SUSTAINABILITY

SUSTAINABILITY STATEMENT

IN MALAYSIA, WE ARE THE LEADING AIRLINE, DOMINATING ALMOST HALF THE DOMESTIC AND INTERNATIONAL MARKETS. AND WE ARE STILL GROWING.


A320
AirAsia

SUSTAINABILITY STATEMENT

Following the completion of the internal reorganisation of AirAsia Berhad (AAB) and the transfer of its listing status to AirAsia Group Berhad (AAGB) on 16 April 2018, AAB is now a wholly-owned subsidiary of AAGB. This Sustainability Statement represents AAB's initiatives and materiality matrix for the financial year ended 31 December 2017 (the Financial Year), which will be adopted by AAGB in the next financial year.

As part of the One AirAsia initiative, we are committed to reducing costs further, while improving efficiencies across the board. Apart from the impact on costs and greater revenue generation, this initiative also puts in place the long-term sustainability of the business as well as ensures an effective succession planning in the long run.

AAB was founded to enable everyone to fly. In the 16 years that we have been building skybridges across Asia, we have carried more than 466.7 million guests across the Group[1]. In Malaysia, we are the leading airline, dominating almost half the domestic and international markets. And we are still growing. While other airlines in the region were reducing capacity in 2017, we saw the delivery of seven aircraft as we expanded our route network.

Our ongoing success hinges on two key factors: staying true to our low-cost business model; and truly valuing people. The former has provided us the financial strength to grow even in less than optimum economic conditions, while the latter underlines our commitment to operating safely, responsibly and with integrity, and has gained us the trust of our stakeholders. Our One AirAsia drive is adding to our efforts, providing greater career opportunities to our own people, ie our Allstars.

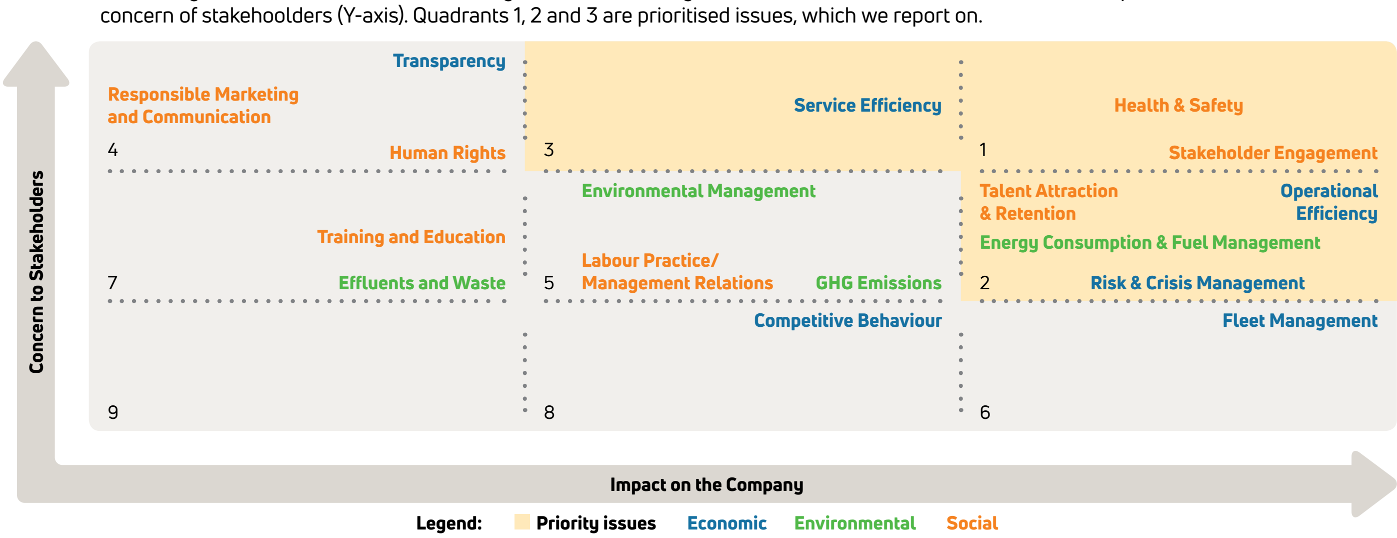
Both keeping our costs low and strengthening our relationships are equally important to our sustainability, and will continue to underpin all our actions and decisions.

While we disclose our financial performance in the rest of this annual report, we describe our actions to create stakeholder value in the following pages of this Sustainability Statement. By creating stakeholder value, we mean investing into areas that are important to our guests, our Allstars, our investors, business partners, the government and the public.

We have always had a good idea as to what is important to our guests – from feedback obtained through various communication channels, as well as from face-to-face interactions. In 2016, we obtained similar insight for other stakeholders by conducting our first materiality assessment. Through a structured process of workshops, surveys and interviews, we were able to determine those issues that are important both to AAB as well as to all our stakeholders, and to prioritise these according to their impact.

AIRASIA'S MATERIALITY MATRIX

Materiality refers to issues that reflect an organisations' most significant economic, environmental and social impacts (X-axis), and the concern of stakeholders (Y-axis). Quadrants 1, 2 and 3 are prioritised issues, which we report on.



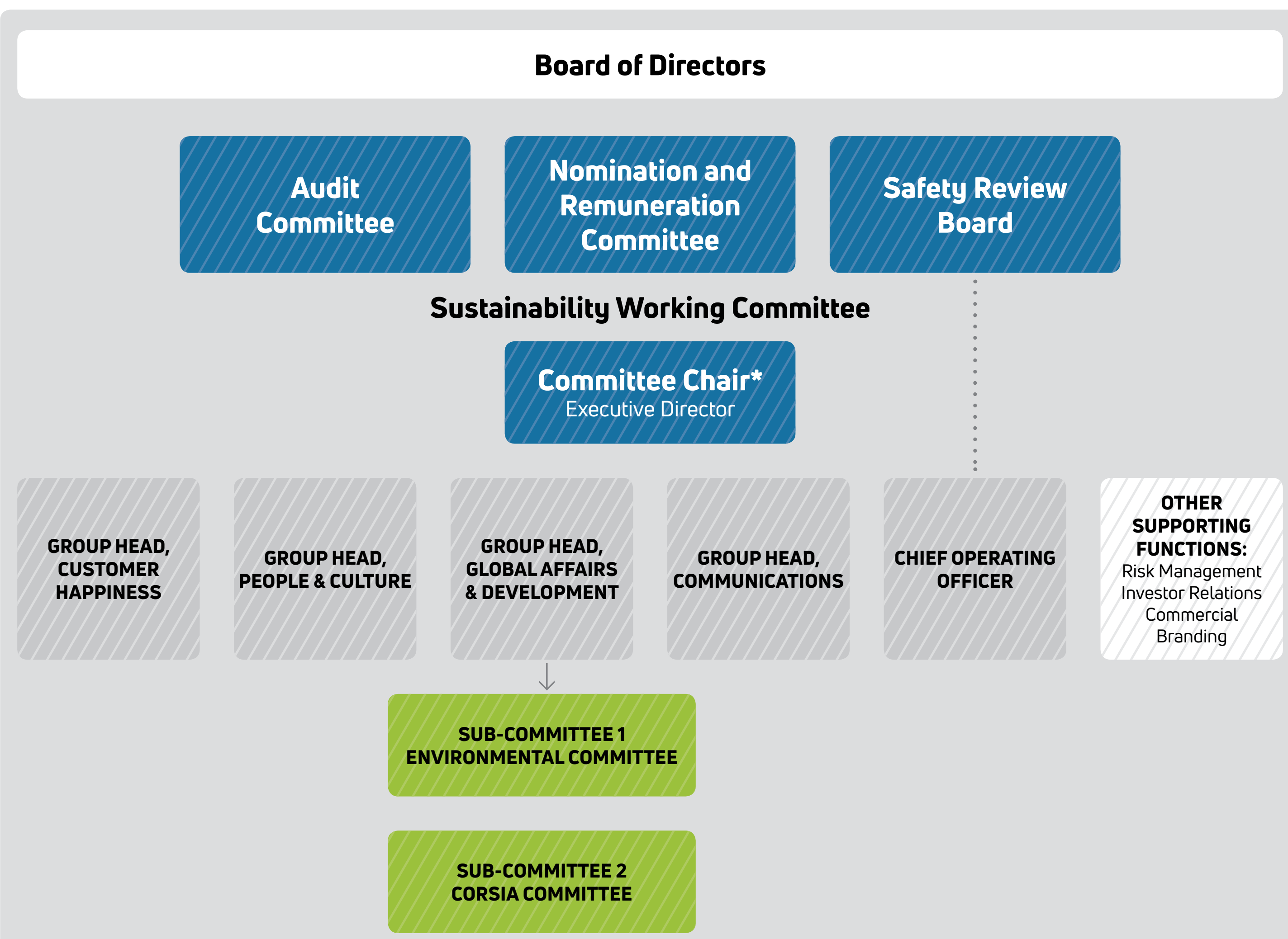
[1] By "the Group" we refer to AirAsia Malaysia, AirAsia Indonesia, AirAsia Philippines, AirAsia Thailand, AirAsia India, AirAsia Japan, AirAsia X Malaysia, AirAsia X Thailand and AirAsia X Indonesia. Although the Group's total fleet size stood at 205, this included three aircraft on lease to third parties, six that were grounded for redeployment to other affiliates in 1Q18 and eight operated by AirAsia X Indonesia.

Seven issues were highlighted through this materiality assessment, namely:

- Safety & Health
- Stakeholder Engagement
- Talent Attraction & Retention
- Operational Efficiency
- Service Efficiency
- Energy Consumption & Fuel Management
- Risk & Crisis Management

We focused on these seven material matters in our Sustainability Statement in 2016, and are reporting on them again in this report, highlighting progress made in each area. In certain material matters, such as carbon emissions, we have improved our data collection and have been able to increase the scope of our reporting.

Two other key developments in our sustainability practice have been the establishment of a dedicated team to manage issues related to the environment, and formalisation of a sustainability governance structure. The head of the newly-established Green & Environmental Affairs Department will also oversee our corporate sustainability, and will be part of a newly set up Sustainability Working Committee for the AirAsia Group.



* The position of the Committee Chair will always be held by an Executive Director of AirAsia Berhad

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The Sustainability Committee, chaired by Tan Sri (Dr) Tony Fernandes, will report twice a year to the Board, while a Working Committee comprising Group Heads of Departments will ensure all our material areas are taken into consideration in our business plans and strategies. Through this governance structure, sustainability will be integrated more formally into our operations and risk assessment processes. Clear key performance indicators (KPIs), targets and goals will be set in 2018, and reported in the future.

Scope of Statement

This Sustainability Statement covers the sustainability initiatives of AirAsia Malaysia for the financial year 2017. The AirAsia Group is based in Malaysia, and AirAsia Malaysia remains the biggest revenue contributor. We have put in place the relevant mechanisms to collect data in Malaysia and are in the process of standardising the data collection in our other country operations. Once the relevant measurement and reporting structures are in place in our other associates, we will start reporting on their sustainability performance too.

We currently base our statement on the Global Reporting Index (GRI)-G4 guidelines, and are pleased to see that a number of our initiatives contribute to global sustainability concerns, such as those outlined by the United Nations' Sustainable Development Goals (SDGs). As our initiatives mature, we hope to be able to map our performance against the SDGs that are relevant to our actions and operations.

SAFETY & HEALTH

The safety of people who fly with us and work with us is something we will not compromise on. It is given top priority at AirAsia Malaysia, and we invest considerable resources to keep enhancing our safety frameworks, recognising that maintaining the highest standards of safety is necessarily an ongoing mission. We take a vigilant, proactive and systematic approach to protect the Group against a range of risks and strive for continuous improvement in our safety practices and performance.

Safety Management System (SMS)

Safety at AirAsia Malaysia is reinforced by a robust Safety Management System (SMS) which ensures systematic hazard and risk management in line with the requirements of the International Civil Aviation Organization (ICAO) and the Civil Aviation Authority of Malaysia (CAAM). The SMS consists of four pillars: Safety Policy and Objectives, Safety Risk Management (SRM), Safety Assurance (SA) and Safety Promotion.

Guided by the SMS, we promote a safety culture within the organisation with clear lines of individual and collective responsibility and accountability. Continuous training is provided to ensure all Allstars understand our safety processes and are able to carry out their functions safely. To reinforce our commitment to maintaining the highest levels of safety, we encourage constant conversations on safety behaviours. Our objective is for every individual in AirAsia Malaysia to contribute to the safety of every aspect of our operations, on ground and in the air.

Departmental level engagement with internal safety champions was significantly enhanced during the year with an improved reporting system that promotes vigilance among Allstars. These reports are discussed at safety meetings, which are held regularly and where proactive, innovative resolutions are formed.

SAFETY POLICY STATEMENT

We are committed to developing, implementing, maintaining and constantly improving our strategies and processes to achieve the highest level of safety performance and meet national and international standards, while delivering on our customer promise for affordable, reliable and convenient flight services. All Allstars are accountable for the delivery of our safety performance, starting with the Chief Executive Officer.

Our commitment is to:

- Support the management of safety through the provision of appropriate resources resulting in an organisational culture that fosters safe practices, encourages effective safety reporting and communication and actively manages safety with the same attention to results as the attention to the results of the other management systems of the organisation.
- Enforce the management of safety as a primary responsibility of all managers and Allstars.
- Clearly define for Allstars, managers and employees alike their accountabilities and responsibilities for the delivery of the organisation's safety performance and the performance of our Safety Management System.
- Establish and operate hazard identification and risk management processes, including a hazard reporting system, in order to eliminate or mitigate the safety risks or the consequences of hazards resulting from our operations to a point which is as low as reasonably practicable.
- Ensure that no action will be taken against any employee who discloses a safety concern through the hazard reporting system, unless such disclosure indicates an illegal act or deliberate disregard of regulations and procedures.
- Comply with and, wherever possible, exceed legislative and regulatory requirements and standards.
- Ensure that sufficient skilled and trained Allstars are available to implement our safety strategies and processes.
- Ensure all Allstars are provided with adequate aviation safety information and training hence are competent in safety matters and are allocated only tasks commensurate with their skills.
- Establish and measure our performance against realistic safety performance indicators and targets.
- Continually improve our safety performance through management processes that ensure relevant safety action is taken and is effective.
- Ensure externally supplied systems and services to support our operations are delivered, meeting our safety performance standards.

RIAD ASMAT
Chief Executive Officer
AirAsia Malaysia

Safety Training

Identified operational personnel, supervisors, managers, senior managers and accountable managers are required to undergo appropriate safety training. The objective is to ensure all relevant Allstars are competent to perform their SMS duties. SMS training is part of the induction programme for new Allstars, while recurrent training is conducted every two years.

Emergency Response Planning

During the year, there was added emphasis on Emergency Response Planning and especially on the proper handling of those involved in emergency scenarios. Two-day Psychological First Aid (PFA) sessions were organised in Kuching, Penang and Kota Kinabalu in April, July and August respectively in collaboration with the Counsellors Board of Malaysia and Mercy Malaysia. A total of 70 Guest Service and Ramp services Allstars participated in the programmes as part of training to serve as our Special Assistance Team.

In addition, 30 Allstars took part in a two-day search and rescue exercise (SAREX) organised at the Langkawi International Airport in March which focused on both land and sea operations. The sea scenario re-enacted a collision of two helicopters while the land scenario simulated an aircraft crash in the airport itself. The exercise involved a total of 600 participants from 30 private and public agencies.

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Safety Review & Action Meetings

To ensure we keep enhancing our safety performance, regular meetings are held at the different levels.

The Safety Review Board (SRB) – comprising Accountable Managers (ie CEOs) and Safety Directors of each airline within the Group, and chaired by the Safety Board of Director – meets every quarter. During the year, the SRB discussed and reviewed all mitigation measures and safety process enhancements which were subsequently applied across the Group.

Safety Review Meetings (SRM) are held monthly at each AOC, chaired by Accountable Managers and attended by senior managers responsible for functional areas, including the Director of Safety, Director of Flight Operations, Head of Security, Head of Engineering, Head of Ground Operations and Safety Managers. The SRM reviews recommendations and proposals, then takes decisions and actions to further improve our safety processes.

The Safety Action Group (SAG) – comprising line managers and representatives of front line personnel – meets monthly or when there is a need to review safety-related matters. The meetings deal with implementation issues to satisfy the strategic directives of the SRB.

Food Safety & Product Quality

To ensure food safety, we audit our suppliers using a regularly updated audit checklist and template. The audit is conducted not only on suppliers of perishable meals but also primary packaging suppliers, and has inspired a number of them to acquire the relevant certifications to meet our standards.

With the establishment of Langkawi as our latest hub, we provided Quality Assurance (QA) training to relevant personnel and conducted an audit prior to implementing a Quality Chain Management System (QCMS) for food safety and product quality, in line with the systems in place in the other five Malaysian hubs.

Along with greater emphasis on the QCMS, there was a significant reduction in number of food safety and general complaints received compared with 2016, and we exceeded our KPI of three complaints per million passengers (ppm) by a wide margin, with 0.81 complaints

Note: An AOC is defined as a regional AirAsia Group operation that holds an Air Operator's Certificate.

ppm. We also maintained our ISO 22000 certification for our warehouse and kitchen, achieving zero major non-conformity (NC) in the audit, and only two minor NC in non-quality related areas.

In addition, we visited and audited the caterers for our AOCs in Thailand, the Philippines, India and AirAsia X. Technical support was provided to AirAsia Philippines to ensure new suppliers meet higher quality and food safety standards.

STAKEHOLDER ENGAGEMENT

Our operations impact and are impacted by a number of stakeholders, key among whom are our guests, our Allstars, investors, business partners, the government and the public. We value our stakeholders and strive to build strong relationships based on trust with each group through continuous and transparent engagement.

IN 2016, WE HAD GROUPED ALL OUR EXTERNAL STAKEHOLDER-FACING FUNCTIONS UNDER GROUP GLOBAL AFFAIRS & DEVELOPMENT TO ALIGN KEY MESSAGES ACROSS THE BOARD. WITH GOOD INTER-FUNCTIONAL RELATIONS ESTABLISHED, IN FEBRUARY 2017, GROUP INVESTOR RELATIONS, GROUP COMMUNICATIONS AND GROUP BRANDING WERE SEGREGATED FROM GROUP GLOBAL AFFAIRS & DEVELOPMENT IN ORDER FOR EACH FUNCTION TO BE ABLE TO FOCUS MORE SPECIFICALLY ON ITS TARGET STAKEHOLDERS.

Stakeholder Group (Malaysia)	Why It Is Important to Engage With Them	Type of Engagement	Frequency/availability
Government	To ensure alignment of best interests of the government, aviation industry and the company.	Face-to-face meetings	Scheduled and/or ad hoc
		Parliamentary sessions	3 times in 2017
		Formal meetings with government officials initiated by AirAsia	76 times in 2017
		Tours and familiarisation visits to AirAsia and our operating units	34 times in 2017
Guests	We exist to serve our guests, and strive to meet, if possible exceed, their expectations	Guest feedback through: Survey email (NPS)	Sent to all guests who make online bookings, at 2 different points: immediately after their booking, and within 2 days of their flight.
		Call centres	Available in 15 countries, operating hours as provided on airasia.com
		Online submissions	24/7 in 8 languages
		Live Chat	24/7 (English, Bahasa Malaysia and Chinese)
		Twitter (@AirAsiaSupport)	Daily, 8am– 8pm (English)
		AirAsia Sales Offices	Location and operating hours available on airasia.com
		AirAsia Travel & Service Centres	Location and operating hours available on airasia.com

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Stakeholder Group (Malaysia)	**Why It Is Important to Engage With Them**	**Type of Engagement**	**Frequency/availability**
The Public/ Community	The support of our local communities is important to our brand reputation and long-term sustainability.	#AirAsiaMAKNA events	At least 15 times a year
		#GirlsCanDoAnything campaign	Ongoing since 2016
		AirAsia Runway Ready Designer Search (AARRDS)	Annual event since 2015
		AirAsia Badminton Academy	Ongoing since 2012
		Swim clinics with Olympian Ben Proud for young talent	3 clinics held in Putrajaya, Penang & Kota Kinabalu
		Funding of social enterprises through AirAsia Foundation	Ongoing since 2012
Allstars	Our Allstars form the backbone of the company. Without them, we could not function.	Open office layout promotes constant conversation	24/7
		Townhall sessions	5 times in 2017
		Workplace by Facebook	24/7
		Cultural, sports, well-being, appreciation events	- 5 cultural celebrations in 2017 - Weekly sports events - 5 other major events involving all Allstars in 2017
Investors	Our shareholders and the investment community at large need to have clear understanding of the company's performance and growth strategies.	Analyst and investor briefings by senior management	Quarterly Please refer to the 2017 Investor Calendar, on page 26
		Non-deal roadshows (NDRs), investor conferences, corporate forums	Please refer to the 2017 Investor Calendar, on page 26
		Investor meetings and conference calls (excluding NDR and conferences)	All formal requests for investor/ analyst meetings and conference calls were met. A total of 58 meet-ings (excluding NDRs, conferences and forums) were recorded in 2017 and reported to senior management via daily and weekly IR reports
		Annual General Meetings & Extraordinary General Meetings	Please refer to the 2017 Investor Calendar, on page 26
		IR website at https://www.airasia.com/aagbir	24/7

Stakeholder Group (Malaysia)	Why It Is Important to Engage With Them	Type of Engagement	Frequency/availability
Business Partners	We depend on financing facilities from financial institutions and operating lessors to support our fleet expansion. Our aim is to secure competitive, mixed financing. Engagement with financial institutions, banks and operating lessors start a year before the anticipated aircraft deliveries to ensure we meet our commitments for our large aircraft orders. We also collaborate with business partners such as Airbus and GE on fuel efficiency initiatives.	Financial institutions and aircraft investor credit roadshows Global aviation finance conferences Face-to-face meetings, phone calls, workshops, seminars with banks, aircraft operating lessors and the manufacturers, Airbus, GE and CFM Technical Support, based in RedQ Commercial Support, with GE based in KL and Airbus based in Singapore	Twice a year to selected key markets of financial institutions At least once every quarter Ongoing 24/7 24/7

Stronger Government Relations

Good government relations is key to achieving our expansion goals as well as to becoming a more integrated One AirAsia. To strengthen our government relationships, Group Global Affairs and Development – now comprising Group Corporate Development, and Group Government Affairs and Policy – launched a new vision and strategy, focused on three key areas:

1. To establish closer ties with all relevant governments and public stakeholders by highlighting the contributions of aviation, and specifically low-cost travel, in driving tourism and local economies over the past 10 years. Key messages have been designed around AirAsia's desire to further increase connectivity within Asia, driving even greater economic development with the support of government policy.

2. To achieve the vision of 'Seamless ASEAN Skies' through greater cooperation of all relevant authorities. A number of roundtables are to be hosted together with research institutes while we support events such as the ASEAN Economic Integration Forum and ASEAN Business Councils. This has been complemented by policy briefs highlighting the importance of market liberalisation and Open Skies to enhance connectivity and consumer choice with low-cost travel, affordable fares and a competitive environment reducing unnecessary regulations.

3. To advocate low-cost carrier terminals (LCCTs) and airports across the region to allow for the development of efficient air transport infrastructure while keeping costs low to provide the necessary foundation to increase connectivity and offer affordable air fares. This includes the argument to privatise airports and airport terminals which should translate into fair Passenger Service Charges (PSC) according to the service needs of airlines and passengers.

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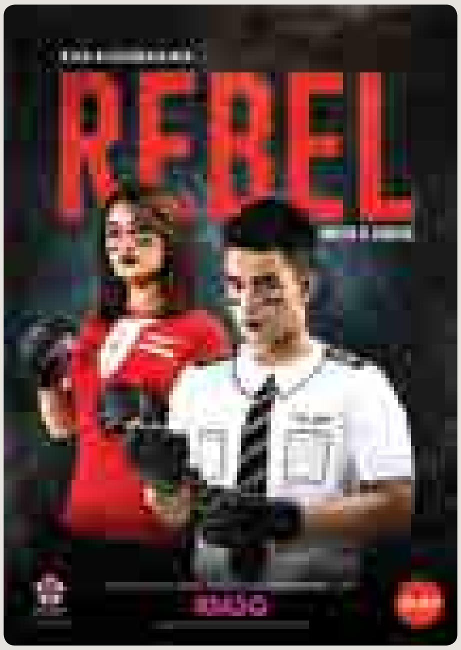
'Hearing' Our Guests Better

We believe not only in enabling everyone to fly but also for them to enjoy the experience. We therefore value our guests' feedback, and in early 2018 further enhanced the digital platforms through which they do this. In March, we entered into a partnership with New York-based Salesforce to deploy cloud solutions linking the customer support channels of eight country operations. This effectively creates a single view of all guest complaints, compliments and suggestions on web, phone, email, live chat and airport communications – allowing our guest-interfacing Allstars to provide higher levels of personalised service. In our quest to be more 'guest-obsessed', we have also renamed our Customer Care team to Customer Happiness.

