# AIRASIA BERHAD

(284669 W)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2017

**284669 W**

**AirAsia Berhad**
**(Incorporated in Malaysia)**

**Contents**

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**AirAsia Berhad**
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## Directors' report

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2017.

## Principal activities

The principal activity of the Company is that of providing air transportation services. The principal activities of the subsidiaries are described in Note 12 to the financial statements. There were no significant changes in the nature of these activities during the financial year.

## Results

| | Group RM'000 | Company RM'000 |
|---|---|---|
| Profit net of tax | 1,571,374 | 1,668,893 |
| Profit attributable to: | | |
| Owners of the Company | 1,628,774 | 1,668,893 |
| Non-controlling interests | (57,400) | - |
| | 1,571,374 | 1,668,893 |

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

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, other than, in respect of the Group, a gain on remeasurement of previously held interests in associates amounting to RM214,350,000 and a gain on bargain purchase of RM121,045,000 and in respect of the Company, a gain on partial disposal of investment in a subsidiary of RM406,839,000 as disclosed in Note 12 to the financial statements.

## Dividends

The dividends on ordinary shares paid by the Company since 31 December 2016 were as follows:

| | RM'000 |
|---|---|
| In respect of the financial year ended 31 December 2016, | |
| First and final tax exempt single-tier dividend of 12 sen per ordinary share each on 3,341,874,080 ordinary shares, paid on 23 June 2017 | 401,025 |

**Dividends (cont'd.)**

The dividends on ordinary shares paid by the Company since 31 December 2016 were as follows: (cont'd.)

| | **RM'000** |
|---|---|
| In respect of the financial year ended 31 December 2017, | |
| Interim tax exempt single-tier dividend of 12 sen per ordinary share each on 3,341,874,080 ordinary shares, paid on 13 October 2017 | 401,025 |

The directors do not recommend the payment of any final dividend in respect of the current financial year.

**Directors**

The names of the directors of the Company in office since the beginning of the financial year to the date of this report are:

| | |
|---|---|
| Datuk Kamarudin Bin Meranun** | |
| Tan Sri Dr. Anthony Francis Fernandes** | |
| Dato' Abdel Aziz @ Abdul Aziz Bin Abu Bakar | |
| Dato' Fam Lee Ee | |
| Stuart L Dean | |
| Dato' Mohamed Khadar Bin Merican | |
| Noor Neelofa Binti Mohd Noor | Appointed on 8 December 2017 |
| Tharumalingam A/L Kanagalingam** | Appointed on 6 March 2017 and resigned on 8 December 2017 |
| Aireen Omar** | Resigned on 8 December 2017 |

**These directors are also directors of the Company's subsidiaries.

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**Directors (cont'd.)**

The names of the directors of the Company's subsidiaries in office since the beginning of the financial year to the date of this report (not including those directors listed above) are:

Amar Abrol
Ambassador Alfredo M.Yao
Anajuk Chareonwongsak
Antonio O.Cojuangco
Arief Wibowo
Arifin Prasetyo
Arthid Chitchulanon
Bawornpak Wachirawarakarn
Capt. Dexter M. Comendador
Capt. Jurry Soeryo Wiharko
Capt. Raden Achmad Sadikin
Capt. Widhi Setyo Darwanto
Christopher Davinson
Colin Joyce
Datin Charlene Yeo Ming Ling
David William Johnston
Dendy Kurniawan
Dinesh Kumar
Evert Rinke De Boer
Fernando Balatbat
Heru Susilo
How Kim Lian
Karena Fernandes
Lee Teck Loong (Spencer)
Leong Chin Tung
Lim Eugene
Lim Kian Onn
Lui Yew Lee Dennis Paul
Mahisa Adhitya Rachman
Marianne B Hontveros
Mario J.Padilla
Michael L.Romero
Mikiko Steven
Mohd Roznainol Bin Mohd Bahari
Navin Rajagopalan
Pandu Dewantoro, Se.
Patria Bayuaji
Pattra Boosarawongse
Phua Sheau Wei

**Directors (cont'd.)**

The names of the directors of the Company’s subsidiaries in office since the beginning of the financial year to the date of this report (not including those directors listed above) are: (cont'd.)

Robert Aaron Milton
Roison Dixon
Rozman Bin Omar
Sabrina Kong Hung Cheong
Sami Joseph El Hadery
Seah Kok Khong
Shailesh Singh Baidwan
Siegtraund Teh Siew Foong
Simon Perkins
Stephane Daillencourt
Tassapon Bijleveld
Tommy Lo Seen Chong
V Loganathan S/O Velaitham
Valentin T.Chua
Yacoob Bin Ahmed Piperdi

The directors and officers of the Group and of the Company are covered under a Directors' and Officers' Liability Insurance up to an aggregate limit of RM100,000,000 against any legal liability, if incurred by the directors and officers of the Group and of the Company in the discharge of their duties while holding office for the Company and its subsidiaries.

**Directors' benefits**

During and at the end of the financial year ended 31 December 2017, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 5(b) and Note 38(d) to the financial statements.

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## Issuance of shares

During the financial year, the Company increased its issued and paid-up ordinary share capital from RM1,509,238,000 to RM2,515,438,000 by way of the issuance of 559,000,000 ordinary shares at an issue price of RM1.80 per ordinary share. The gross proceeds raised from the issuance will be utilized for the prepayment and repayment of the Group's indebtedness, financing of aircraft, engines and parts, pre-delivery payments of aircraft, general corporate and working capital, and the expenditure related to the issuance.

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

## Treasury shares

As at 31 December 2017, the Company held as treasury shares a total of 100,000 of its 3,341,974,080 issued ordinary shares. Such treasury shares are held at a carrying amount of RM160,000.

## Directors' interests

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and options over shares in the Company and its related corporations during the financial year were as follows:

| | Number of ordinary shares | | | |
|---|---|---|---|---|
| | **At 1.1.2017** | **Acquired** | **Disposed** | **At 31.12.2017** |
| **Direct interests in the Company** | | | | |
| Datuk Kamarudin Bin Meranun** | 2,000,000 | - | - | 2,000,000 |
| Tan Sri Dr. Anthony Francis Fernandes** | 1,600,000 | - | - | 1,600,000 |
| Dato’ Abdel Aziz @ Abdul Aziz Bin Abu Bakar | - | 416,900 | 306,900 | 110,000 |
| Dato' Mohamed Khadar Bin Merican | - | 80,000 | - | 80,000 |
| Stuart L Dean | 40,000 | - | - | 40,000 |
| Aireen Omar (Resigned on 8 December 2017) | 50,000 | - | - | 50,000 |
| Tharumalingam A/L Kanagalingam (Appointed on 6 March 2017 and resigned on 8 December 2017) | - | 50,000 | - | 50,000 |

**Directors' interests (cont'd.)**

| | Number of ordinary shares | | | |
|---|---|---|---|---|
| | **At 1.1.2017** | **Acquired** | **Disposed** | **At 31.12.2017** |
| **Indirect interests** | | | | |
| Tan Sri Dr. Anthony Francis Fernandes * | 516,485,082 | 559,000,000 | - | 1,075,485,082 |
| Datuk Kamarudin Bin Meranun * | 516,485,082 | 559,000,000 | - | 1,075,485,082 |

*By virtue of their interests in shares in the substantial shareholder of the Company, Tune Air Sdn Bhd ("TASB") and Tune Live Sdn Bhd ("TLSB"), Tan Sri Dr. Anthony Francis Fernandes and Datuk Kamarudin Bin Meranun are deemed to have interests in the Company to the extent of TASB's and TLSB's interests therein, in accordance with Section 8 of the Companies Act, 2016.

**Shares held under HSBC Nominees (Tempatan) Sdn Bhd

Other than as disclosed above, none of the other directors in office at the end of the financial year held any interest in shares or debentures of the Company and its related corporations during the financial year.

**Statutory information on the financial statements**

(a) Before the income statements, statements of comprehensive income and statements of financial positions of the Group and of the Company were made out, the directors took reasonable steps:

   (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

   (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

   (i) the amounts written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and

   (ii) the values attributed to current assets in the financial statements of the Group and Company misleading.

**Statutory information on the financial statements (cont'd.)**

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

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

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

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

(f) In the opinion of the directors:

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

  (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to substantially affect the results of the operations of the Group or of the Company for the financial year in which this report is made, other than as disclosed in Note 45 to the financial statements.

**Significant events**

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

**Subsequent events**

On 15 March 2018, the High Court has approved the proposed internal reorganisation by way of a Members' Scheme of Arrangement under Section 366 of the Companies Act, 2016. Details of this and other subsequent events are disclosed in Note 45 to the financial statements.

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**Auditors**

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

Auditors' remuneration are disclosed in Note 6 to the financial statements.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Signed on behalf of the board in accordance with a resolution of the board of directors dated 16 April 2018.

Datuk Kamarudin Bin Meranun

Tan Sri Dr. Anthony Francis Fernandes

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**Statement by directors**
**Pursuant to Section 251(2) of the Companies Act 2016**

We, Datuk Kamarudin Bin Meranun and Tan Sri Dr. Anthony Francis Fernandes, being two of the Directors of AirAsia Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 21 to 200 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 16 April 2018.

Datuk Kamarudin Bin Meranun

Tan Sri Dr. Anthony Francis Fernandes

**Statutory declaration**
**Pursuant to Section 251(1)(b) of the Companies Act 2016**

I, How Kim Lian, being the officer primarily responsible for the financial management of AirAsia Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 21 to 200 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared
by the abovenamed How Kim Lian
at Kuala Lumpur in Malaysia
on 16 April 2018

How Kim Lian

Before me,

Commissioner for oaths
Lot 333, 3rd Floor, Wisma MPL,
Jalan Raja Chulan,
50200 Kuala Lumpur.

PESURUHJAYA SUMPAH
No. W 530
TAN SEOK KETT
MALAYSIA

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## Independent auditors' report to the members of AirAsia Berhad (Incorporated in Malaysia)

## Report on the audit of the financial statements

*Opinion*

We have audited the financial statements of AirAsia Berhad, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Company, and income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 21 to 200.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

*Basis for Opinion*

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence and other ethical responsibilities*

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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**Independent auditors' report to the members of AirAsia Berhad (cont'd.)**
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*Key Audit Matters (cont'd.)*

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

| Recognition of revenue from passenger seat sales and sales in advance | Our response |
|---|---|
| Refer to Note 4(a) to the financial statements for revenue and statement of financial position for sales in advance.<br><br>Revenue from passenger seat sales represent 71% and 74% of the total revenue of the Group and of the Company respectively, for the year ended 31 December 2017.<br><br>The Group and the Company relies on an integrated information technology system (including the flight reservation system) in accounting for its passenger seat sales revenue. Such information system processes large volumes of data which are individually low value transactions. | Our audit sought to place a high level of reliance on the Group's and the Company's information technology systems and key controls which the management relies on in recording revenue from passenger seats sales. As the flight reservation system is managed by a third party vendor, we obtained and evaluated the external auditors' report on the operating effectiveness of the key controls over the flight reservation system.<br><br>We involved our information technology specialists to test the operating effectiveness of the automated controls of the other key modules of the information technology system. We also tested the non-automated controls in place to ensure completeness and accuracy of revenue recognised, including timely updating of approved changes to base fares and ancillary fares. |

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**Independent auditors' report to the members of AirAsia Berhad (cont'd.)**
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*Key Audit Matters (cont'd.)*

**Recognition of revenue from passenger seat sales and sales in advance (continued)**

The flight reservation system is managed by a third party vendor.

The above factors gave rise to higher risk of material misstatement in the timing and amount of revenue recognised from passenger seats sales. Accordingly, we identified revenue recognition to be an area of focus.

**Our response**

In addition, we also performed, amongst others, the following procedures:

- Performed data analytics to reconcile the revenue recognised in respect of passenger seats sales and the amount of sales in advance to the payments received from passengers;
- Performed procedures to corroborate the occurence of revenue by tracing samples of revenue recognised to settlement reports from financial institutions;
- Tested the reconciliation of data between the flight reservation system and the general ledger to corroborate the completeness of revenue;
- Tested the foreign currency translation for samples of flight bookings made in foreign currencies; and
- Performed cut-off procedures to determine if revenue from passenger seats sales are recorded in the correct accounting period.

**Independent auditors' report to the members of AirAsia Berhad (cont'd.)**
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*Key Audit Matters (cont'd.)*

**Aircraft maintenance provisions**

Refer to Note 3.3 and Note 28 to the financial statements.

As at 31 December 2017, aircraft maintenance provisions of the Group and the Company amounted to RM738 million and RM387 million respectively.

The Group and the Company operate aircraft which are either owned or held under operating lease arrangement. In respect of the aircraft held under operating lease arrangements, the Group and the Company are contractually obligated to maintain the aircraft during the lease period and to redeliver the aircraft to the lessors at the end of the lease term, in certain pre-agreed conditions. Accordingly, the Group and the Company estimate the aircraft maintenance costs required to fulfil these obligations at the end of the lease period and recognise a provision for these costs at each reporting date.

A provision by its nature is more uncertain than most other items in the statement of financial position. The estimates of the outcome and financial effects are determined by the judgement of the management, supplemented by experience from similar transactions. Due to the magnitude of the provision and the significant judgment involved in estimating the cost to be incurred and timing of cash outflows, we consider this to be an area of audit focus.

**Our response**

In addressing this area of audit focus, our audit procedures included, amongst others:

- Reviewed the lease agreements to determine the Group's and the Company's contractual obligations in respect of aircraft maintenance;

- Evaluated the significant assumptions on cost to be incurred applied by the Group and the Company in estimating the aircraft maintenance provision costs by comparing these assumptions to past industry experience, supplemented by expectations of the future economic conditions; and

- Tested the accuracy of the computation of the aircraft maintenance provisions as at reporting date.

**Independent auditors' report to the members of
AirAsia Berhad (cont'd.)
(Incorporated in Malaysia)**

*Key audit matters (cont'd.)*

**Derivative financial instruments**

Refer to Note 21 to the financial statements.

As at 31 December 2017, the derivative financial assets and liabilities amounted to RM588mil and RM146mil respectively for the Group and RM588mil and RM161mil respectively for the Company. Net gains and losses on effective cash flow hedges arising during the financial year were recognised in other comprehensive income. The gain or loss arising from ineffective hedge is recognised immediately in the income statement.

The Group and the Company enter into various derivative financial instruments as part of the Group's overall hedging strategy to manage its exposure to fuel price risk, foreign currency risk and interest rate risk. These instruments comprised forward foreign currency contracts, interest rate swaps, interest rate caps, cross-currency interest rate swaps, fuel options and fuel swap contracts.

Valuation models used to estimate the fair value of derivative financial instrument can be subjective in nature and involve various assumptions regarding future market conditions, such as risk free rates, interest rate volatility and forward rates. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value and/or hedge effectiveness.

Due to the complexity involved and the magnitude of the balance, we consider the fair value measurement of derivative financial instruments to be an area of audit focus.

**Our response**

In addressing this area of audit focus, our audit procedures included, amongst others:

- Involved our valuation specialists to assess the methodology and the appropriateness of the valuation models used to estimate the fair value of the derivative financial instruments. Our valuation specialists also evaluated the key inputs applied in the valuation model such as contractual cash flows, risk free rates, interest rate volatility and forward rates, by benchmarking them with external data; and

- Obtained third party confirmations to corroborate the existence and valuation of the derivative financial instruments.

**Independent auditors' report to the members of AirAsia Berhad (cont'd.)**
**(Incorporated in Malaysia)**

*Key audit matters (cont'd.)*

**Intangible assets arising from the consolidation of PT Indonesia AirAsia ("IAA") and Philippines AirAsia (PAA")**

Refer to Note 12 to the financial statements.

During the financial year ended 31 December 2017, the Group, pursuant to MFRS 10 *Consolidated Financial Statements*, consolidated the results and financial positions of PT Indonesia AirAsia ("IAA") and Philippines AirAsia ("PAA").

Included in the identifiable assets of IAA and PAA as of the date of consolidation are intangible assets of RM374.6 million and RM69.3 million respectively, representing landing rights. These intangible assets are assessed to have indefinite useful lives. The Group estimated the fair value of these intangible assets based on income approach using assumptions that are highly judgmental.

Due to the significance of the intangible assets and the subjective nature of the valuations, we consider this to be an area of audit focus.

**Our response**

In addressing this area of audit focus, our audit procedures included, amongst others:

- Obtained an understanding of the methodology adopted in estimating the cash flows to be derived from the intangible assets and assessed whether such methodology is consistent with those used in the industry;

- Evaluated the management's assumption on the revenue to be derived from the use of the landing rights; and

- Assessed whether the discount rate used to determine the present value of the cash flows reflects the return that investors would require if they were to choose an investment that would generate cash flows with timing and risk profile equivalent to those that the entity expects to derive.

**Independent auditors' report to the members of AirAsia Berhad (cont'd.)**
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*Key Audit Matters (cont'd.)*

**Impairment assessment of intangible assets**

Refer to Note 3.4 and Note 16 to the financial statements.

The Group is required to perform annual impairment test of cash generating units (CGUs) to which intangible assets have been allocated. The Group estimated the recoverable amount of its CGUs allocated based on value-in-use (VIU). Estimating the VIU of CGUs involves estimating the future cash inflows and outflows that will be derived from the CGUs, and discounting them at an appropriate rate.

Included in the Group's intangible assets as at 31 December 2017 are:

(a) goodwill amounted to RM103 million arising from step-up acquisition of Think Big Digital Sdn Bhd;

(b) goodwill arising from consolidation of IAA amounted to RM38.4 million; and,

(c) landing rights arising from consolidation of IAA and PAA amounted to RM374.6 million and RM69.3 million, respectively.

We focused on the impairment assessment of the intangible assets due to the magnitude of the balance and the subjectivity involved. Specifically, we focused on the assumptions applied in respect of revenue growth, cost escalation rates, terminal value and discount rates.

**Our response**

In addressing this area of audit focus, our audit procedures included, amongst others:

- Obtained an understanding and assessed the management's internal control over the estimations of recoverable amounts of the CGU;
- Evaluated the assumptions applied on revenue growth, cost escalation rates, terminal value and discount rates by comparing these assumptions to industry analysis and future economic conditions;
- Analysed the sensitivity of the key assumptions by assessing the impact of changes to the recoverable amounts; and
- Evaluated the adequacy of the Group's disclosures of key assumptions used in estimations.

**Independent auditors' report to the members of**
**AirAsia Berhad (cont'd.)**
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*Information Other than the Financial Statements and Auditors' Report Thereon*

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the annual report 2017, which is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors of the Company and take appropriate action.

*Responsibilities of the Directors for the Financial Statements*

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative to do so.

**Independent auditors' report to the members of**
**AirAsia Berhad (cont'd.)**
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*Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's and of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and of the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.

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**Independent auditors' report to the members of**
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*Auditors' Responsibilities for the Audit of the Financial Statements (cont'd.)*

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also: (cont'd.)

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other legal and regulatory requirements**

In accordance with the requirements of the Companies Act, 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 12 to the financial statements.

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**Independent auditors' report to the members of AirAsia Berhad (cont'd.) (Incorporated in Malaysia)**

**Other matters**

The financial statements of the Group and of the Company for the financial year ended 31 December 2016, were audited by another auditor who expressed an unmodified opinion on those statements on 5 April 2017.

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Ong Chee Wai
No. 2857/07/18(J)
Chartered Accountant

Kuala Lumpur, Malaysia
16 April 2018

**AirAsia Berhad**
**(Incorporated in Malaysia)**

## Income statements
## For the financial year ended 31 December 2017

| | | Group | | Company | |
|---|---|---|---|---|---|
| | **Note** | **2017 RM'000** | **2016 RM'000 (Restated)** | **2017 RM'000** | **2016 RM'000 (Restated)** |
| Revenue | 4(a) | 9,709,721 | 6,846,085 | 6,441,140 | 5,948,139 |
| Other income | 4(b) | 799,306 | 352,703 | 739,409 | 917,035 |
| Operating expenses | | | | | |
| - Staff costs | 5(a) | (1,607,046) | (1,015,258) | (1,095,171) | (964,825) |
| - Depreciation of property, plant and equipment | 11 | (863,989) | (710,843) | (598,318) | (562,024) |
| - Aircraft fuel expenses | | (2,821,124) | (1,624,206) | (1,993,660) | (1,624,206) |
| - Maintenance and overhaul | | (650,401) | (218,753) | (357,990) | (227,958) |
| - User charges | 7 | (1,263,282) | (801,656) | (884,113) | (801,656) |
| - Aircraft operating lease expenses | | (650,695) | (479,485) | (143,663) | (90,844) |
| - Other operating expenses | 6 | (491,706) | (283,031) | (251,709) | (231,679) |
| Operating profit | | 2,160,784 | 2,065,556 | 1,855,925 | 2,361,982 |
| Finance income | 8(a) | 55,670 | 105,332 | 68,339 | 80,599 |
| Finance costs | 8(b) | (577,748) | (593,061) | (413,870) | (526,344) |
| Net operating profit | | 1,638,706 | 1,577,827 | 1,510,394 | 1,916,237 |
| Foreign exchange gains | 8(c) | 187,059 | 61,139 | 157,276 | 58,559 |
| Gain on partial disposal of investment in a subsidiary | 12 | - | - | 406,839 | - |
| Impairment of investment in an associates | | - | (163,750) | - | (163,750) |
| Fair value (losses)/gains on derivatives | 8(d) | (140,602) | 70,486 | (126,434) | 70,486 |
| Gain on remeasurement of previously held interest in associates | 12 | 214,350 | - | - | - |
| Gain on bargain purchase on consolidation | 12 | 121,045 | - | - | - |
| Share of results of a joint ventures | 13 | 19,923 | 24,285 | - | - |
| Share of results of associates | 14 | 47,307 | 134,704 | - | - |
| Profit before taxation carried forward | | 2,087,788 | 1,704,691 | 1,948,075 | 1,881,532 |

**AirAsia Berhad**
**(Incorporated in Malaysia)**

**Income statements**
**For the financial year ended 31 December 2017 (cont'd.)**

| | | Group | | Company | |
|---|---|---|---|---|---|
| | **Note** | **2017 RM'000** | **2016 RM'000 (Restated)** | **2017 RM'000** | **2016 RM'000 (Restated)** |
| Profit before taxation brought forward | | 2,087,788 | 1,704,691 | 1,948,075 | 1,881,532 |
| Taxation | | | | | |
| - Current taxation | 9 | (52,660) | (6,394) | (15,700) | (5,396) |
| - Deferred taxation | 9 | (463,754) | (79,739) | (263,482) | (79,739) |
| | | (516,414) | (86,133) | (279,182) | (85,135) |
| Net profit for the financial year | | 1,571,374 | 1,618,558 | 1,668,893 | 1,796,397 |
| Net profit for the financial year attributable to: | | | | | |
| - Owners of the Company | | 1,628,774 | 1,621,659 | | |
| - Non-controlling interests | | (57,400) | (3,101) | | |
| | | 1,571,374 | 1,618,558 | | |
| Earnings per share attributable to owners of the Company (sen) | | | | | |
| - Basic | 10 | 49.3 | 58.3 | | |
| - Diluted | 10 | 49.3 | 58.3 | | |

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

**AirAsia Berhad**
**(Incorporated in Malaysia)**

## Statements of comprehensive income
## For the financial year ended 31 December 2017

| | Note | Group 2017 RM'000 | Group 2016 RM'000 (Restated) | Company 2017 RM'000 | Company 2016 RM'000 (Restated) |
|---|---|---|---|---|---|
| Net profit for the financial year | | 1,571,374 | 1,618,558 | 1,668,893 | 1,796,397 |
| **Other comprehensive (loss)/ income** | | | | | |
| Items that may be subsequently reclassified to profit or loss | | | | | |
| Remeasurement loss on employee benefits liability, net of tax | | (691) | - | - | - |
| Net movement on available-for-sale financial assets | 15 | (55,087) | 116,070 | (55,087) | 116,070 |
| Cash flow hedges | | (222,660) | 492,795 | (209,493) | 492,795 |
| Share of other comprehensive income of an associate | | - | 33,563 | - | - |
| Foreign currency translation differences | | 149,057 | 28,045 | - | - |
| **Other comprehensive (loss)/income for the financial year, net of tax** | | (129,381) | 670,473 | (264,580) | 608,865 |
| **Total comprehensive income for the financial year** | | 1,441,993 | 2,289,031 | 1,404,313 | 2,405,262 |
| **Total comprehensive income/(loss) attributable to:** | | | | | |
| - Owners of the Company | | 1,499,393 | 2,292,132 | | |
| - Non-controlling interests | | (57,400) | (3,101) | | |
| | | 1,441,993 | 2,289,031 | | |

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

**AirAsia Berhad**
**(Incorporated in Malaysia)**

**Statements of financial position**
**As at 31 December 2017**

| | Note | Group 2017 RM'000 | Group 2016 RM'000 (Restated) | Company 2017 RM'000 | Company 2016 RM'000 (Restated) |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 11 | 12,303,522 | 10,826,682 | 8,827,175 | 7,858,892 |
| Investment in subsidiaries | 12 | - | - | 1,201,338 | 179,754 |
| Investment in joint ventures | 13 | 5,596 | 188,309 | - | 81,559 |
| Investment in associates | 14 | 548,558 | 2,210,587 | 95 | 1,533,678 |
| Available-for-sale financial assets | 15 | 301,518 | 356,605 | 296,080 | 351,167 |
| Amounts due from a subsidiary | 23 | - | - | 177,187 | - |
| Intangible assets | 16 | 609,329 | 121,829 | - | - |
| Deferred tax assets | 17(a) | 486,880 | 749,211 | 485,556 | 749,038 |
| Receivables and prepayments | 18 | 2,301,531 | 1,433,054 | 2,294,308 | 1,379,778 |
| Deposits on aircraft purchase | 19 | 412,272 | 112,133 | 412,272 | 112,132 |
| Amounts due from associates | 20 | - | 344,861 | - | 344,861 |
| Derivative financial instruments | 21 | 382,177 | 867,949 | 382,177 | 867,949 |
| | | 17,351,383 | 17,211,220 | 14,076,188 | 13,458,808 |
| **Current assets** | | | | | |
| Inventories | 22 | 68,234 | 43,866 | 47,676 | 43,650 |
| Receivables and prepayments | 18 | 1,482,291 | 1,087,657 | 1,198,208 | 1,004,718 |
| Deposits on aircraft purchase | 19 | 503,914 | 658,115 | 503,914 | 658,115 |
| Derivative financial instruments | 21 | 205,380 | 665,668 | 205,380 | 665,668 |
| Amounts due from subsidiaries | 23 | - | - | 1,581,915 | 800,970 |
| Amounts due from a joint venture | 25 | 4,893 | 8,952 | 19 | 8,952 |
| Amounts due from associates | 20 | 147,617 | 511,446 | 107,817 | 282,047 |
| Amounts due from related parties | 24 | 7,875 | 37,424 | 2,888 | 16,102 |
| Tax recoverable | | 20,296 | 20,293 | 19,763 | 19,856 |
| Deposits, cash and bank balances | 26 | 1,882,195 | 1,741,573 | 1,301,590 | 1,426,886 |
| | | 4,322,695 | 4,774,994 | 4,969,170 | 4,926,964 |

**AirAsia Berhad**
**(Incorporated in Malaysia)**

**Statements of financial position**
**As at 31 December 2017 (cont'd.)**

| | Note | Group 2017 RM'000 | Group 2016 RM'000 (Restated) | Company 2017 RM'000 | Company 2016 RM'000 (Restated) |
|---|---|---|---|---|---|
| **Less: Current liabilities** | | | | | |
| Trade and other payables | 27 | 2,148,682 | 1,798,505 | 1,777,257 | 1,761,765 |
| Aircraft maintenance provisions | 28 | 178,569 | 83,678 | 72,983 | 57,612 |
| Sales in advance | | 938,342 | 607,735 | 647,511 | 606,018 |
| Amounts due to subsidiaries | 29 | - | - | 83,461 | - |
| Amounts due to associates | 20 | 59,499 | 3,978 | 46,645 | 25,290 |
| Amounts due to related parties | 30 | 94,019 | 29,999 | 165,488 | 58,351 |
| Borrowings | 31 | 1,821,847 | 1,945,203 | 1,383,641 | 1,575,721 |
| Tax payables | | 18,033 | 827 | - | - |
| Derivative financial instruments | 21 | 74,852 | 448,873 | 90,597 | 448,873 |
| | | 5,333,843 | 4,918,798 | 4,267,583 | 4,533,630 |
| **Net current (liabilities)/ assets** | | (1,011,148) | (143,804) | 701,587 | 393,334 |
| **Non-current liabilities** | | | | | |
| Other payables | 27 | 1,239,024 | 1,116,098 | 1,452,430 | 1,245,552 |
| Aircraft maintenance provisions | 28 | 559,069 | 413,195 | 313,586 | 251,913 |
| Deferred tax liabilities | 17(b) | 104,954 | - | - | - |
| Amounts due to subsidiaries | 29 | - | - | 15,583 | - |
| Amounts due to associates | 20 | 86,292 | 118,898 | 8,082 | 21,934 |
| Amount due to a related party | 30 | 10,939 | 9,455 | - | - |
| Borrowings | 31 | 7,486,787 | 8,633,939 | 5,344,001 | 6,219,922 |
| Derivative financial instruments | 21 | 70,883 | 148,052 | 70,861 | 148,052 |
| Provision for retirement benefits | 32 | 72,207 | - | - | - |
| | | 9,630,155 | 10,439,637 | 7,204,543 | 7,887,373 |
| | | 6,710,080 | 6,627,779 | 7,573,232 | 5,964,769 |

**AirAsia Berhad**
**(Incorporated in Malaysia)**

**Statements of financial position**
**As at 31 December 2017 (cont'd.)**

| | | Group | | Company | |
|---|---|---|---|---|---|
| | **Note** | **2017 RM'000** | **2016 RM'000 (Restated)** | **2017 RM'000** | **2016 RM'000 (Restated)** |
| **Capital and reserves** | | | | | |
| Share capital | 33 | 2,515,438 | 278,297 | 2,515,438 | 278,297 |
| Share premium | 33 | - | 1,230,941 | - | 1,230,941 |
| Treasury shares | | (160) | (160) | (160) | (160) |
| Foreign exchange reserve | | 196,050 | 46,993 | - | - |
| Retained earnings | 34(a) | 5,404,393 | 4,866,084 | 5,083,137 | 4,216,294 |
| Other reserves | 34(b) | (67,608) | 210,830 | (25,183) | 239,397 |
| Total shareholders' fund | | 8,048,113 | 6,632,985 | 7,573,232 | 5,964,769 |
| Non-controlling interests | 12 | (1,338,033) | (5,206) | - | - |
| Total equity | | 6,710,080 | 6,627,779 | 7,573,232 | 5,964,769 |

