

Company No.	
284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

15 INVESTMENT IN ASSOCIATES (CONTINUED)

The Group discontinued recognition of its share of profits made by JAA as the Group's interest in this associate has been reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of the associate. As at 31 December 2012, the unrecognised amounts of the Group's share of losses of JAA which have not been equity accounted for amounted to RM0.3 million (31.12.2011: RM Nil; 1.1.2011: RM Nil).

As at 31 December 2011 and 1 January 2011, Thai AirAsia was a jointly controlled entity of the Group. As explained in Note 14 to the financial statements, Thai AirAsia is now an associate of the Group.

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>Group</u>	
	<u>2012</u>	<u>2011</u>
	RM'000	RM'000
<u>Non-current</u>		
At 1 January	152,942	152,942
Reclassified from investments in associates (Note 15)	12,810	-
Additions	32,756	-
Fair value gain – recognised in other comprehensive income	110,284	-
At 31 December	<u>308,792</u>	<u>152,942</u>
	<u>Company</u>	
	<u>2012</u>	<u>2011</u>
	RM'000	RM'000
<u>Non-current</u>		
At 1 January	152,942	152,942
Additions	32,756	-
Fair value gain – recognised in other comprehensive income	110,284	-
At 31 December	<u>295,982</u>	<u>152,942</u>

The Group has investments in Tune Ins Holdings Berhad ("TIH"), AirAsia X Berhad ("AAX"), Flight Focus Pte Ltd ("Flight Focus") and Merlot Aero Limited ("Merlot") which are classified as available-for-sale financial assets.

- (a) During the current financial year, the Company exercised its rights under the Call Option Agreement with TIH and Tune Money Sdn Bhd to purchase 121,677,000 ordinary shares of RM0.10 each in TIH, for a consideration of RM16.0 million, representing 20% of the issued and paid up share capital of TIH of 608,385,080 shares. The fair value of the investment in TIH is based on a multiple of net assets derived from similar market transactions at the valuation date.

Subsequent to the balance sheet date, TIH was listed on the Main Market of Bursa Securities Malaysia following an initial public offering of shares at a price of RM1.35 per share.

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16 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

- (b) During the financial year, the Company increased its investment in AAX from 16% to 18.3% via the purchase of 6,252,919 ordinary shares for a consideration of RM16.8 million. The fair value of the investment in AAX is based on a multiple of expected future earnings derived from available market data.

The valuation of an available-for-sale equity investment requires a high degree of subjectivity and significant judgment. In making this judgment, the Group is dependent on the key bases and assumptions which include the short term business outlook for the investee, including factors such as industry performance, prospects for public listing, changes in technology, operational and financing cash flows, and the regulatory environment.

- (c) The investments in Flight Focus and Merlot, held by Koolred, were reclassified from investments in associates during the financial year under review. The investment in Flight Focus was diluted to 19.4% from 20.0% in the previous financial year and Koolred ceased to have board representation in Merlot. As a consequence, Koolred ceased to exert significant influence over either investee entity such that the investments have been reclassified as available-for-sale financial assets, carried at their fair values.

The maximum exposure to credit risk at the reporting date is the carrying value of the securities classified as available-for-sale. These financial assets are neither past due nor impaired.

17 GOODWILL

	<u>Group</u>	
	<u>2012</u>	<u>2011</u>
	RM'000	RM'000
<u>Cost</u>		
At 1 January	7,334	8,738
Impairment loss charged for the year (Note 6)	-	(1,404)
At 31 December	<u>7,334</u>	<u>7,334</u>

The carrying amount of goodwill allocated to the Group's cash-generating unit ("CGU") is as follows:

	<u>Group</u>		
	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>
	RM'000	RM'000	RM'000
<u>Cost</u>			
AirAsia Investment Ltd ("AAIL")	7,334	7,334	7,334
Crunchtime Culinary Services Sdn Bhd ("Crunchtime")	-	-	1,404
	<u>7,334</u>	<u>7,334</u>	<u>8,738</u>

During the previous financial year, management performed an annual assessment on the carrying amount of goodwill allocated to Crunchtime which was dormant.

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17 GOODWILL (CONTINUED)

Arising from the above assessment, the Group recognised an impairment charge of RM1,404,000 during the financial year ended 31 December 2011.

18 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

	Group			Company		
	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	361,396	516,100	719,260	361,396	516,151	719,260

The movements in the deferred tax assets and liabilities of the Group and the Company during the financial year are as follows:

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
At start of financial year	516,100	719,260	516,151	719,260
(Charged)/credited to income statement (Note 10)				
- Property, plant and equipment	(241,753)	(208,908)	(241,804)	(208,857)
- Tax incentives	87,049	5,748	87,049	5,748
	(154,704)	(203,160)	(154,755)	(203,109)
At end of financial year	361,396	516,100	361,396	516,151

	Group			Company		
	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Deferred tax assets (before offsetting)						
Tax incentives	1,084,532	997,483	991,735	1,084,532	997,483	991,735
Tax losses	9,171	9,171	9,171	9,171	9,171	9,171
	1,093,703	1,006,654	1,000,906	1,093,703	1,006,654	1,000,906
Offsetting	(732,307)	(490,554)	(281,646)	(732,307)	(490,503)	(281,646)
Deferred tax assets (after offsetting)	361,396	516,100	719,260	361,396	516,151	719,260

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

18 DEFERRED TAXATION (CONTINUED)

	Group			Company		
	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Deferred tax liabilities (before offsetting)						
Property, plant and equipment	(732,307)	(490,554)	(281,646)	(732,307)	(490,503)	(281,646)
Offsetting	732,307	490,554	281,646	732,307	490,503	281,646
Deferred tax liabilities (after offsetting)	-	-	-	-	-	-

As disclosed in Note 3 to the financial statements in respect of critical accounting estimates and judgments, the deferred tax assets are recognised on the basis of the Group's previous history of recording profits, and to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Estimating the future taxable profits involves significant assumptions, especially in respect of fares, load factor, fuel price, maintenance costs and currency movements. These assumptions have been built based on past performance and adjusted for non-recurring circumstances and a reasonable growth rate.

The Ministry of Finance has granted approval to the Company under Section 127 of Income Tax Act, 1967 for income tax exemption in the form of an Investment Allowance ("IA") of 60% on qualifying expenditure incurred within a period of 5 years commencing 1 July 2009 to 30 June 2014, to be set off against 70% of the statutory income for each year of assessment. Any unutilised allowance can be carried forward to subsequent years until fully utilised. The amount of income exempted from tax is credited to a tax-exempt account from which tax-exempt dividends can be declared.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

19 RECEIVABLES AND PREPAYMENTS

	<u>Group</u>			<u>Company</u>		
	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Non-current:</u>						
Trade receivables	28,141	-	-	28,141	-	-
Prepayments	-	15,548	23,593	-	15,548	23,593
	<u>28,141</u>	<u>15,548</u>	<u>23,593</u>	<u>28,141</u>	<u>15,548</u>	<u>23,593</u>
<u>Current:</u>						
Trade receivables	97,774	123,269	105,325	84,690	107,930	93,911
Less: Allowance for impairment	(1,458)	(1,458)	(1,994)	(1,458)	(1,458)	(1,994)
	96,316	121,811	103,331	83,232	106,472	91,917
Other receivables	160,057	143,746	124,045	139,741	130,623	110,815
Less: Allowance for impairment	(1,608)	(1,608)	(1,072)	(1,608)	(1,608)	(1,072)
	158,449	142,138	122,973	138,133	129,015	109,743
Prepayments	734,530	472,443	326,049	734,528	472,302	325,516
Deposits for maintenance of aircraft	64,014	50,352	38,034	64,014	50,352	38,034
Deposits – cash collateral for derivatives	226,279	238,489	177,729	226,279	238,489	177,729
Other deposits	77,506	84,542	73,006	77,428	84,495	72,982
	<u>1,357,094</u>	<u>1,109,775</u>	<u>841,122</u>	<u>1,323,614</u>	<u>1,081,125</u>	<u>815,921</u>

Credit terms of trade receivables range from 30 to 60 days (31.12.2011: 30 to 60 days; 1.1.2011: 30 to 60 days).

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

19 RECEIVABLES AND PREPAYMENTS (CONTINUED)

(i) Financial assets that are neither past due nor impaired

Receivables that are neither past due nor impaired of RM183,324,000 and RM149,924,000 (31.12.2011: RM198,242,000 and RM169,780,000; 1.1.2011: RM172,135,000 and RM147,491,000) for the Group and Company respectively. These are substantially companies with good collection track records with the Group and Company.

(ii) Financial assets that are past due but not impaired

Receivables that are past due but not impaired amounted to RM71,441,000 (31.12.2011: RM65,707,000; 1.1.2011: RM54,169,000) for the Group and Company. These are related to a number of independent customers which have no recent history of default. The ageing analysis of these receivables that are past due but not impaired is as follows:

	Group and Company		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Up to 3 months	20,786	24,166	15,766
Over 3 months	50,655	41,541	38,403
	<u>71,441</u>	<u>65,707</u>	<u>54,169</u>

(iii) Financial assets that are past due and/or impaired

The carrying amount of receivables individually determined to be impaired are as follows:

	Group and Company		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Over 3 months	3,066	3,066	3,066
Less: Allowance for impairment	(3,066)	(3,066)	(3,066)
	<u>-</u>	<u>-</u>	<u>-</u>

The individually impaired receivables are mainly related to disputed balances with customers or balances for which management is of the view that the amounts may not be recoverable.

The other classes within trade and other receivables do not contain impaired assets.

Deposits of the Group and Company at the balance sheet date are with a number of external parties for which there is no expectation of default.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group and Company do not hold any collateral as security.

