilities						3,228,958
Total liabilities						17,780,388

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

39. 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						
Group						
Assets						
Investments in associates	13	-	125,044	-	-	125,044
Other investments	15	-	57,038	-	-	57,038
Trade and other receivables*	18	1,311,786	-	-	-	1,311,786
Cash and bank balances	19	2,148,478	-	-	-	2,148,478
Derivative financial instruments	41	-	-	-	42,505	42,505
Total financial assets		3,460,264	182,082	-	42,505	3,684,851
Total non-financial assets						13,727,360
Total assets						17,412,211
Liabilities						
Trade and other payables	23	-	-	2,464,219	-	2,464,219
Borrowings	25	-	-	9,548,530	-	9,548,530
Derivative financial instruments	41	-	-	-	43,656	43,656
Total financial liabilities		-	-	12,012,749	43,656	12,056,405
Total non-financial liabilities						3,217,815
Total liabilities						15,274,220

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

39. 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	1,995,227	-	-	-	1,995,227
Cash and bank balances	19	2,057,506	-	-	-	2,057,506
Derivative financial instruments	41	-	-	-	42,505	42,505
Total financial assets		4,052,733	296,243	-	42,505	4,391,481
Total non-financial assets						12,318,705
Total assets						16,710,186
Liabilities						
Trade and other payables	23	-	-	2,547,991	-	2,547,991
Borrowings	25	-	-	8,896,489	-	8,896,489
Derivative financial instruments	41	-	-	-	43,656	43,656
Total financial liabilities		-	-	11,444,480	43,656	11,488,136
Total non-financial liabilities						3,102,412
Total liabilities						14,590,548

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

40. Fair value of financial instruments

Financial instruments measured at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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
2013				
Unquoted investments	-	-	63,437	63,437
Derivative financial instruments	-	117,295	-	117,295
Net financial instruments measured at fair value	-	117,295	63,437	180,732
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	55,887

40. 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's and the Company's financial instruments that are carried in the financial statements at amounts other than fair values as at 31 December 2013.

	Group		Company	
	Carrying amount 2013 RM'000	Fair value 2013 RM'000	Carrying amount 2013 RM'000	Fair value 2013 RM'000
Financial assets:				
- Staff loans	95,801	54,503	95,801	54,503
- Refundable deposits	64,637	60,169	64,637	60,169
Financial liabilities:				
- Term loans	830,584	887,557	-	-
- Finance leases	3,590,806	3,487,641	4,215,390	4,109,304

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 - Finance leases	Fair value has been determined using discounted estimated cash flows. Where repayment terms are not fixed, future cash flows are projected based on management’s best estimates. The discount rates used are the current market incremental lending rates for similar types of lending, borrowing and leasing arrangements.

41. Derivative financial instruments and hedging activities

Group and Company	2013 Notional Value	2013 Fair value Assets/ (Liabilities) RM'000	2012 Notional Value	2012 Fair value Assets/ (Liabilities) RM'000
Cash flow hedges				
Fuel hedging contracts (Barrels'000)	3,450	90,927	1,950	42,673
Interest rate hedging contracts (RM'000)	1,465,851	16,256	1,985,514	(43,824)
Foreign currency hedging contracts (RM'000)	367,356	10,112	-	-
		117,295		(1,151)
Analysed as:				
Current		98,367		28,565
Non-current		18,928		(29,716)
		117,295		(1,151)

The fair value of the hedging contracts above are based on forward curve/prices as at 31 December 2013 and 31 December 2012 respectively, as disclosed in Note 2.5(y).

(a) Fuel hedging contracts

The Group and the Company hold swaps and options 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 2013 are expected to mature and affect the profit or loss by a gain of RM84,637,000 (2012: gain of RM42,937,000) between 2014 to 2015.

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 2013, a net unrealised gain of RM106,765,000 (2012: net unrealised gain of RM67,750,000) was included in other comprehensive income in respect of these contracts.

41. 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 gain of RM65,065,000 (2012: gain of RM11,973,000).

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 2013, the Group and the Company have interest rate caps and swaps at contracted interest rates varying from 2.1% to 5.0% (2012: 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 2013 are expected to mature and affect the profit or loss by a gain of RM25,151,000 (2012: loss of RM21,531,000) between 2014 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 2013, a net unrealised gain of RM21,287,000 (2012: net unrealised loss of RM17,521,000) 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 loss of RM25,395,000 (2012: loss of RM12,450,000).

The ineffectiveness recognised in the profit or loss during the financial year was as disclosed in Note 5.

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

(c) Foreign currency hedging contracts

The Group and the Company have options and forward currency contracts outstanding at 31 December 2013 designated as hedges of firm commitment and highly probable future payments denominated in foreign currencies.

The amount retained in other comprehensive income at 31 December 2013 are expected to mature and affect the profit or loss by gain of RM9,865,000 (2012: RM Nil) in 2014.

The terms of the foreign 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 and highly probable future denominated in foreign currencies were assessed to be effective and a net unrealised gain of RM9,865,000 (2012: net unrealised gain of RM6,000,000) 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 is loss of RM Nil (2012: gain of RM7,079,000).