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

**AirAsia Berhad**
**(Incorporated in Malaysia)**

**Consolidated statement of changes in equity**
**For the financial year ended 31 December 2017**

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Non-distributable | | | | | | Distributable | | | |
| | Number of shares '000 | Nominal value RM'000 (Note 33) | Share premium RM'000 (Note 33) | Foreign exchange reserve RM'000 | Other reserves RM'000 (Note 34(b)) | Treasury shares RM'000 | Retained earnings RM'000 (Note 34(a)) | Total RM'000 | Non-controlling interests RM'000 | Total equity RM'000 |
| **At 1 January 2017 (restated)** | 2,782,974 | 278,297 | 1,230,941 | 46,993 | 210,830 | (160) | 4,866,084 | 6,632,985 | (5,206) | 6,627,779 |
| Net profit/(loss) for the financial year | - | - | - | - | - | - | 1,628,774 | 1,628,774 | (57,400) | 1,571,374 |
| Other comprehensive income/(loss) | - | - | - | 149,057 | (278,438) | - | - | (129,381) | - | (129,381) |
| Total comprehensive income/(loss) | - | - | - | 149,057 | (278,438) | - | 1,628,774 | 1,499,393 | (57,400) | 1,441,993 |
| **Transactions with owners:** | | | | | | | | | | |
| Issuance of shares | 559,000 | 55,900 | 950,300 | - | - | - | - | 1,006,200 | - | 1,006,200 |
| Dividends (Note 35) | - | - | - | - | - | - | (802,050) | (802,050) | - | (802,050) |
| Transfer to no-par value regime | - | 2,181,241 | (2,181,241) | - | - | - | - | - | - | - |
| Acquisition of non-controlling interest in subsidiaries (Note 12) | - | - | - | - | - | - | (288,459) | (288,459) | 283,817 | (4,642) |
| Dilution of interest in subsidiaries (Note 12) | - | - | - | - | - | - | 44 | 44 | 442,482 | 442,526 |
| Non-controlling interest arising from business combinations (Note 12) | - | - | - | - | - | - | - | - | (2,001,726) | (2,001,726) |
| **At 31 December 2017** | 3,341,974 | 2,515,438 | - | 196,050 | (67,608) | (160) | 5,404,393 | 8,048,113 | (1,338,033) | 6,710,080 |

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**AirAsia Berhad**
**(Incorporated in Malaysia)**

**Consolidated statement of changes in equity**
**For the financial year ended 31 December 2017 (cont'd.)**

| | <------ Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | <------ Non-distributable | | | | | ------> | Distributable | | | |
| | **Number of shares '000** | **Nominal value RM'000 (Note 33)** | **Share premium RM'000 (Note 33)** | **Foreign exchange reserve RM'000** | **Other reserves RM'000 (Note 34(b))** | **Treasury Shares RM'000** | **Retained earnings RM'000 (Note 34(a))** | **Total RM'000** | **Non-controlling interests RM'000** | **Total equity RM'000** |
| **At 1 January 2016** | 2,782,974 | 278,297 | 1,230,941 | 18,948 | (431,598) | - | 3,355,740 | 4,452,328 | (1,474) | 4,450,854 |
| Net profit/(loss) for the financial year (restated) (Note 42) | - | - | - | - | - | - | 1,621,659 | 1,621,659 | (3,101) | 1,618,558 |
| Other comprehensive income (restated) (Note 42) | - | - | - | 28,045 | 642,428 | - | - | 670,473 | - | 670,473 |
| Total comprehensive income/ (loss) (restated) | - | - | - | 28,045 | 642,428 | - | 1,621,659 | 2,292,132 | (3,101) | 2,289,031 |
| **Transactions with owners:** | | | | | | | | | | |
| Dividends (Note 35) | - | - | - | - | - | - | (111,315) | (111,315) | - | (111,315) |
| Buy-back of ordinary shares | - | - | - | - | - | (160) | - | (160) | - | (160) |
| Non-controlling interest arising from business combination (Note 12) | - | - | - | - | - | - | - | - | (631) | (631) |
| **At 31 December 2016 (restated)** | 2,782,974 | 278,297 | 1,230,941 | 46,993 | 210,830 | (160) | 4,866,084 | 6,632,985 | (5,206) | 6,627,779 |

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

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AirAsia Berhad
(Incorporated in Malaysia)

**Statement of changes in equity**
**For the financial year ended 31 December 2017**

| | | <------------------- Non-distributable | | | -------------------> | Distributable | |
|---|---|---|---|---|---|---|---|
| | Number of shares '000 | Nominal value RM'000 (Note 33) | Share premium RM'000 (Note 33) | Other reserves RM'000 (Note 34(b)) | Treasury shares RM'000 | Retained earnings RM'000 (Note 34(a)) | Total equity RM'000 |
| **At 1 January 2017 (restated)** | 2,782,974 | 278,297 | 1,230,941 | 239,397 | (160) | 4,216,294 | 5,964,769 |
| Net profit for the financial year | - | - | - | - | - | 1,668,893 | 1,668,893 |
| Other comprehensive loss | - | - | - | (264,580) | - | - | (264,580) |
| Total comprehensive (loss)/income | - | - | - | (264,580) | - | 1,668,893 | 1,404,313 |
| **Transactions with owners:** | | | | | | | |
| Issuance of shares | 559,000 | 55,900 | 950,300 | - | - | - | 1,006,200 |
| Dividends (Note 35) | - | - | - | - | - | (802,050) | (802,050) |
| Transfer to no-par value regime | - | 2,181,241 | (2,181,241) | - | - | - | - |
| **At 31 December 2017** | 3,341,974 | 2,515,438 | - | (25,183) | (160) | 5,083,137 | 7,573,232 |

**AirAsia Berhad**
**(Incorporated in Malaysia)**

**Statement of changes in equity**
**For the financial year ended 31 December 2017 (cont'd.)**

| | | <------------------- Non-distributable | | ------------------> | | Distributable | |
|---|---|---|---|---|---|---|---|
| | **Number of shares ‘000** | **Nominal value RM’000 (Note 33)** | **Share premium RM’000 (Note 33)** | **Other reserves RM’000 (Note 34(b))** | **Treasury shares RM’000** | **Retained earnings RM’000 (Note 34(a))** | **Total equity RM’000** |
| **At 1 January 2016** | 2,782,974 | 278,297 | 1,230,941 | (369,468) | - | 2,531,212 | 3,670,982 |
| Net profit for the financial year (restated) (Note 42) | - | - | - | - | - | 1,796,397 | 1,796,397 |
| Other comprehensive income (restated) (Note 42) | - | - | - | 608,865 | - | - | 608,865 |
| Total comprehensive income (restated) | - | - | - | 608,865 | - | 1,796,397 | 2,405,262 |
| **Transactions with owners:** | | | | | | | |
| Dividends (Note 35) | - | - | - | - | - | (111,315) | (111,315) |
| Buy-back of ordinary shares | - | - | - | - | (160) | - | (160) |
| **At 31 December 2016 (restated)** | 2,782,974 | 278,297 | 1,230,941 | 239,397 | (160) | 4,216,294 | 5,964,769 |

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

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AirAsia Berhad
(Incorporated in Malaysia)

**Statements of cash flow**
**For the financial year ended 31 December 2017**

| | Note | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Profit before taxation | | 2,087,788 | 1,704,691 | 1,948,075 | 1,881,532 |
| Adjustments for: | | | | | |
| Property, plant and equipment | | | | | |
| - Depreciation | 11 | 863,989 | 710,843 | 598,318 | 562,024 |
| - Gain on disposals | 4(b) | (64,281) | (104,200) | (50,482) | (470,545) |
| Amortisation of intangible assets | 16 | 284 | 281 | - | - |
| Gain on partial disposal of investment in a subsidiary | 12 | - | - | (406,839) | - |
| Impairment of property, plant and equipment | 6 | - | 11,659 | - | - |
| Impairment of/(reversal of) trade and other receivables | 6 | 16,229 | (3,037) | (165) | (3,037) |
| Impairment of amount due from a subsidiary | 6 | - | - | - | 21,328 |
| Impairment of investment in an associate | | - | 163,750 | - | 163,750 |
| Gain on disposal of investment in a joint venture | 4(b) | (167,688) | - | (294,362) | - |
| Provision for retirement benefits | | 6,124 | - | - | - |
| Gain on remeasurement of previously held interest in associates | | (214,350) | - | - | - |
| Gain on bargain purchase | | (121,045) | - | - | - |
| Fair value losses/(gains) on derivatives | 8(d) | 140,602 | (70,486) | 126,434 | (70,486) |
| Share of results of a joint venture | | (19,923) | (24,285) | - | - |
| Share of results of associates | | (47,307) | (134,704) | - | - |
| Net unrealised foreign exchange (gain)/loss | | (196,692) | 465,546 | (132,835) | 359,860 |
| Acquisition costs arising from reverse acquisition | 12 | 9,235 | - | - | - |
| Dividend income from: | | | | | |
| - available-for-sale financial assets | 4(b) | (5,336) | (5,133) | (5,336) | (5,133) |
| - a subsidiary | 4(b) | - | - | (163,766) | (302,095) |
| - an associate | 4(b) | - | - | - | (1,675) |
| Operating profit carried forward | | 2,287,629 | 2,714,925 | 1,619,042 | 2,135,523 |

**Statements of cash flow**
**For the financial year ended 31 December 2017 (cont'd.)**

| | Note | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities (cont'd.)** | | | | | |
| Operating profit brought forward | | 2,287,629 | 2,714,925 | 1,619,042 | 2,135,523 |
| Interest expense | 8(b) | 577,748 | 593,061 | 413,870 | 526,344 |
| Interest income | 8(a) | (55,670) | (105,332) | (68,339) | (80,599) |
| | | 2,809,707 | 3,202,654 | 1,964,573 | 2,581,268 |
| Changes in working capital: | | | | | |
| Inventories | | (3,772) | (17,714) | (4,026) | (17,498) |
| Receivables and prepayments | | 65,161 | (525,617) | (977,869) | (530,176) |
| Trade and other payables | | (643,924) | 493,890 | 374,412 | 854,876 |
| Amounts due from/to subsidiaries, associates, joint venture and related parties | | 124,808 | (423,879) | 206,097 | (388,720) |
| Cash generated from operations | | 2,351,980 | 2,729,334 | 1,563,187 | 2,499,750 |
| Interest paid | | (444,957) | (558,634) | (423,752) | (473,799) |
| Interest received | | 25,755 | 14,377 | 69,179 | 14,372 |
| Taxes paid | | (15,166) | (17,960) | (10,963) | (17,960) |
| Retirement benefits paid | | (3,122) | - | - | - |
| **Net cash from operating activities** | | 1,914,490 | 2,167,117 | 1,197,651 | 2,022,363 |
| **Cash flows from investing activities** | | | | | |
| Property, plant and equipment | | | | | |
| - Additions | | (1,976,655) | (1,216,547) | (1,581,062) | (989,755) |
| - Proceeds from disposals | | 88,045 | 736,791 | 61,661 | 932,230 |
| Acquisition of a joint venture | | (5,597) | - | - | - |
| Repayment of advances by an associate | | - | 53,962 | - | 53,962 |
| Advances to subsidiaries | | - | - | - | (146,052) |
| Additional investment in available-for-sale financial assets | | - | (5,438) | - | - |
| Proceeds from disposal of interest in a joint venture | 13 | 375,921 | - | 375,921 | - |
| Net cash used in investing activities carried forward | | (1,518,286) | (431,232) | (1,143,480) | (149,615) |

**AirAsia Berhad**
**(Incorporated in Malaysia)**

**Statements of cash flow**
**For the financial year ended 31 December 2017 (cont'd.)**

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| **Cash flows from investing activities (cont'd)** | | | | | |
| Net cash used in investing activities brought forward | | (1,518,286) | (431,232) | (1,143,480) | (149,615) |
| Net deposits pledged as securities and restricted cash | | 51,359 | (65,973) | (152) | (4,605) |
| Dividend received from: | | | | | |
| - available-for-sale financial assets | 4(b) | 5,336 | 5,133 | 5,336 | 5,133 |
| - associates | 4(b) | 132,643 | 72,527 | - | 1,675 |
| Acquisition of subsidiaries, net of cash acquired | 12 | 114,500 | (79,036) | - | (102,314) |
| Acquisition of non-controlling interest in subsidiaries | 12 | (4,643) | - | - | - |
| Dilution of interest in a subsidiary | 12 | 950 | - | - | - |
| Additional subscription of shares in an associate | 14 | (126,398) | (143,218) | - | - |
| Additional subscription of shares in subsidiaries | | - | - | (20,379) | (8,750) |
| **Net cash used in investing activities** | | (1,344,539) | (641,799) | (1,158,675) | (258,476) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issuance of shares | | 1,006,200 | - | 1,006,200 | - |
| Buy-back of shares | | - | (160) | - | (160) |
| Proceeds from borrowings | | 1,276,785 | 832,208 | 873,984 | 300,370 |
| Repayment of borrowings | | (1,959,627) | (3,154,447) | (1,343,280) | (2,922,397) |
| Dividends paid to shareholders | | (802,050) | (111,315) | (802,050) | (111,315) |
| **Net cash used in financing activities** | | (478,692) | (2,433,714) | (265,146) | (2,733,502) |
| **Net increase/(decrease) for the financial year** | | 91,259 | (908,396) | (226,170) | (969,615) |
| **Currency translation differences** | | 100,722 | 157,300 | 100,722 | 129,255 |
| **Cash and cash equivalents at beginning of the financial year** | | 1,675,600 | 2,426,696 | 1,422,281 | 2,262,641 |
| **Cash and cash equivalents at end of the financial year** | | 1,867,581 | 1,675,600 | 1,296,833 | 1,422,281 |

**Statements of cash flow**
**For the financial year ended 31 December 2017 (cont'd.)**

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

| | Note | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|---|
| **Cash and cash equivalents at end of the financial year** | | 1,867,581 | 1,675,600 | 1,296,833 | 1,422,281 |
| Add: Deposits pledged as securities and restricted cash | | 14,614 | 65,973 | 4,757 | 4,605 |
| Deposits, cash and bank balances at the end of the financial year | 26 | 1,882,195 | 1,741,573 | 1,301,590 | 1,426,886 |

The deposits with licensed banks of the Group and the Company amounting to RM14,614,000 and RM4,757,000 (2016: Group and Company RM65,973,000 and RM4,605,000) are pledged as securities for banking facilities granted to the Group and Company and are restricted for the purpose of purchase of engines.

**Significant non-cash transactions for the financial year ended 31 December 2017**

(a) On 1 January 2017, the Group acquired two subsidiaries as disclosed in Note 12 to the financial statements. No cash outflow was involved as these were deemed acquisitions.

(b) On 29 August 2017, the Company partially disposed perpetual capital security issued by a subsidiary amounting to IDR2,601 billion (equivalent to RM835 million) as disclosed in Note 12 to the financial statements. Included in the total consideration of IDR2,601 billion (equivalent to RM835 million) is IDR1,327 billion (equivalent to RM426 million) which is repayable over 10 years while the remaining amount of IDR1,274 billion (equivalent to RM409 million) is repayable on demand as disclosed in Notes 18 and 23 to the financial statements, respectively.

**Statements of cash flow**
**For the financial year ended 31 December 2017 (cont'd.)**

**Significant non-cash transactions in prior year**

(a) On 16 December 2016, the Company subscribed to perpetual capital security issued by an associate amounting to IDR3,042 billion (RM1,013 million) as disclosed in Note 12 to the financial statements. The investment in perpetual capital security was satisfied via capitalisation of amounts due from associate.

(b) Disposal of property, plant and equipment to a subsidiary

| | Company 2016 RM'000 |
|---|---|
| Proceeds from disposal of property, plant and equipment to a subsidiary | 2,032,863 |
| Borrowings transferred to subsidiary | (1,565,699) |
| Amounts due from a subsidiary | (271,725) |
| Net cash proceeds received from disposal of property, plant and equipment to a subsidiary | 195,439 |

(c) On 25 July 2016, AirAsia Go Holiday Sdn Bhd ("AAGH"), a wholly owned subsidiary of the Company declared a first interim dividend for the financial year ended 31 December 2016 amounting to RM302,095,000. The dividend amount from AAGH was satisfied via net off with amount due to AAGH.

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

## 1. General information

AirAsia Berhad ("the Company") is a public limited liability company incorporated and domiciled in Malaysia, and is listed on the Bursa Malaysia Securities Berhad.

The address of the registered office of the Company is as follows:

B-13-15, Level 13,
Menara Prima Tower B,
Jalan PJU1/39, Dataran Prima,
47301 Petaling Jaya,
Selangor Darul Ehsan.

The address of the principal place of business of the Company is as follows:

RedQ,
Jalan Pekeliling 5,
Lapangan Terbang Antarabangsa Kuala Lumpur (KLIA2),
64000 KLIA,
Selangor Darul Ehsan,
Malaysia.

The principal activity of the Company is that of providing air transportation services. The principal activities of the subsidiaries are described in Note 12. There were no significant changes in the nature of these activities during the financial year.

The financial statements were authorised for issue by the board of directors in accordance with resolution of the directors on 16 April 2018.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 2016 in Malaysia.

## 2. Summary of significant accounting policies (cont'd.)

### 2.1 Basis of preparation (cont'd.)

The financial statements of the Group and of the Company have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

### 2.2 Standards, amendments to published standards and interpretations that are effective

The Group has applied the following amendments for the first time for the financial year beginning on 1 January 2017:

- MFRS 107 Disclosure Initiative (Amendments to MFRS 107)
- MFRS 112 Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)
- Annual Improvements to MFRS Standards 2014–2016 Cycle - Amendments to MFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in MFRS 12

The adoption of these amendments did not have any material impact on the current period or any prior period and is not likely to affect future periods.

### 2.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and of the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

| **Description** | **Effective for annual periods beginning on or after** |
|---|---|
| MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2) | 1 January 2018 |
| MFRS 9 Financial Instruments | 1 January 2018 |
| MFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| MFRS 140 Transfers of Investment Property (Amendments to MFRS 140) | 1 January 2018 |

**2. Summary of significant accounting policies (cont'd.)**

**2.3 Standards issued but not yet effective (cont'd.)**

| **Description** | **Effective for annual periods beginning on or after** |
|---|---|
| Annual Improvements to MFRS Standards 2014 – 2016 Cycle | 1 January 2018 |
| IC Interpretation 22 Foreign Currency Transactions and Advance Consideration | 1 January 2018 |
| MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9) | 1 January 2019 |
| MFRS 16 Leases | 1 January 2019 |
| MFRS 128 Long-term Interests in Associates and Joint Ventures (Amendments to MFRS 128) | 1 January 2019 |
| Annual Improvements to MFRS Standards 2015–2017 Cycle | 1 January 2019 |
| MFRS 119 Plan Amendment, Curtailment or Settlement (Amendments to MFRS 119) | 1 January 2019 |
| IC Interpretation 23 Uncertainty over Income Tax Treatments | 1 January 2019 |
| MFRS 17 Insurance Contracts | 1 January 2021 |
| Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Deferred |

The directors of the Company expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application, other than those described below:

**MFRS 15 Revenue from Contracts with Customers**

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

## 2. Summary of significant accounting policies (cont'd.)

### 2.3 Standards issued but not yet effective (cont'd.)

**MFRS 15 Revenue from Contracts with Customers (cont'd.)**

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

The Group has established a project team, with assistance from the various lines of business and finance management to evaluate the potential impact of adopting this standard. The implementation efforts included the scoping of material revenue streams, analysis of underlying contracts, business unit discussion to further assess specific contracts and products and the development of updated disclosures. The project team has completed the scoping of material revenue streams and based on the completed contracts reviews to date, the potential changes in revenue recognition for those contracts are not expected to result in a material impact to the Group upon adoption.

Approximately 90% of the Group’s revenue comprising passenger seat sales, baggage fees, surcharges and fees and other revenue will be covered under MFRS 15. In assessing the revenue recognition and measurement under MFRS 15, the principles currently applied by the Group are largely consistent with the requirements of MFRS 15. Other than the enhanced disclosures required, the Group does not anticipate significant changes to the recognition and measurement of revenue upon the application of MFRS 15. The project team is developing additional quantitative and qualitative disclosures that will be required upon the adoption of the new revenue recognition standard.

**MFRS 9 Financial Instruments**

MFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Group has established a MFRS 9 project team sponsored by Group Chief Financial Officer to plan and manage the implementation of MFRS 9.

The Group has performed a detailed impact assessment of all three aspects of MFRS 9. The assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group adopts MFRS 9.

## 2. Summary of significant accounting policies (cont'd.)

### 2.3 Standards issued but not yet effective (cont'd.)

**MFRS 9 Financial Instruments (cont'd.)**

Based on the analysis of the Group’s financial assets and liabilities as at 31 December 2017 on the basis of facts and circumstances that exist at that date, the directors of the Company have assessed the impact of MFRS 9 to the Group’s financial statements as follows:

**(i) Classification and measurement**

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of MFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted equity shares currently held by the Group are disclosed as available-for-sale (AFS) which fair value through other comprehensive income (FVOCI) election is available. Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial asset at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

Loans and receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under MFRS 9. Therefore, reclassification for these instruments is not required.

**(ii) Impairment**

The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The recognition and measurement of impairment under MFRS 9 will be more forward-looking and will result in earlier recognition of credit losses as compared to MFRS 139. Hence, the total expected credit losses allowances computed under MFRS 9 is expected to be higher than the total allowance for impairment on trade and other receivables under MFRS 139. Upon the initial adoption of MFRS 9, a negative adjustment will be made to opening retained profits, which will decrease the equity and net assets of the Group. As certain basis and assumptions are still being refined, the quantitative impact to the overall financial statements has not been finalised at this juncture.

**2. Summary of significant accounting policies (cont'd.)**

**2.3 Standards issued but not yet effective (cont'd.)**

**MFRS 9 Financial Instruments (cont'd.)**

**(iii) Hedge accounting**

The Group has decided to continue applying hedge accounting as set out in MFRS 139 to all hedges until the project on accounting for macro hedging is completed by International Accounting Standards Board (IASB).

**MFRS 16 Leases**

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group and the Company is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

## 2. Summary of significant accounting policies (cont'd.)

### 2.4 Basis of consolidation

#### 2.4.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

## 2. Summary of significant accounting policies (cont'd.)

### 2.4 Basis of consolidation (cont'd.)

#### 2.4.1 Subsidiaries (cont'd.)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Where necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

#### 2.4.2 Transactions with non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in profit or loss of the Group and within equity in the consolidated statements of financial position, separately from parent shareholders' equity. Transactions with non-controlling interests are accounted for using the entity concept method, whereby, transactions with non-controlling interests are accounted for as transactions with owners. On acquisition of non-controlling interests, the difference between the consideration and book value of the share of the net assets acquired is recognised directly in equity. Gain or loss on disposal to non-controlling interests is recognised directly in equity.

#### 2.4.3 Joint arrangements

A joint arrangement is an arrangement of which there is contractually agreed sharing of control by the Group with one or more parties, where decisions about the relevant activities relating to the joint arrangement require unanimous consent of the parties sharing control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities, relating to the arrangement.

## 2. Summary of significant accounting policies (cont'd.)

### 2.4 Basis of consolidation (cont'd.)

#### 2.4.3 Joint arrangements (cont'd.)

The Group’s interest in a joint venture is accounted for in the financial statements using the equity method of accounting. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group’s share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group’s share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group’s net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of profits equals the share of losses not recognised. Where an entity loses joint control over a joint venture but retains significant influence, the Group does not remeasure its continued ownership interest at fair value.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group’s interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### 2.4.4 Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted using the equity method of accounting together with any long-term interests that, in substance, form part of the Group’s net investment in the associate. In this regard, a receivable for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the Group’s investment in that associate. This does not include receivable for which adequate collateral exists. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor’s share of the profit or loss of the investee after the date of acquisition. The Group’s investment in associates includes goodwill identified on acquisition.

## 2. Summary of significant accounting policies (cont'd.)

### 2.4 Basis of consolidation (cont'd.)

#### 2.4.4 Associates (cont'd.)

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of profits equals the share of losses not recognised.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of results of associates' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

#### 2.4.5 Reverse acquisition of an asset or a group of assets that does not constitute a business

At the time of reverse acquisition, the Group considers whether each reverse acquisition represents the reverse acquisition of a business or the reverse acquisition of an asset. Where the assets acquired and liabilities assumed do not constitute a business as defined under MFRS 3, the transaction is accounted as an asset acquisition.

## 2. Summary of significant accounting policies (cont'd.)

### 2.4 Basis of consolidation (cont'd.)

#### 2.4.5 Reverse acquisition of an asset or a group of assets that does not constitute a business (cont'd.)

In such cases, the Group identifies and recognises the individual identifiable assets acquired (including intangible assets) and liabilities assumed. The cost of acquisition is allocated to the individual identifiable assets and liabilities based upon their relative fair value at the date of purchase, and no goodwill or deferred tax is recognised.

The legal subsidiary is regarded as the accounting acquirer while the legal parent is regarded as the accounting acquiree. The accounting acquirer is deemed to have issued equity shares as purchase consideration for the assets and liabilities of the accounting acquiree using the accounting principles of MFRS 2. The fair value of issued equity shares is determined based on the market value of the accounting acquiree which is represented by the quoted and trade price of its shares right before the reverse acquisition. The difference between the purchase consideration and the fair value of identifiable assets acquired and liabilities assumed will be recognised in the income statement as acquisition cost arising from the reverse acquisition.

### 2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Costs also include borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (refer to accounting policy Note 2.20 on borrowing costs).

Where significant parts of an item of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts in the carrying amount of the property, plant and equipment as a replacement when it is probable that future economic benefits associated with the parts will flow to the Group and the cost of the parts can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

Significant parts of an item of property, plant and equipment are depreciated separately over their estimated useful lives in accordance with the principle in MFRS 116 ‘Property, Plant and Equipment’. Depreciation is calculated using the straight-line method to write-off the cost of the assets to their residual values over their estimated useful lives.

## 2. Summary of significant accounting policies (cont'd.)

### 2.5 Property, plant and equipment (cont'd.)

The useful lives for this purpose are as follows:

| | |
|---|---|
| Aircraft | |
| - engines, airframes and spare engines excluding service potential | 25 years |
| - service potential of engines | 8 years |
| - service potential of airframes | 13 years |
| - service potential of spare engines | 11 years |
| Aircraft spares | 10 years |
| Aircraft fixtures and fittings | Useful life of aircraft or remaining lease term of aircraft, whichever is shorter |
| Buildings | |
| - hangar | 50 years |
| Motor vehicles | 5 years |
| Office equipment, furniture and fittings | 5 years |
| Office renovation | 5 years |
| Simulator equipment | 25 years |
| Operating plant and ground equipment | 5 years |
| In-flight equipment | 5 years |
| Training equipment | 5 years |

Service potential of 8 years represents the period over which the expected cost of the first major aircraft engine overhaul is depreciated. Subsequent to the engine overhaul, the actual cost incurred is capitalised and depreciated over the subsequent 8 years.

Service potential of 13 years represents the period over which the expected cost of the first major airframe check is depreciated. Subsequent to the airframe check, the actual cost incurred is capitalised and depreciated over the subsequent 13 years.

Assets not yet in operation are stated at cost and are not depreciated until the assets are ready for their intended use. Useful lives of assets are reviewed and adjusted if appropriate, at the balance sheet date.

Residual values, where applicable, are reviewed annually against prevailing market rates at the balance sheet date for equivalent aged assets and depreciation rates are adjusted accordingly on a prospective basis. For the current financial year ended 31 December 2017, the estimated residual value for aircraft airframes and engines excluding service potential is 10% of their cost (2016: 10% of their cost).

## 2. Summary of significant accounting policies (cont'd.)

### 2.5 Property, plant and equipment (cont'd.)

An element of the cost of an acquired aircraft is attributed on acquisition to its service potential, reflecting the maintenance condition of its engines and airframes. This cost, which can equate to a substantial element of the total aircraft cost, is amortised over the shorter of the period to the next checks or the remaining life of the aircraft.

At the end of the reporting period, the Group assesses whether there is any indication of impairment. If such an indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2.8 on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in profit or loss.

Deposits on aircraft purchase are included as part of the cost of the aircraft and are depreciated from the date that aircraft is ready for its intended use.

### 2.6 Intangible assets

#### 2.6.1 Goodwill

Goodwill arises from a business combination and represents the excess of the aggregate of fair value of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired and liabilities assumed on the acquisition date. If the fair value of consideration transferred, the amount of non-controlling interest and the fair value of previously held interest in the acquiree are less than the fair value of the net identifiable assets of the acquiree, the resulting gain is recognised in profit or loss.

Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (“CGUs”), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at operating segment level.

## 2. Summary of significant accounting policies (cont'd.)

### 2.6 Intangible assets (cont'd.)

#### 2.6.1 Goodwill (cont'd.)

The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

#### 2.6.2 Other intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

## 2. Summary of significant accounting policies (cont'd.)

### 2.6 Intangible assets (cont'd.)

#### 2.6.2 Other intangible assets (cont'd.)

**(i) Research and development – internally developed software**

Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and,
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent period.

Capitalised development costs recognised as intangible assets are amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

**(ii) Landing rights**

Landing rights relate to traffic rights and landing slots for destinations operated by the Group's airline operating centres. These rights are expected to be renewed yearly, subject to minimum time performance, timely payment by the airlines, as well as minimum 80% utilisation. As there is no evidence of non-renewal, the useful lives of the landing rights are estimated to be indefinite. Management believes there is no foreseeable limit to the period over which the landing rights are expected to generate net cash inflows for the Group.

## 2. Summary of significant accounting policies (cont'd.)

### 2.7 Investments in subsidiaries, joint ventures and associates

In the Company's separate financial statements, investments in subsidiaries, joint ventures and associates are stated at cost less accumulated impairment losses.

Amounts due from associates of which the Company does not expect repayment in the foreseeable future are treated as part of the parent's net investment in associates. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount (see Note 2.8). On disposal of investments in subsidiaries, joint ventures and associates, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

### 2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually, or as and when events or circumstances occur indicating that an impairment may exist. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal at each reporting date.

Any impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in profit or loss unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

## 2. Summary of significant accounting policies (cont'd.)

### 2.9 Maintenance and overhaul

**Owned aircraft**

The accounting for the cost of providing major airframe and certain engine maintenance checks for owned aircraft is described in accounting policy Note 2.5 on property, plant and equipment.

**Leased aircraft**

Where the Group has a commitment to maintain aircraft held under operating leases, provision is made during the lease term for the rectification obligations contained within the lease agreements. The provisions are based on estimated future costs of major airframe, certain engine maintenance checks and one-off costs incurred at the end of the lease by making appropriate charges to the income statement calculated by reference to the number of hours or cycles operated during the financial year.

### 2.10 Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

**Lessee**

**Finance leases**

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease’s commencement at the lower of the fair value of the leased property and the present value of the minimum lease payment.

Each lease payment is allocated between the liability and finance charges so as to achieve a periodic constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Initial direct costs incurred by the Group in negotiating and arranging finance leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease expense.

**2. Summary of significant accounting policies (cont'd.)**

**2.10 Leases (cont'd.)**

**Finance leases (cont'd.)**

Property, plant and equipment acquired under finance lease contracts are depreciated over the estimated useful life of the asset, in accordance with the annual rates stated in Note 2.5 above. Where there is no reasonable certainty that the ownership will be transferred to the Group, the asset is depreciated over the shorter of the lease term and its useful life.