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19 RECEIVABLES AND PREPAYMENTS (CONTINUED)

The currency profile of receivables and deposits (excluding prepayments) is as follows:

	<u>Group</u>			<u>Company</u>		
	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	50,701	208,305	122,123	50,701	208,255	97,466
US Dollar	453,959	361,610	353,417	420,481	333,151	353,417
Others	146,045	67,417	39,533	146,045	67,417	39,522
	<u>650,705</u>	<u>637,332</u>	<u>515,073</u>	<u>617,227</u>	<u>608,823</u>	<u>490,405</u>

Prepayments include advances for purchases of fuel and prepaid engine maintenance to the service provider.

The carrying amounts of the Group's and the Company's trade and other receivables approximate their fair values.

20 DEPOSITS ON AIRCRAFT PURCHASE

Deposits on aircraft purchases represent amounts advanced towards the final cost of aircraft to be delivered to the Company.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

21 AMOUNTS DUE FROM/(TO) ASSOCIATES

	<u>Group</u>			<u>Company</u>		
	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Amounts due from associates	780,985	803,106	280,350	780,985	803,106	280,350
Amount due to an associate	(29,032)	(4,444)	(5,223)	(68,052)	(4,444)	(5,223)
	<u>751,953</u>	<u>798,662</u>	<u>275,127</u>	<u>712,933</u>	<u>798,662</u>	<u>275,127</u>

The analysis of the movements in the amounts due from associates is as follows:

	<u>Group and Company</u>	
	<u>2012</u>	<u>2011</u>
	RM'000	RM'000
At 1 January	803,106	280,350
Income, recharges and other expenses	594,845	427,103
(Repayment)/advance for purchase of aircraft	(70,110)	565,965
Receipts and settlements	(534,652)	(492,908)
Foreign exchange gain/(loss) on translation	(12,204)	10,403
Unwinding of discount on receivables	-	12,193
At 31 December	<u>780,985</u>	<u>803,106</u>

	<u>Group and Company</u>		
	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>
	RM'000	RM'000	RM'000
Current	331,407	289,492	162,386
Non-current	449,578	513,614	117,964
	<u>780,985</u>	<u>803,106</u>	<u>280,350</u>

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21 AMOUNTS DUE FROM/(TO) ASSOCIATES (CONTINUED)

Amounts due from associates include an amount of RM495,855,000 (31.12.2011: RM565,965,000; 1.1.2011: RM Nil) relating to advances to PT Indonesia AirAsia ("IAA") for purchase of aircraft in 2011 for the financing of aircraft purchase and are repayable over a term of up to 9 years at interest rates between 6.16% to 6.65% per annum. From this amount of RM495,855,000, RM449,578,000 (31.12.2011: RM513,614,000; 1.1.2011: RM Nil) is repayable after 12 months. The Company holds the aircraft as collateral. Other amounts due from associates were charged interest at 6% per annum with effect from 1 January 2010.

(i) Financial assets that are neither past due nor impaired

Amounts due from associates that are neither past due nor impaired of the Group and Company amounted to RM693,902,000 (31.12.2011: RM695,336,000; 1.1.2011: RM130,200,000).

The Group and Company have not made any impairment as management is of the view that these amounts are recoverable.

(ii) Financial assets that are past due but not impaired

Amounts due from associates of the Group and Company that are past due but not impaired amounted to RM87,083,000 (31.12.2011: RM107,770,000; 1.1.2011: RM150,150,000). The ageing analysis of these amounts is as follows:

	Group and Company		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Up to 3 months	87,083	106,776	130,200
Over 3 months	-	994	19,950
	<u>87,083</u>	<u>107,770</u>	<u>150,150</u>

The maximum exposure to credit risk at the reporting date is the carrying value of the amounts due from associates mentioned above. Other than as disclosed above, the Group and Company do not hold any collateral as security.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

21 AMOUNTS DUE FROM/(TO) ASSOCIATES (CONTINUED)

The currency profile of the amounts due from/(to) associates is as follows:

	Group			Company		
	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Amounts due from associates						
- US Dollar	779,307	798,586	268,058	779,307	798,586	268,058
- Philippines Peso	1,678	4,520	12,292	1,678	4,520	12,292
	<u>780,985</u>	<u>803,106</u>	<u>280,350</u>	<u>780,985</u>	<u>803,106</u>	<u>280,350</u>
Amounts due to an associate						
- Singapore Dollar	-	(4,444)	(5,223)	-	(4,444)	(5,223)
- US Dollar	(29,032)	-	-	(68,052)	-	-
	<u>(29,032)</u>	<u>(4,444)</u>	<u>(5,223)</u>	<u>(68,052)</u>	<u>(4,444)</u>	<u>(5,223)</u>

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22 DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company					
	31.12.2012		31.12.2011		1.1.2011	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Non-current</u>						
Interest rate swaps						
– cash flow hedges	-	(368,984)	-	(337,083)	-	(211,457)
Interest rate swaps						
– held for trading	-	(95,463)	-	(113,847)	-	(105,545)
Interest rate caps						
– held for trading	2,364	-	5,507	-	23,306	-
Forward foreign exchange contracts – cash flow hedges	34,125	(39,782)	36,329	(32,124)	2,238	(132,656)
Forward foreign exchange contracts – held for trading	1,184	(5,979)	2,975	(5,267)	-	(3,207)
Total	37,673	(510,208)	44,811	(488,321)	25,544	(452,865)
<u>Current</u>						
Interest rate swaps						
– held for trading	-	(29,950)	-	(35,322)	-	-
Forward foreign exchange contracts – held for trading	-	(5,469)	-	(2,689)	-	-
Commodity derivatives						
– cash flow hedges	-	-	3,428	-	-	-
Commodity derivatives						
– held for trading	-	-	4,231	-	-	-
Total	-	(35,419)	7,659	(38,011)	-	-

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedge item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months. Derivatives held for trading are those which do not qualify for hedge accounting.

The ineffective portion recognised in the Group's and Company's income statement arising from cash flow hedges amounted to a loss of RM0.085 million (2011: RM1.7 million gain) (Note 7).

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22 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	<u>31.12.2012</u>		<u>31.12.2011</u>		<u>1.1.2011</u>	
	<u>Notional</u>	<u>Fair</u>	<u>Notional</u>	<u>Fair</u>	<u>Notional</u>	<u>Fair</u>
	<u>amount</u>	<u>value</u>	<u>amount</u>	<u>value</u>	<u>amount</u>	<u>value</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Interest rate caps	371,746	2,364	427,544	5,507	635,877	23,306
Interest rate swaps	4,090,465	(494,397)	3,789,186	(486,251)	2,684,830	(317,000)
Cross currency interest rate swaps	158,540	(14,238)	180,660	(12,481)	198,491	(11,357)
Forward foreign exchange contracts	3,664,530	(1,683)	3,616,486	11,705	3,522,199	(122,270)
Commodity derivatives	-	-	1,200,000*	7,659	-	-

*: in barrels

(i) Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2012 were RM3.823 billion (31.12.2011: RM3.797 billion; 1.1.2011: RM3.721 billion).

As at 31 December 2012, the Group has hedged approximately 59% (31.12.2011: 64%; 1.1.2011: 60%) of its USD liabilities pertaining to its aircraft, engine and simulator loans into Malaysian Ringgit ("RM") by using long dated foreign exchange forward contracts to manage its foreign currency risk. The latest weighted average of USD:RM forward exchange rate is 3.2245 (31.12.2011: 3.2392; 1.1.2011: 3.2528). Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 December 2012 will be continuously released to the income statement within foreign exchange gains/(losses) on borrowings until the full repayment of the term loans (refer Note 29 to the financial statements).

(ii) Interest rate hedging

The notional principal amounts of the outstanding interest rate contracts at 31 December 2012 were RM4.462 billion (31.12.2011: RM4.217 billion; 1.1.2011: RM3.320 billion).

The Group has entered into interest rate contracts to hedge against fluctuations in the USD LIBOR on its existing and highly probable future floating rate aircraft financing for aircraft delivered from 2005 to 2013. As at 31 December 2012, the Group has hedged 82% (31.12.2011: 100%; 1.1.2011: 100%) of its existing and future floating aircraft loans at rates from 1.80% to 5.20% per annum (31.12.2011: 2.05% to 5.20% per annum; 1.1.2011: 3.25% to 5.20% per annum) via interest rate swaps, interest rate caps and cross-currency swaps. Out of the RM8.41 billion (31.12.2011: RM7.78 billion; 1.1.2011: RM7.86 billion) borrowings, the Group has hedged 30% (31.12.2011: 15%; 1.1.2011: 17%) of the term loans and 90% (31.12.2011: 66%; 1.1.2011: 90%) of the finance lease liabilities (Note 29). Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 31 December 2012 will be continuously released to the income statement within finance cost until the full repayment of the term loans (refer Note 29 to the financial statements).

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

22 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(iii) Fuel contracts

The outstanding number of barrels of Brent and Singapore Jet Kerosene derivative contracts at 31 December 2012 was Nil (31.12.2011: 1.2 million; 1.1.2011: Nil).

23 INVENTORIES

	Group			Company		
	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Spares and consumables	16,950	13,515	14,304	16,950	13,515	14,304
In flight merchandise and others	6,775	6,215	3,249	6,775	6,215	2,701
	<u>23,725</u>	<u>19,730</u>	<u>17,553</u>	<u>23,725</u>	<u>19,730</u>	<u>17,005</u>

24 AMOUNTS DUE FROM SUBSIDIARIES AND A RELATED PARTY

The amounts due from subsidiaries are unsecured, interest bearing and have no fixed terms of repayment. These balances are neither past due nor impaired.

The amount due from a related party is unsecured, interest free and has no fixed term of repayment.

