

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

13 INVESTMENT IN SUBSIDIARIES

	<u>2011</u>	<u>Company</u>
	RM'000	2010
		RM'000
Unquoted investments, at cost	27,316	27,316
Less: Accumulated impairment losses	(3,836)	(1,932)
	<u>23,480</u>	<u>25,384</u>
At 1 January	25,384	22,194
Additional investment in a subsidiary	-	3,190
	<u>25,384</u>	<u>25,384</u>
Less: Impairment loss in investment in a subsidiary	(1,904)	-
At 31 December	<u>23,480</u>	<u>25,384</u>

Management has performed an assessment on the carrying amount of investment in a subsidiary, Crunchtime Culinary Services Sdn Bhd ("Crunchtime"). Crunchtime is currently dormant. Arising from the above assessment, the Company recognised an impairment charge of RM1,904,000 (2010: Nil) during the financial year ended 31 December 2011.

The details of the subsidiaries are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Group's effective equity interest</u>		<u>Principal activities</u>
		<u>2011</u>	<u>2010</u>	
		%	%	
<u>Directly held by the Company</u>				
Crunchtime Culinary Services Sdn Bhd	Malaysia	100.0	100.0	Provision of in flight meals, currently dormant
AirAsia Investment Ltd ("AAIL") * (formerly known as AA International Ltd)	Malaysia	100.0	100.0	Investment holding
AirAsia Go Holiday Sdn Bhd ("AGH")	Malaysia	100.0	100.0	Tour operating business
AirAsia (Mauritius) Limited*	Mauritius	100.0	100.0	Providing aircraft leasing facilities to Thai AirAsia Co. Ltd
Airspace Communications Sdn Bhd	Malaysia	100.0	100.0	Media owner with publishing division, currently dormant
AirAsia (B) Sdn Bhd *	Negara Brunei Darussalam	100.0	100.0	Providing air transportation services, currently dormant

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**13 INVESTMENT IN SUBSIDIARIES (CONTINUED)**

The details of the subsidiaries are as follows: (continued)

<u>Name</u>	<u>Country of incorporation</u>	<u>Group's effective equity interest</u>		<u>Principal activities</u>
		<u>2011</u> %	<u>2010</u> %	
<u>Directly held by the Company</u>				
AirAsia Corporate Services Limited *	Malaysia	100.0	100.0	Facilitate business transactions for AirAsia Group with non-resident goods and service providers
Aras Sejagat Sdn Bhd	Malaysia	100.0	100.0	Special purpose vehicle for financing arrangements required by AirAsia
Koolred Sdn Bhd ("Koolred")	Malaysia	100.0	100.0	Investment holding
Asia Air Limited *	United Kingdom	100.0	100.0	To provide and promote AirAsia's in flight food to the European market, currently dormant
<u>Held by AGH</u>				
AirAsia Exp Pte. Ltd ("AAE") *	Singapore	100.0	-	Investment holding
<u>Held by AAIL</u>				
AirAsia (Hong Kong) Limited *	Hong Kong	100.0	100.0	Dormant
AA Capital Ltd *	Malaysia	100.0	100.0	Dormant

\* Not audited by PricewaterhouseCoopers, Malaysia

On 6 June 2011, a wholly-owned subsidiary, AirAsia Exp Pte Ltd ("AAE"), was incorporated in Singapore to facilitate the online travel agency business which AirAsia and Expedia Inc. have agreed to set up via a jointly controlled entity, AAE Travel Pte. Ltd. (Note 14).

The initial share capital of of AAE is SGD 1.00 comprising of 1 ordinary share of SGD 1.00.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

14 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	<u>Group</u>		<u>Company</u>	
	<u>2011</u> RM'000	<u>2010</u> RM'000	<u>2011</u> RM'000	<u>2010</u> RM'000
Represented by:				
Unquoted investment, at cost	123,728	12,054	81,559	-
Share of post-acquisition reserves	(74)	(12,054)	-	-
	<u>123,654</u>	<u>-</u>	<u>81,559</u>	<u>-</u>

The details of the jointly controlled entity are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Group's effective equity interest</u>		<u>Principal activities</u>
		<u>2011</u> %	<u>2010</u> %	
Think Big Digital Sdn Bhd	Malaysia	50.0	-	Financial services
Asian Aviation Centre of Excellence Sdn Bhd	Malaysia	50.0	-	Aviation training
<u>Held by AAIL</u>				
Thai AirAsia Co. Ltd ("Thai AirAsia")	Thailand	48.9	48.9	Commercial air transport services
<u>Held by AAE</u>				
AAE Travel Pte Ltd	Singapore	50.0	-	Online travel agency

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

14 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

Acquisitions of interest in jointly controlled entities during the financial year ended 31 December 2011

- (a) On 29 March 2011, the Company entered into a joint venture with Expedia Inc ("Expedia") for the purpose of establishing an online Travel Agency. The joint venture shall operate through a joint venture company incorporated in Singapore on 19 August 2011, AAE Travel Pte. Ltd. ("AAE Travel"), to be equally owned by the Company and Expedia.

The initial share capital of AAE Travel is SGD 24,577,000 comprising 24,577,000 ordinary shares of SGD1.00 each.

- (b) On 20 June 2011, the Company entered into a joint venture with CAE International Holding Ltd ("CAE") for the purpose of setting up an aviation academy providing training services for pilots, cabin crew, engineers, ramps handlers, guest services and aviation management. The joint venture shall operate through a joint venture company, Asian Aviation Centre of Excellence Sdn Bhd ("AACOE"), to be equally owned by the Company and CAE.

The initial share capital of AACOE is RM165,560,000 comprising 165,560,000 ordinary shares of RM1.00 each.

- (c) On 20 September 2011, the Company entered into a joint venture with Tune Money Sdn Bhd ("Tune Money") in relation to the launch of a customer loyalty program and pre-paid card services under the brand "BIG". The joint venture shall operate through a joint venture company, Think Big Digital Sdn Bhd ("Think Big Digital") to be equally owned by the Company and Tune Money.

The initial share capital of Think Big Digital is RM2 comprising ordinary shares of RM1.00 each.

The Group's share of the results of the jointly controlled entities, which have been equity accounted for, is as follows:

	<u>2011</u> RM'000	<u>2010</u> RM'000
Revenue	61,334	-
Net profit for the financial year	11,980	-
	<u>          </u>	<u>          </u>

The Group's share of assets and liabilities of the jointly controlled entities is as follows:

	<u>2011</u> RM'000	<u>2010</u> RM'000
Non-current assets	97,546	-
Current assets	51,137	-
Current liabilities	(25,029)	-
	<u>          </u>	<u>          </u>
Share of net assets of the jointly controlled entity	123,654	-
	<u>          </u>	<u>          </u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**14 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)**

The Group discontinued recognition of its share of profits made by Thai AirAsia as the Group's interest in the jointly controlled entity has been reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of the jointly controlled entity. As at 31 December 2011, the unrecognised amount of the Group's share of losses of Thai AirAsia which has not been equity accounted for amounted to RM28.5 million (2010: RM127.8 million).