The ineffectiveness recognised in the profit or loss during the financial year was as disclosed in Note 5.

42. Capital management

The Group's primary objective in managing its capital is to maximise the Group's value by optimising its capital structure and enhancing capital efficiency while maintaining a sufficient level of liquidity.

The Group targets a capital structure of an optimal mix of debt and equity in order to achieve an efficient cost of capital vis-a-vis maintaining financial flexibility for its business requirement and investing for future growth. The Group regularly reviews and manages its capital structure in accordance to the changes in economic conditions, its business plans and future commitments.

The Group uses the gearing ratio, which is total debt divided by total equity attributable to equity holders of the Company, as the key measurement for its capital structure management.

42. Capital management (cont'd.)

The gearing ratio as at 31 December 2013 and 2012 were as follows:

	Group		Company	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Total Debt	11,772,176	9,548,530	11,156,359	8,896,489
Total Equity	4,052,131	2,137,991	3,938,460	2,119,638
Gearing ratio (times)	2.9	4.5	2.8	4.2

The Group did not breach any gearing requirements during the financial years ended 31 December 2013 and 31 December 2012.

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 2013 and 31 December 2012.

43. Significant events

(a) On 19 December 2013, the Company has signed PW4170 Engine Fleet Management Program Agreement with Pratt & Whitney, a United Technologies Corp. company to maintain the Company's fleet of 43 PW4170 installed engines and spare engines. The USD510 million worth contract is for ten (10) years with option to extend to up to five (5) additional years.

(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 & Sarawak, will replace the existing old aircraft.

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

(e) 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

43. Significant events (cont'd.)

(e) (cont'd.)

(i) Proposed Capital Restructuring comprising (cont'd.):

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' 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:

(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.

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.

On 5 March 2013, an Extraordinary General Meeting ("EGM") was held in Kelana Jaya to announce that the holder of the ordinary shares present and voting have passed all resolutions to approve the above Proposals.

43. Significant events (cont'd.)

(e) (cont'd.)

On 21 March 2013, the Company had presented to the High Court of Malaya at Kuala Lumpur ("High Court") a petition filed to obtain sanction of the High Court for the Proposed Capital Restucturing approved by the shareholders of MAS at its EGM held on 5 March 2013.

On 9 April 2013, MAS obtained the sanction through Court Order from the High Court. The Proposed Capital Restructuring took effect on 11 April 2013 with the lodgment of the Court Order with the Companies Commission of Malaysia. Pursuant to the Par Value Reduction, the par value of each existing ordinary share in MAS has been reduced from RM1.00 to RM0.10 each.

On 11 April 2013, the Board of Directors of the Company had fixed the Issue Price and Entitlement Basis for the Proposed Renounceable Rights Issue of new ordinary shares of RM0.10 each (Rights Share) as follows:

(i) the issue price is RM0.23 per Rights Share; and

(ii) the Entitlement Basis is 4 Rights Shares for every 1 existing Share held by MAS' shareholders whose names appear on MAS' Record of Depositors as at 5.00pm on 6 May 2013.

The Rights Issue will result in the issuance of up to 13,368,624,960 Rights Shares and will raise gross proceeds of up to RM3,074.8 million.

On 6 May 2013, the Abridged Prospectus was registered with the Securities Commission and lodged with the Companies Commission of Malaysia.

On 27 May 2013, the Company announced, as at close of acceptance for the Rights Issue at 5.00 p.m. on 21 May 2013, the Company had received valid acceptance and excess application for a total of 18,918,342,071 Rights Shares. This represents an over-subscription of 41.15% over the total number of Rights Shares available under the Rights Issue. Accordingly, 85,437,020 excess Rights Shares will be allotted pursuant to excess applications in accordance with the basis as stated in the Abridged Prospectus.

On 5 June 2013, the Rights Issue was completed following the listing and quotation for 13,368,624,960 Rights Shares.

There was no other significant event for the financial year ended 31 December 2013.

44. Subsequent events

There was no material subsequent event for the financial year ended 31 December 2013.

45. Dividends

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors do not recommend any dividend in respect of the financial year ended 31 December 2013.

46. 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.

47. Comparatives

The following statement of financial position and income statement comparative figures have been restated to conform with current year's presentation:

	As previously stated RM'000	Reclassified RM'000	As restated RM'000
Group			
Trade and other receivables	1,258,872	121,093	1,379,965
Trade and other payables	(2,343,126)	(121,093)	(2,464,219)
Company			
Trade and other receivables	1,473,020	121,093	1,594,113
Trade and other payables	(2,403,517)	(121,093)	(2,524,610)

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 2013 and 31 December 2012, 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 2013					
Realised losses	(1,779,859)	35,861	(118,836)	355,395	(1,507,439)
Unrealised losses	(218)	(1,435)	(293)	-	(1,946)
	(1,780,077)	34,426	(119,129)	355,395	(1,509,385)
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)

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.