AirAsia in Society

We engage with the Malaysian public through various programmes that seek to empower those who are vulnerable or marginalised and to inspire everyone to 'dare to dream'. The following are among our flagship programmes.

- ***Supporting cancer patients & their families***
  Given the prevalence of cancer, we believe we can make a significant contribution to society by supporting the work of the National Cancer Council Malaysia (MAKNA) in providing financial aid to cancer patients, as well as motivating cancer patients to fight the condition. We have been a partner to MAKNA since 2015, and in 2017 contributed a total of RM300,000 benefitting 291 patients. We also involved Allstars from our other country operations in MAKNA's campaigns. Moving forward, we are collaborating with online store FashionValet to sell Allstar-designed T-shirts, proceeds from which will be channelled to MAKNA.



- ***Inspiring Girls to Pursue Dream Careers***
  Building on the #GirlsCanDoAnything campaign launched in 2016, in 2017 we partnered The Star Media Group in a campaign run throughout the month of March to inspire girls and young women to dream of bright and exciting futures for themselves. From this campaign, 51 female Allstars were featured on various The Star Media Group platforms including The Star newspaper, 988 FM and Suria FM radio stations, as well as The Star TV, sharing inspiring stories of how they have achieved their ambitions. We also brought together 84 underprivileged female students for a motivational session with our female pilots, engineers and senior management at RedQ; and, on a separate occasion to celebrate the 10th anniversary of our inflight magazine, hosted 30 female Engineering students from Universiti Putra Malaysia at a sharing session with Allstars at Fahrenheit 88, Kuala Lumpur. The campaign earned a total PR coverage of more than RM2.7 million.

- ***Runway Ready Designer Search***
  We launched the AirAsia Runway Ready Designer Search (AARRDS) in 2015 in Malaysia before going regional in 2016 involving Indonesia, Thailand, Singapore and the Philippines. The idea is to unravel hidden talent and provide them the exposure to make a name for themselves in the world of fashion. The number of contestants in AARRDS has grown by the year. In 2016, over 1,000 submissions were received across the region, and the top 15 were shortlisted to showcase their collections at the KL Fashion Week Ready-to-Wear (RTW) 2016. In 2017, in conjunction with the Asean@50 celebration, we extended the competition to aspiring designers in all 10 Asean countries. Two finalists from each country will present their collections at the KL Fashion Week RTW 2018. Winners from each year's competition are mentored by an established and renowned fashion designer.

AARRDS garnered over RM5 million in PR value in 2017 and was awarded a Silver in the Corporate Responsibility Category of the Malaysia Public Relations Awards (MPRA) 2016/2017.

- ***Encouraging Sports Talent***
  We have always promoted sporting talent from the region and provided the support needed for individuals as well as teams to realise their potential. Given Malaysia's love for badminton, and the number of world-class talent we have already produced in this game, we set up the AirAsia Badminton Academy in 2012 to unravel and groom more national players.

  During the year, we also produced a series of videos under our Dare to Dream campaign highlighting the grit and determination of home-grown athletes to achieve their dreams. The list included national diver Leong Mun Yee, go-kart driver Muizzuddin Musyaffa, cyclists Azizulhasni Awang (aka the Pocket Rocketman) and Fatehah Mustapa, as well as British Olympian swimmer, Ben Proud. Each of these outstanding sports talent personifies the passion required to win golds. To inspire young talent with this kind of passion, we also worked with Ben, who grew up in Malaysia, to hold swim clinics for young swimmers with promise in Putrajaya, Penang and Kota Kinabalu.

  In addition, we entered into a partnership with American mixed martial arts organisation UFC (Ultimate Fighting Championship) to identify an up-and-coming fighter from Asia to train at the UFC Performance Institute in Las Vegas, and to participate in the Dana White Tuesday Night Contender series, where many amateurs have made their name.

AirAsia Foundation

Through our philanthropic arm, AirAsia Foundation, we are engaging with and supporting marginalised communities across Asean. Social enterprises apply for seed grants from our Foundation and those found to have a sound business model are awarded funding to help them get off the ground. To date, the Foundation has supported 17 social enterprises in seven countries – Cambodia, Indonesia, Malaysia, Myanmar, the Philippines, Thailand, Vietnam – directly benefitting 2,275 individuals and indirectly enhancing the lives of some 7,221 family and community members.

In 2017 itself, AirAsia Foundation disbursed more than RM320,000 to five enterprises, as depicted in the following pages.

SOUL BELLY

Taguig, the Philippines

Description:
Run by underprivileged mothers, Soul Belly provides affordable home-cooked meals to offices as an alternative to fast food, with proceeds from the sales going to a fund that helps children stay in school.

AirAsia Foundation's grant is to:
- Launch food service to five more offices
- Educate customers about each dish
- Train women to be kitchen staff and part-time F&B suppliers

Amount:
PHP900,000

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GARBAGE CLINICAL INSURANCE (GCI)

East Java, Indonesia

Description:
GCI is a programme started by Indonesia Medika Foundation, a health development company in East Java, which accepts recyclable waste as monthly premium so that local residents gain free access to medical services.

AirAsia Foundation's grant is to:
- Set up a new clinic equipped with medical staff, equipment and medication, plus a waste collection centre
- Deliver health awareness campaigns and talks
- Develop research activities to improve programme effectiveness

Amount:
USD10,000

NATURAL ACEH

Banda Aceh, Indonesia

Description:
Natural Aceh creates livelihood for villagers affected by the tsunami through the rehabilitation of mangrove swamps and development of artificial oyster farms in Banda Aceh, Indonesia.

AirAsia Foundation's grant is to:
- Set up an oyster farm
- Train women to cultivate oysters
- Create, brand and market various oyster products
- Establish a sales outlet

Amount:
IDR310,810,000

THE PICHA PROJECT

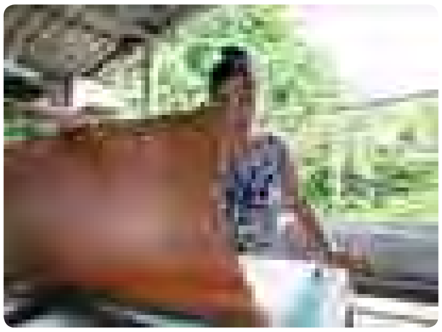
Kuala Lumpur, Malaysia

Description:
The Picha Project helps refugees in Kuala Lumpur to earn an income by serving refugee cuisine through the Malaysian tradition of an 'open house', encouraging relationships and community integration.

AirAsia Foundation's grant is to:
- Train and engage with 10 new refugee families
- Develop new menus
- Help in marketing and publicity efforts to attract new customers

Amount:
RM51,480

ZO PROJECT
Hanoi, Vietnam



Description:
Zo Project aims to revive the age-old 100-step paper making tradition in Vietnam.

AirAsia Foundation's grant is to:
- Purchase additional equipment and tools to meet growing demand
- Set up a (plant) nursery to secure a sustainable supply of raw materials
- Train villagers in traditional paper-making and craft production, as well as to host tours and workshops

Amount:
USD20,000

Keeping Allstars Engaged

We pride ourselves on being a social airline, encouraging constant dialogue between Allstars across all levels. We have always maintained as flat a hierarchical structure as possible and work in open spaces to promote easy interaction. At RedQ, the atrium that occupies central position often 'comes alive' with activities from Zumba to townhall sessions, at which senior management update everyone on the company's performance as well as to hear from them directly on what they would like the company to improve on. In addition to townhalls, important corporate updates are also disseminated online via Workplace by Facebook.

We value each Allstar and seek to create an environment in which everyone feels respected and knows that his/her opinions matter. This creates an open platform for dialogue in which all voices are heard, contributing towards a better, more efficient workspace.

Our Corporate Culture department draws up a busy schedule of events throughout the year aimed at fostering closer ties among Allstars, as well as strengthening the relationship of each individual with the organisation. On 11 July, for example, a #RayaBersama potluck event was held at which with 18 departmental teams presented Raya dishes they had prepared for everyone at RedQ to enjoy.

Along with the establishment of a Green Team in 2017, we also saw Allstars engage in a number of environment-focused activities. Each month saw the spotlight shift onto a different climate action theme, such as energy conservation, recycling and plastic waste reduction. Allstars contributed ideas on how we can help protect Mother Nature via Workplace by Facebook while changing their behaviours to be more environment-friendly. To recognise individual actions, monthly winners were identified. Meanwhile, Allstars who demonstrated the most outstanding green behaviours were presented the Green Hero Awards at our Annual Dinner Party.

This campaign served not only to increase environmental awareness, but also brought together Allstars from across the region closer together, creating some strong One AirAsia bonds. Educational roadshows and workshops were held in all six country operations across the Group.

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Further strengthening the concept of One AirAsia, we involved Allstars from the region in efforts to support MAKNA. Four Allstars from Malaysia, Thailand, Indonesia and China participated in MAKNA's Klimb Kinabalu 2017 expedition. We also featured cancer survivors from across the Group to inspire other patients in our #AirAsiaMAKNA: Rebel with a Cause campaign. They included AirAsia Philippines' Chairperson, a cabin crew from India and a ramp bus driver from Thailand, among others. In addition, 40 Allstars from across the Group volunteered to help one of the social enterprises that has received funding from our Foundation. From 5-8 May, they got together at the Bornean Sun Bear Conservation Centre in Sandakan, Sabah where they helped to build enrichment tools from old fire hoses to improve the welfare of bears.

Investors

Investors provide us with critical funds that support our business operations and growth. In order to maintain a high level of investor interest in our stock, we provide the investment community with clear and comprehensive information on the company's performance and strategy through various engagement channels – from investor conferences and roadshows to analyst briefings and personal dialogue. We also maintain an up-to-date IR website that includes interviews with our senior management. In addition, we maintain open channels of communication with the 21 research houses that cover AAB.

TALENT ATTRACTION & RETENTION

Our founders will be the first to acknowledge that "AirAsia is not a one-man show". We are today the Best Low-Cost Airline in the world nine years running because of the passion and determination of the more than 19,000 people across AirAsia Group we refer to as our Allstars. It is their passion that has seen us overcome all manner of obstacles, and their determination that allows us to continue to grow. We highly value our people and place great emphasis on attracting the right kind of talent to join us while ensuring we also offer the right kind of environment that motivates them to stay and grow with us.

Bringing In the Right Talent

From the day AirAsia was established, we have sought to bring on board people, like our founders, with dreams – of creating better lives for themselves while making the travel dreams of millions of others come true. In the initial years, many individuals were hand-picked to join the team based on their ability to work well in teams, their capability to learn new and better ways of doing things, and willingness to go the extra mile when required.

As the Group has grown, we have relied increasingly more on structured recruitment processes to meet our needs. Today, as we are about to launch on a steep growth curve, our People & Culture team is increasing our presence in the international recruitment market, and in 2017 organised no less than 30 strategic recruitment drives in countries where we operate.

We believe in growing our talent into future leaders who fully understand and embody the AirAsia culture. Hence much emphasis is placed on bringing on board young talent who we can groom. This saw us welcome a total of 303 fresh graduates under internship programme, that opens throughout the year, of whom 30 were offered full-time employment. Resonating with the AirAsia vision, we have introduced a six-month cross-border internship experience; 11 interns from South Korea were placed in Malaysia and Thailand for Asean exposure. Of this group, six were offered permanent roles within the Group. As we spread our wings to North Asia we also brought in two hires from China under the DataWarrior@AirAsia programme which was launched in 2016 to fulfil our quickly growing need for data analysts.

Meanwhile, to ensure we are able to offer the right value proposition to attract new talent, we obtained feedback from 8,000 Allstars in an Employee Value Proposition (EVP) survey, which provided deeper insight into what employees seek from their employers. Three key points emerged from the survey – 1) the desire for more consolidated channels of communication for information pertaining to daily tasks, etc; 2) the desire for a dedicated channel through which Allstars can contribute ideas and suggestions for greater business efficiencies; and 3) the desire for more formal opportunities for professional development. In response to the first two points, we launched Workplace by Facebook which is used extensively to disseminate corporate information as well as to crowdsource ideas and obtain feedback from Allstars on various work-related issues. At the same time, our People & Culture team are working on ways to bring Allstars from the region together on more training and development programmes.

Developing our Talent

Various formal training programmes are organised to develop the skills of our Allstars. However, given that about 70% of staff learning at any organisation happens in the workplace itself, we decided to enhance the 'social learning' opportunities within RedQ. A series of People Connect sessions were held throughout the year on topics such as understanding self, others and the team. These also touched on a pertinent leadership skill for supervisors and managers, namely coaching skills. In addition, Allstars had the opportunity to join mini training sessions organised by specific departments, such as Safety and Security, for greater overall understanding of the way AirAsia works.

During the year, four senior management enrolled in the 18-month MBA programme organised by the Asia Business School, established by Bank Negara Malaysia in partnership with the MIT Sloan School of Management. We also maintained the pipeline established with leading UK postgraduate institution Cranfield University, through which our operational and commercial leaders have the opportunity to enrol in a Leadership and International Aviation Safety programme.

To enhance the career advancement of Allstars, they are given priority in filling positions that become vacant within the Group; and in 2017 we provided a formal mechanism for them to apply for internal positions through our internal career site, #noweveryonecan on @Workplace.

Talent Review

Every year, Heads of Department conduct a talent review to identify high performers and Allstars who have demonstrated leadership potential. These high performers/potential leaders are placed on a fast-track programme, with the required interventions to fill in any skills gaps so they are able to progress their careers. In 2017, our Talent Review took a broader perspective to focus on succession planning for positions from the C-2 level and above, covering over 600 senior managers.

SUSTAINABILITY STATEMENT

AIRASIA MALAYSIA DEMOGRAPHICS

NATIONALITY

MALAYSIA	CHINA	INDIA	INDONESIA	PHILIPPINES
8,418	88	81	80	78

SINGAPORE	THAILAND	SOUTH KOREA	OTHERS	TOTAL
40	28	13	130	8,956

GENDER

	Total	%
Female	2,702	30
Male	6,254	70
	8,956	

CAPTAIN

	Total	%
Female	14	3
Male	481	97
	495	

CABIN CREW

	Total	%
Female	738	60
Male	494	40
	1,232	

LICENSED AIRCRAFT ENGINEER

	Total	%
Female	9	5
Male	175	95
	184	

MANAGEMENT LEVEL

	Total	%
Female	9	18
Male	42	82
	51	

CO-PILOT

	Total	%
Female	30	6
Male	470	94
	500	

SENIOR CABIN CREW

	Total	%
Female	269	59
Male	190	41
	459	

AGE GROUP

< 25 years	1,800
25 - 35 years	4,922
35 - 45 years	1,652
45 - 60 years	526
> 60 years	56

Employee Demographics

The most distinctive aspect of our workforce is its diversity. We believe in bringing together a team that reflects the demographics of the people we serve, as this enriches our organisational perspective and contributes towards more strategic decision-making. No less than 6% of our 8,956 Allstars are non-Malaysian, mainly from the region, but also representing Europe, Africa and America. Among the Malaysians, we have a good mix of the different ethnicities that populate the country – with 50% being Malay, 20% Chinese, 16% Indian, and 0.8% non-Malay Bumiputera.

We also strive to create a good balance of men and women among our Allstars. Currently, our male to female ratio stands at 70:30, ie we have more than twice the number of men than women on our payroll. This is partly due to the nature of the aviation industry, where a number of key functions such as engineering, ramp activity and serving as flight captains have traditionally been assumed by men. We seek to redress such gender imbalance, and are making progress. Among our pilots, for example, we now have 156 female pilots across the Group, of whom 14 are from AirAsia Malaysia. Although as a percentage this is still quite low - at 4.6% of the total - it is because of the number of female pilot applicants we receive more than anything else, reinforcing the fact that more can be done. Programmes such as #girlscandoanything are part of broader initiatives aimed at encouraging girls and young women to achieve success in careers they have set their hearts on, even those that have been traditionally dominated by men. We are also conscious of hiring more women into these positions, to create a new gender-unbiased norm.

On the Board of Directors, in December we welcomed actress/entrepreneur Noor Neelofa Mohd Noor. Neelofa was brought on board to help increase the number of independent directors. This also saw two non-independent directors step down, namely Aireen Omar and Tharumalingam Kanagalingam. While the Board changes mean that we now have 57% independent directors, we are still some way to achieving the composition of 30% women directors recommended by the latest Malaysian Code on Corporate Governance 2017. This will be a key focus of our Board and we look forward to reporting on positive progress in the coming years.

Workplace Diversity & Inclusion

Supporting the diversity of our workforce, we have a Code of Conduct which states explicitly our commitment "to giving equal employment opportunities by creating an environment free from any discrimination, whether due to colour, religion, race, gender, sexual orientation, nationality, marital status, ancestry, socio-economic status or physical disabilities. We won't accept bullying, harassment or any other behaviour that can be seen as degrading and threatening. We'll focus on what brings people together rather than on what keeps them apart."

Home Away From Home

We invested significantly in our new headquarters, RedQ, which has been designed with our Allstars in mind. The idea was to create a 'home away from home' – with ample space for formal and informal gatherings, in addition to more secluded areas for concentrated work. The atrium, which truly forms the heart of our headquarters, is a skylit three-storey space with beanbags. We provide a good selection of Asian and Western food at our food hall which includes an Indian vegetarian station, a salad bar and our own T&Co brand of gourmet coffee. In addition, RedQ boasts a convenience store, a laundromat, gym and, as of January 2018, a physiotherapy centre and crèche. Since the physio centre has been operational, more than 530 Allstars have received treatment for back, neck, shoulder and knee pain - all for free. Meanwhile, the crèche is open from 7am-7pm and currently has six carers looking after 36 junior Allstars aged from 11 months to six years of age.

A quirky extra, which could be seen as an energy-saving device, is a slide from the third to the ground floor. We have also renovated and refurbished our offices in our stations/hubs, ensuring each work premise is comfortable, and as close to a second home as possible.

Compliance With Labour Laws

AirAsia complies with all Labour Laws in Malaysia, including those related to child labour and forced labour. We are strong advocates of human rights and will not employ any individual below the age of 18, or coerce any individual to work for the company. Our values are clearly reflected in our corporate culture which all Allstars are aware of from the moment they join the company. We also adhere to the Minimum Wage Act 2011, which has set a minimum wage of RM1,000 for employees in Peninsular Malaysia and RM920 in Sabah and Sarawak.

OPERATIONAL EFFICIENCY

We seek continuously to enhance our operational efficiencies as it contributes both to reduced costs as well as optimal service delivery. The process of digitalising our systems and processes, which began in earnest in 2016, has taken our efforts to a new level. This year, there has been intense focus on digitalising the processes in not just our Operations department but also our Commercial and Human Resources divisions. Our aim is to migrate all systems and processes that are currently operated manually onto a digital platform for optimal efficiency.

SUSTAINABILITY STATEMENT

ePOS

Among the digitalisation measures undertaken in 2017 was the automated tracking of inflight sales using hand-held electronic point of sale (ePOS) devices. We have implemented ePOS devices on all AirAsia X flights, and are now deploying them across our other country operations too. Use of ePOS allows us to predict more accurately how much food and beverage will be sold and has so far enabled us to reduce wastage of perishables by 20% while also totally eliminating the use of paper for inflight sales.

Standardising IT Security Policies

The more we digitalise our processes, the greater the need to protect our systems against intrusion or disruption. In 2016, we began the process of establishing IT security policies to govern and ensure compliance across the Group in areas such as access control, and acceptable/non-acceptable use of IT equipment. In 2017, these policies formed the basis of a Group IT Security Policy which has been implemented across all our country operations.

Flight Disruption/On-time Performance

In terms of flights, operational efficiency entails keeping disruption to a minimum and ensuring we meet an on-time performance (OTP) rate of 85% within 15 minutes of standard departure time (STD) and 93% within 30 minutes of STD. In 2017, despite a lower than optimal fleet number, we achieved a high flight completion rate (FCR) of 98.5%. This, however, came at the expense of our OTP which dropped to 67%. Going forward, with a boosted fleet and intensified focus on initiatives such as zonal boarding, value chain mapping and greater collaboration across related teams, we expect controllable delays to be contained.

Continuous Improvement Programme (CIP)

We embarked on a CIP in 2010 to create greater efficiencies across AirAsia via Lean Six Sigma (LeSS) knowledge transfer from GE Aviation. Under a Cost Out and Avoidance (COA) programme, a team of LeSS-certified Allstars have been tasked to identify efficiency bottlenecks throughout the organisation and find ways to resolve these. Their initial goal was to achieve USD20 million in project savings, inclusive of training costs. This target was achieved in 2017. At the same time, another 11 Allstars achieved the LeSS Green Belt, resulting in a total of 25 Green Belt holders at year end.

Moving forward, four LeSS agents will focus on digitalising various guest communication platforms such as phone lines and email with the use of chatbots and system-enabled scripts. Another area of focus will be to address regulatory and standards gaps as highlighted by audit data.

SERVICE EFFICIENCY

Although we are a low-cost airline, we believe we are able to offer services on par with, or better than, legacy carriers. Strong emphasis at AirAsia on the use of IT and, now, digital technology has seen us pioneer a number of guest service innovations in the regional aviation industry. We were among the pioneers of online booking followed by sms and mobile web booking. Then came our self check-in kiosks, baggage self-tagging and onboard wifi. We are continuing to build on the range of digital services offered as well as the quality of our service delivery, while also enhancing the process by which guests can provide us honest feedback on their experience flying with AirAsia. The intention is to continuously identify and fill in gaps, and establish AirAsia as a low-cost, high-class way to fly.

Mobile app and e-boarding pass

In 2010, we were one of the first in the region to introduce a mobile app enabling guests to book flights, manage their bookings and check-in via their mobile phones. In 2016, we further enhanced the AirAsia Mobile App (iOS & Android) to allow guests to make use of the eBoarding Pass to proceed from the departure hall straight to the boarding gate.

The convenience offered can be seen in the numbers. Between 2016 and 2017, we have seen a 38% increase in the number of app users from 63.9 million to 103.3 million while the number of mobile bookings increased by 65%, from 1.3 million to 3.7 million.

E-boarding functions	2016 (mil)	2017 (mil)	Growth %
Users	63.9	103.3	38%
Bookings	1.3	3.7	65%
App downloads	7.8	10.4	25%
Mobile check-in	3.7	6.2	40%
Mobile check-in contribution	6%	9%	3%

The introduction of Alipay in our mobile app in February 2017 contributed to a further increase in usage, with sales in China growing by a significant 130%. Value-add features such as 'Save Card after Payment' improved the system's user-friendliness. The idea is to introduce our own version of Alipay in the near future as we strive to create a cashless environment on all flights.

With the mobile app, eBoarding Pass and Alipay, AirAsia's AppStore rating improved from 1.2 Stars to 3.8 Stars for Android and 2 Stars to 4.8 Stars for iOS in December 2017.

Facial Recognition at Boarding Gates

In February 2018, we created yet another guest service milestone by becoming the first airline in Malaysia to launch a facial recognition system. Our Fast Airport Clearance Experience System (FACES) uses facial recognition to enable passengers to quickly pass through security to board their flight. This new system, approved by the Home Ministry, National Registration Department, Immigration Department and CAAM, has been implemented at two out of four gates in Senai Airport, Johor Bahru. Moving forward, we plan to deploy it at all gates in Senai Airport as well as in all the other airports we serve within the region.

More wifi Offerings

During the year, we enhanced the range of services offered under our ROKKI brand of inflight wifi while reducing data costs by 77%. New services include inflight shopping, with the goods purchased either collected inflight, picked up at the airport or delivered to the guest's home. We also introduced a 50MB internet plan at RM68, catering primarily to business users; a news section with feeds from Aforadio, The Sun and Sinar Harian; and a Ka-Band system offering data speeds up to 50Mbps.

Currently available on 42 aircraft operated by AirAsia Malaysia and 1 AirAsia Indonesia aircraft, in 2018 the service will be extended to AirAsia Philippines and AirAsia India and will be available from gate-to-gate, enabling uninterrupted use of inflight wifi throughout the flight.

The NPS Dashboard

During the year, we improved our Guest Satisfaction Survey by simplifying and digitalising the process. Emails are sent out to all guests who make online or web bookings, within 24 hours of making the booking and within 48 hours of having completed their flight. From having 38 questions previously, which would take 20-25 minutes to complete, now there are only two, which can be answered in 75 seconds. Because it is faster and easier to complete, fewer guests are dropping out of the survey leading to a response rate of about 19% as compared to 4% previously.