The currency profile of amounts due from subsidiaries and a related party is as follows:

	Group			Company		
	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	1,282	-	-	26,656	12,240	2,758
US Dollar	-	-	-	149,356	93,169	429,624
	<u>1,282</u>	<u>-</u>	<u>-</u>	<u>176,012</u>	<u>105,409</u>	<u>432,382</u>

25 AMOUNTS DUE FROM/(TO) JOINTLY CONTROLLED ENTITIES

	Group			Company		
	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Amounts due from jointly controlled entities	10,765	4,526	99,802	3,066	4,526	-
Amounts due to jointly controlled entities	-	(19,761)	-	-	(50,087)	(322,614)
	<u>10,765</u>	<u>(15,235)</u>	<u>99,802</u>	<u>3,066</u>	<u>(45,561)</u>	<u>(322,614)</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**25 AMOUNTS DUE FROM/(TO) JOINTLY CONTROLLED ENTITIES (CONTINUED)**

Amounts due from/(to) jointly controlled entities are unsecured and have no fixed terms of repayment.

The amounts due from/(to) jointly controlled entity at 31 December 2011 and 1 January 2011 included amount due from/(to) Thai AirAsia Co Ltd ("TAA") which was denominated in US Dollar, unsecured and had no fixed terms of repayment, and bore interest at a rate equivalent to the Company's borrowing rate of 6% per annum with effect from 1 January 2010.

The analysis of the movements in the amounts due from/(to) jointly controlled entities for the financial year ended 31 December 2012 is as follows:

	<u>2012</u>	<u>Group</u> <u>2011</u>
	RM'000	RM'000
<u>Current</u>		
At 1 January	(15,235)	99,802
Income, recharges other expenses	514,186	426,647
Receipts and settlements	(476,740)	(550,882)
Foreign exchange loss on translation	(2,178)	(1,265)
Unwinding on discount on receivables	-	10,463
Reclassified as amounts due from/(to) associates	(9,268)	-
At 31 December	<u>10,765</u>	<u>(15,235)</u>

The currency profile of the amounts due from/(to) jointly controlled entities is as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>Group</u> <u>1.1.2011</u>
	RM'000	RM'000	RM'000
Amounts due to jointly controlled entities			
- US Dollar	-	(15,577)	-
- Singapore Dollar	-	(4,184)	-
	<u>-</u>	<u>(19,761)</u>	<u>-</u>
Amounts due from jointly controlled entities			
- US Dollar	-	-	99,802
- Ringgit Malaysia	3,066	4,526	-
- Singapore Dollar	7,699	-	-
	<u>10,765</u>	<u>4,526</u>	<u>99,802</u>
	<u>10,765</u>	<u>(15,235)</u>	<u>99,802</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

26 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statements, cash and cash equivalents include the following:

	<u>Group</u>			<u>Company</u>		
	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	1,552,043	1,339,527	681,859	1,489,408	1,314,229	676,303
Deposits with licensed banks	571,425	659,237	719,439	568,328	659,237	719,439
Short term deposits with fund management companies	109,263	106,246	103,319	109,263	106,246	103,319
Deposits, cash and bank balances	2,232,731	2,105,010	1,504,617	2,166,999	2,079,712	1,499,061
Deposits pledged as securities	(13,488)	(12,394)	(28,789)	(13,488)	(12,394)	(28,789)
	<u>2,219,243</u>	<u>2,092,616</u>	<u>1,475,828</u>	<u>2,153,511</u>	<u>2,067,318</u>	<u>1,470,272</u>

The currency profile of deposits, cash and bank balances is as follows:

	<u>Group</u>			<u>Company</u>		
	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	989,551	818,728	784,672	986,161	817,261	783,031
US Dollar	203,848	216,220	211,677	141,550	192,570	207,851
Singapore Dollar	133,847	287,258	172,680	133,812	287,234	172,640
Australian Dollar	118,736	254,833	118,327	118,736	254,828	118,327
Chinese Renminbi	419,699	163,696	63,898	419,699	163,696	63,898
Hong Kong Dollar	32,529	132,185	63,428	32,529	132,167	63,428
India Rupee	116,547	87,934	41,802	116,547	87,944	41,802
Thai Baht	5,788	3,019	17,403	5,783	2,885	17,361
Indonesian Rupiah	144,678	82,941	10,691	144,678	82,941	10,691
Brunei Dollar	10,557	9,058	9,288	10,557	9,058	9,288
Euro	2,749	4,704	397	2,748	4,704	392
Philippine Peso	6,439	4,468	-	6,439	4,468	-
Vietnamese Dong	28,107	15,544	-	28,107	15,544	-
British Pound	9,766	19,717	-	9,763	19,717	-
Others	9,890	4,705	10,354	9,890	4,695	10,352
	<u>2,232,731</u>	<u>2,105,010</u>	<u>1,504,617</u>	<u>2,166,999</u>	<u>2,079,712</u>	<u>1,499,061</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**26 CASH AND CASH EQUIVALENTS (CONTINUED)**

The deposits with licensed banks of the Group and Company amounting to RM13,488,000 (31.12.2011: RM12,394,000; 1.1.2011: RM28,789,000) are pledged as securities for banking facilities granted to the Group and Company (Note 29).

The weighted average effective annual interest rates of deposits at the balance sheet dates are as follows:

	Group			Company		
	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	%	%	%	%	%	%
Deposits with licensed banks	3.00	2.80	2.62	3.00	2.80	2.62
Short term deposits with fund management companies	2.80	2.83	2.64	2.80	2.83	2.64

27 TRADE AND OTHER PAYABLES

	Group			Company		
	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trade payables	65,134	81,268	53,178	42,652	57,428	31,710
Accrual for fuel	165,973	162,577	121,725	165,973	162,577	121,725
Aircraft maintenance accruals	628,917	409,628	254,036	628,917	409,628	254,036
Other payables and accruals	435,041	483,759	484,004	429,382	473,430	476,873
	1,295,065	1,137,232	912,943	1,266,924	1,103,063	884,344

Other payables and accruals include accruals for operational expenses payable to airport authorities and passenger service charge.

The currency profile of trade and other payables is as follows:

	Group			Company		
	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	107,439	525,939	343,518	107,439	525,939	314,919
US Dollar	1,131,763	583,942	553,608	1,103,622	549,773	553,608
Others	55,863	27,351	15,817	55,863	27,351	15,817
	1,295,065	1,137,232	912,943	1,266,924	1,103,063	884,344

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

28 AMOUNTS DUE TO SUBSIDIARIES AND A RELATED PARTY

The amounts due to subsidiaries and a related party are denominated in Ringgit Malaysia, unsecured, interest free and are repayable on demand.

29 BORROWINGS

	Group and Company					
	Weighted average rate of finance					
	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	%	%	%	RM'000	RM'000	RM'000
<u>Current:</u>						
<u>Secured</u>						
Term loans	4.42	4.02	4.09	637,860	498,501	493,211
Finance lease liabilities	5.67	3.02	5.50	58,193	86,248	51,689
Commodity Murabahah						
Finance	4.95	4.92	4.46	10,101	9,482	9,067
Sukuk	4.85	4.85	4.85	420,000	-	-
				<u>1,126,154</u>	<u>594,231</u>	<u>553,967</u>
<u>Non-current:</u>						
<u>Secured</u>						
Term loans	4.42	4.02	4.09	6,446,740	5,376,455	5,906,715
Finance lease liabilities	5.67	3.02	5.50	757,060	1,300,834	876,929
Commodity Murabahah						
Finance	4.95	4.92	4.46	79,385	89,630	99,240
Sukuk	4.85	4.85	4.85	-	420,000	420,000
				<u>7,283,185</u>	<u>7,186,919</u>	<u>7,302,884</u>
Total borrowings				<u>8,409,339</u>	<u>7,781,150</u>	<u>7,856,851</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

29 BORROWINGS (CONTINUED)

The Group's borrowings are repayable as follows:

	Group and Company		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Not later than 1 year	1,126,154	594,231	553,967
Later than 1 year and not later than 5 years	3,180,247	3,078,462	2,863,736
Later than 5 years	4,102,938	4,108,457	4,439,148
	<u>8,409,339</u>	<u>7,781,150</u>	<u>7,856,851</u>

The currency profile of borrowings is as follows:

Ringgit Malaysia	509,486	519,112	528,307
US Dollar	7,562,154	7,137,886	7,204,819
Euro	122,536	124,152	123,725
Singapore Dollar	215,163	-	-
	<u>8,409,339</u>	<u>7,781,150</u>	<u>7,856,851</u>

The carrying amounts and fair values of the non-current borrowings are as follows:

	Group and Company					
	31.12.2012		31.12.2011		1.1.2011	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Term loans	6,446,740	5,230,360	5,376,455	4,422,920	5,906,715	4,743,235
Finance lease liabilities	757,060	561,692	1,300,834	1,083,215	876,929	617,939
Commodity Murabahah						
Finance	79,385	65,988	89,630	72,684	99,240	80,085
Sukuk	-	-	420,000	400,572	420,000	382,043
	<u>7,283,185</u>	<u>5,858,040</u>	<u>7,186,919</u>	<u>5,979,391</u>	<u>7,302,884</u>	<u>5,823,302</u>

The fair values of the borrowings classified as current liabilities, equal their carrying amounts, as the impact of discounting is not significant.

The fair values of the non-current borrowings are based on cash flows discounted using borrowing rates of 4.42% to 5.67% (31.12.2011: 3.02% to 4.92%; 1.1.2011: 3.8%) per annum.

The above term loans, finance lease liabilities (Ijarah) and Commodity Murabahah Finance are for the purchase of aircraft, spare engines and simulators.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

29 BORROWINGS (CONTINUED)

The repayment terms of term loans and finance lease liabilities are on a quarterly or semi-annually basis. These are secured by the following:

- (a) Assignment of rights under contract with Airbus over each aircraft;
- (b) Assignment of insurance of each aircraft; and
- (c) Assignment of airframe and engine warranties of each aircraft.

