/ malaysian airline system berhad

annual report 2013 /

43rd Annual General Meeting
Malaysian Airline System Berhad

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

When
Wednesday, 25 June 2014, 10.00 am

Vision
To be the Preferred Premier Carrier

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

Contents

/ Corporate Information /

BOARD OF DIRECTORS

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

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

David Lau Nai Pek
Senior Independent Non-Executive Director

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

Tan Sri Krishnan Tan Boon Seng
Independent Non-Executive Director

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

Tan Sri Sukarti bin Wakiman
Independent Non-Executive Director

Dr. Mohamadon bin Abdullah
Independent Non-Executive Director

Mohd Shahazwan bin Mohd Harris
Non-Independent Non-Executive Director

Eshah binti Meor Suleiman
Alternate Director to
Tan Sri Dr. Mohd Irwan Serigar bin Abdullah

COMPANY SECRETARY

Rizani bin Hassan
(LS 0009520)

REGISTERED OFFICE

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

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www.malaysiaairlines.com

INVESTOR RELATIONS

investor@malaysiaairlines.com

AUDITORS

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

REGISTRAR

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

STOCK EXCHANGE LISTING

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

PRINCIPAL BANKERS

Citibank Berhad
Malayan Banking Berhad
CIMB Bank Berhad
RHB Bank Berhad

/ Financial Calendar /

DATE	/ EVENTS
28 February 2013	/ Announcement of 2012 Fourth Quarter & Full Year 2012 Financial Results
5 March 2013	/ Extraordinary General Meeting
14 May 2013	/ 42nd Annual General Meeting
29 May 2013	/ Announcement of 2013 First Quarter Financial Results
20 August 2013	/ Announcement of 2013 Second Quarter Financial Results
18 November 2013	/ Announcement of 2013 Third Quarter Financial Results
18 February 2014	/ Announcement of 2013 Fourth Quarter & Full Year 2013 Financial Results

Group Corporate Structure

MALAYSIAN AIRLINE SYSTEM BERHAD (10601-W)

80%	Abacus Distribution Systems (Malaysia) Sdn. Bhd. (180535-T)
51%	MAS Aero Services Sdn. Bhd. (277266-X) (formerly known as Aerokleen Services Sdn. Bhd.)
100%	FlyFirefly Sdn. Bhd.* (346606-K)
100%	MASkargo Logistics Sdn. Bhd. (68121-P)
100%	Malaysia Airlines Capital (L) Limited (LL01132)
100%	MASkargo Sdn. Bhd. (318815-M)
100%	MAS Academy Sdn. Bhd. (317184-W)
60%	MAS Awana Services Sdn. Bhd. (372384-D)
100%	MAS Golden Boutiques Sdn. Bhd. (317182-T)
100%	MAS Golden Holidays Sdn. Bhd. (317144-A)
100%	MASwings Sdn. Bhd. (773841-A)
100%	MAS Aerotechnologies Sdn. Bhd. (317185-K)
100%	Malaysian Aerospace Engineering Sdn. Bhd. (775412-D) #Ψ
100%	Macnet CCN (M) Sdn. Bhd. (318626-W) under Members Voluntarily Winding Up
100%	Kelip-Kelip Labuan Limited (LL06736)
100%	Kelip-Kelip II Labuan Limited (LL07075)
100%	Kelip-Kelip II Cayman Limited (WK-225671)
100%	Kelip-Kelip III Labuan Limited (LL07638)
100%	Malaysia Airlines Capital II (L) Limited (LL07894)
100%	Malaysia Airlines Capital III (L) Limited (LL07927)
100%	MH Loyalty Programme Sdn. Bhd. (951320-T)
100%	Delima Insurance (Labuan) Ltd (LL08535)
100%	Malaysia Airlines Capital IV (L) Limited (LL08669)
100%	Malaysia Airlines Capital IV Cayman Limited (WK-265139)
100%	Malaysia Airlines A330 Capital Labuan Limited (LL09020)
100%	Malaysia Airlines Capital V Cayman Limited (WK-275500)
100%	Malaysia Airlines B738 Capital Labuan Limited (LL09767)
100%	Malaysia Airlines B738 II Capital Labuan Limited (LL09857)
100%	MAS B738 EXIM (L) Limited (LL10575)

ASSOCIATE COMPANIES

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

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

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

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

⁄ Statement by Chairman ⁄

Dear Shareholders,

As I write this letter, the disappearance of Malaysia Airlines flight MH370 has still not been resolved. It has been many weeks since MH370 departed Kuala Lumpur on route for Beijing in the early hours of Saturday, 8 March 2014. The Boeing 777 carried 227 passengers and 12 crew members. Of the total 239 souls on board MH370, there were 14 nationalities, between the ages of 2 to 79 years. Despite a massive search involving 26 nations, both neighbours from near and friends from far, over land and sea, we have still not been successful in locating the aircraft which we now know ended its journey in a remote area in the southern Indian Ocean.

The disappearance of MH370 is unprecedented. Never before in 100 years of commercial aviation history has an aircraft vanished, with little trace, for this length of time. It is baffling.

Our thoughts and prayers go out to the families and friends of all 239 passengers and crew on board, with the hope that we will find answers and closure to the mystery of flight MH370 soonest.

Whilst MH370 remains very much on our minds, we are mindful of our responsibility to our Shareholders. On behalf of the Board of Directors, I would like to say Thank You to Shareholders for your continued support of Malaysia Airlines over the course of the 2013 financial year.

After showing an improvement in performance in 2012, the team continued the momentum in 2013 to turnaround the Company. Traffic increased 27%, outpacing a 17% increase in Capacity. We saw record high Seat Loads, and maintained a higher than average Seat Load compared to other airlines.

Indeed many initiatives were implemented to drive revenue; many others were focused on better managing costs including continued high fuel costs as well as enhancing productivity. Our increase in capacity was achieved with virtually the same resources as in 2012. There were also costs incurred in 2013 but the benefit will accrue in future years including maintenance cost to return our ageing fleet and the investment to strengthen our brand position.

Externally, much more was happening. Competition intensified further in 2013, with overcapacity commonplace from established full service carriers, growing low cost carriers and from new entrants - hybrid carriers. While the customer benefits with more choice, it also means a drop in yield for the airlines. Nevertheless, for Malaysia Airlines, our pricing strategy was implemented with a view to maintain market share and to position ourselves for future growth.

Forex movement also impacted our Group in 2013. With some 60% of our costs in US Dollars, the weakening of the Ringgit certainly had an impact on our cost base. The swing to the negative of the unrealised forex in 2013 also has a significant adverse impact to our results.

The overall result was a RM1.174 billion Net Loss for the 12 months ended 31 December 2013.

The business environment of 2013 was indeed tough. Throughout the year, your Board played an active role to work closely with the Management team, to monitor performance, understand the challenges, and rework the overall strategy to steer through the turbulence.

The final numbers of 2013 is a Loss; however we made important strides for the long-term sustainability of this Group. This would not have been possible if not for the strong support from the various internal and external stakeholders, and the strong commitment to weather the operating environment changes and focus on implementation of the Business Plan for long-term success.

These efforts included the corporate restructuring and Rights Issue - crucial steps to take in order to preserve the economic value of Malaysia Airlines and set the stage for your Company to maintain relevance in a growing, overcrowded market. The potential to grow and succeed exists. Malaysia Airlines operates within the growth centre of aviation for the next 20 years. With an established track record of 41 years, and strong brand equity, we have an opportunity to succeed. And we must take it.

There is still much more work ahead of us to turnaround Malaysia Airlines. Given the performance of the team in 2013, I am confident that your Board and Management will face up to the challenges head on.

Again, we seek your support. We value greatly your investment in Malaysia Airlines, and know full well our responsibility to build value for that investment. A win for Shareholders is a win for our team's effort.

Armed with that motivation, your Board and Management will continue to persevere.

I thank Shareholders for your support.

Tan Sri Md Nor Yusof
Chairman
Malaysia Airlines
June 2014

⁄ Five Years Statistical Review of the Group ⁄

		31-Dec 2013	31-Dec 2012	31-Dec 2011	31-Dec 2010	31-Dec 2009
⁄FINANCIAL						
Total Revenue	RM'000	**15,121,204**	13,756,411	13,901,421	13,585,559	11,605,511
Total Expenditure	RM'000	**(16,314,775)**	(14,162,738)	(16,485,693)	(13,485,355)	(12,288,452)
Taxation	RM'000	**(16,051)**	(5,937)	(8,441)	(44,690)	31,116
(Loss)/Profit after Tax	RM'000	**(1,168,839)**	(430,738)	(2,521,325)	237,346	522,948
Shareholders' Funds	RM'000	**4,033,923**	2,123,144	1,042,508	3,524,166	699,693
(Loss)/Profit as a % of Revenue	%	**(7.7)**	(3.1)	(18.1)	1.7	4.5
Return on Shareholders' Fund	%	**(29.0)**	(20.3)	(241.9)	6.7	74.7
(Loss)/Earnings Per Share	sen	**(8.7)**	(6.1)	(75.5)	7.2	25.3
Net Tangible Assets Per Share	RM	**0.2**	0.6	0.3	1.0	0.4
⁄PRODUCTION						
Network Size	KM	**302,884**	359,632	372,966	418,866	366,908
Time Flown	Hours	**461,912**	404,509	427,024	386,853	355,641
Distance Flown	'000 KM	**264,979**	244,769	261,209	237,618	219,961
Available Capacity	'000 TKM	**8,214,384**	7,292,377	7,872,485	7,893,689	7,366,845
Available Passenger Capacity	'000 Seat KM	**59,931,781**	51,223,973	55,873,707	50,817,898	48,761,794
⁄TRAFFIC						
Passenger Carried	'000	**20,733**	16,651	17,046	15,708	13,870
Passenger Carried	'000 Pax KM	**48,323,213**	38,144,029	41,645,340	38,652,874	33,455,303
Passenger Load Factor	%	**80.6**	74.5	74.5	76.1	68.6
Cargo Carried	'000 TKM	**1,936,066**	1,889,058	2,063,255	2,441,254	2,065,120
Mail Carried	'000 TKM	**69,305**	8,739	8,908	8,406	7,674
Overall Load Carried	'000 TKM	**6,299,988**	5,312,774	5,945,441	5,949,090	5,110,924
Overall Load Factor	%	**76.7**	72.9	75.5	75.4	69.4
⁄STAFF						
Employee Strength		**19,577**	19,406	20,477	20,000	19,147
Revenue Per Employee	RM'000	**772**	709	679	679	606
Available Capacity Per Employee	TKM	**419,594**	375,781	384,456	394,684	384,752
Load Carried Per Employee	TKM	**321,806**	273,771	290,345	297,455	266,931

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

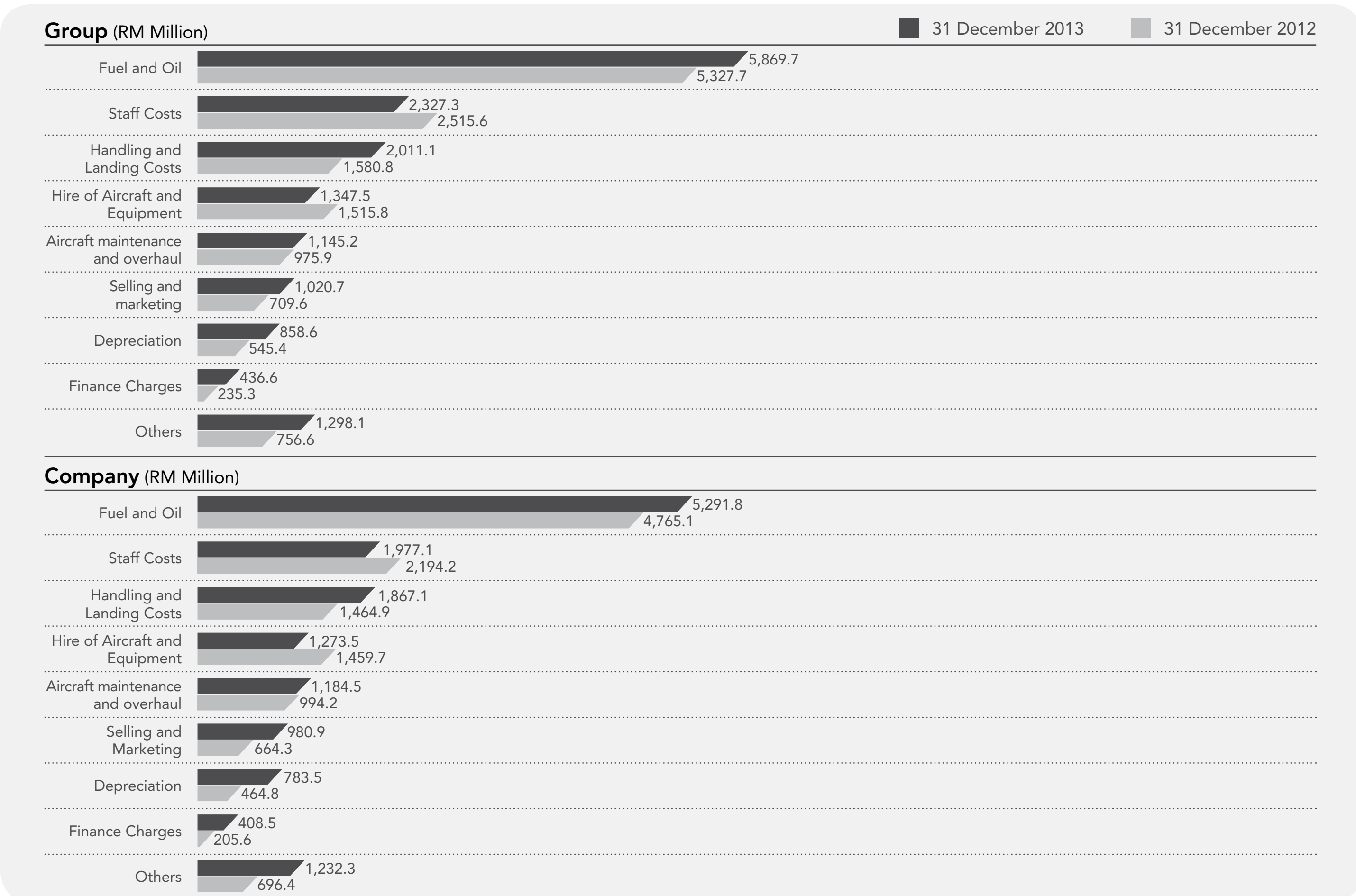
⁄ Performance Highlights ⁄

		31-Dec 2013	31-Dec 2012	Change %
⁄GROUP				
Financial				
Total Revenue	RM'mil	**15,121.2**	13,756.4	9.9
Total Expenditure	RM'mil	**(16,314.8)**	(14,162.7)	15.2
Loss after Tax	RM'mil	**(1,168.8)**	(430.7)	171.4
Shareholders' Funds	RM'mil	**4,033.9**	2,123.1	90.0
Loss Per Share	Sen	**(8.7)**	(12.9)	42.6
Dividend Per Share	Sen	**-**	-	-
Cash Flow Per Share	RM	**(0.1)**	(0.1)	(43.6)
Operating Statistics				
Available Tonne Kilometres	Million	**8,214.4**	7,292.4	12.6
Load Tonne Kilometres	Million	**6,300.0**	5,312.8	18.6
Overall Load Factor	%	**76.7**	72.9	3.8
Available Seat Kilometres	Million	**59,931.8**	51,224.0	17.0
Passenger Kilometres Flown	Million	**48,323.2**	38,144.0	26.7
Passenger Load Factor	%	**80.6**	74.5	6.1
Staff and Productivity				
Employee Strength		**19,577**	19,406	0.9
Available Tonne Kilometres Per Employee		**419,594**	375,781	11.7
Load Tonne Kilometres Per Employee		**321,806**	273,771	17.5
⁄COMPANY				
Operating Statistics				
Available Tonne Kilometres	Million	**6,989.5**	6,157.6	13.5
Load Tonne Kilometres	Million	**5,485.7**	4,548.4	20.6
Overall Load Factor	%	**78.5**	73.9	4.6
Available Seat Kilometres	Million	**58,381.4**	49,741.6	17.4
Passenger Kilometres Flown	Million	**47,286.2**	37,169.6	27.2
Passenger Load Factor	%	**81.0**	74.7	6.3
Aircraft Utilisation (Average)	Hours Per Day	**12.6**	10.0	25.6
Staff and Productivity				
Employee Strength		**16,246**	16,123	0.8
Available Tonne Kilometres Per Employee		**430,229**	381,914	12.7
Load Tonne Kilometres Per Employee		**337,665**	282,106	19.7

/ Revenue and Expenditure /

/REVENUE COMPOSITION

/EXPENDITURE COMPOSITION



⁄ Analysis of Airline Operations ⁄

(including Freighter)

By Geographical Route Region

	31-Dec 2013	31-Dec 2012	Change %
Route Revenue (RM Million)			
Malaysia	**1,906.7**	2,015.2	(5.4)
Asia	**2,001.3**	1,576.7	26.9
Europe and Middle East	**2,286.6**	1,962.8	16.5
Australia and New Zealand	**1,514.5**	1,517.3	(0.2)
Africa and South America	-	18.1	(100.0)
Orient and North America	**1,690.3**	1,635.0	3.4
	9,399.4	8,725.1	7.7
Passenger Load Factor (%)			
Malaysia	**75.9**	71.9	4.0
Asia	**77.4**	73.1	4.3
Europe and Middle East	**84.2**	80.7	3.5
Australia and New Zealand	**82.7**	73.9	8.8
Africa and South America	-	62.5	(62.5)
Orient and North America	**80.2**	70.4	9.8
	80.6	74.5	6.1
Overall Load Factor (%)			
Malaysia	**68.0**	66.2	1.8
Asia	**72.6**	70.9	1.7
Europe and Middle East	**83.5**	78.3	5.2
Australia and New Zealand	**78.4**	73.0	5.4
Africa and South America	-	54.8	(54.8)
Orient and North America	**79.4**	72.6	6.8
	76.7	72.9	3.8

⁄ROUTE REVENUE

1 / **20.2%** Malaysia
2 / **21.3%** Asia
3 / **24.3%** Europe & Middle East
4 / **16.1%** Australia & New Zealand
5 / **0%** Africa & South America
6 / **18.1%** Orient & North America

1 / **23.0%** Malaysia
2 / **18.1%** Asia
3 / **22.5%** Europe & Middle East
4 / **17.4%** Australia & New Zealand
5 / **0.2%** Africa & South America
6 / **18.8%** Orient & North America

/ Operations Review by Group Chief Executive Officer /

Dear Shareholders,

This is the most challenging time for our airline. In all our 41 years of operations as Malaysia Airlines, never before have we felt such a profound loss. It has been many weeks since our Boeing 777 flight MH370 departed from Kuala Lumpur bound for Beijing, and vanished from Air Traffic Control radar just over one hour into its flight.

The many unanswered questions cloud our minds, despite recent information that showed the aircraft ended its journey in the southern Indian Ocean. As the days pass, the anguish and anxiety of the families and friends of the 227 passengers and 12 crew members is a stark reminder for why we continue to support the search operations as best we can. We want answers. Everyone does. Urgently.

Unprecedented is the term most often used to describe the disappearance of MH370. Unprecedented in so many ways; including in the incredible strength shown by our Malaysia Airlines team in unity, to help in any way they can, towards managing this crisis. We too want to know what has happened to the 239 souls on MH370.