**Operating leases**

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the lease period.

**Sale and leaseback transactions**

When a sale and leaseback results in a finance lease, any gain on the sale is deferred and recognised as income over the lease term. Any loss on the sale is immediately recognised as an impairment loss when the sale occurs.

If the leaseback is classified as an operating lease, then any gain is recognised immediately if the sale and leaseback terms are demonstrably at fair value. Otherwise, the sale and leaseback are accounted for as follows:

- If the sale price is below fair value then the gain or loss is recognised immediately other than to the extent that a loss is compensated for by future rentals at below market price, then the loss is deferred and amortised over the period that the asset is expected to be used.
- If the sale price is above fair value, then any gain is deferred and amortised over the useful life of the asset.
- If the fair value of the asset is less than the carrying amount of the asset at the date of the transaction, then that difference is recognised immediately as a loss on the sale.

**2. Summary of significant accounting policies (cont'd.)**

**2.10 Leases (cont'd.)**

**Lessor**

**Operating leases**

Assets leased out by the Group under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Lease income (net of any incentives given to lessees) is recognised over the term of the lease on a straight-line basis.

**2.11 Inventories**

Inventories which comprise consumables used internally for repairs and maintenance are stated at the lower of cost and net realisable value.

Cost is determined on the weighted average basis, and comprises the purchase price and incidentals incurred in bringing the inventories to their present location and condition.

Net realisable value represents the estimated selling price in the ordinary course of business, less all applicable variable selling expenses. In arriving at net realisable value, due allowance is made for all damaged, obsolete and slow-moving items.

**2.12 Financial assets**

**2.12.1 Classification**

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

## 2. Summary of significant accounting policies (cont'd.)

### 2.12 Financial assets (cont'd.)

#### 2.12.1 Classification (cont'd.)

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges (see Note 2.15). Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group’s loans and receivables comprise ‘trade and other receivables’, ‘amounts due from associates, joint ventures and related companies’ and ‘deposits, cash and bank balances’ in the statements of financial position.

**Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of within 12 months of the end of the reporting period.

#### 2.12.2 Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

## 2. Summary of significant accounting policies (cont'd.)

### 2.12 Financial assets (cont'd.)

#### 2.12.3 Subsequent measurement - gains and losses

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividend income are recognised in profit or loss in the period in which the changes arise.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, except for impairment losses (see accounting policy Note 2.12) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in the income statement, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Interest and dividend income on available-for-sale financial assets are recognised separately in profit or loss. Interest on available-for-sale debt securities calculated using the effective interest method is recognised in profit or loss. Dividend income on available-for-sale equity instruments are recognised in profit or loss when the Group’s right to receive payments is established.

#### 2.12.4 Subsequent measurement - impairment of financial assets

**Assets carried at amortised cost**

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

## 2. Summary of significant accounting policies (cont'd.)

### 2.12 Financial assets (cont'd.)

#### 2.12.4 Subsequent measurement - impairment of financial assets (cont'd.)

**Assets carried at amortised cost (cont'd.)**

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  (i) adverse changes in the payment status of borrowers in the portfolio; and
  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If 'loans and receivables' have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

## 2. Summary of significant accounting policies (cont'd.)

### 2.12 Financial assets (cont'd.)

#### 2.12.4 Subsequent measurement - impairment of financial assets (cont'd.)

**Assets carried at amortised cost (cont'd.)**

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

**Assets classified as available-for-sale**

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Group uses criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above.

In the case of equity securities classified as available-for-sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. The amount of cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

## 2. Summary of significant accounting policies (cont'd.)

### 2.12 Financial assets (cont'd.)

#### 2.12.5 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to the income statements.

### 2.13 Financial liabilities

#### 2.13.1 Classification and measurement

The Group classifies its financial liabilities in the following categories: other financial liabilities. Management determines the classification of financial liabilities at initial recognition.

The Group does not hold any financial liabilities carried at fair value through profit or loss (except for derivative financial instruments). See accounting policy Note 2.15 on derivative financial instruments and hedging activities.

Other financial liabilities are non-derivative financial liabilities. Other financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial liability and subsequently carried at amortised cost using the effective interest method. Changes in the carrying value of these liabilities are recognised in the income statements.

The Group's other financial liabilities comprise payables (including intercompanies and related parties' balances) and borrowings in the statement of financial position. Financial liabilities are classified as current liabilities; except for maturities greater than 12 months after the reporting date, in which case they are classified as non-current liabilities.

#### 2.13.2 Derecognition

Financial liabilities are derecognised when the liability is either discharged, cancelled, expired or has been restructured with substantially different terms.

## 2. Summary of significant accounting policies (cont'd.)

### 2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 2.15 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives that do not qualify for hedge accounting are classified as held for trading and accounted for in accordance with the accounting policy set out in Note 2.12. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 21 to the financial statements. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

**Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within ‘fair value (losses)/gains on derivatives’ (Note 8(d)).

## 2. Summary of significant accounting policies (cont'd.)

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

**Cash flow hedge (cont'd.)**

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss and presented separately after net operating profit.

When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory, or in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within ‘fair value (losses)/gains on derivatives’ (Note 8(d)).

### 2.16 Cash and cash equivalents

For the purpose of the statements of cash flow, cash and cash equivalents comprise cash on hand, bank balances, demand deposits and other short term, highly liquid investments with original maturities of three months or less, less bank overdrafts. Deposits held as pledged securities for term loans granted are not included as cash and cash equivalents.

### 2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

## 2. Summary of significant accounting policies (cont'd.)

### 2.18 Share capital

#### 2.18.1 Classification

Ordinary shares with discretionary dividends are classified as equity.

#### 2.18.2 Share issue costs

Incremental external costs directly attributable to the issuance of new shares or options are deducted against share premium account.

#### 2.18.3 Dividends distribution

Distributions to holders of an equity instrument is debited directly to equity, net of any related income tax benefit and the corresponding liability is recognised in the period in which the dividends are approved.

### 2.19 Treasury shares

When shares of the Company, that have not been cancelled, recognised as equity are reacquired, the amount of consideration paid is recognised directly in equity. Reacquired shares are classified as treasury shares and presented as a deduction from total equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of treasury shares. When treasury shares are reissued by resale, the difference between the sales consideration and the carrying amount is recognised in equity.

### 2.20 Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between initial recognised amount and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

## 2. Summary of significant accounting policies (cont'd.)

### 2.20 Borrowings and borrowing costs (cont'd.)

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Interest, dividends, losses and gains relating to a financial instrument, or a component part, classified as a liability is reported within finance cost in the income statements.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

### 2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group’s subsidiaries, joint ventures and associates operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

## 2. Summary of significant accounting policies (cont'd.)

### 2.21 Current and deferred income tax (cont'd.)

Deferred tax is provided in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits including unused investment tax allowance can be utilised.

Deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, joint ventures or associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates and joint ventures. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference, a deferred tax liability is not recognised.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.22 Employee benefits

#### 2.22.1 Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the financial year in which the associated services are rendered by the employees of the Group.

## 2. Summary of significant accounting policies (cont'd.)

### 2.22 Employee benefits (cont'd.)

#### 2.22.2 Defined contribution retirement plan

The Group's contributions to the Employees' Provident Fund are charged to income statement in the financial year to which they relate. Once the contributions have been paid, the Group has no further obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### 2.22.3 Defined benefit plan

The costs of providing benefits under defined benefit plans are determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognised, reduced by past service cost not yet recognised and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

## 2. Summary of significant accounting policies (cont'd.)

### 2.22 Employee benefits (cont'd.)

#### 2.22.3 Defined benefit plan (cont'd.)

If the asset is measured at the aggregate of cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan:

- Net actuarial losses of the current period and past service cost of the current period are recognised immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognised immediately.

- Net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognised immediately. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognised immediately.

The Group’s right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognised as a separate asset at fair value when and only when reimbursement is virtually certain.

### 2.23 Revenue and other income

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably.

Passenger seat sales are in respect of scheduled passenger flight and chartered flight income and are recognised upon the rendering of transportation services net of discounts. The revenue in respect of seats sold for which services have not been rendered is included in current liabilities as 'sales in advance'.

Revenue from aircraft operating leases is recorded on a straight-line basis over the term of the lease.

Airport and insurance surcharges, administrative fees, baggage fees, freight and ancillary sales are recognised upon the completion of services rendered.

## 2. Summary of significant accounting policies (cont'd.)

### 2.23 Revenue and other income (cont'd.)

Rental income and brand license fees are recognised on an accrual basis.

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

The Group operates a frequent flyer programme where members accumulate points for purchases made which entitle them to discounts on future purchases. Award points are recognised as a cost of sale at the time of issue while revenue from the award points is recognised as deferred revenue (included in trade and other payables) upon billing to partners, and recognised upon redemption of loyalty points by members. The amount of revenue recognised is computed based on the number of points redeemed and the redemption value of each point which is calculated on a weighted average basis. Effective from 1 January 2017, award points do not expire unless there is no activity in 36 months consecutively (2016: expire 36 months after initial sale).

Included in trade and other payables is also the deferred breakage. Breakage represents the estimated loyalty points that are not expected to be redeemed by members. The amount of revenue recognised related to deferred breakage is based on the number of loyalty points redeemed in a period in relation to the total number expected to be redeemed, which factors in the Group estimate for the breakage. Breakage is estimated by management based on the terms and conditions of membership and historical accumulation and redemption patterns, as adjusted for changes to any terms and conditions that may affect members' redemption practices.

### 2.24 Foreign currencies

#### 2.24.1 Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in Ringgit Malaysia, which is the Company’s functional and presentation currency.

## 2. Summary of significant accounting policies (cont'd.)

### 2.24 Foreign currencies (cont'd.)

#### 2.24.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses arising from operations, borrowings (after effects of effective hedges) and amount due from associates and joint ventures are presented in aggregate after net operating profit in the income statements.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

#### 2.24.3 Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

## 2. Summary of significant accounting policies (cont'd.)

### 2.24 Foreign currencies (cont'd.)

#### 2.24.3 Group companies (cont'd.)

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows (cont'd.):

- all resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences relating to that foreign operation recognised in other comprehensive income and accumulated in the separate component of equity are reclassified to profit or loss as part of the gain or loss on disposal. In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

### 2.25 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 2. Summary of significant accounting policies (cont'd.)

### 2.26 Contingent assets and liabilities

The Group does not recognise contingent assets and liabilities other than those arising from business combinations, but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts. A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

The Group recognises separately the contingent liabilities of the acquirees as part of allocating the cost of a business combination where their fair values can be measured reliably. Where the fair values cannot be measured reliably, the resulting effect will be reflected in the goodwill arising from the acquisitions.

Subsequent to the initial recognition, the Group measures the contingent liabilities that are recognised separately at the date of acquisition at the higher of the amount that would be recognised in accordance with the provisions of MFRS 137 ‘Provisions, Contingent Liabilities and Contingent Assets’ and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with MFRS 118 ‘Revenue’.

### 2.27 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Chief Executive Officer that makes strategic decisions.

### 2.28 Maintenance reserve

Maintenance reserve relates to payments made by the lessee for maintenance activities undertaken during the lease period. The Group will reimburse the lessee for agreed maintenance work done as and when incurred. The Group records the amounts received as maintenance reserve. At the expiry of the lease term, excess maintenance reserve is recognised in the profit and loss account.

## 3. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated by the directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have a material impact to the Group's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are explained below.

### 3.1 Estimated useful lives and residual values of aircraft airframes and engines

The Group reviews annually the estimated useful lives and residual values of aircraft airframes and engines based on factors such as business plans and strategies, expected level of usage, future technological developments and market prices.

During the financial year, the management changed the useful life of spare engines' service potential from 9 years to 11 years. However, there is no material impact to the Group and the Company.

Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives and residual values of aircraft airframes and engines as disclosed in Note 2.5, would increase the recorded depreciation charge and decrease the carrying amount of property, plant and equipment. A reduction in 5% in the residual value of aircraft airframes and engines would increase the depreciation charge for the financial year ended 31 December 2017 by RM24,407,000 and RM18,410,000 (2016: RM22,780,000 and RM16,783,000) and decrease the carrying amount of property, plant and equipment as at 31 December 2017 by RM108,720,000 and RM81,220,000 (2016: RM91,827,000 and RM70,980,000) for the Group and Company respectively.

### 3.2 Deferred tax assets

Deferred tax assets are recognised 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 regulatory approvals for prospective routes, aircraft delivery, 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.

## 3. Critical accounting estimates and judgments (cont'd.)

### 3.3 Provision for aircraft maintenance and overhaul costs

The Group and the Company operate aircraft which are either owned or held under operating lease arrangement. In respect of the aircraft held under operating lease arrangements, the Group and the Company are contractually obligated to maintain the aircraft during the lease period and to redeliver the aircraft to the lessors at the end of the lease term, in certain pre-agreed conditions. Accordingly, the Group and the Company estimate the aircraft maintenance costs required to fulfill these obligations at the end of the lease period and recognise a provision for these costs at each reporting date.

A provision by its nature is more uncertain than most other items in the statement of financial position. The estimates of the outcome and financial effects are determined by the judgement of the management, supplemented by experience from similar transactions. Any revision in assumptions and estimations that causes a material effect to the provision would be adjusted prospectively in the financial statements.

### 3.4 Impairment assessment of intangible assets

Goodwill, landing rights and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. This requires an estimation of the value in use of the cash generating units to which goodwill and landing rights are allocated.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of the carrying value, the key assumptions applied in the impairment assessment of goodwill and landing rights and sensitivity analysis to changes in the assumptions are given in Note 16.

### 3.5 Impairment of receivables

An impairment loss is recognised when there is objective evidence that a financial asset is impaired. Management specifically reviews its receivables financial assets and analyses historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in the customer payment terms when making a judgement to evaluate the adequacy of the allowance for impairment loss.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. If the expectation is different from the estimation, such difference will impact the carrying value of receivables. Details of receivables are disclosed in Note 18.

## 4. Revenue and other income

### (a) Revenue

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** **RM'000** | **2016** **RM'000** | **2017** **RM'000** | **2016** **RM'000** |
| Passenger seat sales | 6,859,805 | 4,391,253 | 4,787,425 | 4,391,253 |
| Baggage fees | 925,424 | 568,134 | 664,233 | 568,134 |
| Aircraft operating lease income | 991,549 | 1,257,681 | 276,318 | 359,735 |
| Surcharges and fees | 35,733 | 32,761 | 34,086 | 32,761 |
| Freight services | 189,428 | 128,582 | 145,103 | 128,582 |
| Other revenue | 707,782 | 467,674 | 533,975 | 467,674 |
| | 9,709,721 | 6,846,085 | 6,441,140 | 5,948,139 |

Other revenue includes assigned seat, cancellation, documentation and other fees, and the on-board sale of meals and merchandise.

### (b) Other income

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** **RM'000** | **2016** **RM'000** | **2017** **RM'000** | **2016** **RM'000** |
| Gain on disposal of property plant and equipment | 64,281 | 104,200 | 50,482 | 470,545 |
| Gain on disposal of investment | 167,688 | - | 294,362 | - |
| Fees charged to associates providing commercial air transport services | 76,310 | 62,969 | 76,310 | 62,969 |
| Fees charged to related parties providing commercial air transport services | 30,467 | 24,148 | 30,467 | 24,148 |
| Dividend income from a subsidiary | - | - | 163,766 | 302,095 |
| Dividend income from a related party | 5,336 | 5,133 | 5,336 | 5,133 |
| Dividend income from an associate | - | 1,675 | - | 1,675 |
| Aircraft wet lease income | 187,298 | - | - | - |
| Others | 267,926 | 154,578 | 118,686 | 50,470 |
| | 799,306 | 352,703 | 739,409 | 917,035 |

Other income ("others") includes commission income and advertising income.

## 5. Staff costs and directors' remuneration

### (a) Staff costs

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Salaries, bonus, allowances and other employee benefits | 1,494,803 | 922,185 | 996,403 | 875,884 |
| Defined contribution retirement plan | 112,243 | 93,073 | 98,768 | 88,941 |
| | 1,607,046 | 1,015,258 | 1,095,171 | 964,825 |

Included in staff costs are Executive Directors' remuneration of RM54,522,000 for the Group and Company (2016: RM49,605,000).

### (b) Directors' remuneration

| | Group and Company | |
|---|---|---|
| | 2017 RM'000 | 2016 RM'000 |
| Executive Directors | | |
| - salaries | 14,820 | 12,840 |
| - bonus and allowances | 33,860 | 31,450 |
| - defined contribution plan | 5,842 | 5,315 |
| | 54,522 | 49,605 |
| Non-Executive Directors | | |
| - fees | 2,321 | 1,268 |
| | 56,843 | 50,873 |

The remuneration payable to the Directors of the Company is analysed as follows:

| | Executive | | Non-executive | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Range of remuneration (RM) | | | | |
| 0 to 50,000 | - | - | 1 | 1 |
| 50,001 to 100,000 | - | - | - | 2 |
| 250,001 to 300,000 | - | - | - | 4 |
| 500,001 to 550,000 | - | - | 1 | - |
| 550,001 to 600,000 | - | - | 1 | - |
| 600,001 to 650,000 | - | - | 2 | - |

## 5. Staff costs and directors' remuneration (cont'd.)

### (b) Directors' remuneration (cont'd.)

The remuneration payable to the Directors of the Company is analysed as follows (cont'd.):

| | Executive | | Non-executive | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| 3,000,001 to 3,050,000 | - | 1 | - | - |
| 3,300,001 to 3,350,000 | 1 | - | - | - |
| 3,800,001 to 3,850,000 | 1 | - | - | - |
| 21,000,001 to 21,050,000 | 1 | - | - | - |
| 21,950,001 to 22,000,000 | - | 1 | - | - |
| 24,500,001 to 24,650,000 | - | 1 | - | - |
| 26,300,001 to 26,350,000 | 1 | - | - | - |

## 6. Other operating expenses

The following items have been charged/(credited) in arriving at other operating expenses:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Impairment/(reversal of impairment) of: | | | | |
| - Amount due from subsidiaries (Note 23) | - | - | - | 21,328 |
| - Property, plant and equipment (Note 11) | - | 11,659 | - | - |
| - Trade and other receivables (Note 18) | 16,229 | (3,037) | (165) | (3,037) |
| Rental of land and building | 40,766 | 25,310 | 11,752 | 23,862 |
| Auditors' remuneration | | | | |
| - audit fees | 2,025 | 1,095 | 776 | 879 |
| - non-audit fees | 1,486 | 281 | 1,123 | 281 |
| Rental of equipment | 1,642 | 1,470 | 677 | 1,413 |
| Advertising costs | 113,926 | 53,373 | 66,348 | 53,369 |

## 7. User charges

User charges include airport related charges, ground operational charges, aircraft insurance cost and inflight related expenses.

**8. Finance income/(costs), foreign exchange gains/(losses) and fair value (losses)/gains on derivatives**

**(a) Finance income**

| | Group 2017 RM'000 | Group 2016 RM'000 (Restated) | Company 2017 RM'000 | Company 2016 RM'000 (Restated) |
|---|---|---|---|---|
| Interest income from: | | | | |
| - deposits with licensed banks | 13,088 | 14,377 | 13,081 | 14,372 |
| - amounts due from associates | 605 | 29,694 | 27,199 | 29,521 |
| Impact of discounting effect on financial instruments | 21,923 | 56,739 | 21,218 | 32,426 |
| Others | 20,054 | 4,522 | 6,841 | 4,280 |
| | 55,670 | 105,332 | 68,339 | 80,599 |

**(b) Finance costs**

| | Group 2017 RM'000 | Group 2016 RM'000 (Restated) | Company 2017 RM'000 | Company 2016 RM'000 (Restated) |
|---|---|---|---|---|
| Interest expense | | | | |
| - bank borrowings | (487,649) | (558,634) | (380,206) | (495,701) |
| Amortisation of premiums for interest rate caps | (17,353) | (9,420) | (9,617) | (9,420) |
| Impact of discounting effect on financial instruments | (47,806) | (20,040) | - | (17,463) |
| Bank facilities and other charges | (24,940) | (4,967) | (24,047) | (3,760) |
| | (577,748) | (593,061) | (413,870) | (526,344) |

**8. Finance income/(costs), foreign exchange gains/(losses) and fair value (losses)/gains on derivatives (cont'd.)**

**(c) Foreign exchange gains/(losses)**

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 (Restated) | 2017 RM'000 | 2016 RM'000 (Restated) |
| Borrowings: | | | | |
| - foreign exchange gains/(losses) | 564,631 | (216,115) | 576,579 | (216,115) |
| - fair value movement recycled from cash flow hedge reserve | (148,901) | (77,298) | (148,901) | (77,298) |
| Operations | (9,804) | 108,559 | (51,535) | 105,979 |
| Amounts due from associates and joint ventures | (218,867) | 245,993 | (218,867) | 245,993 |
| | 187,059 | 61,139 | 157,276 | 58,559 |

**(d) Fair value (losses)/gains on derivatives**

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 (Restated) | 2017 RM'000 | 2016 RM'000 (Restated) |
| (Losses)/gains from fuel hedging contracts | (13,287) | 45,733 | 881 | 45,733 |
| Gains/(losses) from foreign currency hedging contracts | 36,577 | (4,838) | 36,577 | (4,838) |
| (Losses)/gains from interest rate hedging contracts | (163,892) | 29,591 | (163,892) | 29,591 |
| | (140,602) | 70,486 | (126,434) | 70,486 |

Since the previous financial year, the Company has hedged the foreign currency spot translation on the lease income for the aircraft that are sub-leased on operating lease basis to its associates companies against the foreign currency spot translation on the aircraft borrowing repayment. This is to hedge the foreign currency risk arising from operating lease income that the Company is exposed to. Gains and losses recognised in the hedging reserve in equity as of end of reporting date will be continuously released to the income statements within foreign exchange gains/(losses).

Fair value change of derivatives consists of fair value changes due to movement in mark-to-market ("MTM") position on outstanding hedging contracts that did not qualify for hedge accounting.

## 9. Taxation

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| Current taxation | | | | |
| - Malaysian tax | 16,570 | 3,852 | 9,830 | 2,854 |
| - foreign tax | 36,090 | 2,542 | 5,870 | 2,542 |
| Deferred taxation (Note 17) | 463,754 | 79,739 | 263,482 | 79,739 |
| | 516,414 | 86,133 | 279,182 | 85,135 |
| Current taxation | | | | |
| - current financial year | 49,306 | 21,981 | 12,346 | 20,983 |
| - under/(over)provision of income tax in respect of previous years | 3,354 | (15,587) | 3,354 | (15,587) |
| | 52,660 | 6,394 | 15,700 | 5,396 |
| Deferred taxation | | | | |
| - origination and reversal of temporary differences | 394,625 | 64,261 | 194,353 | 64,261 |
| - underprovision of deferred tax in respect of previous years | 69,129 | 15,478 | 69,129 | 15,478 |
| | 463,754 | 79,739 | 263,482 | 79,739 |
| | 516,414 | 86,133 | 279,182 | 85,135 |

## 9. Taxation (cont'd.)

The explanation of the relationship between taxation and profit before taxation is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000 (Restated)** | **2017 RM'000** | **2016 RM'000 (Restated)** |
| Profit before taxation | 2,087,788 | 1,704,691 | 1,948,075 | 1,881,532 |
| Tax calculated at Malaysian tax rate of 24% (2016: 24%) | 501,069 | 409,126 | 467,538 | 451,568 |
| Tax effects of: | | | | |
| - expenses not deductible for tax purposes | 274,065 | 216,510 | 69,991 | 216,481 |
| - income not subject to tax | (224,776) | (509,271) | (224,776) | (574,770) |
| - associates' results reported net of tax | (11,354) | (37,630) | - | - |
| - joint venture's result reported net of tax | (4,782) | (5,828) | - | - |
| - change in statutory tax rate | - | (70,537) | - | (70,537) |
| - different tax rates in other countries | (416) | - | - | - |
| - overprovision of income tax in respect of previous years | 3,354 | (15,587) | 3,354 | (15,587) |
| - deferred tax assets not recognised on deductible temporary differences and tax losses | 16,179 | 21,370 | - | - |
| - underprovision of deferred tax in respect of previous years | 69,129 | 15,478 | 69,129 | 15,478 |
| - deferred tax asset (recognised)/ derecognised on investment tax allowance | (106,054) | 62,502 | (106,054) | 62,502 |
| Taxation | 516,414 | 86,133 | 279,182 | 85,135 |

## 10. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the financial year attributable to owners of the Company by the weighted average number of ordinary shares in issue (excluding weighted average number of treasury shares held by the Company) during the financial year.

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| Net profit for the financial year attributable to owners of the Company (RM'000) | 1,628,774 | 1,621,659 |
| Weighted average number of ordinary shares in issue ('000) | 3,303,586 | 2,782,874 |
| Basic and diluted earnings per share (sen) | 49.3 | 58.3 |

The Group does not have in issue any financial instruments on other contracts that may entitle its holder to ordinary shares and therefore, dilutive to its basic earnings per share.

## 11. Property, plant and equipment

| Group | At 1 January 2017 RM'000 | Additions RM'000 | Deemed acquisition of subsidiaries RM'000 | Disposals RM'000 | Write off RM'000 | Depreciation charge RM'000 | Exchange differences RM'000 | At 31 December 2017 RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Carrying amount** | | | | | | | | |
| Aircraft engines, airframes and service potential | 10,369,963 | 1,546,393 | 666,130 | - | - | (764,664) | (68,370) | 11,749,452 |
| Aircraft spares | 136,241 | 41,078 | 47,963 | (41) | - | (35,210) | (5,022) | 185,009 |
| Aircraft fixtures and fittings | 57,934 | 38,711 | 36 | - | - | (23,653) | 16 | 73,044 |
| Buildings | 159,311 | - | - | - | - | (5,383) | - | 153,928 |
| Motor vehicles | 4,866 | 13,693 | 2,852 | (3) | - | (4,594) | (299) | 16,515 |
| Office equipment, furniture and fittings | 45,835 | 18,066 | 7,944 | 157 | (35) | (20,549) | (827) | 50,591 |
| Office renovation | 13,163 | 5,060 | 1,343 | (99) | (110) | (4,932) | (140) | 14,285 |
| Simulator equipment | 1,044 | - | - | (294) | - | (39) | - | 711 |
| Operating plant and ground equipment | 12,987 | 9,919 | 380 | (185) | - | (4,747) | (40) | 18,314 |
| In-flight equipment | 406 | 221 | 157 | - | - | (218) | (13) | 553 |
| Training equipment | 1 | - | - | - | - | - | - | 1 |
| Work in progress* | 24,931 | 14,288 | 2,469 | (309) | - | - | (260) | 41,119 |
| | 10,826,682 | 1,687,429 | 729,274 | (774) | (145) | (863,989) | (74,955) | 12,303,522 |

*Work in progress completed during the financial year which were reclassified to respective asset classes.

**11. Property, plant and equipment (cont'd.)**

| Group | Cost RM'000 | Accumulated depreciation RM'000 | Accumulated impairment loss RM'000 | Carrying amount RM'000 |
|---|---|---|---|---|
| **At 31 December 2017** | | | | |
| Aircraft engines, airframes and service potential | 15,641,580 | (3,892,128) | - | 11,749,452 |
| Aircraft spares | 410,311 | (221,569) | (3,733) | 185,009 |
| Aircraft fixtures and fittings | 192,689 | (119,645) | - | 73,044 |
| Buildings | 160,655 | (6,727) | - | 153,928 |
| Motor vehicles | 33,184 | (16,669) | - | 16,515 |
| Office equipment, furniture and fittings | 194,111 | (118,580) | (24,940) | 50,591 |
| Office renovation | 42,425 | (28,140) | - | 14,285 |
| Simulator equipment | 964 | (253) | - | 711 |
| Operating plant and ground equipment | 53,450 | (35,136) | - | 18,314 |
| In-flight equipment | 3,244 | (2,690) | - | 554 |
| Training equipment | 4,418 | (4,418) | - | - |
| Work in progress | 41,119 | - | - | 41,119 |
| | 16,778,150 | (4,445,955) | (28,673) | 12,303,522 |

**11. Property, plant and equipment (cont'd.)**

| Group | At 1 January 2016 RM'000 | Additions RM'000 | Deemed acquisition of subsidiaries RM'000 | Disposals RM'000 | Depreciation charge RM'000 | Impairment loss RM'000 | At 31 December 2016 RM'000 |
|---|---|---|---|---|---|---|---|
| **Carrying amount** | | | | | | | |
| Aircraft engines, airframes and service potential | 10,597,502 | 996,992 | - | (588,332) | (636,199) | - | 10,369,963 |
| Aircraft spares | 123,344 | 39,496 | - | (2,925) | (23,674) | - | 136,241 |
| Aircraft fixtures and fittings | 54,574 | 34,689 | - | (9,329) | (22,000) | - | 57,934 |
| Buildings | 1,613 | 158,567 | - | - | (869) | - | 159,311 |
| Motor vehicles | 5,732 | 1,901 | - | - | (2,767) | - | 4,866 |
| Office equipment, furniture and fittings | 42,161 | 23,516 | 6,405 | (796) | (13,792) | (11,659) | 45,835 |
| Office renovation | 4,676 | 14,538 | - | - | (6,051) | - | 13,163 |
| Simulator equipment | 1,051 | 32 | - | - | (39) | - | 1,044 |
| Operating plant and ground equipment | 13,795 | 4,569 | - | (31) | (5,346) | - | 12,987 |
| In-flight equipment | 200 | 288 | - | - | (82) | - | 406 |
| Training equipment | 25 | - | - | - | (24) | - | 1 |
| Work in progress* | 82,972 | (58,041) | - | - | - | - | 24,931 |
| | 10,927,645 | 1,216,547 | 6,405 | (601,413) | (710,843) | (11,659) | 10,826,682 |

*Work in progress completed during the financial year which were reclassified to respective asset classes.