The Commodity Murabahah Finance is secured by a second priority charge over the aircraft.

The purpose of the Sukuk is to fund the Company's working capital. The Sukuk is secured by the following:

- (i) An unconditional and irrevocable bank guarantee provided by financial institutions; and
- (ii) An assignment over the proceeds of the Ijarah Service Reserve Account opened by the Company pursuant to the exercise.

The Group has the following undrawn borrowing facilities:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Fixed rate:			
- expiring within one year	-	-	48,000

30 SHARE CAPITAL

	Group and Company		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
<u>Authorised:</u>			
Ordinary shares of RM0.10 each:			
At beginning and end of the financial year	500,000	500,000	500,000
<u>Issued and fully paid up:</u>			
Ordinary shares of RM0.10 each:			
At beginning of the financial year	277,809	277,344	275,774
Issued during the financial year	182	465	1,570
At end of the financial year	277,991	277,809	277,344

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

30 SHARE CAPITAL (CONTINUED)

During the financial year, the Company increased its issued and paid-up ordinary share capital from RM277,808,558 to RM277,990,658 by way of issuance of 1,821,000 ordinary shares of RM0.10 each pursuant to the exercise of the Employee Share Option Scheme ("ESOS") at an exercise price of RM1.08 per share. The premium arising from the exercise of ESOS of RM1,784,580, has been credited to the Share Premium account.

The new ordinary shares issued during the financial year ranked pari passu in all respects with the existing ordinary shares of the Company. There were no other changes in the issued and paid-up capital of the Company during the financial year.

During the previous financial year, the Company increased its issued and paid-up ordinary share capital from RM277,343,608 to RM277,808,558 by way of issuance of 4,649,500 ordinary shares of RM0.10 each pursuant to the exercise of the ESOS at an exercise price of RM1.08 per share. The premium arising from the exercise of ESOS of RM4,556,510 had been credited to the Share Premium account.

The new ordinary shares issued during the previous financial year ranked pari passu in all respects with the existing ordinary shares of the Company. There were no other changes in the issued and paid-up capital of the Company during previous the financial year.

EMPLOYEE SHARE OPTION SCHEME ("ESOS")

The Company implemented an ESOS on 1 September 2004 ("the Scheme"). The ESOS is governed by the by-laws which were approved by the shareholders on 7 June 2004 and was effective for a period of 5 years from the date of approval. On 28 May 2009, the Company extended the duration of its ESOS which expired on 6 June 2009 by another 5 years to 6 June 2014. This was in accordance with the terms of the ESOS By-Laws. The ESOS extension was not subject to any regulatory or shareholders' approval.

The main features of the ESOS are as follows:

- (a) The maximum number of ordinary shares, which may be allotted pursuant to the exercise of options under the Scheme, shall not exceed ten per cent (10.0%) of the issued and paid-up share capital of the Company at any point in time during the duration of the Scheme.
- (b) The Option Committee may from time to time decide the conditions of eligibility to be fulfilled by an Eligible Person in order to participate in the Scheme.
- (c) The aggregate number of shares to be offered to any Eligible Person who has fulfilled the eligibility criteria for the time being by way of options in accordance with the Scheme shall be at the discretion of the Option Committee. The Option Committee may consider circumstances such as the Eligible Person's scope of responsibilities, performance in the Group, rank or job grade, the number of years of service that the Eligible Person has rendered to the Group, the Group's retention policy and whether the Eligible Person is serving under an employment contract for a fixed duration or otherwise. The Option Committee's decision shall be final and binding.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

30 SHARE CAPITAL (CONTINUED)

EMPLOYEE SHARE OPTION SCHEME ("ESOS") (CONTINUED)

The main features of the ESOS are as follows: (continued)

- (d) The maximum number of shares allocated to Executive Directors, Non-Executive Directors and senior management by way of options shall in aggregate not exceed fifty per cent (50.0%) of the total number of shares (or such other percentage as may be permitted by the relevant regulatory authorities from time to time) available under the Scheme.
- (e) The subscription price, in respect of options granted prior to the date of listing in Bursa Malaysia, shall be RM1.08 per share.
- (f) The options granted are exercisable one year beginning from the date of grant.

The shares to be allotted and issued upon any valid exercise of options will, upon such allotment and issuance, rank pari passu in all respects with the existing and issued shares except that such shares so issued will not be entitled to any dividends, rights, allotments and/or any other distributions which may be declared, made or paid to shareholders prior to the date of allotment of such shares. The options shall not carry any right to vote at a general meeting of the Company.

The Company granted 93,240,000 options at an exercise price of RM1.08 per share under the ESOS scheme on 1 September 2004, which expired on 6 June 2009. During the financial year ended 31 December 2009, the validity of this ESOS scheme was extended to 6 June 2014.

At 31 December 2012, options to subscribe for 3,739,000 (31.12.2011: 5,560,000; 1.1.2011: 10,437,000) ordinary shares of RM0.10 each at the exercise price of RM1.08 per share remain unexercised. These options granted do not confer any right to participate in any share issue of any other company.

Set out below are details of options over the ordinary shares of the Company granted under the ESOS:

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price</u> RM/share	<u>At</u> <u>1.1.2012</u> <u>'000</u>	<u>Granted</u> <u>'000</u>	<u>Exercised</u> <u>'000</u>	<u>Lapsed</u> <u>'000</u>	<u>At</u> <u>31.12.2012</u> <u>'000</u>
1 September 2004	6 June 2014	1.08	5,560	-	(1,821)	-	3,739

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price</u> RM/share	<u>At</u> <u>1.1.2011</u> <u>'000</u>	<u>Granted</u> <u>'000</u>	<u>Exercised</u> <u>'000</u>	<u>Lapsed</u> <u>'000</u>	<u>At</u> <u>31.12.2011</u> <u>'000</u>
1 September 2004	6 June 2014	1.08	10,437	-	(4,650)	(227)	5,560

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

30 SHARE CAPITAL (CONTINUED)

EMPLOYEE SHARE OPTION SCHEME ("ESOS") (CONTINUED)

	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>
	<u>'000</u>	<u>'000</u>	<u>'000</u>
Number of share options vested at balance sheet date	<u>3,739</u>	<u>5,560</u>	<u>10,437</u>

Details relating to options exercised during the financial year are as follows:

<u>Exercise date</u>	<u>Quoted price of shares at share issue date</u>	<u>Exercise price</u>	<u>Number of shares issued</u>
	<u>RM/share</u>	<u>RM/share</u>	<u>'000</u>
January 2012 to March 2012	3.35 – 3.78	1.08	293
April 2012 to June 2012	3.31 – 3.70	1.08	801
July 2012 to September 2012	2.85 – 3.82	1.08	699
October 2012 to December 2012	2.53 – 3.16	1.08	28
			<u>1,821</u>
	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Ordinary share capital at par	182	465	1,570
Share premium	<u>1,785</u>	<u>4,556</u>	<u>15,378</u>
Proceeds received on exercise of share options	<u>1,967</u>	<u>5,021</u>	<u>16,948</u>
Fair value at exercise date of shares issued	<u>6,413</u>	<u>14,222</u>	<u>32,182</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**31 RETAINED EARNINGS**

Under the single-tier tax system introduced by the Finance Act, 2007 which came into effect from the year of assessment 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Dividends paid under this system are tax exempt in the hands of shareholders.

Companies with Section 108 credits as at 31 December 2007 may continue to pay franked dividends until the Section 108 credits are exhausted or 31 December 2013, whichever is earlier, unless they opt to disregard the Section 108 credits to pay single-tier dividends under the special transitional provisions of the Finance Act, 2007.

As at 31 December 2012, the Company has sufficient Section 108 tax credits to pay approximately RM Nil (31.12.2011: RM Nil; 1.1.2011: RM19.0 million) of its retained earnings as franked dividends.

In addition, the Company has tax exempt income as at 31 December 2012 amounting to approximately RM Nil (31.12.2011: RM Nil; 1.1.2011: RM0.5 million) available for distribution as tax exempt dividends to shareholders.

32 DIVIDENDS

Dividends declared or proposed by the Company are as follows:

	<u>2012</u>		<u>2011</u>	
	Gross dividend per share	Amount of dividend net of tax	Gross dividend per share	Amount of dividend net of tax
	Sen	RM'000	Sen	RM'000
First and final dividend paid in respect of the financial year ended 31 December 2011:				
Gross dividend of 0.91 sen per share less 25% tax	-	-	0.91	18,946
Tax exempt dividend of 0.02 sen per share	-	-	0.02	555
Single-tiered dividend of 5 sen per share (2011: 2.07 sen per share)	5.00	138,957	2.07	57,464
	<u>5.00</u>	<u>138,957</u>	<u>3.00</u>	<u>76,965</u>

The Board has declared and approved a single-tier interim 'special' dividend of 18 sen per ordinary share on 2,779,906,580 ordinary shares of RM0.10 each for the financial year ended 31 December 2012, amounting to a dividend payable of RM500,383,184. The dividend was paid on 12 April 2013 to shareholders whose name appeared in the Record of Depositors at the close of business on 13 March 2013. As the dividend was declared after the balance sheet date, the single-tier interim 'special' dividend of RM500,383,184 was not recognised as a liability at the balance sheet date.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

32 DIVIDENDS (CONTINUED)

In addition to this, the Board recommends a final single-tier dividend in respect of the financial year ended 31 December 2012 of 6 sen per share on 2,780,510,580 ordinary shares of RM0.10 each amounting to RM166,830,635. The final dividend is subject to the approval of the shareholders at the forthcoming Annual General Meeting ("AGM").

33 COMMITMENTS

(a) Capital commitments not provided for in the financial statements are as follows:

	Group and Company		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Property, plant and equipment:			
- Approved and contracted for	51,144,087	40,079,667	12,829,657
- Approved but not contracted for	13,756,500	16,841,539	7,931,251
	<u>64,900,587</u>	<u>56,921,206</u>	<u>20,760,908</u>

The capital commitments for the Group and Company are in respect of aircraft purchase.