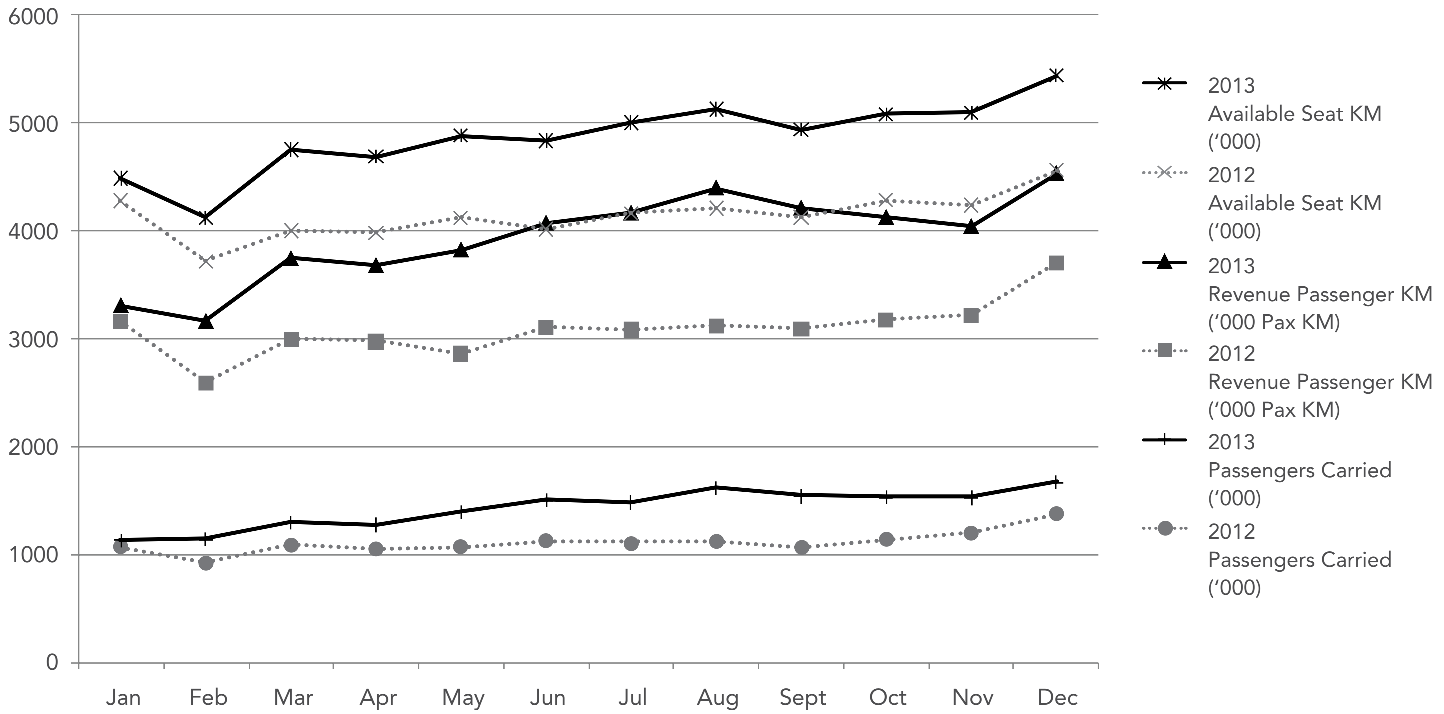
It feels inappropriate to have to describe our past year's performance at a time like this. However, we have a responsibility to our Shareholders to inform you of what we did in 2013, lessons we learned, and our challenges for the future.

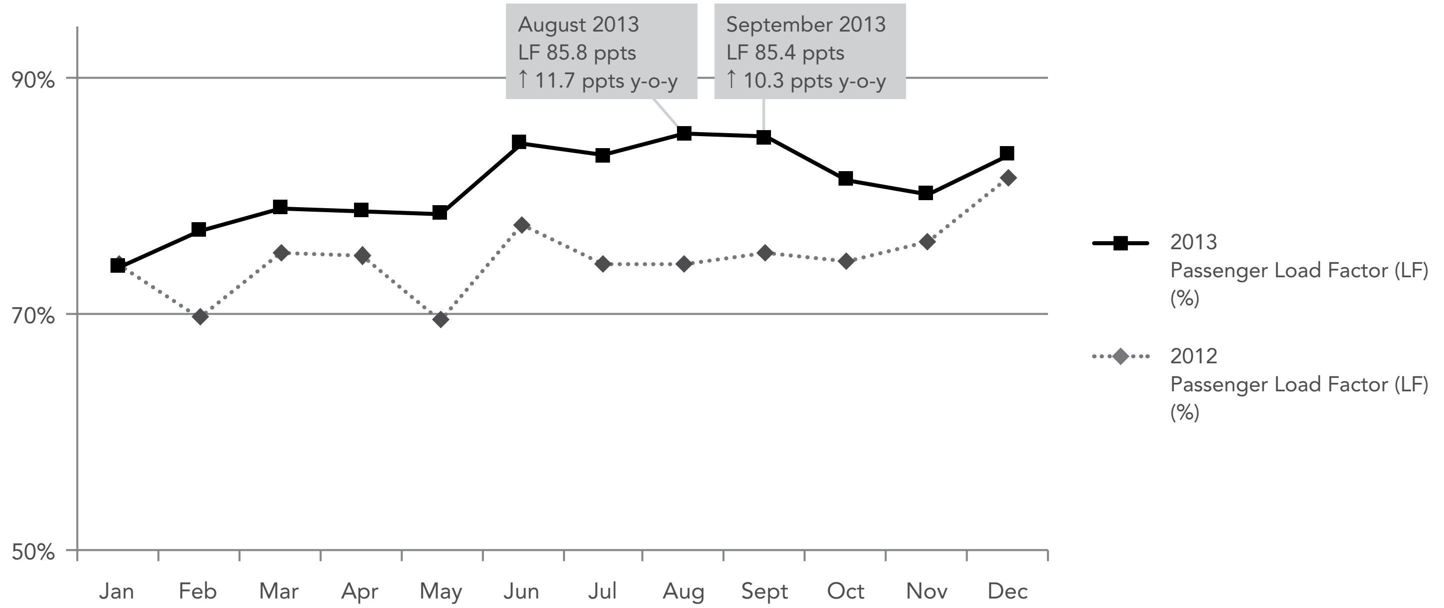
The following Operations Review is a snapshot of how we did in 2013. It was a challenging year to operate in a dynamic business environment in which there was a further blurring of lines between the market niches of the various airline business models.

In response to the market, we continued to implement many initiatives to fill seats, to manage costs, and to protect our market share in a growing market. We opened new routes, were more aggressive in our marketing efforts, drove productivity improvements and efficiency in operations and our people Group-wide, and so much more. Despite the huge efforts, the Group recorded an even larger financial loss in 2013 compared to the previous year, in part due to higher depreciation, a weakening Ringgit, and falling yield.

The future continues to look challenging with intensifying competition, continued high fuel costs, and a weak foreign exchange position. However, I am encouraged by the achievements of 2013 to change the way we operate so that Malaysia Airlines is in a better position to respond to the current market and adapt itself swiftly. The Management team and I are fully aware that the momentum to drive and implement change must continue. It is a challenge, but one that we will take in our stride to maintain Malaysia Airlines' position as a highly relevant player in a growth market.

Ahmad Jauhari Yahya
Group Chief Executive Officer
Malaysia Airlines
June 2014





⁄COMMERCIAL

New Routes & Driving Productivity With Current Assets

Key accomplishments in 2013 compared to 2012

- Capacity (measured as Available Seat Kilometres, ASK) was up by almost 17%
- Passenger traffic (measured as Revenue Seat Kilometres, RPK) was up 27%
- Passenger Load Factor rose 6.1% points compared to the previous year to close at an all-time high of 80.6% for 2013
- Malaysia Airlines carried on average 10,000 more passengers each day
- Revenue increased 10% on a year-on-year basis
- Aircraft utilization improved significantly - an additional 7.3 aircraft were released into the system for productive use each day

Globally, regionally and domestic, there has been a significant increase in capacity deployed into many key markets relevant to Malaysia Airlines. The heightened competition for market share resulted in a significant erosion in passenger average fares and yields. Malaysia Airlines was not alone to suffer; all carriers around the globe have been impacted.

Network & Schedule Planning

A daily Kuala Lumpur - Dubai return service was reintroduced and new destination points to Kochi (COK), India, and Darwin (DRW), Australia. There are also additional frequencies to points in Peninsular Malaysia, between Peninsular Malaysia and Sabah and Sarawak, regionally around ASEAN, to destinations in South Asia, China and Australia.

Continued efforts to improve utilisation of aircraft resulted in the daily average Utilisation Rate of our wide-body fleet to increase from 13 to 14 hours, and from 9 to 11 hours for the narrow-body fleet. This was made possible through a tighter-knit schedule plan arising from many initiatives such as reduced turnaround time at airports, reduced fire-brakes, efficient aircraft deployment, reduced maintenance provision and compressed aircraft rotation plan.

This improved aircraft utilisation rate translated into an important aircraft savings of 1 - 3 wide-body aircraft and 4 - 10 narrow-body for the network - driving home the achievement in better productivity.

Cumulatively, this improved utilisation and increased flying hours allowed Malaysia Airlines to generate over RM900 million in revenue for the January - December 2013 period.

Revenue Management

Continued efforts in 2013 to maximize revenue through aggressive volume push resulted in growing Seat Load Factors from 74% in 2012 to 81% in 2013 on an airline Capacity (ASK) increase of 17% compared to 2012. Passenger Revenues increased 10% in 2013 by an additional RM1.09 billion.

A revamped Price and Distribution strategy on Business Class saw the Seat Load in our Business cabin grow from 55% in 2012 to 63% in 2013. This was despite just a 17% ASK growth in the Business cabin.

A key area of improvement was the reduction in seat spoilage as a result of better quality Overbooking management. Revenue generated through Overbooking improved 40% year-on-year.

Sales & Distribution

Malaysia Airlines generated 10% more revenue in 2013 year-on-year using similar fleet resources available in 2012. 'Share of wallet' and incremental passenger volume saw significant growth in 2013. Among the many efforts that contributed to this success were re-engaging trade partners and increasing penetration in the corporate market, including protecting our share of the Government of Malaysia market.

By renegotiating and restructuring our Global Distribution Systems (GDS) agreements, the Group was able to drive down distribution costs per passenger.

The Call Centre operations saw a significant increase in the volume of daily calls in 2013 - from an average of approximately 6,000 to 9,000 calls per day.

Efforts continued to boost ancillary income, such as from excess baggage fees, insurance and others. For the second half of 2013, travel insurance generated a premium revenue growth of 25% year-on-year.

Golden Holidays

The re-branded airline travel and tour marketing support evolved in 2013 to become Golden Holidays, a fully-integrated travel operation. Its supplier chain was strengthened, pool of hotel partners expanded and distribution channels increased. Significant milestones have been achieved by Golden Holidays in an ever-changing travel market with competitive trade and growing airlines.

Marketing

After a long hiatus of little promotions, especially in international markets, in 2013, Malaysia Airlines launched the 'Journeys' campaign. The significantly larger investment in branding and awareness of our products and services was necessary, and resulted in an improved brand awareness worldwide - Top of Mind brand awareness increased 58%, Unaided awareness improved 32%, whilst the MH brand health matrix growth surpassed competitors post-'Journeys' campaign.

The Media Return on Investment (ROI) was

- 46 times increase in likeability - signaling a high level of comprehension and resonance for the brand, with above industry average consumer involvement.
- 3 times increase of campaign share - generating a high amount of advocacy for Malaysia Airlines brand, including generating a new fan base.
- Higher site visits, time spent, booking and confirmation growth year-on-year, especially following the media campaigns.

The focus of e-commerce in 2013 was to drive more bookings and revenue through the Internet Booking Engine (IBE). It recorded 51 million visits in 2013, equivalent to 41% increase year-on-year. IBE revenue jumped 28% to RM2.24 billion, with more than 6,000 transactions daily. Improved features included foreign languages, travel insurance, booking self-management (MMB) and continuous fine-tuning to handle higher loads and better performance.

Search Engine Marketing (SEM) achieved Revenue growth of 19% above target in 2013, with a conversion rate growth.

There was a 5-fold growth in social media engagements in 2013 compared to 2012. Malaysia Airlines Facebook crossed the 1 million fans mark in October.

Enrich

Malaysia Airlines Enrich frequent flyer and loyalty programme saw its membership base grow 8% in 2013 and revenue increase 13%. Accrual points registered a positive year-on-year growth of 29%. Improvements to Enrich's back-end system generated greater savings and higher revenue.

The joining of Malaysia Airlines in **one**world on 1 February was an added boost to Enrich. With **one**world, Enrich members have the benefit of earning Enrich and Elite Miles across an expanded network, as well as providing more opportunities to redeem Miles on **one**world partner flights.

Twenty-six out of 50 Product-owned initiatives were completed in 2013. These were mainly related to the premises re-fresh and re-branding, including the KL Sentral Ticketing Office transformation and Golden Lounge Satellite Terminal, KLIA, refurbishment.

The 'Chef-on-call' pre-flight order meal options were extended to routes to North Asia and the Orient in September for First and Business. French celebrity chef, Amandine Chaignot, has been engaged to design special menus for the Paris (CDG) - Kuala Lumpur sector, much to the delight of passengers.

A comprehensive logo change and brand refresh exercise, system wide, began in 2013. Key initiatives include logo trademark registration, brand architecture review and redesign as well as communication of the corporate identity guidelines.

oneworld

There was incremental feed and improved bilateral ties with **one**world partners upon entry and full integration. Overall interline revenue grew 8% through the **one**world partnership.

Apart from easier access to the **one**world network (over 880 destinations) for interlining, the RAA (SRP settlement method) simplifies settlement amongst **one**world members, thus reduces interlining costs and improves yield.

The customer benefits too - full accrual and redemption benefits when travelling on the **one**world network, access to over 550 lounges, customer support, greater connectivity to a wider network, more rewards and recognition for frequent flyers.

For the future, a substantial increase in revenue is expected from more strategic partnerships by leveraging on the partners' networks.

In addition to **one**world, Malaysia Airlines has 27 code shares with various carriers.

⁄OPERATIONS

Operations Division's key strategic focus is to further improve Mastering Operational Excellence. By this, we seek to consistently be the best, drive continuous improvement, industry leadership and set the benchmark for others.

Discipline of implementation, cultivating a culture of high safety and security, manpower transformation, divisional collaboration and building a high performing team are all hallmarks of Operations Division.

In-flight services continues to be ranked among the best cabin crew in the world. Operations Control Centre focuses on delivering efficient On Time Performance, and efficient and effective Disruption and Emergency Response Management. Fuel efficiency and profit centre for the Flight Crew Training Centre (FCTC) initiatives enhance revenue and structural cost reduction. These are driven and tracked through Operations Project Delta II.

Flight Operations

Fuel efficiency improved with the introduction of newer aircraft. In 2013, a savings of RM114 million was achieved (in excess of the target RM100 million); cost avoidance contributed another RM16.4 million savings (from a target of RM14.1 million). Ancillary revenue improved, mainly from the FCTC.

Crew productivity improved in 2013 to support the increased capacity. Overall Flight and Cabin crew achievement rates for 2013 were well above target. About 78% of crew flying hours were above the Minimum Guarantee Hours (MGH). Crew flying and duty hours remained at healthy levels without the risk of exceeding regulatory requirements despite the higher increase in schedules implementation and challenging operating environment, whilst maintaining crew performance and competency levels.

In-flight services

The main focus in 2013 was to enhance service standards and delivery through more training, innovation tools, show-times on board, and a host of other initiatives. Fleet rating re-alignment was carried out to optimise cabin crew resources to cope with the higher capacity growth.

Operations Control Centre

In 2013, Malaysia Airlines operated 121,472 flights (47% Domestic, 53% International) equivalent to an average 333 flights system-wide daily, up from 292 in 2012.

On Time Performance (OTP), however, fell to 78.14% in 2013 from 87.22% previously. This was mainly attributed to external delays (19.17% of total delays); consequential delays were 46.39% of the total number. The Average Delay Duration (ADD) increased to 43.5 mins per delay from 41.8 mins per delay year-on-year.

Delays related to Air Traffic Control (ATC), ie congestion in the skies over airports, are a major cause for concern. Flight Operations and Operations Control Centre are working closely with the Malaysian Department of Civil Aviation to help mitigate such delays. These efforts are in addition to the setting up of an internal strategic ORM team to improve OTP. Areas being reviewed include improving our technical dispatch reliability, operational issues concerning technical and cabin crew, and airport operations.

Aircraft turnaround times (TAT) continued to improve to between 35 - 45 minutes at Domestic stations, depending on the airport and sector. This was important to increase aircraft utilisation in order to generate more capacity and more operations with the same number of aircraft.

Operations Systems & Support

In 2013, significant efforts have been allocated to modernise Operations Division's business processes. These included:

- Upgrading of the Flight Movement Control System to avoid technology obsolescence
- Creation of the Airline Operational Database

- Initiation of Hub Control Centre development activities
- Implementation of Turnaround Tracking System to enhance resource productivity in Airport Services
- Upgrading of Access Control and Alarm Monitoring System at Malaysia Airlines' premises and working areas
- Establishment of a technology support team and workshop capability to support the A380 operations

Moving forward in 2014, existing business processes and practices will be reviewed to improve efficiency and productivity. Existing business IT applications will be leveraged on and new technology deployed.

⁄ENGINEERING & MAINTENANCE

Engineering & Maintenance (E&M) intends to be the preferred global Maintenance, Repair and Overhaul (MRO) organisation and a leading provider of MRO services for commercial aircraft in this region. It offers various structured products and product combinations - from individual repair of components to the fully integrated Fleet Technical Management (FTM) support for entire aircraft fleets.

Ensuring the safety of MAS aircraft is at the heart of E&M's responsibility while capability enhancement is being developed on an on-going basis to provide the highest quality of service.

In 2013, E&M won Boeing's 'Pride in Excellence' award for successfully navigating the transition in expertise in maintenance from the B737 Classic to the Next-Generation B737 fleet.

E&M recorded a 16% increase in revenue year-on-year. The focus on greater structural cost reduction remained in 2013. In recognising fuel expenditure as the major cost, E&M embarked on a new method of performing the Engine Compressor Wash using the Eco Power Booster equipment with heated water. This initiative yielded 5-9% EGT improvement in EGT margin, translating to better engine efficiency and fuel burn-off.

2014 will be a crucial and challenging year for E&M. The Division will embark on an ambitious transformation to become MAS Aerospace Engineering (MAE) from its current role as E&M, a division within the airline overseeing the airworthiness requirement of the airline's fleet. The Business Plan sees E&M transforming into different operational domains - to fulfill the continuous airworthiness requirements of the airline, as well as to venture into MRO to complement the airline's core business.

Going forward, the challenges to become a high performance organisation are significant but achievable:

- The 3-year 'Moving Forward Programme' will be completed by end 2014.
- Power By The Hour (PBTH) as part of the strategy to reduce asset acquisition and attain more accurate forecasts of costs.
- MRO ERP system will be implemented in 2014; to go live by mid-2015. This will ensure E&M operations are fully integrated to support financial and management monitoring and reporting.
- Component Overhaul - a growth area for the workshop.
- Growing ancillary revenue by acquiring EASA Part 147 - Approved Training Organisation capabilities and opening up external training opportunities for licensed aircraft engineers.
- Pursuing Part 21 initiative to obtain the EASA accreditation to enable E&M to design, certify and approve modifications and repairs, satisfying regulatory requirements and customer needs.

⁄CUSTOMER SERVICES

Malaysia Airlines was again rated a 5-star airline by Skytrax UK at the World Airline Awards 2013. One of just 7 airlines to receive the 5-star rating in 2013, the challenge was to continuously maintain this standard and add improvements to our guest experience. This covers the on ground experience, onboard experience and post-travel. Malaysia Airlines also received the coveted 'Asia's Leading Airline' recognition at the World Travel Awards 2013.

In 2013, we enhanced our products and service offerings:

On Ground Experience

- Kerb side porter assistance, 'Meet & Greet', advanced check-in, dedicated Lounge for First Class and Enrich Platinum members
- Exclusive premium check-in, fast-track Immigration, dedicated Security at A380 Departure Gates for First, Business and Platinum
- 'Beat the Queue' for faster check-in with dedicated MHkiosks at KLIA, encouraging guests to check-in online, deployment of Q-marshals at check-in to shorten waiting time
- Improving our value proposition by increasing the baggage allowance across all classes to 30kg for Economy, 40kg for Business and 50kg for First

- New rates for Excess Baggage - for easier calculation and better value

- Improving OTP with reminders to board on time

- Improving our flagship Golden Lounge at KLIA - increased capacity, better facilities, improved ambiance, enhanced Platinum Lounge for First and Platinum members

- Golden Lounge at Penang also improved

Onboard Experience

- Menus and meal choices were continuously improved - contemporary meals infused with classic-inspired menus make for an outstanding dining experience

- Compliance to Halal and HACCP standards

- Special menus were developed to celebrate festivals (Chinese New Year, Aidilfitri, Deepavali, Christmas) much to the delight guests

- Innovative culinary delights with celebrity chefs and in collaboration with our caterers (Chef Amandine Chaignot for French cuisine on the A380, Chef Michel Quissac, Corporate Chef of Servair, for A380 Menu Improvement, input from Malaysia Olympic Team Master Chef Zubir, Evergreen Sky Catering for special meals menu, TFK Catering Japan for Japanese food workshop, and Brahim's Airline Catering Kuala Lumpur for Nasi Lemak)

- Expansion of 'Chef-on-Call' on North Asia and Orient routes - 20 First Class meal choices and 15 Business Class meal choices.