**11. Property, plant and equipment (cont'd.)**

| | Cost RM'000 | Accumulated depreciation RM'000 | Accumulated impairment loss RM'000 | Carrying amount RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **At 31 December 2016** | | | | |
| Aircraft engines, airframes and service potential | 13,217,090 | (2,847,127) | - | 10,369,963 |
| Aircraft spares | 281,365 | (145,124) | - | 136,241 |
| Aircraft fixtures and fittings | 154,030 | (96,096) | - | 57,934 |
| Buildings | 160,682 | (1,371) | - | 159,311 |
| Motor vehicles | 22,894 | (18,028) | - | 4,866 |
| Office equipment, furniture and fittings | 160,139 | (89,364) | (24,940) | 45,835 |
| Office renovation | 36,304 | (23,141) | - | 13,163 |
| Simulator equipment | 1,258 | (214) | - | 1,044 |
| Operating plant and ground equipment | 53,103 | (40,116) | - | 12,987 |
| In-flight equipment | 1,984 | (1,578) | - | 406 |
| Training equipment | 4,419 | (4,418) | - | 1 |
| Work in progress | 24,931 | - | - | 24,931 |
| | 14,118,199 | (3,266,577) | (24,940) | 10,826,682 |

**11. Property, plant and equipment (cont'd.)**

| Company | At 1 January 2017 RM'000 | Additions RM'000 | Disposals RM'000 | Depreciation charge RM'000 | At 31 December 2017 RM'000 |
|---|---|---|---|---|---|
| **Carrying amount** | | | | | |
| Aircraft engines, airframes and service potential | 7,421,139 | 1,469,580 | - | (523,934) | 8,366,785 |
| Aircraft spares | 132,876 | 23,255 | (7) | (24,963) | 131,161 |
| Aircraft fixtures and fittings | 55,446 | 33,180 | - | (20,824) | 67,802 |
| Buildings | 159,311 | - | - | (5,383) | 153,928 |
| Motor vehicles | 4,866 | 7,688 | (8,476) | (1,944) | 2,134 |
| Office equipment, furniture and fittings | 35,678 | 22,594 | (821) | (13,790) | 43,661 |
| Office renovation | 11,186 | 4,183 | (784) | (3,515) | 11,070 |
| Simulator equipment | 1,044 | - | (294) | (39) | 711 |
| Operating plant and ground equipment | 12,987 | 4,364 | (4,080) | (3,829) | 9,442 |
| In-flight equipment | 406 | 163 | - | (97) | 472 |
| Training equipment | 1 | - | - | - | 1 |
| Work in progress | 23,952 | 16,056 | - | - | 40,008 |
| | 7,858,892 | 1,581,063 | (14,462) | (598,318) | 8,827,175 |

## 11. Property, plant and equipment (cont'd.)

| | Cost RM'000 | Accumulated depreciation RM'000 | Carrying amount RM'000 |
|---|---|---|---|
| **Company** | | | |
| **At 31 December 2017** | | | |
| Aircraft engines, airframes and service potential | 11,570,801 | (3,204,016) | 8,366,785 |
| Aircraft spares | 300,958 | (169,799) | 131,159 |
| Aircraft fixtures and fittings | 182,655 | (114,852) | 67,803 |
| Buildings | 160,655 | (6,727) | 153,928 |
| Motor vehicles | 12,162 | (10,027) | 2,135 |
| Office equipment, furniture and fittings | 126,888 | (83,228) | 43,660 |
| Office renovation | 32,185 | (21,115) | 11,070 |
| Simulator equipment | 964 | (253) | 711 |
| Operating plant and ground equipment | 40,462 | (31,021) | 9,441 |
| In-flight equipment | 2,139 | (1,667) | 472 |
| Training equipment | 4,418 | (4,418) | - |
| Work in progress | 40,011 | - | 40,011 |
| | 12,474,298 | (3,647,123) | 8,827,175 |

**AirAsia Berhad**
**(Incorporated in Malaysia)**

## 11. Property, plant and equipment (cont'd.)

| | At 1 January 2016 RM'000 | Additions RM'000 | Disposals RM'000 | Depreciation charge RM'000 | At 31 December 2016 RM'000 |
|---|---|---|---|---|---|
| **Company** | | | | | |
| **Carrying amount** | | | | | |
| Aircraft engines, airframes and service potential | 9,497,598 | 779,250 | (2,362,209) | (493,500) | 7,421,139 |
| Aircraft spares | 123,344 | 35,874 | (2,925) | (23,417) | 132,876 |
| Aircraft fixtures and fittings | 54,282 | 30,519 | (9,329) | (20,026) | 55,446 |
| Buildings | 1,613 | 158,567 | - | (869) | 159,311 |
| Motor vehicles | 5,732 | 1,901 | - | (2,767) | 4,866 |
| Office equipment, furniture and fittings | 22,844 | 22,738 | - | (9,904) | 35,678 |
| Office renovation | 2,699 | 14,538 | - | (6,051) | 11,186 |
| Simulator equipment | 1,051 | 32 | - | (39) | 1,044 |
| Operating plant and ground equipment | 13,795 | 4,568 | (31) | (5,345) | 12,987 |
| In-flight equipment | 200 | 288 | - | (82) | 406 |
| Training equipment | 25 | - | - | (24) | 1 |
| Work in progress | 82,472 | (58,520) | - | - | 23,952 |
| | 9,805,655 | 989,755 | (2,374,494) | (562,024) | 7,858,892 |

**11. Property, plant and equipment (cont'd.)**

| | Cost RM'000 | Accumulated depreciation RM'000 | Carrying amount RM'000 |
|---|---|---|---|
| **Company** | | | |
| **At 31 December 2016** | | | |
| Aircraft engines, airframes and service potential | 10,101,221 | (2,680,082) | 7,421,139 |
| Aircraft spares | 277,742 | (144,866) | 132,876 |
| Aircraft fixtures and fittings | 149,475 | (94,029) | 55,446 |
| Buildings | 160,682 | (1,371) | 159,311 |
| Motor vehicles | 22,894 | (18,028) | 4,866 |
| Office equipment, furniture and fittings | 110,061 | (74,383) | 35,678 |
| Office renovation | 34,327 | (23,141) | 11,186 |
| Simulator equipment | 1,258 | (214) | 1,044 |
| Operating plant and ground equipment | 53,103 | (40,116) | 12,987 |
| In-flight equipment | 1,984 | (1,578) | 406 |
| Training equipment | 4,419 | (4,418) | 1 |
| Work in progress | 23,952 | - | 23,952 |
| | 10,941,118 | (3,082,226) | 7,858,892 |

## 11. Property, plant and equipment (cont'd.)

Included in property, plant and equipment of the Group and the Company are assets with the following:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017<br>RM'000 | 2016<br>RM'000 | 2017<br>RM'000 | 2016<br>RM'000 |
| Carrying amount of owned aircraft sub-leased to associates | 1,694,717 | 3,368,288 | 1,028,779 | 798,862 |
| Aircraft pledged as security for borrowings | 8,840,989 | 10,369,963 | 6,496,642 | 7,421,139 |

The beneficial ownership and operational control of aircraft pledged as security for borrowings rests with the Company when the aircraft is delivered to the Company.

Where the legal title to the aircraft is held by financiers during delivery, the legal title will be transferred to the Company only upon settlement of the respective facilities.

## 12. Investment in subsidiaries

| | Company | |
|---|---|---|
| | 2017<br>RM'000 | 2016<br>RM'000 |
| Unquoted investments, at cost | 2,191,564 | 179,790 |
| Less: Accumulated impairment losses* | (990,226) | (36) |
| | 1,201,338 | 179,754 |
| At 1 January | 179,754 | 64,860 |
| Additional investments in subsidiaries | 35,540 | 114,894 |
| Deemed acquisition of subsidiaries, net of impairment | 1,414,720 | - |
| Carrying amount of an investment in a subsidiary which was partially disposed** | (428,676) | - |
| At 31 December | 1,201,338 | 179,754 |

* Included in accumulated impairment losses is RM990,190,000 of impairment losses recognised in prior years during which IAA and PAA were previously held as associates.

** Investment in IAA was partially disposed for a purchase consideration of RM835 million giving rise to a gain of RM406 million.

## 12. Investment in subsidiaries (cont'd.)

The details of the subsidiaries are as follows:

| Name of entity | Country of incorporation | Group's effective equity interest 2017 % | 2016 % | Principal activities |
|---|---|---|---|---|
| **Directly held by the Company** | | | | |
| AirAsia Investment Ltd ("AAIL") | Malaysia | 100 | 100 | Investment holding |
| AirAsia Go Holiday Sdn Bhd ("AGH") | Malaysia | 100 | 100 | Tour operating business |
| AirAsia (Mauritius) Limited[f] | Mauritius | 100 | 100 | Providing aircraft leasing facilities to Thai AirAsia Co Ltd |
| AirAsia Corporate Services Limited[f] | Malaysia | 100 | 100 | Facilitate business transactions for AirAsia Group with non-resident goods and service providers |
| Ground Team Red Sdn Bhd ("GTR") | Malaysia | 100 | 100 | Providing ground handling services |
| Koolred Sdn Bhd | Malaysia | 100 | 100 | Investment holding |
| AirAsia Global Shared Services Sdn Bhd ("AGSS") | Malaysia | 100 | 100 | To provide shared services and outsourcing for its affiliates |
| Asia Aviation Capital Limited ("AAC") | Malaysia | 100 | 100 | Providing aircraft leasing facilities |
| MadCience Consulting Sdn Bhd | Malaysia | 100 | 100 | Provision of central depository services for its affiliates |

## 12. Investment in subsidiaries (cont'd.)

The details of the subsidiaries are as follows: (cont'd.)

| Name of entity | Country of incorporation | Group's effective equity interest 2017 % | 2016 % | Principal activities |
|---|---|---|---|---|
| **Directly held by the Company (cont'd.)** | | | | |
| BigPay Malaysia Sdn Bhd (formerly known as Tpaay Asia Sdn Bhd) ("BigPay") | Malaysia | 100 | 100 | Provision of financial and other related services |
| Rokki Sdn Bhd (formerly known as Tune Box Sdn Bhd) ("Rokki") | Malaysia | 83 | 73 | Trading of multimedia content and equipment |
| Think Big Digital Sdn Bhd ("BIG") | Malaysia | 69.3 | 69.3 | Financial services and managing customer loyalty points |
| T & Co Coffee Sdn Bhd[f] | Malaysia | 80 | 80 | Trading in coffee and tea related products |
| Big Pay Pte Ltd[+] ("BPPL") | Singapore | 100 | - | Investment holding |
| RedTix Sdn Bhd (formerly known as Rokki Media Sdn Bhd) ("RedTix") | Malaysia | 75 | - | Event ticketing business |
| Ground Team Red Holdings Sdn Bhd ("GTRH") | Malaysia | 100 | - | Investment holding |

## 12. Investment in subsidiaries (cont'd.)

The details of the subsidiaries are as follows: (cont'd.)

| Name of entity | Country of incorporation | Group's effective equity interest 2017 % | 2016 % | Principal activities |
|---|---|---|---|---|
| **Held by AAIL** | | | | |
| AirAsia Inc ("PAA")+ | Philippines | 40 | -* | Commercial air transport services |
| AirAsia Capital Ltd | Malaysia | 100 | 100 | Dormant |
| AirAsia Pte Ltd ("AAPL") | Singapore | 100 | - | Airline operation services |
| AirAsia (Guangzhou) Aviation Service Ltd Company | China | 100 | - | Aviation and commercial services |
| PT AirAsia Indonesia TBK ("AAID")f ^ | Indonesia | 47.7 | - | Investment holding |
| **Held by PAA** | | | | |
| Philippines AirAsia Inc ("PAAI")+ | Philippines | 39.5 | -* | Commercial air transport services |
| Asiawide Airways Inc+ | Philippines | 100 | -* | Dormant |
| **Held by AAID** | | | | |
| PT Indonesia AirAsia ("IAA")+ | Indonesia | 48.3 | -* | Commercial air transport services |

## 12. Investment in subsidiaries (cont'd.)

The details of the subsidiaries are as follows: (cont'd.)

| Name of entity | Country of incorporation | Group's effective equity interest 2017 % | 2016 % | Principal activities |
|---|---|---|---|---|
| **Held by IAA** | | | | |
| PT Garda Tawang Reksa Indonesia ("GTRI")+ | Indonesia | 32.4 | - | Provision of airport related services |
| **Held by AGH** | | | | |
| AirAsia Exp Pte Ltd ("AAE")+ | Singapore | 100 | 100 | Investment holding |
| **Held by AAC** | | | | |
| Asia Aviation Capital Private Limited ("AACPL") | Singapore | 100 | 100 | Providing supporting services to air transport |
| **Held by AACPL** | | | | |
| Asia Aviation Capital Ireland Limited ("AACIL") | Ireland | 100 | - | Providing supporting services to air transport |
| AAC1 Pte Ltd ("AAC1") | Singapore | 100 | - | Providing supporting services to air transport |
| AAC2 Pte Ltd ("AAC2") | Singapore | 100 | - | Providing supporting services to air transport |
| AAC3 Pte Ltd ("AAC3") | Singapore | 100 | - | Providing supporting services to air transport |
| AAC4 Pte Ltd ("AAC4") | Singapore | 100 | - | Providing supporting services to air transport |

## 12. Investment in subsidiaries (cont'd.)

The details of the subsidiaries are as follows: (cont'd.)

| Name of entity | Country of incorporation | Group's effective equity interest 2017 % | 2016 % | Principal activities |
|---|---|---|---|---|
| **Held by AACIL** | | | | |
| Clifden Aviation 1 Limited ("CA1") | Ireland | 100 | - | Providing supporting services to air transport |
| Clifden Aviation 2 Limited ("CA2") | Ireland | 100 | - | Providing supporting services to air transport |
| Clifden Aviation 3 Limited ("CA3") | Ireland | 100 | - | Dormant |
| Clifden Aviation 4 Limited ("CA4") | Ireland | 100 | - | Dormant |
| **Held by BigPay** | | | | |
| Tune Money Capital Sdn Bhd | Malaysia | 100 | 100 | Dormant |
| Tune Money Co Ltd[f] | Thailand | 49 | 49 | Marketing arm of BIG |
| PT Tune Money[f] | Indonesia | 100 | 100 | Marketing arm of BIG |
| **Held by Rokki** | | | | |
| Rokki Avionics Sdn Bhd | Malaysia | 100 | 100 | Trading of multimedia content and equipment |
| **Held by BIG** | | | | |
| Think Big Digital Singapore Pte Ltd[f] | Singapore | 100 | 100 | Marketing and development of loyalty program |

\+ Audited by a member of Ernst & Young Global.
f Audited by a firm other than Ernst & Young.
^ Listed on the Indonesia Stock Exchange.

## 12. Investment in subsidiaries (cont'd.)

The details of the subsidiaries are as follows: (cont'd.)

* In prior years, the Board determined that the Company only had significant influence over these investees, through the respective Brand License Agreements ("BLA"), did not have power over these investees, and had therefore accounted for these investees as associates. This determination is based on the substantive rights granted by the respective Shareholders' Agreements entered between the Company and the other shareholders of these investees. In the first quarter of 2017, the Company entered into a Supplementary BLA with each of these investees.

Effective from 1 January 2017, the effective date specified in the Supplementary BLAs, the respective investees have undertaken to comply at all times with the recommendations made by the Company under the BLAs. Pursuant to this, in accordance to MFRS 10, these investees are deemed as subsidiaries for accounting consolidation purpose and accordingly, these investees are deemed as subsidiaries of the Company.

The gain on remeasurement of previously held interest in associates immediately before obtaining control are as follows:

**IAA**

| | Group 2017 RM'000 |
|---|---|
| Fair value of previously held interest | 1,092,702 |
| Less: Carrying amount of previously held interest | (970,168) |
| Gain on remeasurement of previously held interest | 122,534 |

**PAA**

| | Group 2017 RM'000 |
|---|---|
| Fair value of previously held interest | 840,300 |
| Less: Carrying amount of previously held interest | (748,484) |
| Gain on remeasurement of previously held interest | 91,816 |

Total remeasurement gain on consolidation of RM214,350,000 is recognised in the income statements of the Group.

**12. Investment in subsidiaries (cont'd.)**

**Deemed acquisition of subsidiaries**

Details of the assets, liabilities and net cash outflow arising from the acquisition of additional interest in IAA and PAA are as follows:

**IAA**

| | Fair value recognised on acquisition RM'000 | Carrying amount RM'000 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Property, plant and equipment (Note 11) | 650,684 | 650,684 |
| Intangible assets (Note 16) | 374,600 | - |
| Deferred tax assets (Note 17) | 142,930 | 236,580 |
| Other receivables | 104,135 | 104,135 |
| | 1,272,349 | 991,399 |
| **Current assets** | | |
| Cash and bank balances | 79,403 | 79,403 |
| Trade and other receivables | 77,066 | 77,066 |
| Inventories | 10,197 | 10,197 |
| Derivative financial instruments | 37,460 | 37,460 |
| | 204,126 | 204,126 |
| **Total assets** | 1,476,475 | 1,195,525 |
| **Liabilities** | | |
| **Non-current liabilities** | | |
| Finance lease liabilities | 358,484 | 358,484 |
| Trade and other payables | 52,029 | 52,029 |
| Employee benefits liability (Note 32) | 53,476 | 53,476 |
| | 463,989 | 463,989 |
| **Current liabilities** | | |
| Finance lease liabilities | 79,642 | 79,642 |
| Trade and other payables | 484,689 | 484,689 |
| | 564,331 | 564,331 |
| **Total liabilities** | 1,028,320 | 1,028,320 |

## 12. Investment in subsidiaries (cont'd.)

### Deemed acquisition of subsidiaries (cont'd.)

Details of the assets, liabilities and net cash outflow arising from the acquisition of additional interest in IAA and PAA are as follows: (cont'd.)

**IAA (cont'd.)**

| | RM'000 |
|---|---|
| Fair value of net identifiable assets | 448,155 |
| Less: Non-controlling interests' share of net identifiable assets as reported at IAA level | (1,638) |
| Adjusted fair value of net identifiable assets | 446,517 |
| Less: Perpetual capital securities issued by IAA (subscribed fully by the Company) | (1,638,265) |
| | (1,191,748) |
| Less: Non-controlling interests' share of losses at 51% | 607,791 |
| Group's interest in fair value of net identifiable liabilities | (583,957) |
| Add: Perpetual capital securities issued by IAA (subscribed fully by the Company) | 1,638,265 |
| Goodwill on acquisition (Note 16) | 38,394 |
| Deemed net assets acquired by the Group | 1,092,702 |

| | Group RM'000 |
|---|---|
| Cost of acquisition | -* |
| Less: Cash and cash equivalents of subsidiary acquired | (79,403) |
| Net cash inflow on deemed acquisition of subsidiary | (79,403) |

* The cost of acquisition is nil as this is a deemed acquisition of a subsidiary.

From the date of acquisition, IAA has contributed a net loss of RM154,626,000 to the Group's profit net of tax.

## 12. Investment in subsidiaries (cont'd.)

### Deemed acquisition of subsidiaries (cont'd.)

Details of the assets, liabilities and net cash outflow arising from the acquisition of additional interest in IAA and PAA are as follows: (cont'd.)

**PAA**

| | Fair value recognised on acquisition RM'000 | Carrying amount RM'000 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Property, plant and equipment (Note 11) | 78,590 | 78,590 |
| Intangible assets (Note 16) | 69,300 | - |
| Other receivables | 72,131 | 72,131 |
| | 220,021 | 150,721 |
| **Current assets** | | |
| Cash and bank balances | 30,166 | 30,166 |
| Trade and other receivables | 1,715,366 | 1,715,366 |
| Inventories | 10,399 | 10,399 |
| Derivative financial instruments | 34,187 | 34,187 |
| | 1,790,118 | 1,790,118 |
| **Total assets** | 2,010,139 | 1,940,839 |
| **Liabilities** | | |
| **Non-current liabilities** | | |
| Other payables | 76,901 | 76,901 |
| Employee benefits liability (Note 32) | 14,831 | 14,831 |
| Deferred tax liabilities (Note 17) | 21,975 | 1,185 |
| | 113,707 | 92,917 |
| **Current liabilities** | | |
| Trade and other payables | 1,993,244 | 1,993,244 |
| Borrowings | 337,123 | 337,123 |
| | 2,330,367 | 2,330,367 |
| **Total liabilities** | 2,444,074 | 2,423,284 |

## 12. Investment in subsidiaries (cont'd.)

### Deemed acquisition of subsidiaries (cont'd.)

Details of the assets, liabilities and net cash outflow arising from the acquisition of additional interest in IAA and PAA are as follows: (cont'd.)

**PAA (cont'd.)**

| | RM'000 |
|---|---|
| Fair value of net identifiable liabilities | (433,935) |
| Less: Non-controlling interests' share of net identifiable liabilities as reported at PAA level | 753,027 |
| Adjusted fair value of net identifiable assets | 319,092 |
| Less: Perpetual capital securities | (1,389,513) |
| | (1,070,421) |
| Less: Non-controlling interests' share of losses at 60% | 642,253 |
| Group's interest in fair value of net identifiable liabilities | (428,168) |
| Add: Perpetual capital securities | 1,389,513 |
| Gain on bargain purchase | (121,045) |
| Deemed net assets acquired by the Group | 840,300 |

| | Group RM'000 |
|---|---|
| Cost of acquisition | -* |
| Less: Cash and cash equivalents of subsidiary acquired | (30,166) |
| Net cash inflow on deemed acquisition of subsidiary | (30,166) |

* The cost of acquisition is nil as this is a deemed acquisition of a subsidiary.

From the date of acquisition, PAA has contributed net profit of RM33,488,000 to the Group's profit net of tax.

### Acquisition of non-controlling interest in PAAI by a subsidiary, PAA

On 19 December 2017, PAA entered into an agreement to purchase 87,250,000 shares of PHP1.00 each in PAAI, a subsidiary of PAA representing 49.8% equity interest in PAAI for a total cash consideration of PHP26.5 million (equivalent to RM2.1 million). Pursuant to this acquisition, the Group's effective interest in PAAI has increased from 19.6% to 39.5% and the financial effects of this transaction amounting to RM285.7 million is debited to retained earnings as disclosed in the consolidated statement of changes in equity.

## 12. Investment in subsidiaries (cont'd.)

### Reverse acquisition of AAID by IAA

On 29 August 2017, the Company executed Conditional Sale of Perpetual Capital Securities agreements with PT Fersindo Nusaperkasa ("FNP") and AAIL respectively. Perpetual Capital Securities ("PERPS") with a nominal value of IDR1,326,510,000,000 (equivalent to RM426.1 million) and IDR1,274,490,000,000 (equivalent to RM409.4 million) were sold to FNP and AAIL accordingly.

Subsequently, PT AirAsia Indonesia TBK (formerly known as PT Rimau Multi Putra Pratama TBK) ("AAID"), a company listed on the Indonesia Stock Exchange conducted a rights issue of up to 13,646,388,139 new rights shares at a nominal value of IDR250. Pursuant to this rights issue, FNP and AAIL had subscribed to 5,306,040,000 and 5,097,960,000 AAID shares respectively and these subscriptions were settled in-kind by the transfer of the full amount of PERPS owned by FNP and AAIL to AAID. Upon completion of the rights issue, AAID had converted IDR241,066,000,000 PERPS into 241,066 new common shares of IDR1,000,000 each in IAA, which is equivalent to 57.25% of the share capital of IAA.

On 29 December 2017, AAID had completed the acquisition of shares in IAA. This is treated as a reverse acquisition for accounting purposes as IAA became the controlling shareholder of AAID. Accordingly, IAA (being the legal subsidiary) is regarded as the accounting acquirer and AAID (being the legal parent) is regarded as the accounting acquiree. IAA is deemed to have issued equity shares as purchase consideration for the assets and liabilities of AAID as AAID's operation did not constitute a business at the time of completion of the reverse acquisition.

The acquisition costs (listing expenses) arising from the reverse acquisition was determined using the fair value of the issued equity of AAID before the acquisition which is RM15.4 million which represents the market value of AAID based on the quoted and trade price of the shares as at 29 December 2017. The net assets of AAID was RM6.2 million. The difference between the purchase consideration and identifiable net assets of AAID amounting to RM9.2 million has been recognised as acquisition costs incurred by IAA.

The identifiable assets of AAID were as follow:

| | **Fair value recognised on acquisition RM'000** | **Carrying amount RM'000** |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Deferred tax assets (Note 17) | 52 | 52 |
| **Current assets** | | |
| Cash and bank balances | 4,931 | 4,931 |
| Trade and other receivables | 4,371 | 4,371 |
| | 9,302 | 9,302 |
| **Total assets** | 9,354 | 9,354 |

**12. Investment in subsidiaries (cont'd.)**

**Reverse acquisition of AAID by IAA (cont'd.)**

The identifiable assets of AAID were as follow: (cont'd.)

| | Fair value recognised on acquisition RM'000 | Carrying amount RM'000 |
|---|---|---|
| **Liabilities** | | |
| **Non-current liabilities** | | |
| Employee benefits liability (Note 32) | 207 | 207 |
| **Current liabilities** | | |
| Trade and other payables | 2,919 | 2,919 |
| **Total liabilities** | 3,126 | 3,126 |
| Fair value of net identifiable assets | | 6,228 |
| Acquisition cost (listing expenses) | | 9,235 |
| Deemed purchase consideration (issued equity) | | 15,463 |

| | Group RM'000 |
|---|---|
| Cost of acquisition | -* |
| Less: Cash and cash equivalents arising from the reverse acquisition | (4,931) |
| Net cash inflow on reverse acquisition | (4,931) |

* The cost of acquisition is nil as this is a reverse acquisition.

As a result of the reverse acquisition, the Group's effective interest in IAA was diluted by 0.7% from 49% to 48.3% and the financial effects of the reverse acquisition amounting to RM441.5 million has been credited to non-controlling interests as disclosed in the statement of changes in equity.

**Additional investments in subsidiaries**

The Company has made additional investments in the following subsidiaries during the year:

| | RM'000 |
|---|---|
| BigPay | 10,000 |
| Rokki | 2,500 |
| RedTix | 2,850 |
| Big Pay | 5,029 |
| GTR | 15,161 |
| | 35,540 |

## 12. Investment in subsidiaries (cont'd.)

**Additional subscriptions of redeemable preference shares ("RPS") in BigPay**

During the year, the Company had made additional subscriptions of RPS issued by BigPay amounting to a total of RM10 million.

**Acquisition of non-controlling interest in Rokki**

On 7 June 2017, the Company acquired 120,000 ordinary shares of RM1.00 each in Rokki, representing 10% equity interest in Rokki for a total cash consideration of RM2,500,000. Pursuant to this acquisition, the Company's interest in Rokki increased from 73% to 83% and the financial effects of this transaction amounting to RM2.7 million is debited to retained earnings as disclosed in the consolidated statement of changes in equity.

**Dilution of interest in RedTix which resulted in no lost of control**

During the financial year, the Company had diluted its effective equity interest in RedTix from 100% to 75%. This dilution did not have any material impact to the financial statements of the Group and the Company.

**Incorporation and subscription of additional shares in BPPL**

During the year, the Company incorporated a subsidiary company in Singapore known as Big Pay Pte Ltd with 950 ordinary shares amounting to USD90. Subsequently, the Company subscribed for additional 2,850 ordinary shares amounting to USD1,133,015.14 (equivalent to RM5 million). The incorporation and subscription did not have any material impact to the financial statements of the Group and the Company.

**Subscription of additional shares in GTR**

During the year, the Company subscribed for additional 15,161,048 ordinary shares of RM1.00 each in GTR, representing 100% equity interest in GTR. These subscriptions were settled in-kind by an asset injection.

## 12. Investment in subsidiaries (cont'd.)

### Incorporation of subsidiaries

During the year, the Group incorporated the following subsidiaries for a total paid up ordinary share capital of RM6,210,689.

| | RM |
|---|---:|
| AAPL | 6,206,961 |
| AACIL | 480 |
| AAC1 | 406 |
| AAC2 | 406 |
| AAC3 | 406 |
| AAC4 | 406 |
| CA1 | 406 |
| CA2 | 406 |
| CA3 | 406 |
| CA4 | 406 |
| | 6,210,689 |

### Acquisition of additional interest in BIG

In prior year, on 3 February 2016, the Company entered into a Share Sale Agreement with Tune Money International Sdn Bhd for the acquisition of up to 2,072,000 ordinary shares of RM1.00 each representing 24.9% equity interest in the issued and paid up ordinary share capital of Think BIG Digital Sdn Bhd ("BIG") for a cash consideration of RM101.5 million. The acquisition was completed on 29 February 2016. Subsequent to this, the Company's equity stake in BIG has increased to 69.3% and the investment in BIG has been reclassified from investment in associate to investment in subsidiary. This acquisition allows the Company to extract greater value from the AirAsia BIG Loyalty Programme managed by BIG through greater strategic control over day-to-day operations as well as to accelerate decision making that would help support the Company's business plan and commercial objectives.

Details of the assets, liabilities and net cash outflow arising from the acquisition of additional interest in BIG are as follows:

| | Fair value RM'000 |
|---|---:|
| Cash and bank balances | 22,685 |
| Trade and other receivables | 17,159 |
| Property, plant and equipment | 6,184 |
| Deferred revenue | (35,487) |
| Trade and other payables | (12,598) |
| Net identifiable assets acquired | (2,057) |
| Non-controlling interests acquired | 631 |
| Goodwill on acquisition (Note 16) | 102,926 |
| Net assets acquired | 101,500 |

## 12. Investment in subsidiaries (cont'd.)

### Acquisition of additional interest in BIG (cont'd.)

| | Group RM'000 |
|---|---|
| Purchase consideration for acquisition of additional interest | 101,500 |
| Fair value of previously held interest | -* |
| Less: Cash and cash equivalents of subsidiary acquired | (22,685) |
| Net cash outflow on acquisition of subsidiary | 78,815 |

* The fair value is nil as the subsidiary is still expected to be in a loss-making position

The acquired business contributed revenue of RM18,042,000 and net loss of RM13,473,000 to the Group for the period from 29 February 2016 to 31 December 2016.

If the acquisition had occurred on 1 January 2016, The Group's consolidated revenue and net profit for the financial year ended 31 December 2016 would have been RM6,846,085,000 and RM1,611,398,000 respectively.

Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

| Name of entity | Country of incorporation | Group's effective equity interest 2017 | 2016 |
|---|---|---|---|
| IAA | Indonesia | 48.3 | -* |
| PAA | Philippines | 40.0 | -* |

* In prior year, the subsidiaries were associated companies of the Company.

| | Group 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Accumulated balances of material non-controlling interests: | | |
| IAA | (243,631) | - |
| PAA | (1,081,011) | - |
| Other individually immaterial subsidiaries | (13,391) | (5,206) |
| | (1,338,033) | (5,206) |

## 12. Investment in subsidiaries (cont'd.)

Material partly-owned subsidiaries (cont'd.)

| | Group 2017 RM'000 | Group 2016 RM'000 |
|---|---|---|
| (Loss)/profit allocated to material non-controlling interests: | | |
| IAA | (78,715) | - |
| PAA | 30,666 | - |
| Other individually immaterial subsidiaries | (9,351) | (3,101) |
| | (57,400) | (3,101) |

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

Summarised income statements for 2017:

| | IAA RM'000 | PAA RM'000 |
|---|---|---|
| Revenue | 1,201,440 | 1,351,910 |
| Depreciation and amortisation | (53,858) | (19,881) |
| Interest income | 1,530 | 68 |
| Interest expense | (26,542) | (22,552) |
| **Profit before taxation** | 75,884 | 33,488 |
| Tax expense | (230,510) | - |
| **Net (loss)/profit for the financial year, representing total comprehensive (loss)/income** | (154,626) | 33,488 |
| Attributable to non-controlling interests | (78,715) | 30,666 |

Summarised statements of financial position as at 31 December 2017:

| | IAA RM'000 | PAA RM'000 |
|---|---|---|
| **Current** | | |
| Cash and cash equivalents | 85,612 | 42,355 |
| Other current assets | 90,862 | 141,521 |
| **Total current assets** | 176,474 | 183,876 |
| Financial liabilities (excluding trade payables) | (439,244) | (1,289,833) |
| Other current liabilities (including trade payables) | (39,624) | (309,736) |
| **Total current liabilities** | (478,868) | (1,599,569) |
| **Non-current** | | |
| Assets | 1,456,048 | 117,987 |
| Liabilities | (353,577) | (251,822) |
| **Net assets/(liabilities)** | 800,077 | (1,549,528) |

## 12. Investment in subsidiaries (cont'd.)

Material partly-owned subsidiaries (cont'd.)