**15 INVESTMENT IN ASSOCIATES**

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Unquoted investment, at cost	48,843	4,141	29	29
Group's share of post-acquisition losses	(9,764)	(4,112)	-	-
	39,079	29	29	29

The details of the associates are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Group's effective equity interest</u>		<u>Principal activities</u>
		<u>2011</u> %	<u>2010</u> %	
AirAsia Philippines Inc	Philippines	39.9	39.9	Providing air transportation services, currently dormant
Asian Contact Centres Sdn. Bhd.	Malaysia	50.0	50.0	Providing end-to-end solutions for customers contact management and contact centre
<u>Held by AAIL</u>				
PT Indonesia AirAsia ("IAA")	Indonesia	48.9	48.9	Commercial air transport services
AirAsia Go Holiday Co. Ltd	Thailand	49.0	49.0	Tour operating business, currently dormant
AirAsia Inc	Philippines	40.0	40.0	Commercial air transport services
AirAsia Japan Co., Ltd	Japan	49.0	-	Commercial air transport services
AirAsia Pte Ltd	Singapore	48.9	48.9	Dormant

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

15 INVESTMENT IN ASSOCIATES (CONTINUED)

Name	Country of incorporation	Group's effective equity interest		Principal activities
		<u>2011</u> %	<u>2010</u> %	
<u>Held by Koolred</u>				
Flight Focus Pte Ltd	Singapore	20.0	-	Aeronautical services
Merlot Aero Limited	New Zealand	12.5	-	Aeronautical services

The Group's share of the results of associates, which has been equity accounted for, is as follows:

	<u>2011</u> RM'000	<u>2010</u> RM'000
Revenue	271	-
Net loss for the financial year	(5,652)	-

The Group's share of assets and liabilities of the associates is as follows:

	<u>2011</u> RM'000	<u>2010</u> RM'000
Non-current assets	17,488	-
Current assets	29,860	29
Current liabilities	(8,201)	-
Non-current liabilities	(68)	-
Share of net assets of associates	<u>39,079</u>	<u>29</u>

The Group discontinued recognition of its share of profits made by IAA as the Group's interest in this associate has been reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of the associate. As at 31 December 2011, the unrecognised amounts of the Group's share of losses of IAA which have not been equity accounted for amounted to RM186.0 million (2010: RM196.6 million).

Acquisitions of interest in significant associates during the financial year ended 31 December 2011

On 21 July 2011, the Company entered into a shareholders' agreement with All Nippon Airways Co., Ltd of Japan for the purpose of forging a joint venture co-operation to establish a low cost airline in Japan. The venture shall operate through a Japan incorporated entity, AirAsia Japan Co., Ltd ("AirAsia Japan").

The initial share capital of AirAsia Japan is JPY 490,000,000 comprising 9,800 ordinary shares of JPY50,000 each.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**16 AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	<u>Group and Company</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
<u>Non-current</u>		
At 1 January	152,942	132,663
Additions	-	16,000
Fair value gain – recognised in other comprehensive income	-	4,279
At 31 December	<u>152,942</u>	<u>152,942</u>

The Group has an investment in an unquoted corporation, AirAsia X Sdn Bhd, which is classified as available-for-sale financial assets. The fair value of the investment is based on cash flow projection discounted using a rate representing the risk of the investment in the specific market of 13% per annum. The valuation of an available-for-sale equity investment requires a high degree of subjectivity and significant judgement. In making this judgement, the Group is dependent on the key bases and assumptions which include, amongst other factors, the prices of fuel, fares, load factor, currency movements; and the financial health of, and short term business outlook for the investee, including factors such as industry and route performance, changes in technology and operational and financing cash flows. The maximum exposure to credit risk at the reporting date is the carrying value of the security. This financial asset is neither past due nor impaired.

**17 OTHER INVESTMENTS**

	<u>Group and Company</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
<u>Non-current:</u>		
Recreational golf club membership	-	25
At 1 January	25	37
Amortisation of other investments (Note 6)	(25)	(12)
At 31 December	<u>-</u>	<u>25</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

18 **GOODWILL**

	<u>2011</u>	<u>Group</u> <u>2010</u>
	RM'000	RM'000
<u>Cost</u>		
At 1 January	8,738	8,738
Impairment loss charged for the year (Note 6)	(1,404)	-
At 31 December	<u>7,334</u>	<u>8,738</u>

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

	<u>2011</u>	<u>Group</u> <u>2010</u>
	RM'000	RM'000
<u>Cost</u>		
AirAsia Investment Ltd ("AAIL") (formerly known as AA International Ltd)	7,334	7,334
Crunchtime Culinary Services Sdn Bhd ("Crunchtime")	-	1,404
	<u>7,334</u>	<u>8,738</u>

Goodwill allocated to Crunchtime

Management has performed an annual assessment on the carrying amount of goodwill allocated to Crunchtime. Crunchtime is currently dormant. Arising from the above assessment, the Group recognised an impairment charge of RM1,404,000 (2010: Nil) during the financial year ended 31 December 2011.



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**19 DEFERRED TAXATION**

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

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Deferred tax assets	516,100	719,260	516,151	719,260

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

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At start of financial year	719,260	751,274	719,260	751,274
(Charged)/credited to income statement (Note 10)				
- Property, plant and equipment	(208,908)	(197,852)	(208,857)	(197,852)
- Tax incentives	5,748	165,838	5,748	165,838
	(203,160)	(32,014)	(203,109)	(32,014)
At end of financial year	516,100	719,260	516,151	719,260
Deferred tax assets (before offsetting)				
Tax incentives	997,483	991,735	997,483	991,735
Tax losses	9,171	9,171	9,171	9,171
	1,006,654	1,000,906	1,006,654	1,000,906
Offsetting	(490,554)	(281,646)	(490,503)	(281,646)
Deferred tax assets (after offsetting)	516,100	719,260	516,151	719,260

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**19 DEFERRED TAXATION (CONTINUED)**

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Deferred tax liabilities (before offsetting)				
Property, plant and equipment	(490,554)	(281,646)	(490,503)	(281,646)
Offsetting	490,554	281,646	490,503	281,646
Deferred tax liabilities (after offsetting)	-	-	-	-
	-	-	-	-

As disclosed in Note 3 to the financial statements in respect of critical accounting estimates and judgements, 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.

**20 RECEIVABLES AND PREPAYMENTS**

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
<u>Non-current:</u>				
Long term prepayments	15,548	23,593	15,548	23,593
<u>Current:</u>				
Trade receivables	123,269	105,325	107,930	93,911
Less: Allowance for impairment	(1,458)	(1,994)	(1,458)	(1,994)
	121,811	103,331	106,472	91,917
Other receivables	143,746	124,045	130,623	110,815
Less: Allowance for impairment	(1,608)	(1,072)	(1,608)	(1,072)
	142,138	122,973	129,015	109,743
Prepayments	472,443	326,049	472,302	325,516
Deposits for maintenance of aircraft	50,352	38,034	50,352	38,034
Deposits – cash collateral for derivatives	238,489	177,729	238,489	177,729
Other deposits	84,542	73,006	84,495	72,982
	1,109,775	841,122	1,081,125	815,921

Credit terms of trade receivables range from 30 to 60 days (2010: 30 to 60 days).

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

20 RECEIVABLES AND PREPAYMENTS (CONTINUED)

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

Receivables that are neither past due nor impaired of RM198,242,000 and RM169,780,000 (2010: RM172,135,000 and RM147,491,000) for the Group and Company respectively, are substantially companies with a good collection track records with the Group and Company.

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

Receivables that are past due but not impaired amounted to RM65,707,000 (2010: RM54,169,000). These related to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables that are past due but not impaired is as follows:

	<u>Group and Company</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Up to 3 months	24,166	15,766
Over 3 months	41,541	38,403
	<u>65,707</u>	<u>54,169</u>

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

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

	<u>Group and Company</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Over 3 months	3,066	3,066
Less: Allowance for impairment	(3,066)	(3,066)
	<u>-</u>	<u>-</u>

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

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**20 RECEIVABLES AND PREPAYMENTS (CONTINUED)**

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

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
RM	208,305	122,123	208,255	97,466
USD	361,610	353,417	333,151	353,417
Others	67,417	39,533	67,417	39,522
	637,332	515,073	608,823	490,405

Included in long term prepayments is prepaid lease rental, which is charged to the income statement over the term of the lease of the low cost carrier terminal building.

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

Other receivables include insurance claimable and advances paid to airport authorities.