- Introduction of Nasi Lemak as our second Signature Dish and Ruby Passion as the new Signature Drink

- New - Hi Tea for Peninsular Malaysia - Sabah and Sarawak crossings, Economy Skysnax, freshly cooked eggs in First Class

- Our satay was again voted 'Best Airline Signature Dish' by Skytrax UK in 2013

- Cellars in the Sky 2013 recognition for 'Best First White Wine'

- Improved movie selection for inflight entertainment (IFE), free earphones for crossing flights and personal handheld monitors enabled more guests to enjoy IFE on flights of more than 1 hour duration

- e-papers for download prior to the flight and at the Golden Lounges

- Expanded range of products for sale onboard - Malaysian products, premium range

Post-travel Experience

Listening to our guests is important, both good and less favourable feedback. Compliments are shared to recognize staff efforts, to inspire and to set new benchmarks. Less favourable feedback are noted, investigated and resolved. Whilst managing service breakage is important, equally important is the emphasis on service recovery.

Fleet Status

Aircraft Types	As At 31 December 2013
B737-400	17
B737-800 (New Purchase)	26
B737-800 (Commercial Lease)	23
B777-200	15
B747-400	4
A330-300 (New Purchase)	14
A330-300 (Commercial Lease)	3
A380-800	6
Total: Malaysia Airlines	108
B747-400F (MASkargo)	2
A330-200F (MASkargo)	4
B737-400 (Firefly)	2
ATR72-500 (Firefly)	12
ATR72-600 (Firefly)	2
ATR72-500 (MASwings)	10
ATR72-600 (MASwings)	1
DHC6-310 (MASwings)	3
DHC6-400 (MASwings)	3
Total: Subsidiary	39
Total: Group	147
Average Group Fleet Age (As at 31 December 2013)	7.3 years

⁄MASkargo

Weak global economic conditions, high fuel costs and a 2.6% capacity injection resulted in a weak uptrend for the cargo business in 2013. To manage, MASkargo took a prudent approach to financial risk management while enhancing service delivery and strengthening its brand. Despite difficult market conditions, MASkargo achieved a growth of 5.7% FTK compared to average market growth of 1.4% FTK. The Company also surpassed growth in capacity (AFTK) by 5.1% last year by identifying market trends and introducing innovative solutions to meet the ongoing turbulence.

For the financial year 2013, cargo revenue improved 2.1% year-on-year. Overall, the Company registered a Loss before Tax of RM17.9 million due to high operational expenses, particularly on long-haul routes operated by older, less fuel-efficient Boeing 747-400F. Cost saving initiatives included renegotiating vendor contracts, reorganizing operations and using cost-effective lamps in its large hangers. One MASkargo A330-200F entered into a wet lease agreement with Turkish Airlines, to cushion the financial impact from a stagnation in airfreight demand and excess capacity in the market.

MASkargo's presence in different markets enabled it to offset the weakness of cargo demand into Europe with solid performance along Asian routes. Cargo throughput at KLIA stood at 550,733 tonnes in 2013, a marginal increase from the previous year. Its cargo mishandling rate increased slightly due to upgrading and transition works.

MASkargo continues to retain and win new customers by enhancing its high quality services and expanding its product portfolio to transport virtually all kinds of consignments quickly and safely around the world. This was demonstrated by the addition of five new ground handling contracts in 2013.

At 90% operational, MASkargo's state-of-the-art Material Handling Cargo System (MHCS) has seen an impressive start. Capable of handling cargo in a more efficient, automated and expedient manner to better serve customers worldwide, the new system targets a capacity throughput increase at 1 million tonnes per annum. This will enable MASkargo to cater for future business growth at KLIA and support Malaysia as a global trans-shipment hub.

MASkargo gained new high-profile customers from the oil & gas, life science and healthcare, high-value electronic equipment and livestock industries. MASkargo also continued to transport cars and equipment for high profile sports events, F1 and Moto GP. Charter achieved a high 88% global customer satisfaction rating for its seamless service.

In the service industry, success is also determined by non-financial measures. To strengthen its presence in the CIS region, MASkargo signed a MoC with Silk Way Airlines to pave the way for greater collaboration on cargo space agreements, ground handling and line maintenance. It has also signed with Institut Kemahiran MARA (IKM) for the development of quality graduates.

MASkargo received Malaysia Airports' 'Cargo Airline of the Year' award in 2013 for the sixth consecutive year. This recognition is based on cost efficiency and an ability to secure operational process without neglecting quality customer service. This is in line with MASkargo's key strengths and track record of reliability, safety and efficient service.

⁄FIREFLY

Firefly strengthened its brand as the leading short haul carrier in 2013 and continued to further improve its customer experience. The carrier's brand refresh efforts spanned outdoor, online, print and social media. Key initiatives were introducing a new design chic cabin crew uniform, giving its website a face-lift, and branding its main hub at Subang Skypark as its very own.

Customer experience initiatives have been a large part of the Company's focus in 2013. These included self check-in kiosks at Subang and Penang hubs, the launch of its inflight magazine, *Fireflyz*, and enabling Firefly passengers to accrue and redeem *Enrich* Miles.

More recently in early 2014, a new multi-currency pricing feature has made it easier for customers to buy tickets. Such innovation, a strong commitment to enhance its customer experience and prioritizing the safety of passengers are elements to offer a more hassle-free travel experience. Firefly will continue to strengthen its social media presence through leading channels such as Facebook, Twitter and Instagram.

Substantial marketing tacticals contributed to passenger growth which increased from 1.7 million in 2012 to 2 million in 2013.

In-house engineering C-checks were vigorously conducted to ensure customer safety was adhered to. Firefly also continued to break new ground by setting impressive safety records, crew performance, and On Time Performance. It also explored a new destination, Pekan Baru.

In 2013, Firefly proudly welcomed the arrival of 2 new state-of-the-art ATR 72-600 turboprops. The first commercial airline to introduce the ATR 72-600 series in Malaysia for domestic and regional flights, the arrival was a historical milestone. The aircraft is reputed to be one of the most economical and environmentally-friendly aircraft around.

Firefly currently operates 14 turboprops, including 2 ATR72-600. Eighteen more of the 600 series will be delivered up to end-2019. The new aircraft is targeted for high demand routes, as well as to develop new South and East coast hubs to better facilitate business and leisure travel as part of strategy to build on underserved point-to-points around Peninsular Malaysia, Singapore and the Indonesia, Malaysia and Thailand Growth Triangle (IMT-GT).

⁄MASwings

MASwings continued to strengthen operations towards its Vision to be the most reputable and preferred community airline not only in Sabah, Sarawak and the BIMP-EAGA region but also for East Asia. It aspires to realize its Vision by providing air transport services that are consistently safe, reliable and profitable.

2013 saw MASwings receive its first newly purchased ATR 72-600 turboprop aircraft in July. The new aircraft offers the Armonia cabin, the widest in the turboprop market, with 68 leather seats in a dual-class configuration.

In August, MASwings received its new and vibrant Vikings DHC6-400 aircraft, fitted with the most advanced flight avionics system in its class to raise the safety and operational bar to a higher level. The new DHC6-400 will allow MASwings to provide additional services to rural areas in Sarawak and Sabah.

The unfortunate accident at Kudat, Sabah, in October 2013 resulted in the loss of 2 lives. A DHC6-310 Twin Otter aircraft, carrying 16 passengers and technical crew, landed and swerved into a housing area at the edge of the runway. Studies are on-going as to the cause of the accident. MASwings has continued its focus on safety and efficiency of its operations.

Despite the aircraft accident, MASwings came out even stronger by winning 2 major awards - 'Minister's Special Award' from the Minister of Tourism, Culture & Environment presented at the Sabah Tourism Awards 2013 and 'Outstanding Transport Contribution to Tourism Award' 2013 presented at the Sarawak Hornbill Tourism Awards.

MASwings continued to play a pivotal role as a strategic tourism industry player in Sabah and Sarawak by opening a new international route in November. Under the BIMP-EAGA business expansion, MASwings introduced a 3-times weekly service between Kota Kinabalu to Puerto Princessa on Palawan Island, the Philippines. With future tourism potential bright, MASwings is looking to increase capacity on this route soon.

2014 will continue to see tremendous growth with further expansion and increased in frequencies within Sabah and Sarawak, and the BIMP-EAGA region. Three brand new ATR 72-600 and 3 brand new Vikings DHC6-400 are due for delivery.

⁄Safety

2013 Key Achievements

The 2013 Safety Oversight Plan was actively implemented with a significant decrease in the number of high risks incidents compared to 2012. However this performance was marred by two accidents with three fatalities for the year. The first involved a ground van accident in April and the other, a Twin Otter accident in Kudat in October. The van accident was a result of a speed violation, while the Kudat accident is still under investigation by the Malaysia Bureau of Air Investigation.

The overall 2013 safety strategy was aimed at improving the safety culture in the Company. Safety awareness programmes were rolled out to raise the Business Units' (BU) commitment and individual actions to safety, such as Goal Zero, safety enforcement programme, commuting awareness and hazard hunts.

A total of 9 reviews on risk management through the 'Raise the Safety Bar' programme were held. The BU held a total of 37 individual safety council meetings. Four Accountable Managers Meetings and six Board Safety and Security meetings were conducted. A weekly Management Committee (MC) safety brief was introduced in August 2013 which provides the MC with the latest safety incidents reports and accompanying actions taken.

The BU took individual initiatives to promote safety. In particular, Airport Operations continued their safety transformation programme introduced in late 2012. This programme was further refocused following the fatal accident to one of our staff in April. Significant improvements in ground equipment serviceability and reduced number of ground incidents has been noted for 2013. Greater safety awareness and safety behaviour is more evident with the introduction of mandatory team safety briefings before work commences.

Safety reporting has improved due to the increased safety awareness and BU support in encouraging reporting. The increased data analysis has provided more proactive safety strategies using leading indicators to predict potential risk areas.

Malaysia Airlines renewed the IATA IOSA certification in March 2013. EASA conducted renewal audits on MAS engineering services. A total of 13 government agencies from different countries conducted surveillance audits on all our engineering operations in 2013.

Plans have been identified to improve the airspace management infrastructure at KLIA and Subang. With the May 2014 introduction of KLIA2 and the third runway, these improvements will enhance traffic flow and control with the anticipated increase in aircraft movements. Continued engagement of stakeholders is being tracked to improve the rural air services airport facilities in the interior airports of Sabah and Sarawak.

2014 Challenges

2014 will see the Group grow its capacity and frequency with the same number of people and assets. Safety strategies for 2014 are aimed at providing a higher level of safety to match the increased level of production. This will be achieved by aligning actions with IATA's 6 point safety strategies which will focus on raising the level of commitment and discipline to safety across the Group and the use of pro-active data analysis to identify potential risk areas. Improved risk analysis tools and providing a cost of safety will be introduced in the year. A deeper understanding on fatigue will be required through the implementation of a group-wide FRMS system. More enforcement will be necessary to weed out unacceptable behaviour through the 'Just Culture Process'.

The key safety targets for 2014 are to further reduce the number of high risk incidents by 40% of 2013 performance, improve reporting by 10% and ensuring zero significant injury and fatalities for the year.

Key activities for 2014:

a. Further elevate commitment and discipline to safety across the Group

b. Increase safety data analysis to drive the Group towards a proactive/generative safety culture

c. Further improve safety awareness and build a stronger reporting culture

d. Guide and drive BU to achieve IATA's Enhanced IOSA

e. Improve efficiency in Risk Management and Safety Investigations

f. Address Occupational Health issues at the workplace

g. Compliance to regulatory requirements and guidelines on safety and health issues

h. Reorganisation of CSO to increase productivity, placing a cost to safety and producing annual P&L

i. To implement a Group-wide FRMS

j. Acceptance of 'Just Culture' throughout the Group

k. Optimize staff resources and reduce knowledge level inconsistencies

/At the Workplace

A GREAT PLACE TO WORK, PLAY AND PERFORM

The Company aspires to make Malaysia Airlines a Great Place to Work, Play and Perform. The year 2013 focused on people alignment initiatives towards building a highly engaged organisation. The people agenda emphasises aligning people with organisational development and change, generating highly energised and inspired people towards achieving the Company's objectives.

People Culture

A new breakthrough culture, iCAN, was introduced to create leaders at all levels. iCAN is "Upholding **INTEGRITY**, Adopt a CAN DO Attitude, Stay **COMPETITIVE**, Get **CONNECTED** and Be **ACCOUNTABLE**"

iCAN

CAN DO	• Fast & flexible • Commit with a strong sense of urgency • "Just Do It"
INTEGRITY	• Do the right thing • Honest • Transparent
CONNECT	• Communicate & listen • Work together • Enterprising
ACCOUNTABLE	• Safe & responsible • Timeliness • Pro-active in our way of working
COMPETITIVE	• Driven towards high performance • Break boundaries & take risks

iCAN is a set of standard people behaviors to be inculcated across the whole Company. Empowering individuals to become leaders who make fast and reliable decisions are among the key factors to ensure smooth business operations. iCAN was introduced to encourage people to be leaders by embracing 5 key behaviors in every aspect of day-to-day activities as an employee of Malaysia Airlines. Up to December 2013, 385 'leaders' have been identified and trained under this distinctive leadership programme.

People Development

In line with iCAN, another significant people agenda is to detect and develop leaders, building a sustainable pipeline of talents at all levels. The initiative involves design, development and delivery of unique learning journeys to grow people, preparing them for new roles and responsibility at a higher-level position.

- Development Journeys

  Learning development initiatives are planned for identified performers and future potentials as part of a succession planning programme. Development journeys were launched gradually in 2013. By December 2013, 147 staff have been placed under respective development journeys.

my Development Journey Explorer	• New graduates
my Development Journey Emerging	• Non-executive employees
my Development Journey Next Gen	• Executives & Senior Executives
my Development Journey Navigator	• Managers & Senior Managers
my Development Journey Transformer	• Senior Management
my Development Journey Station Manager	• Potential Station Managers

- Learning & Development

  In 2013, Learning & Development (L&D) calendared 52 course titles at MAS Academy. In addition, L&D supported 262 ad-hoc courses requested by various Business Units and external customers. A total of 6481 participants successfully completed their trainings of which 84% were internal participants. 49% were graded staff while 51% executives and above. Most sought after programmes were Dangerous Goods series, Team Building, MH Mail OWA, Conversational English and ABC series.

  One of the key achievements for L&D was the successful launch of MHilmu in August 2013, where employees can now self-register themselves into any of the calendared courses offered at MAS Academy. MHilmu being web-based, allows employees with a MAS ID to access and plan their learning and development activities at work and anywhere else at their convenience.

People Performance

There is a strong emphasis on efficient and effective Performance Management. A total of 300 staff have been trained to develop realistic Key Performance Indicators (KPI). In 2013, the Company introduced the alignment of individual performance management scores against the Corporate KPI and Divisional KPI.

People Recognition

Aligned with the Group's desire to create a Winning Organisation, we continue to place people at the heart of the organisation and enhance understanding of our people and organisational issues. Employee engagement is a key initiative to ensure that people are highly motivated, engaged and inspired to drive their efforts towards achieving the business objectives.

Following the People Engagement Survey, focus group engagements led to various Corporate Action Plan (CAPs) and Divisional Action Plan (DAPs) at every division. People recognition, rewarding and celebrating achievements were among the significant people activities. A series of successful people engagement programmes were held last year:

- MH Anugerah

  MH Anugerah 2013 was jointly organized by Customer Services Division, Human Resources and Strategic Communications to acknowledge excellent employees who had gone the extra mile in the course of their duty. Ninety-two awards were presented to those who demonstrated excellent customer service beyond the expectations for both internal and external customers.

- Lifetime Achievement Award

  In conjunction with Malaysia Airlines' 41st Anniversary organized by Strategic Communications, a special recognition was given to our MH Everest Base Camp Climbers for successfully achieving their target of reaching Mt. Everest Base Camp at around 17,000 ft. The lifetime achievement award was given to recognize the outstanding iCAN behavior that the MH Climbers team have exemplified to all.

- Best Student Awards

  With contributions from the Staff Benevolent Fund, student awards recognize employees' children who excel in the PMR and SPM examinations. A total of 53 SPM students and 74 PMR students received awards in 2013. The unique part of the event in 2013 was that the parent employees were also given recognition to acknowledge their efforts to drive excellence in their children.

People Relations

- Union Representation

  Trade unions play an important role in supporting the Company's Business Plan and to cultivate a healthy working relationship and industrial harmony. In 2013, the Company established a Joint Consultative Committee (JCC) with all unions and associations as a platform for objective discussions to harness their members' commitment to deliver the business objectives. Also in 2013, the Company amicably concluded eight (8) Collective Agreements for the respective unions and associations, representing a diverse group of employees ranging from general workers to pilots.

- The Black Book

  The MAS Book of Discipline - The Black Book was launched on 17 May and from there we have briefed 1,000 staff in Kuala Lumpur and stations to create awareness. Management has also conducted Domestic Inquiry (DI) mock classes to train more staff to increase the pool of DI panel to expedite the DI process.

People Engagement

The Company trusts that continuous People Engagement activities foster greater employee relationships and builds encouragement towards higher people productivity and innovative process improvements.

- MH Walk-A-Fund

  For a good cause, Malaysia Airlines collaborated with MERCY Malaysia to organise a walkathon carnival on 12 May 2013 at MAA Kelana Jaya. It is also an extension of our cabin crew's efforts towards the 'Change for Charity' project to encourage charity activities among employees.

- Ramadhan-Syawal Activities

  During the month of Ramadhan, Human Resources and Strategic Communications jointly organised the annual distribution of 'bubur lambuk', which is into its seventh year since 2005. For the first time in 2013, the Bubur Lambuk activity was extended to Penang, Kota Kinabalu and Kuching.

  Human Resources also collaborated with the operational areas to organize the Singgah Sahur programme to Engineering & Maintenance Division, MASkargo, Airport Services, and MAS Call Centre.

  The above series of staff engagements culminated in 'Fiesta Raya' sessions held in both KLIA and Subang. Embracing the 'open house' concept, the theme reflects people unity, inspiration and warmth in a fun and colourful ambience. It brought together employees from various business units; breaking silos and creating excellent cross-divisional teamwork.

- Staff Care

  Human Resources coordinated visits to hospital and homes of staff down with medical reasons and visits to next-of-kin of staff who passed away whilst serving the organisation, to provide assistance on their entitlement and benefits.

  Our thoughts also went to those experiencing mishaps and calamities. During the big flood in Kuantan, the GCEO and volunteers went to Kuantan to assist staff who were affected. A donation drive received a total collection of more than RM31,000 which was distributed equally among staff. The donation drive for Haiyyan Typhoon in the Philippines also received a good collection of RM20,282.70 for victims.

- Workplace Transformation

  A new workplace concept was introduced in Human Resources, creating a fresh look and feel and a different ambiance to generate a place that is fun and relaxed. This initiative, started in Human Resources Division has brought the HR people closer as effective teams, initiating ideas, raising funds and making things happen.

  Human Resources acts as the key catalyst to support the business recovery plans in respect of organisational productivity enhancement, talent development and internal customer service excellence. It is therefore imperative for Human Resources to continuously train and upgrade its own team into HR professionals, ready to face future challenges, inside and outside of Malaysia Airlines.

/Care for the Environment

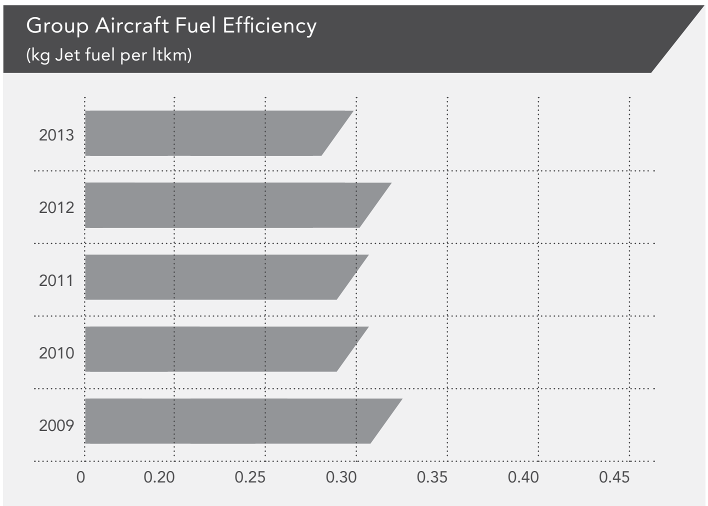
EU Emission's Trading Scheme

At the International Civil Aviation Organisation (ICAO) Assembly in Montreal in 2013, an agreement was reached to develop market-based measures (MBM) to address international aviation emissions by 2016, and for this to be applied by 2020. Until then, countries or groups of countries, such as the EU, can implement interim measures. In response to the ICAO decision and to promote further momentum towards the successful establishment of a global MBM, the European Commission has published a proposal to amend the EU ETS for the aviation sector. The proposal would apply from 2014 until the planned global MBM enters into force in 2020. The final announcement on outcome was to be made April 2014.