Property, plant and equipment:			
- Share of a jointly controlled entity's capital commitments	25,109	-	17,100
- Share of an associate's capital commitments	<u>8,985</u>	<u>-</u>	<u>8,626</u>

(b) Non-cancellable operating leases

The future minimum lease payments and sublease receipts under non-cancellable operating leases are as follows:

	Group and Company					
	31.12.2012		31.12.2011		1.1.2011	
	Future minimum lease payments	Future minimum sublease receipts	Future minimum lease payments	Future minimum sublease receipts	Future minimum lease payments	Future minimum sublease receipts
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Not later than 1 year	198,800	591,550	143,270	534,854	49,469	422,224
Later than 1 year and not later than 5 years	795,200	2,236,713	547,952	1,626,436	172,266	768,539
Later than 5 years	<u>1,036,015</u>	<u>2,670,361</u>	<u>726,171</u>	<u>438,013</u>	<u>194,136</u>	<u>-</u>
	<u>2,030,015</u>	<u>5,498,624</u>	<u>1,417,393</u>	<u>2,599,303</u>	<u>415,871</u>	<u>1,190,763</u>

Sublease receipts include lease receipts from both owned and leased aircraft receivable from Thai AirAsia Co. Ltd, PT Indonesia AirAsia, AirAsia Inc and AirAsia Japan Co. Ltd.

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34 CONTINGENT LIABILITIES

At the balance sheet date, there were no contingent liabilities which are expected to have a material impact on the financial statements of the Group or Company.

35 SEGMENTAL INFORMATION

Segmental information is as shown in the income statements, balance sheets and relevant notes as the Group's sole business segment is the provision of air transportation services. Management has determined the operating segment based on reports that are reviewed and used to make strategic decisions by the Chief Executive Officer who is identified as the chief operating decision maker.

The Group's operations are conducted predominantly in Malaysia.

36 SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party disclosures.

The related parties of the Company and their relationships at 31 December 2012 are as follows:

<u>Related companies</u>	<u>Relationship</u>
AirAsia Go Holiday Sdn Bhd	Subsidiary
AirAsia (Mauritius) Limited	Subsidiary
AirAsia Investment Limited	Subsidiary
Koolred Sdn Bhd	Subsidiary
AirAsia Philippines Inc	Associate
PT Indonesia AirAsia	Associate of a subsidiary
AirAsia Inc	Associate of a subsidiary
AirAsia Pte Limited	Associate of a subsidiary
Thai AirAsia Co. Ltd	Associate of a subsidiary
AirAsia Japan Co. Ltd	Associate of a subsidiary
AAE Travel Pte Ltd	Jointly controlled entity of a subsidiary
Asian Aviation Centre of Excellence Sdn Bhd	Jointly controlled entity
AirAsia X Berhad	Company with common directors and Shareholders
AirAsia Asean Inc.	Common directors

All related party transactions were carried out on agreed terms and conditions.

Key management personnel are categorised as head or senior management officers of key operating divisions within the Group and Company. The key management compensation is disclosed in Note 36(e) below.

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36 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

Related party transactions also include transactions with entities that are controlled, jointly controlled or significantly influenced directly or indirectly by any key management personnel or their close family members, where applicable.

	<u>Group</u>		<u>Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	RM'000	RM'000	RM'000	RM'000
(a) <u>Income:</u>				
Aircraft operating lease income for owned and leased aircraft				
- Thai AirAsia Co. Ltd	310,553	270,123	310,553	270,123
- PT Indonesia AirAsia	184,323	218,313	184,323	218,313
- AirAsia Inc	26,012	6,980	26,012	6,980
- AirAsia Japan Co. Ltd	13,985	-	13,985	-
Gain on disposal of aircraft to PT Indonesia AirAsia	-	61,616	-	61,616
Gain on disposal of aircraft to Thai AirAsia Co. Ltd	9,574	-	-	-
Services charged to AirAsia X Berhad	6,035	35,833	6,035	35,833
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
(b) <u>Recharges:</u>				
Maintenance and overhaul charges to				
- PT Indonesia AirAsia	-	9,022	-	9,022
Recharges of expenses to				
- PT Indonesia AirAsia	107,005	97,611	107,005	97,611
- Thai AirAsia Co. Ltd	70,943	86,024	70,943	86,024
- AirAsia Inc	15,337	-	15,337	-
- AirAsia Japan Co. Ltd	12,806	-	12,806	-
Recharges of expenses by				
- Thai AirAsia Co. Ltd	(11,502)	(30,004)	(11,502)	(30,004)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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36 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

	<u>Group</u>		<u>Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	RM'000	RM'000	RM'000	RM'000
(c) <u>Other charges:</u>				
Maintenance reserve fund charged to				
- PT Indonesia AirAsia	100,977	79,283	100,977	79,283
- Thai AirAsia Co. Ltd	117,357	93,624	117,357	93,624
- AirAsia Inc	6,543	-	6,543	-
- AirAsia Japan Co. Ltd	6,069	-	6,069	-
Interest charges to				
- PT Indonesia AirAsia	49,417	26,466	49,417	26,466
- Thai AirAsia Co. Ltd	-	14,691	-	14,691
- AirAsia Inc	1,590	-	1,590	-
Interest charged by				
- Thai AirAsia Co. Ltd	-	(11,058)	-	(11,058)
(d) <u>Advance for purchase of aircraft:</u>				
- PT Indonesia AirAsia	-	565,965	-	565,965
(e) <u>Regional expenses receivable:</u>				
- AirAsia Asean Inc.	24,498	-	24,498	-
(f) <u>Key management compensation:</u>				
- basic salaries, bonus and allowances	22,939	26,285	25,277	26,285
- defined contribution plan	2,390	2,840	2,390	2,840
	<u>25,329</u>	<u>29,125</u>	<u>27,667</u>	<u>29,125</u>

Included in the key management compensation are Executive Directors' remuneration as disclosed in Note 5 to the financial statements.

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36 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

	Group			Company		
	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
(g) Receivables:						
- AirAsia (Mauritius) Limited	-	-	-	77,321	53,484	422,415
- AirAsia Investment Limited	-	-	-	72,020	39,670	7,208
- Koolred Sdn Bhd	-	-	-	19,811	12,240	-
- AirAsia Go Holiday Sdn Bhd	-	-	-	5,563	-	-
- Thai AirAsia Co. Ltd	-	-	99,802	-	-	-
- Asian Aviation Centre of Excellence Sdn Bhd	3,066	4,526	-	3,066	4,526	-
- PT Indonesia AirAsia	706,635	796,345	268,058	706,635	796,345	268,058
- AirAsia Philippines Inc	1,678	4,520	12,292	1,678	4,520	12,292
- AirAsia Inc	40,525	2,241	-	40,525	2,241	-
- AirAsia Japan Co. Ltd	32,147	-	-	32,147	-	-
- AAE Travel Pte Ltd	7,699	-	-	-	-	-
(h) Payables:						
- AirAsia Go Holiday Sdn Bhd	-	-	-	-	5,605	44,251
- Thai AirAsia Co. Ltd	29,032	15,576	-	68,052	50,087	322,614
- AAE Travel Pte Ltd	-	4,185	-	-	-	-
- AirAsia Pte Limited	-	4,444	5,223	-	4,444	5,223
- AirAsia X Berhad	12,639	10,560	41,262	12,639	10,560	41,262

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**37 FINANCIAL RISK MANAGEMENT POLICIES**

The Group's activities expose it to market risk (including fuel price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk. The Group's overall risk management programme seeks to minimise adverse effect from the unpredictability of financial markets on the Group's financial performance. The Group uses financial instruments such as fuel swaps, interest rate swaps and caps, and foreign currency forwards to manage these financial risks.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group and the Company. The management team then establishes detailed policies such as risk identification and measurement, exposure limits and risk management strategies. Risk management policies and procedures are reviewed regularly to reflect changes in the market condition and the Group's activities.

The Group also seeks to ensure that the financial resources that are available for the development of the Group's businesses are constantly monitored and managed vis-a-vis its ongoing exposure to fuel price, interest rate, foreign currency, credit, liquidity and cash flow risks.

The policies in respect of the major areas of treasury activities are as follows:

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices such as foreign exchange rates, jet fuel prices and interest rates. The objective of market risk management is to manage and control market risk exposure within acceptable parameters while optimising the return on risk.

(i) Fuel price risk

The Group and Company are exposed to jet fuel price risk arising from the fluctuations in the prices of jet fuel, and seek to hedge their fuel requirements using fuel swaps in order to address the risk of rising fuel prices (Note 22). As at 31 December 2012 and 1 January 2011, there were no existing trades that would impact the post-tax profit for the year and equity. As at 31 December 2011, if USD denominated barrel had been USD5 higher/lower with all other variables held constant, the impact on the post-tax profit for the year end equity are tabulated below:

	<u>31.12.2012</u>		<u>31.12.2011</u>		<u>1.1.2011</u>	
	<u>+USD5</u>	<u>-USD5</u>	<u>+USD5</u>	<u>-USD5</u>	<u>+USD5</u>	<u>-USD5</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Impact on post tax profits	-	-	13,048	(13,048)	-	-
Impact on other comprehensive income	-	-	5,931	(5,931)	-	-

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37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(a) Market risk (continued)

(ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is that risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

In view of the substantial borrowings taken to finance the acquisition of aircrafts, the Group's income and operating cash flows are also influenced by changes in market interest rates. Interest rate exposure arises from the Group's floating rate borrowings and is managed by entering into derivative financial instruments. Derivative financial instruments are used, as far as possible and where appropriate, to generate the desired fixed interest rate profile. Surplus funds are placed with reputable financial institutions at the most favourable interest rates.