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

**21 DEPOSITS ON AIRCRAFT PURCHASE**

Deposits on aircraft purchases represent amounts advanced towards the final cost of aircraft to be delivered to the Company. Amounts advanced on aircraft to be delivered more than 12 months from the balance sheet date are classified as non-current.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**22 AMOUNTS DUE FROM/(TO) ASSOCIATES**

	<u>Group and Company</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Amounts due from associates	803,106	280,350
Amount due to associates	(4,444)	(5,223)
	<u>798,662</u>	<u>275,127</u>

The analysis of the movements in the amounts due from associates for the financial year ended 31 December 2011 is as follows:

	<u>Group and Company</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
At 1 January	280,350	440,126
Recharges and other expenses	427,103	520,800
Advance for purchase of aircraft	565,965	-
Receipts and settlements	(492,908)	(618,226)
Foreign exchange gain/(loss) on translation	10,403	(66,998)
Unwinding of discount on receivables per FRS 139	12,193	4,648
At 31 December	<u>803,106</u>	<u>280,350</u>
Current	289,492	162,386
Non-current	513,614	117,964
	<u>803,106</u>	<u>280,350</u>

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

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**22 AMOUNTS DUE FROM/(TO) ASSOCIATES**

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

Amounts due from associates that are neither past due nor impaired is RM695,336,000 (2010: RM130,200,000).

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

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

Amounts due from associates that are past due but not impaired amounted to RM107,770,000 (2010: RM150,150,000). The ageing analysis of these amounts is as follows:

	<u>Group</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Up to 3 months	106,776	130,200
Over 3 months	994	19,950
	<u>107,770</u>	<u>150,150</u>

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

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

	<u>Group and Company</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Amounts due from associates		
- United States Dollar ("USD")	798,586	268,058
- Philippines Peso ("PHP")	4,520	12,292
	<u>803,106</u>	<u>280,350</u>
Amount due to an associate		
- Singapore Dollar ("SGD")	<u>(4,444)</u>	<u>(5,223)</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**23 DERIVATIVE FINANCIAL INSTRUMENTS**

	Group and Company			
	2011		2010	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
	RM'000	RM'000	RM'000	RM'000
<u>Non-current</u>				
Interest rate swaps				
– cash flow hedges	-	(337,083)	-	(211,457)
Interest rate swaps – held for trading	-	(113,847)	-	(105,545)
Interest rate caps – held for trading	5,507	-	23,306	-
Forward foreign exchange				
contracts – cash flow hedges	36,329	(32,124)	2,238	(132,656)
Forward foreign exchange				
contracts – held for trading	2,975	(5,267)	-	(3,207)
<b>Total</b>	<b>44,811</b>	<b>(488,321)</b>	<b>25,544</b>	<b>(452,865)</b>

	Group and Company			
	2011		2010	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
	RM'000	RM'000	RM'000	RM'000
<u>Current</u>				
Interest rate swaps – held for trading	-	(35,322)	-	-
Forward foreign exchange				
contracts – held for trading	-	(2,689)	-	-
Commodity derivatives – cash flow hedges	3,428	-	-	-
Commodity derivatives – held for trading	4,231	-	-	-
<b>Total</b>	<b>7,659</b>	<b>(38,011)</b>	<b>-</b>	<b>-</b>

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

The ineffective portion recognised in the income statement arising from cash flow hedges amounted to a gain of RM1.7 million (2010: RM6.1 million loss) (Note 7).

	2011		2010	
	<u>Notional amount</u>	<u>Fair value</u>	<u>Notional amount</u>	<u>Fair value</u>
	RM'000	RM'000	RM'000	RM'000
Interest rate caps	427,544	5,507	635,877	23,306
Interest rate swaps	3,789,186	(486,251)	2,684,830	(317,000)
Cross currency interest rate swaps	180,660	(12,481)	198,491	(11,357)
Forward foreign exchange contracts	3,616,486	11,705	3,522,199	(122,270)
Commodity derivatives	1,200,000*	7,659	-	-

\*: in barrels

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**23 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

(i) Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2011 were RM3.797 billion (2010: RM3.721 billion).

As at 31 December 2011, the Group has hedged approximately 64% of its USD liabilities pertaining to its aircraft, engine and simulator loans into Malaysian Ringgit ("RM") by using long dated foreign exchange forward contracts to manage its foreign currency risk. The latest weighted average foreign forward exchange rate is at 3.2392 USD:RM. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 December 2011 will be continuously released to the income statement within finance cost until the full repayment of the term loans (Note 31).

(ii) Interest rate contracts

The notional principal amounts of the outstanding interest rate contracts at 31 December 2011 were RM4.217 billion (2010: RM3.321 billion).

The Group has entered into interest rate contracts to hedge against fluctuations in the USD LIBOR on its existing and highly probable future floating rate aircraft financing for aircraft delivered from 2005 to 2012. As at 31 December 2011, the Group has hedged all its existing and future floating aircraft loans at strike rates between 2.05% per annum and 5.20% per annum via interest rate swaps, interest rate caps and cross-currency swaps. Out of the RM7.8 billion borrowings, the Group has hedged 15% of the term loans and 66% of the finance lease liabilities (Note 31). Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 31 December 2011 will be continuously released to the income statement within finance cost until the full repayment of the term loans (Note 31).

(iii) Fuel contracts

The outstanding number of barrels of Brent and Singapore Jet Kerosene derivative contract at 31 December 2011 was 1.2 million (2010: Nil).

As at 31 December 2011, the Group has entered into Brent fixed swap which represents up to 18% of the Group's total expected fuel volume for the first half of 2012. The Group has also entered into Singapore Jet Kerosene fixed swap which represents an additional 9% of the Group's total expected fuel volume for the first half of 2012. This is to hedge against the fuel price risk that the Group is exposed to and the latter qualifies for hedge accounting. Gains and losses recognised in the hedging reserve in equity on fuel contracts as of 31 December 2011 are recognised in the income statement in the period or periods during which the hedged forecast transactions affect the income statement.



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**24 INVENTORIES**

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
Spares and consumables	13,515	14,304	13,515	14,304
In flight merchandise and others	6,215	3,249	6,215	2,701
	<u>19,730</u>	<u>17,553</u>	<u>19,730</u>	<u>17,005</u>

**25 AMOUNTS DUE FROM SUBSIDIARIES**

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

**26 AMOUNTS DUE FROM/(TO) JOINTLY CONTROLLED ENTITIES**

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
Amounts due from jointly controlled entities	4,526	99,802	4,526	-
Amounts due to jointly controlled entities	(19,761)	-	(50,087)	(322,614)
	<u>(15,235)</u>	<u>99,802</u>	<u>(45,561)</u>	<u>(322,614)</u>

Amounts due from/(to) jointly controlled entity include amount due (to)/from Thai AirAsia Co. Ltd ("TAA"), a jointly controlled entity which is denominated in US Dollar, unsecured, has no fixed terms of repayment and is interest bearing at a rate equivalent to the Company's borrowing rate. The amount due from TAA was charged interest at 6% per annum with effect from 1 January 2010.