In 2013 we recorded 3,997 flights into and out of EU, of which 5 were intra EU freighter flights. Carbon emissions for Intra EU flights was 312 tonnes CO2.

Aircraft Fuel Consumption

Fuel consumption of the Group in 2013 stood at 1.86 million tonnes of jet fuel, compared to 1.68 million tonnes in 2012.



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

Waste and Recycling

Wastewater from Maintenance, Repair and Overhaul (MRO) facilities in KLIA and Subang are treated at our wastewater treatment plant situated on-site. Scheduled waste is collected by certified scheduled waste contractors and disposed of according to environmental laws and regulations. In 2013, 37,747 m^3 of wastewater was treated, and 255.4 tonnes of scheduled waste was generated.

In-flight Waste Management

Our 'Go Green Inflight 3R' initiative was launched in July 2011. A programme initiated and championed by our Inflight Services Department, it involves the recycling of plastic cups, aluminum cans and foils by our cabin crew on all KLIA bound flights with a flight time of more than three hours. Recyclable items are segregated into separate plastics bags and then sent for recycling by our caterers.

In 2013, 10.4 tonnes of plastic tumblers, 0.3 tonnes of aluminum cans and 1.3 tonnes of aluminum foil were collected by our dedicated cabin crew.

Voluntary Carbon Offsets

At approximately 2,300 km^2 (570,000 acres), the South East Pahang Peat Swamp Forest (SEPPSF) complex is the largest block of undisturbed mixed peat swamp forest in Peninsular Malaysia. Some 287 tree species from 52 families were recorded in this area. 233 species of birds or one third of all Peninsular Malaysia's avifauna are found here. There are 58 species of mammals recorded in the SEPPSF. Many of Malaysia's threatened animal species also regard this forest complex their home.

Malaysia Airlines participates in enhancing carbon stocks and promoting biodiversity conservation of degraded forests gazzetted as Permanent Reserved Forest within SEPPSF. We work together with the Ministry of Natural Resources and Environment (NRE), Forestry Department of Pahang and the Forest Research Institute Malaysia (FRIM) in this project.

In 2011, with funds from Malaysia Airlines' passenger offsets, Forestry Pahang and two corporate sponsors, 1,000 Mersawa paya (Anisoptera marginata) and Ramin Malawis (Gonystylus bancanus) saplings were planted with the help of the local indigenous Jakun villagers.

An area of 2.7 hectares was planted at the project site in Sungai Bebar, situated between Pekan and Kedondong Permanent Reserved Forest. The aforementioned tree species are found in peat swamps and are native to this area.

After an unsuccessful first attempt to grow saplings in this area, the species planted was changed to Merawan Siput Jantan (Hopea odorata), native to Malaysia and better suited to local conditions. The second planting consisted of 1,519 saplings.

In 2013, the project progressed with Phase 3 of tree planting on 4 hectares with 1,332 saplings of Merawan Siput Jantan. To date, 3,191 trees are growing well. The survival rate is at 97.1%.

While considered small, there is long term potential and impact towards conservation. Calculation of total carbon sequestered by the planted trees will be made at a later date when the saplings are 5 years old and fully established. Malaysia Airlines continues to offset GHG emissions of a portion of its staff duty travel.

In June 2011, IATA commenced the development of a new programme aimed at developing an internationally recognised evaluation system designed to assess and improve the environmental performance of an airline. Many airlines have recognised the benefits of implementing Environmental Management Systems (EMS) including reducing regulatory compliance risk, improved financial benefits and demonstration of good environmental governance to stakeholders. The IEnvA programme is based on developing common environmental standards and sharing airline best environmental management practices.

The IEnvA Programme adopts a phased-approach and is compatible with other EMS standards (ISO14001/14005 and EMAS) and the IATA Operational Safety Standard (IOSA). The complex nature of airlines and their global presence poses challenges for full environmental management system (EMS) implementation, hence, IEnvA is based on 2 implementation phases:

Stage 1 allows the airline to set the framework for its EMS to identify and comply with its legal requirements and other obligations.

Stage 2 allows the airline to determine the significance of its environmental aspects, set objectives and targets. It also provides the framework for monitoring requirements, internal assessments and management review.

4 June 2013 - Malaysia Airlines was one of 3 airlines to be presented with the IATA Environmental Assessment (IEnvA) Stage 1 certification, a programme that independently assesses and improves the environmental management of an airline.

With Stage 1, Malaysia Airlines is now able to set the framework for its Environment Management System (EMS). More importantly, having IEnvA Stage 1 tells the world that Malaysia Airlines is transparent in its environmental practices and measurement - certainly a benchmark for other airlines to emulate.

/For the Community

MH PINTAR

Malaysia Airlines continued to support human capital development in the country. It has been part of the PINTAR schools adoption programme since inception in 2007. In 2013, Malaysia Airlines had 6 schools in Peninsular Malaysia in its PINTAR programme.

Dispensing with the giving of monies as the main way of support, Malaysia Airlines believes in the strategy of adopting a smaller number of schools under its wing but with a larger reach. Using internal talents, our employee volunteers act as project champions for some 3,000 students, helping to broaden minds and inspire the young ones to aspire for higher ambitions.

Malaysia Airlines today is a Premium Member of PINTAR Foundation.

Three new schools were adopted in 2013 - SMK Ayer Hangat Langkawi (in Kedah), SMK Juasseh (in Negeri Sembilan) and SMK Tengku Temenggong Ahmad, Muar (in Johor).

Apart from motivational and team building activities that focus on self-development and interpersonal skills, educational trips to our high technology facilities in Subang and KLIA were organized. In 2013, we played host to 140 students and teachers who visited the Engineering & Maintenance operations at the aircraft hangars, the Cabin Crew Training Centre and Flight Simulators.

Make-a-Wish

In December 2013, Malaysia Airlines granted the wish of 11 year old Mohammad Shahrul Fahmy through the Make-A-Wish Foundation to fly to a faraway place for a holiday with his family. Simple for most but a little complicated for Shahrul who suffers from a complex congenital heart disease. A cross functional team from Malaysia Airlines pooled efforts to make Shahrul's wish come true with a flight (his first ever) to Langkawi.

These small gestures to make the wishes of children with life-threatening medical conditions help Malaysia Airlines enrich the human experience with hope, strength and joy.

Malaysia Airlines - MERCY Malaysia Collaboration

Malaysia Airlines collaborates with MERCY Malaysia in the fund-raising 'Change for Charity' (CFC) Project. In the collaboration that began in 2009, passengers are invited to contribute 'extra change', even in foreign currency, to the CFC Project by way of special envelopes placed in each seat pocket.

Funds collected are channeled by MERCY Malaysia to aid organisations and charitable trusts around the world. These include assisting the Cleft Lip & Palate Programme in Bangladesh and Cambodia, Disaster Risk Reduction Programme for PINTAR schools in Malaysia, the setting up of rehabilitation health centres in Cambodia, and contributing to the Oral Rehydration Therapy and Emergency Fund - Humanitarian relief.

In May, MH Walk-A-Fund boosted collections towards MERCY'S cause. Supported by our cabin crew's employee volunteerism network, WELKINs, more than 1,000 staff and family members participated in the event.

Alumni Programme - SK Kg. Belukar - from Zero to Hero

Malaysia Airlines continues to monitor the progress of adopted schools that have graduated from PINTAR following a 3-year adoption programme. SK Kg. Belukar graduated in 2011. Located in rural Kedah, the School's archery team, Re-curve, today excels in this elite sport.

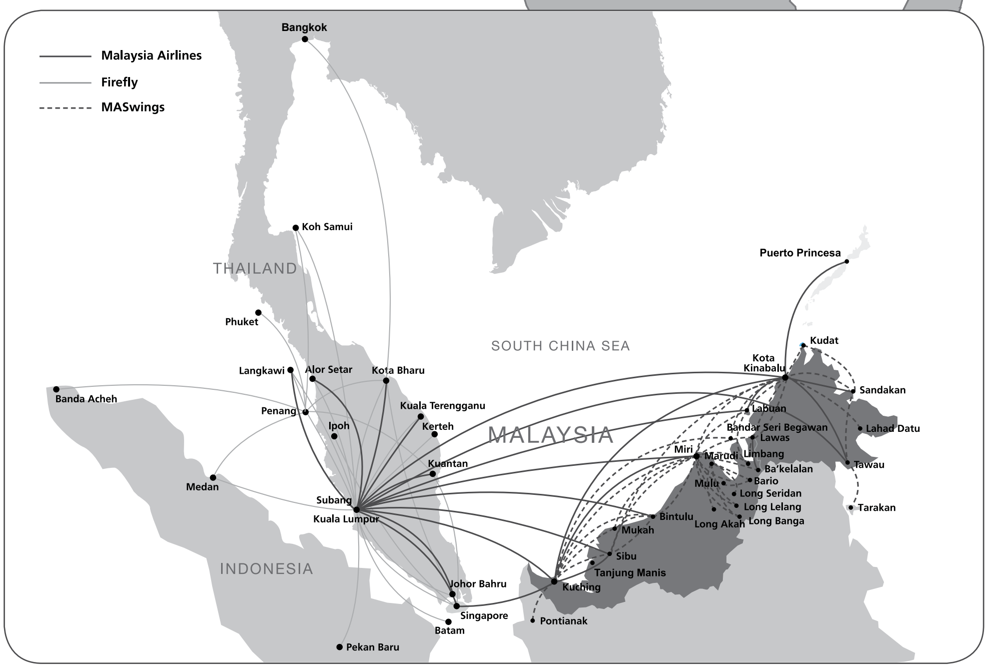
With Malaysia Airlines' support of new equipment and funds to participate in competitions, the School has won numerous inter-district and state school competitions. Two archery team members, Muhammad Irfan and Muhammad Naim, now represent Kedah in national school competitions. Naim was even awarded Sportsman of the Year in the Primary school category. Through archery, Naim and 4 other team members have been offered to pursue their studies at High Performance secondary schools in Kedah.

Victory in Hong Kong for SM Sains Selangor's Wind Orchestra

In November 2013, Malaysia Airlines flew 42 students of SM Sains Selangor's Wind Orchestra accompanied by 8 teachers to Hong Kong to participate in the 5th International Winter Band Festival. Competing with 26 other groups from Hong Kong, Malaysia, Thailand, Singapore, Taiwan and the Philippines, SM Sains Selangor won Gold. With the success, the orchestra was invited to the Disney Performing Arts Programme at Hong Kong Disneyland.

SM Sains Selangor, a High Performance School, was adopted by Malaysia Airlines in 2010.


Amsterdam
London
Frankfurt
Paris
Istanbul
Jeddah
Dubai
Mumbai
Bangalore
Kochi
Male


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


Beijing
Seoul
Osaka
Tokyo
New Delhi
Shanghai
Kathmandu
Kunming
Xiamen
Taipei
Dhaka
Guangzhou
Hanoi
Hong Kong
Yangon
Hyderabad
Manila
Chennai
Bangkok
Siem Reap
Krabi
Phnom Penh
Phuket
Ho Chi Minh
Langkawi
Labuan
Penang
KUALA LUMPUR
Bandar Seri Begawan
Kota Kinabalu
olombo
Medan
MALAYSIA
Kuching
Singapore
Jakarta
Denpasar
Darwin
Brisbane
Perth
Adelaide
Sydney
Auckland
Melbourne

Directors' Profiles

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

Tan Sri Md Nor bin Md Yusof, aged 66, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Non-Independent Non-Executive Chairman on 1 August 2011.

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

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

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

Tan Sri Md Nor attended all 8 Board meetings held during the financial year. He has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

AHMAD JAUHARI BIN YAHYA
Managing Director/Group Chief Executive Officer

Ahmad Jauhari bin Yahya, aged 59, a Malaysian, was appointed Managing Director/Group Chief Executive Officer of Malaysia Airlines on 19 September 2011. He is a member of the Board Tenders Committee and Board Safety and Security Committee and sits on the Boards of various subsidiaries of the Group.

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

He started his career in ESSO Malaysia Berhad before joining The New Straits Times Press (M) Berhad, where he rose to the rank of Senior Group General Manager, Production and Circulation in 1990. He joined Time Engineering Berhad as Deputy Managing Director in 1992 and was subsequently made Managing Director in the same year. He then served as Managing Director of Malaysian Resources Corporation Berhad.

Ahmad Jauhari was Managing Director and Chief Executive Officer of Malakoff Berhad, Malaysia's largest independent power producer (IPP) for 16 years until 2011.

He has vast and diverse working experience in oil & gas, publication, engineering, power and energy. He is also not new in managing organisations on the international front having served as Director and Chairman of the Executive Committee of Central Electricity Generating Company Limited (Jordan) and a Director of Shuaibah Expansion Project Company Limited (Saudi Arabia). He is also the former Honorary President of Penjana Bebas (Association of Independent Power Producers in Malaysia).

Ahmad Jauhari attended all 8 Board meetings held during the financial year. He has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

DAVID LAU NAI PEK
Senior Independent Non-Executive Director

David Lau Nai Pek, aged 61, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Independent Non-Executive Director on 9 August 2011. He is also the Senior Independent Non-Executive Director of Malaysia Airlines. He serves as Chairman of the Board Audit Committee, Nomination and Remuneration Committee and Board Hedging Committee.

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

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

He is currently a Non-Executive Director and Chairman of the Board Audit Committee of Axiata Group Bhd, Executive Director of KKB Engineering Bhd and Shell Refining Berhad, all public listed companies. He is also on the Board of 3 other non-listed companies within Axiata Group, and a member of the Investment Panel of the Malaysian Employees Provident Fund.

David Lau attended all 8 Board meetings held during the financial year. He has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

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

Tan Sri Dr. Mohd Irwan Serigar bin Abdullah, aged 57, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Non-Independent Non-Executive Director on 22 October 2012.

He holds a PhD in Economics from the International Islamic University Malaysia, Masters of Science in Energy, Management and Policy from University of Pennsylvania, USA, and a Bachelor's Degree with Honours in Population Studies from University Malaya. Tan Sri Dr. Mohd Irwan also attended the Advanced Management Programme at Harvard Business School, USA.

He has extensive experience in the Economic Planning Unit of the Prime Minister's Department (1984 - 2003). He was involved in preparation of the Fifth Malaysia Plan, Action Plan of the First Industrial Master Plan, and setting up of the Energy Division. In 2003, he joined the Ministry of Finance and held various positions, including Principal Assistant Secretary in the Economics and International Division, Head of Econometrics Section, Head of Multi-Lateral Relations, Deputy Under Secretary (Macro) of the Economics and International Division, Under Secretary of Economics and International Division and Deputy Secretary General (Policy), before being appointed to his current position, Secretary General of Treasury in 2012.

Tan Sri Dr. Mohd Irwan is currently Chairman of Kumpulan Wang Amanah Persaraan Diperbadankan (KWAP), Inland Revenue Board (LHDN), Cyberview Sdn Bhd, Malaysia Development Holding Sdn Bhd. and GovCo Holdings Berhad. He also sits on the Board of Mass Rapid Transit Corporation Sdn Bhd, Lembaga Kemajuan Tanah Persekutuan (FELDA), Regional Corridor Development Authority (RECODA), Petrolium Nasional Berhad (PETRONAS), Bank Negara Malaysia, International Islamic University Malaysia (IIUM), Malaysia Deposit Insurance Corporation (PIDM), Tabung Haji (TH), Razak School of Government (RSOG) and Prokhas Sdn Bhd.

Tan Sri Dr. Mohd Irwan attended 5 out of 8 Board meetings held during the financial year. He has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

TAN SRI KRISHNAN TAN BOON SENG
Independent Non-Executive Director

Tan Sri Krishnan Tan Boon Seng, aged 61, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Independent Non-Executive Director on 9 August 2011. He serves as Chairman of the Board Safety & Security Committee and Board Tenders Committee. He is also a member of the Board Audit Committee.

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

Tan Sri Krishnan is currently Deputy Chairman of IJM Corporation Berhad. He serves as Director of IJM Plantations Berhad, IJM Land Berhad (Chairman), HSBC Bank Malaysia Berhad and Grupo Concesionario del Oeste S.A., Argentina. He joined IJM as Financial Controller in 1983 and was appointed Group Managing Director in 1997. He was re-designated as Chief Executive Officer and Managing Director on 26 February 2004 and served in this position until 31 December 2010.

Tan Sri Krishnan attended all 8 Board meetings held during the financial year. He has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

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

Tan Sri Datuk Amar Haji Mohamad Morshidi, aged 57, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Independent Non-Executive Director on 19 December 2012.

He holds a Bachelor's Degree in Economics from University Kebangsaan Malaysia and a Master of Science in Human Resource Administration from University of Scranton, Pennsylvania, USA.

He started his career as a Management Executive with PETRONAS in 1980. He was Director of Kuching North City Hall (1988 - 1998), before going on to hold senior positions in the Chief Minister's Department that included Director, Human Resource Management and Director, Human Resource Development and Quality (1998 - 2001).

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

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

Tan Sri Datuk Amar Haji Morshidi attended 5 out of 8 Board meetings held during the financial year. He has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

TAN SRI SUKARTI BIN WAKIMAN
Independent Non-Executive Director

Tan Sri Sukarti bin Wakiman, aged 60, a Malaysian, was appointed to the Board of Directors of Malaysia Airlines as Independent Non-Executive Director on1 February 2013.

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

He began his career as a Manpower Officer in the Ministry of Manpower and Environmental Development, Sabah in 1977. In 1981, he was posted to the Protocol and Ceremonial Division, Chief Minister's Department, Sabah as a State Protocol and Ceremonial Officer. Subsequently, he assumed the post of Administrative Officer at the State Development Office, Sabah in 1984. In late 1984, he was posted to Istana Negeri as Private Secretary to the Sabah Head of State.

In 1994, he was promoted as Permanent Secretary to the State Ministry of Agriculture and Fisheries. He became Permanent Secretary of the Ministry of Rural Development, Sabah in 1996, and became Director of the State Public Service Department, Sabah in 1998. In 2000, he was appointed Permanent Secretary to the Ministry of Infrastructure Development, before being transferred back to the State Public Service Department to assume the same post later that year. He was appointed as State Secretary of Sabah on 3 July 2007.

Tan Sri Sukarti sits on the Boards of Borneo Housing Mortgage Finance Berhad, Kumpulan Wang Simpanan Pekerja, Warisan Harta Sabah Sdn Bhd, University Malaysia Sabah, Sabah Forest Industries Sdn Bhd, BHMF Realty Sdn Bhd, POIC Sabah Sdn Bhd and Tanjung Aru Eco Development Sdn Bhd.

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

DR. MOHAMADON ABDULLAH
Independent Non-Executive Director

Dr. Mohamadon Abdullah, aged 66, a Malaysian was appointed to the Board of Directors of Malaysia Airlines as Independent Non-Executive Director on 22 June 2012. He is a member of the Board Tenders Committee, Board Safety and Security Committee, Board Audit Committee and Nomination and Remuneration Committee.

He holds a Bachelor's Degree with Honours in Arts from University of Malaya.

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

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

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

Dr. Don attended all 8 Board meetings held during the financial year. He has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

MOHD SHAHAZWAN BIN MOHD HARRIS
Non-Independent Non-Executive Director

Mohd Shahazwan bin Mohd Harris, aged 42, a Malaysia, was appointed to the Board of Directors of Malaysia Airlines as Non-Independent Non-Executive Director on 17 June 2013. He is a member of the Board Hedging Committee.

He holds a Bachelor's Degree in Mechanical Engineering from the University of Warwick and a Master in Advanced Mechanical Engineering from Imperial College, UK. He also holds a Master in Business from the prestigious MIT Sloan School of Management.

Mohd Shahazwan is currently Executive Director in the Investments Division of Khazanah Nasional Berhad, overseeing the Aviation sector. He joined Khazanah in January 2005 as Senior Vice President, Investments from the Boston Consulting Group, where he was a consultant, working extensively in the regional energy sector. Prior to that, he worked in PA Consulting and Tenaga Nasional Berhad.

He sits on the Boards of Penerbangan Malaysia Berhad, UEM Environment Sdn Bhd, Cenergi SEA Sdn Bhd and Lestari SEA Ltd.

Mohd Shahazwan attended 3 out of 4 Board meetings held during the financial year since his appointment to the Board of Directors of the Company. He has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

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

Eshah binti Meor Suleiman, aged 59, a Malaysian, was appointed Alternate Director to Tan Sri Dr. Mohd Irwan Serigar bin Abdullah on 5 November 2012.

She obtained a Bachelor of Economics (Honours) Degree from University of Malaya, a Diploma in Public Administration from the National Institute of Public Administration (INTAN) and a Master in Business Administration (Finance) from Oklahoma City University, USA.