Summarised cash flow information for the year ended 31 December 2017:

| | IAA RM'000 | PAA RM'000 |
|---|---|---|
| Operating | 36,124 | 65,097 |
| Investing | 6,330 | (26,950) |
| Financing | (19,978) | (22,243) |
| **Net increase in cash and cash equivalents** | 22,476 | 15,904 |

## 13. Investment in joint ventures

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Unquoted investments, at cost | 5,596 | 81,559 | - | 81,559 |
| Share of post-acquisition profits | - | 106,750 | - | - |
| | 5,596 | 188,309 | - | 81,559 |

The joint ventures listed below have share capital consisting solely of ordinary shares, which are directly held by the Company:

| Name of entity | Principal place of business/ country of incorporation | Group's effective equity interest 2017 % | Group's effective equity interest 2016 % | Principal activities |
|---|---|---|---|---|
| **Directly held by the Company** | | | | |
| Asian Aviation Centre of Excellence Sdn Bhd ("AACOE")[f] | Malaysia | - | 50 | Aviation training |
| **Held by AAIL** | | | | |
| Touristly Travel Sdn Bhd | Malaysia | 50 | - | Tour and travel services |

## 13. Investment in joint ventures (cont'd.)

The joint ventures listed below have share capital consisting solely of ordinary shares, which are directly held by the Company: (cont'd.)

| Name of entity | Principal place of business/ country of incorporation | Group's effective equity interest 2017 % | 2016 % | Principal activities |
|---|---|---|---|---|
| **Held by Madcience Consulting Sdn Bhd** | | | | |
| Big Data for Human APAC Limited ("BD4H")[f] | United Kingdom | 50 | 50 | Dormant |

[f] Audited by a firm other than Ernst & Young.

The joint ventures listed above are private companies for which there are no quoted market price available for their shares.

There are no contingent liabilities relating to the Group's interest in the joint ventures.

On 24 August 2017, the Company entered into a Share Purchase Agreement ("SPA") with CAE International Holding Ltd, ("CAE") to dispose the Company's entire shareholding in AACOE comprising 82,780,000 ordinary shares which is equivalent to 50% of the issued and outstanding shares of AACOE to CAE for a total consideration of USD100.0 million (approximately RM375.9 million). The sale was completed on 28 December 2017 and a gain on disposal of RM167.7 million and RM294.4 million was recorded at the Group and Company respectively.

## 14. Investment in associates

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Unquoted investments, at cost | 385,601 | 2,924,097 | 95 | 2,930,707 |
| Less: Accumulated impairment losses | - | (163,750) | - | (1,397,029) |
| Share of post-acquisition profit/(loss) | 188,830 | (521,200) | - | - |
| Share of post-acquisition reserves | (25,873) | (28,560) | - | - |
| | 548,558 | 2,210,587 | 95 | 1,533,678 |

Included in the carrying amount of the investment in associates of the Group and the Company is an impairment loss of Nil (2016: RM163,750,000 for the Group and the Company) recognised during the financial year.

During the year, investment in associates of the Company at cost of RM2,930,611,000 and accumulated impairment losses of RM1,397,029,000 were deemed acquired as subsidiaries of the Company as disclosed in Note 12 to the financial statements.

The details of the associates are as follows:

| Name of entity | Principal place of business/ country of incorporation | Group's effective equity interest** 2017 % | Group's effective equity interest** 2016 % | Principal activities |
|---|---|---|---|---|
| AirAsia Philippines Inc | Philippines | 39.9 | 39.9 | Providing air transportation services, currently dormant |
| Asian Contact Centres Sdn Bhd[f ^] | Malaysia | 50.0 | 50.0 | Providing end-to-end solutions for customers management and contact centre |

## 14. Investment in associates (cont'd.)

The details of the associates are as follows: (cont'd.)

| Name of entity | Principal place of business/ country of incorporation | Group's effective equity interest** 2017 % | 2016 % | Principal activities |
|---|---|---|---|---|
| **Held by AAE** | | | | |
| AAE Travel Pte Ltd ("AAE Travel")+ | Singapore | 25.0 | 25.0 | Online travel agency |
| **Held by AAIL** | | | | |
| PT Indonesia AirAsia ("IAA")+ | Indonesia | -* | 49.0 | Commercial air transport services |
| Thai AirAsia Co. Ltd ("TAA")*f* | Thailand | 45.0 | 45.0 | Commercial air transport services |
| AirAsia Go Holiday Co Ltd | Thailand | 49.0 | 49.0 | Tour operating business, currently dormant |
| AirAsia Inc ("PAA")+ | Philippines | -* | 40.0 | Commercial air transport services |
| AirAsia (India) Private Limited ("AAIPL")+ | India | 49.0 | 49.0 | Commercial air transport services |
| AirAsia Japan Co., Ltd ("JAA")+^ | Japan | 56.9 | 49.0 | Commercial air transport services |

## 14. Investment in associates (cont'd.)

The details of the associates are as follows: (cont'd.)

+ Audited by a member of Ernst & Young Global.
f Audited by a firm other than Ernst & Young.
* Subsequent to the deemed acquisition, these associates became subsidiaries of the Company as disclosed in Note 12.
^ These investees are deemed to be the associates of the Group as the Group has significant influence and not control over the relevant activities.

All of the investment in associates are accounted for using the equity method.

All of the associates have the same reporting period as the Group except for AAIPL which is 31 March. For the purpose of applying the equity method of accounting for associates, the last audited financial statements available and the management financial statements as at end of the accounting period of the associate was used.

All the associates listed above are private companies for which there are no quoted market price available for their shares.

There are no contingent liabilities relating to the Group's interest in the associates.

**Acquisition of additional interests in associates during the financial year ended 31 December 2017**

On 14 April 2017, AAIL, a wholly owned subsidiary of the Company, subscribed to 13,999,999 shares in JAA for a cash consideration of JPY980.0 million (equivalent to RM38.3 million). On 16 October 2017, AAIL subscribed to an additional 33,501,194 shares in JAA for a cash consideration of JPY2,345.1 million (equivalent to RM88.1 million). The Group's equity interest in JAA has increased from 49% to 56.9%. JAA officially started operations on 29 October 2017.

**Acquisition of additional interests in associates in prior year**

(a) On 19 February 2016, AAIL, a wholly-owned subsidiary of the Company, subscribed to 21,000,000 shares in JAA for a cash consideration of JPY1,470 million (equivalent to RM53.4 million). On 29 December 2016, AAIL subscribed to an additional 7,000,000 shares in JAA for a cash consideration of JPY490 million (equivalent to RM18.7 million). The Group's equity interest in JAA remains as 49%.

(b) On 29 August 2016, AAIL, a wholly-owned subsidiary of the Company, invested an additional 114,905,000 ordinary shares in AirAsia (India) Private Limited ("AAIPL") for a cash consideration of USD17.2 million (equivalent to RM71.1 million). The Group's equity interest in AAIPL remains as 49%.

## 14. Investment in associates (cont'd.)

### Acquisition of additional interests in associates in prior year (cont'd.)

(c) On 16 December 2016, the Company subscribed to perpetual capital security issued by IAA amounting to IDR3,042 billion (RM1,013 million). IAA has the discretion to defer interest payment and has no obligation to redeem the principal amount. Therefore, the Company's investment in this perpetual capital security is deemed in substance to be an extension to the Company's net investment in IAA and is accounted for as "Investment in Associate". The investment in perpetual capital security was satisfied via capitalisation of amounts due from IAA.

### Impairment testing on investment in an associate

As at 31 December 2017, the Group's investment in JAA was tested for impairment due to additional investment from the Company to address their continuing losses incurred. The recoverable amount of the investment was computed using fair value less cost to sell method based on discounted cash flow projections covering a five-year period from 2018 to 2022. Assumptions applied in determining the recoverable amount include operational fleet size, load factor, average fare and jet fuel price.

No impairment is recorded for the investment in JAA.

The key assumptions used in determining the recoverable amount of the investment in JAA are as follows:

- Discount rate of 9.5%
- Long-term growth rate of 0%

The recoverable amount of the investment in JAA is within level 3 of the fair value hierarchy.

### Valuation process

The finance department of the Group includes a team that performs the valuations of the investments in associates required for financial reporting purposes, including level 3 fair values. The team reports directly to the Group Chief Financial Officer. The main level 3 inputs used by the Group are derived and evaluated as follows:

- Discount rates are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.

- Long-term growth rate are estimated based on market information for similar types of companies in similar geographical location.

**14. Investment in associates (cont'd.)**

Material associates

The Directors consider TAA as a material associate to the Group. TAA is an operator of commercial air transport services which is based in Thailand. This associate company is a strategic investment of the Company and form an essential part of the Company's growth strategy. TAA provides access to a wider geographical market and network coverage in the provision of air transport services across the Association of Southeast Asian Nations ("ASEAN") region.

Summarised financial information for associates

The tables below provide summarised financial information for those associates that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and not the Group’s share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

**2017**

**Summarised statement of financial position**

| | **TAA<br>RM’000** |
|---|---|
| **Current** | |
| Cash and cash equivalents | 647,647 |
| Other current assets | 457,204 |
| **Total current assets** | 1,104,851 |
| | |
| Financial liabilities (excluding trade payables) | (1,387,587) |
| Other current liabilities (including trade payables) | (38,614) |
| **Total current liabilities** | (1,426,201) |
| | |
| **Non-current** | |
| Assets | 3,477,292 |
| Liabilities | (2,166,196) |
| **Net assets** | 989,746 |

## 14. Investment in associates (cont'd.)

Summarised financial information for associates (cont'd.)

**Summarised statement of comprehensive income**

| | TAA RM'000 |
|---|---|
| Revenue | 4,553,035 |
| Depreciation and amortisation | (169,934) |
| Interest income | 6,553 |
| Interest expense | (82,768) |
| Profit before taxation | 336,351 |
| Tax income | 4,224 |
| Net profit for the financial year | 340,575 |
| Other comprehensive loss | (3,374) |
| Total comprehensive income | 337,201 |
| Dividends received from associates | 77,340 |

Reconciliations of summarised financial information

| | TAA RM'000 |
|---|---|
| Opening net assets at 1 January | 844,050 |
| Dividend paid | (171,866) |
| Profit for the financial year | 340,575 |
| Other comprehensive loss | (3,374) |
| Foreign exchange differences | (19,639) |
| Closing net assets at 31 December | 989,746 |
| Group's interest in associates | 45% |
| Interest in associates | 445,386 |
| Carrying value at 31 December | 445,386 |

## 14. Investment in associates (cont'd.)

Summarised financial information for associates (cont'd.)

**2016**

**Summarised statements of financial position**

| | IAA RM'000 | PAA RM'000 | TAA RM'000 |
|---|---|---|---|
| **Current** | | | |
| Cash and cash equivalents | 79,403 | 2,493 | 569,258 |
| Other current assets | 220,289 | 1,280,739 | 437,754 |
| **Total current assets** | 299,692 | 1,283,232 | 1,007,012 |
| Financial liabilities (excluding trade payables) | (363,829) | (1,416,219) | (1,163,815) |
| Other current liabilities (including trade payables) | (283,432) | (14,669) | (61,185) |
| **Total current liabilities** | (647,261) | (1,430,888) | (1,225,000) |
| **Non-current** | | | |
| Assets | 932,423 | 8,190 | 2,842,192 |
| Liabilities | (319,771) | (3,607) | (1,780,154) |
| **Net assets/(liabilities)** | 265,083 | (143,073) | 844,050 |

**Summarised statements of comprehensive income**

| | IAA RM'000 | PAA RM'000 | TAA RM'000 |
|---|---|---|---|
| Revenue | 1,197,913 | 8,687 | 3,818,482 |
| Depreciation and amortisation | (33,510) | (23,643) | (136,835) |
| Interest income | 901 | 3 | 8,964 |
| Interest expense | (40,250) | (6,803) | (64,985) |
| Profit/(loss) before taxation | 149,734 | (141,722) | 378,697 |
| Tax income | 207,539 | - | 18,106 |
| Net profit/(loss) for the financial year | 357,273 | (141,722) | 396,803 |
| Other comprehensive loss | - | - | (74,587) |
| Total comprehensive income/(loss) | 357,273 | (141,722) | 322,216 |
| Dividends received from associates | - | - | 70,852 |

## 14. Investment in associates (cont'd.)

Summarised financial information for associates (cont'd.)

**2016 (cont'd.)**

Reconciliations of summarised financial information

| | IAA RM'000 | PAA RM'000 | TAA RM'000 |
|---|---|---|---|
| Opening net (liabilities)/assets at 1 January | (353,188) | (272,218) | 636,973 |
| Dividend paid | - | - | (157,449) |
| Profit/(loss) for the financial year | 357,273 | (141,722) | 396,803 |
| Other comprehensive loss | - | - | (74,587) |
| Foreign exchange differences | 260,998 | 270,867 | 42,310 |
| Closing net assets/(liabilities) at 31 December | 265,083 | (143,073) | 844,050 |
| Group's interests in associates | 49% | 40% | 45% |
| Interests in associates | 129,626 | (57,229) | 379,824 |
| Net investment and subscription of perpetual capital security, net of impairment losses | 840,542 | 805,713 | - |
| Carrying value at 31 December | 970,168 | 748,484 | 379,824 |

Individually immaterial associates

In addition to the interests in associates disclosed above, the Group also has interests in a number of individually immaterial associates that are accounted for using the equity method.

| | Group | |
|---|---|---|
| | 2017 RM'000 | 2016 RM'000 |
| Aggregate carrying amount of individually immaterial associates | 103,172 | 112,111 |
| Aggregate amounts of the Group's share of: | | |
| Loss from continuing operations | (81,263) | (116,794) |
| Other comprehensive income | - | - |
| Total comprehensive income | (81,263) | (116,794) |

## 15. Available-for-sale financial assets

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| Listed equity securities | | | | |
| At 1 January | 351,167 | 235,097 | 351,167 | 235,097 |
| Fair value (loss)/gain - recognised in other comprehensive income | (55,087) | 116,070 | (55,087) | 116,070 |
| At 31 December | 296,080 | 351,167 | 296,080 | 351,167 |
| Unquoted debt securities | | | | |
| At 1 January | 5,438 | - | - | - |
| Addition | - | 5,438 | - | - |
| At 31 December | 5,438 | 5,438 | - | - |
| Total available-for-sale financial assets | 301,518 | 356,605 | 296,080 | 351,167 |

## 16. Intangible assets

| | Goodwill RM'000 | Landing rights RM'000 | Internally developed software RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **Cost** | | | | |
| At 1 January 2017 | 120,629 | - | 1,505 | 122,134 |
| Additions | - | - | 5,490 | 5,490 |
| Deemed acquisitions of subsidiaries (Note 12) | 38,394 | 443,900 | - | 482,294 |
| At 31 December 2017 | 159,023 | 443,900 | 6,995 | 609,918 |
| **Accumulated amortisation** | | | | |
| At 1 January 2017 | - | - | (305) | (305) |
| Amortisation expense | - | - | (284) | (284) |
| At 31 December 2017 | - | - | (589) | (589) |
| **Carrying amount as at 31 December 2017** | 159,023 | 443,900 | 6,406 | 609,329 |

## 16. Intangible assets (cont'd.)

| | Goodwill RM'000 | Landing Rights RM'000 | Internally developed software RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2016 | 17,703 | - | 1,505 | 19,208 |
| Additions - acquisitions (Note 12) | 102,926 | - | - | 102,926 |
| At 31 December 2016 | 120,629 | - | 1,505 | 122,134 |
| **Accumulated amortisation** | | | | |
| At 1 January 2016 | - | - | (24) | (24) |
| Amortisation expense | - | - | (281) | (281) |
| At 31 December 2016 | - | - | (305) | (305) |
| **Carrying amount as at 31 December 2016** | 120,629 | - | 1,200 | 121,829 |

### Landing rights

Landing rights relate to traffic rights and landing slots for destinations operated by IAA and PAA. As explained in Note 2.6.2(b), the useful life of these landing rights is estimated to be indefinite.

### Impairment testing for goodwill and landing rights

The carrying amounts of goodwill and landing rights allocated to the Group's cash generating unit are as follows:

| | Goodwill | | Landing rights | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| **CGU** | | | | |
| AirAsia Malaysia ("MAA") | 102,926 | 102,926 | - | - |
| PT Indonesia AirAsia | 38,394 | - | 374,600 | - |
| AirAsia Inc Group | - | - | 69,300 | - |
| AirAsia Investment Ltd | 7,334 | 7,334 | - | - |
| BigPay Malaysia Sdn Bhd | 5,275 | 5,275 | - | - |
| Rokki Sdn Bhd | 5,094 | 5,094 | - | - |
| | 159,023 | 120,629 | 443,900 | - |

**16. Intangible assets (cont'd.)**

**Impairment testing for goodwill and landing rights (cont'd.)**

The recoverable amounts of the CGUs were computed using fair value less cost to sell method based on calculations using cash flow projections from financial budgets approved by the management covering a five-year period. The discount rates applied to the cash flow projections and the forecasted growth rates used to extrapolate the cash flows beyond the five-year period are as follows:

| | Growth rates | | Discount rates | |
|---|---|---|---|---|
| **CGU** | **2017** | **2016** | **2017** | **2016** |
| MAA | 3% | 3% | 11.5% | 11.6% |
| IAA | 4% | - | 16.5% | - |
| PAA | 2% | - | 14.5% | - |

The calculation of fair value for the IAA CGU is most sensitive to the following assumptions:

| | |
|---|---|
| Growth rates: | the forecasted growth rates are based on published industry research and do not exceed the long term average growth rate for the industries relevant to the CGUs. |
| Discount rates: | discount rates reflect management's estimate of the risks specific to these entities. In determining appropriate discount rates for each unit, consideration has been given to the applicable weighted average cost of capital for each unit. |

The recoverable amount of the investment in IAA is within level 3 of the fair value hierarchy. The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurement:

| **Description** | **Unobservable inputs*** | **Inputs** | **Relationship of unobservable inputs to fair value** |
|---|---|---|---|
| IAA | Discount rate | 16.5% | Increased discount rate of 1% would decrease fair value by RM88,000,000 |
| | Long-term growth rate per annum | 4% | Decreased long-term growth rate by 1% would decrease fair value by RM57,200,000 |

* There were no significant inter-relationships between unobservable inputs that materially affect the fair value.

Based on the assessments performed, there is no impairment of goodwill and landing rights attributable to the CGUs. As for MAA and PAA, management believes no reasonably possible change in any of the above key assumptions would cause the carrying value, including goodwill, of the unit to materially exceed its recoverable amount.

## 17. Deferred tax assets/(liabilities)

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 statements of financial position:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| At beginning of year | 749,211 | 828,950 | 749,038 | 828,777 |
| Deemed acquisition of subsidiaries (Note 12) | 121,007 | - | - | - |
| Recognised in profit or loss (Note 9) | (463,754) | (79,739) | (263,482) | (79,739) |
| Exchange differences | (24,538) | - | - | - |
| At end of year | 381,926 | 749,211 | 485,556 | 749,038 |
| Presented after appropriate offsetting as follows: | | | | |
| Deferred tax assets | 486,880 | 749,211 | 485,556 | 749,038 |
| Deferred tax liabilities | (104,954) | - | - | - |
| | 381,926 | 749,211 | 485,556 | 749,038 |

## 17. Deferred tax assets/(liabilities) (cont'd.)

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

### (a) Deferred tax assets

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| At start of financial year | 749,211 | 828,950 | 749,038 | 828,777 |
| Deemed acquisition of a subsidiary (Note 12) | 52 | - | - | - |
| (Charged)/credited to income statements | | | | |
| - Property, plant and equipment | (129,412) | 342,366 | (129,306) | 342,366 |
| - Unabsorbed capital allowances | (232,553) | (424,437) | (232,553) | (424,437) |
| - Unabsorbed investment tax allowances | 60,892 | (118,068) | 58,125 | (118,068) |
| - Unutilised tax losses | 777 | - | - | - |
| - Sales in advance | 9,144 | 145,445 | 8,726 | 145,445 |
| - Receivables | 20,434 | 4,878 | 20,434 | 4,878 |
| - Payables | (114,753) | - | (111,831) | - |
| - Derivatives | 118,450 | (57,219) | 118,450 | (57,219) |
| - Provisions and others | 4,638 | 27,296 | 4,473 | 27,296 |
| | (262,383) | (79,739) | (263,482) | (79,739) |
| At end of financial year | 486,880 | 749,211 | 485,556 | 749,038 |

## 17. Deferred tax assets/(liabilities) (cont'd.)

The movements in the deferred tax assets and liabilities of the Group and the Company during the financial year are as follows (cont'd.):

### (a) Deferred tax assets (cont'd.)

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Deferred tax assets (before offsetting) | | | | |
| Unabsorbed capital allowances | 723,419 | 955,972 | 723,419 | 955,972 |
| Unabsorbed investment tax allowances | 1,334,948 | 1,274,056 | 1,332,181 | 1,274,056 |
| Unutilised tax losses | 9,580 | 8,803 | 8,803 | 8,803 |
| Sales in advance | 154,589 | 145,445 | 154,171 | 145,445 |
| Provisions and others | 31,986 | 27,296 | 31,769 | 27,296 |
| Receivables | 25,312 | 4,878 | 25,312 | 4,878 |
| Derivatives | 61,231 | - | 61,231 | - |
| | 2,341,065 | 2,416,450 | 2,336,886 | 2,416,450 |
| Offsetting | (1,854,185) | (1,667,239) | (1,851,330) | (1,667,412) |
| Deferred tax assets (after offsetting) | 486,880 | 749,211 | 485,556 | 749,038 |
| Deferred tax liabilities (before offsetting) | | | | |
| Property, plant and equipment | (1,739,432) | (1,610,020) | (1,739,499) | (1,610,193) |
| Payables | (114,753) | - | (111,831) | - |
| Derivatives | - | (57,219) | - | (57,219) |
| | (1,854,185) | (1,667,239) | (1,851,330) | (1,667,412) |
| Offsetting | 1,854,185 | 1,667,239 | 1,851,330 | 1,667,412 |
| Deferred tax liabilities (after offsetting) | - | - | - | - |

**17. Deferred tax assets/(liabilities) (cont'd.)**

The movements in the deferred tax assets and liabilities of the Group and the Company during the financial year are as follows (cont'd.):

**(b) Deferred tax liabilities**

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| Deemed acquisition of subsidiaries (Note 12) | 120,955 | - |
| Credited/(charged) to income statements | | |
| - Property, plant and equipment | 1,736 | - |
| - Unutilised tax losses | (193,037) | - |
| - Finance lease | (12,040) | - |
| - Provision for retirement benefits | 2,230 | - |
| - Others | (260) | - |
| | (201,371) | - |
| Exchange differences | (24,538) | - |
| At end of financial year | (104,954) | - |
| Deferred tax assets (before offsetting) | | |
| Property, plant and equipment | 1,736 | - |
| Provision for retirement benefits | 15,599 | - |
| Unutilised tax losses | 22,466 | - |
| Others | 1,673 | - |
| | 41,474 | - |
| Offsetting | (41,474) | - |
| Deferred tax assets (after offsetting) | - | - |
| Deferred tax liabilities (before offsetting) | | |
| Fair value on intangible assets | (114,440) | - |
| Finance leases | (6,265) | - |
| Others | (1,185) | - |
| Exchange differences | (24,538) | - |
| | (146,428) | - |
| Offsetting | 41,474 | - |
| Deferred tax liabilities (after offsetting) | (104,954) | - |

**17. Deferred tax assets/(liabilities) (cont'd.)**

Deferred tax has not been recognised for the following items:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| Deferred revenue | 95,653 | 63,389 |
| Deferred breakage | 34,157 | 20,057 |
| Provisions and others | 26,641 | 5,594 |
| | 156,451 | 89,040 |

Deferred tax assets in respect of the above items arose from a subsidiary acquired during the previous financial year and have not been recognised because it is not probable that the future taxable profit will be available against which the Group can utilise the benefits there from.

As disclosed in Note 3.2 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.

## 18. Receivables and prepayments

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| **Non-current:** | | | | |
| Other receivables* | 462,095 | 131,687 | 533,570 | 131,687 |
| Prepayments | 1,620,145 | 1,100,731 | 1,614,731 | 1,100,731 |
| Deposits for maintenance of aircraft | 161,205 | 133,676 | 116,759 | 116,311 |
| Other deposits | 58,086 | 66,960 | 29,248 | 31,049 |
| | 2,301,531 | 1,433,054 | 2,294,308 | 1,379,778 |
| **Current:** | | | | |
| Trade receivables | 243,656 | 138,382 | 100,741 | 114,906 |
| Less: Allowance for impairment | (47,839) | (30,476) | (33,340) | (30,476) |
| | 195,817 | 107,906 | 67,401 | 84,430 |
| Other receivables | 523,850 | 332,200 | 513,533 | 310,688 |
| Less: Allowance for impairment | - | (3,482) | - | (3,482) |
| | 523,850 | 328,718 | 513,533 | 307,206 |
| Prepayments | 582,679 | 615,899 | 515,085 | 583,141 |
| Other deposits | 179,945 | 35,134 | 102,189 | 29,941 |
| | 1,482,291 | 1,087,657 | 1,198,208 | 1,004,718 |

Credit terms of trade receivables range from 30 to 60 days (2016: 30 to 60 days).

* Included in non-current other receivables is a receivable of IDR1,327 billion (equivalent to RM426,113,000) arising from the disposal of perpetual capital security which is repayable over 10 years.

## 18. Receivables and prepayments (cont'd.)

Amounts due from associates and subsidiary companies relating to aircraft maintenance are unbilled and comprise non-current and current portions respectively of RM35,982,000 and RM26,267,000 for the Group and RM107,457,000 and RM74,479,000 for the Company (2016: non-current of RM131,687,000 and current of RM49,706,000 for the Group and Company).

(i) Trade receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired amounted to RM34,093,000 and RM19,396,000 (2016: RM32,454,000 and RM13,517,000) for the Group and Company respectively. These are substantially companies with good collection track records with the Group and Company.

(ii) Trade receivables that are past due but not impaired

Trade receivables that are past due but not impaired amounted to RM161,724,000 and RM48,005,000 (2016: RM75,452,000 and RM70,913,000) for the Group and Company. These relate to a number of independent customers where debts are either secured by bank guarantees or have no recent history of default. The ageing analysis of these receivables that are past due but not impaired is as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| 1 to 90 days | 73,535 | 35,962 | 50,575 | 32,010 |
| 91 to 120 days | 31,574 | 5,699 | 22,625 | 5,651 |
| 121 to 180 days | (23,044) | 5,627 | (17,489) | 5,577 |
| 181 to 365 days | 20,859 | 9,518 | (2,290) | 9,036 |
| Over 365 days | 58,800 | 18,646 | (5,416) | 18,639 |
| | 161,724 | 75,452 | 48,005 | 70,913 |

## 18. Receivables and prepayments (cont'd.)

(iii) Trade receivables that are impaired

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| 121 to 180 days | 676 | - | 676 | - |
| 181 to 365 days | 6,106 | - | 6,106 | - |
| Over 365 days | 41,057 | 33,958 | 26,558 | 33,958 |
| Less: Allowance for impairment | (47,839) | (33,958) | (33,340) | (33,958) |
| | - | - | - | - |

The individually impaired trade 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.

Movements on the allowance for impairment of trade receivables are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| At 1 January | 33,958 | 37,399 | 33,958 | 37,160 |
| Utilised | (2,348) | (404) | (453) | (165) |
| Reversal/(impairment) (Note 6) | 16,229 | (3,037) | (165) | (3,037) |
| At 31 December | 47,839 | 33,958 | 33,340 | 33,958 |

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.

## 18. Receivables and prepayments (cont'd.)

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Ringgit Malaysia | 307,090 | 168,221 | 274,032 | 148,316 |
| US Dollar | 290,045 | 611,359 | 631,232 | 531,638 |
| Others | 983,863 | 24,501 | 457,436 | 20,670 |
| | 1,580,998 | 804,081 | 1,362,700 | 700,624 |

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

## 19. Deposits on aircraft purchase

Deposits on aircraft purchases represent refundable deposits paid for aircraft to be delivered to the Company. These deposits are denominated in US Dollars.

## 20. Amount due from/(to) associates

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Amounts due from associates | | | | |
| - current | 147,617 | 511,446 | 107,817 | 282,047 |
| - non-current | - | 344,861 | - | 344,861 |
| | 147,617 | 856,307 | 107,817 | 626,908 |
| Amounts due to associates | | | | |
| - current | (59,499) | (3,978) | (46,645) | (25,290) |
| - non-current | (86,292) | (118,898) | (8,082) | (21,934) |
| | (145,791) | (122,876) | (54,727) | (47,224) |

The amounts due from associates are trade, unsecured, interest free and have no fixed terms of repayment other than non-current amounts due from associates in prior year which are not expected to be repaid within 1 year. Amounts due from associates in the prior year includes advances to PT Indonesia AirAsia ("IAA") for purchase of aircraft in 2011 for the financing of aircraft purchase. These amounts have been eliminated in the current financial year following the consolidation of IAA effective 1 January 2017.

## 20. Amount due from/(to) associates (cont'd.)

(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 RM147,617,000 and RM107,817,000 (2016: RM519,795,000 and RM519,795,000) respectively.

(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 RM nil (2016: RM336,512,000 and RM107,113,000). The ageing analysis of these amounts is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Up to 1 year | - | 336,512 | - | 107,113 |
| | - | 336,512 | - | 107,113 |

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

(iii) Financial assets that are impaired

There are no amounts due from associates of the Group and Company that are past due and impaired.