The analysis of the movements in the amount due from jointly controlled entities for the financial year ended 31 December 2011 is as follows:

	<u>Group</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
<u>Current</u>		
At 1 January	99,802	350,926
Recharges and other expenses	426,647	468,082
Receipts and settlements	(550,882)	(684,781)
Foreign exchange loss on translation	(1,265)	(39,424)
Unwinding of discount on receivables per FRS 139	10,463	4,999
At 31 December	<u>(15,235)</u>	<u>99,802</u>

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26 AMOUNTS DUE FROM/(TO) JOINTLY CONTROLLED ENTITIES (CONTINUED)

The currency exposure profile of the amounts due from/(to) joint venture entities is as follows:

	<u>2011</u>	<u>Group</u> <u>2010</u>
	RM'000	RM'000
Amounts due to joint venture entities		
- United States Dollar ("USD")	(15,577)	-
- Singapore Dollar ("SGD")	(4,184)	-
	<u>(19,761)</u>	<u>-</u>
Amounts due from joint venture entities		
- United States Dollar ("USD")	-	99,802
- Malaysian Ringgit ("MYR")	4,526	-
	<u>4,526</u>	<u>99,802</u>
	<u>(15,235)</u>	<u>99,802</u>

27 CASH AND CASH EQUIVALENTS

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

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	1,339,527	681,859	1,314,229	676,303
Deposits with licensed banks	659,237	719,439	659,237	719,439
Short term deposits with fund management companies	106,246	103,319	106,246	103,319
	<u>2,105,010</u>	<u>1,504,617</u>	<u>2,079,712</u>	<u>1,499,061</u>
Deposits, cash and bank balances	2,105,010	1,504,617	2,079,712	1,499,061
Deposits pledged as securities	(12,394)	(28,789)	(12,394)	(28,789)
	<u>2,092,616</u>	<u>1,475,828</u>	<u>2,067,318</u>	<u>1,470,272</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

27 CASH AND CASH EQUIVALENTS (CONTINUED)

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

	Group		Company	
	<u>2011</u> RM'000	<u>2010</u> RM'000	<u>2011</u> RM'000	<u>2010</u> RM'000
Malaysian Ringgit	818,728	784,672	817,261	783,031
United States Dollar	216,220	211,677	192,570	207,851
Singapore Dollar	287,258	172,680	287,234	172,640
Australian Dollar	254,833	118,327	254,828	118,327
Chinese Renminbi	163,696	63,898	163,696	63,898
Hong Kong Dollar	132,185	63,428	132,167	63,428
India Rupee	87,934	41,802	87,944	41,802
Thai Baht	3,019	17,403	2,885	17,361
Indonesian Rupiah	82,941	10,691	82,941	10,691
Brunei Dollar	9,058	9,288	9,058	9,288
Euro	4,704	397	4,704	392
Philippine Peso	4,468	-	4,468	-
Vietnamese Dong	15,544	-	15,544	-
British Pound	19,717	-	19,717	-
Others	4,705	10,354	4,695	10,352
	<u>2,105,010</u>	<u>1,504,617</u>	<u>2,079,712</u>	<u>1,499,061</u>

The deposits with licensed banks are pledged as security for banking facilities granted to the Company.

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

	Group		Company	
	<u>2011</u> %	<u>2010</u> %	<u>2011</u> %	<u>2010</u> %
Deposits with licensed banks	<u>2.80</u>	<u>2.62</u>	<u>2.80</u>	<u>2.62</u>
Short term deposits with fund management companies	<u>2.83</u>	<u>2.64</u>	<u>2.83</u>	<u>2.64</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**28 TRADE AND OTHER PAYABLES**

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
Trade payables	81,268	53,178	57,428	31,710
Accrual for fuel	162,577	121,725	162,577	121,725
Aircraft maintenance accruals	409,628	254,036	409,628	254,036
Other payables and accruals	483,759	484,004	473,430	476,873
	<u>1,137,232</u>	<u>912,943</u>	<u>1,103,063</u>	<u>884,344</u>

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

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

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
RM	525,939	343,518	525,939	314,919
USD	583,942	553,608	549,773	553,608
Others	27,351	15,817	27,351	15,817
	<u>1,137,232</u>	<u>912,943</u>	<u>1,103,063</u>	<u>884,344</u>

**29 AMOUNTS DUE TO SUBSIDIARIES AND A RELATED PARTY**

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**30 HIRE-PURCHASE PAYABLES**

These amounts represent future instalments under hire-purchase agreements, repayable as follows:

	<u>Group and Company</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Minimum payments:		
- Not later than 1 year	-	19
Less: Future finance charges	-	(4)
	<u>          </u>	<u>          </u>
Present value of liabilities	-	15
	<u>          </u>	<u>          </u>
Present value of liabilities:		
- Not later than 1 year	-	15
	<u>          </u>	<u>          </u>

Liabilities under hire-purchase agreements were effectively secured as the rights to the assets revert to the financiers in the event of default.

As at 31 December 2011, the effective interest rate applicable to the hire-purchase liabilities was Nil % (2010: 3.75%) per annum for the Group and Company. The entire balance was denominated in Ringgit Malaysia.

**31 BORROWINGS**

	<u>Group and Company</u>			
	Weighted average		<u>2011</u>	<u>2010</u>
	rate of finance			
	<u>2011</u>	<u>2010</u>		
	%	%		
<u>Current:</u>				
Term loans	4.02	4.09	498,501	493,211
Finance lease liabilities	3.02	5.50	86,248	51,689
Commodity Murabaha Finance	4.92	4.46	9,482	9,067
			<u>          </u>	<u>          </u>
			594,231	553,967
			<u>          </u>	<u>          </u>
<u>Non-current:</u>				
Term loans	4.02	4.09	5,376,455	5,906,715
Finance lease liabilities	3.02	5.50	1,300,834	876,929
Commodity Murabaha Finance	4.92	4.46	89,630	99,240
Sukuk	4.85	4.85	420,000	420,000
			<u>          </u>	<u>          </u>
			7,186,919	7,302,884
			<u>          </u>	<u>          </u>
Total borrowings			<u>7,781,150</u>	<u>7,856,851</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

31 BORROWINGS (CONTINUED)

The Group's borrowings are repayable as follows:

	<u>Group and Company</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Not later than 1 year	594,231	553,967
Later than 1 year and not later than 5 years	3,078,462	2,863,736
Later than 5 years	4,108,457	4,439,148
	<u>7,781,150</u>	<u>7,856,851</u>

The currency exposure profile of borrowings is as follows:

RM	519,112	528,307
USD	7,137,886	7,204,819
EURO	124,152	123,725
	<u>7,781,150</u>	<u>7,856,851</u>

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

	<u>Group and Company</u>			
	<u>2011</u>		<u>2010</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
	RM'000	RM'000	RM'000	RM'000
Term loans	5,376,455	4,422,920	5,906,715	4,743,235
Finance lease liabilities	1,300,834	1,083,215	876,929	617,939
Commodity Murabaha Finance	89,630	72,684	99,240	80,085
Sukuk	420,000	400,572	420,000	382,043
	<u>7,186,919</u>	<u>5,979,391</u>	<u>7,302,884</u>	<u>5,823,302</u>

The fair values of the current borrowings equal their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using borrowing rates of 3.02% to 4.92% (2010: 3.8%) per annum.

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**31 BORROWINGS (CONTINUED)**

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

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

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

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

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

The Group has the following undrawn borrowing facilities:

	<u>2011</u> RM'000	<u>2010</u> RM'000
Fixed rate:		
- expiring within one year	-	48,000
	<u>          </u>	<u>          </u>

**32 SHARE CAPITAL**

	<u>Group and Company</u>	
	<u>2011</u> RM'000	<u>2010</u> RM'000
<u>Authorised:</u>		
Ordinary shares of RM0.10 each:		
At beginning and end of the financial year	500,000	500,000
	<u>          </u>	<u>          </u>
<u>Issued and fully paid up:</u>		
Ordinary shares of RM0.10 each:		
At beginning of the financial year	277,344	275,774
Issued during the financial year	465	1,570
	<u>          </u>	<u>          </u>
At end of the financial year	277,809	277,344
	<u>          </u>	<u>          </u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**32 SHARE CAPITAL (CONTINUED)**

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

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

During the previous financial year, the Company increased its issued and paid-up ordinary share capital from RM275,774,458 to RM277,343,608 by way of issuance of 15,691,500 ordinary shares of RM0.10 each pursuant to the exercise of the ESOS at an exercise price of RM1.08 per share. The premium arising from the exercise of ESOS of RM15,377,670 had been credited to the Share Premium account.