She started her career in the Malaysian civil service in 1981 as Assistant Director (Macro Economic Section) Economic Planning Unit of the Prime Minister's Department and since then, has held various posts in the Malaysian Government before appointed as Deputy Under Secretary, Investment, MOF (Inc.) and Privatisation Division [formerly known as MOF (Inc.) Companies, Privatisation and Public Enterprise Division] in August 2003. She is currently Under Secretary, Statutory Bodies Strategic Management Division.

She currently holds directorships in Malaysia Airports Holdings Berhad, Pos Malaysia Berhad, Global Maritime Ventures Berhad (a subsidiary of Bank Pembangunan Malaysia Berhad) and serves as Alternate Director in Telekom Malaysia Berhad.

Eshah attended 1 Board meeting of the Company held during the financial year on behalf of Tan Sri Dr. Mohd Irwan Serigar bin Abdullah. She has no conflict of interest with the Company and does not have any family relationship with any Director and/or major shareholder of the Company. She has no conviction for any offence within the past 10 years.

⁄ Senior Management ⁄

Ahmad Jauhari Yahya
Group Chief Executive Officer

Mohd Nadziruddin Mohd Basri
Director, Finance

Dr. Hugh Noel Dunleavy
Director, Commercial

Dato' Mohd Salleh Ahmad Tabrani
Director, Customer Services

Captain Izham Ismail
Director, Operations

Zahrah Zaid
Director, Human Resources

Mohd Sukri Husin
Director, Corporate Services

Azhari Mohd Dahlan
Director, Engineering

Mohd Yunus Idris
Chief Executive Officer, MASkargo

Ignatius Ong Ming Choy
Chief Executive Officer, Firefly

Datuk Captain Mohd Nawawi Awang
Chief Executive Officer, MASwings

Board of Directors' Meetings 2013

Date	Meeting
22 January 2013	Meeting 01-13
28 February 2013	Meeting 02-13
8 April 2013	Meeting 03-13
29 May 2013	Meeting 04-13
20 August 2013	Meeting 05-13
25 September 2013	Meeting 06-13
16 November 2013	Meeting 07-13
19 December 2013	Meeting 08-13

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

Apart from adhering to the principles and best practices of the new 2012 Malaysian Code on Corporate Governance ("the Code"), the Company also abides by the Guidelines to Enhance Board Effectiveness per the 'Green Book' set by the Putrajaya Committee on GLC High Performance (PCG). The Board has adopted the Board Charter as recommended in the 'Green Book' to ensure that all members of the Board are aware of their fiduciary duties and responsibilities, legislations and regulations affecting their conduct, and that the highest standards of corporate governance are applied in all their dealings in respect and on behalf of the Company.

The Company continues to review initiatives identified under the Government-linked Companies Transformation Programme. The Board also takes note of the Code and has taken steps to ensure that the new recommendations are being addressed. The Company's efforts on fulfilling its corporate responsibility and promoting sustainability, in particular on safety, at the workplace, towards the environment, and for the community appear on page 17 and 23 of this Annual Report.

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

/THE BOARD OF DIRECTORS

Roles And Responsibilities

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

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

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

Board Balance, Structure and Composition

Board structure and composition is the foundation for an effective Board. Our Board is led by a Non-Executive Chairman with strong leadership, long experience and management capabilities to lead and manage discussions among the Directors of differing backgrounds. The current Board of MAS comprises nine (9) members which comply with the requirement on Independent Directors of the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (BMSB) and the recommendation of the Code.

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

A brief profile of each Director appears on pages 26 to 30 of this Annual Report.

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

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

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

In situations where it is inappropriate for concerns to be dealt with by the Chairman or GCEO, such concerns are conveyed to the Senior Independent Non-Executive Director, David Lau Nai Pek.

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

Board Meetings and Supply of Information to the Board

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

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

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

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

A total of eight (8) Board meetings were held during 2013. The Directors' attendance record was as follows:

Director	Meetings Attendance
Tan Sri Md Nor bin Md Yusof Chairman	8/8
Ahmad Jauhari bin Yahya Group Chief Executive Officer	8/8
David Lau Nai Pek	8/8
Tan Sri Krishnan Tan Boon Seng	8/8
Dr. Mohamadon bin Abdullah	8/8
Tan Sri Dr. Mohd Irwan Serigar bin Abdullah	5/8
Tan Sri Datuk Amar Hj. Mohamad Morshidi bin Abdul Ghani	5/8
Tan Sri Sukarti bin Wakiman (Appointed on 01/02/2013)	5/7
Mohd Shahazwan bin Mohd Harris (Appointed on 17/06/2013)	3/4
Tan Sri Mohamed Azman bin Yahya (Resigned on 14/05/2013)	3/3

Eshah binti Meor Suleiman is the Alternate Director to Tan Sri Dr. Mohd Irwan Serigar bin Abdullah.

Appointment of Board Members

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

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

Directors' Training

All Directors have attended and successfully completed the Mandatory Accreditation Programme mandated by BMSB. The Directors attended various conferences and seminars organised by external organisers to keep abreast of industry developments and trends and to assist the Directors in the discharge of their duties.

Conferences, seminars and training programmes attended by the Directors in 2013 included:

- Khazanah Annual Review (KAR) Outreach 2013 Briefing
- Khazanah Megatrends Forum 2013
- Asian Corporate Governance Dialogue session
- Group Disclosure Guide 2012
- International Corporate Governance Seminar 2013
- Advocacy Session on Corporate Disclosure for Directors
- PWC's Board Agenda Series: Boards and Strategy
- Inaugural Corporate Directors Conference

Re-election of Directors

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

Directors Remuneration

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

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

	Salaries & Other Emoluments (RM'000)	Benefits (RM'000)	Total (RM'000)
Executive Director	1,780	149	1,929
Non-Executive Directors	502	-	502
Total	2,282	149	2,431

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

Executive Directors:	No. of Directors
Below RM500,000	-
RM500,001 to RM1,000,000	-
RM1,500,001 to RM2,000,000	1

Non-Executive Directors:	No. of Directors
Below RM50,000	6
RM50,001 to RM100,000	3
RM150,001 to RM200,000	1

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

/COMPANY SECRETARY

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

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

/BOARD COMMITTEES

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

- Board Audit Committee
- Nomination and Remuneration Committee
- Board Safety and Security Committee
- Board Tenders Committee
- Board Hedging Committee

BOARD AUDIT COMMITTEE (BAC)

A full BAC report detailing its membership, ToR and activities during the year is contained in pages 44 to 47 of this Annual Report. The Chairman of the BAC reports on the outcome of its Meeting to the Board. Such reports are incorporated as part of the Agenda of the Board meetings.

Nomination and Remuneration Committee (NRC)	
Chairman	David Lau Nai Pek
Member	Dr. Mohamadon bin Abdullah

Objectives
To assist the Board of Directors in their responsibilities in nominating new nominees to the Board of Directors, Board Committees, nominating the Group Chief Executive Officer (GCEO) or the equivalent and the Deputy Group Chief Executive Officer (DGCEO) or the equivalent, and nominating members of Senior Management personnel, namely those reporting directly to either the GCEO or DGCEO. The Committee also reviews and recommends the appropriate remuneration packages applicable to them and assesses the performance of the Directors of the Company on an on-going basis.

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

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

BOARD SAFETY AND SECURITY COMMITTEE (BSSC)

Chairman	Tan Sri Krishnan Tan Boon Seng
Members	Dr. Mohamadon bin Abdullah Ahmad Jauhari bin Yahya Ignatius Ong Ming Choy, Firefly CEO Datuk Capt. Mohd Nawawi bin Awang, MASwings CEO

Other members of the BSSC include relevant members of Senior Management specifically the Director of Operations and Head of Corporate Safety Oversight.

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

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

Role and Scope
- To review the overall safety and security performance of operations under the MAS AOC by considering significant operational incidents and trends.
- To consider the effectiveness of controls by reviewing:
  - (a) Results of audits, inspections and investigations
  - (b) Significant quality lapses
  - (c) Process conformance
  - (d) Status of corrective and preventive actions
  - (e) Follow up actions from previous management reviews
  - (f) Regulatory violations and concessions
- To review occurrence reports and trend analyses and ensure corrective actions are taken in a timely manner.
- To periodically review safety and security performance of MAE, MASkargo, Firefly and MASwings.
- To consider relevant incidents of other operators with particular attention to those with contractual relationships with MAS.
- To review recommendations for management system improvement.
- To be updated on changes in regulatory policy or civil aviation legislation.

- To monitor safety management processes in flight operations, engineering, security, cargo and ground operations, and ensure that these are in line with the Group's quality standards.
- To encourage good internal communication across the Group to ensure problem areas are quickly highlighted and corrective actions taken.
- To ensure that contingency planning and crisis management procedures are in place.

BOARD TENDERS COMMITTEE (BTC)

Chairman	Tan Sri Krishnan Tan Boon Seng
Members	Dr. Mohamadon bin Abdullah Ahmad Jauhari bin Yahya

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

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

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

BOARD HEDGING COMMITTEE (BHC)

Chairman	David Lau Nai Pek
Member	Mohd Shahazwan bin Mohd Harris

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

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

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

⁄SHAREHOLDERS

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

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

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

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

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

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

⁄ACCOUNTABILITY AND AUDIT

Financial Reporting

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

Directors' Responsibility to the Financial Statements

In the preparation of the Financial Statements as set out on pages 58 to 151 of this Annual Report, the Directors are of the view that:

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

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

The Statement of Directors pursuant to Section 169 of the Companies Act 1965 is set out on page 55 of this Annual Report.

Whistle-Blower Policy

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

Approving Authority Manuals

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

Risk Management Framework and Internal Controls

The Board acknowledges its overall responsibility for maintaining a sound system of internal controls to safeguard Shareholders' investment and the Group's assets. In compliance with the MMLR of BMSB under Paragraph 15.25 and guided by the Statement of Internal Control: Guidance for Directors of Public Listed Companies, a report on the Group's internal controls is presented in the Statement on Risk Management Framework and Internal Control on pages 39 to 43 of this Annual Report.

Relationship with Auditors

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

This Statement is made in accordance with a resolution of the Board of Directors dated 26 February 2014.

/INTRODUCTION

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

/BOARD RESPONSIBILITY

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

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

The system of internal control comprises the following key elements:

- Control Environment
- Control Activities
- Information & Communication
- Monitoring
- Risk Assessment

The key elements of MAS' internal control system are as follows:

1. **CONTROL ENVIRONMENT**

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

   A. **Governance Structure**

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

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

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

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

- **Internal Audit Department (IAD)**
  Internal audit function is carried out by IAD which performs systematic reviews of key processes in high-risk areas and assesses the adequacy and effectiveness of internal controls. An Internal Control Performance Scorecard is provided in every audit report to highlight the state of internal control for the areas audited. On a monthly basis, IAD submits audit reports to BAC through the Monthly Audit report. On a quarterly basis, IAD presents the Internal Audit Report summarising the key audit findings and internal control incidences to the BAC. In 2013, follow-up reviews were conducted on a quarterly basis to monitor the status of all internal control issues raised and the overall closure rate of audit issues was reported in the Quarterly Internal Audit report. The Management Audit Action Committee (MAAC) chaired by the GCEO was reinstated in 2013 to monitor and ensure the effectiveness of the implementation of remedial actions recommended by Internal Audit.

- **Quality Assurance (QA) Functions**
  Sixteen (16) internal QA functions have been established under various divisions such as IT Governance, Financial Compliance, Service Quality Unit, Engineering & Maintenance QA and Airport Operations QA which are aimed to improve the Group's service standards and meet regulatory requirements.

- **Strategic Governance Function**
  Risk and Policy Advisory Services (RPAS) leads in implementing the Group's Enterprise Risk Management framework and focuses on aligning governance structures with key business objectives of the Group to enhance stakeholder value. Bi-annually, RPAS provides updates on risk management to BAC. RPAS works closely with RPAS Business Partners (RBPs) who are tasked to support RPAS in implementing governance framework in operational areas.

- **Operating structure that defines responsibility and authority**
  A comprehensive organisation structure which aligns with operational and business requirements with defined responsibility and accountability is in place.

B. Conduct

- **Code of Ethics (COE)**
  The Code continues to emphasize on the need for all Directors and employees of the Company to uphold the highest level of business ethics and personal integrity in discharging responsibilities in all types of transactions and interactions. Since 2007 when the Code was incepted, RPAS, together with Human Resource Division launched a series of awareness programmes to instill its statement of principle that sets out the basic standard of good business practices, value of honesty and need for compliance with good governance and applicable laws. Today, the Code forms part of advanced management development programmes for the Company. The Code has also integrated with existing business processes such as tender and procurement and yearly declarations are mandated to ensure employees disclose interest with respect to having any form of relationship with external entities that deals with MAS. In addition, procurement staff are required to sign a conflict of interest declaration prior to the conduct of any tender exercise. These initiatives are in line with the Code's objective of maintaining integrity and professionalism in the workforce.

- **Consequence Management**
  The Consequence Management Framework was implemented in Quarter 2 of 2012 to empower five (5) focus areas to issue letters of inquiry for non compliance to the Company's policy and procedures. The framework is integrated with the Human Resource Discipline Procedure.

C. Organisational Values

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

- **Business Assurance & Control Assessment (BACA)**
  A key initiative under ICE program is the Control Self Assessment, an approach to instill accountability for Division/Subsidiary Heads to conduct assessments on their internal controls and communicate the results to management, known as BACA. BACA self-assessment was initially rolled out to all department and divisional heads. Effective Quarter 2 of 2012, the BACA function was handed over to RPAS. BACA was reviewed by RPAS in 2013 to improve its effectiveness. IAD will continue to perform the BACA validation audits to confirm the self assessment performed by management.

- **Whistle Blower Programme (WBP)**
  The WBP is in place to provide an internal mechanism for employees and external parties to raise concerns about malpractices, irregularities and negligence affecting MAS without fear of adverse repercussions and with a guarantee that confidentiality is maintained. The Whistle Blower Independent Committee (WIC), chaired by the Group CEO, is responsible to review and monitor concerns channeled through the WBP. Investigations and reviews are carried out by the Integrity Unit under IAD or any appointed action parties and tabled to the WIC on a quarterly basis. Appropriate actions are taken based on the strengths and merits of the findings. A status of the investigations and summary of concerns are reported via the Quarterly Internal Audit Report to BAC.

- **Corporate Integrity Principles (CIP)**
  In line with the Company's effort to enhance the culture of integrity and to create a business environment free of fraud and corruption, the Corporate Integrity Pledge was signed by the GCEO in October 2012 witnessed by the Malaysian Anti-Corruption Commission (MACC). Good ethics in the Company is further strengthened by setting the tone from the top with the Group leadership's commitment in upholding the MAS Corporate Integrity Principles (CIP) in:

  - Committing to promoting values of integrity, transparency and good governance
  - Strengthening internal systems that support corruption prevention
  - Complying with laws, policies and procedures relating to fighting corruption
  - Fighting any form of corrupt practice
  - Supporting corruption prevention initiatives by the Malaysian Anti-Corruption Commission (MACC)

- **Employee Performance Measurement and Competency**
  The Performance Measurement System (PMS) is aligned to Strategies and Key Business Activities set forth in the Corporate Business Plan 2013. Key Performance Indicators (KPI) are used to measure staff performance on a half yearly basis.

  Leadership and Management development programmes are conducted as part of the Talent Management and Development Programme. Continuous education, development and training are provided to the staff through a wide variety of schemes and programmes. In addition to the Guest Auditor Programme which was part of the talent management program, IAD is also embarking on a job rotation program with the objective of building future leaders in MAS who appreciate cross-functional teamwork and possess strong corporate governance knowledge. The job rotation programme also provides the platform for on-the-job training to employees from operational areas to gain exposure on governance, risk and internal control.

2. CONTROL ACTIVITIES

A. Authority and Accountability

- The approving authority structure and key areas of decision making are constantly reviewed and enhanced in the Corporate Approving Authority Manual (CAAM) to adjust to changes in the business requirements, subject to review and justification for the need for change. The aim is to ensure there are clear accountability given to the officers and empowerment is designed to ensure expediency of effective decision making without compromising on governance requirements.
- The Subsidiary Governance Framework continues to set the foundation for approving authority structures to be established in new subsidiaries and become a guide for new joint venture companies. RPAS assisted several key subsidiaries within the Group to develop and review respective approving authority profiles. Emphasis was also placed on educating and creating awareness on the need for compliance to policies.

B. Policies and Procedures

- MAS Corporate Policy Framework maintains the platform for consolidating and communicating the corporate policies and manuals within the Group. In 2013, RPAS assisted a number of business units to review and enhance current policies, namely the Ground Operations Manual, Fleet Management Policy and Golden Lounge Manual to address operational requirements, more importantly to fulfill regulatory and stakeholders' demands.
- RPAS maintains and updates the inventory and availability of policies and manuals for the Company through the corporate policy intranet and enterprise content management system. RPAS engages divisional heads on a regular basis to ensure awareness of the policies and manuals within their divisions and to ensure that the policies and manuals are reviewed on a regular basis.

- RPAS continues to carry out a series of training and briefing sessions to all level of stakeholders within the Group in order to promote awareness on the application of policies, revisions and development of new policies.

3. INFORMATION AND COMMUNICATION

A. Planning

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

B. Information Dissemination

- Management Committee meetings chaired by the GCEO are conducted on a regular basis to monitor business performance and to discuss current issues.
- Townhall sessions are conducted on a quarterly basis for staff as an avenue for sharing of the operational results, Company's performance, and provides a platform for clarification of issues with the staff.

4. MONITORING

- Budgets are monitored by each business unit and forms part of each business unit's key performance indicator. An Expenditure Variance Report (EVS) is generated on a monthly basis for each business unit's validation and monitoring of actual cost incurred against the budget.
- Other than regular reporting of internal control issues to BAC, the effectiveness of internal control system is monitored through the following:
    - Review of BACA to improve its effectiveness by reviewing the questions and the respondants' list. In 2013, after a benchmarking exercise, RPAS proposed that BACA questionnaires be distributed to GCEO's Division/Subsidiary Heads only instead of distributing to all departmental and divisional heads. The self-assessment is done once a year and IAD performs validation on the self assessed results and reports the findings to BAC on a periodic basis.
    - Quarterly financial announcements and annual financial statement were presented to BAC for review and deliberation.
    - The 2nd People Engagement Survey (PES) was conducted towards the end of 2013 to obtain feedback from the staff on the initiatives carried out by management.
    - The Management Development Committee (MDC) continues to play its role in ensuring leadership development and succession planning is carried out within the Group.

5. RISK ASSESSMENT

- In 2013, RPAS continues to improve the Enterprise Risk Management (ERM) Framework applied throughout the Group by reviewing the existing methodology of identifying risks, facilitates the risk assessment process, monitors the Group's risk profile and implement the risk management action plans identified by the business units. RPAS also provides continuous education on risk management to the RPAS Business Partners (RBPs). Benchmarking exercise was performed with other Government Link Companies (GLCs) in search of best practices.
- RBPs who are appointed by the Head of Divisions have been trained in the areas of risk including identifying risks and mitigating action plans and are responsible to report new and emerging significant risks to RPAS for reporting to BAC. To ensure the effectiveness of the RBPs, a selection criteria was established by RPAS to determine eligibility to become RBPs and the performance of the RBPs are assessed annually based on, among others, knowledge, capability and professionalism.
- Starting from 2013, Head of Divisions are required to sign-off for the divisional risk and the management action plans.
- In the second half of 2013, RPAS embarked on the Enterprise Risk Management awareness programme where activities such as conducting briefings at Divisional Townhall sessions and at Regional meetings were carried out and snippets were issued to educate all levels on the existence of risks and risk mitigation.
- Risk management activities:
    - A series of risk reviews were completed throughout the Group including key subsidiaries and regional offices in Europe, South Asia, Greater China and ASEAN by RPAS with the assistance of the respective RBPs and Regional Senior Vice Presidents. Business units and subsidiaries were challenged and were made to review their respective risk positions.
    - Outcomes of the risk reviews which include management action plans were reported to the relevant stakeholders including heads of business units and subsidiaries, management and MAAC and BAC at the Board on a periodic basis.

- There were a few key projects which require RPAS' involvement mainly to evaluate and assess risks surrounding the projects in order to ensure that the project objectives are achieved. Among the projects are Phase 2B of the Enterprise Resource Planning (ERP) Project and the Long Term Fleet Replacement Project.
- The Group's Corporate Risk Management Manual, is continuously updated to ensure the latest information and practices are provided to the RBPs on risk and policy matters.
- MAS Business Continuity Management (BCM) Program for 2013 saw the completion of Business Continuity Plans (BCP) for North Asia and Middle East stations including Jeddah, Bangalore and New Delhi.
- In every Board meeting, the Board Safety and Security Committee provides updates on the safety aspect of the Company's operations and safety issues were deliberated by the Board.
- Briefings and training sessions were conducted for all level of stakeholders to ensure that good risk management practice is embedded within the Group. Specific training modules on governance, risk management and internal controls structures for target groups are integrated into the corporate induction and management development programmes.