The first question in the survey is standard: "How likely are you to recommend AirAsia to your family and friends?" while the second is open-ended, asking what it was particularly about the flight that the guest liked or didn't like.

Through digitalisation, all feedback can be traced to the specific AOC and flight, enabling us to analyse and display the performance of individual departments across the Group. Departments that contribute to negative comments are therefore aware of guests' sentiments and can take immediate action. Additionally, we are also able to get back to our detractors, either via a call, email or letter, and try to win them over.

ENERGY CONSUMPTION & FUEL MANAGEMENT

Fuel comprises one of our largest operational costs, and the consumption of fuel by our aircraft is responsible for most of our carbon emissions, hence fuel management serves the dual purpose of maintaining our costs sustainably low while reducing our carbon footprint. Various initiatives have been implemented to manage our fuel consumption. These are outlined below.

Young, fuel-efficient aircraft

We maintain a relatively young fleet as younger aircraft tend to be more fuel efficient. Further enhancing the fuel efficiency of our fleet, in 2012, we became the first airline in the world to take delivery of A320 aircraft fitted with Sharklet winglets, which reduce aerodynamics drag allowing us to save up to 5% of fuel (147 litres) or 464kg of carbon emissions on every flight. By end 2016, 30% of our aircraft were Sharklet-equipped. Subsequently, in September 2016, we were the first airline in Asean to fly the Airbus A320neo aircraft, which elevates our fuel efficiency by another 16%-20%, saving 666 litres of fuel per flight. Our aim is for 19% of our fleet to comprise the neo model by 2020.

SUSTAINABILITY STATEMENT

Reduction in aircraft weight

The less an aircraft weighs, the less fuel it burns. We therefore look for ways to minimise our aircraft load. In 2016, we obtained approval to replace about 23kg of flight documents from the cockpits with 2kg electronic flight bags (ie tablets), saving two litres of fuel and 6kg of carbon emissions per flight. As of December 2017, we have been able to further reduce the weight of manuals by another 9kg (totalling 32kg), resulting in a total fuel savings of 337,519kg (equivalent to 1,066 tonnes of carbon emissions). The replacement of manuals with tablets also reduces paper use and the manpower required to print and replace old manuals.

In addition, we limit the amount of water carried on board based on need, reducing our carbon emissions by an average of 10kg per flight. We also use the latest Base Coat Clear Coat (BCCC) system when painting new livery, which halves the paint thickness on our aircraft.

Flight Efficiencies

Partnering with GE Aviation, we have redesigned various aspects of our flight operations to be optimally fuel efficient.

- ***Performance Based Navigation (PBN) procedures.*** To date, we have spent USD40 million to develop these procedures, which use the aircraft's own navigational devices instead of ground-based equipment to determine the shortest possible approach to a destination. PBN has been implemented at 11 of 14 airports that we fly to in Malaysia, enabling us to save about 182 litres of fuel and 575kg of carbon emissions per flight.

- ***One-Engine Taxi (OET).*** This entails using only one engine when taxiing out to the runway before take-off and when taxiing in after landing. The procedure saves about nine litres of fuel per flight, reducing carbon emissions by 28kg while also reducing engine maintenance costs and noise pollution. AirAsia recorded total fuel savings of 2,929,582kg from the operation, equivalent to 9,257.48 tonnes of carbon emissions. Other than Malaysia, the system is also employed by our associates in Thailand, Indonesia and India, reducing the Group's carbon emissions by 5.53 million kg a year.

- ***Packs Off Take-Off***
  This initiative reduces fuel consumption while enabling aircraft to have higher thrust power during take-off. For the year 2017, AirAsia saved 229,020kg of fuel from the initiative, equivalent to 723.70 tonnes of carbon emissions, while the Group achieved a total saving of 500,961kg of fuel.

- ***Reduced Flap Landing***
  This reduces drag, enabling us to conserve fuel and reduce noise and emissions at the same time. It translated into 1,685,148kg of fuel savings, equivalent to 5,325.07 tonnes of carbon emissions reduction for AirAsia in 2017. Group-wide, we saved a total of 3,693,815kg of carbon emission.

- ***Idle Reverse Landing***
  Idle reverse landing reduces fuel consumption, carbon emissions and noise. Using this procedure, AirAsia saved 684,229kg of fuel in 2017, equivalent to 2,162.16 tonnes of carbon emissions reduction. Group-wide, we saved 1,830,308kg of fuel during the year.

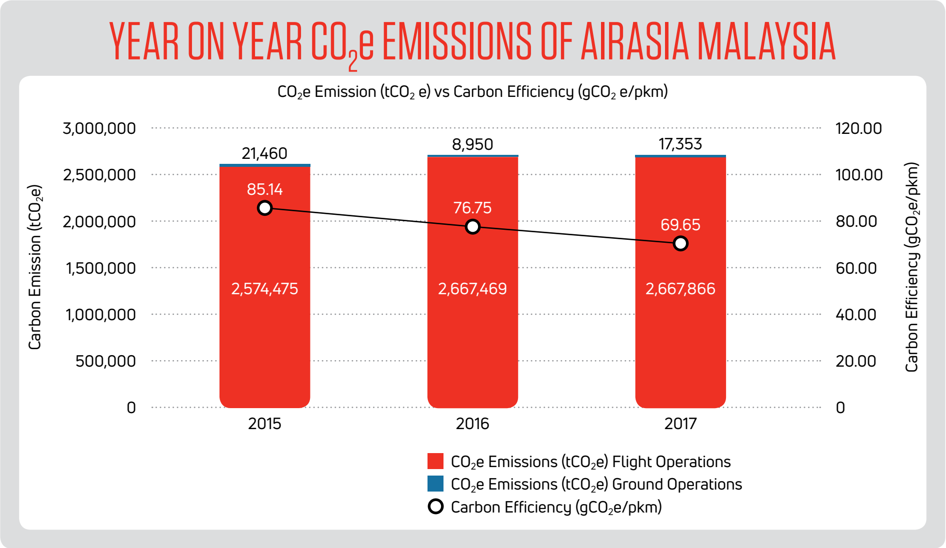
Aircraft Maintenance

Maintaining our aircraft in optimum condition also plays an important role in fuel management. By overhauling our landing gear as frequently as required we are able to reduce our fuel consumption by up to 2%, which is equivalent to 336kg of fuel for a four-hour flight. We also regularly wash our engine compressors, each wash saving 0.2% of fuel per engine amounting to savings of 171,000 litres of fuel per month for the Group. Together, these efforts resulted in a carbon emissions reduction of more than 30,000 tonnes in 2016 - the equivalent of saving nearly 149,000 trees. This represents about 5% of AirAsia's annual emissions.

Carbon Emissions

As a result of our fuel efficiency initiatives, despite an 8% increase in capacity in 2017, we managed to lower our carbon emissions from flight operations minimally, from 2,667,469 tonnes of CO_2 equivalent (tCO_2e) in 2016 to 2,666,866 tCO_2e. Although emissions from ground operations (ie from ramp vehicles) increased by 93.4%, this represents an insignificant portion of total emissions, and our carbon efficiency, as measured by emissions per passenger kilometre (inclusive of cargo weight) has continued to improve, from 85.14 grams of CO_2e per passenger km (gCO_2e/pkm) in 2015 to 76.75 gCO_2e/pkm in 2016 and 69.65 gCO_2e/pkm in 2017.

As of 2017, we have also started to measure the carbon emissions from electricity usage at RedQ. This will serve as a baseline for reduction targets to be set in the future. As the table on the facing page shows, electricity consumption has been maintained between the range of 273,000kW/h and 325,000kW/h throughout the year.



Month	Electricity Consumed (kWh)	CO_2e Emissions (tCO_2e)
Jan 17	294,715	204.53
Feb 17	273,361	189.71
Mar 17	320,204	222.22
Apr 17	303,300	210.49
May 17	308,672	214.22
Jun 17	288,513	200.23
Jul 17	313,785	217.77
Aug 17	324,074	224.91
Sep 17	306,726	212.87
Oct 17	320,643	222.53
Nov 17	320,216	222.23
Dec 17	319,638	221.83
Total	3,693,847	2,563.53

Environmental Stewardship

A key development in 2017 was the establishment of a Green & Environmental Affairs Department in AirAsia to address the issue of climate change. Four Allstars have been appointed to the 'Green Team', tasked with overlooking and managing three main focus areas, namely: Operations & Facilities Environmental Management, Policies & Research, as well as Awareness & Engagement.

Operations & Facilities Environmental Management

The Green Team continued to build on existing recycling activities while also managing our waste management processes.

- ***Cabin recycling.*** The initiative launched by our associate in India was expanded to Malaysia as well as our AOCs in the Philippines and Indonesia, with Thailand to join soon. In Malaysia, back-end processes have been standardised, ensuring that all materials collected on board are recycled via licensed vendors. An average of 1.2 tonnes of recyclables was collected each month, and money from the recycling channelled into a Red Heart Fund, benefiting Allstars in need.

- ***Recycling of our inflight Travel3Sixty° magazine.*** As of August, all the magazines are returned to klia2 to be recycled, with money collected going towards the Red Heart Fund as well.

- ***Recycling at RedQ and all other station offices in Malaysia.*** In addition to full-recycling at our offices, discussions are ongoing between our food operator and a composting machine provider. Compost produced will be used for landscaping at RedQ and given away for free to Allstars for their own gardening needs.

- ***Scheduled waste.*** All spent fuel and oil as well as industrial waste (metal scrap, used batteries, etc) are disposed of according to regulations.

Policies & Research

At its 39th Assembly Meeting, the ICAO Council adopted the Carbon Offsetting & Reduction Scheme for International Aviation (CORSIA) to help the aviation industry achieve carbon neutral growth from the year 2020 onwards. Under this scheme, aircraft operators with international flights are required to offset their annual increase of carbon emissions above their 2019-2020 baseline.

The Green Team is ensuring that AirAsia will be ready to comply with CORSIA when it is implemented on 1 January 2019. A regional CORSIA Committee has been set up, and capacity-building initiatives have been conducted across the Group. We are in the midst of preparing Monitoring, Reporting and Verification (MRV) plans for the Group, which each state's aviation authority is required to submit to ICAO before implementation begins.

SUSTAINABILITY STATEMENT

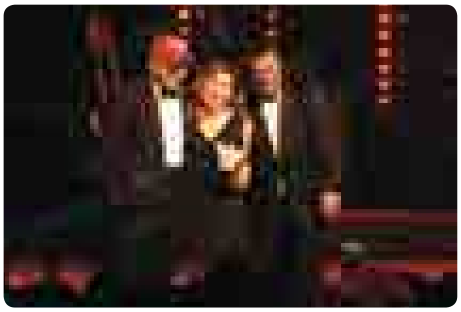
The team is also lobbying for CORSIA-related cooperation among Asean countries, with Indonesia and Thailand confirming participation. The idea is to create a platform for Asean countries to present a unified voice in all CORSIA-related matters.

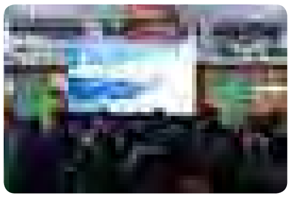
Moving forward, the Green Team hopes to set up an Environmental Management System as well as introduce an Environmental Policy for AirAsia Group, while looking into the development of a Green Procurement / Sustainable Procurement Policy. In the meanwhile, first steps have been made in terms of sustainable procurement, by ensuring that merchandise purchased is packaged in biodegradable or recycled material.

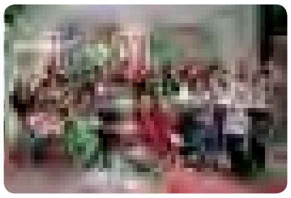
Awareness & Engagement

To ensure all Allstars are aware of environmental issues, the Green Team organised various events and ongoing activities.

- Launched an #AllstarsGoGreen movement across the Group, starting with a six-month contest with the aim to inculcate green habits and to inspire learning by doing. The campaign was communicated both online (Workplace) and via a roadshow that toured 11 destinations across the six countries where we operate. The contest attracted nearly 1,500 entries. All the missions accomplished by the participants have potentially saved about 500kg of carbon emissions, 580kWh of energy and reduced about 45kg of waste going to the landfills. This amounts to the equivalent of about 11 return KL – Singapore flights.
- Established an e-Learning platform on environmental issues on Workplace with thrice weekly content updates.
- Conducted a special screening of *A Plastic Ocean* in RedQ, which attracted an audience of more than 150 Allstars, along with a recycling drive and a paper straw-making workshop. Over 1,000 plastic items were recycled, reducing 240kg of carbon emissions. *A Plastic Ocean* was also made available online on Workplace and we received







close to 400 pledges by Allstars to reduce their single-use-plastic usage.

- Started a Green Paparazzi campaign in Malaysia, which is being replicated across Indonesia and the Philippines. Environment-conscious Allstars in these countries are identified paparazzi-style and rewarded for their green habits (eg using their own containers to pack food, bringing their own mugs for coffee, recycling in the office, etc).

RISK & CRISIS MANAGEMENT

ICAO as well as national safety regulators set out the requirements for airline safety management systems, and we at AirAsia build on these with our own stringent internal standards and management systems. We apply a systematic approach to all risk disciplines, not just aviation safety. We integrate aviation safety, health and safety, aviation and cyber security, environment and business resilience, learning from collaboration and shared experiences to improve our systems. Our people play an important role in ensuring our systems are able to identify risks and that we are well-resourced to address them.

We maintain an 'informed culture' of safety and security, where every employee and contractor is aware of the risks to our business and of his/her responsibility to manage those risks, and we encourage employees to highlight actual or potential concerns.

The Enterprise Risk Framework was set up to strengthen AirAsia's capability to manage inherent risks to our business by providing a structured and systematic platform to address the full spectrum of our significant risks. The consolidated and inclusive approach outlined by the Enterprise Risk Framework considers the combined array of risks as an interrelated portfolio. This results in a combination of bottom-up identification of operational risks and top-down oversight and management of the risks.

Business Continuity Management (BCM)

In an environment of evolving security threats, our strategy is based on rigorous predictive threat and risk analysis, which has been designed to build a strong and resilient business well-prepared to respond to any crisis.

We set up a Business Continuity Management (BCM) team to build our organisational resilience and capability to respond effectively should any event take place that disrupts our operations. BCM entails undertaking a business impact analysis and establishing key processes that form part of our response mechanism to disruptive events.

In 2017, we also launched an ICT Disaster Recovery Plan with two off-site business recovery centres, while also developing a Group Operational Response Plan that outlines clear roles and responsibilities during ICT-related disruptions. The teams successfully stress-tested our Operational system Disaster Recovery units and reassessed the existing Operational BCP physical site.

We also collaborated with the airport authority to test the preparedness of our Ground Handling team, mobilising Network Management Centre (NMC) staff to a recovery site built off-site business recovery centres for Group Operations (NMC & Customer Happiness).

Group Risk

From a Group risk perspective, areas of particular focus in 2017 included efforts to strengthen our Enterprise Risk Management (ERM) Framework that outlined risk assessments as a crucial aspect of managing risk within the organisation.

In 2016, Group Risk had conducted risk assessment workshops with key operational departments, namely Operational Control Centre (OCC), Commercial, ICT and Group Network Planning, to facilitate the identification, evaluation and management of each function's risks. In 2017, the risk assessment exercise expanded to other key functions within AirAsia, namely Finance, People and Group Operations.

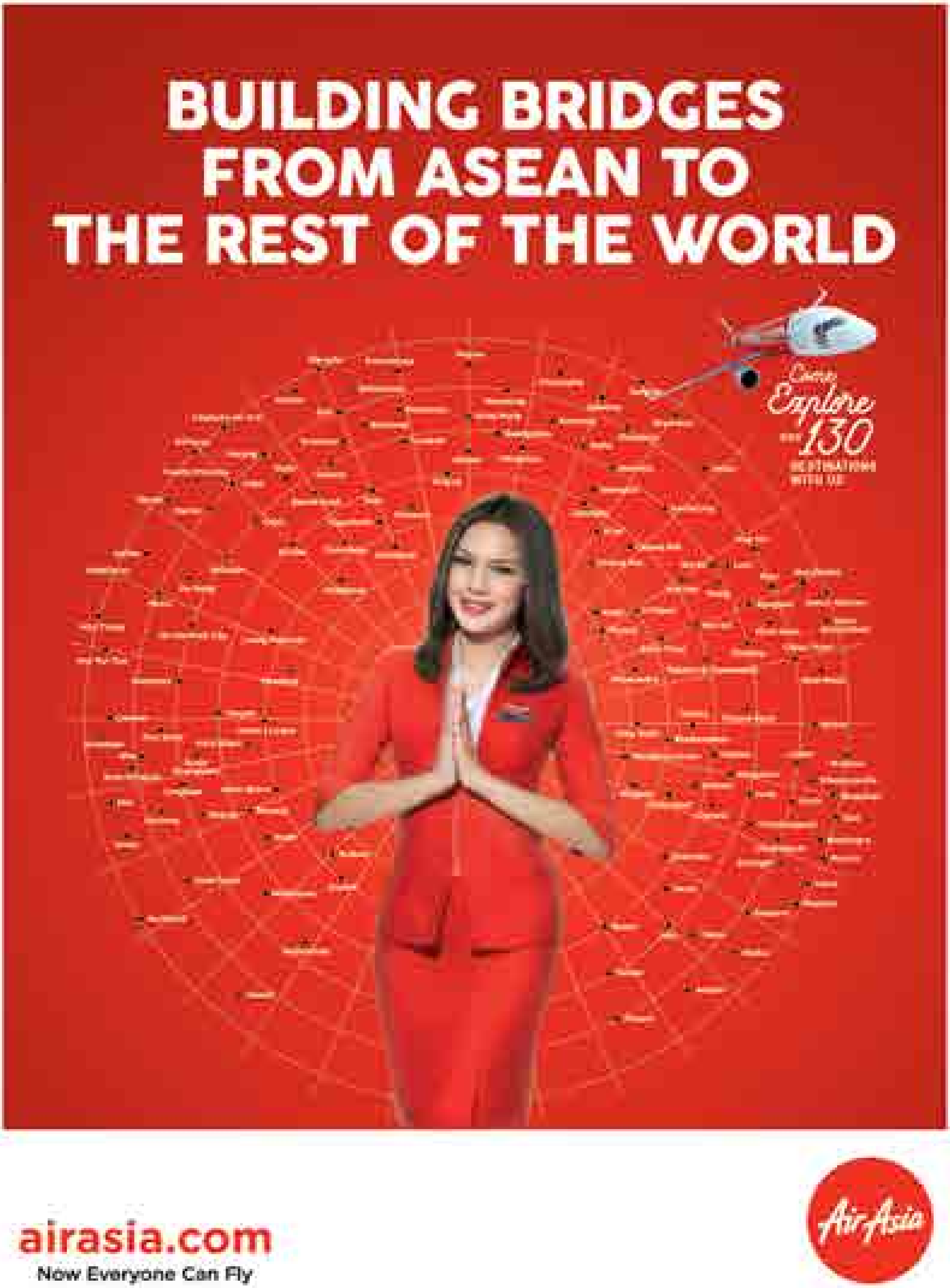
During the year, the ERM framework was also revamped to ensure a more robust system of capturing and mitigating risks. In addition, emphasis was placed on the quantification of risks to ensure that the risk vs reward balance is properly managed.

As we seek to keep improving our sustainability performance, we welcome feedback on our reporting and initiatives. Please send your suggestions/comments to the Green & Environmental Affairs Department at green@airasia.com.

World Travel Awards

WORLD'S LEADING LOW-COST AIRLINE

2013 - 2017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"To achieve the impossible, you must believe it is possible."

Eko Dharmawan (Indonesian)
Then Call Centre Officer
Now Head of Sales

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CORPORATE GOVERNANCE OVERVIEW STATEMENT

Following the completion of the internal reorganisation of AirAsia Berhad ("AAB") and the transfer of its listing status to AirAsia Group Berhad ("AAGB") on 16 April 2018, AAB is now a wholly-owned subsidiary of AAGB. This statement represents AAB's corporate governance practices for the financial year ended 31 December 2017, which will continue to be adopted by AAGB in the next financial year.

The Board of Directors ("the Board") of AAB is committed to ensuring good corporate governance standards across the group companies of AirAsia ("the Group"). Save as disclosed otherwise, the Board considers it has complied with the principles and recommendations set out in the Malaysian Code on Corporate Governance 2017 ("MCCG") released by the Securities Commission Malaysia and the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Malaysia") during the current financial year.

In building a sustainable business for a leading low-cost airline operating primarily in the Asian region, the Board is mindful of its accountability towards its shareholders and various stakeholders. Following the release of the revised MCCG in April 2017, the Company Secretary, AAB's Legal team and the external auditors have conducted briefings on the new requirements for the benefit of the Board and Senior Management. This is to enable the Board and Senior Management to lead AAB in keeping to the spirit of the MCCG in the performance of day-to-day duties. The Board's commitment towards ensuring excellence in its corporate governance standards is reflected in the explanation set out in AAB's Corporate Governance Report. This statement is guided by key practices of the MCCG and should be read together with AAB's Corporate Governance Report published on its website at www.airasia.com.

The Board presents this statement to provide an insight into the Corporate Governance practices of AAB under the leadership of the Board with reference to the following principles –

(a) board leadership and effectiveness;
(b) effective audit and risk management; and
(c) integrity in corporate reporting and meaningful relationship with stakeholders.

Principle A: Board Leadership and Effectiveness

1. Board Responsibilities

The Board is responsible for overseeing the overall management of the Group and retains full and effective control over the affairs of the Group. It reviews the Group's policies and strategies, actively oversees the conduct, management and business affairs of AAB and monitors the Senior Management's performance. The Board ensures the effective discharge of its fiduciary and leadership functions as well as sustains long-term shareholder value while safeguarding the interests of all the stakeholders. It works closely with the Senior Management to ensure that the operations of AAB are conducted prudently within the framework of relevant laws and regulations.

Directors have independent access to the advice and dedicated support services of the Company Secretary (who is legally qualified to act as company secretary under the Companies Act 2016) to ensure effective functioning of the Board. The Directors may seek advice from Management on issues pertaining to their respective jurisdiction, as well as independent professional advice in discharging their duties.

2. Board Composition

The size, balance and composition of the Board support its role of driving the long-term direction and strategy of AAB. A key function of the Board is to create value for shareholders and track the progress of each milestone that meets its business objectives. The Board also ensures that AAB upholds a high level of corporate governance while meeting its other obligations to shareholders and other stakeholders.

AAB has implemented procedures for the nomination and election of Directors via the Nomination and Remuneration Committee ("NRC"). The NRC assesses candidates against the skills, knowledge and experience required by AAB. AAB recognises the benefits of having a diverse Board. In line with its Board Diversity Policy selection of candidates to join the Board is in part dependent on the pool of candidates with the necessary skills, knowledge and experience. The NRC will review the nominees for directorship and membership of Board Committees by going through their profiles and interviewing the nominees, following which the NRC will submit its recommendations to the Board.

AAB's diverse Board includes and makes good use of differences in skills, regional and industry experience, background, race, gender, ethnicity, age and other attributes of the Directors. The Board achieved a composition with a majority comprising Independent and Non-Executive Directors in December 2017, through the resignations of the Chief Executive Officer ("CEO") and the Deputy Group CEO from the Board and the appointment of an Independent Non-Executive Director . While AAB had only one woman director for the financial year 2017, AAGB aims to achieve at least 30% representation of women by 2021.

The Board has in place a policy which limits the tenure of Independent Non-Executive Directors to nine (9) years, with the view to enable the Board's continuous refreshment in order to maintain its effectiveness. An Independent Director may remain as Independent Director after serving a cumulative term of nine (9) years, provided that the Board recommends this upon concrete justification and after seeking its shareholders' approval at a general meeting. In this respect, AAB had sought its shareholders' approval at the 24th Annual General Meeting ("AGM") for Dato' Fam Lee Ee to continue his service as the Senior Independent Non-Executive Director. Following the release of the MCCG, AAGB has adopted the two-tier voting process in its constitution.

The NRC also reviews the composition of the Board and its Committees annually. During the financial year, the NRC assessed the performance and effectiveness of the Board and Board Committees, as well as that of individual Board and Committee members. In addition, it reviewed and assessed the independence of the Independent Directors of AAB.

The Constitutions of AAB and AAGB provide that at least one-third of the Directors are subject to retirement by rotation at every AGM. In other words, each Director shall retire from office once every three (3) years and is eligible to offer him/herself for re-election. The Constitutions of AAB and AAGB also provide that a Director who is appointed during the year shall be subject to re-election at the next AGM held following his appointment.

3. Board Committees

To assist the Board in discharging its duties, the Board has established a number of Board Committees whose composition and terms of reference are in accordance with Bursa Malaysia's MMLR and consistent with the recommendations of the MCCG. These Board Committees are:

(a) Audit Committee ("AC");
(b) Nomination and Remuneration Committee ("NRC");
(c) Risk Management Committee ("RMC"); and
(d) Safety Review Board ("SRB").