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

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

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

The main features of the ESOS are as follows:

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



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

32 **SHARE CAPITAL (CONTINUED)**

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

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

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

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

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

At 31 December 2011, options to subscribe for 5,560,000 (2010: 10,437,000) ordinary shares of RM0.10 each at the exercise price of RM1.08 per share remain unexercised. These options granted do not confer any right to participate in any share issue of any other company.

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

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price RM/share</u>	<u>At 1.1.2011 '000</u>	<u>Granted '000</u>	<u>Exercised '000</u>	<u>Lapsed '000</u>	<u>At 31.12.2011 '000</u>
1 September 2004	6 June 2014	1.08	10,437	-	4,650	227	5,560
<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price RM/share</u>	<u>At 1.1.2010 '000</u>	<u>Granted '000</u>	<u>Exercised '000</u>	<u>Lapsed '000</u>	<u>At 31.12.2010 '000</u>
1 September 2004	6 June 2014	1.08	26,461	-	15,692	332	10,437
						<u>2011 '000</u>	<u>2010 '000</u>
Number of share options vested at balance sheet date						<u>5,560</u>	<u>10,437</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

32 **SHARE CAPITAL (CONTINUED)**

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

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

<u>Exercise date</u>	Quoted price of shares at share <u>issue date</u> RM/share	Exercise <u>price</u> RM/share	Number of shares <u>issued</u> '000
January 2011 to March 2011	2.35 – 3.04	1.08	2,080
April 2011 to June 2011	2.50 – 3.56	1.08	543
July 2011 to September 2011	2.68 – 4.20	1.08	1,820
October 2011 to December 2011	2.88 – 4.00	1.08	207
			<u>4,650</u>
		<u>2011</u> RM'000	<u>2010</u> RM'000
Ordinary share capital at par		465	1,570
Share premium		4,556	15,378
Proceeds received on exercise of share options		<u>5,021</u>	<u>16,948</u>
Fair value at exercise date of shares issued		<u>14,222</u>	<u>32,182</u>

33 **RETAINED EARNINGS**

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

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

As at 31 December 2011, the Company has sufficient Section 108 tax credits to pay approximately RM Nil (2010: RM19.0 million) of its retained earnings as franked dividends.

In addition, the Company has tax exempt income as at 31 December 2011 amounting to approximately RM Nil (2010: RM0.5 million) available for distribution as tax exempt dividends to shareholders.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

34 **DIVIDEND**

Dividend declared or proposed by the Company is as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Gross dividend per share</u>	<u>Amount of dividend net of tax</u>	<u>Gross dividend per share</u>	<u>Amount of dividend net of tax</u>
	Sen	RM'000	Sen	RM'000
First and final dividend paid in respect of the financial year ended 31 December 2010:				
Gross dividend of 0.91 sen less 25% tax	0.91	18,946	-	-
Tax exempt dividend	0.02	555	-	-
Single-tiered dividend	2.07	57,464	-	-
	<u>3.0</u>	<u>76,965</u>	<u>-</u>	<u>-</u>

At the date of this report the Directors have not recommended the payment of any dividend for the financial year ended 31 December 2011.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**35 COMMITMENTS**

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

	<u>Group and Company</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Property, plant and equipment:		
Approved and contracted for	40,079,667	12,829,657
Approved but not contracted for	16,841,539	7,931,251
	<u>56,921,206</u>	<u>20,760,908</u>
Property, plant and equipment:		
Share of a jointly controlled entity's capital commitments	-	17,100
Share of an associate's capital commitments	-	8,626
	<u>-</u>	<u>25,726</u>

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

(b) Non-cancellable operating leases

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

	<u>Group and Company</u>			
	<u>2011</u>		<u>2010</u>	
	Future minimum lease payments RM'000	Future minimum sublease receipts RM'000	Future minimum lease payments RM'000	Future minimum sublease receipts RM'000
Not later than 1 year	143,270	534,854	49,469	422,224
Later than 1 year and not later than 5 years	547,952	1,626,436	172,266	768,539
Later than 5 years	726,171	438,013	194,136	-
	<u>1,417,393</u>	<u>2,599,303</u>	<u>415,871</u>	<u>1,190,763</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**36 CONTINGENT LIABILITIES**

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

**37 SEGMENTAL INFORMATION**

Segmental information is as shown in the income statements, balance sheets and relevant notes as the Group's sole business segment is the provision of air transportation services.

The Group's operations are conducted predominantly in Malaysia.

**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 at 31 December 2011 are as follows:

<u>Related companies</u>	<u>Relationship</u>
AirAsia Go Holiday Sdn Bhd	Subsidiary
AirAsia (Mauritius) Limited	Subsidiary
AirAsia Investment Limited (formerly known as AA International Limited)	Subsidiary
Crunchtime Culinary Services Sdn Bhd	Subsidiary
Koolred Sdn Bhd	Subsidiary
AirAsia Philippines Inc	Associate
PT Indonesia AirAsia	Associate of a subsidiary
AirAsia Inc	Associate of a subsidiary
AirAsia Pte Limited	Associate of a subsidiary
Asian Aviation Centre of Excellence Sdn Bhd	Jointly controlled entity
Thai AirAsia Co. Ltd	Jointly controlled entity of a subsidiary
AirAsia X Sdn Bhd	Company with common 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(g) below.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**38 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)**

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

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
(a) <u>Income:</u>				
Aircraft operating lease income for owned and leased aircraft				
- Thai AirAsia Co. Ltd	270,123	223,553	270,123	223,553
- PT Indonesia AirAsia	218,313	172,390	218,313	172,390
- AirAsia Inc	6,980	-	6,980	-
Gain on disposal of aircraft to PT Indonesia AirAsia	61,616	-	61,616	-
Services charged to AirAsia X Sdn Bhd, a company with common Directors and shareholders	35,833	85,845	35,833	85,845
(b) <u>Recharges:</u>				
Maintenance and overhaul charges to				
- Thai AirAsia Co. Ltd	-	24,363	-	24,363
- PT Indonesia AirAsia	9,022	12,164	9,022	12,164
Recharges of expenses to				
- PT Indonesia AirAsia	97,611	91,984	97,611	91,984
- Thai AirAsia Co. Ltd	86,024	71,038	86,024	71,038
Recharges of expenses by				
- Thai AirAsia Co. Ltd	(30,004)	(45,635)	(30,004)	(45,635)

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**38 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)**

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
(c) <u>Other charges</u>				
Maintenance reserve fund charged to				
- PT Indonesia AirAsia	79,283	67,184	79,283	67,184
- Thai AirAsia Co. Ltd	93,624	189,330	93,624	189,330
Interest charges to				
- PT Indonesia AirAsia	22,178	23,590	17,827	23,590
- Thai AirAsia Co. Ltd	14,691	20,687	14,691	20,687
Interest charged by				
- Thai AirAsia Co. Ltd	(11,058)	-	(11,058)	-
(d) Advance for purchase of aircraft				
- PT Indonesia AirAsia	565,965	-	565,965	-
(e) <u>Receivables:</u>				
- AirAsia (Mauritius) Limited	-	-	53,484	422,415
- AirAsia Investment Limited	-	-	39,670	7,208
- Koolred Sdn Bhd	-	-	12,240	-
- Crunchtime Culinary Services Sdn Bhd	-	-	-	2,757
- Thai AirAsia Co. Ltd	-	99,802	-	-
- Asian Aviation Centre of Excellence Sdn Bhd	4,526	-	4,526	-
- PT Indonesia AirAsia	796,345	268,058	796,345	268,058
- AirAsia Philippines Inc	4,520	12,292	4,520	12,292
- AirAsia Inc	2,241	-	2,241	-

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**38 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)**