⁄DESIGN OF THE INTERNAL CONTROL SYSTEM

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

The Board has received assurance from the GCEO and confirms that the system of risk management and internal control, with the key elements highlighted above, are in place during the financial year. The system is subject to regular review by the Board.

This Statement is made in accordance with a resolution of the Board of Directors dated 26 February 2014.

The Board Audit Committee (BAC) of Malaysian Airline System Berhad (MAS or the Company) is pleased to present the Audit Committee Report for the financial year ended 31 December 2013.

1. ESTABLISHMENT AND COMPOSITION OF BOARD AUDIT COMMITTEE

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

Director	Directorship	Meeting Attendance
David Lau Nai Pek (Chairman)	Independent Non-Executive Director	6/6
Tan Sri Krishnan Tan Boon Seng	Independent Non-Executive Director	6/6
Dr. Mohamadon bin Abdullah	Independent Non-Executive Director	6/6

Appointment to the BAC is referred to the Nomination and Remuneration Committee prior to approval by the Board. The Board then shall ensure that the composition of the BAC meets the independence and experience requirements set out by MMLR/MCCG.

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

The Chairman of the BAC was elected by members of BAC and is a member of the Malaysian Institute of Accountants. The profiles of the Chairman and BAC members are set out on pages 27 to 29 in the Annual Report.

2. QUORUM OF BAC

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

3. MEETINGS OF THE BAC

The BAC shall meet at least four (4) times annually, or more frequently as circumstances dictate. The Committee held six (6) meetings during the financial year, and the attendance record of each member is set out above.

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

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

4. SUMMARY OF THE ACTIVITIES OF THE BAC IN THE FINANCIAL YEAR

The activities of the BAC during the financial year 2013 were as follows:

i. Risks and Controls

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

ii. Internal Audit

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

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

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

v. **Annual Reporting**
- Reviewed and approved the annual financial statement for the year for inclusion in the Annual Report 2013.
- Reviewed and recommended Statement on Corporate Governance, Statement on Risk Management and Internal Control and Audit Committee's Report to the Board for approval.

vi. **Related Party Transactions**
- Reviewed related party transactions for compliance with the MMLR of BSMB and the adequacy of the review procedures for related party transactions.

vii. **Others**
- Reviewed and supported revisions to the BAC's Terms of Reference (ToR) for approval by the Board.

5. GROUP INTERNAL AUDIT FUNCTION

The internal audit function of MAS Group is performed by IAD that reports directly to the BAC. The Internal Audit function is governed by an approved MAS Internal Audit Charter that provides for its independence in evaluating and reporting on adequacy, integrity and effectiveness of the overall internal control system, risk management and corporate governance using a systematic and disciplined approach. IAD Charter was revised in 2013 mainly to incorporate the revised Institute Internal Auditors (IIA) Standards in line with the International Standards for the Professional Practice of Internal Auditing.

IAD adopts established auditing standards and performs periodic self-assessment against applicable guidelines to maintain its proficiency and ensure due professional care. IAD adopts COSO based audit methodology in aligning itself to the internal control framework and spearheaded an initiative called Business Assurance Control Assessment (BACA), a Control Self Assessment methodology which was rolled out to all stations system-wide and key departments in Corporate Headquarters. BACA aims to instill accountability on business owners to perform self assessment on their internal controls and report to Management on a periodic basis. With the BACA workshop function being handed over to Risk Management for Management to take full responsibility on the establishment of a good internal control environment, IAD continues to perform the BACA validation audits to confirm the self assessment performed by Management.

The risk based audit plan approved by the BAC is developed to cover key elements under Revenue Management, Procurement, Cost, Operations, Engineering & Maintenance (E&M), Customer Services and Information Systems activities that are significant to the overall performance of the MAS Group. The prioritisation of audit assignments is based on the results from the risk management exercise, past audit results and discussions with Senior Management. Key processes in the MAS Group are clustered into audit universes that have been aligned to the corporate vision to be a Preferred Premium Carrier. Assignments have been developed in support of the Business Plan on the Recovery Plan, Game Changers and Foundations, with primary focus on the revenue uplift, initiatives centered around revenue initiatives and address structural cost over the long run.

Internal audit activities covering all the above objectives are undertaken for both passenger and cargo businesses at Corporate Headquarters, stations systemwide and MAS subsidiaries. The IAD also conducts special audits on an ad-hoc basis based on specific requests either from the Board, BAC, Senior Management or arising from the Whistle Blower Programme.

The BAC receives quarterly reports from the Chief Internal Auditor on the results of activities performed. IAD continuously monitors the execution of the audit recommendations, external and internal through periodic follow up. The quarterly Internal Control Incidents Report (ICIR) provides the BAC with the status of management actions taken on disciplinary issues, key Whistle blower cases and Consequence Management by the respective Business Unit areas. The Management Audit Action Committee (MAAC) chaired by the GCEO was reinstated in 2013 to monitor and ensure the effectiveness of the implementation of remedial actions recommended by Internal Audit.

IAD continues to collaborate with QA functions in MAS and had played an active oversight and advisory role on the internal QA functions within the organization to strengthen the reporting structure and effectiveness of the functions.

The Memorandum of Understanding (MoU) signed with the Malaysian Anti-Corruption Commission (MACC) in 2012 has provided MAS with the opportunity to tap on the MACC resources, expertise and experience to promote awareness and to strengthen the culture of ethics and good conduct in our business practice company-wide. Various Integrity Programmes had been successfully implemented in 2013 as follows:

- Senior Management Integrity Program held in April 2013, focusing on the Senior Management team commitment and by setting the tone from the top.
- Procurement Transformation and Staff Integrity Program held in July 2013, targeting the management team and staff with related procurement function.
- MAS Vendor Integrity Program held in November 2013 focusing on MAS business partners local and overseas for their commitment and support to our initiatives in fighting corruption and bribery in the area of procurement.

Through collaboration with the MACC, MAS now has one of our staff qualified as a Certified Integrity Officer, in line with the National agenda to promote good governance and business ethics within the organization.

During the financial year, the IAD had completed and reported 70 audit assignments. The key audits that were completed in 2013 include:

- Revenue assurance
- Strategic procurement
- Station governance
- Contract management
- Engineering & Maintenance third party contract
- Debt & leasing for aircraft
- Flight crew rostering
- Airline insurance management
- Engine Maintenance Planning
- Service delivery
- Emergency Response & Business Continuity
- Systems review
- Collection & recognition
- Station reviews

The IAD is manned by 37 internal auditors in the Assurance and Integrity Units with approximately 58,000 available man-hours per annum. All the internal auditors have tertiary qualifications and the level of expertise and professionalism within IAD at the end of 2013 are as below:

Expertise Category	**Percentage of total auditors**
• Finance	51%
• Business/Economics	24%
• IT	11%
• Others	14%

Professional Category	**Percentage of total auditors**
Professional Certification:	
• Certified Accountants (CPA, ACCA, CA, CIMA)	24%
• Certified Auditors (CIA, CISA & CeIO)	16%
• Internship of CPA, ACCA, CA, CIMA	8%
• Internship of CIA, CISA	14%
• Institute of Internal Auditors (IIA) Membership	30%
• Others (IAQA)	8%
Post Graduate:	
• MBA & other Masters	22%

The Chief Internal Auditor is a Fellow of the Association of Chartered Certified Accountants, a member of the Malaysian Institute of Accountants and the Institute of Internal Auditors Malaysia. MAS is a Corporate Member of the Institute of Internal Auditors. The total expenditure incurred by the IAD for the financial year 2013 is approximately RM6.5 million (2012: RM6.2 million).

As part of supporting a continuous learning culture in ensuring the auditors enhance their knowledge, skills and competencies, a detailed training plan was developed to address the individual training needs. On an average, the IAD staff had attended 18 training days in 2013.

6. TERMS OF REFERENCE

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

i. Objectives

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

- Evaluate the quality of the audits performed by the internal and external auditors;
- Provide assurance that the financial information presented by Management is relevant, reliable and timely and quarterly report to Bursa Malaysia Securities Berhad (BMSB) and the Annual Accounts are accurate;
- Provide Company oversight on group governance structure and compliance with relevant laws and regulations and observance of a proper code of conduct; and
- Determine and review the quality, adequacy and effectiveness of the Group's system of internal control and risk management.

ii. Authority

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

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

iii. Duties and Responsibilities

The duties and responsibilities of the BAC are to undertake the following and report accordingly to the Board:

a) External Auditor

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

b) Financial Reporting

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

c) Internal Audit

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

d) Related Party Transactions

- Monitor any related party transactions that may arise within the Group and to report, if any, transactions that may arise within the Group and any related party outside the Group that are not based on arms-length terms and are disadvantageous to the Group; and
- Review any related party transaction and conflict of interest situation that may arise within the Group including any transaction, procedure or cause of conduct that may raise questions of management integrity.
- Ensure that audit of related party transactions are carried out at least once a year.

e) Employee Share Option Scheme (ESOS)

- Review the process and allocation of options pursuant to the Employees Share Option Scheme (ESOS) at the end of each financial year as being in compliance with the terms and conditions under the ESOS scheme.

This Statement is made in accordance with a resolution of the Board of Directors dated 26 February 2014

⁄ Additional Compliance Information ⁄
as at 31 December 2013

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

1. IMPOSITION OF SANCTIONS/PENALTIES

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

2. MATERIAL CONTRACTS

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

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

(ii) Six (6) Operating Lease Agreements, one (1) of which is dated 6 June 2002 and five (5) of which are dated 28 May 2002, between the Company and ABM, a wholly-owned subsidiary of PMB, in relation to the lease of the six (6) aircraft for a lease period not exceeding 12 years.

(iii) Six (6) Supplemental Agreements dated 30 July 2002 between the Company and ABM, a wholly-owned subsidiary of PMB, to amend the terms of rental rate/ formula stated in the Operating Lease Agreements between the aforesaid parties referred to in paragraph (ii) above.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(xvii) Several Agreements dated 28 March 2012 between PMB and Malaysia Airlines such as

(a) Deed of Amendment and Restatement in relation to the lease of one (1) Boeing model aircraft B747-400 bearing Manufacturer's Serial Number 27043 and Malaysian Registration Mark 9M-MPF from PMB to the Company.

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

(c) Deed of Amendment and Restatement in relation to the lease of one (1) Boeing model aircraft B777-200 bearing Manufacturer's Serial Number 28408 and Malaysian Registration Mark 9M-MRA from PMB to the Company.

(d) Deed of Amendment and Restatement in relation to the lease of one (1) Airbus model aircraft A330-300 bearing Manufacturer's Serial Number 77 and Malaysian Registration Mark 9M-MKE from PMB to the Company.

(xviii) Several Agreements dated 19 June 2013 between PMB and Malaysia Airlines such as

(a) Engine Lease Agreement in relation to the lease of one (1) engine with Engine Type PW4168 bearing Engine Serial Number P733366 from PMB to Malaysia Airlines.

(b) Engine Lease Agreement in relation to the lease of one (1) engine with Engine Type PW4168 bearing Engine Serial Number P733352 from PMB to Malaysia Airlines.

(c) Engine Lease Agreement in relation to the lease of one (1) engine with Engine Type PT6A-27 bearing Engine Serial Number PCE42228 from PMB to Malaysia Airlines.

(d) Engine Lease Agreement in relation to the lease of one (1) engine with Engine Type PW4056 bearing Engine Serial Number P7290120 from PMB to Malaysia Airlines.

(e) Engine Lease Agreement in relation to the lease of one (1) engine with Engine Type CFM56-3CI bearing Engine Serial Number 856410 from PMB to Malaysia Airlines.

(f) Engine Lease Agreement in relation to the lease of one (1) engine with Engine Type PW4056 bearing Engine Serial Number P729096 from PMB to Malaysia Airlines.

(g) Agreement between PMB as the Lessor and Malaysia Airlines as the Lessee to amend Redelivery Adjustments in all Engine Lease Agreements.

(xix) Master Facility Agreement dated 19 November 2012 between Malaysia Airlines and Turus Pesawat Sdn Bhd in relation to the financing of the purchase of six (6) Airbus A380-800s, one (1) Airbus A330-300 and one (1) Airbus A330-300F and other expenses in relation to the purchase thereof for a period of up to twenty (20) years from the disbursement date of each relevant Aircraft.

3. UTILIZATION OF PROCEEDS FROM CORPORATE PROPOSALS

During the financial year 2013, part of the proceeds from the Company's rights issue of ordinary shares which was completed on 5 June 2013 were utilized for working capital, capital expenditure, repayment of borrowings and expenses for the corporate exercise.

4. NON-AUDIT FEES

The amount of non-audit fees paid or payable to the external auditors by the Group for the financial year ended 31 December 2013 is RM3,261,000.

5. PROFIT GUARANTEE

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

6. SHARE BUYBACK

There was no share buyback scheme undertaken by the Company.

7. OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

The Company has not issued any options, warrants or convertible securities during the financial year 2013.

8. AMERICAN DEPOSITORY RECEIPT ("ADR") OR GLOBAL DEPOSITORY RECEIPT ("GDR") PROGRAMME (AS AT 31 DECEMBER 2013)

The Company did not sponsor any ADR or GDR programme during the financial year.

9. VARIATION IN RESULTS

There was no variance of 10% or more between the unaudited results and the audited financial statement for the financial year ended 31 December 2013.

/ 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.

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.

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.

OTHER STATUTORY INFORMATION (CONT'D)

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

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

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

(f) In the opinion of the directors:

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

(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

⁄ 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 58 to 150 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 151, 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

⁄ Statutory Declaration ⁄

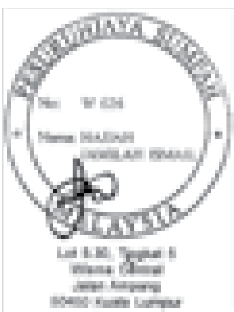
Pursuant to Section 169(16) of the Companies Act, 1965

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 58 to 151 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 in Wilayah Persekutuan on 18 February 2014.

Mohd Nadziruddin bin Mohd Basri

Before me,



⁄ Independent Auditors' Report ⁄

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Malaysian Airline System Berhad, which comprise statements of financial position as at 31 December 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 58 to 150.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 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 151 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

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

Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
18 February 2014

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

/ Income Statements /

for the financial year end 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 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.

Statements of Comprehensive Income

for the financial year end 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.

/ 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

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

as at 31 December 2013

	Note	Group		Company	
		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.

/ Statements of Changes in Equity /

for the financial year ended at 31 December 2013

Group	Note	Share capital RM'000	Perpetual Sukuk RM'000	Share premium RM'000	Capital redemption reserve RM'000
		<--------------- Non-Distributable			----------------
At 1 January 2013		**3,342,156**	**1,498,190**	**4,995,970**	**41,775**
Loss for the year		**-**	**-**	**-**	**-**
Other comprehensive income		**-**	**-**	**-**	**-**
Distribution to Perpetual Sukuk holders	29	**-**	**-**	**-**	**-**
Capital reduction	28	**(3,007,940)**	**-**	**(4,995,970)**	**-**
Transactions with owners					
Dividend by subsidiaries		**-**	**-**	**-**	**-**
Rights issue	28	**1,336,862**	**-**	**1,737,921**	**-**
Rights issue expenses		**-**	**-**	**(2,205)**	**-**
Total transactions with owners		**1,336,862**	**-**	**1,735,716**	**-**
At 31 December 2013		**1,671,078**	**1,498,190**	**1,735,716**	**41,775**

	Note	Share capital RM'000	Perpetual Sukuk RM'000	Share premium RM'000	Equity component of RCPS RM'000
		<------------------ Non-Distributable			---------------
At 1 January 2012		3,342,156	-	4,995,970	58,076
Loss for the year		-	-	-	-
Other comprehensive income		-	-	-	-
Issuance of Perpetual Sukuk	29	-	1,498,190	-	-
Distribution to Perpetual Sukuk holders	29	-	-	-	-
Transactions with owners					
Dividend by subsidiaries		-	-	-	-
Redemption of RCPS	26	-	-	-	(58,076)
Expiry of ESOS	22	-	-	-	-
Total transactions with owners		-	-	-	(58,076)
At 31 December 2012		3,342,156	1,498,190	4,995,970	-

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

Attributable to equity holders of the Company

--> <Distributable>

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
21,406	**-**	**459,755**	**(8,236,108)**	**(2,717,202)**	**2,123,144**	**14,847**	**2,137,991**
-	**-**	**-**	**(1,173,687)**	**(1,173,687)**	**(1,173,687)**	**4,848**	**(1,168,839)**
98,247	**17,141**	**-**	**-**	**115,388**	**115,388**	**-**	**115,388**
-	**-**	**-**	**(103,500)**	**(103,500)**	**(103,500)**	**-**	**(103,500)**
-	**-**	**-**	**8,003,910**	**3,007,940**	**-**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**	**(1,487)**	**(1,487)**
-	**-**	**-**	**-**	**1,737,921**	**3,074,783**	**-**	**3,074,783**
-	**-**	**-**	**-**	**(2,205)**	**(2,205)**	**-**	**(2,205)**
-	**-**	**-**	**-**	**1,735,716**	**3,072,578**	**(1,487)**	**3,071,091**
119,653	**17,141**	**459,755**	**(1,509,385)**	**864,655**	**4,033,923**	**18,208**	**4,052,131**

Attributable to equity holders of the Company

---> <Distributable>

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

Company	Note	Share capital RM'000	Perpetual Sukuk RM'000	Share premium RM'000
At 1 January 2013		**3,342,156**	**1,498,190**	**4,995,970**
Loss for the year		**-**	**-**	**-**
Other comprehensive income		**-**	**-**	**-**
Distribution to Perpetual Sukuk holders	29	**-**	**-**	**-**
Capital reduction	28	**(3,007,940)**	**-**	**(4,995,970)**
Transactions with owners				
Rights issue	28	**1,336,862**	**-**	**1,737,921**
Rights issue expenses		**-**	**-**	**(2,205)**
Total transactions with owners		**1,336,862**	**-**	**1,735,716**
At 31 December 2013		**1,671,078**	**1,498,190**	**1,735,716**

	Note	Share capital RM'000	Perpetual Sukuk RM'000	Share premium RM'000
At 1 January 2012		3,342,156	-	4,995,970
Loss for the year		-	-	-
Other comprehensive income		-	-	-
Issuance of Perpetual Sukuk	29	-	1,498,190	-
Distribution to Perpetual Sukuk holders	29	-	-	-
Transactions with owners				
Redemption of RCPS	26	-	-	-
Expiry of ESOS	22	-	-	-
Total transactions with owners		-	-	-
At 31 December 2012		3,342,156	1,498,190	4,995,970

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

	-------------------- Non-Distributable -------------------->		<Distributable>			
	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
	41,775	**21,406**	**458,225**	**(8,238,084)**	**(2,720,708)**	**2,119,638**
	-	**-**	**-**	**(1,248,503)**	**(1,248,503)**	**(1,248,503)**
	-	**98,247**	**-**	**-**	**98,247**	**98,247**
	-	**-**	**-**	**(103,500)**	**(103,500)**	**(103,500)**
	-	**-**	**-**	**8,003,910**	**3,007,940**	**-**
	-	**-**	**-**	**-**	**1,737,921**	**3,074,783**
	-	**-**	**-**	**-**	**(2,205)**	**(2,205)**
	-	**-**	**-**	**-**	**1,735,716**	**3,072,578**
	41,775	**119,653**	**458,225**	**(1,586,177)**	**769,192**	**3,938,460**

	---------------------------------- Non-Distributable -->				<Distributable>			
	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
	58,076	88,938	-	(28,222)	500,000	(7,863,720)	(2,248,958)	1,093,198
	-	-	-	-	-	(481,457)	(481,457)	(481,457)
	-	-	-	49,628	-	-	49,628	49,628
	-	-	-	-	-	-	-	1,498,190
	-	-	-	-	-	(34,595)	(34,595)	(34,595)
	(58,076)	-	41,775	-	(41,775)	58,076	-	-
	-	(88,938)	-	-	-	83,612	(5,326)	(5,326)
	(58,076)	(88,938)	41,775	-	(41,775)	141,688	(5,326)	(5,326)
	-	-	41,775	21,406	458,225	(8,238,084)	(2,720,708)	2,119,638

/ Statements of Cash Flows /

for the financial year ended 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000 Restated	Company 2013 RM'000	Company 2012 RM'000 Restated
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
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)

	Note	Group 2013 RM'000	Group 2012 RM'000 Restated	Company 2013 RM'000	Company 2012 RM'000 Restated
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)
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 actitivies		**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)
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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Changes in accounting policies (cont'd)

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Changes in accounting policies (cont'd)

(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.

(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.