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The following table shows the attendance of members at Board Committee meetings of AAB held in the financial year:

Director	Board	AC	NRC	RMC	SRB
Datuk Kamarudin Bin Meranun *Non-Independent Executive Chairman*	7/7				
Tan Sri (Dr) Anthony Francis Fernandes *Non-Independent Executive Director and Group Chief Executive Officer*	6/7				
Aireen Omar *Non-Independent Executive Director (resigned on 8 December 2017)*	7/7				3/4
Tharumalingam A/L Kanagalingam *Non-Independent Executive Director (appointed on 6 March 2017 and resigned on 8 December 2017)*	5/5				
Dato' Abdel Aziz @ Abdul Aziz Bin Abu Bakar *Non-Independent Non-Executive Director*	7/7	12/12	6/6	1/1	
Dato' Fam Lee Ee *Senior Independent Non-Executive Director*	7/7	12/12	6/6	1/1	
Dato' Mohamed Khadar Bin Merican *Independent Non-Executive Director*	7/7	12/12			4/4
Stuart L Dean *Independent Non-Executive Director*	7/7		6/6	1/1	4/4
Noor Neelofa Binti Mohd Noor* *Independent Non-Executive Director (appointed on 8 December 2017)*	Nil				Nil

** Cik Neelofa was appointed as a member of the SRB on 27 February 2018*

The same Board Committees will assist the Board of AAGB in discharging its duties in the next financial year.

4. Remuneration

The following table shows the remuneration details of the Directors of AAB for the financial year:

Director	Fees	Other Fees	Salaries	Bonuses	Meeting, travelling and other allowances	Total
Executive Directors						
Datuk Kamarudin Bin Meranun			4,800,000	14,000,000		18,800,000
Tan Sri (Dr) Anthony Francis Fernandes			6,000,000	17,500,000		23,500,000
Aireen Omar *(resigned on 8 December 2017)*			2,040,000	1,360,000		3,400,000
Tharumalingam A/L Kanagalingam *(appointed on 6 March 2017 and resigned on 8 December 2017)*			1,980,000	1,000,000		2,980,000

Director	Fees	Other Fees	Salaries	Bonuses	Meeting, travelling and other allowances	Total
Non-Executive Directors						
Dato' Abdel Aziz @ Abdul Aziz Bin Abu Bakar	180,000	60,000** + 35,000** + 18,777#	–	–	52,000	345,777
Dato' Fam Lee Ee	180,000	60,000** + 55,000^^ + 11,949#	–	–	52,000	358,949
Dato' Mohamed Khadar Bin Merican	180,000	75,000^ + 35,000**	–	–	46,000	336,000
Stuart L Dean	180,000	55,000^^ + 35,000** + 11,949#			38,000	319,949
Noor Neelofa Binti Mohd Noor *(appointed on 8 December 2017)*	11,613	Nil	–	–	Nil	11,613

The basic Board fee shall be RM180,000 each per annum;

** *Members of the AC shall receive an additional RM60,000 each per annum while members of the NRC and SRB shall receive an additional RM35,000 each per annum;*

^ *The AC Chairman shall receive an additional RM75,000 per annum;*

^^ *The NRC & SRB Chairman shall receive an additional RM55,000 per annum; and*

* *The meeting allowance shall be RM2,000 per meeting*

The Chairman of the RMC shall receive an additional RM55,000 per annum while the members of the RMC shall receive an additional RM35,000 each per annum. The fees are subject to shareholders' approval at AAB's AGM.

5. Limits of Authority

AAB has a Limits of Authority ("LOA") manual which defines the decision-making limits of each level of Management within the Group. The LOA manual clearly outlines matters over which the Board reserves authority and those delegated to the Senior Management. These limits cover, among others, authority over payments, investment, capital and revenue expenditure spending limits, budget approvals and contract commitments, as well as authority over non-financial matters. The LOA manual provides a framework of authority and accountability within AAB and facilitates decision-making at the appropriate level in the organisation's hierarchy. AAGB would be adopting a similar LOA manual.

6. Review and Adopting a Strategic Plan

Every quarter, the Board and Audit Committee will review the operational and financial performance of AAB as well as its subsidiaries, joint ventures and associates under the Group. Detailed reports on the airlines and non-airline investee companies within the Group are tabled for review and deliberation on their performance. The Board will assess their performance against budget and the corresponding quarter of the preceding year. Furthermore, the Group's budget and strategy meeting is chaired by the GCEO to chart the direction for the current and near-term period ahead. The GCEO updates the full Board quarterly on progress made in relation to the Group's business plans, including any changes and new initiatives.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

7. Succession Planning

AAB and AAGB place strong emphasis on the development and growth of its staff, fondly known as Allstars. This is evidenced by AAB's continuous commitment in grooming successors across the Group, in the spirit of One AirAsia. There is a Group Talent Policy in place to identify and build a robust Group talent pipeline. Talent reviews are conducted with the Senior Management to map talent needs across the Group's locations and to identify future leaders. The Group Talent function oversees structured talent entry and development initiatives, including leadership development programmes, coaching, cross-functional and cross-country assignments.

Principle B: Effective Audit and Risk Management

1. Audit Committee

The AC comprises two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director. It is chaired by Dato' Mohamed Khadar Bin Merican, who is an Independent Non-Executive Director and not the Chairman of the Board. The AC of AAGB comprises the same members as AAB. AAB has a policy which requires a former key audit partner to observe a cooling-off period of at least two (2) years before being appointed as a member of the AC.

In the annual assessment on the suitability, objectivity and independence of the external auditors, the AC is guided by factors as prescribed under Paragraph 15.21 of the MMLR as well as AAB's External Auditor Independence Policy. In this respect, AAB appointed Messrs Ernst & Young ("EY") in place of the retiring external auditors, Messrs PricewaterhouseCoopers, at the 24th AGM of AAB held on 25 May 2017. The appointment of EY demonstrates AAB's good corporate governance of revisiting the appointment of its external auditors from time to time.

The composition of the AC is reviewed annually to ensure that the Chairman and members are financially literate and are able to carry out their duties in accordance with the Terms of Reference of the AC. The AC members are expected to update their knowledge continuously and enhance their skills.

Based on the performance evaluation of the AC for the financial year, the Board is satisfied that the Chairman and members of the AC have discharged their responsibilities effectively.

The Audit Committee's report is set out on pages 193 to 196 of the Annual Report 2017.

2. Risk Management Committee

The Board established the RMC in November 2017. The RMC comprises three (3) Non-Executive Directors with a majority of Independent Directors. It is chaired by Dato' Abdel Aziz @ Abdul Aziz Bin Abu Bakar, who is a Non-Independent Non-Executive Director. The RMC of AAGB comprises the same members as AAB.

The RMC oversees the Group's risk management. It supports the Board in fulfilling its responsibilities of identifying significant risks. It also implements and maintains sound Enterprise Risk Management ("ERM") frameworks to manage the Group's overall risk exposure. AAB's ERM frameworks aim to identify, assess, manage and monitor the Group's strategic, financial, operational and compliance risks. It covers the following key features:

(a) roles and responsibilities of the Group Risk Department, Senior Management and the business units;
(b) guidance on the risk management process and the associated methodologies and tools; and
(c) guidance on risk register and controls assessment.

Based on the performance evaluation of the RMC for the financial year, the Board is satisfied that the Chairman and members of the RMC have discharged their responsibilities effectively.

The Statement on Risk Management and Internal Control is set out on pages 197 to 202 of the Annual Report 2017.

Principle C: Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders

1. Effective Communication with Shareholders and Investors

AAB is committed to communicating openly and regularly with shareholders and investors through platforms such as the corporate section of its website, the Annual Report, Financial Announcements and Key Operating Statistics and Announcements through Bursa Malaysia and AGMs. The corporate section of its website is updated regularly to provide stakeholders with all relevant information on AAB.

AAB has a dedicated Investor Relations team which supports the Senior Management in their active participation in investor relation activities, including road shows, conferences and quarterly investor briefings locally and globally with financial analysts, institutional investors and fund managers.

AAB continues to fulfil its disclosure obligations as per Bursa Malaysia's Corporate Governance Guidelines. All disclosure of material corporate information is disseminated in an accurate, clear and timely manner via Bursa Malaysia announcements.

2. AGM

Given the size and geographical diversity of the Group's shareholders, the AGM is another important forum for interaction with this group of stakeholders. All shareholders will be notified of the meeting and provided with a copy of AAB's Annual Report before the meeting is held. At the 24th AGM of AAB held on 25 May 2017, all members of the Board were present to respond to questions raised by the shareholders or proxies. Voting at the 24th AGM was conducted through an electronic poll voting system and was scrutinised by an independent scrutineer. AAGB will continue to leverage technology to enhance the quality of its shareholder engagement and facilitate further participation by shareholders at AAGB's AGMs.

3. Professional Development of Directors

In line with Paragraph 15.08 of MMLR, the Directors recognise the importance and value of continuous professional development in order to keep themselves abreast with the changes in the aviation and digital industry, as well as new statutory and regulatory requirements. During the financial year, the Directors attended and participated in training programmes, conferences and seminars that covered the areas of corporate governance, finance, global business developments and relevant industry updates which enable them to discharge their duties effectively.

The details of training programmes, conferences and seminars attended by the Directors are outlined below:

Name	Programmes
Datuk Kamarudin Bin Meranun	• Training on Companies Act, 2016 organised by Messrs Zul Rafique & Partners
Tan Sri (Dr) Anthony Francis Fernandes	• Training on Companies Act, 2016 organised by Messrs Zul Rafique & Partners • World Economic Forum, Davos • Asia Business Council Spring Forum, Saigon • Julius Baer Senior Management Conference, Davos • World Travel & Tourism Council, Bangkok • World Economic Forum ASEAN, Phnom Penh • National Achievers Congress, Singapore • 1st ASEAN Sikh Economic Entrepreneurship Summit, Kuala Lumpur • Davao Investment Conference, Davao • Invest Malaysia, Kuala Lumpur • SME Congress, Kuala Lumpur • ASEAN Business & Investment Summit, Manila

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Name	Programmes
Aireen Omar *(resigned on 8 December 2017)*	• Training on Companies Act, 2016 organised by Messrs Zul Rafique & Partners
Tharumalingam A/L Kanagalingam *(appointed on 6 March 2017 and resigned on 8 December 2017)*	• Training on Companies Act, 2016 organised by Messrs Zul Rafique & Partners • Mandatory Accreditation Programme (MAP) held on 06/04/2017 - 07/04/2017
Dato' Abdel Aziz @ Abdul Aziz Bin Abu Bakar	• Bursa Fraud Risk Management Workshop held on 26/09/2017 • Driving Financial Integrity & Performance - Enhancing Financial Literacy Programme organised by Bursa Malaysia on 01/08/2017 • Seminar for FTSE4Good Bursa Malaysia Index held on 10/04/2017 • Training on Companies Act, 2016 organised by Messrs Zul Rafique & Partners
Dato' Fam Lee Ee	• Capital Market Conference 2017 organised by the Malaysian Institute of Accountants • CG Breakfast Series with Directors: A Director's Guide to Fraud and Corruption Risks organised by Bursa Malaysia • Bursa Malaysia's Sustainability Forum 2017 "The Velocity of Global Change and Sustainability – The New Business Model" • CCPIT Annual Joint Business Council Meeting organized by Malaysia-China Business Council ("MCBC") • Huawei Asia Pacific Innovation Day – Fostering Digital Economy, Exploring Digital Transformation • Training on Companies Act, 2016 organised by Messrs Zul Rafique & Partners
Dato' Mohamed Khadar Bin Merican	• Companies Act 2016 organised by AAB on 18/05/2017 • Capital Market Conference held on 18/07/2017 • Board Safety Briefing – ICAO Annex 19 Safety Management System organised by AAB on 28/08/2017 • Fraud risk management framework organised by Bursa Malaysia on 26/09/2017 • Integrating an innovative mindset by ICLIF held on 07/11/2017 • Leading change @ the brain by ICLIF held on 05/12/2017 • Training on Companies Act, 2016 organised by Messrs Zul Rafique & Partners
Stuart L Dean	• Bursa Programme: " Independent Directors' Programme - The Essence of Independence" held on 20/11/2017 • Training on Companies Act, 2016 organised by Messrs Zul Rafique & Partners
Noor Neelofa Binti Mohd Noor	• Mandatory Accreditation Programme (MAP) held on 12/03/2018 - 13/03/2018 • Cik Neelofa has been invited to speak at various forums and talks, most notably at the 2017 Forbes Asia Summit in Manila, 2017 UNDP-MiSK in New York and 2017 Forbes Summit in Boston

This Corporate Governance Overview Statement was approved by the Board of Directors of AAB on 12 April 2018 and AAGB on 7 May 2018.

AUDIT COMMITTEE REPORT

Following the completion of the internal reorganisation of AirAsia Berhad ("AAB") and the transfer of its listing status to AirAsia Group Berhad ("AAGB") on 16 April 2018, AAB is now a wholly-owned subsidiary of AAGB. This report outlines the activities of the Audit Committee ("the AC") of AAB for the financial year ended 31 December 2017 ("the Financial Year"), which will continue to be adopted by the AC of AAGB in the next financial year. The AC of AAGB comprises the same members as AAB.

This Report has been reviewed by the AC and approved by the Board of Directors ("the Board") of AAB on 12 April 2018 and AAGB on 7 May 2018, for inclusion in this Annual Report.

The AC assists the Board in fulfilling its duties with respect to its oversight responsibilities. The AC is committed to its role of ensuring the integrity of the group of companies of AirAsia ("the Group") financial reporting process; the management of risks and system of internal controls, external and internal audit processes, compliance with legal and regulatory matters; the review of related party transactions and other matters that may be specifically delegated to the AC by our Board. The AC's responsibility for the internal audit of AAB and the Group is fulfilled through reviews of the quarterly reports of the Group Internal Audit Department ("GIAD").

Composition of the Audit Committee

The AC has been established by the Board and comprise of two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director. Members of the AC elect among themselves an Independent Director, who is not the Chairman of AAB, as Chairman of the AC. The Terms of Reference of the AC are approved by the Board and complies with the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Malaysia").

The composition of the AC meets the requirements of paragraph 15.09(1)(c) of the MMLR. Members of the AC are subject to annual evaluations, and its composition is reviewed annually by the Board.

Training

The training attended by the members of the AC during the financial year is set out in AAB's Corporate Governance Overview Statement on pages 186 to 192.

Attendance of Meetings

A total of twelve (12) meetings were held for the financial year. Members of the AC, together with details of their attendance at the AC meetings held during the year, are as follows:

Name	Directorship	No. of Meetings attended
Dato' Mohamed Khadar Bin Merican *(Chairman of the AC)*	Independent Non-Executive Director	12
Dato' Fam Lee Ee	Senior Independent Non-Executive Director	12
Dato' Abdel Aziz @ Abdul Aziz Bin Abu Bakar	Non-Independent Non-Executive Director	12

The AC meets on a scheduled basis during the financial year, and as and when required. The AC is assisted by an independent GIAD in carrying out its functions. The Chief Executive Officer ("CEO"), Deputy Group Chief Executive Officer ("DGCEO"), Group Chief Financial Officer ("GCFO"), Chief Financial Officer ("CFO"), Group Head of Internal Audit, Group Head of Legal and Group Head of Risk of AAB are invited to attend meetings to assist the AC in deliberations as and when necessary.

Summary of the work of the Audit Committee

The AC's duties and responsibilities are set out in its Terms of Reference, which are available at www.airasia.com.

In discharging its duties and responsibilities, the AC is guided by the AC Charter, which was approved by the Board and is aligned to the provisions of the MMLR, Malaysian Code on Corporate Governance 2017 ("MCCG"), and Corporate Governance Guide: Executive Summary.

AUDIT COMMITTEE REPORT

During the financial year, the AC carried out the following activities in the discharge of its roles and responsibilities.

Internal Audit

- Mandated the GIAD to report directly to the AC.
- Reviewed the adequacy of the scope, functions, budget, competency and resources of the GIAD and that it has the necessary independence and authority to carry out its work, which should be performed professionally and with impartiality and proficiency.
- Reviewed Internal Audit Reports and ensured the appropriate and prompt remedial action was taken by the Management on lapses in controls or procedures identified by the GIAD.
- Reviewed the Internal Audit Reports relating to the Group's affiliates.
- Monitored that all recommended actions by the GIAD were executed in a timely manner.
- Reviewed the performance of the GIAD.
- Reviewed the performance and appraisal of the Group Head, GIAD.
- Approved the appointment or termination of the Group Head, GIAD and senior staff of GIAD.
- Took cognisance of resignations of the GIAD's staff, and the reasons for the resignations.
- Reviewed the results of ad-hoc investigations performed by the GIAD and actions taken relating to those investigations.
- Reviewed the results of the internal assessment performed on the internal audit function.
- Reviewed the results of the external assessment performed on the internal audit function.
- Reviewed the adequacy of the Internal Audit Charter.
- Approved the Internal Audit Charter, which defines the purpose, authority, scope and responsibility of the Internal Audit function within the Group.

External Audit

- Considered the appointment of the External Auditors, their audit fees and a change in the External Auditors.
- Monitored the effectiveness of the External Auditors' performance and their independence and objectivity.
- Discussed with the External Auditor, before the audit commenced, the audit plan, which includes the nature and scope of the audit, and ensured co-ordination where more than one audit firm was involved.
- Reviewed major findings raised by the External Auditors and Management's responses, and monitored that all recommendations arising from the audit were properly implemented.
- Discussed matters arising from the interim and final audits with a view to further improve controls in the Group.
- Met with the External Auditors without the presence of the Management.
- Provided a line of communication between the Board and the External Auditors.
- Ensured that there is coordination between both Internal and External Auditors.
- Reviewed the extent of assistance and co-operation extended by the Group's employees to the External Auditors.
- Reviewed and monitored the provision of non-audit services by the External Auditors and ensured that these services did not compromise the independence of the External Auditors.
- Obtained from the Group's External Auditors a formal written statement delineating all relationships between the External Auditors and the Group, as required by the International Standard on Auditing 260, modified as appropriate based on the Malaysian guidelines for auditors independence, and obtained confirmation from them that they were, and had been, independent throughout the conduct of the audit engagement.
- Continuously updated and briefed by the External Auditors on changes in the Malaysian Financial Reporting Standards as well as the International Financial Reporting Standards.

Financial Reporting

- Reviewed and recommended the quarterly and annual management accounts of the Group and AAB for approval of the Board.
- Reviewed and recommended the Annual Financial Statements of the Group and AAB for approval of the Board.
- Reviewed and recommended the Quarterly Reports to Bursa Malaysia for the Group and AAB for approval of the Board.

For purposes of the above, the AC considered changes in accounting policies and practices, compliance with accounting standards and other legal and regulatory requirements, significant and unusual events, significant adjustments arising from the audit process, material litigation, the going concern assumption and, where applicable, comply with the disclosure requirements of Bursa Malaysia.

Related Party Transactions

- Reviewed related party transactions and conflict of interest situations to ensure that such transactions are at arm's length and are in the best interest of the Group and AAB and, where appropriate, recommend to the Board for approval.
- Reviewed the process used to procure shareholders' mandate for recurrent related party transactions.

Investigations

- Considered major findings of internal investigations and Management's response.
- Reviewed AAB's procedures for detecting fraud and whistleblowing.

Internal Control

- By way of discussions with key Senior Management and through the review of process undertaken by the GIAD and the External Auditors, evaluated the overall adequacy and effectiveness of:
  - the system of internal controls, including controls within information technology;
  - the Group's finance, accounting and audit organisations and personnel; and
  - the Group's policies and compliance procedures with respect to business practices.
- Reviewed the employee code of business practice, vendor code of business practice, the whistleblowing policy and the outcome of any cases investigated.

Annual Review of the Terms of Reference of the Audit Committee

- Reviewed the terms of reference of the AC, and where necessary, obtained the assistance of the Group's External Auditors and external legal counsel, and recommended changes to the Board for approval.

Moving forward, the AC of AAGB will continue to discharge these roles and responsibilities.

INTERNAL AUDIT FUNCTION

The Group has a well-established in-house GIAD to assist the AC in carrying out its functions. The GIAD maintains its independence through reporting directly to the AC. The GIAD plans and provides supervision on internal audit services across all subsidiaries and associated companies in the Group, including the various Airline Operating Companies ("AOCs"). The internal audit teams in the respective AOCs have a reporting line to the Group Head, GIAD. The GIAD reviews and compiles their reports in the form of a Group Internal Audit Report to be submitted and presented to the AC for its review and deliberation.

The GIAD is guided by its Internal Audit Charter that provides independence and reflects the roles, responsibilities, accountability and scope of work of the department and aligned with the International Professional Practice Framework ("IPPF") on Internal Auditing issued by the Institute of Internal Auditors. The Group Head, GIAD reports functionally to the AC and administratively to the Group Chief Executive Officer ("GCEO").

The principal responsibility of the GIAD is to undertake regular and systematic reviews of the systems of internal controls so as to provide reasonable assurance that the systems continue to operate efficiently and effectively. The GIAD adopts a risk-based audit methodology with reference to the five elements of the Committee of Sponsoring Organisations of the Treadway Commission ("COSO") i.e. control environment, risk assessment, control activity, information and communication as well as monitoring, to develop its audit plans by determining the priorities of the internal audit activities, consistent with the strategies of the Group. Based on risk assessments performed, greater focus and appropriate review intervals are set for higher risk activities, and material internal controls, including compliance with AAB's policies, procedures and regulatory responsibilities.

The audits cover the review of the adequacy of risk management, the strength and effectiveness of the internal controls, compliance to both internal and statutory requirements, governance and management efficiency, among others. The audit reports, which provide the results of audits conducted, are submitted to the AC for review. Key control issues and recommendations are highlighted to enable the AC to execute its oversight function. Areas for improvement and audit recommendations are also forwarded to the Management for their attention and further action. The Management is responsible for the implementation of corrective actions within the required time frame.

AUDIT COMMITTEE REPORT

On 26 July 2017, GIAD confirmed its organisational independence to the AC, where the Group Head, GIAD and all the internal auditors had signed the Annual Code of Ethics and Conflict of Interest Declaration for the financial year that they were and had been independent, objective and in compliance with the Code of Ethics and Conflict of Interest as per IPPF in carrying out their duties for the financial year.

The AC reviews and approves the GIAD and IADs in other AOCs human resource requirements to ensure the function is adequately resourced with competent and proficient internal auditors. The total operational costs of the GIAD and IADs in other AOCs for 2017 was RM3,393,479, as shown below:

Location	Internal Audit Cost (RM)
Malaysia	2,198,484
Other AOC	1,194,995
Total	**3,393,479**

INTERNAL AUDIT ACTIVITIES DURING THE FINANCIAL YEAR

The GIAD implements a risk-based methodology in establishing its strategic and annual audit plan which determines the areas or units to be audited. During the financial year, the AC reviewed, challenged and approved the audit plans for the GIAD and the respective IADs. In doing so, the AC ensured, among others, consistency in the audit methodology deployed, as well as robustness in the audit planning process.

The GIAD continues its commitment to equip its internal auditors with adequate knowledge and proficiency. About RM10,310 was spent on training in the areas of auditing skills, technical skills and personal development. As at 31 December 2017, the average training days attended by each staff is four (4) days.

Further information on the resources, objectivity and independence of the Group Head, GIAD and internal auditors are provided in the Corporate Governance Report in accordance with Practice 10.2 of the MCCG.

During the financial year, audit reviews were conducted based on the internal audit plan approved by the AC. The GIAD and IADs in other AOCs completed and reported on 92 audit assignments covering 33 station audits, 20 corporate audits, 7 IT audits and 32 ad-hoc audits requested by the Board, AC or Senior Management, and those which arose from reports pursuant to the Group's Whistleblowing Policy. The areas reviewed include government business development and charter, cabin crew, flight operations, ancillary safety, refund process, baggage handling, customer experience, procurement, finance, contract management, ground operations, legal, engineering, sales and distribution agent management, human resources, IT information security management, and IT systems. The Group Head, GIAD attended the AC meetings to brief the AC on audit results and significant matters raised in the detailed GIAD report, including findings provided by the respective IADs.