The maximum exposure to credit risk at the reporting date is the carrying value of the amounts due from associates mentioned above.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Amounts due from associates | | | | |
| - US Dollar | 147,617 | 856,307 | 107,817 | 626,908 |
| - Ringgit Malaysia | - | - | - | - |
| | 147,617 | 856,307 | 107,817 | 626,908 |
| Amounts due to associates | | | | |
| - US Dollar | (145,791) | (122,876) | (54,727) | (47,224) |

## 21. Derivative financial instruments

| | Group | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Assets RM'000 | Liabilities RM'000 | Assets RM'000 | Liabilities RM'000 |
| **Non-current** | | | | |
| Interest rate swaps | | | | |
| - cash flow hedges | 6,772 | (50,745) | 5,335 | (105,678) |
| Interest rate swaps | | | | |
| - held for trading | 4,219 | (20,138) | 4,272 | (42,374) |
| Interest rate caps | | | | |
| - held for trading | 12 | - | 261 | - |
| Forward foreign exchange contracts | | | | |
| - cash flow hedges | 239,902 | - | 536,825 | - |
| Forward foreign exchange contracts | | | | |
| - held for trading | 54,309 | - | 184,434 | - |
| Cross currency interest rate swaps | | | | |
| - cash flow hedges | 38,802 | - | 71,156 | - |
| Cross currency interest rate swaps | | | | |
| - held for trading | 38,161 | - | 65,666 | - |
| Total | 382,177 | (70,883) | 867,949 | (148,052) |
| **Current** | | | | |
| Interest rate swaps | | | | |
| - cash flow hedges | - | (3,103) | - | - |
| Interest rate swaps | | | | |
| - held for trading | 106 | (18,609) | - | (33,123) |
| Forward foreign exchange contracts | | | | |
| - cash flow hedges | 41,758 | - | 62,443 | - |
| Forward foreign exchange contracts | | | | |
| - held for trading | 58,779 | (1,602) | - | - |
| Derivative financial instruments carried forward | 100,643 | (23,314) | 62,443 | (33,123) |

## 21. Derivative financial instruments (cont'd.)

| | Group | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Assets RM'000 | Liabilities RM'000 | Assets RM'000 | Liabilities RM'000 |
| **Current (cont'd.)** | | | | |
| Derivative financial instruments brought forward | 100,643 | (23,314) | 62,443 | (33,123) |
| Commodity derivatives - cash flow hedges | - | - | 495,572 | (343,751) |
| Commodity derivatives - held for trading | 102,452 | (51,538) | 104,373 | (71,999) |
| Cross currency interest rate swaps - held for trading | 2,285 | - | 3,280 | - |
| Total | 205,380 | (74,852) | 665,668 | (448,873) |

| | Company | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Assets RM'000 | Liabilities RM'000 | Assets RM'000 | Liabilities RM'000 |
| **Non-current** | | | | |
| Interest rate swaps - cash flow hedges | 6,772 | (50,723) | 5,335 | (105,678) |
| Interest rate swaps - held for trading | 4,219 | (20,138) | 4,272 | (42,374) |
| Interest rate caps - held for trading | 12 | - | 261 | - |
| Forward foreign exchange contracts - cash flow hedges | 239,902 | - | 536,825 | - |
| Forward foreign exchange contracts - held for trading | 54,309 | - | 184,434 | - |
| Cross currency Interest rate swaps - cash flow hedges | 38,802 | - | 71,156 | - |
| Cross currency Interest rate swaps - held for trading | 38,161 | - | 65,666 | - |
| Total | 382,177 | (70,861) | 867,949 | (148,052) |

## 21. Derivative financial instruments (cont'd.)

| | Company | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Assets RM'000 | Liabilities RM'000 | Assets RM'000 | Liabilities RM'000 |
| **Current** | | | | |
| Interest rate swaps - cash flow hedges | - | (3,103) | - | - |
| Interest rate swaps - held for trading | 106 | (18,609) | - | (33,123) |
| Forward foreign exchange contracts - cash flow hedges | 41,758 | - | 62,443 | - |
| Forward foreign exchange contracts - held for trading | 58,779 | (1,602) | - | - |
| Commodity derivatives - cash flow hedges | - | - | 495,572 | (343,751) |
| Commodity derivatives - held for trading | 102,452 | (67,283) | 104,373 | (71,999) |
| Cross currency interest rate swaps - held for trading | 2,285 | - | 3,280 | - |
| Total | 205,380 | (90,597) | 665,668 | (448,873) |

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.

During the financial year, the Group and the Company recognised a gain of RM451.1 million and RM435.5 million respectively arising from fair value changes of derivative liabilities. The fair value changes are attributable to changes in foreign exchange spot and forward rate, changes in yield curve and changes in market price of fuel. The method and assumptions applied in determining the fair value of derivatives are disclosed in Note 40.

**21. Derivative financial instruments (cont'd.)**

| | Group | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Notional amount RM'000 | Fair value RM'000 | Notional amount RM'000 | Fair value RM'000 |
| Interest rate caps | 233,112 | 12 | 318,524 | 261 |
| Interest rate swaps | 3,258,863 | (81,498) | 3,742,478 | (171,568) |
| Cross currency interest rate swaps | 336,309 | 79,248 | 384,851 | 140,102 |
| Forward foreign exchange contracts | 1,515,904 | 393,146 | 1,952,282 | 783,702 |
| Commodity derivatives | 771,487* | 50,914 | 4,848,218* | 184,195 |

| | Company | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Notional amount RM'000 | Fair value RM'000 | Notional amount RM'000 | Fair value RM'000 |
| Interest rate caps | 233,112 | 12 | 318,524 | 261 |
| Interest rate swaps | 3,258,863 | (81,476) | 3,742,478 | (171,568) |
| Cross currency interest rate swaps | 336,309 | 79,248 | 384,851 | 140,102 |
| Forward foreign exchange contracts | 1,515,904 | 393,146 | 1,952,282 | 783,702 |
| Commodity derivatives | 530,316* | 35,169 | 4,848,218* | 184,195 |

* in barrels

(i) Forward foreign exchange contracts and cross currency interest rate swaps

The notional principal amounts of the outstanding forward foreign exchange contracts and cross currency interest rate swaps at 31 December 2017 were RM1.852 billion (2016: RM2.337 billion).

As at 31 December 2017, the Group has hedged approximately 46% (2016: 59%) of its USD liabilities pertaining to its aircraft and engine loans into Malaysian Ringgit ("RM") by using long dated foreign exchange forward contracts and cross currency interest rate swaps to manage its foreign currency risk. The latest weighted average of USD:RM forward exchange rate is 3.2355 (2016: 3.2373). Gains and losses recognised in the hedging reserve in equity on hedging instruments as of 31 December 2017 will be continuously released to the income statement within foreign exchange gains/(losses) until the full repayment of the term loans (refer Note 31 to the financial statements).

**21. Derivative financial instruments (cont'd.)**

(ii) Interest rate contracts

The notional principal amounts of the outstanding interest rate contracts at 31 December 2017 were RM3.492 billion (2016: RM 4.061 billion).

The Group has entered into interest rate contracts to hedge against fluctuations in the USD LIBOR on its existing floating rate aircraft financing for aircraft delivered from 2005 to 2017. As at 31 December 2017, the Group has hedged 100% of its existing USD aircraft loans at rates from 1.8% to 5.2% per annum (2016: 1.8% to 5.2% per annum) via interest rate swaps, interest rate caps and cross-currency swaps. Gains and losses recognised in the hedging reserve in equity on hedging instruments as of 31 December 2017 will be continuously released to the income statement within finance cost until the full repayment of the term loans (refer Note 31 to the financial statements).

(iii) Fuel contracts

The outstanding number of barrels of Singapore Jet Kerosene, Brent and Crack derivative contracts of the Group and the Company as at 31 December 2017 was 771,487 barrels and 530,316 barrels respectively (2016: 4,848,218 barrels and 4,848,218 barrels).

As at 31 December 2017, the Group and the Company have entered into Singapore Jet Kerosene fixed swap Brent option, Brent fixed swap and Crack fixed swap contracts which represent 13% (2016: 75%) of the Group’s and the Company's total expected fuel volume for the financial year 2018. This is to hedge against the fuel price risk that the Group and the Company are exposed to. Gains and losses recognised in the hedging reserve in equity on Brent and fuel derivative contracts as of 31 December 2017 are recognised in the income statement in the period or periods during which the hedged forecast transactions affect the income statements.

**22. Inventories**

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **RM’000** | **RM’000** | **RM’000** | **RM’000** |
| Consumables, in-flight merchandise and others | 68,234 | 43,866 | 47,676 | 43,650 |

During the year, the amount of the inventories recognised in operating expenses of the Group and the Company was RM60,230,780 and RM22,090,000 respectively (2016: RM92,207,331 and RM51,658,000)

## 23. Amounts due from subsidiaries

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| **Non-current:** | | | | |
| Amounts due from subsidiaries | - | - | 177,187 | - |
| **Current:** | | | | |
| Amounts due from subsidiaries | - | - | 1,623,533 | 842,588 |
| Less: Allowance for impairment | - | - | (41,618) | (41,618) |
| | - | - | 1,581,915 | 800,970 |

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. The impairment recognised in the prior year was in respect of a subsidiary which is dormant and has not commenced business operations. Other than this, amounts due from subsidiaries have no history of default.

Included in current amounts due from subsidiaries is a receivable of IDR1,274 billion (equivalent to RM380,162,000) arising from the disposal of perpetual capital securities which is repayable on demand.

The currency profile of amounts due from subsidiaries is as follows:

Movements on the allowance for impairment of amounts due from subsidiaries are as follows:

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| At 1 January | - | - | 41,618 | 20,290 |
| Less: Allowance for impairment (Note 6) | - | - | - | 21,328 |
| At 31 December | - | - | 41,618 | 41,618 |

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| Ringgit Malaysia | - | - | 51,620 | 27,782 |
| US Dollar | - | - | 1,707,482 | 773,188 |
| | - | - | 1,759,102 | 800,970 |

## 24. Amounts due from related parties

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Amounts due from related parties | 7,875 | 37,424 | 2,888 | 16,102 |

The amounts due from related parties are trade, unsecured, interest free and have no fixed terms of repayment. Carrying amounts of amounts due from related parties approximate their fair values.

The currency profile of amounts due from related parties is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Ringgit Malaysia | 4,987 | 1,392 | - | - |
| US Dollar | 2,888 | 36,032 | 2,888 | 16,102 |
| | 7,875 | 37,424 | 2,888 | 16,102 |

## 25. Amount due from a joint venture

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Amount due from a joint venture | 4,893 | 8,952 | 19 | 8,952 |

Amount due from a joint venture is unsecured, interest free and have no fixed terms of repayment. Carrying amount of amount due from a joint venture approximates its fair value.

The currency profile of the amount due from a joint venture is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Ringgit Malaysia | 4,893 | 8,952 | 19 | 8,952 |

## 26. Deposits, cash and bank balances

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| Deposits with licensed banks | 306,175 | 605,900 | 286,706 | 527,588 |
| Cash and bank balances | 1,576,020 | 1,135,673 | 1,014,884 | 899,298 |
| | 1,882,195 | 1,741,573 | 1,301,590 | 1,426,886 |

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

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| Ringgit Malaysia | 208,981 | 445,622 | 149,689 | 398,575 |
| US Dollar | 917,109 | 755,930 | 650,364 | 518,234 |
| Chinese Renminbi | 183,000 | 251,450 | 181,455 | 251,450 |
| Others | 573,105 | 288,571 | 320,082 | 258,627 |
| | 1,882,195 | 1,741,573 | 1,301,590 | 1,426,886 |

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

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

| | Group 2017 % | Group 2016 % | Company 2017 % | Company 2016 % |
|---|---|---|---|---|
| Deposits with licensed banks | 1.36 | 1.69 | 1.36 | 1.69 |

## 27. Trade and other payables

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| **Non-current:** | | | | |
| Other payables | 1,239,024 | 1,116,098 | 1,452,430 | 1,245,552 |
| **Current:** | | | | |
| Trade payables | 276,650 | 377,128 | 250,497 | 369,201 |
| Accrual for fuel | 144,369 | 112,300 | 86,201 | 112,300 |
| Collateral for derivatives | 139,406 | 355,040 | 142,437 | 355,040 |
| Other payables and accruals | 1,588,257 | 954,037 | 1,298,122 | 925,224 |
| | 2,148,682 | 1,798,505 | 1,777,257 | 1,761,765 |

The non-current other payables include maintenance reserve funds of RM672,252,000 and RM991,166,000 (2016: RM555,497,000 and RM777,291,000) for the Group and Company respectively.

The current other payables and accruals include accruals for operational expenses and passenger service charge payable to airport authorities.

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

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| Ringgit Malaysia | 1,266,202 | 2,085,824 | 1,040,238 | 2,276,573 |
| US Dollar | 1,856,951 | 826,608 | 2,144,042 | 728,577 |
| Others | 264,553 | 2,171 | 45,407 | 2,167 |
| | 3,387,706 | 2,914,603 | 3,229,687 | 3,007,317 |

## 28. Aircraft maintenance provisions

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| At 1 January | 496,873 | 464,143 | 309,525 | 463,280 |
| Arose during the year | 318,905 | 157,383 | 125,366 | - |
| Reversed during the year | - | - | - | (48,449) |
| Utilised | (59,241) | (137,013) | (48,322) | (105,306) |
| Exchange differences | (18,899) | 12,360 | - | - |
| At 31 December | 737,638 | 496,873 | 386,569 | 309,525 |

## 29. Amounts due to subsidiaries

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Amounts due to subsidiaries | | | | |
| - current | - | - | 83,461 | - |
| - non-current | - | - | 15,583 | - |
| | - | - | 99,044 | - |

The amounts due to subsidiaries are unsecured, interest free and are repayable on demand.

The currency profile of the amounts due to subsidiaries is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Ringgit Malaysia | - | - | 52,554 | - |
| US Dollar | - | - | 46,490 | - |
| | - | - | 99,044 | - |

## 30. Amounts due to related parties

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Amounts due to related parties | | | | |
| - current | 94,019 | 29,999 | 165,488 | 58,351 |
| - non-current | 10,939 | 9,455 | - | - |
| | 104,958 | 39,454 | 165,488 | 58,351 |

The amounts due to related parties are trade, unsecured, interest free and are repayable on demand.

## 30. Amounts due to related parties (cont'd.)

The currency profile of the amounts due to related parties is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Ringgit Malaysia | 56,694 | 29,999 | 58,449 | 34,335 |
| US Dollar | 48,264 | 9,455 | 107,039 | 24,016 |
| | 104,958 | 39,454 | 165,488 | 58,351 |

## 31. Borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| **Current** | | | | |
| Term loans | 1,626,946 | 1,732,325 | 1,206,309 | 1,381,295 |
| Finance lease liabilities (Ijarah) | 137,833 | 109,986 | 120,264 | 91,534 |
| Commodity Murabahah Finance | 57,068 | 54,892 | 57,068 | 54,892 |
| Revolving credit | - | 48,000 | - | 48,000 |
| | 1,821,847 | 1,945,203 | 1,383,641 | 1,575,721 |
| **Non-current** | | | | |
| Term loans | 6,543,849 | 7,421,005 | 4,534,862 | 5,175,409 |
| Finance lease liabilities (Ijarah) | 499,430 | 709,391 | 365,630 | 540,970 |
| Commodity Murabahah Finance | 443,508 | 503,543 | 443,509 | 503,543 |
| | 7,486,787 | 8,633,939 | 5,344,001 | 6,219,922 |
| Total borrowings | 9,308,634 | 10,579,142 | 6,727,642 | 7,795,643 |

## 31. Borrowings (cont'd.)

| | Group 2017 % | Group 2016 % | Company 2017 % | Company 2016 % |
|---|---|---|---|---|
| **Weighted average interest rate** | | | | |
| Term loans | 4.34 | 4.25 | 4.50 | 4.46 |
| Finance lease liabilities (Ijarah) | 4.64 | 6.12 | 5.20 | 6.12 |
| Commodity Murabahah Finance | 5.31 | 5.53 | 5.31 | 5.53 |
| Revolving credit | - | 3.86 | - | 3.86 |

The borrowings are repayable as follows:

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| Not later than 1 year | 1,821,847 | 1,945,203 | 1,383,641 | 1,575,721 |
| Later than 1 year and not later than 5 years | 5,056,698 | 5,529,785 | 3,445,799 | 3,965,081 |
| Later than 5 years | 2,430,089 | 3,104,154 | 1,898,202 | 2,254,841 |
| | 9,308,634 | 10,579,142 | 6,727,642 | 7,795,643 |

The currency profile of borrowings is as follows:

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| Ringgit Malaysia | 734,671 | 1,059,435 | 734,671 | 1,059,435 |
| US Dollar | 8,126,971 | 9,135,547 | 5,701,249 | 6,411,512 |
| Euro | 162,819 | 179,853 | 108,987 | 120,389 |
| Singapore Dollar | 182,734 | 204,307 | 182,735 | 204,307 |
| Philippine Peso | 101,439 | - | - | - |
| | 9,308,634 | 10,579,142 | 6,727,642 | 7,795,643 |

## 31. Borrowings (cont'd.)

Total borrowings as at reporting date consist of the following banking facilities:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Fixed rate borrowings | 7,005,172 | 9,138,150 | 5,326,678 | 6,870,146 |
| Floating rate borrowings | 2,303,462 | 1,440,992 | 1,400,964 | 925,497 |
| | 9,308,634 | 10,579,142 | 6,727,642 | 7,795,643 |

The carrying amounts and fair values of the fixed rate borrowings are as follows:

| | Group | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Carrying amount RM'000 | Fair value RM'000 | Carrying amount RM'000 | Fair value RM'000 |
| Term loans | 6,519,278 | 6,200,779 | 8,462,449 | 8,398,488 |
| Finance lease liabilities (Ijarah) | 485,894 | 502,102 | 627,701 | 679,470 |
| Revolving credit | - | - | 48,000 | 48,000 |
| | 7,005,172 | 6,702,881 | 9,138,150 | 9,125,958 |

| | Company | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Carrying amount RM'000 | Fair value RM'000 | Carrying amount RM'000 | Fair value RM'000 |
| Term loans | 4,840,784 | 4,594,110 | 6,194,445 | 6,734,561 |
| Finance lease liabilities (Ijarah) | 485,894 | 502,102 | 627,701 | 679,470 |
| Revolving credit | - | - | 48,000 | 48,000 |
| | 5,326,678 | 5,096,212 | 6,870,146 | 7,462,031 |

The fair values of the floating rate borrowings approximate their carrying amounts, as the impact of discounting is not significant.

The fair values of the fixed rate borrowings are based on cash flows discounted using borrowing rates that are reflective of the Group's and Company's credit risk at the balance sheet date, at 3.4% to 4.7% (2016: 2.6% to 4.3%) per annum. The fair values of fixed rate borrowings are within level 2 of the fair value hierarchy.

## 31. Borrowings (cont'd.)

The term loans, finance lease liabilities (Ijarah) and Commodity Murabahah Finance are for the purchase of aircraft, spare engines and working capital purposes. The repayment terms of secured term loans, finance lease liabilities (Ijarah) and Commodity Murabahah Finance are on a quarterly or semi-annually basis.

Total borrowings include secured liabilities of the Group and Company of RM8.9 billion and RM6.4 billion respectively (2016: RM10.0 billion and RM7.3 billion). These are secured by the following:

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

## 32. Provision for retirement benefits

The Group has unfunded, non-contributory and actuarially computed retirement benefit plans which provide retirement benefits to employees who reach the mandatory retirement age under the provisions of Labor Law in Indonesia and the Philippines.

The amounts recognised in the statements of financial position as at 31 December are as follows:

| | **Group** | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| Present value of defined benefit obligation | 72,207 | - |

The movements in the present value of defined benefit obligation for the year ended 31 December are as follows:

| | **Group** |
|---|---|
| | **2017** |
| | **RM'000** |
| **Defined benefit obligation at 1 January** | - |
| Deemed acquisition of subsidiaries (Note 12) | 68,514 |
| Current service cost | 8,392 |
| Interest cost | 4,161 |
| Benefits paid | (3,122) |
| Remeasurement loss | 1,399 |
| Exchange differences | (7,137) |
| **Defined benefit obligation at 31 December** | 72,207 |

## 32. Provision for retirement benefits (cont'd.)

The amounts of retirement benefit expense recognized in profit or loss for the year ended 31 December are as follows:

| | Group 2017 RM'000 |
|---|---|
| Current service cost | 8,392 |
| Interest cost on benefit obligations | 4,161 |
| Employee benefits expense | 12,553 |

The provision for retirement benefits is charged to profit or loss as part of salaries and employee benefits in operating expenses.

The movement in the reserve for remeasurements on retirement benefit obligation for the year ended 31 December is as follows:

| | Group 2017 RM'000 |
|---|---|
| Beginning of the year | - |
| Remeasurement loss | 1,399 |
| | 1,399 |

The amounts recognised in other comprehensive income for the year ended 31 December are as follows:

| | Group 2017 RM'000 |
|---|---|
| Remeasurement loss on changes in financial assumptions | 3,990 |
| Remeasurement gain on experience adjustments | (2,591) |
| | 1,399 |

The principal actuarial assumptions used for the year ended 31 December are as follows:

| | PAA | IAA |
|---|---|---|
| Discount rate | 5.19% | 7.30% |
| Salary increase rate per annum | 5.00% | 8.00% |

The average durations of the benefit obligation at 31 December 2017 were 29 years and 21 years for PAA and IAA respectively.

## 32. Provision for retirement benefits (cont'd.)

### Sensitivity analysis

As at 31 December, the sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is as follows:

**PAA**

| | Impact on defined benefit obligation | | |
|---|---|---|---|
| | **Change in assumption** | **Increase in assumption RM** | **Decrease in assumption RM** |
| 2017 | | | |
| Annual discount rate | +/- 1% | (2,306,638) | 2,899,839 |
| Future annual salary increase rate | +/- 1% | 2,812,097 | 1,376,580 |

**IAA**

| | Impact on defined benefit obligation | | |
|---|---|---|---|
| | **Change in assumption** | **Increase in assumption RM** | **Decrease in assumption RM** |
| 2017 | | | |
| Annual discount rate | +/- 1% | 3,438,861 | (3,095,889) |
| Future annual salary increase rate | +/- 1% | 2,926,690 | (3,178,203) |

## 33. Share capital and share premium

| | Group and Company | |
|---|---|---|
| | **2017 RM'000** | **2016 RM'000** |
| **Authorised:** | | |
| Ordinary shares of RM0.10 each: | | |
| At beginning and end of the financial year | - | 500,000 |
| **Issued and fully paid up:** | | |
| Ordinary shares of RM0.10 each: | | |
| At beginning of the financial year | 278,297 | 278,297 |
| Issued during the financial year | 55,900 | - |
| Transition to no-par value regime^ | 2,181,241 | - |
| At end of the financial year | 2,515,438 | 278,297 |
| **Share premium** | | |
| At beginning of the financial year | 1,230,941 | 1,230,941 |
| Issued during the financial year | 950,300 | - |
| Transition to no-par value regime^ | (2,181,241) | - |
| At end of the financial year | - | 1,230,941 |

**33. Share capital and share premium(cont'd.)**

On 31 January 2017, pursuant to Section 74 of Companies Act, 2016, the concepts "par value" and "authorised share capital" were abolished and on that date, the shares of the Company ceased to have a par value.

During the financial year, the Company increased its issued and paid-up ordinary share capital from RM1,509,238,000 to RM2,515,438,000 by way of the issuance of 559,000,000 ordinary shares at an issue price of RM1.80 per ordinary share.

^ In accordance with the transitional provision set out in Section 618 of the Companies Act, 2016, the credit standing in the share premium amounting RM2,181,241,000 was transferred to the share capital account. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

**34. Retained earnings and other reserves**

**(a) Retained earnings**

Under the single-tier tax system 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.

**(b) Other reserves**

| | Remeasurement loss on employee benefits liability RM'000 | Cash flow hedge reserve RM'000 (Restated) | Available-for-sale reserve RM'000 | Total RM'000 (Restated) |
|---|---|---|---|---|
| **Group** | | | | |
| At 1 January 2017 (as previously stated) | - | (441,994) | 224,440 | (217,554) |
| Prior year adjustment (Note 42) | - | 428,384 | - | 428,384 |
| At 1 January 2017 (restated) | - | (13,610) | 224,440 | 210,830 |
| Net change in fair value | (691) | (400,128) | (55,087) | (455,906) |
| Amounts transferred to income statements | - | 148,901 | - | 148,901 |
| Share of other comprehensive income of an associate | - | 28,567 | - | 28,567 |
| At 31 December 2017 | (691) | (236,270) | 169,353 | (67,608) |

## 34. Retained earnings and other reserves (cont'd.)

### (b) Other reserves (cont'd.)

| | Cash flow hedge reserve RM'000 (Restated) | Available-for-sale reserve RM'000 | Total RM'000 (Restated) |
|---|---|---|---|
| **Group** | | | |
| At 1 January 2016 | (539,968) | 108,370 | (431,598) |
| Net change in fair value | 415,497 | 116,070 | 531,567 |
| Amounts transferred to income statements | 77,298 | - | 77,298 |
| Share of other comprehensive income of an associate | 33,563 | - | 33,563 |
| At 31 December 2016 | (13,610) | 224,440 | 210,830 |

| | Cash flow hedge reserve RM'000 (Restated) | Available-for-sale reserve RM'000 | Total RM'000 (Restated) |
|---|---|---|---|
| **Company** | | | |
| At 1 January 2017 (as previously stated) | (413,427) | 224,440 | (188,987) |
| Prior year adjustment (Note 42) | 428,384 | - | 428,384 |
| At 1 January 2017 (restated) | 14,957 | 224,440 | 239,397 |
| Net change in fair value | (358,394) | (55,087) | (413,481) |
| Amounts transferred to income statements | 148,901 | - | 148,901 |
| At 31 December 2017 | (194,536) | 169,353 | (25,183) |
| | | | |
| At 1 January 2016 | (477,838) | 108,370 | (369,468) |
| Net change in fair value | 415,497 | 116,070 | 531,567 |
| Amounts transferred to income statements | 77,298 | - | 77,298 |
| At 31 December 2016 | 14,957 | 224,440 | 239,397 |

## 35. Dividends

Dividends declared or proposed by the Company are as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Gross dividend per share Sen | Amount of dividend net of tax RM'000 | Gross dividend per share Sen | Amount of dividend net of tax RM'000 |
| First and final single tier dividend of 12 sen per ordinary share paid in respect of the financial year ended 31 December 2016 (2016: First and final single-tier dividend of 4 sen per ordinary share in respect of the financial year ended 31 December 2015) | 12.00 | 401,025 | 4.00 | 111,315 |
| First and interim single tier dividend of 12 sen per ordinary share paid in respect of the financial year ended 31 December 2017 | 12.00 | 401,025 | - | - |
| | | 802,050 | | 111,315 |

## 36. Commitments and operating leases

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

| | Group and Company | |
|---|---|---|
| | 2017 RM'000 | 2016 RM'000 |
| Property, plant and equipment: | | |
| - Approved and contracted for | 89,812,952 | 91,092,265 |
| - Approved but not contracted for | 38,512 | 9,801,838 |
| | 89,851,464 | 100,894,103 |

## 36. Commitments and operating leases (cont'd.)

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

The capital commitments for the Group and Company are in respect of aircraft purchase and ongoing constructions within the new office building. The future commitments of aircraft purchase and ongoing constructions within the new office building are as follows:

| | Group and Company 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Not later than 1 year | 3,011,658 | 3,485,188 |
| Later than 1 year and not later than 5 years | 21,499,524 | 14,150,774 |
| Later than 5 years | 65,301,770 | 73,456,303 |
| | 89,812,952 | 91,092,265 |

(b) Non-cancellable operating leases

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Future minimum lease payments RM'000 | Future minimum sublease receipts RM'000 | Future minimum lease payments RM'000 | Future minimum sublease receipts RM'000 |
| **Group** | | | | |
| Not later than 1 year | 776,747 | 1,174,408 | 559,841 | 1,146,130 |
| Later than 1 year and not later than 5 years | 2,609,430 | 3,564,752 | 2,395,316 | 3,879,218 |
| Later than 5 years | 1,981,286 | 1,601,452 | 790,591 | 1,883,018 |
| | 5,367,463 | 6,340,612 | 3,745,748 | 6,908,366 |
| **Company** | | | | |
| Not later than 1 year | 242,714 | 135,743 | 125,615 | 188,169 |
| Later than 1 year and not later than 5 years | 878,372 | 298,670 | 464,773 | 486,640 |
| Later than 5 years | 1,287,906 | 144,676 | 241,521 | 286,499 |
| | 2,408,992 | 579,089 | 831,909 | 961,308 |

Sublease receipts include lease receipts from both owned and leased aircraft receivable from Thai AirAsia Co. Ltd, PT Indonesia AirAsia, AirAsia Inc, Philippines AirAsia Inc, AirAsia Japan Co. Ltd and AirAsia (India) Private Limited.

## 37. Segmental information

Operating segments are reported in a manner consistent with the internal management reporting provided to the chief operating decision maker, which is the Group's Chief Executive Officer ("GCEO") effective 1 July 2015. The GCEO considers the business from a geographical perspective and identified the operating segments by each Air Operator Certificate ("AOC") held under the AirAsia brand. These are categorised as Malaysia, Thailand, Indonesia, Philippines, India and Japan.

The GCEO assesses the performance of the operating segments based on revenue and net operating profit.

Segment analysis by product categories has not been prepared as the Group is primarily engaged in the provision of air transportation services. Reconciliation to the reportable segments relates to the elimination of the associate companies.

## 37. Segmental information (cont'd.)

The segmental information provided to the GCEO for the reportable segments are as follows:

| | Malaysia RM'000 | Thailand RM'000 | Indonesia RM'000 | Philippines RM'000 | India RM'000 | Japan RM'000 | Elimination adjustments RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | | |
| Segment results | | | | | | | | |
| Revenue | 7,701,400 | 4,555,133 | 1,201,440 | 1,351,910 | 1,012,888 | 7,053 | (1,453,049) | 14,376,775 |
| Operating expenses | | | | | | | | |
| - Staff costs | (1,204,035) | (693,171) | (229,287) | (173,723) | (181,149) | (102,632) | - | (2,583,997) |
| - Depreciation of property, plant and equipment | (821,701) | (183,081) | (53,858) | (19,881) | (6,614) | (2,772) | 31,451 | (1,056,456) |
| - Aircraft fuel expenses | (1,993,660) | (1,340,953) | (392,847) | (434,618) | (397,694) | (730) | - | (4,560,502) |
| - Maintenance and overhaul | (361,502) | (372,279) | (179,329) | (252,345) | (128,780) | (11,197) | 320,296 | (985,136) |
| - User charges | (889,649) | (771,638) | (246,578) | (164,733) | (157,762) | (12,908) | 37,677 | (2,205,591) |
| - Aircraft operating lease expenses | (667,234) | (627,904) | (182,534) | (181,226) | (158,716) | (34,811) | 1,110,798 | (741,627) |
| - Other operating expenses | (322,572) | (285,564) | (99,983) | (85,392) | (69,884) | (20,434) | 91,721 | (792,108) |
| Other income/ (charges) | 1,028,045 | 95,639 | 252,707 | 38,953 | 34,233 | (50) | (595,878) | 853,649 |
| Operating profit/(loss) carried forward | 2,469,092 | 376,182 | 69,731 | 78,945 | (53,478) | (178,481) | (456,984) | 2,305,007 |

## 37. Segmental information (cont'd.)

The segmental information provided to the GCEO for the reportable segments are as follows:

| 2017 (cont'd.) | Malaysia RM'000 | Thailand RM'000 | Indonesia RM'000 | Philippines RM'000 | India RM'000 | Japan RM'000 | Elimination adjustments RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| Segment results (cont'd.) | | | | | | | | |
| Operating profit/(loss) brought forward | 2,469,092 | 376,182 | 69,731 | 78,945 | (53,478) | (178,481) | (456,984) | 2,305,007 |
| Finance income | 81,271 | 7,060 | 1,530 | 68 | 3,382 | - | (27,199) | 66,112 |
| Finance costs | (589,531) | (87,699) | (26,542) | (22,552) | (3,311) | (622) | 60,877 | (669,380) |
| Net operating profit/(loss) | 1,960,832 | 295,543 | 44,719 | 56,461 | (53,407) | (179,103) | (423,306) | 1,701,739 |
| Foreign exchange gains/ (losses) | 179,202 | 40,808 | 31,165 | (22,972) | 7,157 | 451 | (336) | 235,475 |
| Gain on partial disposal of investment in a subsidiary | 406,839 | - | - | - | - | - | (406,839) | - |
| Fair value loss on derivatives | (117,652) | - | - | - | - | - | (22,949) | (140,601) |
| Gain on remeasurement of previously held interest in associates | - | - | - | - | - | - | 214,350 | 214,350 |
| Gain on bargain purchase | - | - | - | - | - | - | 121,045 | 121,045 |
| Share of results of a joint venture | - | - | - | - | - | - | 19,923 | 19,923 |
| Share of results of associates | - | - | - | - | - | - | 17,980 | 17,980 |
| Profit/(loss) before taxation | 2,429,221 | 336,351 | 75,884 | 33,489 | (46,250) | (178,652) | (480,132) | 2,169,911 |

There is no single customer who contributed to 10% or more of the Group's total revenue.