The Group manages its cash flow interest rate risk by entering into a number of immediate and forward starting interest rate swap contracts and cross currency swap contracts that effectively converts its existing and future long-term floating rate debt facilities into fixed rate debts (Note 22). This hedging strategy ensures that the Group is paying a fixed interest expense on its borrowings and that the performance of the Group is not significantly impacted by the fluctuation in interest rates.

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates.

As at 31 December 2012, 31 December 2011 and 1 January 2011, if interest rate on USD denominated borrowings had been 60 basis points higher/lower with all other variables held constant, the impact on the post-tax profit for the year and equity arising from the cash flow interest rate risk would be minimal, after considering the hedging of the floating rate loans (Note 22).

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37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

At 31 December 2012, if interest rate on USD denominated borrowings had been 60 basis points higher/lower with all other variables held constant, the impact on the post-tax profit for the financial year and equity, as a result of an increase/decrease in the fair value of the interest rate derivative financial instruments under cash flow hedges are tabulated below:

	<u>31.12.2012</u>		<u>31.12.2011</u>		<u>1.1.2011</u>	
	<u>+60bps</u>	<u>-60bps</u>	<u>+60bps</u>	<u>-60bps</u>	<u>+60bps</u>	<u>-60bps</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Impact on post tax profits	24,969	(20,810)	32,015	(33,344)	12,559	(48,396)
Impact on other comprehensive income	116,294	(122,157)	108,443	(105,832)	58,222	(65,511)

The remaining terms of the outstanding interest rate derivative contracts of the Company at 31 December 2012, which are denominated in USD, are as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>
	RM'000	RM'000	RM'000
<u>Later than 1 year but less than 5 years:</u>			
Interest rate swaps	15,172	-	-
<u>Later than 5 years:</u>			
Interest rate caps	371,746	427,544	635,877
Interest rate swaps	4,075,293	3,789,186	2,684,830
Cross currency interest rate swaps	158,540	180,660	198,491
	<u>4,620,751</u>	<u>4,397,390</u>	<u>3,519,198</u>

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37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(a) Market risk (continued)

(iii) Foreign currency risk

Apart from the Ringgit Malaysia ("RM"), the Group transacts business in various foreign currencies and is therefore exposed to currency exchange risk. These exposures are managed, to the extent possible, by natural hedges that arise when payments for foreign currency payables are matched against receivables denominated in the same foreign currency or whenever possible, by intragroup arrangements and settlements.

For the USD denominated borrowings, 59% of these are hedged by long dated foreign exchange forward contracts to manage the foreign currency risk (Note 22).

As at 31 December 2012, if RM had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax profit for the financial year would have been RM191.1 million (2011: RM144.9 million) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD denominated receivables and borrowings (term loan and finance lease). Similarly, the impact on other comprehensive income would have been RM20.0 million (2011: RM23.0 million) higher/lower due to the cash flow hedging in USD. The exposure to other foreign currency risk of the Group is not material and hence, sensitivity analysis is not presented.

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37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(a) Market risk (continued)

(iii) Foreign currency risk (continued)

The Group's currency exposure is as follows:

<u>At 31 December 2012</u>	<u>USD</u> RM'000	<u>AUD</u> RM'000	<u>SGD</u> RM'000	<u>RMB and HKD</u> RM'000	<u>Others</u> RM'000
<u>Financial assets</u>					
Receivables	453,959	-	-	-	146,045
Amounts due from associates	779,306	-	-	-	1,679
Amount due from a jointly-controlled entity	-	-	7,699	-	-
Derivative financial instruments	37,673	-	-	-	-
Deposits, cash and bank balances	203,848	118,736	133,847	452,228	334,521
	<u>1,474,786</u>	<u>118,736</u>	<u>141,546</u>	<u>452,228</u>	<u>482,245</u>
<u>Financial liabilities</u>					
Trade and other payables	1,131,763	-	-	-	55,863
Amount due to an associate	29,032	-	-	-	-
Borrowings	7,562,154	-	215,163	-	122,536
Derivative financial instruments	545,627	-	-	-	-
	<u>9,268,576</u>	<u>-</u>	<u>215,163</u>	<u>-</u>	<u>178,399</u>
Net exposure	<u>(7,793,790)</u>	<u>118,736</u>	<u>(73,617)</u>	<u>452,228</u>	<u>303,846</u>

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37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(a) Market risk (continued)

(iii) Foreign currency risk (continued)

<u>At 31 December 2011</u>	<u>USD</u> RM'000	<u>AUD</u> RM'000	<u>SGD</u> RM'000	<u>RMB and HKD</u> RM'000	<u>Others</u> RM'000
<u>Financial assets</u>					
Receivables	361,610	-	-	-	67,417
Amounts due from associates	798,586	-	-	-	4,520
Derivative financial instruments	52,470	-	-	-	-
Deposits, cash and bank balances	216,220	254,833	287,258	295,881	232,090
	<u>1,428,886</u>	<u>254,833</u>	<u>287,258</u>	<u>295,881</u>	<u>304,027</u>
<u>Financial liabilities</u>					
Trade and other payables	583,942	-	-	-	27,351
Amounts due to jointly-controlled entities	15,577	-	4,184	-	-
Amount due to an associate	-	-	4,444	-	-
Borrowings	7,137,886	-	-	-	124,152
Derivative financial instruments	526,332	-	-	-	-
	<u>8,263,737</u>	<u>-</u>	<u>8,628</u>	<u>-</u>	<u>151,503</u>
Net exposure	<u>(6,834,851)</u>	<u>254,833</u>	<u>278,630</u>	<u>295,881</u>	<u>152,524</u>

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37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(a) Market risk (continued)

(iii) Foreign currency risk (continued)

<u>At 1 January 2011</u>	<u>USD</u> RM'000	<u>AUD</u> RM'000	<u>SGD</u> RM'000	<u>RMB and HKD</u> RM'000	<u>Others</u> RM'000
<u>Financial assets</u>					
Receivables	353,417	-	-	-	39,533
Amounts due from associates	268,058	-	-	-	12,292
Derivative financial instruments	25,544	-	-	-	-
Amounts due from a jointly-controlled entity	99,802	-	-	-	-
Deposits, cash and bank balances	211,677	118,327	172,680	127,326	89,935
	<u>958,498</u>	<u>118,327</u>	<u>172,680</u>	<u>127,326</u>	<u>141,760</u>
<u>Financial liabilities</u>					
Trade and other payables	553,608	-	-	-	15,817
Amount due to an associate	-	-	5,223	-	-
Borrowings	7,204,819	-	-	-	123,725
Derivative financial instruments	452,865	-	-	-	-
	<u>8,211,292</u>	<u>-</u>	<u>5,223</u>	<u>-</u>	<u>139,542</u>
Net exposure	<u>(7,252,794)</u>	<u>118,327</u>	<u>167,457</u>	<u>127,326</u>	<u>2,218</u>

The Group's financial assets and liabilities are significantly denominated in USD. To manage the Group's foreign exchange risk against its functional currency, the Group entered into forward foreign exchange contracts as disclosed in Note 22 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)****(b) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or a counter party to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers, cash and cash equivalents and financial assets (derivative instruments).

The Group's exposure to credit risks or the risk of counterparties defaulting arises mainly from various deposits and bank balances, receivables and derivative financial instruments. As the Group does not hold collateral, the maximum exposure to credit risks is represented by the total carrying amount of these financial assets in the balance sheet.

Credit risks are controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised by monitoring receivables regularly. In addition, credit risks are also controlled as majority of the Group's deposits and bank balances and derivative financial instruments are placed or transacted with major financial institutions and reputable parties. The Directors are of the view that the possibility of non-performance by the majority of these financial institutions is remote on the basis of their financial strength and support of their respective governments.

The Group generally has no concentration of credit risk arising from trade receivables.

(c) Liquidity and cash flow risk

The Group's policy on liquidity risk management is to maintain sufficient cash and cash equivalents and to have available funding through adequate amounts of committed credit facilities and credit lines for working capital requirements.

The table below analyses the Group's payables, non-derivative financial liabilities, gross-settled and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

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37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(c) Liquidity and cash flow risk (continued)

<u>Group</u>	<u>Less than 1 year RM'000</u>	<u>1 – 2 years RM'000</u>	<u>2-5 years RM'000</u>	<u>Over 5 years RM'000</u>
<u>At 31 December 2012</u>				
Term loans	936,603	933,049	2,816,548	3,838,064
Finance lease liabilities	103,748	104,279	316,386	572,529
Commodity Murabahah				
Finance	14,353	14,391	43,478	35,350
Sukuk	430,185	-	-	-
Trade and other payables	1,295,065	-	-	-
Amount due to an associate	29,032	-	-	-
Amount due to a related party	12,639	-	-	-
	<u>2,821,625</u>	<u>1,051,719</u>	<u>3,176,412</u>	<u>4,445,943</u>
<u>At 31 December 2011</u>				
Term loans	862,058	2,162,282	2,382,489	3,711,096
Finance lease liabilities	123,739	127,968	385,879	935,318
Commodity Murabahah				
finance	14,286	14,396	43,466	50,112
Sukuk	20,370	430,185	-	-
Trade and other payables	1,137,232	-	-	-
Amounts due to jointly- controlled entities	19,761	-	-	-
Amount due to an associate	4,444	-	-	-
Amount due to a related party	10,560	-	-	-
	<u>2,192,450</u>	<u>2,734,831</u>	<u>2,811,834</u>	<u>4,696,526</u>

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37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(c) Liquidity and cash flow risk (continued)