Internal audit reports detailing audit findings and recommendations are provided to Management who respond on the actions to be taken. Weekly follow up is done to monitor the progress of corrective actions until these are completed and closed off. The GCEO and CEO of AAB are updated on the current status of open action plans. The IADs submit audit reports to the AC every quarter on the status of audit plans, audit findings, and actions taken by Management on such findings. The IADs' reports and follow up actions are also presented to the relevant board committee and CEOs of the AOCs.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

Following the completion of the internal reorganisation of AirAsia Berhad ("AAB") and the transfer of its listing status to AirAsia Group Berhad ("AAGB") on 16 April 2018, AAB is now a wholly-owned subsidiary of AAGB. This Statement outlines the nature and scope of the risk management and internal control activities of the group of companies of AirAsia ("the Group") for the financial year ended 31 December 2017 ("the Financial Year"), which will continue to be adopted by AAGB in the next financial year.

As part of their corporate governance and in line with best practices, AAGB and AAB are committed to maintaining a comprehensive and robust risk management and internal control system. The Board of Directors ("the Board") of AAB is guided by the requirements set out within Paragraph 15.26 (b) of the Main Market Listing Requirements ("MMLR") issued by Bursa Malaysia Securities Berhad as well as the Malaysian Code on Corporate Governance 2017 ("MCCG") released by the Securities Commission Malaysia. The following statement outlines the nature and scope of the Group's internal controls and risk management framework in 2017.

RESPONSIBILITIES

THE BOARD

The Board is committed to implementing and maintaining a robust risk management and internal control environment and is responsible for the system of risk management and internal control. The Board acknowledges that the risk management and internal control systems are designed to manage and minimise risks as it may not be possible to totally eliminate the occurrence of unforeseeable circumstances or losses.

AUDIT COMMITTEE

The Audit Committee ("AC") evaluates the adequacy and effectiveness of the system of internal controls through a review of the results of work performed by the Group Internal Audit Department ("GIAD") and External Auditors and discussions with Senior Management.

The AC, established by the Board in 2004, comprises two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director. The AC of AAGB comprises the same members as AAB. The AC Report is disclosed on pages 193 to 196 of this Annual Report.

The duties and responsibilities of the AC are set out in its Terms of Reference, which is available on AAB's corporate website (http://www.airasia.com/cdn/docs/common-docs/investor-relations/terms-of-reference-of-audit-committees.pdf).

RISK MANAGEMENT COMMITTEE

The Board has delegated the governance of Group risk to the Risk Management Committee ("RMC"). The RMC was formally established in November 2017 and comprises three (3) Non-Executive Directors with a majority of Independent Directors. The RMC of AAGB comprises the same members as AAB.

Prior to the formation of the RMC, risks and mitigation plans were tabled at the AC. The RMC enables the Board to undertake and evaluate key areas of risk exposures. The primary responsibilities of the RMC are as follows:

- To oversee and recommend the Enterprise Risk Management (ERM) strategies, frameworks and policies of the Group.
- To implement and maintain sound ERM frameworks which identify, assess, manages and monitors the Group's strategic, financial, operational and compliance risks.
- To develop and inculcate a risk awareness and risk avoidance culture within AAB.

In fulfilling its responsibilities in risk management, the RMC is assisted by the Group Risk Department ("GRD").

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

MANAGEMENT

The Management team is responsible for ensuring that policies and procedures on risk and internal control are effectively implemented. The Management is accountable for identifying and evaluating risks as well as monitoring the achievement of business goals and objectives within the risk appetite parameters approved by the Board.

GROUP RISK DEPARTMENT

The Risk Management Framework is coordinated by the GRD. The GRD develops risk policies, sets minimum standards, provides guidance on risk related matters, coordinates risk management activities with other departments, as well as monitors the Group's business risks. The GRD's principal roles and responsibilities are as follows:

- Review and update risk management methodologies, specifically those related to identification, measuring, controlling, monitoring and reporting of risks;
- Provide risk management training and workshops;
- Review risk profiles and mitigation plans of business units;
- Identify and inform the RMC and the Management of the critical risks faced by the Group; and
- Monitor action plans for managing the critical risks.

GROUP INTERNAL AUDIT DEPARTMENT

The GIAD regularly reviews the Group's systems of internal controls and evaluates the adequacy and effectiveness of the controls, risk management and governance processes implemented by Management. It integrates a risk-based approach in determining the auditable areas and frequency of audits. The annual audit plan for the Group is reviewed and approved by the AC. The GIAD is guided by its Internal Audit Charter that provides independence and reflects the roles, responsibilities, accountability and scope of work of the department. The GIAD's functions are disclosed in the AC Report on pages 193 to 196 of this Annual Report.

RISK MANAGEMENT FRAMEWORK

The ERM Framework standardises the process of identifying, evaluating and managing significant risks faced by the Group for the year under review.

The ERM Framework covers the following key features:

- roles and responsibilities of the GRD, Management and the business units;
- guidance on the risk management processes and the associated methodologies and tools; and
- guidance on risk register and controls assessments.

RISK MANAGEMENT INITIATIVES IN 2017

The Group made a significant effort to improve and enhance its risk management and internal control systems in 2017 through the following initiatives:

- enhanced processes and methods of determining key risks and associated mitigation plans;
- thorough risk reviews of key departments to ascertain exposures and vulnerabilities;
- deep-dive reviews on key risks;
- advanced methods of risk quantification;
- enhanced initiatives to promote risk awareness across the Group; and
- involvement in Group strategy sessions to embed risk management in to decision making processes.

SIGNIFICANT RISKS

STRATEGIC RISKS	
RISK	**MITIGATION ACTION**
Sales Shocks - Changes in demand caused by events such as political unrest or market downturns could impact our revenue stream significantly.	The Commercial Department conducts periodic market analysis and coordinates responses to market events. The Group has also launched low-fare promotions from time to time to generate sales in periods of low demand.
Competition - Intense competition from expansion of competitor's network and price erosion stemming from price wars.	Strategic network expansion into greenfield markets to achieve "first entrant" incentives such as lower airport charges. The Group also utilises revenue modelling to lower price points for targeted routes to maximise profitability.
Negative Publicity - reputational risk stemming from social networks that serve as platforms for airing consumer grievances or anti-organisation campaigns.	The Group conducts annual brand health assessments, the results of which have been used to execute positive public relation actions including targeted marketing campaigns.
OPERATIONAL RISKS	
System Outages - Outages of mission-critical systems required for the continuity of flight operations and revenue channels have occurred more frequently in the commercial aviation industry over the past 12 months resulting in significant losses to the affected airlines.	The Group has developed, implemented and tested systems-specific backup and failovers to reduce the impact of system outages. In addition, the Group has developed an IT Disaster Recovery Plan and a complementary Group Operational Response Plan to ensure that the business continues to run in the event of a critical systems outage.
Supply Chain - Failure in airport services such as airport fuelling systems, baggage handling systems or customs, immigration and quarantine processing could lead to significant delays and business disruption.	The Group has created incident-specific business continuity plans for our main hubs while partnering closely with airport operators and authorities. We have also developed and tested fuel supply disruption business continuity plans for KLIA2.
FINANCIAL RISKS	
Fuel Price Risk - A surge in fuel price would have a significant impact on the Group profits with fuel making up one of the key cost components for operations.	The Group manages the exposure to jet fuel price risk arising from fluctuations in the price of jet fuel through hedging strategies.
Foreign Currency Risk - Unexpected massive currency depreciation, in particular the Malaysian Ringgit to the US Dollar, will have a detrimental effect on the Group's cost of financing.	The Group manages these exposures by hedging strategies including derivative products.
CYBER SECURITY RISK	
Cyber Threats - The Group is exposed to cyber threats due to our heavy focus on online sales channels, guest feedback, help channels and other digital solutions.	The Group has established a centralised team responsible for managing and improving its cyber security. This team regularly reviews and monitors cyber threats globally. The Group has also achieved ISO/IEC 27001 Information Security Management System ("ISMS") certification for its control systems.
COMPLIANCE RISK	
Non-Compliance to Regulatory Requirements - The Group must meet regulatory requirements of local aviation and consumer authorities in multiple jurisdictions.	The Group maintains a high level of engagement with local regulators and authorities to ensure any new regulatory requirement is understood and swiftly adhered to. In addition, we constantly monitors the local regulatory landscape for new or amended regulations affecting the Group.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

SAFETY RISK	
General Safety Risk Exposure – The Group's exposure to operational safety hazards and risks may increase as we grow our routes, flights and passenger volume.	The Group has implemented a Safety Management System, which is required by regulations to identify hazards and to mitigate safety risks. In addition, the Group also adopts industry best practices. For instance, AAB has completed the IATA Operational Safety Audit, which is an internationally recognized and accepted evaluation system designed to assess the operational management and control systems of the airline. The Group Safety Department oversees the adoption of the highest standards in identifying, managing and communicating safety risks across the Group. It also promotes a strong safety culture at all levels of the organisation to ensure that all employees of the Group are aware of their responsibilities in contributing towards safety.

INTERNAL CONTROL FRAMEWORK

The following key internal control structures (including the AC and the GIAD disclosed above) are in place to assist the Board to maintain a proper internal control system:

Board Governance

The Board has governance over the Group's operations. The Board is kept updated on the Group's activities and operations on a timely and regular basis through Board meetings with a formal agenda on matters for discussion. The Boards of AAGB and AAB have established four committees, namely the AC, RMC, Nomination and Remuneration Committee ("NRC") and Safety Review Board ("SRB"), to assist it in executing different governance responsibilities. Further information on the various Board Committees in the Statement on Corporate Governance from pages 186 to 192 of this Annual Report.

Senior Management Responsibilities

Regular management and operation meetings are conducted by Senior Management comprises the Group Chief Executive Officer ("GCEO"), Deputy Group Chief Executive Officer ("DGCEO"), Chief Executive Officers ("CEOs") of various Airlines Operating Companies ("AOCs"), and Heads of Department.

Segregation of Duties

Segregation of duties is embedded in the key business processes. The Group has in place a system to ensure there are adequate risk management, financial and operational policies and procedures.

Internal Policies and Procedures

Policies, procedures and processes governing AAB's businesses and operations are documented and made available to employees across on AAB's intranet portal. These policies, procedures and processes are reviewed and updated by the business and functional units through a structured process of review. This is to ensure that appropriate controls are in place to manage risks arising due to changes in legal and regulatory requirements as well as the business and operational environment.

Financial Budgets

A detailed budgeting process has been established requiring all Heads of Department to prepare budgets and business plans annually for deliberation and approval by the Board. In addition, AAB has a reporting system on actual performance against the approved budgets which requires explanations for significant variances and plans by Management to address such variances.

Human Capital Management

The Group acknowledges that robust risk management and internal control system is dependent on its employees applying responsibility, integrity and good judgment to their works. As such, the Group has in place policies and procedures that govern its recruitment, appointment, performance management, compensation and reward mechanisms as well as policies and procedures that govern discipline, termination and dismissal of employees.

Limits of Authority

The Group documented its Limits of Authority ("LOA") clearly defining the level of authority and responsibility in making operational and commercial business decisions. Approving authorities cover various levels of Management and the Board. The LOA is reviewed regularly and any amendments made must be tabled to and approved by the Board. The latest version of LOA was approved by the Board in November 2017. Moving forward, AAGB would adopt the same LOA.

Insurance

The Group maintains adequate insurance and physical safeguards on assets to ensure these are sufficiently covered against any incident that could result in material losses. Specifically, the Group maintains the Group Aviation Insurance which provides coverage for the following:

- Aviation Hull and Spares All Risks and Liability;
- Aviation Hull and Spares War and Allied Perils (Primary and Excess);
- Aircraft Hull and Spares Deductible; and
- Aviation War, hijacking and other perils excess liability (Excess AVN52).

Information Security

Information Technology ("IT") security protects information from a wide range of threats as well as safeguards the confidentiality, integrity and availability of information. IT security in the Group is achieved through a set of controls which includes policies, standards, procedures, guidelines, organisation structures and software control functions.

The Group acknowledges the importance of leveraging IT to promote effectiveness and efficiency of business operations. However, heavy reliance on IT may pose emerging cyber security threats. In response to such threats, the Group has a Cyber Risk Management programme through which it -

- has established an Information Security Management System to design, implement and maintain a coherent set of policies and processes to manage information risks; and
- conducts penetration tests, system vulnerability assessments and reviews to minimise IT security incidents.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

Code of Conduct

AAB has a Code of Conduct ("the Code") which governs the conduct of its employees. The Code sets out the standards and ethics that all employees are expected to adhere to in the course of their work. It highlights AAB's expectations on their professional conduct which includes -

- the environment inside and outside of the workplace;
- the working culture;
- conflict of interest;
- confidentiality and disclosure of information;
- good practices and controls; and
- duty and declaration.

The Code also sets out the circumstances in which an employees would be deemed to have breached the Code and disciplinary actions that can be taken against such an employee. Moving forward, AAGB would adopt the same Code.

Whistleblowing Policy

The Board approved the Whistleblowing Policy in 2013. The Whistleblowing Policy provides a platform for employees or third parties to report instances of unethical behaviour, actual or suspected fraud or dishonesty, or a violation of AAB's Code of Conduct. It provides protection for the whistle-blowers from any reprisals as a direct consequence of making such disclosures. It also covers the procedures for disclosure, investigation and the respective outcomes of such investigations. The Group expects its employees to act in AAB's best interests and to maintain high principles and ethical values. The Group will not tolerate any irresponsible or unethical behaviour that would jeopardise its good standing and reputation. Moving forward, AAGB would adopt the same Whistleblowing Policy.

Conclusion

The Board has received assurance from the GCEO, GDCEOs and CEO of AAB that AAB's risk management and internal control system are operating adequately and effectively in all material aspects. For areas which require improvement, action plans are being developed with implementation dates monitored by the respective Heads of Department. The Board also receives quarterly updates on key risk management and internal control matters through its Board Committees. Based on assurance received from the Management and updates from the Board Committees, the Board is of the view that the Group risk management and internal control systems was operating adequately and effectively during the financial year under review up to the date of approval of this statement.

The Group's associate companies are in the process of fully adopting AAB's risk management and internal controls. The disclosure in this statement does not include the risk management and internal control practices AAB's material joint ventures.

For the financial year, no assurance was sought from AAGB as it remains a dormant company.

Review of the Statement by External Auditors

As required by Paragraph 15.23 of the MMLR, the External Auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Audit and Assurance Practice Guide ("AAPG") 3 issued by the Malaysian Institute of Accountants. AAPG 3 does not require the External Auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

This statement is in accordance with the resolution of the Board of Directors of AAB on 12 April 2018 and AAGB on 7 May 2018.

ADDITIONAL COMPLIANCE INFORMATION

Following the completion of the internal reorganisation of AirAsia Berhad ("AAB") and the transfer of its listing status to AirAsia Group Berhad ("AAGB") on 16 April 2018, AAB is now a wholly-owned subsidiary of AAGB. The information set out below is disclosed in compliance with the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Malaysia"):-

1. UTILISATION OF PROCEEDS FROM CORPORATE PROPOSAL

During the financial year ended 31 December 2017 ("the Financial Year"), AAB increased its issued and paid-up share capital by Issuance and Allotment of 559,000,000 New Ordinary Shares of RM0.10 each in AAB ("AAB Shares") to Tune Live Sdn. Bhd., at an issue price of RM1.80 per AAB Share subject to adjustments in accordance with the Subscription Agreement ("the Allotment").

The details of the utilisation of proceeds raised from the Allotment as at 18 April 2018 are as follows:-

	Proposed Utilisation of the Allotment RM'mil	Utilisation to date RM'mil	Balance RM'mil
Pre-payment of unsecured term loan facilities and repayment of unsecured revolving credit	342.0	(342.0)	–
Funding of aircraft, spare engines and other aircraft parts and associated pre-delivery payments	275.0	(275.0)	–
Construction and development of AirAsia Group's headquarters	103.8	(103.8)	–
General corporate and working capital	284.0	(284.0)	–
Estimated expenses for the Proposed Shares Issuances	1.4	(1.4)	–
Total	1,006.2	(1,006.2)	–

2. MATERIAL CONTRACTS INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

There were no material contracts entered into by AAB and its subsidiaries involving directors' and major shareholders' interests, still subsisting at the end of the financial year, save for the following:-

a. Pursuant to the Subscription Agreement with Tune Live Sdn. Bhd. dated 1 April 2016, AAB has completed the issuance and Allotment of AAB Shares to Tune Live Sdn. Bhd. at an adjusted issue price of RM1.80 per share on 26 January 2017, following the listing of and quotation for AAB Shares on the Main Market of Bursa Malaysia.

3. AUDIT AND NON-AUDIT FEES

a. AAB

The audit and non-audit fees of AAB as below are also disclosed in the Audited Financial Statements set out under Note 6 to the Financial Statements on page 274 of this Annual Report:-

Audit Fees	Company RM'000	Group RM'000
Audit fees paid to the External Auditors for the financial year	776	2,025

Non-Audit Fees	Company RM'000	Group RM'000
Non-audit fees paid to the External Auditors for the financial year in connection with advisory related work	1,123	1,486

ADDITIONAL COMPLIANCE INFORMATION

b. AAGB

The audit and non-audit fees of AAGB as below are also disclosed in the Audited Financial Statements set out under Note 3 to the Financial Statements on page 220 of this Annual Report:-

Audit Fees	Company RM'000
Audit fees paid to the External Auditors for the financial year	5,000

Non-Audit Fees	Company RM'000
Non-audit fees paid to the External Auditors for the financial year in connection with advisory related work	Nil

4. RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

At the Annual General Meeting ("AGM") of AAB held on 25 May 2017, AAB had obtained a mandate from its shareholders for AAB and/or its subsidiaries to enter into recurrent related party transactions ("RRPTs") of a revenue or trading nature.

Pursuant to paragraph 10.09(2)(b) and paragraph 3.1.5 of Practice Note 12 of the MMLR, details of the recurrent related party transactions of a revenue or trading nature entered into during the financial year are as follows:

No.	Transacting Parties	Nature of RRPT	Class and relationship of the Related Parties	Actual value
Revenue/income				
1.	AirAsia X Berhad ("AAX") (Company No. 734161-K)	Provision of the following range of services by AAB to AAX: (a) Commercial - Sales and distribution - Sales support - Direct channel - Branding and Creative ● ● Protection of brand to ensure proper public perception is built ● ● Manage communication imagery, sponsorships (e.g. sports and youth marketing) and commercial branding ● ● Creative includes graphic designs supporting branding activities - Web team: Manage, plan, build and develop airasia.com website - Marketing - Ancillary (b) Treasury - Fuel procurement - Fuel hedging (c) Quality Assurance – Credit card fraud unit (d) Cargo	**Interested Directors and Major Shareholders** Tan Sri (Dr) Anthony Fernandes ("Tan Sri (Dr) Tony") Datuk Kamarudin Bin Meranun ("Datuk Kamarudin")	RM15,801,900

No.	Transacting Parties	Nature of RRPT	Class and relationship of the Related Parties	Actual value
		(e) Manpower cost (affiliate of companies in China) (f) IT Internal Audits (g) Ground Operations (h) Group Inflight Ancillary (i) Engineering (j) Legal (k) Operations Control Centre (l) Corporate Quality (m) Flight Attendant Department (n) Innovation, Commercial and Technology - Involves all services related to information technology		
2.	AAX	Provision of the rights by AAB to AAX as a licensee to operate scheduled air services under the trade name and livery of AirAsia	**Interested Directors and Major Shareholders** Tan Sri (Dr) Tony Datuk Kamarudin	RM8,530,027
3.	AAX	Provision of charter services to Beirut, Lebanon to be provided by AAX for the Malbatt contingent	**Interested Directors and Major Shareholders** Tan Sri (Dr) Tony Datuk Kamarudin	RM279,000
4.	Tune Protect Group Berhad (Company No. 948454-K) ("TPB")	Provision of the right to access AAB's customer database to TPB to conduct telesales marketing on TPB's and/or third party insurance products and the provision of management services by TPB to AAB's travel insurance business	**Interested Directors and Major Shareholders** Tan Sri (Dr) Tony Datuk Kamarudin	RM54,447
5.	Tune Insurance Malaysia Berhad (Company No. 30686-K)	Provision of travel insurance to AAB's customers for journeys originated from Malaysia resulting in sales commission received by AAB	**Interested Directors and Major Shareholders** Tan Sri (Dr) Tony Datuk Kamarudin	RM10,897,917
6.	Thai AirAsia X Co. Ltd (Company No. 0105556044936) ("TAAX")	Provision of the rights by AAB to TAAX as a licensee to operate scheduled air services under the trade name and livery of AirAsia	**Interested Directors and Major Shareholders** Tan Sri (Dr) Tony Datuk Kamarudin	RM17,393,570
7.	TAAX	Provision of price risk management through fuel hedging by AAB with hedging counterparties, on behalf of TAAX	**Interested Directors and Major Shareholders** Tan Sri (Dr) Tony Datuk Kamarudin	RM144,000

ADDITIONAL COMPLIANCE INFORMATION

No.	Transacting Parties	Nature of RRPT	Class and relationship of the Related Parties	Actual value
8.	TAAX	Provision of the following shared services by AirAsia Global Shared Services Sdn Bhd. (Company No.: 1045172-A) ("AGSS") to TAAX: (a) Finance and accounting support operation services; (b) People department support operation services; (c) Information and technology operation support services; (d) Sourcing and procurement operation support services; and (e) Innovation, commercial and technology services	**Interested Directors and Major Shareholders** Tan Sri (Dr) Tony Datuk Kamarudin	RM1,273,995
9.	PT Indonesia AirAsia Extra (Registration No. 09.03.1.51.89121) ("IAAX")	Provision of price risk management through fuel hedging by AAB with hedging counterparties, on behalf of IAAX	**Interested Directors and Major Shareholders** Tan Sri (Dr) Tony Datuk Kamarudin	RM144,000
10.	IAAX	Provision of the rights by AAB to IAAX as a licensee to operate scheduled air services under the trade name and livery of AirAsia	**Interested Directors and Major Shareholders** Tan Sri (Dr) Tony Datuk Kamarudin	RM4,542,708
11.	IAAX	Provision of leasing of aircraft by Asia Aviation Capital Limited (Company No. LL11196) ("AACL") to IAAX	**Interested Directors and Major Shareholders** Tan Sri (Dr) Tony Datuk Kamarudin	USD 16,758,000
12.	IAAX	Provision of the following shared services by AGSS to IAAX: (a) Finance and accounting support operation services; (b) People department support operation services; (c) Information and technology operation support services; (d) Sourcing and procurement operation support services; and (e) Innovation, commercial and technology services.	**Interested Directors and Major Shareholders** Tan Sri (Dr) Tony Datuk Kamarudin	RM1,110,774
13.	AAX	Provision of the following shared services by AGSS to AAX: (a) Finance and accounting support operation services; (b) People department support operation services; (c) Information and technology operation support services; and (d) Sourcing and procurement operation support services	**Interested Directors and Major Shareholders** Tan Sri (Dr) Tony Datuk Kamarudin	RM3,345,497

No.	Transacting Parties	Nature of RRPT	Class and relationship of the Related Parties	Actual value
Expense				
14.	QPR Holdings Limited (Company No. 3197756)	Provision of back of kit sponsorship by AAB to QPR in the Football League Championship	**Interested Directors and Major Shareholders** Tan Sri (Dr) Tony Datuk Kamarudin	RM372,675
15.	AAX	Provision of lounge services to the Company's passengers by subscribing to the AirAsia Premium Lounge operated by AAX	**Interested Directors and Major Shareholders** Tan Sri (Dr) Tony Datuk Kamarudin	RM1,887,772

The shareholdings of the interested Directors and interested Major Shareholders in the Company as at 18 April 2018 are as follows:

	Direct		Indirect	
	No. of Shares	**%**	**No. of Shares**	**%**
Interested Directors				
Tan Sri (Dr) Anthony Francis Fernandes	1,600,000	0.05	* 1,075,485,082	32.18
Datuk Kamarudin Bin Meranun	2,000,000	0.06	* 1,075,485,082	32.18
Interested Major Shareholder				
Tune Air Sdn. Bhd.	516,485,082	15.45	–	–
Tune Live Sdn. Bhd.	559,000,000	16.73	–	–

Note:

* *Deemed interested via their interests in Tune Air Sdn. Bhd. and Tune Live Sdn. Bhd. being the interested Major Shareholders of AAB pursuant to Section 8 of the Companies Act, 2016.*

Please refer to the note of Section 2.3 of the Circular to shareholders dated 28 April 2017 and 25 May 2018 respectively on the directorships and shareholdings of the interested directors and interested major shareholders in the transacting parties.

DIRECTORS' REPORT

The directors hereby present their first report together with the audited financial statements of the Company for the financial period ended 31 December 2017.

Results

	Company RM
Loss for the financial period	(6,336)

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

In the opinion of the directors, the results of the operations of the Company during the financial period were not substantially affected by any item, transaction or event of a material and unusual nature.