## 37. Segmental information (cont'd.)

| | Malaysia RM'000 | Thailand RM'000 | Indonesia RM'000 | Philippines RM'000 | India RM'000 | Japan RM'000 | Elimination adjustments RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **2017 (cont'd.)** | | | | | | | | |
| **Segment Assets** | | | | | | | | |
| Property, plant and equipment | 12,013,762 | 3,159,115 | 619,354 | 82,723 | 37,953 | 25,826 | - | 15,938,733 |
| Deposits, cash and bank balances | 1,685,428 | 647,647 | 85,612 | 42,355 | 110,686 | 24,882 | - | 2,596,610 |
| Investment in joint ventures and associates | 1,105,739 | - | 2,998 | - | - | - | (1,052,728) | 56,009 |
| Other assets | 9,025,507 | 1,028,546 | 1,117,735 | 168,020 | 96,385 | 19,576 | (2,875,635) | 8,580,134 |
| | 23,830,436 | 4,835,308 | 1,825,699 | 293,098 | 245,024 | 70,284 | (3,928,363) | 27,171,486 |
| **Segment Liabilities** | | | | | | | | |
| Borrowings | (9,071,988) | (2,418,923) | (323,787) | (236,645) | - | - | 323,787 | (11,727,556) |
| Others | (5,576,556) | (1,096,134) | (701,835) | (1,759,178) | (299,816) | (30,218) | 1,454,779 | (8,008,958) |
| | (14,648,544) | (3,515,057) | (1,025,622) | (1,995,823) | (299,816) | (30,218) | 1,778,566 | (19,736,514) |

## 37. Segmental information (cont'd.)

| | Malaysia RM'000 | Thailand RM'000 | Indonesia RM'000 | Philippines RM'000 | India RM'000 | Japan RM'000 | Elimination adjustments RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | |
| **Segment results** | | | | | | | | |
| Revenue | 6,846,085 | 3,818,482 | 1,197,913 | 940,426 | 508,314 | - | (1,169,553) | 12,141,667 |
| Operating expenses | | | | | | | | |
| - Staff costs | (1,015,258) | (534,899) | (206,329) | (138,135) | (97,477) | (89,352) | - | (2,081,450) |
| - Depreciation of property, plant and equipment | (710,843) | (136,835) | (33,510) | (29,109) | (5,570) | (2,058) | - | (917,925) |
| - Aircraft fuel expenses | (1,578,473) | (971,208) | (357,765) | (305,189) | (224,439) | (2,702) | - | (3,439,776) |
| - Maintenance and overhaul | (218,753) | (342,004) | (186,289) | (221,560) | (62,725) | (6,898) | 234,047 | (804,182) |
| - User charges | (801,656) | (634,534) | (236,894) | (127,378) | (74,376) | (8,224) | - | (1,883,062) |
| - Aircraft operating lease expenses | (479,485) | (573,279) | (183,433) | (143,094) | (99,809) | (27,171) | 935,506 | (570,765) |
| - Other operating expenses | (283,031) | (231,662) | (160,069) | (65,319) | (42,110) | (22,026) | 62,861 | (741,356) |
| Other income/ (charges) | 352,703 | 50,008 | 203,320 | (70,181) | 10,455 | 189 | (62,861) | 483,633 |
| Operating profit/(loss) carried forward | 2,111,289 | 444,069 | 36,944 | (159,539) | (87,737) | (158,242) | - | 2,186,784 |

## 37. Segmental information (cont'd.)

| | Malaysia RM'000 | Thailand RM'000 | Indonesia RM'000 | Philippines RM'000 | India RM'000 | Japan RM'000 | Elimination adjustments RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **2016 (cont'd.)** | | | | | | | | |
| **Segment results (cont'd.)** | | | | | | | | |
| Operating profit/(loss) brought forward | 2,111,289 | 444,069 | 36,944 | (159,539) | (87,737) | (158,242) | - | 2,186,784 |
| Finance income | 134,923 | 8,964 | 901 | 40 | 944 | 4 | (28,651) | 117,125 |
| Finance costs | (593,061) | (64,985) | (40,250) | (21,633) | (410) | (56) | 28,651 | (691,744) |
| Net operating profit/(loss) | 1,653,151 | 388,048 | (2,405) | (181,132) | (87,203) | (158,294) | - | 1,612,165 |
| Foreign exchange gains/ (losses) | 484,685 | (9,351) | 59,949 | (84,684) | (1,904) | (1,966) | - | 446,729 |
| Impairment of investment in an associate | (163,750) | - | - | - | - | - | 163,750 | - |
| Share of results of a joint ventures | 24,285 | - | - | - | - | - | - | 24,285 |
| Share of results of associates | 134,704 | - | - | - | - | - | (105,915) | 28,789 |
| Profit/(loss) before taxation | 2,133,075 | 378,697 | 57,544 | (265,816) | (89,107) | (160,260) | 57,835 | 2,111,968 |

There is no single customer who contributed to 10% or more of the Group’s total revenue.

## 37. Segmental information (cont'd.)

| | Malaysia RM’000 | Thailand RM’000 | Indonesia RM’000 | Philippines RM’000 | India RM’000 | Japan RM’000 | Elimination adjustments RM’000 | Total RM’000 |
|---|---|---|---|---|---|---|---|---|
| **2016 (cont'd.)** | | | | | | | | |
| **Segment Assets** | | | | | | | | |
| Property, plant and equipment | 10,826,682 | 2,548,096 | 487,671 | 56,631 | 24,763 | 26,613 | - | 13,970,456 |
| Deposits, cash and bank balances | 1,741,573 | 829,759 | 91,869 | 30,182 | 229,838 | 51,007 | - | 2,974,228 |
| Investment in joint ventures and associates | 2,398,896 | - | - | - | - | - | (2,122,946) | 275,950 |
| Other assets | 7,018,236 | 718,848 | 615,977 | 165,249 | 114,909 | 13,961 | (1,235,565) | 7,411,615 |
| | 21,985,387 | 4,096,703 | 1,195,517 | 252,062 | 369,510 | 91,581 | (3,358,511) | 24,632,249 |
| **Segment Liabilities** | | | | | | | | |
| Borrowings | (10,579,142) | (1,779,824) | (438,118) | (288,208) | - | - | 438,118 | (12,647,174) |
| Others | (4,778,466) | (1,154,474) | (604,061) | (1,819,636) | (380,233) | (46,937) | 1,758,500 | (7,025,307) |
| | (15,357,608) | (2,934,298) | (1,042,179) | (2,107,844) | (380,233) | (46,937) | 2,196,618 | (19,672,481) |

## 37. Segmental information (cont'd.)

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| (a) Reconciliation of segment revenue to reported revenue: | | |
| Segment revenue | 15,829,824 | 13,311,220 |
| Less: Inter-segment revenue | (1,453,049) | (1,169,553) |
| Less: Revenue from associated companies which were not consolidated | (4,667,054) | (5,295,582) |
| | 9,709,721 | 6,846,085 |
| (b) Reconciliation of segment profit before taxation to reported profit before taxation: | | |
| Segment profit before taxation | 2,169,911 | 2,111,969 |
| Add: Expenses from affiliates which were not consolidated | (82,123) | 21,106 |
| | 2,087,788 | 2,133,075 |
| (c) Reconciliation of segment assets to reported total assets | | |
| Segment assets | 27,171,486 | 24,632,249 |
| Less: Assets of affiliates which were not consolidated | (5,497,408) | (2,646,035) |
| | 21,674,078 | 21,986,214 |
| (d) Reconciliation of segment liabilities to reported total liabilities | | |
| Segment liabilities | 19,736,514 | 19,672,481 |
| Less: Liabilities of affiliates which were not consolidated | (4,772,516) | (4,314,046) |
| | 14,963,998 | 15,358,435 |

## 38. 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 are as follows:

| Related companies | Relationship |
|---|---|
| AirAsia Go Holiday Sdn Bhd | Subsidiary |
| AirAsia (Mauritius) Limited | Subsidiary |
| AirAsia Investment Ltd | Subsidiary |
| AirAsia Exp Pte Ltd | Subsidiary |
| AirAsia Global Shared Services Sdn Bhd | Subsidiary |
| Asia Aviation Capital Limited | Subsidiary |
| MadCience Consulting Sdn Bhd | Subsidiary |
| BigPay Malaysia Sdn Bhd (formerly known as Tpaay Asia Sdn Bhd) | Subsidiary |
| Rokki Sdn Bhd (formerly known as Tune Box Sdn Bhd) | Subsidiary |
| Rokki Avionics Sdn Bhd | Subsidiary |
| Think Big Digital Sdn Bhd | Subsidiary |
| PT Indonesia AirAsia* | Subsidiary |
| AirAsia Inc* | Subsidiary |
| Ground Team Red Sdn Bhd | Subsidiary |
| Philippines AirAsia Inc* | Subsidiary |
| Tune Money Co | Subsidiary |
| PT Tune Money | Subsidiary |
| Thai AirAsia Co. Ltd | Associate of a subsidiary |
| AirAsia Japan Co., Ltd | Associate of a subsidiary |
| AirAsia (India) Private Limited | Associate of a subsidiary |
| AAE Travel Pte Ltd | Associate of a subsidiary |
| Asian Aviation Centre of Excellence Sdn Bhd** | Joint venture |
| Touristly Travel Sdn Bhd | Joint venture |
| AirAsia X Berhad | Company with common directors and shareholders |
| Tune Insurance Malaysia Berhad | Company with common directors and shareholders |
| Queen Park Rangers Holdings Ltd | Company with common directors and shareholders |

## 38. Significant related party transactions (cont'd.)

The related parties of the Company and their relationships are as follows (cont'd.):

| Related companies | Relationship |
|---|---|
| Thai AirAsia X Co. Ltd | Company with common directors and shareholders |
| PT Indonesia AirAsia Extra | Company with common directors and shareholders |
| Caterhamjet Global Ltd | Company with common directors and shareholders |
| Tune Money International Sdn Bhd | Company with common directors and shareholders |

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 38(d) below.

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.

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **(a) Income:** | | | | |
| Aircraft operating lease income for owned and leased aircraft | | | | |
| - Thai AirAsia Co. Ltd | 539,686 | 521,434 | 50,601 | 109,306 |
| - PT Indonesia AirAsia* | - | 182,139 | 18,582 | 65,158 |
| - AirAsia Inc (including Philippines AirAsia Inc)* | - | 104,751 | 32,850 | 26,608 |
| - AirAsia (India) Private Limited | 157,175 | 99,620 | 69,633 | 57,295 |
| - AirAsia Japan Co., Ltd | 33,637 | 30,528 | - | - |
| - PT Indonesia AirAsia Extra | 71,744 | 69,547 | - | - |

## 38. Significant related party transactions (cont'd.)

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| **(a) Income (cont'd.):** | | | | |
| Gain on disposal of aircraft to Thai AirAsia Co. Ltd | - | 35,009 | - | - |
| Gain on disposal of investment in Asian Aviation Centre of Excellence Sdn Bhd** | 167,688 | - | 294,362 | - |
| Gain on disposal of fixed asset to Ground Team Red Sdn Bhd | - | - | 900 | - |
| Gain on disposal of aircraft and engines to Asia Aviation Capital Limited | - | - | - | 374,488 |
| Fees charged to associates and related parties providing commercial air transport services | 106,777 | 87,048 | 106,777 | 87,048 |
| Commission on travel insurance for passengers charged to Tune Insurance Malaysia Berhad | 18,918 | 11,766 | 18,198 | 11,788 |
| **(b) Recharges:** | | | | |
| Recharges of expenses to | | | | |
| - Thai AirAsia Co. Ltd | 146,979 | 153,911 | 145,616 | 153,911 |
| - PT Indonesia AirAsia* | - | 11,836 | 25,889 | 11,836 |
| - AirAsia Inc (including Philippines AirAsia Inc)* | - | 63,788 | 59,003 | 63,788 |
| - AirAsia X Berhad | 34,648 | 65,640 | 39,626 | 65,640 |
| - AirAsia (India) Private Limited | 26,213 | 28,488 | 26,222 | 28,488 |
| - Asia Aviation Capital Limited | - | - | - | 27,993 |
| - PT Indonesia AirAsia Extra | 64,808 | 7,540 | 3,069 | 7,540 |
| - Thai AirAsia X Co. Ltd | 6,578 | 17,178 | 6,846 | 17,178 |
| - AirAsia Japan Co., Ltd | 4,021 | 18,150 | 4,019 | 18,150 |

## 38. Significant related party transactions (cont'd.)

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| **(b) Recharges (cont'd.):** | | | | |
| Recharges of expenses by | | | | |
| - Asia Aviation Capital Limited | 1,958 | - | 1,958 | - |
| - Thai AirAsia Co. Ltd | - | - | - | - |
| **(c) Other charges/(expenses):** | | | | |
| Maintenance reserve fund charged to | | | | |
| - PT Indonesia AirAsia* | - | 131,928 | 43,309 | 70,581 |
| - AirAsia Inc (including Philippines AirAsia Inc)* | - | 60,089 | 17,420 | 14,755 |
| - Thai AirAsia Co. Ltd | 375,592 | 358,292 | 173,076 | 191,950 |
| - AirAsia (India) Private Limited | 84,121 | 41,238 | 36,907 | 19,746 |
| - PT Indonesia AirAsia Extra | 36,814 | 31,169 | - | - |
| - AirAsia Japan Co., Ltd | 3,210 | 1,941 | - | - |
| Interest charges to | | | | |
| - PT Indonesia AirAsia* | - | - | 1,301 | - |
| - Philippines AirAsia Inc* | - | - | 482 | - |
| - MadCience Consulting Sdn Bhd | - | - | 870 | 870 |
| Provision of sponsorship to Queen Park Rangers Holdings Ltd | - | - | - | - |
| Charter air travel services charged by AirAsia X Berhad | (9,021) | (42,867) | (9,021) | (42,867) |

## 38. Significant related party transactions (cont'd.)

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| **(c) Other charges/(expenses) (cont'd.):** | | | | |
| Charter air travel services | | | | |
| - charged by Thai AirAsia X Co. Ltd | - | - | - | - |
| - charged by PT Indonesia AirAsia* | - | (8,617) | - | (8,617) |
| - charged by PT Indonesia AirAsia Extra | (24,660) | (31,528) | (24,660) | (31,528) |
| In-flight entertainment system and solutions costs charged by Rokki Avionics Sdn Bhd | - | - | - | (17,958) |
| Training fee charged by Asian Aviation Centre of Excellence Sdn Bhd** | (11,035) | (10,480) | (11,035) | (10,480) |
| Aircraft operating lease expense charged by Asia Aviation Capital Limited | - | - | (43,021) | (35,258) |
| Management fees charged by AirAsia Global Services Sdn Bhd | - | - | 6,216 | - |
| Management fees charged to associates and related parties | 18,014 | 14,630 | - | - |
| **(d) Key management compensation:** | | | | |
| - Basic salaries, bonus, allowances and other employee benefits | 60,264 | 57,928 | 60,264 | 57,059 |
| - Defined contribution plan | 7,071 | 6,850 | 7,071 | 6,778 |
| - Fees | 2,321 | 1,268 | 2,321 | 1,268 |
| | 69,656 | 66,046 | 69,656 | 65,105 |

## 38. Significant related party transactions (cont'd.)

### (d) Key management compensation (cont'd.):

Included in the key management compensation are Executive Directors' remuneration for the years 2016 and 2017 which were approved by the Nomination and Remuneration committee during the current year. Breakdown of the Executive Directors' remuneration is as disclosed in Note 5 to the financial statements.

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **(e) Receivables:** | | | | |
| Subsidiaries | | | | |
| - PT Indonesia AirAsia* | - | - | 400,752 | - |
| - Rokki Sdn Bhd | - | - | 3,813 | - |
| - Ground Team Red Sdn Bhd | - | - | 5,921 | - |
| - AirAsia (Mauritius) Limited | - | - | - | 5,365 |
| - AirAsia Investment Ltd | - | - | 713,921 | 224,087 |
| - MadCience Consulting Sdn Bhd | - | - | 13,796 | - |
| - AirAsia Global Shared Services Sdn Bhd | - | - | 17,575 | 14,374 |
| - Asia Aviation Capital Limited | - | - | 591,663 | 544,124 |
| - Think Big Digital Sdn Bhd | - | - | 6,447 | 6,667 |
| - Others | - | - | 5,214 | 6,353 |
| Amounts due from subsidiaries | - | - | 1,759,102 | 800,970 |

## 38. Significant related party transactions (cont'd.)

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| **(e) Receivables (cont'd.):** | | | | |
| Joint venture | | | | |
| -Touristly Travel Sdn Bhd | 4,893 | - | 19 | - |
| - Asian Aviation Centre of Excellence Sdn Bhd** | - | 8,952 | - | 8,952 |
| Amounts due from joint venture | 4,893 | 8,952 | 19 | 8,952 |
| Associates | | | | |
| - PT Indonesia AirAsia* | - | 539,464 | - | 440,190 |
| - AirAsia Inc (including Philippines AirAsia Inc)* | - | 68,407 | - | 13,126 |
| - AirAsia (India) Private Limited | 141,842 | 213,694 | 104,935 | 149,954 |
| - AirAsia Japan Co., Ltd | 1,839 | 31,906 | - | 22,918 |
| - Others | 3,936 | 2,836 | 2,882 | 720 |
| Amounts due from associates | 147,617 | 856,307 | 107,817 | 626,908 |
| Related parties | | | | |
| - Caterhamjet Global Ltd | - | - | - | - |
| - Thai AirAsia X Co. Ltd | - | 15,409 | - | 14,710 |
| - PT Indonesia AirAsia Extra | - | 20,623 | - | - |
| - Asian Aviation Centre of Excellence Sdn Bhd** | 1,788 | - | 1,788 | - |
| - Tune Money Co | 2,908 | - | - | - |
| - PT Tune Money | 2,079 | - | - | - |
| - Tune Insurance Malaysia Bhd | 1,074 | - | 1,074 | - |
| - Others | 26 | 1,392 | 26 | 1,392 |
| Amounts due from related parties | 7,875 | 37,424 | 2,888 | 16,102 |

## 38. Significant related party transactions (cont'd.)

| | Group 2017 RM'000 | Group 2016 RM'000 | Company 2017 RM'000 | Company 2016 RM'000 |
|---|---|---|---|---|
| **(f) Payables:** | | | | |
| Subsidiaries | | | | |
| - PT Indonesia AirAsia* | - | - | 7,121 | - |
| - Philippines AirAsia Inc* | - | - | 34,757 | - |
| - AirAsia (Mauritius) Limited | - | - | 4,612 | - |
| - AirAsia Exp Pte Ltd | - | - | 52,452 | - |
| - Others | - | - | 102 | - |
| Amounts due to subsidiaries | - | - | 99,044 | - |
| Associates | | | | |
| - AirAsia Japan Co., Ltd | - | - | 2,305 | - |
| - Thai AirAsia Co. Ltd | 122,874 | 68,215 | 44,925 | 28,761 |
| - AirAsia (India) Private Limited | 22,917 | 14,818 | 7,497 | 8,281 |
| - PT Indonesia AirAsia* | - | 21,832 | - | 5,517 |
| - AirAsia Inc (including Philippines AirAsia Inc)* | - | 18,011 | - | 4,665 |
| Amounts due to associates | 145,791 | 122,876 | 54,727 | 47,224 |
| Related parties | | | | |
| - AirAsia X Berhad | 56,641 | 29,907 | 58,449 | 34,315 |
| - Thai AirAsia X Co. Ltd | 14,003 | - | 11,587 | - |
| - PT Indonesia AirAsia Extra | 34,261 | 9,455 | 95,452 | 24,016 |
| - Others | 53 | 92 | - | 20 |
| Amounts due to related parties | 104,958 | 39,454 | 165,488 | 58,351 |

* PT Indonesia AirAsia and AirAsia Inc (including Philippines AirAsia Inc) became subsidiaries during the year (Note 12). Accordingly, transactions between both entities and the Group are eliminated at group level.

** Asian Aviation Centre of Excellence Sdn Bhd has been disposed during the year (Note 13).

## 39. Financial instruments

### (a) Financial instruments by category

| Group | Loans and receivables RM'mil | Assets at fair value through the profit and loss RM'mil | Derivatives used for hedging RM'mil | Available-for-sale financial assets RM'mil | Total RM'mil |
|---|---|---|---|---|---|
| **31 December 2017** | | | | | |
| **Assets as per statements of financial position** | | | | | |
| Available-for-sale financial assets (Note 15) | - | - | - | 302 | 302 |
| Receivables (excluding prepayments and tax receivables) (Note 18) | 1,581 | - | - | - | 1,581 |
| Amounts due from associates (Note 20) | 148 | - | - | - | 148 |
| Amounts due from a joint venture (Note 25) | 5 | - | - | - | 5 |
| Amounts due from related parties (Note 24) | 8 | - | - | - | 8 |
| Deposits on aircraft purchase (Note 19) | 916 | - | - | - | 916 |
| Derivative financial instruments (Note 21) | - | 261 | 327 | - | 588 |
| Deposits, cash and bank balances (Note 26) | 1,882 | - | - | - | 1,882 |
| Total | 4,540 | 261 | 327 | 302 | 5,430 |

## 39. Financial instruments (cont'd.)

### (a) Financial instruments by category (cont'd.)

| Group | Liabilities at fair value through the profit and loss RM'mil | Derivatives used for hedging RM'mil | Other financial liabilities RM'mil | Total RM'mil |
|---|---|---|---|---|
| **31 December 2017 (cont'd.)** | | | | |
| **Liabilities as per statements of financial position** | | | | |
| Borrowings (excluding finance lease liabilities) (Note 31) | - | - | 8,671 | 8,671 |
| Finance lease liabilities (Note 31) | - | - | 637 | 637 |
| Derivative financial instruments (Note 21) | 92 | 54 | - | 146 |
| Trade and other payables (excluding aircraft maintenance reserves and tax liabilities) (Note 21) | - | - | 3,388 | 3,388 |
| Amount due to associates (Note 20) | - | - | 146 | 146 |
| Amount due to related parties (Note 30) | - | - | 105 | 105 |
| Total | 92 | 54 | 12,947 | 13,093 |

**39. Financial instruments (cont'd.)**

**(a) Financial instruments by category (cont'd.)**

| **Group** | **Loans and receivables RM’mil** | **Assets at fair value through the profit and loss RM’mil** | **Derivatives used for hedging RM’mil** | **Available-for-sale financial assets RM’mil** | **Total RM’mil** |
|---|---|---|---|---|---|
| **31 December 2016** | | | | | |
| **Assets as per statements of financial position** | | | | | |
| Available-for-sale financial assets (Note 15) | - | - | - | 357 | 357 |
| Receivables (excluding prepayments and tax receivables) (Note 18) | 804 | - | - | - | 804 |
| Amounts due from associates (Note 20) | 856 | - | - | - | 856 |
| Amounts due from a joint venture (Note 25) | 9 | - | - | - | 9 |
| Amounts due from related parties (Note 24) | 37 | - | - | - | 37 |
| Deposits on aircraft purchase (Note 19) | 770 | - | - | - | 770 |
| Derivative financial instruments (Note 21) | - | 425 | 1,108 | - | 1,533 |
| Deposits, cash and bank balances (Note 26) | 1,742 | - | - | - | 1,742 |
| Total | 4,218 | 425 | 1,108 | 357 | 6,108 |

## 39. Financial instruments (cont'd.)

### (a) Financial instruments by category (cont'd.)

| | Liabilities at fair value through the profit and loss RM'mil | Derivatives used for hedging RM'mil | Other financial liabilities RM'mil | Total RM'mil |
|---|---|---|---|---|
| **Group** | | | | |
| **31 December 2016 (cont'd.)** | | | | |
| **Liabilities as per statements of financial position** | | | | |
| Borrowings (excluding finance lease liabilities) (Note 31) | - | - | 9,760 | 9,760 |
| Finance lease liabilities (Note 31) | - | - | 819 | 819 |
| Derivative financial instruments (Note 21) | 148 | 449 | - | 597 |
| Trade and other payables (excluding aircraft maintenance reserves and tax liabilities) (Note 27) | - | - | 2,915 | 2,915 |
| Amount due to associates (Note 20) | - | - | 123 | 123 |
| Amount due to related parties (Note 30) | - | - | 39 | 39 |
| Total | 148 | 449 | 13,656 | 14,253 |

## 39. Financial instruments (cont'd.)

### (a) Financial instruments by category (cont'd.)

| Company | Loans and receivables RM'mil | Assets at fair value through the profit and loss RM'mil | Derivatives used for hedging RM'mil | Available-for-sale financial assets RM'mil | Total RM'mil |
|---|---|---|---|---|---|
| **31 December 2017** | | | | | |
| **Assets as per statements of financial position** | | | | | |
| Available-for-sale financial assets (Note 15) | - | - | - | 296 | 296 |
| Receivables (excluding prepayments and tax receivables) (Note 18) | 1,363 | - | - | - | 1,363 |
| Amounts due from subsidiaries (Note 23) | 1,759 | - | - | - | 1,759 |
| Amounts due from associates (Note 20) | 108 | - | - | - | 108 |
| Amounts due from a joint venture (Note 25) | - | - | - | - | - |
| Amounts due from related parties (Note 24) | 3 | - | - | - | 3 |
| Deposits on aircraft purchase (Note 19) | 916 | - | - | - | 916 |
| Derivative financial instruments (Note 21) | - | 261 | 327 | - | 588 |
| Deposits, cash and bank balances (Note 26) | 1,302 | - | - | - | 1,302 |
| Total | 5,451 | 261 | 327 | 296 | 6,335 |

## 39. Financial instruments (cont'd.)

### (a) Financial instruments by category (cont'd.)

| Company | Liabilities at fair value through the profit and loss RM'mil | Derivatives used for hedging RM'mil | Other financial liabilities RM'mil | Total RM'mil |
|---|---|---|---|---|
| **31 December 2017 (cont'd.)** | | | | |
| **Liabilities as per statements of financial position** | | | | |
| Borrowings (excluding finance lease liabilities) (Note 31) | - | - | 6,242 | 6,242 |
| Finance lease liabilities (Note 31) | - | - | 486 | 486 |
| Derivative financial instruments (Note 21) | 108 | 54 | - | 162 |
| Trade and other payables (excluding aircraft maintenance reserves and tax liabilities) (Note 27) | - | - | 3,230 | 3,230 |
| Amount due to associates (Note 20) | - | - | 55 | 55 |
| Amount due to subsidiaries (Note 29) | - | - | 16 | 16 |
| Amount due to related parties (Note 30) | - | - | 165 | 165 |
| Total | 108 | 54 | 10,194 | 10,356 |

## 39. Financial instruments (cont'd.)

### (a) Financial instruments by category (cont'd.)

| Company | Loans and receivables RM'mil | Assets at fair value through the profit and loss RM'mil | Derivatives used for hedging RM'mil | Available-for-sale financial assets RM'mil | Total RM'mil |
|---|---|---|---|---|---|
| **31 December 2016** | | | | | |
| **Assets as per statements of financial position** | | | | | |
| Available-for-sale financial assets (Note 15) | - | - | - | 351 | 351 |
| Receivables (excluding prepayments and tax receivables) (Note 18) | 701 | - | - | - | 701 |
| Amounts due from subsidiaries (Note 23) | 801 | - | - | - | 801 |
| Amounts due from associates (Note 20) | 627 | - | - | - | 627 |
| Amounts due from a joint venture (Note 25) | 9 | - | - | - | 9 |
| Amounts due from related parties (Note 24) | 16 | - | - | - | 16 |
| Deposits on aircraft purchase (Note 19) | 770 | - | - | - | 770 |
| Derivative financial instruments (Note 21) | - | 425 | 1,108 | - | 1,533 |
| Deposits, cash and bank balances (Note 26) | 1,427 | - | - | - | 1,427 |
| Total | 4,351 | 425 | 1,108 | 351 | 6,235 |

## 39. Financial instruments (cont'd.)

### (a) Financial instruments by category (cont'd.)

| Company | Liabilities at fair value through the profit and loss RM'mil | Derivatives used for hedging RM'mil | Other financial liabilities RM'mil | Total RM'mil |
|---|---|---|---|---|
| **31 December 2016 (cont'd.)** | | | | |
| **Liabilities as per statements of financial position** | | | | |
| Borrowings (excluding finance lease liabilities) (Note 31) | - | - | 7,163 | 7,163 |
| Finance lease liabilities (Note 31) | - | - | 633 | 633 |
| Derivative financial instruments (Note 21) | 148 | 449 | - | 597 |
| Trade and other payables (excluding aircraft maintenance reserves and tax liabilities) (Note 27) | - | - | 3,007 | 3,007 |
| Amount due to associates (Note 20) | - | - | 47 | 47 |
| Amount due to subsidiaries (Note 29) | - | - | - | - |
| Amount due to related parties (Note 30) | - | - | 58 | 58 |
| Total | 148 | 449 | 10,908 | 11,505 |

### (b) Credit quality of financial assets

The credit quality of financial assets that are not impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'mil | 2016 RM'mil | 2017 RM'mil | 2016 RM'mil |
| Counterparties without external credit rating (Note 18) | | | | |
| Group 1 | 4 | 1 | 4 | 1 |
| Group 2 | 192 | 107 | 63 | 83 |
| | 196 | 108 | 67 | 84 |

## 39. Financial instruments (cont'd.)

### (b) Credit quality of financial assets (cont'd.)

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'mil | 2016 RM'mil | 2017 RM'mil | 2016 RM'mil |
| Cash at bank and short term bank deposits (Note 26) | | | | |
| AAA to A- | 1,574 | 1,733 | 994 | 1,418 |
| BBB to B3 | 308 | 9 | 308 | 9 |
| | 1,882 | 1,742 | 1,302 | 1,427 |
| Derivative financial assets (Note 21) | | | | |
| AA+ to A+ | 471 | 185 | 471 | 185 |
| A to BBB- | 103 | 1,015 | 103 | 1,015 |
| No rating | 14 | 333 | 14 | 333 |
| | 588 | 1,533 | 588 | 1,533 |

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 RM'mil | 2016 RM'mil | 2017 RM'mil | 2016 RM'mil |
| Amounts due from subsidiaries | | | | |
| Group 2 | - | - | 1,582 | 801 |
| Amounts due from a joint venture | | | | |
| Group 2 | 5 | 9 | - | 9 |
| Amounts due from associates | | | | |
| Group 2 | 148 | 856 | 108 | 627 |
| Amounts due from related parties | | | | |
| Group 2 | 8 | 37 | 3 | 16 |

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.