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
(f) <u>Payables:</u>				
- AirAsia Go Holiday Sdn Bhd	-	-	5,605	44,251
- Thai AirAsia Co. Ltd	15,576	-	50,087	322,614
- AAE Travel Pte Ltd	4,185	-	-	-
- AirAsia Pte Limited	4,444	5,223	4,444	5,223
- AirAsia X Sdn Bhd	10,560	41,262	10,560	41,262
	<u>10,560</u>	<u>41,262</u>	<u>10,560</u>	<u>41,262</u>
(g) <u>Key management compensation</u>				
- basic salaries, bonus and allowances	26,285	24,774	26,285	24,774
- defined contribution plan	2,840	2,730	2,840	2,730
	<u>29,125</u>	<u>27,504</u>	<u>29,125</u>	<u>27,504</u>

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



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**39 FINANCIAL RISK MANAGEMENT POLICIES**

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

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

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

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

(a) Market risk

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

(i) Fuel price risk

The Group and Company are exposed to jet fuel price risk arising from the fluctuations in the prices of jet fuel, and seek to hedge their fuel requirements using fuel swaps in order to address the risk of rising fuel prices (Note 23). At 31 December 2011, if USD denominated barrel had been USD 5 higher/lower with all other variables held constant, the impact on the post-tax profit for the year and equity are tabulated below:

	2011		2010	
	+USD5 RM'000	-USD5 RM'000	+USD5 RM'000	-USD5 RM'000
Impact on post tax profits	13,048	(13,048)	-	-
Impact on other comprehensive income	5,931	(5,931)	-	-

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

39 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(a) Market risk (continued)

(ii) Interest rate risk

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

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

The Group manages its cash flow interest rate risk by entering into a number of immediate and forward starting interest rate swap contracts and cross currency swap contracts that effectively converts all of its existing and future long-term floating rate debt facilities into fixed rate debts (Note 23). This hedging strategy ensures that the Group is paying a fixed interest expense on its borrowings and that the performance of the Group is not significantly impacted by the fluctuation in interest rates.

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

As at 31 December 2011, if interest rate on USD denominated borrowings had been 60 basis points higher/lower with all other variables held constant, the impact on the post-tax profit for the year and equity arising from the cash flow interest rate risk would be minimal, after considering the hedging of the floating rate loans (Note 23).

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**39 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(a) Market risk (continued)

(ii) Interest rate risk (continued)

At 31 December 2011, if interest rate on USD denominated borrowings had been 60 basis points higher/lower with all other variables held constant, the impact on the post-tax profit for the year and equity, as a result of an increase/decrease in the fair value of the interest rate derivative financial instruments under cash flow hedges are tabulated below:

	<u>2011</u>		<u>2010</u>	
	<u>+60bps</u> RM'000	<u>-60bps</u> RM'000	<u>+60bps</u> RM'000	<u>-60bps</u> RM'000
Impact on post tax profits	32,015	(33,344)	12,559	(48,396)
Impact on other comprehensive income	108,443	(105,832)	58,222	(65,511)

The remaining terms of the outstanding interest rate derivative contracts of the Company at 31 December 2011, which are denominated in USD, are as follows:

	<u>2011</u> RM'000 equivalent	<u>2010</u> RM'000 equivalent
Later than 5 years:		
Interest rate caps	427,544	635,877
Interest rate swaps	3,789,186	2,684,830
Cross currency interest rate swaps	180,660	198,491
	<u>4,397,390</u>	<u>3,519,198</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**39 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(a) Market risk (continued)

(iii) Foreign Currency risk

Apart from the Ringgit Malaysia ("RM"), the Group transacts business in various foreign currencies including Singapore Dollar ("SGD"), Indonesian Rupiah ("IDR"), United States Dollar ("USD"), Australian Dollar ("AUD"), Chinese Renminbi ("RMB") and Hong Kong Dollar ("HKD"). Therefore, the Group 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.

For the USD denominated borrowings, 64% of these are hedged by long dated foreign exchange forward contracts to manage the foreign currency risk (Note 23).

At 31 December 2011, if the RM had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax profit for the financial year would have been RM144.9 million (2010: RM201.4 million) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD denominated receivables and borrowings (term loan & finance lease). Similarly, the impact on other comprehensive income would have been RM23.0 million (2010: RM3.7 million) higher/lower due to the cash flow hedging in USD. The exposure to other foreign currency risk of the Group is not material and hence, sensitivity analysis is not presented.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****39 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)****(a) Market risk (continued)****(iii) Foreign currency risk (continued)**

The Group's currency exposure is as follows:

<u>At 31 December 2011</u>	<u>RM</u>	<u>USD</u>	<u>AUD</u>	<u>SGD</u>	<u>RMB and</u>	<u>Others</u>	<u>Total</u>
<u>Financial assets</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>HKD</u>	<u>RM'000</u>	<u>RM'000</u>
Available-for-sale financial assets	152,942	-	-	-	-	-	152,942
Receivables	208,305	361,610	-	-	-	67,417	637,332
Amounts due from associates	-	798,586	-	-	-	4,520	803,106
Amount due from a jointly-controlled entity	4,526	-	-	-	-	-	4,526
Derivative financial instruments	-	52,470	-	-	-	-	52,470
Deposits, cash and bank balances	818,728	216,220	254,833	287,258	295,881	232,090	2,105,010
	<u>1,184,501</u>	<u>1,428,886</u>	<u>254,833</u>	<u>287,258</u>	<u>295,881</u>	<u>304,027</u>	<u>3,755,386</u>
<u>Financial liabilities</u>							
Trade and other payables	525,939	583,942	-	-	-	27,351	1,137,232
Amounts due to jointly-controlled entities	-	15,577	-	4,184	-	-	19,761
Amount due to an associate	-	-	-	4,444	-	-	4,444
Amount due a related party	10,560	-	-	-	-	-	10,560
Borrowings	519,112	7,137,886	-	-	-	124,152	7,781,150
Derivative financial instruments	-	526,332	-	-	-	-	526,332
	<u>1,055,611</u>	<u>8,263,737</u>	<u>-</u>	<u>8,628</u>	<u>-</u>	<u>151,503</u>	<u>9,479,479</u>
Net financial assets/(liabilities)	<u>128,890</u>	<u>(6,834,851)</u>	<u>254,833</u>	<u>278,630</u>	<u>295,881</u>	<u>152,524</u>	<u>(5,724,093)</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

39 **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(a) **Market risk (continued)**

(iii) **Foreign currency risk (continued)**

At 31 December 2010	RM	USD	AUD	SGD	RMB and HKD	Other	Total
<u>Financial assets</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Available-for-sale financial assets	152,942	-	-	-	-	-	152,942
Receivables	122,123	353,417	-	-	-	39,533	515,073
Amounts due from associates	-	268,058	-	-	-	12,292	280,350
Derivative financial instruments	-	25,544	-	-	-	-	25,544
Amounts due from a jointly-controlled entity	-	99,802	-	-	-	-	99,802
Deposits, cash and bank balances	784,672	211,677	118,327	172,680	127,326	89,935	1,504,617
	<u>1,059,737</u>	<u>958,498</u>	<u>118,327</u>	<u>172,680</u>	<u>127,326</u>	<u>141,760</u>	<u>2,578,328</u>
<u>Financial liabilities</u>							
Trade and other payables	343,518	553,608	-	-	-	15,817	912,943
Amount due to an associate	-	-	-	5,223	-	-	5,223
Amount due to a related party	41,262	-	-	-	-	-	41,262
Hire purchase payables	15	-	-	-	-	-	15
Borrowings	528,307	7,204,819	-	-	-	123,725	7,856,851
Derivative financial instruments	-	452,865	-	-	-	-	452,865
	<u>913,102</u>	<u>8,211,292</u>	<u>-</u>	<u>5,223</u>	<u>-</u>	<u>139,542</u>	<u>9,269,159</u>
<b>Net financial assets/(liabilities)</b>	<u>146,635</u>	<u>(7,252,794)</u>	<u>118,327</u>	<u>167,457</u>	<u>127,326</u>	<u>2,218</u>	<u>(6,690,831)</u>

The Group's financial assets and liabilities are significantly denominated in USD. To manage the Group's foreign exchange risk against its functional currency, the Group entered into forward foreign exchange contracts as disclosed in Note 23 to the financial statements.