Directors

The names of the directors of the Company in office since the date of incorporation and to the date of this report are:

Datuk Kamarudin Bin Meranun (appointed on 30 March 2018)
Tan Sri (Dr) Anthony Francis Fernandes (appointed on 30 March 2018)
Dato' Abdel Aziz @ Abdul Aziz Bin Abu Bakar (appointed on 30 March 2018)
Dato' Fam Lee Ee (appointed on 30 March 2018)
Dato' Mohamed Khadar Bin Merican (appointed on 30 March 2018)
Stuart L Dean (appointed on 30 March 2018)
Noor Neelofa Binti Mohd Noor (appointed on 30 March 2018)
Ching Koon Kah @ Chin Kon Kah (first director, resigned on 1 April 2018)
Jasmindar Kaur A/P Sarban Singh (first director, resigned on 1 April 2018)

Directors' benefits

Neither at the end of the financial period, nor at any time during that period, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the date of incorporation, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

AIRASIA GROUP BERHAD

(1244493-V)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2017

Directors' interests

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

	Number of ordinary shares			
	At 24.8.2017 (date of incorporation)	Acquired	Disposed	At 31.12.2017
Direct interest in the Company				
Jasmindar Kaur A/P Sabar Singh (resigned on 1 April 2018)	1	–	–	1
Ching Koon Kah @ Chin Kon Kah (resigned on 1 April 2018)	1	–	–	1

According to the register of directors' shareholdings, none of the directors in office at the end of the financial period had any interest in shares in the Company or its related corporation during the financial period.

Incorporation, share capital and issue of shares

The Company was incorporated on 24 August 2017 with issued and fully paid share capital of RM2 comprising 2 ordinary shares of RM1 each.

Other statutory information

(a) As the Company has no current asset other than cash on hand, there is no information to disclose in the Directors' Report pursuant to Section 253(1) Regulation 1 (g), (h), (i) and (j)(i) of the Fifth Schedule of the Companies Act, 2016.

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

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

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

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

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

(e) In the opinion of the directors:

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

   (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial period and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial period in which this report is made.

DIRECTORS' REPORT

Significant events

No significant event noted during the period.

Subsequent events

Details of the subsequent events are disclosed in Note 12 to the financial statements.

Auditors

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

Auditors' remuneration is disclosed is Note 3 to the financial statements.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young for the financial period ended 31 December 2017 .

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

Datuk Kamarudin Bin Meranun **Tan Sri Dr. Anthony Francis Fernandes**

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, Datuk Kamarudin Bin Meranun and Tan Sri Dr. Anthony Francis Fernandes, being two of the directors of AirAsia Group Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 214 to 221 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2017 and of the financial performance and the cash flows of the Company for the period from 24 August 2017 (date of incorporation) to 31 December 2017.

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

Datuk Kamarudin Bin Meranun

Tan Sri Dr. Anthony Francis Fernandes

STATUTORY DECLARATION

PURSUANT TO SECTION 251(1)(B) OF THE COMPANIES ACT 2016

I, How Kim Lian, being the officer primarily responsible for the financial management of AirAsia Group Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 214 to 221 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

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

How Kim Lian

Before me,

Commissioner for oaths

PESURUHJAYA SUMPAH
No. W 530
TAN SEOK KETT
MALAYSIA

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIRASIA BERHAD
(INCORPORATED IN MALAYSIA)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of AirAsia Group Berhad, which comprise the statement of financial position as at 31 December 2017, and statement of profit or loss, statement of changes in equity and statement of cash flows for the period from 24 August 2017 (date of incorporation) to 31 December 2017 and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 218 to 221.

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

Basis for opinion

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

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises the Directors' Report, but does not include the financial statements of the Company and our auditors' report thereon.

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

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

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

Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants
Kuala Lumpur, Malaysia
16 April 2018

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

STATEMENT OF PROFIT OR LOSS

FOR THE FINANCIAL PERIOD FROM 24 AUGUST 2017 (DATE OF INCORPORATION) TO 31 DECEMBER 2017

	Note	24.8.2017 to 31.12.2017 RM
Revenue		–
Other operating expenses	3	(6,336)
Loss before taxation		(6,336)
Taxation	4	–
Net loss for the financial period		(6,336)

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	31.12.2017 RM
Current asset		
Cash on hand		2
Current liability		
Other payable	5	6,336
Net current liability		(6,334)
Equity		
Share capital	6	2
Retained earnings		(6,336)
Total equity		(6,334)

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL PERIOD FROM 24 AUGUST 2017 (DATE OF INCORPORATION) TO 31 DECEMBER 2017

	Share capital RM (Note 6)	Retained Earnings RM	Total equity RM
At the date of incorporation on 24 August 2017	2	–	2
Loss for the financial period	–	(6,336)	(6,336)
At 31 December 2017	2	(6,336)	(6,334)

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

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL PERIOD FROM 24 AUGUST 2017 (DATE OF INCORPORATION) TO 31 DECEMBER 2017

	24.8.2017 to 31.12.2017 RM
Cash flows from operating activity	
Loss before taxation	(6,336)
Changes in working capital:	
Other payables	6,336
Net cash from operating activity	–
Cash flows from financing activity	
Proceeds from subscription of shares, representing net cash flows from financing activity	2
Net change in cash and cash equivalents	–
Cash and cash equivalents at date of incorporation	2
Cash and cash equivalents at end of period	2

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2017

1. Corporate information

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

The address of the registered office of the Company has changed from B-13-15, Level 13, Menara Prima Tower B, Jalan PJU 1/39, Dataran Prima, 47301 Petaling Jaya, Selangor, Darul Ehsan, Malaysia to Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Wilayah Persekutuan, Malaysia.

The address of the principal place of business of the Company is RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa Kuala Lumpur (KLIA2), 64000 KLIA, Selangor Darul Ehsan, Malaysia.

The Company was incorporated on 24 August 2017 and is dormant as at the end of the financial period.

The intended principal activity of the Company is investment holding and the Company has not commenced operations since the date of incorporation.

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

2. Summary of significant accounting policies

2.1 Basis of preparation

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

The financial statements of the Company have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Ringgit Malaysia (RM) except when otherwise indicated.

2.2 Standards issued but not yet effective

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

Description	Effective for annual periods beginning on or after
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 140 Transfers of Investment Property (Amendments to MFRS 140)	1 January 2018
Annual Improvements to MFRS Standards 2014 – 2016 Cycle	1 January 2018
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)	1 January 2019
MFRS 16 Leases	1 January 2019
MFRS 128 Long-term Interests in Associates and Joint Ventures (Amendments to MFRS 128)	1 January 2019

2. Significant accounting policies (cont'd.)

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

Description	Effective for annual periods beginning on or after
Annual Improvements to MFRS Standards 2015–2017 Cycle	1 January 2019
MFRS 119 Plan Amendment, Curtailment or Settlement (Amendments to MFRS 119)	1 January 2019
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The directors of the Company expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application.

2.3 Summary of significant accounting policies

(a) Functional and presentation currency

The financial statements are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency.

(b) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand.

(c) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Ordinary shares are equity instruments. The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(d) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities are recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. The Company determines the classification of its financial liabilities at initial recognition.

Other financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is extinguished and the resulting gains or losses are recognised in profit and loss.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2017

3. Other operating expenses

The following item has been charged in arriving at other operating expenses:

	24.8.2017 to 31.12.2017 RM
Secretarial fee	1,336
Auditors' remuneration	5,000

4. Taxation

There is no tax charge for the financial period as the Company has no chargeable income.

5. Other payable

	2017 RM
Accruals	6,336

6. Share capital

	2017 RM
Issued and fully paid:	
Ordinary shares:	
At the date of incorporation on 24 August 2017, representing total issued and fully paid-up ordinary shares at 31 December 2017	2

7. Related party transactions

The Company did not have any transactions with its related companies and key management personnel during the financial period.

Key management personnel refers to those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of the Company.

8. Fair value of financial instruments

The carrying amount of the Company's financial liabilities are reasonable approximation of fair value due to its short-term nature.

9. Financial risk management policy

The Company has not adopted any financial risk management policy for its financial instruments as it is currently dormant.

10. Capital management

The Company has not adopted any capital management policy as it is currently dormant.

11. Comparatives

There are no comparative figures as this is the first set of financial statements prepared by the Company since the date of incorporation.

12. Subsequent event

Internal reorganisation

On 15 March 2018, the High Court has approved the internal reorganisation in AirAsia Berhad ("AAB"), a directors related company, by way of a Members' Scheme of Arrangement under Section 366 of the Companies Act, 2016 for the following proposals;

(a) the exchange of 3,341,974,080 new ordinary shares to be issued by the Company, with 3,341,974,080 ordinary shares (including treasury shares) in AirAsia Berhad ("AAB"), representing the entire issued share capital of AAB, a public limited liability company incorporated and domiciled in Malaysia, listed on the Bursa Malaysia Securities Berhad and has a principal activity of providing air transportation services, on the basis of 1 existing AAB Share for every 1 new Share of the Company held on 6 April 2018; and

(b) the assumption of the listing status of AAB by the Company and the admission of the Company to and withdrawal of AAB from the Official List of Bursa Malaysia Securities Berhad, with the listing of and quotation for the Company Shares on the Main Market of Bursa Securities.

Accordingly, the internal reorganisation has been completed on 16 April 2018.

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

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

RESULTS

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

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

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

DIVIDENDS

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

	RM'000
In respect of the financial year ended 31 December 2016, First and final tax exempt single-tier dividend of 12 sen per ordinary share each on 3,341,874,080 ordinary shares, paid on 23 June 2017	401,025
In respect of the financial year ended 31 December 2017, Interim tax exempt single-tier dividend of 12 sen per ordinary share each on 3,341,874,080 ordinary shares, paid on 13 October 2017	401,025

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

AIRASIA BERHAD

(284669-W)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2017

DIRECTORS

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

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

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

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

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

DIRECTORS' REPORT

DIRECTORS (CONT'D.)

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

Mikiko Steven
Mohd Roznainol Bin Mohd Bahari
Navin Rajagopalan
Pandu Dewantoro, Se.
Patria Bayuaji
Pattra Boosarawongse
Phua Sheau Wei
Robert Aaron Milton
Roison Dixon
Rozman Bin Omar
Sabrina Kong Hung Cheong
Sami Joseph El Hadery
Seah Kok Khong
Shailesh Singh Baidwan
Siegtraund Teh Siew Foong
Simon Perkins
Stephane Daillencourt
Tassapon Bijleveld
Tommy Lo Seen Chong
V Loganathan S/O Velaitham
Valentin T.Chua
Yacoob Bin Ahmed Piperdi

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

DIRECTORS' BENEFITS

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

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

ISSUANCE OF SHARES

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

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

TREASURY SHARES

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

DIRECTORS' INTERESTS

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

	Number of ordinary shares			
	At 1.1.2017	**Acquired**	**Disposed**	**At 31.12.2017**
DIRECT INTERESTS IN THE COMPANY				
Datuk Kamarudin Bin Meranun**	2,000,000	–	–	2,000,000
Tan Sri Dr. Anthony Francis Fernandes**	1,600,000	–	–	1,600,000
Dato' Abdel Aziz @ Abdul Aziz Bin Abu Bakar	–	416,900	306,900	110,000
Dato' Mohamed Khadar Bin Merican	–	80,000	–	80,000
Stuart L Dean	40,000	–	–	40,000
Aireen Omar (Resigned on 8 December 2017)	50,000	–	–	50,000
Tharumalingam A/L Kanagalingam (Appointed on 6 March 2017 and resigned on 8 December 2017)	–	50,000	–	50,000
INDIRECT INTERESTS				
Tan Sri Dr. Anthony Francis Fernandes *	516,485,082	559,000,000	–	1,075,485,082
Datuk Kamarudin Bin Meranun *	516,485,082	559,000,000	–	1,075,485,082

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

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

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

DIRECTORS' REPORT

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

(f) In the opinion of the directors:

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

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

SIGNIFICANT EVENTS

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

SUBSEQUENT EVENTS

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

AUDITORS

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

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

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

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

Datuk Kamarudin Bin Meranun

Tan Sri Dr. Anthony Francis Fernandes

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, Datuk Kamarudin Bin Meranun and Tan Sri Dr. Anthony Francis Fernandes, being two of the Directors of AirAsia Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 235 to 368 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of their financial performance and cash flows for the year then ended.

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

Datuk Kamarudin Bin Meranun

Tan Sri Dr. Anthony Francis Fernandes

STATUTORY DECLARATION

PURSUANT TO SECTION 251(1)(B) OF THE COMPANIES ACT 2016

I, How Kim Lian, being the officer primarily responsible for the financial management of AirAsia Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 235 to 368 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

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

How Kim Lian

Before me,

Commissioner for oaths

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

PESURUHJAYA SUMPAH
No. W 530
TAN SLOK KETT
MALAYSIA

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIRASIA BERHAD

(INCORPORATED IN MALAYSIA)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of AirAsia Berhad, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Company, and income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 235 to 368.

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

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Key Audit Matters

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

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

Recognition of revenue from passenger seat sales and sales in advance

Refer to Note 4(a) to the financial statements for revenue and statement of financial position for sales in advance.

Revenue from passenger seat sales represent 71% and 74% of the total revenue of the Group and of the Company respectively, for the year ended 31 December 2017.

The Group and the Company relies on an integrated information technology system (including the flight reservation system) in accounting for its passenger seat sales revenue. Such information system processes large volumes of data which are individually low value transactions.

Our response

Our audit sought to place a high level of reliance on the Group's and the Company's information technology systems and key controls which the management relies on in recording revenue from passenger seats sales. As the flight reservation system is managed by a third party vendor, we obtained and evaluated the external auditors' report on the operating effectiveness of the key controls over the flight reservation system.

We involved our information technology specialists to test the operating effectiveness of the automated controls of the other key modules of the information technology system. We also tested the non-automated controls in place to ensure completeness and accuracy of revenue recognised, including timely updating of approved changes to base fares and ancillary fares.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIRASIA BERHAD
(INCORPORATED IN MALAYSIA)

Key Audit Matters (cont'd.)

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

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

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

Our response

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

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

Aircraft maintenance provisions

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

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

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

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

Our response

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

- Reviewed the lease agreements to determine the Group's and the Company's contractual obligations in respect of aircraft maintenance;
- Evaluated the significant assumptions on cost to be incurred applied by the Group and the Company in estimating the aircraft maintenance provision costs by comparing these assumptions to past industry experience, supplemented by expectations of the future economic conditions;
- Tested the accuracy of the computation of the aircraft maintenance provisions as at reporting date.

Key Audit Matters (cont'd.)

Derivative financial instruments

Refer to Note 21 to the financial statements.

As at 31 December 2017, the derivative financial assets and liabilities amounted to RM588 mil and RM146 mil respectively for the Group and RM588 mil and RM161 mil respectively for the Company. Net gains and losses on effective cash flow hedges arising during the financial year were recognised in other comprehensive income. The gain or loss arising from ineffective hedge is recognised immediately in the income statement.

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

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

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

Our response

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

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

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

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

Refer to Note 12 to the financial statements.

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

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

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

Our response

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

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIRASIA BERHAD
(INCORPORATED IN MALAYSIA)

Key Audit Matters (cont'd.)

Impairment assessment of intangible assets

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

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

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

(a) goodwill amounted to RM103 million arising from step-up acquisition of Think Big Digital Sdn Bhd;
(b) goodwill arising from consolidation of IAA amounted to RM38.4 million; and,
(c) landing rights arising from consolidation IAA and PAA amounted to RM374.6 million and RM69.3 million, respectively.

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

Our response

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

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and of the Company's internal control.

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIRASIA BERHAD
(INCORPORATED IN MALAYSIA)

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd.)

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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

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

Ernst & Young
AF: 0039
Chartered Accountants

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

Kuala Lumpur, Malaysia
16 April 2018

INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

Note :
(1) "Group" refers to financials of the Consolidated AOCs (AirAsia Malaysia, AirAsia Indonesia, AirAsia Philippines)
(2) "Company" refers to financials of AirAsia Malaysia

INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

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

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

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

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

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

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

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

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

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		← Non-distributable			→	Distributable	
	Number of shares '000	Nominal value RM'000 (Note 33)	Share premium RM'000 (Note 33)	Other reserves RM'000 (Note 34(b))	Treasury shares RM'000	Retained earnings RM'000 (Note 34(a))	Total equity RM'000
At 1 January 2017 (restated)	2,782,974	278,297	1,230,941	239,397	(160)	4,216,294	5,964,769
Net profit for the financial year	–	–	–	–	–	1,668,893	1,668,893
Other comprehensive loss	–	–	–	(264,580)	–	–	(264,580)
Total comprehensive (loss)/ income	–	–	–	(264,580)	–	1,668,893	1,404,313
Transactions with owners:							
Issuance of shares	559,000	55,900	950,300	–	–	–	1,006,200
Dividends (Note 35)	–	–	–	–	–	(802,050)	(802,050)
Transfer to no-par value regime	–	2,181,241	(2,181,241)	–	–	–	–
At 31 December 2017	3,341,974	2,515,438	–	(25,183)	(160)	5,083,137	7,573,232
At 1 January 2016	2,782,974	278,297	1,230,941	(369,468)	–	2,531,212	3,670,982
Net profit for the financial year (restated) (Note 42)	–	–	–	–	–	1,796,397	1,796,397
Other comprehensive income (restated) (Note 42)	–	–	–	608,865	–	–	608,865
Total comprehensive income (restated)	–	–	–	608,865	–	1,796,397	2,405,262
Transactions with owners:							
Dividends (Note 35)	–	–	–	–	–	(111,315)	(111,315)
Buy-back of ordinary shares	–	–	–	–	(160)	–	(160)
At 31 December 2016 (restated)	2,782,974	278,297	1,230,941	239,397	(160)	4,216,294	5,964,769

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

STATEMENTS OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	Group [1] 2017 RM'000	Group [1] 2016 RM'000	Company [2] 2017 RM'000	Company [2] 2016 RM'000
Cash flows from operating activities					
Profit before taxation		2,087,788	1,704,691	1,948,075	1,881,532
Adjustments for:					
Property, plant and equipment					
– Depreciation	11	863,989	710,843	598,318	562,024
– Gain on disposals	4(b)	(64,281)	(104,200)	(50,482)	(470,545)
Amortisation of intangible assets	16	284	281	–	–
Gain on partial disposal of investment in a subsidiary	12	–	–	(406,839)	–
Impairment of property, plant and equipment	6	–	11,659	–	–
Impairment of/(reversal of) trade and other receivables	6	16,229	(3,037)	(165)	(3,037)
Impairment of amount due from a subsidiary	6	–	–	–	21,328
Impairment of investment in an associate		–	163,750	–	163,750
Gain on disposal of investment in a joint venture	4(b)	(167,688)	–	(294,362)	–
Provision for retirement benefits		6,124	–	–	–
Gain on remeasurement of previously held interest in associates		(214,350)	–	–	–
Gain on bargain purchase		(121,045)	–	–	–
Fair value losses/(gains) on derivatives	8(d)	140,602	(70,486)	126,434	(70,486)
Share of results of a joint venture		(19,923)	(24,285)	–	–
Share of results of associates		(47,307)	(134,704)	–	–
Net unrealised foreign exchange (gain)/loss		(196,692)	465,546	(132,835)	359,860
Acquisition costs arising from reverse acquisition	12	9,235	–	–	–
Dividend income from:					
– available-for-sale financial assets	4(b)	(5,336)	(5,133)	(5,336)	(5,133)
– a subsidiary	4(b)	–	–	(163,766)	(302,095)
– an associate	4(b)	–	–	–	(1,675)
Interest expense	8(b)	577,748	593,061	413,870	526,344
Interest income	8(a)	(55,670)	(105,332)	(68,339)	(80,599)
Operating profit carried forward		2,809,707	3,202,654	1,964,573	2,581,268

	Note	Group (1) 2017 RM'000	Group (1) 2016 RM'000	Company (2) 2017 RM'000	Company (2) 2016 RM'000
Cash flows from operating activities (cont'd.)					
Operating profit brought forward		2,809,707	3,202,654	1,964,573	2,581,268
Changes in working capital:					
Inventories		(3,772)	(17,714)	(4,026)	(17,498)
Receivables and prepayments		65,161	(525,617)	(977,869)	(530,176)
Trade and other payables		(643,924)	493,890	374,412	854,876
Amounts due from/to subsidiaries, associates, joint venture and related parties		124,808	(423,879)	206,097	(388,720)
Cash generated from operations		2,351,980	2,729,334	1,563,187	2,499,750
Interest paid		(444,957)	(558,634)	(423,752)	(473,799)
Interest received		25,755	14,377	69,179	14,372
Taxes paid		(15,166)	(17,960)	(10,963)	(17,960)
Retirement benefits paid		(3,122)	–	–	–
Net cash from operating activities		1,914,490	2,167,117	1,197,651	2,022,363
Cash flows from investing activities					
Property, plant and equipment					
– Additions		(1,976,655)	(1,216,547)	(1,581,062)	(989,755)
– Proceeds from disposals		88,045	736,791	61,661	932,230
Acquisition of a joint venture		(5,597)	–	–	–
Repayment of advances by an associate		–	53,962	–	53,962
Advances to subsidiaries		–	–	–	(146,052)
Additional investment in available-for-sale financial assets		–	(5,438)	–	–
Proceeds from disposal of interest in a joint venture	13	375,921	–	375,921	–
Net deposits pledged as securities and restricted cash		51,359	(65,973)	(152)	(4,605)
Dividend received from:					
– available-for-sale financial assets	4(b)	5,336	5,133	5,336	5,133
– associates	4(b)	132,643	72,527	–	1,675
Acquisition of subsidiaries, net of cash acquired	12	114,500	(79,036)	–	(102,314)
Acquisition of non-controlling interest in subsidiaries	12	(4,643)	–	–	–
Dilution of interest in a subsidiary	12	950	–	–	–
Additional subscription of shares in an associate	14	(126,398)	(143,218)	–	–
Additional subscription of shares in subsidiaries		–	–	(20,379)	(8,750)
Net cash used in investing activities		(1,344,539)	(641,799)	(1,158,675)	(258,476)

STATEMENTS OF CASH FLOW

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	Group (1) 2017 RM'000	Group (1) 2016 RM'000	Company (2) 2017 RM'000	Company (2) 2016 RM'000
Cash flows from financing activities					
Proceeds from issuance of shares		1,006,200	–	1,006,200	–
Buy-back of shares		–	(160)	–	(160)
Proceeds from borrowings		1,276,785	832,208	873,984	300,370
Repayment of borrowings		(1,959,627)	(3,154,447)	(1,343,280)	(2,922,397)
Dividends paid to shareholders		(802,050)	(111,315)	(802,050)	(111,315)
Net cash used in financing activities		(478,692)	(2,433,714)	(265,146)	(2,733,502)
Net increase/(decrease) for the financial year		91,259	(908,396)	(226,170)	(969,615)
Currency translation differences		100,722	157,300	100,722	129,255
Cash and cash equivalents at beginning of the financial year		1,675,600	2,426,696	1,422,281	2,262,641
Cash and cash equivalents at end of the financial year		1,867,581	1,675,600	1,296,833	1,422,281

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

		Group (1) 2017 RM'000	Group (1) 2016 RM'000	Company (2) 2017 RM'000	Company (2) 2016 RM'000
Cash and cash equivalents at end of the financial year		1,867,581	1,675,600	1,296,833	1,422,281
Add: Deposits pledged as securities and restricted cash		14,614	65,973	4,757	4,605
Deposits, cash and bank balances at the end of the financial year	26	1,882,195	1,741,573	1,301,590	1,426,886

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

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

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

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

Significant non-cash transactions in prior year

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1. General information

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

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

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

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

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

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

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

2. Summary of significant accounting policies

2.1 Basis of preparation

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

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

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

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

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

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

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

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

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

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

Description	Effective for annual periods beginning on or after
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 140 Transfers of Investment Property (Amendments to MFRS 140)	1 January 2018
Annual Improvements to MFRS Standards 2014 – 2016 Cycle	1 January 2018
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)	1 January 2019
MFRS 16 Leases	1 January 2019
MFRS 128 Long-term Interests in Associates and Joint Ventures (Amendments to MFRS 128)	1 January 2019
Annual Improvements to MFRS Standards 2015–2017 Cycle	1 January 2019
MFRS 119 Plan Amendment, Curtailment or Settlement (Amendments to MFRS 119)	1 January 2019
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

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

MFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

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

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

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

MFRS 9 Financial Instruments

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

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

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

(i) Classification and measurement

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

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

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

MFRS 9 Financial Instruments (cont'd.)

(i) Classification and measurement (cont'd.)