(b) Key sources of estimation uncertainty

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Significant accounting estimates and judgements (cont'd)

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

(i) Impairment of aircraft, property, plant and equipment (cont'd)

Management performed a review of the recoverable amounts based on a variety of estimations including the value in use of the cash generating unit ("CGU") to which the aircraft, property, plant and equipment are allocated and fair value less cost to sell. Value-in-use was determined by an estimate of the expected future cash flows from the CGU using a suitable discount rate in order to calculate the present value of those cash flows. The fair value less costs to sell of the aircraft were determined with reference to market values in the industry.

(ii) Provision for aircraft maintenance and overhaul costs

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

(iii) Impairment of intangible assets - landing slots

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

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

(iv) Provisions for aircraft related direct operating expenses

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (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.

2.5 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Summary of significant accounting policies (cont'd)

(a) Revenue recognition (cont'd)

(ii) Catering, charter and other revenue

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

(iii) Dividend income

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

(iv) Rental income and lease of aircraft

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

(v) Interest income

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

(b) Subsidiaries and basis of consolidation

(i) Subsidiaries

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.

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

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.

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 presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the company. 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Summary of significant accounting policies (cont'd)

(c) Associates (cont'd)

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.

(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.

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)

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.

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Summary of significant accounting policies (cont'd)

(f) Intangible assets (cont'd)

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

(g) Impairment of Non-Financial Assets

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

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

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

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

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

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

(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.

(j) Leases

(i) Classification

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Summary of significant accounting policies (cont'd)

(j) Leases (cont'd)

(ii) Finance leases - As lessee

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

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

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

(iii) Finance leases - As lessor

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

(iv) Operating leases - As lessee

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

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

(v) Operating leases - As lessor

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

(k) Income tax

Income tax for the year comprises current and deferred tax.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Summary of significant accounting policies (cont'd)

(k) Income tax (cont'd)

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

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

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

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

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

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

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

(l) Employee benefits

(i) Short term benefits

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

(ii) Defined contribution plans

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

2. SIGNIFICANT ACCOUNTING POLICIES (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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Summary of significant accounting policies (cont'd)

(r) Equity instruments

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

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

(s) Financial assets

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

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

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

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

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

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

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

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

(ii) Loans and receivables

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Summary of significant accounting policies (cont'd)

(s) Financial assets (cont'd)

(iii) Held-to-maturity financial assets

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

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

(iv) Available-for-sale financial assets

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

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

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Summary of significant accounting policies (cont'd)

(t) Financial liabilities (cont'd)

(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.

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Summary of significant accounting policies (cont'd)

(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.

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

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

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

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

(i) Cash flow hedges

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

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

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

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.

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)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows (cont'd):

(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 RM'000	2012 RM'000	2013 RM'000	2012 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
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	**2012**
	RM'000	**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	**2012**	**2013**	**2012**
	RM'000	**RM'000**	**RM'000**	**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	**2012**	**2013**	**2012**
	RM'000	**RM'000**	**RM'000**	**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	**2012**
	RM'000	**RM'000**
Executive directors' remuneration:		
Salaries and other emoluments	**1,780**	2,416
Defined contribution plan	**149**	223
	1,929	2,639

8. DIRECTORS' REMUNERATION (CONT'D)

	Group and Company	
	2013	**2012**
	RM'000	**RM'000**
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	**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 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

9. TAXATION (CONT'D)

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.

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
Cost				
At 1 January 2012	18,543	1,077,436	4,370,619	365,540
Additions	-	2,265	3,504,914	21,539
Disposals	-	-	(861,915)	-
Write-offs	-	-	-	-
Reclassifications	-	-	2,829,840	-
At 31 December 2012	18,543	1,079,701	9,843,458	387,079
At 1 January 2013	**18,543**	**1,079,701**	**9,843,458**	**387,079**
Additions	**-**	**4,785**	**3,121,360**	**194,429**
Disposals	**-**	**-**	**(1,155,304)**	**(170,523)**
Write-offs	**-**	**-**	**-**	**-**
Reclassifications	**-**	**-**	**1,759,889**	**-**
At 31 December 2013	**18,543**	**1,084,486**	**13,569,403**	**410,985**
Accumulated depreciation and impairment loss				
At 1 January 2012	1,676	505,318	555,142	111,095
Charge for the year	202	27,724	289,583	47,080
Write back of impairment losses	-	-	-	-
Disposals	-	-	(13,303)	-
Write-offs	-	-	-	-
Reclassifications	-	-	89,595	-
At 31 December 2012	1,878	533,042	921,017	158,175
At 1 January 2013	**1,878**	**533,042**	**921,017**	**158,175**
Charge for the year	**189**	**28,896**	**643,842**	**51,569**
(Write back of)/Provision for impairment losses	**-**	**-**	**(153,758)**	**1,323**
Disposals	**-**	**-**	**(1,297)**	**(7,228)**
Write-offs	**-**	**-**	**-**	**-**
At 31 December 2013	**2,067**	**561,938**	**1,409,804**	**203,839**
Net book value				
At 31 December 2012	16,665	546,659	8,922,441	228,904
At 31 December 2013	**16,476**	**522,548**	**12,159,599**	**207,146**

Aircraft related spares RM'000	Operating plant and equipment RM'000	Office furniture and equipment RM'000	Motor vehicles RM'000	Progress payments RM'000	Total RM'000
2,180,399	923,449	379,298	31,090	3,845,703	13,192,077
34,768	39,545	3,252	493	1,553,609	5,160,385
(102,331)	(4,981)	(1,120)	(562)	-	(970,909)
(100,376)	(646)	(845)	(70)	-	(101,937)
-	-	-	-	(2,829,840)	-
2,012,460	957,367	380,585	30,951	2,569,472	17,279,616
2,012,460	**957,367**	**380,585**	**30,951**	**2,569,472**	**17,279,616**
190,299	**40,276**	**11,542**	**2,188**	**327,822**	**3,892,701**
(32,202)	**(53,099)**	**(8,628)**	**(685)**	**-**	**(1,420,441)**
(36,692)	**-**	**(110)**	**-**	**-**	**(36,802)**
-	**-**	**-**	**-**	**(1,759,889)**	**-**
2,133,865	**944,544**	**383,389**	**32,454**	**1,137,405**	**19,715,074**
1,703,438	768,474	356,768	26,664	89,595	4,118,170
134,921	31,893	12,457	1,589	-	545,449
(31,857)	-	-	-	-	(31,857)
(89,528)	(2,049)	(895)	(349)	-	(106,124)
(98,586)	(116)	(842)	(32)	-	(99,576)
-	-	-	-	(89,595)	-
1,618,388	798,202	367,488	27,872	-	4,426,062
1,618,388	**798,202**	**367,488**	**27,872**	**-**	**4,426,062**
82,374	**37,333**	**13,124**	**1,270**	**-**	**858,597**
64,937	**-**	**-**	**-**	**-**	**(87,498)**
(19,053)	**(46,453)**	**(8,616)**	**(685)**	**-**	**(83,332)**
(13,802)	**-**	**(110)**	**-**	**-**	**(13,912)**
1,732,844	**789,082**	**371,886**	**28,457**	**-**	**5,099,917**
394,072	159,165	13,097	3,079	2,569,472	12,853,554
401,021	**155,462**	**11,503**	**3,997**	**1,137,405**	**14,615,157**

11. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Company	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000
Cost				
At 1 January 2012	16,503	1,057,939	3,041,348	365,540
Additions	-	1,674	3,734,256	19,611
Disposals	-	-	(1,448,492)	-
Write-offs	-	-	-	-
Reclassifications	-	-	2,827,904	-
At 31 December 2012	16,503	1,059,613	8,155,016	385,151
At 1 January 2013	**16,503**	**1,059,613**	**8,155,016**	**385,151**
Additions	**-**	**101**	**3,121,361**	**194,356**
Disposals	**-**	**-**	**(1,155,305)**	**(170,523)**
Write-offs	**-**	**-**	**-**	**-**
Reclassifications	**-**	**-**	**1,759,889**	**-**
At 31 December 2013	**16,503**	**1,059,714**	**11,880,961**	**408,984**
Accumulated depreciation and impairment loss				
At 1 January 2012	1,306	500,696	376,340	111,095
Charge for the year	167	26,382	254,443	9,675
Write back of impairment losses	-	-	-	-
Disposals	-	-	(102,673)	-
Write-offs	-	-	-	-
Reclassifications	-	-	89,370	-
At 31 December 2012	1,473	527,078	617,480	120,770
At 1 January 2013	**1,473**	**527,078**	**617,480**	**120,770**
Charge for the year	**168**	**26,252**	**616,427**	**14,054**
(Write back of)/Provision for impairment losses	**-**	**-**	**(13,298)**	**1,323**
Disposals	**-**	**-**	**(1,297)**	**(7,228)**
Write-offs	**-**	**-**	**-**	**-**
At 31 December 2013	**1,641**	**553,330**	**1,219,312**	**128,919**
Net book value				
At 31 December 2012	15,030	532,535	7,537,536	264,381
At 31 December 2013	**14,862**	**506,384**	**10,661,649**	**280,065**

Aircraft related spares RM'000	Operating plant and equipment RM'000	Office furniture and equipment RM'000	Motor vehicles RM'000	Progress payments RM'000	Total RM'000
2,180,399	585,243	302,554	22,382	3,844,380	11,416,288
34,555	45,376	8,417	106	1,528,097	5,372,092
(102,331)	(3,331)	(765)	(292)	-	(1,555,211)
(100,376)	(646)	(846)	(70)	-	(101,938)
-	-	-	-	(2,827,904)	-
2,012,247	626,642	309,360	22,126	2,544,573	15,131,231
2,012,247	**626,642**	**309,360**	**22,126**	**2,544,573**	**15,131,231**
190,299	**35,842**	**8,384**	**353**	**296,755**	**3,847,451**
(32,187)	**(39,004)**	**(7,346)**	**(491)**	**-**	**(1,404,856)**
(36,707)	**-**	**(110)**	**-**	**-**	**(36,817)**
-	**-**	**-**	**-**	**(1,759,889)**	**-**
2,133,652	**623,480**	**310,288**	**21,988**	**1,081,439**	**17,537,009**
1,703,438	443,010	285,698	20,767	89,370	3,531,720
134,710	27,657	11,030	703	-	464,767
(31,857)	-	-	-	-	(31,857)
(89,528)	(400)	(714)	(240)	-	(193,555)
(98,586)	(116)	(842)	(33)	-	(99,577)
-	-	-	-	(89,370)	-
1,618,177	470,151	295,172	21,197	-	3,671,498
1,618,177	**470,151**	**295,172**	**21,197**	**-**	**3,671,498**
82,372	**33,393**	**10,398**	**421**	**-**	**783,485**
64,937	**-**	**-**	**-**	**-**	**52,962**
(19,053)	**(32,357)**	**(7,334)**	**(491)**	**-**	**(67,760)**
(13,802)	**-**	**(110)**	**-**	**-**	**(13,912)**
1,732,631	**471,187**	**298,126**	**21,127**	**-**	**4,426,273**
394,070	156,491	14,188	929	2,544,573	11,459,733
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	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 %	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
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

12. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name of Company	Country of incorporation	Effective interest 2013 %	2012 %	Principal activities
Held by the Company: (cont'd.)				
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
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
MAS Academy Sdn. Bhd	Malaysia	**100**	100	Dormant

12. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name of Company	Country of incorporation	Effective interest 2013 %	2012 %	Principal activities
Held by the Company: (cont'd.)				
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	**2012**	**2013**	**2012**
	RM'000	**RM'000**	**RM'000**	**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 Company [Financial year end]	Country of incorporation	Effective interest 2013 %	Effective interest 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
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

13. INVESTMENTS IN ASSOCIATES (CONT'D)

Name of Company [Financial year end]	Country of incorporation	Effective interest 2013 %	Effective interest 2012 %	Principal activities
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.

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.

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 RM'000	Group 2012 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 RM'000	2012 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 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 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 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 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 RM'000	2012 RM'000 Restated	2013 RM'000	2012 RM'000 Restated
Current				
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				
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	**2012**	**2013**	**2012**
	RM'000	**RM'000**	**RM'000**	**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).

(c) Lease receivables

	Company	
	2013	2012
	RM'000	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.

18. TRADE AND OTHER RECEIVABLES (CONT'D)

(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	**2012**
	RM'000	**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.

(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

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 RM'000	2012 RM'000 Restated	2013 RM'000	2012 RM'000 Restated
Current				
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
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

25. BORROWINGS (CONT'D)

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		Amount	
	2013	**2012**	**2013**	**2012**
	'000	**'000**	**RM'000**	**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

(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.

28. SHARE CAPITAL (CONT'D)

(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);

29. PERPETUAL SUKUK (CONT'D)

(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 RM'000	**2012 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)

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

31. DEFERRED TAXATION (CONT'D)

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	2012
	RM'000	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

(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	2012	2013	2012
	RM'000	RM'000	RM'000	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.

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

(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	2012	2013	2012
	RM'000	RM'000	RM'000	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
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		Company	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	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).

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	
	Equity	Profit net of tax	Equity	Profit net of tax
Group and Company	**RM'000**	**RM'000**	**RM'000**	**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)

	Note	Effective interest rates %	Within 1 Year RM'000	1-2 Years RM'000	2-3 Years RM'000	3-4 Years RM'000	4-5 Years RM'000	More than 5 Years RM'000	Total RM'000
2012									
Group									
Fixed rate:									
Term deposits	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 loans	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	87,631	3,296	-	-	-	-	90,927	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
		98,367	3,919	827	1,269	1,417	11,496	117,295	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 loans	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	87,631	3,296	-	-	-	-	90,927	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
		98,367	3,919	827	1,269	1,417	11,496	117,295	117,295

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 loans	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 loans	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

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

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

Financial instruments carried at amount other than fair value (cont'd)

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

	2013		2012	
	Notional Value RM'000	Fair Value Assets/ (Liabilities) RM'000	Notional Value RM'000	Fair Value Assets/ (Liabilities) RM'000
Group and Company				
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.

41. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONT'D)

(a) Fuel hedging contracts (cont'd)

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.

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.

(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 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.

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

	Group		Company	
	2013 RM'000	**2012 RM'000**	**2013 RM'000**	**2012 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

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

43. SIGNIFICANT EVENTS (CONT'D)

(e) On 27 November 2012, the Company announced that it proposes to undertake the following Proposals: (Cont'd)

(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.

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.

43. SIGNIFICANT EVENTS (CONT'D)

(e) On 27 November 2012, the Company announced that it proposes to undertake the following Proposals: (Cont'd)

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.

⁄ List of Company Properties ⁄

No.	Location	Description	Tenure	Approx. Area (sq. feet)	Approx. Age (years)	Net Book Value As at 31 Dec 2013 (RM)
1	State of Selangor	32 office and workshop buildings forming MAS office complex at Sultan Abdul Aziz Shah Airport, 47200 Subang & 1 Pedestrian Bridge	Occupation of Federal land	Land: 4,617,360 Built-Up: 2,284,309	15 - 42	199,409,249
		Industrial land at PT 44562 Mukim Sg. Buloh, 47200 Subang	Leasehold 99 years expiring 2102	Land: 10,972 acres	10	14,831,367
		Hangar 6	Agreement with MAB on land lease 29 years 9 months expiring 31 December 2033	Built-Up: 41,058 sq metre	7	248,965,908
2	State of Penang	13 units of shoplots A1.04 - A1.07 & A1.11-A1.14 Level 1, A4.05-A4.09 & B114.03 Level 4, Kompleks KOMTAR, Jalan Penang, George Town 10000 Pulau Pinang	Leasehold 99 years expiring 2075	Built-Up: 8,690	37	388,575
		8 buildings at Penang International Airport, 11900 Bayan Lepas, Penang	Monthly tenancy with effect from 1 November 2011, pending renewal by MAB	Built-Up: 331,154	44	22,091,436
3	State of Perak	2 shoplots at Bangunan Sri Kinta, Jalan Sultan Idris Shah, 30000 Ipoh	Freehold	Built-Up: 4,102	33	60,083
4	State of Pahang	Vacant Land Lot 51, Taman Bukit Kayangan, 49000 Bukit Fraser	Leasehold 60 years expiring 2041	Land: 52,816	33	30,804
		2 units condominium at K67 & B16 Pine Resort, 49000 Bukit Fraser	Leasehold 99 years expiring 2082	Built-Up: 5,226	28	181,871
5	State of Terengganu	1 engineering workshop at Sultan Mahmud Airport, 21300 Kuala Terengganu	Monthly tenancy with effect from 1 January 2013 to 31 December 2015	Built-Up: 4,500	22	1

No.	Location	Description	Tenure	Approx. Area (sq. feet)	Approx. Age (years)	Net Book Value As at 31 Dec 2013 (RM)
6	State of Kedah	1 Engineering building at Sultan Abdul Halim Airport, 06200 Alor Setar	Monthly tenancy with effect from 1 January 2013 to 31 December 2015	Land: 2,065 Built-Up: 5,950	22	89,488
		1 Cargo store at Langkawi International Airport, 07100 Padang Matsirat, Langkawi	Monthly tenancy with effect from 1 January 2013 to 31 December 2015	Built-Up: 1,632	19	1
7	State of Johor	1 Engineering workshop at Sultan Ismail Airport, Senai, 81250 Johor Baharu	Tenancy expires on 31 October 2014 and pending renewal from Senai Airport Terminal Services Sdn Bhd (SATSSB)	Land: 16,000	22	313,242
		1 Cargo building at Sultan Ismail Airport, Senai, 81250 Johor Baharu	Tenancy expires on 31 October 2014 and pending renewal from Senai Airport Terminal Services Sdn Bhd (SATSSB)	Built-Up: 10,911	21	4
8	State of Negeri Sembilan	5 units condominium A-6-10, 1-7-5, 1-5-3, A-5-5,A- 4-2, Tanjung Tuan Resort, Batu 5, Jalan Pantai, 71050 Port Dickson, Negeri Sembilan	Leasehold 99 years expiring 2086	Built-Up: 5,657	26	361,073
9	State of Sabah	Hangar & cargo at Kota Kinabalu International Airport, 88100 Kota Kinabalu	Leasehold expiring 2044	Land: 152,460 Built-Up: 118,207	24	4,035,206
		Administration buildings at Kota Kinabalu International Airport, 88100 Kota Kinabalu	Monthly tenancy with effect from 1 August 2006 pending renewal by MAB	Land: 16,000 Built-Up: 31,104	33	979,039
		1 Hangar/cargo building at Tawau Airport, 91000 Tawau	Monthly tenancy with effect from 30 November 2006 pending renewal by MAB	Built-Up: 16,625	12	1,955,542

No.	Location	Description	Tenure	Approx. Area (sq. feet)	Approx. Age (years)	Net Book Value As at 31 Dec 2013 (RM)
10	State of Sarawak	Catering & workshop building at Kuching International Airport, 93250 Kuching	Monthly tenancy with effect from 1 August 2006 pending renewal by MAB	Land: 67,662 Built-Up: 25,171	24 - 32	461,206
		1 Cargo warehouse/ engineering buiding at Miri Airport, 98000 Miri	Monthly tenancy with effect from 1 August 2006 pending renewal by MAB	Land: 40,864 Built-Up: 19,588	28	495,525
		1 Cargo/engineering building at Bintulu Airport, Jalan Bintulu, 97000 Bintulu	Monthly tenancy with effect from 1 January 2007 pending renewal by MAB	Land: 52,474	10	1,915,180
		1 Cargo/engineering building at Sibu Airport, 23KM Sibu/Durin Road, 96000 Sibu	Monthly tenancy with effect from 1 August 2006 pending renewal by MAB	Land: 39,654 Built-Up: 10,926	20	735,372
11	Singapore	Office lots #2-01 to #02-11 Level 2, 190, Clemenceau Avenue No. 0209-11 Singapore Shopping Centre 239924 Singapore	Leasehold 99 years expiring 2047	Built-Up: 7,061	34	897,258
12	London	7-storey office building at No. 247-249, Cromwell Road London SW5 9GA	Freehold	Land: 29,977 Built-Up: 24,169	18	22,177,503

STATEMENT OF SHAREHOLDINGS AS AT 23 APRIL 2014

SHARE CAPITAL

Our authorized, and issued and fully paid-up share capital as at 23 April 2014 is as follows:

Type	No. of shares	Par value RM	Total RM
Authorised			
Ordinary Shares	90,000,000,000	0.10	9,000,000,000.00
Special Rights Redeemable Preference Share (Special Share)	1	1.00	1.00
Redeemable Convertible Preference Shares (RCPS @ RM0.01) - Redeemed	100,000,000,000	0.01	1,000,000,000.00
Redeemable Preference Shares (RPS)	1,000,000	0.10	100,000.00
Redeemable Convertible Preference Shares (RCPS @ RM0.10) - Redeemed	418,000,000	0.10	41,800,000.00
Total			10,041,900,001.00
Issued and paid-up			
Ordinary Shares	16,710,781,200	0.10	1,671,078,120.00
Special Rights	1	1.00	1.00
RPS	500	0.10	50.00
Total			1,671,078,171.00

Voting Rights

- One vote per ordinary share.
- The Special Share has no voting rights other than those referred to in note 28(c) of the financial statements.
- The RPS, RCPS @ RM0.01 each and RCPS @ RM0.10 each (Redeemable Share) have no voting rights except for the following circumstances where a holder shall have one vote per each Redeemable Share held :-
  - (i) on a proposal to reduce and/or increase the share capital;
  - (ii) on a proposal for the disposal of the whole of the Company's property, business and undertaking;
  - (iii) on a proposal that directly or indirectly varies or affects rights, privileges or conditions attached to the Redeemable Shares, or the exercise of any of those rights, privileges or conditions;
  - (iv) on the proposal to wind up the Company; and
  - (v) during the winding up of the Company.