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**39 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(b) Credit risk**

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

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

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

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

**(c) Liquidity and cash flow risk**

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

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

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39 **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(c) **Liquidity and cash flow risk (continued)**

<u>Group</u>	<u>Less than 1 year RM'000</u>	<u>1 – 2 years RM'000</u>	<u>2-5 years RM'000</u>	<u>Over 5 years RM'000</u>
<u>At 31 December 2011</u>				
Term loans	862,058	2,162,282	2,382,489	3,711,096
Finance lease liabilities	123,739	127,968	385,879	935,318
Commodity Murabaha finance	14,286	14,396	43,466	50,112
Sukuk	20,370	430,185	-	-
Trade and other payables	1,137,232	-	-	-
Amounts due to jointly- controlled entities	19,761	-	-	-
Amount due to an associate	4,444	-	-	-
Amount due to a related party	10,560	-	-	-
	<u>2,192,450</u>	<u>2,734,831</u>	<u>2,811,834</u>	<u>4,696,526</u>
<u>At 31 December 2010</u>				
Term loans	702,425	712,286	2,954,474	3,659,957
Finance lease liabilities	68,265	72,118	1,028,971	196,720
Commodity Murabaha finance	14,761	14,774	44,266	65,323
Sukuk	20,370	20,370	430,185	-
Trade and other payables	912,943	-	-	-
Amount due to an associate	5,223	-	-	-
Amount due to related party	41,262	-	-	-
	<u>1,765,249</u>	<u>819,548</u>	<u>4,457,896</u>	<u>3,922,000</u>



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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

39 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(c) Liquidity and cash flow risk (continued)

Company	Less than	1 – 2 years	2-5 years	Over 5 years
	1 year RM'000	RM'000	RM'000	RM'000
<u>At 31 December 2011</u>				
Term loans	862,058	2,162,282	2,382,489	3,711,096
Finance lease liabilities	123,739	127,968	385,879	935,318
Commodity Murabaha finance	14,286	14,396	43,466	50,112
Sukuk	20,370	430,185	-	-
Trade and other payables	1,103,063	-	-	-
Amounts due to subsidiaries	5,605	-	-	-
Amounts due to jointly- controlled entities	50,087	-	-	-
Amount due to an associate	4,444	-	-	-
Amount due to a related party	10,560	-	-	-
	<u>2,194,212</u>	<u>2,734,831</u>	<u>2,811,834</u>	<u>4,696,526</u>
<u>At 31 December 2010</u>				
Term loans	702,425	712,286	2,954,474	3,659,957
Finance lease liabilities	68,265	72,118	1,028,971	196,720
Commodity Murabaha finance	14,761	14,774	44,266	65,323
Sukuk	20,370	20,370	430,185	-
Trade and other payables	884,344	-	-	-
Amount due to a jointly- controlled entity	322,614	-	-	-
Amount due to an associate	5,223	-	-	-
Amount due to a related party	41,262	-	-	-
Amounts due to subsidiaries	44,251	-	-	-
	<u>2,103,515</u>	<u>819,548</u>	<u>4,457,896</u>	<u>3,922,000</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

39 **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(c) **Liquidity and cash flow risk (continued)**

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

	Less than <u>1 year</u> RM'000	<u>1 – 2 years</u> RM'000	<u>2-5 years</u> RM'000	<u>Over 5 years</u> RM'000
<u>Group and Company</u>				
<u>At 31 December 2011</u>				
Net-settled derivatives				
Trading	72,923	81,252	153,028	36,322
Hedging	35,405	31,174	62,873	24,554
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Gross-settled derivatives				
Trading – outflow	99,933	97,055	258,285	323,713
Trading – inflow	(96,671)	(93,883)	(249,799)	(313,387)
Hedging – outflow	331,162	332,272	1,004,940	1,464,987
Hedging – inflow	(320,469)	(322,313)	(979,756)	(1,434,477)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<u>At 31 December 2010</u>				
Net-settled derivatives				
Trading	37,578	31,908	38,525	(891)
Hedging	72,865	64,260	75,806	2,892
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Gross-settled derivatives				
Trading – outflow	10,149	9,649	17,780	-
Trading – inflow	(9,567)	(9,095)	(16,670)	-
Hedging – outflow	366,035	362,625	1,080,724	1,793,982
Hedging – inflow	(341,797)	(339,837)	(1,023,389)	(1,700,988)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

39 **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(d) **Capital risk management**

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

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

The Group's overall strategy remains unchanged from 2010.

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

The gearing ratio as at 31 December 2011 and 2010 were as follows:

	<u>2011</u>	<u>Group</u> <u>2010</u>
	RM'000	RM'000
Total borrowings (Note 31)	7,781,150	7,856,851
Total equity attributable to equity holders of the Company	4,036,397	3,640,960
	<u>11,817,547</u>	<u>11,497,811</u>
Gearing ratio	65.8%	68.3%

The Group and the Company are in compliance with all externally imposed capital requirements for the financial year ended 31 December 2011 and 2010.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**39 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(e) Fair value measurement

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

Determination of fair value and fair value hierarchy

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

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

The following table presents the Group and Company's assets and liabilities that are measured at fair value at 31 December 2011 and 31 December 2010.

	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>Group and Company</u>				
<u>2011</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	12,713	-	12,713
Derivatives used for hedging	-	39,757	-	39,757
Available-for-sale financial assets				
- Equity securities	-	-	152,942	152,942
	-	52,470	152,942	205,412
	-	52,470	152,942	205,412
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	157,125	-	157,125
Derivatives used for hedging	-	369,207	-	369,207
	-	526,332	-	526,332
	-	526,332	-	526,332

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

39 **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(e) Fair value measurement (continued)

<u>Group and Company</u>	<u>Level 1</u> <u>RM'000</u>	<u>Level 2</u> <u>RM'000</u>	<u>Level 3</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
<u>2010</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	23,306	-	23,306
Derivatives used for hedging	-	2,238	-	2,238
Available-for-sale financial assets				
- Equity securities	-	-	152,942	152,942
	<u>-</u>	<u>25,544</u>	<u>152,942</u>	<u>178,486</u>
	<u><u>-</u></u>	<u><u>25,544</u></u>	<u><u>152,942</u></u>	<u><u>178,486</u></u>
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	108,752	-	108,752
Derivatives used for hedging	-	344,113	-	344,113
	<u>-</u>	<u>452,865</u>	<u>-</u>	<u>452,865</u>
	<u><u>-</u></u>	<u><u>452,865</u></u>	<u><u>-</u></u>	<u><u>452,865</u></u>

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**39 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(e) Fair value measurement (continued)

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

There were no changes in Level 3 instruments for the financial year ended 31 December 2011 for the Group and Company.