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

(ii) Impairment

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

(iii) Hedge accounting

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

MFRS 16 Leases

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

2.4 Basis of consolidation

2.4.1 Subsidiaries

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

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

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

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

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

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

2.4.2 Transactions with non-controlling interests

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

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

2.4 Basis of consolidation (cont'd.)

2.4.3 Joint arrangements

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

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

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

2.4.4 Associates

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

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

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

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

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

2.4 Basis of consolidation (cont'd.)

2.4.4 Associates (cont'd.)

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

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

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

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

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

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

2.5 Property, plant and equipment

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

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

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

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

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

The useful lives for this purpose are as follows:

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

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

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

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

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

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

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

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

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

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

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

2.6 Intangible assets

2.6.1 Goodwill

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

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

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

2.6.2 Other intangible assets

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

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

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

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

2.6 Intangible assets (cont'd.)

2.6.2 Other intangible assets (cont'd.)

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

(i) Research and development – internally developed software

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

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

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

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

(ii) Landing rights

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

2.7 Investments in subsidiaries, joint ventures and associates

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

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

NOTES TO THE FINANCIAL STATEMENTS
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2. Summary of significant accounting policies (cont'd.)

2.8 Impairment of non-financial assets

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

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

2.9 Maintenance and overhaul

Owned aircraft

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

Leased aircraft

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

2.10 Leases

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

Lessee

Finance leases

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

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

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

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

2.10 Leases (cont'd.)

Finance leases (cont'd.)

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

Operating leases

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

Sale and leaseback transactions

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

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

- If the sale price is below fair value then the gain or loss is recognised immediately other than to the extent that a loss is compensated for by future rentals at below market price, then the loss is deferred and amortised over the period that the asset is expected to be used.

- If the sale price is above fair value, then any gain is deferred and amortised over the useful life of the asset.

- If the fair value of the asset is less than the carrying amount of the asset at the date of the transaction, then that difference is recognised immediately as a loss on the sale.

Lessor

Operating leases

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

2.11 Inventories

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

2.12 Financial assets

2.12.1 Classification

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

2.12.2 Recognition and initial measurement

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

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

2.12.3 Subsequent measurement - gains and losses

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

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

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

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

2.12 Financial assets (cont'd.)

2.12.3 Subsequent measurement - gains and losses (cont'd.)

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

2.12.4 Subsequent measurement - impairment of financial assets

Assets carried at amortised cost

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

2.12 Financial assets (cont'd.)

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

Assets classified as available-for-sale

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

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

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

2.12.5 Derecognition

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

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

2.13 Financial liabilities

2.13.1 Classification and measurement

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

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

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

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

2.13.2 Derecognition

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

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

2.14 Offsetting financial instruments

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

2.15 Derivative financial instruments and hedging activities

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

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

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

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

Cash flow hedge

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
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2. Summary of significant accounting policies (cont'd.)

2.16 Cash and cash equivalents

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

2.17 Provisions

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

2.18 Share capital

2.18.1 Classification

Ordinary shares with discretionary dividends are classified as equity.

2.18.2 Share issue costs

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

2.18.3 Dividends distribution

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

2.19 Treasury shares

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

2.20 Borrowings and borrowing costs

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

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

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

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

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

2.20 Borrowings and borrowing costs (cont'd.)

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

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

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

2.21 Current and deferred income tax

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

2.22 Employee benefits

2.22.1 Short term employee benefits

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

2.22.2 Defined contribution retirement plan

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

2.22.3 Defined benefit plan

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

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

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

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

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

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

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

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

2.23 Revenue and other income

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

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

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

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

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

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

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

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

2.24 Foreign currencies

2.24.1 Functional and presentation currency

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

2.24.2 Transactions and balances

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

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

2.24 Foreign currencies (cont'd.)

2.24.2 Transactions and balances (cont'd.)

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

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

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

2.24.3 Group companies

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

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
– all resulting exchange differences are recognised as a separate component of other comprehensive income.

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

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

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

2.25 Trade payables

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

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

2.26 Contingent assets and liabilities

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

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

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

2.27 Segment reporting

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

2.28 Maintenance reserve

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

NOTES TO THE FINANCIAL STATEMENTS
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3. Critical accounting estimates and judgments

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

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

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

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

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

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

3.2 Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Estimating the future taxable profits involves significant assumptions, especially in respect of regulatory approvals for prospective routes, aircraft delivery, fares, load factor, fuel price, maintenance costs and currency movements. These assumptions have been built based on past performance and adjusted for non-recurring circumstances and a reasonable growth rate.

3.3 Provision for aircraft maintenance and overhaul costs

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

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

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

3.4 Impairment assessment of intangible assets

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

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

3.5 Impairment of receivables

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

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

4. Revenue and other income

(a) Revenue

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

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

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4. Revenue and other income (cont'd.)

(b) Other income

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

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

5. Staff costs and directors' remuneration

(a) Staff costs

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

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

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

(b) Directors' remuneration

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

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

	Executive		Non-executive	
	2017	**2016**	**2017**	**2016**
Range of remuneration (RM)				
0 to 50,000	–	–	1	1
50,001 to 100,000	–	–	–	2
250,001 to 300,000	–	–	–	4
500,001 to 550,000	–	–	1	–
550,001 to 600,000	–	–	1	–
600,001 to 650,000	–	–	2	–
3,000,001 to 3,050,000	–	1	–	–
3,300,001 to 3,350,000	1	–	–	–
3,800,001 to 3,850,000	1	–	–	–
21,000,001 to 21,050,000	1	–	–	–
21,950,001 to 22,000,000	–	1	–	–
24,500,001 to 24,650,000	–	1	–	–
26,300,001 to 26,350,000	1	–	–	–

NOTES TO THE FINANCIAL STATEMENTS
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6. Other operating expenses

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

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

7. User charges

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

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

(a) Finance income

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

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

(b) Finance costs

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

(c) Foreign exchange gains/(losses)

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
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9. Taxation

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

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

	Group		Company	
	2017 RM'000	2016 RM'000 (Restated)	2017 RM'000	2016 RM'000 (Restated)
Profit before taxation	2,087,788	1,704,691	1,948,075	1,881,532
Tax calculated at Malaysian tax rate of 24% (2016: 24%)	501,069	409,126	467,538	451,568

9. Taxation (cont'd.)

The explanation of the relationship between taxation and profit before taxation is as follows: (cont'd.)

	Group		Company	
	2017 RM'000	**2016 RM'000 (Restated)**	**2017 RM'000**	**2016 RM'000 (Restated)**
Tax effects of:				
– expenses not deductible for tax purposes	274,065	216,510	69,991	216,481
– income not subject to tax	(224,776)	(509,271)	(224,776)	(574,770)
– associates' results reported net of tax	(11,354)	(37,630)	–	–
– joint venture result reported net of tax	(4,782)	(5,828)	–	–
– change in statutory tax rate	–	(70,537)	–	(70,537)
– different tax rates in other countries	(416)	–	–	–
– overprovision of income tax in respect of previous years	3,354	(15,587)	3,354	(15,587)
– deferred tax assets not recognised on deductible temporary differences and tax losses	16,179	21,370	–	–
– underprovision of deferred tax in respect of previous years	69,129	15,478	69,129	15,478
– deferred tax asset (recognised)/derecognised on investment tax allowance	(106,054)	62,502	(106,054)	62,502
Taxation	516,414	86,133	279,182	85,135

10. Earnings per share

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
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11. Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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12. Investment in subsidiaries

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

* Included in accumulated impairment losses is RM990,190,000 of impairment losses recognised in prior years during which IAA and PAA were previously held as associates.
** Investment in IAA was partially disposed for a purchase consideration of RM835 million giving rise to a gain of RM406 million.

The details of the subsidiaries are as follows:

Name of entity	Country of incorporation	Group's effective equity interest		Principal activities
		2017 %	2016 %	
Directly held by the Company				
AirAsia Investment Ltd ("AAIL")	Malaysia	100	100	Investment holding
AirAsia Go Holiday Sdn Bhd ("AGH")	Malaysia	100	100	Tour operating business
AirAsia (Mauritius) Limited[f]	Mauritius	100	100	Providing aircraft leasing facilities to Thai AirAsia Co Ltd
AirAsia Corporate Services Limited[f]	Malaysia	100	100	Facilitate business transactions for AirAsia Group with non-resident goods and service providers
Ground Team Red Sdn Bhd ("GTR")	Malaysia	100	100	Providing ground handling services
Koolred Sdn Bhd	Malaysia	100	100	Investment holding
AirAsia Global Shared Services Sdn Bhd ("AGSS")	Malaysia	100	100	To provide shared services and outsourcing for its affiliates
Asia Aviation Capital Limited ("AAC")	Malaysia	100	100	Providing aircraft leasing facilities
MadCience Consulting Sdn Bhd	Malaysia	100	100	Provision of central depository services for its affiliates
BigPay Malaysia Sdn Bhd (formerly known as Tpaay Asia Sdn Bhd) ("BigPay")	Malaysia	100	100	Provision of financial and other related services
Rokki Sdn Bhd (formerly known as Tune Box Sdn Bhd) ("Rokki")	Malaysia	83	73	Trading of multimedia content and equipment

12. Investment in subsidiaries (cont'd.)

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

Name of entity	Country of incorporation	Group's effective equity interest		Principal activities
		2017 %	2016 %	
Directly held by the Company (cont'd.)				
Think Big Digital Sdn Bhd ("BIG")	Malaysia	69.3	69.3	Financial services and managing customer loyalty points
T & Co Coffee Sdn Bhd[ƒ]	Malaysia	80	80	Trading in coffee and tea related products
Big Pay Pte Ltd[+] ("BPPL")	Singapore	100	–	Investment holding
RedTix Sdn Bhd (formerly known as Rokki Media Sdn Bhd) ("RedTix")	Malaysia	75	–	Event ticketing business
Ground Team Red Holdings Sdn Bhd ("GTRH")	Malaysia	100	–	Investment holding
Held by AAIL				
AirAsia Inc ("PAA")[+]	Philippines	40	–*	Commercial air transport services
AirAsia Capital Ltd	Malaysia	100	100	Dormant
AirAsia Pte Ltd ("AAPL")	Singapore	100	–	Airline operation services
AirAsia (Guangzhou) Aviation Service Ltd Company	China	100	–	Aviation and commercial services
PT AirAsia Indonesia TBK ("AAID")[ƒ^]	Indonesia	47.7	–	Investment holding
Held by PAA				
Philippines AirAsia Inc ("PAAI")[+]	Philippines	39.5	–*	Commercial air transport services
Asiawide Airways Inc[+]	Philippines	100	–*	Dormant
Held by AAID				
PT Indonesia AirAsia ("IAA")[+]	Indonesia	48.3	–*	Commercial air transport services

NOTES TO THE FINANCIAL STATEMENTS
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12. Investment in subsidiaries (cont'd.)

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

Name of entity	Country of incorporation	Group's effective equity interest 2017 %	2016 %	Principal activities
Held by IAA				
PT Garda Tawang Reksa Indonesia ("GTRI")+	Indonesia	32.4	–	Provision of airport related services
Held by AGH				
AirAsia Exp Pte Ltd ("AAE")+	Singapore	100	100	Investment holding
Held by AAC				
Asia Aviation Capital Private Limited ("AACPL")	Singapore	100	100	Providing supporting services to air transport
Held by AACPL				
Asia Aviation Capital Ireland Limited ("AACIL")	Ireland	100	–	Providing supporting services to air transport
AAC1 Pte Ltd ("AAC1")	Singapore	100	–	Providing supporting services to air transport
AAC2 Pte Ltd ("AAC2")	Singapore	100	–	Providing supporting services to air transport
AAC3 Pte Ltd ("AAC3")	Singapore	100	–	Providing supporting services to air transport
AAC4 Pte Ltd ("AAC4")	Singapore	100	–	Providing supporting services to air transport
Held by AACIL				
Clifden Aviation 1 Limited ("CA1")	Ireland	100	–	Providing supporting services to air transport
Clifden Aviation 2 Limited ("CA2")	Ireland	100	–	Providing supporting services to air transport

12. Investment in subsidiaries (cont'd.)

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
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12. Investment in subsidiaries (cont'd.)

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

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

IAA

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

PAA

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

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

Deemed acquisition of subsidiaries

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

IAA

	Fair value recognised on acquisition RM'000	Carrying amount RM'000
Assets		
Non-current assets		
Property, plant and equipment (Note 11)	650,684	650,684
Intangible assets (Note 16)	374,600	–
Deferred tax assets (Note 17)	142,930	236,580
Other receivables	104,135	104,135
	1,272,349	991,399

12. Investment in subsidiaries (cont'd.)

Deemed acquisition of subsidiaries (cont'd.)

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

IAA (cont'd.)

	Fair value recognised on acquisition RM'000	Carrying amount RM'000
Current assets		
Cash and bank balances	79,403	79,403
Trade and other receivables	77,066	77,066
Inventories	10,197	10,197
Derivative financial instruments	37,460	37,460
	204,126	204,126
Total assets	1,476,475	1,195,525
Liabilities		
Non-current liabilities		
Finance lease liabilities	358,484	358,484
Trade and other payables	52,029	52,029
Employee benefits liability (Note 32)	53,476	53,476
	463,989	463,989
Current liabilities		
Finance lease liabilities	79,642	79,642
Trade and other payables	484,689	484,689
	564,331	564,331
Total liabilities	1,028,320	1,028,320

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

NOTES TO THE FINANCIAL STATEMENTS
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12. Investment in subsidiaries (cont'd.)

Deemed acquisition of subsidiaries (cont'd.)

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

IAA (cont'd.)

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

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

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

PAA

	Fair value recognised on acquisition RM'000	**Carrying amount RM'000**
Assets		
Non-current assets		
Property, plant and equipment (Note 11)	78,590	78,590
Intangible assets (Note 16)	69,300	–
Other receivables	72,131	72,131
	220,021	150,721
Current assets		
Cash and bank balances	30,166	30,166
Trade and other receivables	1,715,366	1,715,366
Inventories	10,399	10,399
Derivative financial instruments	34,187	34,187
	1,790,118	1,790,118
Total assets	2,010,139	1,940,839

12. Investment in subsidiaries (cont'd.)

Deemed acquisition of subsidiaries (cont'd.)

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

PAA (cont'd.)

	Fair value recognised on acquisition RM'000	Carrying amount RM'000
Liabilities		
Non-current liabilities		
Other payables	76,901	76,901
Employee benefits liability (Note 32)	14,831	14,831
Deferred tax liabilities (Note 17)	21,975	1,185
	113,707	92,917
Current liabilities		
Trade and other payables	1,993,244	1,993,244
Borrowings	337,123	337,123
	2,330,367	2,330,367
Total liabilities	2,444,074	2,423,284

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

12. Investment in subsidiaries (cont'd.)

Deemed acquisition of subsidiaries (cont'd.)

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

PAA (cont'd.)

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

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

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

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

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

Reverse acquisition of AAID by IAA

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

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

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

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

12. Investment in subsidiaries (cont'd.)

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

The identifiable assets of AAID were as follow:

	Fair value recognised on acquisition RM'000	Carrying amount RM'000
Assets		
Non-current assets		
Deferred tax assets (Note 17)	52	52
Current assets		
Cash and bank balances	4,931	4,931
Trade and other receivables	4,371	4,371
	9,302	9,302
Total assets	9,354	9,354
Liabilities		
Non-current liabilities		
Employee benefits liability (Note 32)	207	207
Current liabilities		
Trade and other payables	2,919	2,919
Total liabilities	3,126	3,126
Fair value of net identifiable assets		6,228
Acquisition cost (listing expenses)		9,235
Deemed purchase consideration (issued equity)		15,463

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

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

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

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12. Investment in subsidiaries (cont'd.)

Additional investments in subsidiaries

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

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

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

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

Acquisition of non-controlling interest in Rokki

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

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

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

Incorporation and subscription of additional shares in BPPL

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

Subscription of additional shares in GTR

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

12. Investment in subsidiaries (cont'd.)

Incorporation of subsidiaries

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

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

Acquisition of additional interest in BIG

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

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

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

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12. Investment in subsidiaries (cont'd.)

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

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

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

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

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

<u>Material partly-owned subsidiaries</u>

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

Proportion of equity interest held by non-controlling interests:

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

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

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

12. Investment in subsidiaries (cont'd.)

Material partly-owned subsidiaries (cont'd.)

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

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

Summarised income statements for 2017:

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

Summarised statements of financial position as at 31 December 2017:

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

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12. Investment in subsidiaries (cont'd.)

Material partly-owned subsidiaries (cont'd.)

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

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

13. Investment in joint ventures

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

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

Name of entity	Principal place of business/ country of incorporation	Group's effective equity interest 2017 %	Group's effective equity interest 2016 %	Principal activities
Directly held by the Company				
Asian Aviation Centre of Excellence Sdn Bhd ("AACOE")[f]	Malaysia	–	50	Aviation training
Held by AAIL				
Touristly Travel Sdn Bhd	Malaysia	50	–	Tour and travel services
Held by Madcience Consulting Sdn Bhd				
Big Data for Human APAC Limited ("BD4H")[f]	United Kingdom	50	50	Dormant

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

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

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

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

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

14. Investment in associates

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

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

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

The details of the associates are as follows:

Name of entity	Principal place of business/ country of incorporation	Group's effective equity interest 2017 %	Group's effective equity interest 2016 %	Principal activities
AirAsia Philippines Inc	Philippines	39.9	39.9	Providing air transportation services, currently dormant
Asian Contact Centres Sdn Bhd[ƒ]^	Malaysia	50.0	50.0	Providing end-to-end solutions for customers management and contact centre
Held by AAE				
AAE Travel Pte Ltd ("AAE Travel")+	Singapore	25.0	25.0	Online travel agency

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14. Investment in associates (cont'd.)

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

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

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

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

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

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

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

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

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

14. Investment in associates (cont'd.)

Acquisition of additional interests in associates in prior year

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

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

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

Impairment testing on investment in an associate

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

No impairment is recorded for the investment in JAA.

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

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

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

Valuation process

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

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

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

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14. Investment in associates (cont'd.)

Material associates

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

Summarised financial information for associates

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

2017

Summarised statement of financial position

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

14. Investment in associates (cont'd.)

Summarised financial information for associates (cont'd.)

Summarised statement of comprehensive income

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

Reconciliations of summarised financial information

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

14. Investment in associates (cont'd.)

Summarised financial information for associates (cont'd.)

2016

Summarised statements of financial position

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

Summarised statements of comprehensive income

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

14. Investment in associates (cont'd.)

Summarised financial information for associates (cont'd.)

2016 (cont'd.)

Reconciliations of summarised financial information

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

Individually immaterial associates

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

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

15. Available-for-sale financial assets

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

16. Intangible assets

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

16. Intangible assets (cont'd.)

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

Landing rights

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

Impairment testing for goodwill and landing rights

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

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

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16. Intangible assets (cont'd.)

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

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

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

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

Growth rates: the forecasted growth rates are based on published industry research and do not exceed the long term average growth rate for the industries relevant to the CGUs.

Discount rates: discount rates reflect management's estimate of the risks specific to these entities. In determining appropriate discount rates for each unit, consideration has been given to the applicable weighted average cost of capital for each unit.

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

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

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

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

17. Deferred tax assets/(liabilities)

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

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

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

(a) Deferred tax assets

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

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

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

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

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

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

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

(b) Deferred tax liabilities

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

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

Deferred tax has not been recognised for the following items:

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

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

As disclosed in Note 3.2 to the financial statements in respect of critical accounting estimates and judgments, the deferred tax assets are recognised on the basis of the Group's previous history of recording profits, and to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Estimating the future taxable profits involves significant assumptions, especially in respect of fares, load factor, fuel price, maintenance costs and currency movements. These assumptions have been built based on past performance and adjusted for non-recurring circumstances and a reasonable growth rate.

18. Receivables and prepayments

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

18. Receivables and prepayments (cont'd.)

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

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

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

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

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

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

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

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

(iii) Trade receivables that are impaired

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

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

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

18. Receivables and prepayments (cont'd.)

(iii) Trade receivables that are impaired (cont'd.)

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

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

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

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

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

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

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

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

19. Deposits on aircraft purchase

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

20. Amount due from/(to) associates

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

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

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

Amounts due from associates that are neither past due nor impaired of the Group and Company amounted to RM147,617,000 and RM107,817,000 (2016: RM519,795,000 and RM519,795,000) respectively.

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

Amounts due from associates of the Group and Company that are past due but not impaired amounted to RM nil (2016: RM336,512,000 and RM107,113,000). The ageing analysis of these amounts is as follows:

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

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

(iii) Financial assets that are impaired

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

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

(iii) Financial assets that are impaired (cont'd.)

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

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

21. Derivative financial instruments

	Group			
	2017		2016	
	Assets RM'000	Liabilities RM'000	Assets RM'000	Liabilities RM'000
Non-current				
Interest rate swaps – cash flow hedges	6,772	(50,745)	5,335	(105,678)
Interest rate swaps – held for trading	4,219	(20,138)	4,272	(42,374)
Interest rate caps – held for trading	12	–	261	–
Forward foreign exchange contracts – cash flow hedges	239,902	–	536,825	–
Forward foreign exchange contracts – held for trading	54,309	–	184,434	–
Cross currency interest rate swaps – cash flow hedges	38,802	–	71,156	–
Cross currency interest rate swaps – held for trading	38,161	–	65,666	–
Total	382,177	(70,883)	867,949	(148,052)

21. Derivative financial instruments (cont'd.)

	Group			
	2017		2016	
	Assets RM'000	Liabilities RM'000	Assets RM'000	Liabilities RM'000
Current				
Interest rate swaps – cash flow hedges	–	(3,103)	–	–
Interest rate swaps – held for trading	106	(18,609)	–	(33,123)
Forward foreign exchange contracts – cash flow hedges	41,758	–	62,443	–
Forward foreign exchange contracts - held for trading	58,779	(1,602)	–	–
Commodity derivatives – cash flow hedges	–	–	495,572	(343,751)
Commodity derivatives – held for trading	102,452	(51,538)	104,373	(71,999)
Cross currency interest rate swaps – held for trading	2,285	–	3,280	–
Total	205,380	(74,852)	665,668	(448,873)

	Company			
	2017		2016	
	Assets RM'000	Liabilities RM'000	Assets RM'000	Liabilities RM'000
Non-current				
Interest rate swaps – cash flow hedges	6,772	(50,723)	5,335	(105,678)
Interest rate swaps – held for trading	4,219	(20,138)	4,272	(42,374)
Interest rate caps – held for trading	12	–	261	–
Forward foreign exchange contracts – cash flow hedges	239,902	–	536,825	–
Forward foreign exchange contracts – held for trading	54,309	–	184,434	–
Cross currency interest rate swaps – cash flow hedges	38,802	–	71,156	–
Cross currency interest rate swaps – held for trading	38,161	–	65,666	–
Total	382,177	(70,861)	867,949	(148,052)
Current				
Interest rate swaps – cash flow hedges	–	(3,103)	–	–
Interest rate swaps – held for trading	106	(18,609)	–	(33,123)
Forward foreign exchange contracts – cash flow hedges	41,758	–	62,443	–
Forward foreign exchange contracts – held for trading	58,779	(1,602)	–	–
Commodity derivatives – cash flow hedges	–	–	495,572	(343,751)
Commodity derivatives – held for trading	102,452	(67,283)	104,373	(71,999)
Cross currency interest rate swaps – held for trading	2,285	–	3,280	–
Total	205,380	(90,597)	665,668	(448,873)

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21. Derivative financial instruments (cont'd.)

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

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

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

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

* in barrels

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

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

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

21. Derivative financial instruments (cont'd.)

(ii) Interest rate contracts

The notional principal amounts of the outstanding interest rate contracts at 31 December 2017 were RM3.492 billion (2016: RM4.061 billion).

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

(iii) Fuel contracts

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

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

22. Inventories

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

During the year, the amount of the inventories recognised in operating expenses of the Group and the Company was RM60,231,000 and RM22,090,000 respectively (2016:RM92,207,000 and RM51,658,000).

NOTES TO THE FINANCIAL STATEMENTS

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23. Amounts due from subsidiaries

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

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

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

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

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

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

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

24. Amounts due from related parties

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

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

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

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

25. Amount due from a joint ventures

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

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

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

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

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26. Deposits, cash and bank balances

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

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

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

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

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

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

27. Trade and other payables

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

27. Trade and other payables (cont'd.)

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

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

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

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

28. Aircraft maintenance provisions

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

29. Amounts due to subsidiaries

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

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

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29. Amounts due to subsidiaries (cont'd.)