## 40. Financial risk management policies

The Group and Company is exposed to market risk (including fuel price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk. The Group and Company uses financial instruments such as fuel swaps, interest rate swaps and caps, and foreign currency forwards to mitigate its 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. Financial risk management policies and procedures are reviewed regularly to reflect changes in the market condition and the Group's and Company's activities.

The Group and Company also seeks to ensure that the financial resources that are available for the development of the Group's and Company'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 and seek to hedge their fuel requirements using fuel swaps (Note 21). If a barrel of jet fuel/brent oil at 31 December 2017 had been USD5 higher/lower with all other variables held constant, the impact on the post-tax profit and equity for the year are as follows:

| | Group and Company | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | +USD5 RM'mil | -USD5 RM'mil | +USD5 RM'mil | -USD5 RM'mil |
| Impact on post-tax profits | 15.80 | (15.80) | 32.60 | (37.90) |
| Impact on other comprehensive income | - | - | 159.70 | (159.70) |

## 40. Financial risk management policies (cont'd.)

### (a) Market risk (cont'd.)

#### (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.

Interest rate exposure arises from the Group's and Company'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.

The Group and Company manages its cash flow interest rate risk by entering into a number of immediate interest rate swap contracts and cross currency swap contracts that effectively converts its existing long-term floating rate debt facilities into fixed rate debt (Note 21).

If interest rate on USD denominated borrowings at 31 December 2017 and 31 December 2016 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 when considered with the hedging of the floating rate loans (Note 21).

If interest rate on USD denominated borrowings at 31 December 2017 and 31 December 2016 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. The impact on post-tax profits arises only from derivative held for trading, and the impact to other comprehensive income arises from derivative designated as hedging instruments:

| | **Group and Company** | | | |
|---|---|---|---|---|
| | **2017** | | **2016** | |
| | **+60bps RM'mil** | **-60bps RM'mil** | **+60bps RM'mil** | **-60bps RM'mil** |
| Impact on post tax profits | 17.95 | (18.55) | 27.90 | (28.80) |
| Impact on other comprehensive income | 33.73 | (36.44) | 51.30 | (55.20) |

## 40. Financial risk management policies (cont'd.)

### (a) Market risk (cont'd.)

#### (ii) Interest rate risk (cont'd.)

The remaining terms of the outstanding interest rate derivative contracts of the Group and Company at balance sheet date, which are all denominated in USD, are as follows:

| | 2017 RM'mil | 2016 RM'mil |
|---|---|---|
| Later than 1 year but less than 5 years: | | |
| Interest rate caps | 233 | 319 |
| Interest rate swaps | 1,445 | 1,256 |
| Cross currency interest rate swaps | 86 | 89 |
| Later than 5 years: | | |
| Interest rate swaps | 1,495 | 2,486 |
| Cross currency interest rate swaps | 275 | 296 |
| | 3,534 | 4,446 |

#### (iii) Foreign currency risk

The Group and Company is 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.

46% (2016: 59%) of USD denominated borrowings are hedged by long dated foreign exchange forward contracts (Note 21).

If RM had weakened/strengthened by 5% against the USD as at 31 December 2017 with all other variables held constant, post-tax profit for the financial year would have been RM122.29 million (2016: RM149.67 million) lower/higher. Similarly, the impact on other comprehensive income would have been RM6.34 million (2016: RM13.40 million) higher/lower due to the cash flow hedging in USD.

The exposure to other foreign currency risk of the Group and Company is not material and hence, sensitivity analysis is not presented.

## 40. Financial risk management policies (cont'd.)

### (a) Market risk (cont'd.)

#### (iii) Foreign currency risk (cont'd.)

The Group's currency exposure profile of financial instruments denominated in currencies other than the functional currency is as follows:

| | USD RM'mil | SGD RM'mil | RMB RM'mil | Others RM'mil |
|---|---|---|---|---|
| **At 31 December 2017** | | | | |
| **Financial assets** | | | | |
| Receivables | 290 | 10 | - | 974 |
| Deposits on aircraft purchase | 916 | - | - | - |
| Amounts due from associates | 148 | - | - | - |
| Derivative financial instruments | 193 | - | - | - |
| Amount due from a related party | 3 | - | - | - |
| Deposits, cash and bank balances | 917 | - | 183 | 573 |
| | 2,467 | 10 | 183 | 1,547 |
| **Financial liabilities** | | | | |
| Trade and other payables | 1,857 | 12 | 23 | 230 |
| Amounts due to associates | 146 | - | - | - |
| Amounts due to related parties | 48 | - | - | - |
| Borrowings | 8,127 | 183 | - | 264 |
| Derivative financial instruments | 144 | - | - | - |
| | 10,322 | 195 | 23 | 494 |
| Net exposure | (7,855) | (185) | 160 | 1,053 |

## 40. Financial risk management policies (cont'd.)

### (a) Market risk (cont'd.)

#### (iii) Foreign currency risk (cont'd.)

| | USD RM'mil | SGD RM'mil | RMB RM'mil | Others RM'mil |
|---|---|---|---|---|
| **At 31 December 2016** | | | | |
| **Financial assets** | | | | |
| Receivables | 611 | - | - | 25 |
| Deposits on aircraft purchase | 770 | - | - | - |
| Amounts due from associates | 856 | - | - | - |
| Derivative financial instruments | 750 | - | - | - |
| Amount due from a related party | 36 | - | - | - |
| Deposits, cash and bank balances | 756 | 39 | 251 | 250 |
| | 3,779 | 39 | 251 | 275 |
| **Financial liabilities** | | | | |
| Trade and other payables | 827 | 1 | - | 1 |
| Amounts due to associates | 123 | - | - | - |
| Amounts due to related parties | 9 | - | - | - |
| Borrowings | 9,136 | 204 | - | 180 |
| Derivative financial instruments | 597 | - | - | - |
| | 10,692 | 205 | - | 181 |
| Net exposure | (6,913) | (166) | 251 | 94 |

## 40. Financial risk management policies (cont'd.)

### (a) Market risk (cont'd.)

#### (iii) Foreign currency risk (cont'd.)

The Company's currency exposure profile of financial instruments denominated in currencies other than the functional currency is as follows:

| | USD<br>RM'mil | SGD<br>RM'mil | RMB<br>RM'mil | Others<br>RM'mil |
|---|---|---|---|---|
| **At 31 December 2017** | | | | |
| **Financial assets** | | | | |
| Receivables | 631 | 10 | - | 448 |
| Amounts due from subsidiaries | 1,707 | - | - | - |
| Amounts due from associates | 108 | - | - | - |
| Amounts due from related parties | 3 | - | - | - |
| Deposits on aircraft purchase | 916 | - | - | - |
| Derivative financial instruments | 193 | - | - | - |
| Deposits, cash and bank balances | 650 | - | 181 | 321 |
| | 4,208 | 10 | 181 | 769 |
| **Financial liabilities** | | | | |
| Trade and other payables | 2,144 | 8 | 1 | 36 |
| Amounts due to subsidiaries | 46 | - | - | - |
| Amounts due to associates | 55 | - | - | - |
| Amounts due to related parties | 107 | - | - | - |
| Borrowings | 5,701 | 183 | - | 109 |
| Derivative financial instruments | 160 | - | - | - |
| | 8,213 | 191 | 1 | 145 |
| Net exposure | (4,005) | (181) | 180 | 624 |

## 40. Financial risk management policies (cont'd.)

### (a) Market risk (cont'd.)

#### (iii) Foreign currency risk (cont'd.)

The Company's currency exposure profile of financial instruments denominated in currencies other than the functional currency is as follows:

| | USD RM'mil | SGD RM'mil | RMB RM'mil | Others RM'mil |
|---|---|---|---|---|
| **At 31 December 2016** | | | | |
| **Financial assets** | | | | |
| Receivables | 531 | - | - | 21 |
| Amounts due from subsidiaries | 773 | - | - | - |
| Amounts due from associates | 627 | - | - | - |
| Amounts due from related parties | 16 | - | - | - |
| Deposits on aircraft purchase | 770 | - | - | - |
| Derivative financial instruments | 750 | - | - | - |
| Deposits, cash and bank balances | 518 | 9 | 251 | 250 |
| | 3,985 | 9 | 251 | 271 |
| **Financial liabilities** | | | | |
| Trade and other payables | 729 | 1 | - | 1 |
| Amounts due to subsidiaries | - | - | - | - |
| Amounts due to associates | 47 | - | - | - |
| Amounts due to related parties | 24 | - | - | - |
| Borrowings | 6,412 | 204 | - | 120 |
| Derivative financial instruments | 597 | - | - | - |
| | 7,809 | 205 | - | 121 |
| Net exposure | (3,824) | (196) | 251 | 150 |

## 40. Financial risk management policies (cont'd.)

### (b) Credit risk

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

The Group’s and Company’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 and Company 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 and Company’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 credit quality of financial assets that are neither past due nor impaired are disclosed in Note 39(b) to the financial statements.

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

### (c) Liquidity and cash flow risk

The Group’s and Company’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 Directors are committed to ensuring that the Group and Company will have sufficient funds to enable the Group and Company to meet their liabilities as they fall due and to carry on their business without significant curtailment of operations, including raising funds from the market. During the financial year, the Company increased its issued share capital by 559,000,000 new ordinary shares of RM0.10 each as disclosed in Note 33 to the financial statements. The new shares were issued at RM1.80 each for a total cash consideration of RM1.0 billion.

## 40. Financial risk management policies (cont'd.)

### (c) Liquidity and cash flow risk (cont'd.)

The table below analyses the Group's and Company'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.

| | Less than 1 year RM'mil | 1-2 years RM'mil | 2-5 years RM'mil | Over 5 years RM'mil |
|---|---|---|---|---|
| **Group** | | | | |
| **At 31 December 2017** | | | | |
| Term loans | 1,870 | 1,447 | 3,549 | 2,300 |
| Finance lease liabilities | 174 | 126 | 459 | - |
| Commodity Murabahah Finance | 84 | 85 | 206 | 263 |
| Revolving credit | - | - | - | - |
| Trade and other payables | 2,148 | 222 | - | - |
| Amounts due to associates | 59 | - | - | 86 |
| Amounts due to related parties | 94 | - | - | 11 |
| | 4,429 | 1,880 | 4,214 | 2,660 |
| **At 31 December 2016** | | | | |
| Term loans | 2,063 | 1,654 | 4,118 | 2,791 |
| Finance lease liabilities | 151 | 188 | 338 | 305 |
| Commodity Murabahah Finance | 84 | 84 | 227 | 326 |
| Revolving credit | 48 | - | - | - |
| Trade and other payables | 1,773 | 772 | 12 | - |
| Amounts due to associates | 4 | - | - | 119 |
| Amounts due to related parties | 30 | - | - | 9 |
| | 4,153 | 2,698 | 4,695 | 3,550 |

## 40. Financial risk management policies (cont'd.)

### (c) Liquidity and cash flow risk (cont'd.)

| | Less than 1 year RM'mil | 1-2 years RM'mil | 2-5 years RM'mil | Over 5 years RM'mil |
|---|---|---|---|---|
| **Company** | | | | |
| **At 31 December 2017** | | | | |
| Term loans | 1,464 | 1,043 | 2,419 | 1,872 |
| Finance lease liabilities | 156 | 107 | 344 | - |
| Commodity Murabahah Finance | 84 | 85 | 206 | 263 |
| Trade and other payables | 1,777 | 222 | - | - |
| Amounts due to subsidiaries | 83 | - | - | 16 |
| Amounts due to associates | 47 | - | - | 8 |
| Amounts due to related parties | 165 | - | - | - |
| | 3,776 | 1,457 | 2,969 | 2,159 |
| **At 31 December 2016** | | | | |
| Term loans | 1,643 | 1,234 | 2,182 | 1,982 |
| Finance lease liabilities | 125 | 162 | 257 | 212 |
| Commodity Murabahah Finance | 84 | 84 | 227 | 326 |
| Revolving credit | 48 | - | - | - |
| Trade and other payables | 1,710 | 618 | 12 | - |
| Amounts due to associates | 25 | - | - | 22 |
| Amounts due to related parties | 58 | - | - | - |
| | 3,693 | 2,098 | 2,678 | 2,542 |
| **Group** | | | | |
| **At 31 December 2017** | | | | |
| Net-settled derivatives | | | | |
| Trading | 72 | 12 | 8 | - |
| Hedging | 29 | 13 | 12 | - |
| Gross-settled derivatives | | | | |
| Trading - outflow | - | - | - | - |
| Trading - inflow | - | - | - | - |

## 40. Financial risk management policies (cont'd.)

### (c) Liquidity and cash flow risk (cont'd.)

| | Less than 1 year RM'mil | 1-2 years RM'mil | 2-5 years RM'mil | Over 5 years RM'mil |
|---|---|---|---|---|
| **At 31 December 2016** | | | | |
| Net-settled derivatives | | | | |
| Trading | 106 | 21 | 21 | - |
| Hedging | 390 | 30 | 29 | - |
| Gross-settled derivatives | | | | |
| Trading - outflow | - | - | - | - |
| Trading - inflow | - | - | - | - |

| | Less than 1 year RM'mil | 1-2 years RM'mil | 2-5 years RM'mil | Over 5 years RM'mil |
|---|---|---|---|---|
| **Company** | | | | |
| **At 31 December 2017** | | | | |
| Net-settled derivatives | | | | |
| Trading | 88 | 12 | 8 | - |
| Hedging | 29 | 13 | 12 | - |
| Gross-settled derivatives | | | | |
| Trading - outflow | - | - | - | - |
| Trading - inflow | - | - | - | - |
| **At 31 December 2016** | | | | |
| Net-settled derivatives | | | | |
| Trading | 106 | 21 | 21 | - |
| Hedging | 390 | 30 | 29 | - |
| Gross-settled derivatives | | | | |
| Trading - outflow | - | - | - | - |
| Trading - inflow | - | - | - | - |

## 40. Financial risk management policies (cont'd.)

### (d) Capital risk management

The Group's and Company's objectives when managing capital are to safeguard the Group's and Company'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 and Company's various businesses, the Group and Company 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 and Company's overall strategy remains unchanged from 2016.

Consistent with others in the industry, the Group and Company monitors capital utilisation on the basis of the net gearing ratio. This net gearing ratio is calculated as net debts divided by total equity. Net debts are calculated as total borrowings (including "short term and long term borrowings" as shown in the Group's and Company's balance sheet) less deposit, cash and bank balances.

The net gearing ratio as at 31 December 2017 and 31 December 2016 was as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2017 RM'mil** | **2016 RM'mil** | **2017 RM'mil** | **2016 RM'mil** |
| Total borrowings (Note 31) | 9,309 | 10,579 | 6,728 | 7,796 |
| Less: Deposit, cash and bank balances | (1,882) | (1,742) | (1,302) | (1,427) |
| Net debts | 7,427 | 8,837 | 5,426 | 6,369 |
| Total equity | 6,710 | 6,628 | 7,573 | 5,965 |
| Net Gearing Ratio (times) | 1.11 | 1.33 | 0.72 | 1.07 |

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2017 and 31 December 2016.

## 40. Financial risk management policies (cont'd.)

### (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

The Group's and Company's financial instruments are measured in the statement of financial position at fair value. Disclosure of fair value measurements are 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).

The following table presents the Group's and Company's assets and liabilities that are measured at fair value.

| | Level 1 RM'mil | Level 2 RM'mil | Level 3 RM'mil | Total RM'mil |
|---|---|---|---|---|
| **Group** | | | | |
| **31 December 2017** | | | | |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Trading derivatives | - | 261 | - | 261 |
| Derivatives used for hedging | - | 327 | - | 327 |
| Available-for-sale financial assets | 301 | - | 5 | 306 |
| | 301 | 588 | 5 | 894 |

## 40. Financial risk management policies (cont'd.)

### (e) Fair value measurement (cont'd.)

| | Level 1 RM'mil | Level 2 RM'mil | Level 3 RM'mil | Total RM'mil |
|---|---|---|---|---|
| **Group** | | | | |
| **31 December 2017** | | | | |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| - Trading derivatives | - | 92 | - | 92 |
| Derivatives used for hedging | - | 54 | - | 54 |
| | - | 146 | - | 146 |
| **31 December 2016** | | | | |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Trading derivatives | - | 425 | - | 425 |
| Derivatives used for hedging | - | 1,108 | - | 1,108 |
| Available-for-sale financial assets | 351 | - | 6 | 357 |
| | 351 | 1,533 | 6 | 1,890 |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| - Trading derivatives | - | 148 | - | 148 |
| Derivatives used for hedging | - | 449 | - | 449 |
| | - | 597 | - | 597 |

## 40. Financial risk management policies (cont'd.)

### (e) Fair value measurement (cont'd.)

The following table presents the Group's and Company's assets and liabilities that are measured at fair value (cont'd.).

| | Level 1 RM'mil | Level 2 RM'mil | Level 3 RM'mil | Total RM'mil |
|---|---|---|---|---|
| **Company** | | | | |
| **31 December 2017** | | | | |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Trading derivatives | - | 261 | - | 261 |
| Derivatives used for hedging | - | 327 | - | 327 |
| Available-for-sale financial assets | 301 | - | 5 | 306 |
| | 301 | 588 | 5 | 894 |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| - Trading derivatives | - | 108 | - | 108 |
| Derivatives used for hedging | - | 449 | - | 449 |
| | - | 557 | - | 557 |
| **31 December 2016** | | | | |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Trading derivatives | - | 425 | - | 425 |
| Derivatives used for hedging | - | 1,108 | - | 1,108 |
| Available-for-sale financial assets | 351 | - | - | 351 |
| | 351 | 1,533 | - | 1,884 |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| - Trading derivatives | - | 148 | - | 148 |
| Derivatives used for hedging | - | 449 | - | 449 |
| | - | 597 | - | 597 |

## 40. Financial risk management policies (cont'd.)

### (e) Fair value measurement (cont'd.)

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 and Company 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 and Company’s over the counter (“OTC”) derivatives. Specific valuation techniques used to value financial instruments includes:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;

- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;

- The fair value of fuel swap contracts is determined using forward fuel price at the balance sheet date, with the resulting value discounted back to present value.

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, including discounted cash flow projections.

## 41. Unconsolidated structured entities

The Company has set up Merah entities, special purpose companies ("SPC") pursuant to aircraft related borrowings obtained from various financial institutions. Under the arrangement, the Company enters into an Aircraft Instalment Sale Agreement with the SPC, permitting the Company to possess and operate each of the Airbus A320 aircraft financed under the facility.

The SPC are orphan trust companies in which the Company has no equity interest. The SPC do not incur any losses or earn any income during the financial year ended 31 December 2017. The aircraft and the corresponding term loans and finance costs associated with the SPC have been recognised by the Group and Company upon the purchase of the aircraft.

The Group and Company does not provide any financial support to the SPC or have any contractual obligation to make good the losses, if any.

The details of the Merah entities are as follows:

| Name | Incorporation | Purpose |
|---|---|---|
| Merah Satu Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Tiga Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Empat Sdn Bhd | Malaysia | Aircraft financing special purpose company |
| Merah Lima Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Enam Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Tujuh Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Sembilan 9M-AFX Sdn Bhd | Malaysia | Aircraft financing special purpose company |

## 41. Unconsolidated structured entities (cont'd.)

The details of the Merah entities are as follows: (cont'd.)

| Name | Incorporation | Purpose |
|---|---|---|
| Merah Sepuluh Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Sebelas Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Duabelas Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Tigabelas Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Empatbelas Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Enambelas Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Lapanbelas Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Duapuluh Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Duapuluhsatu Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Duapuluhtiga Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Duapuluhlima Limited | Labuan, Malaysia | Aircraft financing special purpose company |

## 41. Unconsolidated structured entities (cont'd.)

The details of the Merah entities are as follows: (cont'd.)

| Name | Incorporation | Purpose |
|---|---|---|
| Merah Duapuluhtujuh Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Duapuluhlapan Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Duapuluhsembilan Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Tigapuluhsatu Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Tigapuluh Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Tigapuluhdua Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Tigapuluhempat Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Tigapuluhenam Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Tigapuluhtujuh Limited | Labuan, Malaysia | Aircraft financing special purpose company |
| Merah Tigapuluhsembilan Limited | Labuan, Malaysia | Aircraft financing special purpose company |

## 42. Prior year adjustment

During the financial year, the Group reviewed the internal process at arriving to the cash flow hedge reserves balance and identified an accounting error in the cash flow hedge reserves, foreign exchanges losses and the retained earnings in 2016. The following figures have been adjusted as follows:

Recycling of cash flow hedge reserve to the Income statements

**Group**

**Income statements**
**For the financial year ended 31 December 2016**

| | As previously stated RM'000 | Adjustment (Note (a)) RM'000 | Other Adjustments (Note 43) RM'000 | As restated RM'000 |
|---|---|---|---|---|
| Foreign exchange gains (Note 8(c)) | 484,685 | (428,384) | 4,838 | 61,139 |

**Statement of comprehensive income**
**For the financial year ended 31 December 2016**

| | As previously stated RM'000 | Adjustment (Note (a)) RM'000 | Other Adjustments (Note 43) RM'000 | As restated RM'000 |
|---|---|---|---|---|
| Cash flow hedges | 64,411 | 428,384 | - | 492,795 |

**Statement of financial position**
**As at 31 December 2016**

| | As previously stated RM'000 | Adjustment (Note (a)) RM'000 | As restated RM'000 |
|---|---|---|---|
| Retained earnings (Note 34(a)) | 5,294,468 | (428,384) | 4,866,084 |
| Other reserves (Note 34(b)) | (217,554) | 428,384 | 210,830 |

**42. Prior year adjustment (cont'd.)**

**Group (cont'd.)**

**Consolidated statement of changes in equity**
**For the financial year ended 31 December 2016**

| | As previously stated RM'000 | Adjustment (Note (a)) RM'000 | As restated RM'000 |
|---|---|---|---|
| Retained earnings (Note 34(a)) | 5,294,468 | (428,384) | 4,866,084 |
| Other reserves (Note 34(b)) | (217,554) | 428,384 | 210,830 |

**Statement of cash flow**
**For the financial year ended 31 December 2016**

| | As previously stated RM'000 | Adjustment (Note (a)) RM'000 | Others Adjustments (Note 43) RM'000 | As restated RM'000 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Profit before taxation | 2,133,075 | (428,384) | - | 1,704,691 |
| Net unrealised foreign exchange (gain)/loss | 344,715 | 428,384 | (307,553) | 465,546 |

**Company**

**Income statements**
**For the financial year ended 31 December 2016**

| | As previously stated RM'000 | Adjustment (Note (a)) RM'000 | Other Adjustments (Note 43) RM'000 | As restated RM'000 |
|---|---|---|---|---|
| Foreign exchange gains (Note 8(c)) | 482,105 | (428,384) | 4,838 | 58,559 |

**42. Prior year adjustment (cont'd.)**

**Company (cont'd.)**

**Statement of comprehensive income**
**For the financial year ended 31 December 2016**

| | As previously stated RM'000 | Adjustment (Note (a)) RM'000 | Other Adjustments (Note 43) RM'000 | As restated RM'000 |
|---|---|---|---|---|
| Cash flow hedges | 64,411 | 428,384 | - | 492,795 |

**Statement of financial position**
**As at 31 December 2016**

| | As previously stated RM'000 | Adjustment (Note (a)) RM'000 | As restated RM'000 |
|---|---|---|---|
| Retained earnings (Note 34(a)) | 4,644,678 | (428,384) | 4,216,294 |
| Other reserves (Note 34(b)) | (188,987) | 428,384 | 239,397 |

**Statement of changes in equity**
**For the financial year ended 31 December 2016**

| | As previously stated RM'000 | Adjustment (Note (a)) RM'000 | As restated RM'000 |
|---|---|---|---|
| Retained earnings (Note 34(a)) | 4,644,678 | (428,384) | 4,216,294 |
| Other reserves (Note 34(b)) | (188,987) | 428,384 | 239,397 |

## 42. Prior year adjustment (cont'd.)

### Company (cont'd.)

**Statement of cash flow**
**For the financial year ended 31 December 2016**

| | As previously stated RM'000 | Adjustment (Note (a)) RM'000 | Other Adjustments (Note 43) RM'000 | As restated RM'000 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Profit before taxation | 2,309,916 | (428,384) | - | 1,881,532 |
| Net unrealised foreign exchange (gain)/loss | 239,029 | 428,384 | (307,553) | 359,860 |

## 43. Comparatives

Certain comparatives were reclassified to conform with current financial year's presentation.

### Group

**Income statements**
**For the financial year ended 31 December 2016**

| | As previously stated RM'000 | Reclassifications RM'000 | Adjustment as disclosed in (Note 42) RM'000 | As restated RM'000 |
|---|---|---|---|---|
| Aircraft fuel expenses | (1,578,473) | (45,733) | - | (1,624,206) |
| Finance income (Note 8(a)) | 134,923 | (29,591) | - | 105,332 |
| Foreign exchange gains (Note 8(c)) | 484,685 | 4,838 | (428,384) | 61,139 |
| Fair value (loss)/gain on derivatives (Note 8(d)) | - | 70,486 | - | 70,486 |

## 43. Comparatives (cont'd.)

### Group (cont'd.)

**Statement of cash flow**
**For the financial year ended 31 December 2016**

| | As previously stated RM'000 | Reclassifications RM'000 | Adjustment as disclosed in (Note 42) RM'000 | As restated RM'000 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Fair value (loss)/gain on derivatives (Note 8(d)) | (302,715) | 232,229 | - | (70,486) |
| Net unrealised foreign exchange (gain)/loss | 344,715 | (307,553) | 428,384 | 465,546 |
| Interest income | (134,923) | 29,591 | - | (105,332) |
| Dividend income from: | | | | |
| - associates | (72,527) | 72,527 | - | - |
| Changes in working capital: | | | | |
| Trade and other payables | 520,684 | (26,794) | - | 493,890 |

### Company

**Income statements**
**For the financial year ended 31 December 2016**

| | As previously stated RM'000 | Reclassifications RM'000 | Adjustment as disclosed in (Note 42) RM'000 | As restated RM'000 |
|---|---|---|---|---|
| Aircraft fuel expenses | (1,578,473) | (45,733) | - | (1,624,206) |
| Finance income (Note 8(a)) | 110,190 | (29,591) | - | 80,599 |
| Foreign exchange gains (Note 8(c)) | 482,105 | 4,838 | (428,384) | 58,559 |
| Fair value (loss)/gain on | - | | | |
| derivatives (Note 8(d)) | - | 70,486 | - | 70,486 |

## 43. Comparatives (cont'd.)

### Company (cont'd.)

### Statement of cash flow
### For the financial year ended 31 December 2016

| | As previously stated RM'000 | Reclassifications RM'000 | Adjustment as disclosed in (Note 42) RM'000 | As restated RM'000 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Fair value (loss)/gain on derivatives (Note 8(d)) | (302,715) | 232,229 | - | (70,486) |
| Net unrealised foreign exchange (gain)/loss | 239,029 | (307,553) | 428,384 | 359,860 |
| Interest income | (110,190) | 29,591 | - | (80,599) |
| Changes in working capital: | | | | |
| Trade and other payables | 809,143 | 45,733 | - | 854,876 |

## 44. Significant events

(i) Sale of interest in a joint venture

On 24 August 2017, the Company disposed it's entire shareholding in AACOE. Details of the transaction are disclosed in Note 13.

(ii) Consolidation of IAA and PAA

In the first quarter of 2017, the Company entered into a Supplementary BLA with IAA and PAA. Effective from 1 January 2017, the effective date specified in the Supplementary BLAs, the respective investees have undertaken to comply at all times with the recommendations made by the Company under the BLA. Pursuant to this, in accordance to MFRS 10, these investees are deemed as subsidiaries for accounting consolidation purpose. Details of the transaction are disclosed in Note 12.

(iii) Reverse acquisition of AAID

On 29 August 2017, the Company executed Conditional Sale of Perpetual Capital Securities agreements with PT Fersindo Nusaperkasa ("FNP") and AAIL respectively. Perpetual Capital Securities ("PERPS") with a nominal value of IDR1,326,510,000,000 (equivalent to RM426.1 million) and IDR1,274,490,000,000 (equivalent to RM409.4 million) were sold to FNP and AAIL accordingly. Details of the transaction are disclosed in Note 12.

(iv) Issuance and allotment of 559.00 million new ordinary shares in the Company

AirAsia Berhad obtained approval from its shareholders at the Extraordinary General Meeting held on 9 May 2016 for the issuance and allotment of 559,000,000 new ordinary shares in AirAsia Berhad to Tune Live Sdn. Bhd. at an adjusted issue price of RM1.80 per share. The Shares Issuance has been completed on 26 January 2017 following the listing of and quotation for the Subscription Shares on the Main Market of Bursa Securities.

## 45. Subsequent events

(i) On 4 January 2018, the share swap agreement between Ground Team Red Holdings Sdn Bhd (“GTRH”) and SATS Ltd. (“SATS”) was completed, wherein GTRH acquired 80% equity stake in SATS Ground Services Singapore Pte. Ltd in exchange for an 11.4% equity stake in GTRH. In addition to this, the transaction for the Company to sell and transfer 38.6% of its shareholding in GTRH to SATS for a consideration of SGD119,300,000 has been completed on 14 February 2018.

## 45. Subsequent events (cont'd.)

(ii) On 28 February 2018, the Company entered into sale and purchase agreements to divest its aircraft leasing operations that are currently undertaken by Asia Aviation Capital Limited ("AACL"), a wholly-owned subsidiary of the Company, to entities managed by BBAM Limited Partnership for a disposal consideration of USD1,185.0 million (approximately RM4,619.7 million).

(iii) Internal reorganisation

On 15 March 2018, the High Court has approved the internal reorganisation by way of a Members' Scheme of Arrangement under Section 366 of the Companies Act, 2016 for the following proposals;

(a) the exchange of 3,341,974,080 ordinary shares in the Company (including treasury shares), representing the entire issued share capital of AAB, with 3,341,974,080 new ordinary shares in AirAsia Group Berhad ("AAGB"), a newly incorporated investment holding company, on the basis of 1 new AAGB Share for every 1 existing AAB Share held on 6 April 2018; and

(b) the assumption of the listing status of AAB by AAGB and the admission of AAGB to and withdrawal of AAB from the Official List of Bursa Malaysia Securities Berhad, with the listing of and quotation for AAGB Shares on the Main Market of Bursa Securities.

Accordingly, the internal reorganisation has been completed on 16 April 2018.