STATEMENT OF SHAREHOLDINGS AS AT 23 APRIL 2014 (CONT'D)

CHANGES IN OUR SHARE CAPITAL

The changes in our issued and paid-up share capital since the date of incorporation up to 23 April 2014 are as follows:

Date of allotment/ conversion	No. of shares	Par value RM	Consideration/Type of issue	Total issued and paid-up share capital RM
Ordinary Shares				
03.04.71	2	1.00	Subscribers' shares	2.00
02.08.71	5,000,000	1.00	Cash	5,000,002.00
13.09.71	12,500,000	1.00	Cash	17,500,002.00
08.11.71	8,500,000	1.00	Cash	26,000,002.00
18.02.72	14,000,000	1.00	Cash	40,000,002.00
18.10.72	2,167,982	1.00	Cash	42,167,984.00
22.11.72	21,999,998	1.00	Cash	64,167,982.00
28.12.76	2,416,009	1.00	Cash	66,583,991.00
29.07.77	2,416,009	1.00	Cash	69,000,000.00
09.04.79	1,000,000	1.00	Cash	70,000,000.00
12.09.85	210,000,000	1.00	Bonus issue on the basis of 3 new shares for every 1 Share	280,000,000.00
21.11.85	70,000,000	1.00	Public issue at RM1.80 per share	350,000,000.00
13.11.92	350,000,000	1.00	Rights issue on the basis of 1 new share for every 1 share at RM5.00 per Share	700,000,000.00
22.05.96	70,000,000	1.00	Private placement at RM8.00 per share	770,000,000.00

STATEMENT OF SHAREHOLDINGS AS AT 23 APRIL 2014 (CONT'D)

CHANGES IN OUR SHARE CAPITAL (CONT'D)

The changes in our issued and paid-up share capital since the date of incorporation up to 23 April 2014 are as follows:

Date of allotment/ conversion	No. of shares	Par value RM	Consideration/Type of issue	Total issued and paid-up share capital RM
Ordinary Shares (cont'd)				
15.01.03	483,243,865	1.00	In satisfaction of the surplus of the liabilities unbundled by MAS to PMB over the total aggregate value of the aircraft assets to be unbundled by MAS to PMB at RM3.85 per share	1,253,243,865.00
05.11.07	417,747,955	1.00	Rights issue on the basis of 1 new share for every 3 shares at RM2.70 per share	1,670,991,820.00
06.08.08	2,000	1.00	By way of MAS ESOS allotment	1,670,993,820.00
20.08.08	8,300	1.00	By way of MAS ESOS allotment	1,671,002,120.00
04.02.09	60,000	1.00	Allotment of shares by way of RCPS conversion	1,671,062,120.00
13.07.09	16,000	1.00	Allotment of shares by way of RCPS conversion	1,671,078,120.00
11.03.10	1,671,078,120	1.00	Rights Issue on the basis of 1 new share for every 1 share at RM1.60 per share	3,342,156,240.00
11.04.13	3,342,156,240	0.10	Reduction in par value by RM0.90	334,215,624.00
03.06.13	13,368,624,960	0.10	Rights issue on the basis of 4 new shares for every 1 share at RM0.23	1,671,078,120.00
Special Share				
12.09.85	1	1.00	Special Share - Issued to MoF for cash	1.00

STATEMENT OF SHAREHOLDINGS AS AT 23 APRIL 2014 (CONT'D)

CHANGES IN OUR SHARE CAPITAL (CONT'D)

The changes in our issued and paid-up share capital since the date of incorporation up to 23 April 2014 are as follows:

Date of allotment/ conversion	No. of shares allotted	Par value RM	Consideration/Type of issue	Total issued and paid-up share capital RM
RCPS @ RM0.01				
11.09.01	800,000,000	0.01	RCPS - Issued at RM1.00 each to Intelek Perkasa Berhad for cash	8,000,000.00
11.09.06	(800,000,000)	0.01	RCPS - Redeemed	-
RCPS @ RM0.10				
05.11.07	417,747,955	0.10	RCPS - Rights issue on the basis of 1 RCPS share for every 3 ordinary shares at RM1.00 per RCPS	41,774,795.50
08.01.09	(680,400)	0.10	Redemption by way of cash settlement	41,706,755.50
15.01.09	(599,400)	0.10	Redemption by way of cash settlement	41,646,815.50
22.01.09	(97,200)	0.10	Redemption by way of cash settlement	41,637,095.50
04.02.09	(243,000)	0.10	Conversion by way of issuance of ordinary shares	41,612,795.50
13.07.09	(64,800)	0.10	Conversion by way of issuance of ordinary shares	41,606,315.50
06.08.09	(3,000)	0.10	Redemption by way of cash settlement	41,606,015.50
14.01.10	(933,000)	0.10	Redemption by way of cash settlement	41,512,715.50
24.10.12	(1,334)	0.10	Redemption by way of cash settlement	41,512,582.10
01.11.12	(13,833)	0.10	Redemption by way of cash settlement	41,511,198.80
20.11.12	(9,174)	0.10	Redemption by way of cash settlement	41,510,281.40
30.11.12	(415,102,814)	0.10	RCPS - Redeemed	-
RPS				
31.01.07	500	0.10	RPS - Issued at RM1.00 each to CIMB Bank Berhad	50.00

30 LARGEST SHAREHOLDERS AS AT 23 APRIL 2014

No.	Name	No. of Shares	%
1	KHAZANAH NASIONAL BERHAD	11,592,389,200	69.37
2	AMANAHRAYA TRUSTEES BERHAD SKIM AMANAH SAHAM BUMIPUTRA	278,054,835	1.66
3	MALAYSIA NOMINEES (TEMPATAN) SDN BHD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR1)	100,371,700	0.83
4	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR UBS AG SINGAPORE (FOREIGN)	73,039,500	0.41
5	WARISAN HARTA SABAH SDN BHD	50,302,884	0.30
6	STATE FINANCIAL SECRETARY SARAWAK	45,833,333	0.27
7	PUBLIC NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHUA KEE TEE (E-JBU/SKI)	36,500,000	0.23
8	MEGA FIRST HOUSING DEVELOPMENT SDN BHD	31,849,000	0.19
9	CHIEF MINISTER, STATE OF SABAH	29,809,116	0.19
10	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A.)	29,612,767	0.19
11	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DIMENSIONAL EMERGING MARKETS VALUE FUND	28,540,700	0.18
12	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NOOR AZMAN @ NOOR HIZAM B MOHD NURDIN (CEB)	24,000,000	0.18
13	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TIONG THAI KING	23,000,000	0.16
14	OSK CAPITAL PARTNERS SDN. BHD.	22,127,800	0.16
15	CITIGROUP NOMINEES (ASING) SDN BHD UBS AG SINGAPORE FOR KEEN CAPITAL INVESTMENT LIMITED	21,250,000	0.15

30 LARGEST SHAREHOLDERS AS AT 23 APRIL 2014 (CONT'D)

No.	Name	No. of Shares	%
16	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLTOD67)	20,780,800	0.13
17	RCI VENTURES SDN BHD	19,675,000	0.13
18	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	19,561,740	0.12
19	HSBC NOMINEES (ASING) SDN BHD KBC SECS NV FOR KBC EQUITY FUND	18,097,000	0.12
20	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR BNP PARIBAS WEALTH MANAGEMENT SINGAPORE BRANCH (A/c CLIENTS-FGN)	17,100,000	0.12
21	UOB KAY HIAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR UOB KAY HIAN PTE LTF (A/C CLIENTS)	14,097,866	0.11
22	ORIENTAL DRAGON ENTERPRISES INC.	13,095,900	0.11
23	MALACCA EQUITY NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR PHILLIP CAPITAL MANAGEMENT SDN BHD (EPF)	12,605,000	0.10
24	CITIGROUP NOMINEES (ASING) SDN BHD CIPLC FOR ASIA PACIFIC PERFORMANCE FUND	12,088,000	0.10
25	DB (MALAYSIA) NOMINEE (ASING) SDN BHD SSBT FUND NT6P FOR CANADA PENSION PLAN INVESTMENT BOARD	10,990,000	0.09
26	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR MOHD NOOR BIN MOHD IDRIS (REM 822)	10,950,000	0.08
27	CARTABAN NOMINEES (ASING) SDN BHD SSBT FUND J728 FOR SPDR S&P EMERGING ASIA PACIFIC ETF	10,568,930	0.07
28	TAN SAW GNOH	10,221,800	0.07
29	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NA, SINGAPORE (JULIUS BAER)	10,174,423	0.07
30	HOR ING NOAR	10,150,000	0.07

ANALYSIS BY SIZE OF SHAREHOLDINGS AS AT 23 APRIL 2014

Category	Shareholders	%	Shareholdings	%
Less than 100	127	0.22	2,339	0.00
100 to 1,000	2,754	4.74	2,358,362	0.01
1,001 to 10,000	19,265	33.15	130,349,381	0.78
10,001 to 100,000	29,431	50.64	1,203,406,792	7.21
100,001 to less than 5% of issued shares	6,544	11.25	3,782,275,126	22.63
5% and above of issued shares	1	0.00	11,592,389,200	69.37
TOTAL	**58,122**	**100.00**	**16,710,781,200**	**100.00**

LIST OF SUBSTANTIAL SHAREHOLDERS (5% AND ABOVE) AS AT 23 APRIL 2014

No.	Name	Direct Shares Held	Direct Percentage (%)
1	**KHAZANAH NASIONAL BERHAD**	11,592,389,200	69.37

DIRECTORS' DIRECT AND DEEMED INTERESTS IN THE COMPANY AS AT 23 APRIL 2014

In accordance with the Register of Directors' Shareholdings, the directors' direct and deemed interests in shares in the Company are as follows :-

		No. of Shares		
No.	**Names**	**Direct**	**Indirect**	**%**
1	TAN SRI MD NOR BIN MD YUSOF	-	-	0.00
2	DAVID LAU NAI PEK	-	-	0.00
3	AHMAD JAUHARI BIN YAHYA	-	-	0.00
4	TAN SRI DR. MOHD IRWAN SERIGAR BIN ABDULLAH	-	-	0.00
5	TAN SRI KRISHNAN TAN BOON SENG	-	-	0.00
6	TAN SRI DATUK AMAR HAJI MOHAMAD MORSHIDI BIN ABDUL GHANI	-	-	0.00
7	TAN SRI SUKARTI BIN WAKIMAN	-	-	0.00
8	DR. MOHAMADON BIN ABDULLAH	-	-	0.00
9	MOHD SHAHAZWAN BIN MOHD HARRIS	-	-	0.00
10	ESHAH BINTI MEOR SULEIMAN (Alternate Director to TAN SRI DR MOHD IRWAN SERIGAR BIN ABDULLAH)	-	-	0.00

⁄ Corporate Directory ⁄

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

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⁄REGIONAL OFFICES

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ASEAN
Unit 332B, 3rd Floor
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87/192 Wireless Road, Lumpini
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1118 Schiphol Airport, Amsterdam
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⁄SUBSIDIARIES

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3rd Floor, Administration Building 1
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www.fireflyz.com.my

MASkargo Sdn. Bhd.
1M Zone C, Core 2, Advanced Cargo Centre
KLIA Free Commercial Zone
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Selangor Darul Ehsan
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F: +603 8783 3031
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MASwings Sdn. Bhd.
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MAS Golden Holidays Sdn. Bhd.
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T: +603 7863 4000
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/ OTHERS

Enrich
Malaysia Airlines Ticket Office
Kuala Lumpur City Air Terminal (KL CAT)
KL Sentral
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+603 7843 3000 (Outside Malaysia)
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enrichweb@malaysiaairlines.com
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Corporate Sales
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(Jabatan Perjalanan Kerajaan & Pelajar)
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Pusat Pentadbiran Kerajaan Persekutuan
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MASkargo Animal Hotel
1M Floor, Zone D
Advanced Cargo Centre
KLIA Free Commercial Zone
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⁄ Notice of Annual General Meeting ⁄

NOTICE IS HEREBY GIVEN THAT the 43rd Annual General Meeting of Malaysian Airline System Berhad will be held at the Auditorium, 1st Floor, South Wing, MAS Academy, No. 2 Jalan SS7/13, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 25 June 2014 at 10.00 a.m. for the following purposes:

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2013 and the Reports of the Directors and Auditors thereon. **Resolution 1**

2. To re-elect the following Director who shall retire pursuant to Article 137 of the Company's Articles of Association, and who, being eligible, offers himself for re-election:-

   (i) Mohd Shahazwan bin Mohd Harris **Resolution 2**

3. To re-elect the following Directors who shall retire pursuant to Article 139 of the Company's Articles of Association, and who, being eligible, offer themselves for re-election:-

   (i) Tan Sri Krishnan Tan Boon Seng **Resolution 3**
   (ii) David Lau Nai Pek **Resolution 4**
   (iii) Ahmad Jauhari bin Yahya **Resolution 5**

4. To approve the payment of Directors' fees amounting to RM396,000 per annum in respect of the financial year ended 31 December 2013. **Resolution 6**

5. To re-appoint Messrs. Ernst & Young as Auditors of the Company for the financial year ending 31 December 2014 and authorise the Directors to fix their remuneration. **Resolution 7**

SPECIAL BUSINESS

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

6. Authority to Allot and Issue Shares **Resolution 8**

   "THAT subject always to the Companies Act, 1965, the Articles of Association of the Company and the approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby authorised pursuant to Section 132D of the Companies Act, 1965, to issue and allot shares in the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may in their discretion deem fit, provided always that the aggregate number of shares to be issued pursuant to this resolution does not exceed ten per centum (10%) of the total issued capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval from Bursa Malaysia Securities Berhad for the listing and quotation of the additional shares so issued."

7. To transact any other ordinary business for which due notice has been given. **Resolution 9**

By Order of the Board

Rizani bin Hassan
(LS 0009520)
Company Secretary

Selangor Darul Ehsan
3 June 2014

EXPLANATORY NOTES ON ORDINARY BUSINESS

Resolutions 3 and 4 - Assessment of Independence of Independent Directors

The independence of Tan Sri Krishnan Tan Boon Seng and David Lau Nai Pek who have served as Independent Non-Executive Directors have been assessed.

EXPLANATORY NOTES ON SPECIAL BUSINESS

Resolution 8 - Authority to Allot and Issue Shares

This is a renewal of the general mandate sought to grant authority to Directors to issue and allot shares in the Company under Section 132D of the Companies Act, 1965 that was approved by the shareholders at the 42nd Annual General Meeting held on 14 May 2013. The general mandate will provide flexibility to the Company to undertake any possible fund raising exercises, including but not limited to further placement of shares for purpose of funding current and/or future investment projects, working capital and/or acquisitions, by the issuance of shares in the Company to such persons at any time, as the Directors may deem fit, without the need to convene a separate general meeting.

Up to the date of this Notice, the Company did not utilize the mandate granted at the 42nd Annual General Meeting and thus no proceeds were raised from the previous mandate.

The Ordinary Resolution 8 above, if passed, will empower the Directors to issue and allot shares in the Company up to an amount not exceeding in total ten per centum (10%) of the issued capital of the Company, subject to compliance with the relevant regulatory requirements. The approval is sought to avoid any delay and additional cost in convening a separate general meeting for such issuance of shares. This authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting.

Notes:

1. In respect of deposited securities, only members whose names appear on the Record of Depositors as at 18 June 2014 shall be entitled to attend and vote at the Meeting.

2. A member entitled to attend and vote at the Meeting is entitled to appoint more than two (2) proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Companies Act 1965 shall not apply to the Company.

3. Where a member appoints two (2) or more proxies, the appointment shall be invalid unless he specifies the proportion of his shareholding to be represented by each proxy.

4. Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 which holds ordinary shares in the Company for multiple beneficial owners in one security accounts (“omnibus account”), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

5. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer or attorney duly authorised.

6. The right of foreigners to vote in respect of their deposited securities is subject to Section 41(1)(e) and Section 41(2) of the Securities Industry (Central Depositories) Act 1991 and the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996. The position of such Depositors in this regard will be determined based on the General Meeting Record of Depositors. Such Depositors whose shares exceed the Company’s foreign shareholding limit of 45% as at the date of the General Meeting Record of Depositors may attend the above Meeting but are not entitled to vote. Consequently, a proxy appointed by such Depositor who is not entitled to vote will also not be entitled to vote at the above Meeting.

7. The instrument appointing a proxy must be deposited at **Symphony Share Registrars Sdn. Bhd., Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia**, not less than 48 hours before the time for holding the Meeting or at any adjournment thereof.

/ Statement Accompanying the Notice of Annual General Meeting /

Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

Directors who are seeking re-election or re-appointment at the 43rd Annual General Meeting of the Company :

(i) The Director retiring pursuant Article 137 of the Company's Articles of Association and seeking re-election is as follows:

- Mohd Shahazwan bin Mohd Harris

(ii) The Directors retiring pursuant Article 139 of the Company's Articles of Association and seeking re-election are as follows:

- Tan Sri Krishnan Tan Boon Seng
- David Lau Nai Pek
- Ahmad Jauhari bin Yahya

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

page 26 - 30 - *Directors' Profile*

page 161 - *Directors' Direct and Deemed Interests in the Company as at 23 April 2014*

/ Form of Proxy /

Shareholder's CDS Account No.	
No. of ordinary shares held	

I/We, ... (Full Name as per NRIC in capital letters)

Company No./NRIC No .... of ....

....(Full address)
being a member(s) of **MALAYSIAN AIRLINE SYSTEM BERHAD** ("the Company"), hereby appoint:-

....NRIC No. (new).. (old) .... or failing him/her

....NRIC No. (new)..(old)... or failing him/her,
the CHAIRMAN OF THE MEETING as my/our proxy to vote for me/us on my/our behalf at the 43rd Annual General Meeting of the Company to be held at the Auditorium, 1st Floor, South Wing, MAS Academy, No. 2 Jalan SS7/13, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 25 June 2014 at 10.00 a.m. and at any adjournment thereof, on the following resolutions referred to in the Notice of the 43rd Annual General Meeting. My/our proxy is to vote as indicated below:-

Place indicate with an "X" in the space below on how you wish your vote to be cast. If no specific direction as to voting is given, the proxy will vote or abstain at his/her discretion.

Resolutions		For	Against
Resolution 1	To receive the Audited Financial Statements for the financial year 31 December 2013 and the Reports of the Directors and Auditors		
Resolution 2	Re-election of Mohd Shahazwan bin Mohd Harris as Director		
Resolution 3	Re-election of Tan Sri Krishnan Tan Boon Seng as Director		
Resolution 4	Re-election of David Lau Nai Pek as Director		
Resolution 5	Re-election of Ahmad Jauhari bin Yahya as Director		
Resolution 6	Approval of Payment Directors' fees amounting to RM396,000 per annum in respect of the financial year ended 31 December 2013		
Resolution 7	Re-appointment of Messrs Ernst & Young as Auditors and to authorize the Directors to fix the Auditors' remuneration		
Resolution 8	Authority under Section 132D of the Companies Act, 1965 for Directors to issue shares		

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

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

As witness my/our hands this .... day of 2014

....
Signature of Member/Common Seal

Notes:
1. Only members whose names appear on the Record of Depositors as at 18 June 2014 shall be entitled to attend and vote at the Meeting.
2. A member entitled to attend and vote at the Meeting is entitled to appoint more than two (2) proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Companies Act 1965 shall not apply to the Company.
3. Where a member appoints two (2) or more proxies, the appointment shall be invalid unless he specifies the proportion of his shareholding to be represented by each proxy.
4. Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 which holds ordinary shares in the Company for multiple beneficial owners in one security accounts ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
5. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer or attorney duly authorised.
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Affix Stamp

Symphony Share Registrars Sdn Bhd
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya, Selangor Darul Ehsan
Malaysia

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