	Less than 1 year RM'000	1 – 2 years RM'000	2-5 years RM'000	Over 5 years RM'000
<u>Group (continued)</u>				
<u>At 1 January 2011</u>				
Term loans	702,425	712,286	2,954,474	3,659,957
Finance lease liabilities	68,265	72,118	1,028,971	196,720
Commodity Murabahah				
finance	14,761	14,774	44,266	65,323
Sukuk	20,370	20,370	430,185	-
Trade and other payables	912,943	-	-	-
Amount due to an associate	5,223	-	-	-
Amount due to related party	41,262	-	-	-
	<u>1,765,249</u>	<u>819,548</u>	<u>4,457,896</u>	<u>3,922,000</u>
<u>Company</u>				
<u>At 31 December 2012</u>				
Term loans	936,603	933,049	2,816,548	3,838,064
Finance lease liabilities	103,748	104,279	316,386	572,529
Commodity Murabahah				
Finance	14,353	14,391	43,478	35,350
Sukuk	430,185	-	-	-
Trade and other payables	1,266,924	-	-	-
Amount due to an associate	68,052	-	-	-
Amount due to a related party	12,639	-	-	-
	<u>2,832,504</u>	<u>1,051,719</u>	<u>3,176,412</u>	<u>4,445,943</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(c) Liquidity and cash flow risk (continued)

	Less than 1 year RM'000	1 – 2 years RM'000	2-5 years RM'000	Over 5 years RM'000
<u>Company (continued)</u>				
<u>At 31 December 2011</u>				
Term loans	862,058	2,162,282	2,382,489	3,711,096
Finance lease liabilities	123,739	127,968	385,879	935,318
Commodity Murabahah				
finance	14,286	14,396	43,466	50,112
Sukuk	20,370	430,185	-	-
Trade and other payables	1,103,063	-	-	-
Amounts due to subsidiaries	5,605	-	-	-
Amounts due to jointly-controlled entities	50,087	-	-	-
Amount due to an associate	4,444	-	-	-
Amount due to a related party	10,560	-	-	-
	<u>2,194,212</u>	<u>2,734,831</u>	<u>2,811,834</u>	<u>4,696,526</u>
<u>At 1 January 2011</u>				
Term loans	702,425	712,286	2,954,474	3,659,957
Finance lease liabilities	68,265	72,118	1,028,971	196,720
Commodity Murabahah				
finance	14,761	14,774	44,266	65,323
Sukuk	20,370	20,370	430,185	-
Trade and other payables	884,344	-	-	-
Amount due to a jointly-controlled entity	322,614	-	-	-
Amount due to an associate	5,223	-	-	-
Amount due to a related party	41,262	-	-	-
Amounts due to subsidiaries	44,251	-	-	-
	<u>2,103,515</u>	<u>819,548</u>	<u>4,457,896</u>	<u>3,922,000</u>

AIRASIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)****(c) Liquidity and cash flow risk (continued)**

The table below analyses the Group's and Company's derivative financial instruments for which contractual maturities are essential for an understanding of the timing of the cash flows into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RM'000	1 – 2 years RM'000	2-5 years RM'000	Over 5 years RM'000
<u>Group and Company</u>				
<u>At 31 December 2012</u>				
<u>Net-settled derivatives</u>				
Trading	29,967	26,642	53,415	15,508
Hedging	96,560	90,421	169,949	15,508
<u>Gross-settled derivatives</u>				
Trading – outflow	97,055	94,184	242,657	245,157
Trading – inflow	(90,618)	(87,932)	(226,500)	(229,167)
Hedging – outflow	121,710	121,455	404,485	438,867
Hedging – inflow	(112,424)	(112,188)	(372,849)	(404,578)
<u>At 31 December 2011</u>				
<u>Net-settled derivatives</u>				
Trading	72,923	81,252	153,028	36,322
Hedging	35,405	31,174	62,873	24,554
<u>Gross-settled derivatives</u>				
Trading – outflow	99,933	97,055	258,285	323,713
Trading – inflow	(96,671)	(93,883)	(249,799)	(313,387)
Hedging – outflow	331,162	332,272	1,004,940	1,464,987
Hedging – inflow	(320,469)	(322,313)	(979,756)	(1,434,477)

AIRASIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(c) Liquidity and cash flow risk (continued)

	Less than 1 year RM'000	1 – 2 years RM'000	2-5 years RM'000	Over 5 years RM'000
<u>At 1 January 2011</u>				
Net-settled derivatives				
Trading	37,578	31,908	38,525	(891)
Hedging	72,865	64,260	75,806	2,892
Gross-settled derivatives				
Trading – outflow	10,149	9,649	17,780	-
Trading – inflow	(9,567)	(9,095)	(16,670)	-
Hedging – outflow	366,035	362,625	1,080,724	1,793,982
Hedging – inflow	(341,797)	(339,837)	(1,023,389)	(1,700,988)

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to provide returns for shareholders and benefits for other stakeholders.

In order to optimise the capital structure, or the capital allocation amongst the Group's various businesses, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, take on new debts or sell assets to reduce debt.

The Group's overall strategy remains unchanged from 2011.

Consistent with others in the industry, the Group monitors capital utilisation on the basis of the gearing ratio. This ratio is calculated as total debts divided by total capital. Total debts are calculated as total borrowings (including "short term and long term borrowings" as shown in the Group's balance sheet). Total capital is calculated as the sum of 'equity attributable to equity holders of the Company' as shown in the balance sheet and total debts.

AIRASIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(d) Capital risk management (continued)

The gearing ratio as at 31 December 2012, 31 December 2011 and 1 January 2011 was as follows:

	31.12.2012	31.12.2011	Group 1.1.2011
	RM'000	RM'000	RM'000
Total borrowings (Note 29)	8,409,339	7,781,150	7,856,851
Total equity attributable to equity holders of the Company	5,902,099	4,036,397	3,640,960
	<u>14,311,438</u>	<u>11,817,547</u>	<u>11,497,811</u>
Gearing ratio	58.8%	65.8%	68.3%

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2012 and 31 December 2011.

(e) Fair value measurement

The carrying amounts of cash and cash equivalents, trade and other current assets, and trade and other liabilities approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of other classes of financial assets and liabilities are disclosed in the respective notes to financial statements.

Determination of fair value and fair value hierarchy

Effective 1 January 2011, the Group adopted the Amendment to FRS 7 for financial instruments that are measured in the statement of financial position at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

AIRASIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) Fair value measurement (continued)

The following table presents the Group and Company's assets and liabilities that are measured at fair value at 31 December 2012, 31 December 2011 and 1 January 2011.

	<u>Level 1</u> <u>RM'000</u>	<u>Level 2</u> <u>RM'000</u>	<u>Level 3</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
<u>Group</u>				
<u>31 December 2012</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	3,548	-	3,548
Derivatives used for hedging	-	34,125	-	34,125
Available-for-sale financial assets				
- Equity securities	-	-	308,792	308,792
	-	37,673	308,792	346,465
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	136,861	-	136,861
Derivatives used for hedging	-	408,766	-	408,766
	-	545,627	-	545,627
<u>Company</u>				
<u>31 December 2012</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	3,548	-	3,548
Derivatives used for hedging	-	34,125	-	34,125
Available-for-sale financial assets				
- Equity securities	-	-	295,982	295,982
	-	37,673	295,982	333,655
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	136,861	-	136,861
Derivatives used for hedging	-	408,766	-	408,766
	-	545,627	-	545,627

AIRASIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)****(e) Fair value measurement (continued)**

	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>Group and Company</u>				
<u>31 December 2011</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	12,713	-	12,713
Derivatives used for hedging	-	39,757	-	39,757
Available-for-sale financial assets				
- Equity securities	-	-	152,942	152,942
	-	52,470	152,942	205,412
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	157,125	-	157,125
Derivatives used for hedging	-	369,207	-	369,207
	-	526,332	-	526,332
<u>As at 1 January 2011</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	23,306	-	23,306
Derivatives used for hedging	-	2,238	-	2,238
Available-for-sale financial assets				
- Equity securities	-	-	152,942	152,942
	-	25,544	152,942	178,486
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	108,752	-	108,752
Derivatives used for hedging	-	344,113	-	344,113
	-	452,865	-	452,865

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) Fair value measurement (continued)

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include certain bonds, government bonds, corporate debt securities, repurchase and reverse purchase agreements, loans, credit derivatives, certain issued notes and the Group's over the counter ("OTC") derivatives.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques.

This category includes private equity investments, certain OTC derivatives (requiring complex and unobservable inputs such as correlations and long dated volatilities) and certain bonds.

There were no changes in Level 3 instruments for the financial year ended 31 December 2012 for the Group and Company.