**40 FINANCIAL INSTRUMENTS**

(a) Financial instruments by category

Group

<u>31 December 2011</u>	<u>Loans and receivables RM'000</u>	<u>Assets at fair value through the profit and loss RM'000</u>	<u>Derivatives used for hedging RM'000</u>	<u>Available for sale RM'000</u>	<u>Total RM'000</u>
<u>Assets as per balance sheet</u>					
Available-for-sale financial assets	-	-	-	152,942	152,942
Trade and other receivables excluding prepayments	637,332	-	-	-	637,332
Amounts due from associates	803,106	-	-	-	803,106
Amount due from a jointly-controlled entity	4,526	-	-	-	4,526
Derivative financial Instruments	-	12,713	39,757	-	52,470
Deposits, cash and bank balances	2,105,010	-	-	-	2,105,010
<b>Total</b>	<b>3,549,974</b>	<b>12,713</b>	<b>39,757</b>	<b>152,942</b>	<b>3,755,386</b>

**AIRASIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

40 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments by category (continued)

Group

	Liabilities at fair value through the profit and loss <u>RM'000</u>	Derivatives used for hedging <u>RM'000</u>	Other financial liabilities at amortised cost <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
<u>Liabilities as per balance sheet</u>				
Borrowings (excluding finance lease liabilities)	-	-	6,394,068	6,394,068
Finance lease liabilities	-	-	1,387,082	1,387,082
Derivative financial instruments	157,125	369,207	-	526,332
Trade and other payables	-	-	1,137,232	1,137,232
Amounts due to jointly controlled entities	-	-	19,761	19,761
Amount due to an associate	-	-	4,444	4,444
Amount due to a related party	-	-	10,560	10,560
<b>Total</b>	<b>157,125</b>	<b>369,207</b>	<b>8,953,147</b>	<b>9,479,479</b>

<u>31 December 2010</u>	Loans and receivables <u>RM'000</u>	Assets at fair value through the profit and loss <u>RM'000</u>	Derivatives used for hedging <u>RM'000</u>	Available for sale <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
<u>Assets as per balance sheet</u>					
Available for sale financial assets	-	-	-	152,942	152,942
Trade and other receivables excluding prepayments	515,073	-	-	-	515,073
Amounts due from associates	280,350	-	-	-	280,350
Amounts due from a jointly controlled entity	99,802	-	-	-	99,802
Derivative financial instruments	-	23,306	2,238	-	25,544
Deposits, cash and bank balances	1,504,617	-	-	-	1,504,617
<b>Total</b>	<b>2,399,842</b>	<b>23,306</b>	<b>2,238</b>	<b>152,942</b>	<b>2,578,328</b>

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AIRASIA BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

40 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments by category (continued)

Group

	Liabilities at fair value through the profit and loss <u>RM'000</u>	Derivatives used for hedging <u>RM'000</u>	Other financial liabilities at amortised cost <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
<u>Liabilities as per balance sheet</u>				
Borrowings (excluding finance lease liabilities)	-	-	6,928,233	6,928,233
Finance lease liabilities	-	-	928,618	928,618
Derivative financial instruments	108,752	344,113	-	452,865
Trade and other payables	-	-	912,943	912,943
Amount due to an associate	-	-	5,223	5,223
Amount due to a related party	-	-	41,262	41,262
Hire purchase payables	-	-	15	15
Total	<u>108,752</u>	<u>344,113</u>	<u>8,816,294</u>	<u>9,269,159</u>



**AIRASIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

40 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) **Credit quality of financial assets**

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

	<u>2011</u>	<u>Group</u> <u>2010</u>
	RM'000	RM'000
<u>Counterparties without external credit rating</u>		
Group 1	11,476	15,774
Group 2	110,335	87,557
	<u>121,811</u>	<u>103,331</u>
<u>Cash at bank and short-term bank deposits</u>		
AA2 to A-	1,992,841	1,398,674
BBB to B3	112,169	105,943
	<u>2,105,010</u>	<u>1,504,617</u>
<u>Derivative financial assets</u>		
AA+ to A+	16,896	23,306
A to BBB-	35,574	2,238
	<u>52,470</u>	<u>25,544</u>
<u>Loans to related parties</u>		
Group 2	<u>807,632</u>	<u>380,152</u>

Group 1 – New customers/related parties (Less than 6 months)

Group 2 – Existing customers/related parties (more than 6 months) with no defaults in the past.

Group 3 – Existing customers/related parties (more than 6 months) with some defaults in the past.

All defaults were fully recovered.

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



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**AIRASIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**41 RECLASSIFICATION OF PRIOR YEAR COMPARATIVE (CONTINUED)**

For the financial year ended 31 December 2011, the Group and Company have elected to change the presentation of the income statement. As a result of the change, maintenance, overhaul, user charges and other related expenses are now presented separately as two distinct categories. In addition, foreign exchange gains and losses on borrowings, both realised and unrealised, and the foreign exchange gains and losses on amounts due from associates and jointly controlled entities are also presented separately from finance income and finance costs. In the opinion of the Directors, the revised presentation provides a more meaningful year-on-year comparison of the income statements at the net operating profit level.

**AIRASIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

42 **SUPPLEMENTARY INFORMATION DISCLOSED PURSUANT TO BURSA MALAYSIA  
SECURITIES LISTING REQUIREMENT**

The following analysis of realised and unrealised retained profits at the legal entity level is prepared in accordance with the Guidance on Special Matter No.1 – Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants. This disclosure is based on the format prescribed by Bursa Malaysia Securities Berhad.

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
Total retained earnings of AirAsia Berhad and its subsidiaries:				
- Realised	1,781,491	997,581	1,769,575	981,345
- Unrealised	809,277	1,121,156	809,328	1,121,156
	<u>2,590,768</u>	<u>2,118,737</u>	<u>2,578,903</u>	<u>2,102,501</u>
Total share of accumulated losses from associated companies:				
- Realised	(9,764)	(4,112)	-	-
Total share of accumulated losses from jointly controlled entities				
- Realised	(74)	(12,054)	-	-
Total retained earnings as per consolidated financial statements	<u>2,580,930</u>	<u>2,102,571</u>	<u>2,578,903</u>	<u>2,102,501</u>

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

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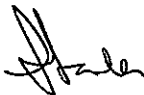
**STATEMENT BY DIRECTORS PURSUANT TO  
SECTION 169(15) OF THE COMPANIES ACT, 1965**

We, Tan Sri Dr Anthony Francis Fernandes and Dato' Kamarudin Bin Meranun, being two of the Directors of AirAsia Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 6 to 107 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2011 and of the results and the cash flows of the Group and Company for the financial year ended on that date in accordance with the provisions of the Companies Act, 1965 and the Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities.

The information set out in Note 42 to the financial statements have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

In accordance with a resolution of the Board of Directors dated

27 APR 2012



TAN SRI DR ANTHONY FRANCIS FERNANDES  
DIRECTOR



DATO' KAMARUDIN BIN MERANUN  
DIRECTOR

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

I, Andrew Littledale, the Officer primarily responsible for the financial management of AirAsia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 6 to 107 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



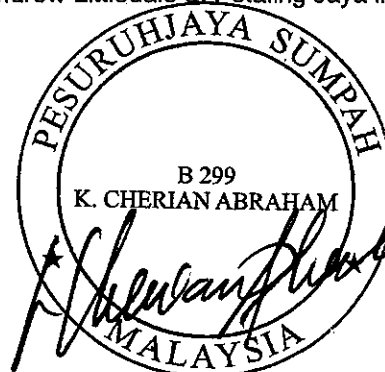
ANDREW LITTLEDALE

Subscribed and solemnly declared by the abovenamed Andrew Littledale at Petaling Jaya in Malaysia on

27 APR 2012

before me.

COMMISSIONER FOR OATHS



1-5, Block F1, Jalan PJU 1/42,  
Dataran Prima, 47301 Petaling Jaya  
Selangor Darul Ehsan



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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of AirAsia Berhad on pages 6 to 107, which comprise the balance sheets as at 31 December 2011 of the Group and of the Company, and the statements of income, comprehensive income, changes in equity and cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 41.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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



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

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2011 and of their financial performance and cash flows for the financial year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 42 on page 108 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysia Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.



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

OTHER MATTERS

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

A large, stylized handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Irvin George Luis Menezes'.

IRVIN GEORGE LUIS MENEZES  
(No. 2932/06/12 (J))  
Chartered Accountant

Kuala Lumpur  
27 April 2012