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

38 FINANCIAL INSTRUMENTS

(a) Financial instruments by category

Group

	<u>Loans and receivables</u> RM'000	<u>Assets at fair value through the profit and loss</u> RM'000	<u>Derivatives used for hedging</u> RM'000	<u>Available for sale</u> RM'000	<u>Total</u> RM'000
<u>31 December 2012</u>					
<u>Assets as per balance sheet</u>					
Available-for-sale financial					
Assets	-	-	-	308,792	308,792
Trade and other receivables					
excluding prepayments	650,705	-	-	-	650,705
Amounts due from associates	780,985	-	-	-	780,985
Amount due from a jointly- controlled entity	10,765	-	-	-	10,765
Amount due from a related party	1,282	-	-	-	1,282
Derivative financial Instruments	-	3,548	34,125	-	37,673
Deposits, cash and bank Balances	2,232,731	-	-	-	2,232,731
Total	3,676,468	3,548	34,125	308,792	4,022,933
		<u>Liabilities at fair value through the profit and loss</u> RM'000	<u>Derivatives used for hedging</u> RM'000	<u>Other financial liabilities at amortised cost</u> RM'000	<u>Total</u> RM'000
<u>Liabilities as per balance sheet</u>					
Borrowings (excluding finance lease liabilities)	-	-	-	7,594,086	7,594,086
Finance lease liabilities	-	-	-	815,253	815,253
Derivative financial instruments	136,861	408,766	-	-	545,627
Trade and other payables	-	-	-	1,295,065	1,295,065
Amount due to an associate	-	-	-	29,032	29,032
Amount due to a related party	-	-	-	12,639	12,639
Total	136,861	408,766	9,746,075	10,291,702	

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**38 FINANCIAL INSTRUMENTS (CONTINUED)****(a) Financial instruments by category (continued)**Group

	<u>Loans and receivables</u> RM'000	<u>Assets at fair value through the profit and loss</u> RM'000	<u>Derivatives used for hedging</u> RM'000	<u>Available for sale</u> RM'000	<u>Total</u> RM'000
<u>31 December 2011</u>					
<u>Assets as per balance sheet</u>					
Available-for-sale financial assets	-	-	-	152,942	152,942
Trade and other receivables excluding prepayments	637,332	-	-	-	637,332
Amounts due from associates	803,106	-	-	-	803,106
Amount due from a jointly-controlled entity	4,526	-	-	-	4,526
Derivative financial instruments	-	12,713	39,757	-	52,470
Deposits, cash and bank balances	2,105,010	-	-	-	2,105,010
Total	3,549,974	12,713	39,757	152,942	3,755,386
		<u>Liabilities at fair value through the profit and loss</u> RM'000	<u>Derivatives used for hedging</u> RM'000	<u>Other financial liabilities at amortised cost</u> RM'000	<u>Total</u> RM'000
<u>Liabilities as per balance sheet</u>					
Borrowings (excluding finance lease liabilities)	-	-	-	6,394,068	6,394,068
Finance lease liabilities	-	-	-	1,387,082	1,387,082
Derivative financial instruments	157,125	369,207	-	-	526,332
Trade and other payables	-	-	-	1,137,232	1,137,232
Amounts due to jointly controlled entities	-	-	-	19,761	19,761
Amount due to an associate	-	-	-	4,444	4,444
Amount due to a related party	-	-	-	10,560	10,560
Total		157,125	369,207	8,953,147	9,479,479

AIRASIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

38 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments by category (continued)

	Loans and receivables RM'000	Assets at fair value through the profit and loss RM'000	Derivatives used for hedging RM'000	Available for sale RM'000	Total RM'000
<u>1 January 2011</u>					
<u>Assets as per balance sheet</u>					
Available for sale financial assets	-	-	-	152,942	152,942
Trade and other receivables excluding prepayments	515,073	-	-	-	515,073
Amounts due from associates	280,350	-	-	-	280,350
Amounts due from a jointly controlled entity	99,802	-	-	-	99,802
Derivative financial instruments	-	23,306	2,238	-	25,544
Deposits, cash and bank balances	1,504,617	-	-	-	1,504,617
Total	2,399,842	23,306	2,238	152,942	2,578,328
		Liabilities at fair value through the profit and loss RM'000	Derivatives used for hedging RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
<u>Liabilities as per balance sheet</u>					
Borrowings (excluding finance lease liabilities)	-	-	-	6,928,233	6,928,233
Finance lease liabilities	-	-	-	928,618	928,618
Derivative financial instruments	108,752	344,113	-	-	452,865
Trade and other payables	-	-	-	912,943	912,943
Amount due to an associate	-	-	-	5,223	5,223
Amount due to a related party	-	-	-	41,262	41,262
Hire purchase payables	-	-	-	15	15
Total	108,752	344,113	344,113	8,816,294	9,269,159

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

38 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	31.12.2012	31.12.2011	Group 1.1.2011
	RM'000	RM'000	RM'000
<u>Counterparties without external credit rating</u>			
Group 1	2,693	11,476	15,774
Group 2	93,623	110,335	87,557
Total unimpaired trade receivables	<u>96,316</u>	<u>121,811</u>	<u>103,331</u>
<u>Cash at bank and short-term bank deposits</u>			
AAA to A-	1,788,499	1,992,841	1,398,674
BBB to B3	444,232	112,169	105,943
	<u>2,232,731</u>	<u>2,105,010</u>	<u>1,504,617</u>
<u>Derivative financial assets</u>			
AA+ to A+	18,744	16,896	23,306
A to BBB-	18,929	35,574	2,238
	<u>37,673</u>	<u>52,470</u>	<u>25,544</u>
<u>Loans to related parties</u>			
Group 2	<u>780,985</u>	<u>807,632</u>	<u>380,152</u>
Group 1 – New customers/related parties (Less than 6 months)			
Group 2 – Existing customers/related parties (more than 6 months) with no defaults in the past.			
Group 3 – Existing customers/related parties (more than 6 months) with some defaults in the past.			

All defaults were fully recovered.

All other receivables and deposits are substantially with existing counterparties with no history of default.

Company No.	
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AIRASIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

39 RECLASSIFICATION OF COMPARATIVES

In conjunction with the adoption of MFRS, a review of asset and liability classification was also undertaken. Arising from the review, deposits on aircraft purchase have been reclassified to non-current assets.

Deposits on aircraft purchases which were previously classified based on the period in which the deposits were to be utilised have now been re-classified to non-current assets to be consistent with the underlying assets to which they relate.

The effects of the changes on the Group's financial statements are as follows:

	Group and Company At 1 January 2011		
	As previously reported 1.1.2011* RM'000	Effects of reclassification RM'000	As restated 1.1.2011* RM'000
<u>Balance sheet</u>			
<u>Non-current assets</u>			
Deposits on aircraft purchase	-	248,684	248,684
<u>Current assets</u>			
Deposits on aircraft purchase	248,684	(248,684)	-
	Group and Company At 31 December 2011		
	As previously reported RM'000	Effects of reclassification RM'000	As restated RM'000
<u>Balance sheet</u>			
<u>Non-current assets</u>			
Deposits on aircraft purchase	112,228	255,540	367,768
<u>Current assets</u>			
Deposits on aircraft purchase	255,540	(255,540)	-

* Also represents balances as at 31 December 2010.

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

40 SUPPLEMENTARY INFORMATION DISCLOSED PURSUANT TO BURSA MALAYSIA SECURITIES LISTING REQUIREMENT

The following analysis of realised and unrealised retained profits at the legal entity level is prepared in accordance with the 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. This disclosure is based on the format prescribed by Bursa Malaysia Securities Berhad.

	<u>Group</u>		<u>Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	RM'000	RM'000	RM'000	RM'000
Total retained earnings of AirAsia Berhad and its subsidiaries:				
- Realised	2,196,856	1,781,491	2,175,079	1,769,575
- Unrealised	2,087,864	809,277	927,725	809,328
	<u>4,284,720</u>	<u>2,590,768</u>	<u>3,102,804</u>	<u>2,578,903</u>
Total share of accumulated losses from associated companies:				
- Realised	(8,436)	(9,764)	-	-
Total share of accumulated losses from jointly controlled entities				
- Realised	<u>(2,973)</u>	<u>(74)</u>	<u>-</u>	<u>-</u>
Total retained earnings as per consolidated financial statements	<u>4,273,311</u>	<u>2,580,930</u>	<u>3,102,804</u>	<u>2,578,903</u>

The disclosure of realised and unrealised profits above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be applied for any other purposes.

AIRASIA BERHAD
Incorporated in Malaysia)

**STATEMENT BY DIRECTORS PURSUANT TO
SECTION 169(15) OF THE COMPANIES ACT, 1965**

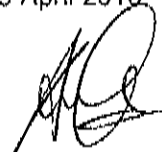
We, Tan Sri Dr Anthony Francis Fernandes and Aileen Omar, being two of the Directors of AirAsia Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 6 to 109 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2012 and of the results and the cash flows of the Group and Company for the financial year ended on that date in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965.

The information set out in Note 40 to the financial statements have been prepared in accordance with the 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.

In accordance with a resolution of the Board of Directors dated 29 April 2013



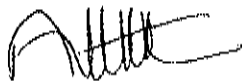
TAN SRI DR. ANTHONY FRANCIS FERNANDES
DIRECTOR



AIREEN OMAR
DIRECTOR

**STATUTORY DECLARATION PURSUANT TO
SECTION 169(16) OF THE COMPANIES ACT, 1965**

I, Andrew Littledale, the Officer primarily responsible for the financial management of AirAsia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 6 to 109 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.



ANDREW LITTEDALE

Subscribed and solemnly declared by the abovenamed Andrew Littledale at Petaling Jaya in Malaysia on 29 April 2013, before me.

COMMISSIONER FOR OATHS



17-2, Block E1, Jalan PJU 1/42,
Dataran Prima, 47301 Petaling Jaya
Selangor Darul Ehsan



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AIRASIA BERHAD**
(Incorporated in Malaysia)
(Company No. 284669 W)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of AirAsia Berhad on pages 6 to 109, which comprise the balance sheets as at 31 December 2012 of the Group and of the Company, and the statements of income, comprehensive income, changes in equity and cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out in Notes 1 to 39.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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 the 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.



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AIRASIA BERHAD (CONTINUED)**
(Incorporated in Malaysia)
(Company No. 284669 W)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 13 to the financial statements.
- c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

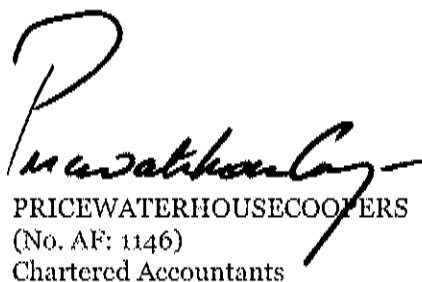
The supplementary information set out in Note 40 on page 110 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special 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 Malaysia 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.




INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AIRASIA BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 284669 W)

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.


PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants


IRVIN GEORGE LUIS MENEZES
(No. 2932/06/14 (J))
Chartered Accountant

Kuala Lumpur
29 April 2013