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

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

30. Amounts due to related parties

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

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

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

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Ringgit Malaysia	56,694	29,999	58,449	34,335
US Dollar	48,264	9,455	107,039	24,016
	104,958	39,454	165,488	58,351

31. Borrowings

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Current				
Term loans	1,626,946	1,732,325	1,206,309	1,381,295
Finance lease liabilities (Ijarah)	137,833	109,986	120,264	91,534
Commodity Murabahah Finance	57,068	54,892	57,068	54,892
Revolving credit	–	48,000	–	48,000
	1,821,847	1,945,203	1,383,641	1,575,721
Non-current				
Term loans	6,543,849	7,421,005	4,534,862	5,175,409
Finance lease liabilities (Ijarah)	499,430	709,391	365,630	540,970
Commodity Murabahah Finance	443,508	503,543	443,509	503,543
	7,486,787	8,633,939	5,344,001	6,219,922
Total borrowings	9,308,634	10,579,142	6,727,642	7,795,643

	Group		Company	
	2017 %	2016 %	2017 %	2016 %
Weighted average interest rate				
Term loans	4.34	4.25	4.50	4.46
Finance lease liabilities (Ijarah)	4.64	6.12	5.20	6.12
Commodity Murabahah Finance	5.31	5.53	5.31	5.53
Revolving credit	–	3.86	–	3.86

The borrowings are repayable as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Not later than 1 year	1,821,847	1,945,203	1,383,641	1,575,721
Later than 1 year and not later than 5 years	5,056,698	5,529,785	3,445,799	3,965,081
Later than 5 years	2,430,089	3,104,154	1,898,202	2,254,841
	9,308,634	10,579,142	6,727,642	7,795,643

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31. Borrowings (cont'd.)

The currency profile of borrowings is as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Ringgit Malaysia	734,671	1,059,435	734,671	1,059,435
US Dollar	8,126,971	9,135,547	5,701,249	6,411,512
Euro	162,819	179,853	108,987	120,389
Singapore Dollar	182,734	204,307	182,735	204,307
Philippine Peso	101,439	–	–	–
	9,308,634	10,579,142	6,727,642	7,795,643

Total borrowings as at reporting date consist of the following banking facilities:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Fixed rate borrowings	7,005,172	9,138,150	5,326,678	6,870,146
Floating rate borrowings	2,303,462	1,440,992	1,400,964	925,497
	9,308,634	10,579,142	6,727,642	7,795,643

The carrying amounts and fair values of the fixed rate borrowings are as follows:

	Group			
	2017		2016	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Term loans	6,519,278	6,200,779	8,462,449	8,398,488
Finance lease liabilities (Ijarah)	485,894	502,102	627,701	679,470
Revolving credit	–	–	48,000	48,000
	7,005,172	6,702,881	9,138,150	9,125,958

	Company			
	2017		2016	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Term loans	4,840,784	4,594,110	6,194,445	6,734,561
Finance lease liabilities (Ijarah)	485,894	502,102	627,701	679,470
Revolving credit	–	–	48,000	48,000
	5,326,678	5,096,212	6,870,146	7,462,031

31. Borrowings (cont'd.)

The fair values of the floating rate borrowings approximate their carrying amounts, as the impact of discounting is not significant.

The fair values of the fixed rate borrowings are based on cash flows discounted using borrowing rates that are reflective of the Group's and Company's credit risk at the balance sheet date, at 3.4% to 4.7% (2016: 2.6% to 4.3%) per annum. The fair values of fixed rate borrowings are within level 2 of the fair value hierarchy.

The term loans, finance lease liabilities (Ijarah) and Commodity Murabahah Finance are for the purchase of aircraft, spare engines and working capital purposes. The repayment terms of secured term loans, finance lease liabilities (Ijarah) and Commodity Murabahah Finance are on a quarterly or semi-annually basis.

Total borrowings include secured liabilities of the Group and Company of RM8.9 billion and RM6.4 billion respectively (2016: RM10.0 billion and RM7.3 billion). These are secured by the following:

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

32. Provision for retirement benefits

The Group has unfunded, non-contributory and actuarially computed retirement benefit plans which provide retirement benefits to employees who reach the mandatory retirement age under the provisions of Labor Law in Indonesia and the Philippines.

The amounts recognised in the statements of financial position as at 31 December are as follows:

	Group	
	2017 RM'000	**2016 RM'000**
Present value of defined benefit obligation	72,207	–

The movements in the present value of defined benefit obligation for the year ended 31 December are as follows:

	Group 2017 RM'000
Defined benefit obligation at 1 January	–
Deemed acquisition of subsidiaries (Note 12)	68,514
Current service cost	8,392
Interest cost	4,161
Benefits paid	(3,122)
Remeasurement loss	1,399
Exchange differences	(7,137)
Defined benefit obligation at 31 December	72,207

NOTES TO THE FINANCIAL STATEMENTS
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32. Provision for retirement benefits (cont'd.)

The amounts of retirement benefit expense recognized in profit or loss for the year ended 31 December are as follows:

	Group 2017 RM'000
Current service cost	8,392
Interest cost on benefit obligations	4,161
Employee benefits expense	12,553

The provision for retirement benefits is charged to profit or loss as part of salaries and employee benefits in operating expenses.

The movement in the reserve for remeasurements on retirement benefit obligation for the year ended 31 December is as follows:

	Group 2017 RM'000
Beginning of the year	–
Remeasurement loss	1,399
	1,399

The amounts recognised in other comprehensive income for the year ended 31 December are as follows:

	Group 2017 RM'000
Remeasurement loss on changes in financial assumptions	3,990
Remeasurement gain on experience adjustments	(2,591)
	1,399

The principal acturial assumptions used for the year ended 31 December are as follows:

	PAA	IAA
Discount rate	5.19%	7.30%
Salary increase rate per annum	5.00%	8.00%

The average durations of the benefit obligation at 31 December 2017 were 29 years and 21 years for PAA and IAA respectively.

32. Provision for retirement benefits (cont'd.)

Sensitivity analysis

As at 31 December, the sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is as follows:

PAA

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption RM	Decrease in assumption RM
2017			
Annual discount rate	+/- 1%	(2,306,638)	2,899,839
Future annual salary increase rate	+/- 1%	2,812,097	1,376,580

IAA

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption RM	Decrease in assumption RM
2017			
Annual discount rate	+/- 1%	3,438,861	(3,095,889)
Future annual salary increase rate	+/- 1%	2,926,690	(3,178,203)

33. Share capital and share premium

	Group and Company	
	2017 RM'000	2016 RM'000
Authorised:		
Ordinary shares of RM0.10 each:		
At beginning and end of the financial year	–	500,000
Issued and fully paid up:		
Ordinary shares of RM0.10 each:		
At beginning of the financial year	278,297	278,297
Issued during the financial year	55,900	–
Transition to no-par value regime^	2,181,241	–
At end of the financial year	2,515,438	278,297
Share premium		
At beginning of the financial year	1,230,941	1,230,941
Issued during the financial year	950,300	–
Transition to no-par value regime^	(2,181,241)	–
At end of the financial year	–	1,230,941

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

33. Share capital and share premium (cont'd.)

On 31 January 2017, pursuant to Section 74 of Companies Act, 2016, the concepts "par value" and "authorised share capital" were abolished and on that date, the shares of the Company ceased to have a par value.

During the financial year, the Company increased its issued and paid-up ordinary share capital from RM1,509,238,000 to RM2,515,438,000 by way of the issuance of 559,000,000 ordinary shares at an issue price of RM1.80 per ordinary share.

^ In accordance with the transitional provision set out in Section 618 of the Companies Act, 2016 the credit standing in the share premium amounting RM2,181,241,000 was transferred to the share capital account. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

34. Retained earnings and other reserves

(a) Retained earnings

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

(b) Other reserves

	Remeasurement loss on employee benefits liability RM'000	Cash flow hedge reserve RM'000 (Restated)	Available-for-sale reserve RM'000	Total RM'000 (Restated)
Group				
At 1 January 2017 (as previously stated)	–	(441,994)	224,440	(217,554)
Prior year adjustment (Note 42)	–	428,384	–	428,384
At 1 January 2017 (restated)	–	(13,610)	224,440	210,830
Net change in fair value	(691)	(400,128)	(55,087)	(455,906)
Amounts transferred to income statements	–	148,901	–	148,901
Share of other comprehensive income of an associate	–	28,567	–	28,567
At 31 December 2017	(691)	(236,270)	169,353	(67,608)

34. Retained earnings and other reserves (cont'd.)

(b) Other reserves (cont'd.)

	Cash flow hedge reserve RM'000 (Restated)	Available-for-sale reserve RM'000	Total RM'000 (Restated)
Group			
At 1 January 2016	(539,968)	108,370	(431,598)
Net change in fair value	415,497	116,070	531,567
Amounts transferred to income statements	77,298	–	77,298
Share of other comprehensive income of an associate	33,563	–	33,563
At 31 December 2016	(13,610)	224,440	210,830

	Cash flow hedge reserve RM'000 (Restated)	Available-for-sale reserve RM'000	Total RM'000 (Restated)
Company			
At 1 January 2017 (as previously stated)	(413,427)	224,440	(188,987)
Prior year adjustment (Note 42)	428,384	–	428,384
At 1 January 2017 (restated)	14,957	224,440	239,397
Net change in fair value	(358,394)	(55,087)	(413,481)
Amounts transferred to income statements	148,901	–	148,901
At 31 December 2017	(194,536)	169,353	(25,183)
At 1 January 2016	(477,838)	108,370	(369,468)
Net change in fair value	415,497	116,070	531,567
Amounts transferred to income statements	77,298	–	77,298
At 31 December 2016	14,957	224,440	239,397

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35. Dividends

Dividends declared or proposed by the Company are as follows:

	2017		2016	
	Gross dividend per share Sen	**Amount of dividend net of tax RM'000**	**Gross dividend per share Sen**	**Amount of dividend net of tax RM'000**
First and final single tier dividend of 12 sen per ordinary share paid in respect of the financial year ended 31 December 2016 (2016: First and final single-tier dividend of 4 sen per ordinary share in respect of the financial year ended 31 December 2015)	12.00	401,025	4.00	111,315
First and interim single tier dividend of 12 sen per ordinary share paid in respect of the financial year ended 31 December 2017	12.00	401,025	–	–
		802,050		111,315

36. Commitments and operating leases

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

	Group and Company	
	2017 RM'000	**2016 RM'000**
Property, plant and equipment		
– Approved and contracted for	89,812,952	91,092,265
– Approved but not contracted for	38,512	9,801,838
	89,851,464	100,894,103

The capital commitments for the Group and Company are in respect of aircraft purchase and ongoing constructions within the new office building. The future commitments of aircraft purchase and construction of new office building are as follows:

	Group and Company	
	2017 RM'000	**2016 RM'000**
Not later than 1 year	3,011,658	3,485,188
Later than 1 year and not later than 5 years	21,499,524	14,150,774
Later than 5 years	65,301,770	73,456,303
	89,812,952	91,092,265

36. Commitments and operating leases (cont'd.)

(b) Non-cancellable operating leases

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

	2017		2016	
	Future minimum lease payments RM'000	Future minimum sublease receipts RM'000	Future minimum lease payments RM'000	Future minimum sublease receipts RM'000
Group				
Not later than 1 year	776,747	1,174,408	559,841	1,146,130
Later than 1 year and not later than 5 years	2,609,430	3,564,752	2,395,316	3,879,218
Later than 5 years	1,981,286	1,601,452	790,591	1,883,018
	5,367,463	6,340,612	3,745,748	6,908,366
Company				
Not later than 1 year	242,714	135,743	125,615	188,169
Later than 1 year and not later than 5 years	878,372	298,670	464,773	486,640
Later than 5 years	1,287,906	144,676	241,521	286,499
	2,408,992	579,089	831,909	961,308

Sublease receipts include lease receipts from both owned and leased aircraft receivable from Thai AirAsia Co. Ltd, PT Indonesia AirAsia, AirAsia Inc, Philippines AirAsia Inc, AirAsia Japan Co. Ltd and AirAsia (India) Private Limited.

37. Segmental information

Operating segments are reported in a manner consistent with the internal management reporting provided to the chief operating decision maker, which is the Group's Chief Executive Officer ("GCEO") effective 1 July 2015. The GCEO considers the business from a geographical perspective and identified the operating segments by each Air Operator Certificate ("AOC") held under the AirAsia brand. These are categorised as Malaysia, Thailand, Indonesia, Philippines, India and Japan.

The GCEO assesses the performance of the operating segments based on revenue and net operating profit.

Segment analysis by product categories has not been prepared as the Group is primarily engaged in the provision of air transportation services. Reconciliation to the reportable segments relates to the elimination of the associate companies.

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37. Segmental information (cont'd.)

The segmental information provided to the GCEO for the reportable segments are as follows:

	Malaysia RM'000	Thailand RM'000	Indonesia RM'000	Philippines RM'000	India RM'000	Japan RM'000	Elimination adjustments	Total RM'000
2017								
Segment results								
Revenue	7,701,400	4,555,133	1,201,440	1,351,910	1,012,888	7,053	(1,453,049)	14,376,775
Operating expenses								
– Staff costs	(1,204,035)	(693,171)	(229,287)	(173,723)	(181,149)	(102,632)	–	(2,583,997)
– Depreciation of property, plant and equipment	(821,701)	(183,081)	(53,858)	(19,881)	(6,614)	(2,772)	31,451	(1,056,456)
– Aircraft fuel expenses	(1,993,660)	(1,340,953)	(392,847)	(434,618)	(397,694)	(730)	–	(4,560,502)
– Maintenance and overhaul	(361,502)	(372,279)	(179,329)	(252,345)	(128,780)	(11,197)	320,296	(985,136)
– User charges	(889,649)	(771,638)	(246,578)	(164,733)	(157,762)	(12,908)	37,677	(2,205,591)
– Aircraft operating lease expenses	(667,234)	(627,904)	(182,534)	(181,226)	(158,716)	(34,811)	1,110,798	(741,627)
– Other operating expenses	(322,572)	(285,564)	(99,983)	(85,392)	(69,884)	(20,434)	91,721	(792,108)
Other income/(charges)	1,028,045	95,639	252,707	38,953	34,233	(50)	(595,878)	853,649
Operating profit/(loss)	2,469,092	376,182	69,731	78,945	(53,478)	(178,481)	(456,984)	2,305,007
Finance income	81,271	7,060	1,530	68	3,382	–	(27,199)	66,112
Finance costs	(589,531)	(87,699)	(26,542)	(22,552)	(3,311)	(622)	60,877	(669,380)
Net operating profit/(loss)	1,960,832	295,543	44,719	56,461	(53,407)	(179,103)	(423,306)	1,701,739
Foreign exchange gains/(losses)	179,202	40,808	31,165	(22,972)	7,157	451	(336)	235,475
Gain on partial disposal of investment in a subsidiary	406,839	–	–	–	–	–	(406,839)	–
Fair value loss on derivatives	(117,652)	–	–	–	–	–	(22,949)	(140,601)
Gain on remeasurement of previously held interest in associates	–	–	–	–	–	–	214,350	214,350
Gain on bargain purchase on consolidation	–	–	–	–	–	–	121,045	121,045
Share of results of a joint venture	–	–	–	–	–	–	19,923	19,923
Share of results of associates	–	–	–	–	–	–	17,980	17,980
Profit/(loss) before taxation	2,429,221	336,351	75,884	33,489	(46,250)	(178,652)	(480,132)	2,169,911

There is no single customer who contributed to 10% or more of the Group's total revenue.

37. Segmental information (cont'd.)

	Malaysia RM'000	Thailand RM'000	Indonesia RM'000	Philippines RM'000	India RM'000	Japan RM'000	Elimination adjustments	Total RM'000
2017 (cont'd.)								
Segment Assets								
Property, plant and equipment	12,013,762	3,159,115	619,354	82,723	37,953	25,826	–	15,938,733
Deposits, cash and bank balances	1,685,428	647,647	85,612	42,355	110,686	24,882	–	2,596,610
Investment in joint ventures and associates	1,105,739	–	2,998	–	–	–	(1,052,728)	56,009
Other assets	9,025,507	1,028,546	1,117,735	168,020	96,385	19,576	(2,875,635)	8,580,134
	23,830,436	4,835,308	1,825,699	293,098	245,024	70,284	(3,928,363)	27,171,486
Segment Liabilities								
Borrowings	(9,071,988)	(2,418,923)	(323,787)	(236,645)	–	–	323,787	(11,727,556)
Others	(5,576,556)	(1,096,134)	(701,835)	(1,759,178)	(299,816)	(30,218)	1,454,779	(8,008,958)
	(14,648,544)	(3,515,057)	(1,025,622)	(1,995,823)	(299,816)	(30,218)	1,778,566	(19,736,514)

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37. Segmental information (cont'd.)

	Malaysia RM'000	Thailand RM'000	Indonesia RM'000	Philippines RM'000	India RM'000	Japan RM'000	Elimination adjustments	Total RM'000
2016								
Segment results								
Revenue	6,846,085	3,818,482	1,197,913	940,426	508,314	–	(1,169,553)	12,141,667
Operating expenses								
– Staff costs	(1,015,258)	(534,899)	(206,329)	(138,135)	(97,477)	(89,352)	–	(2,081,450)
– Depreciation of property, plant and equipment	(710,843)	(136,835)	(33,510)	(29,109)	(5,570)	(2,058)	–	(917,925)
– Aircraft fuel expenses	(1,578,473)	(971,208)	(357,765)	(305,189)	(224,439)	(2,702)	–	(3,439,776)
– Maintenance and overhaul	(218,753)	(342,004)	(186,289)	(221,560)	(62,725)	(6,898)	234,047	(804,182)
– User charges	(801,656)	(634,534)	(236,894)	(127,378)	(74,376)	(8,224)	–	(1,883,062)
– Aircraft operating lease expenses	(479,485)	(573,279)	(183,433)	(143,094)	(99,809)	(27,171)	935,506	(570,765)
– Other operating expenses	(283,031)	(231,662)	(160,069)	(65,319)	(42,110)	(22,026)	62,861	(741,356)
Other income/(charges)	352,703	50,008	203,320	(70,181)	10,455	189	(62,861)	483,633
Operating profit/(loss)	2,111,289	444,069	36,944	(159,539)	(87,737)	(158,242)	–	2,186,784
Finance income	134,923	8,964	901	40	944	4	(28,651)	117,125
Finance costs	(593,061)	(64,985)	(40,250)	(21,633)	(410)	(56)	28,651	(691,744)
Net operating profit/(loss)	1,653,151	388,048	(2,405)	(181,132)	(87,203)	(158,294)	–	1,612,165
Foreign exchange gains/(losses)	484,685	(9,351)	59,949	(84,684)	(1,904)	(1,966)	–	446,729
Impairment of investment in a associate	(163,750)	–	–	–	–	–	163,750	–
Share of results of a joint venture	24,285	–	–	–	–	–	–	24,285
Share of results of associates	134,704	–	–	–	–	–	(105,915)	28,789
Profit/(loss) before taxation	2,133,075	378,697	57,544	(265,816)	(89,107)	(160,260)	57,835	2,111,968

There is no single customer who contributed to 10% or more of the Group's total revenue.

37. Segmental information (cont'd.)

	Malaysia RM'000	Thailand RM'000	Indonesia RM'000	Philippines RM'000	India RM'000	Japan RM'000	Elimination adjustments	Total RM'000
2016 (cont'd.)								
Segment Assets								
Property, plant and equipment	10,826,682	2,548,096	487,671	56,631	24,763	26,613	–	13,970,456
Deposits, cash and bank balances	1,741,573	829,759	91,869	30,182	229,838	51,007	–	2,974,228
Investment in joint ventures and associates	2,398,896	–	–	–	–	–	(2,122,946)	275,950
Other assets	7,018,236	718,848	615,977	165,249	114,909	13,961	(1,235,565)	7,411,615
	21,985,387	4,096,703	1,195,517	252,062	369,510	91,581	(3,358,511)	24,632,249
Segment Liabilities								
Borrowings	(10,579,142)	(1,779,824)	(438,118)	(288,208)	–	–	438,118	(12,647,174)
Others	(4,778,466)	(1,154,474)	(604,061)	(1,819,636)	(380,233)	(46,937)	1,758,500	(7,025,307)
	(15,357,608)	(2,934,298)	(1,042,179)	(2,107,844)	(380,233)	(46,937)	2,196,618	(19,672,481)

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37. Segmental information (cont'd.)

		2017 RM'000	2016 RM'000
(a)	Reconciliation of segment revenue to reported revenue:		
	Segment revenue	15,829,824	13,311,220
	Less: Inter-segment revenue	(1,453,049)	(1,169,553)
	Less: Revenue from associated companies which were not consolidated	(4,667,054)	(5,295,582)
		9,709,721	6,846,085
(b)	Reconciliation of segment profit before taxation to reported profit before taxation:		
	Segment profit before taxation	2,169,911	2,111,969
	Add: Expenses from affiliates which were not consolidated	(82,123)	21,106
		2,087,788	2,133,075
(c)	Reconciliation of segment assets to reported total assets		
	Segment assets	27,171,486	24,632,249
	Less: Assets of affiliates which were not consolidated	(5,497,408)	(2,646,035)
		21,674,078	21,986,214
(d)	Reconciliation of segment liabilities to reported total liabilities		
	Segment liabilities	19,736,514	19,672,481
	Less: Liabilities of affiliates which were not consolidated	(4,772,516)	(4,314,046)
		14,963,998	15,358,435

38. Significant related party transactions

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

The related parties of the Company and their relationships are as follows:

Related companies	Relationship
AirAsia Go Holiday Sdn Bhd	Subsidiary
AirAsia (Mauritius) Limited	Subsidiary
AirAsia Investment Ltd	Subsidiary
AirAsia Exp Pte Ltd	Subsidiary
AirAsia Global Shared Services Sdn Bhd	Subsidiary
Asia Aviation Capital Limited	Subsidiary
MadCience Consulting Sdn Bhd	Subsidiary
BigPay Malaysia Sdn Bhd (formerly known as Tpaay Asia Sdn Bhd)	Subsidiary
Rokki Sdn Bhd (formerly known as Tune Box Sdn Bhd)	Subsidiary
Rokki Avionics Sdn Bhd	Subsidiary
Think Big Digital Sdn Bhd	Subsidiary
PT Indonesia AirAsia*	Subsidiary
AirAsia Inc*	Subsidiary
Ground Team Red Sdn Bhd	Subsidiary
Philippines AirAsia Inc*	Subsidiary
Tune Money Co	Subsidiary
PT Tune Money	Subsidiary
Thai AirAsia Co Ltd	Associate of a subsidiary
AirAsia Japan Co Ltd	Associate of a subsidiary
AirAsia (India) Private Limited	Associate of a subsidiary
AAE Travel Pte Ltd	Associate of a subsidiary
Asian Aviation Centre of Excellence Sdn Bhd**	Joint venture
Touristly Travel Sdn Bhd	Joint venture
AirAsia X Berhad	Company with common directors and shareholders
Tune Insurance Malaysia Berhad	Company with common directors and shareholders
Queen Park Rangers Holdings Ltd	Company with common directors and shareholders
Thai AirAsia X Co Ltd	Company with common directors and shareholders
PT Indonesia AirAsia Extra	Company with common directors and shareholders
Caterhamjet Global Ltd	Company with common directors and shareholders
Tune Money International Sdn Bhd	Company with common directors and shareholders

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

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

Key management personnel are categorised as head or senior management officers of key operating divisions within the Group and Company. The key management compensation is disclosed in Note 38(d) below.

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

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
(a) Income:				
Aircraft operating lease income for owned and leased aircraft				
– Thai AirAsia Co Ltd	539,686	521,434	50,601	109,306
– PT Indonesia AirAsia*	–	182,139	18,582	65,158
– AirAsia Inc (including Philippines AirAsia Inc)*	–	104,751	32,850	26,608
– AirAsia (India) Private Limited	157,175	99,620	69,633	57,295
– AirAsia Japan Co Ltd	33,637	30,528	–	–
– PT Indonesia AirAsia Extra	71,744	69,547	–	–
Gain on disposal of aircraft to Thai AirAsia Co Ltd	–	35,009	–	–
Gain on disposal of investment in Asian Aviation Centre of Excellence Sdn Bhd**	167,688	–	294,362	–
Gain on disposal of fixed asset to Ground Team Red Sdn Bhd	–	–	900	–
Gain on disposal of aircraft and engines to Asia Aviation Capital Limited	–	–	–	374,488
Fees charged to associates and related parties providing commercial air transport services	106,777	87,048	106,777	87,048
Commission on travel insurance for passengers charged to Tune Insurance Malaysia Berhad	18,918	11,766	18,198	11,788
(b) Recharges:				
Recharges of expenses to				
– Thai AirAsia Co Ltd	146,979	153,911	145,616	153,911
– PT Indonesia AirAsia*	–	11,836	25,889	11,836
– AirAsia Inc (including Philippines AirAsia Inc)*	–	63,788	59,003	63,788
– AirAsia X Berhad	34,648	65,640	39,626	65,640
– AirAsia (India) Private Limited	26,213	28,488	26,222	28,488
– Asia Aviation Capital Limited	–	–	–	27,993

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

		Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(b)	Recharges (cont'd.):				
	– PT Indonesia AirAsia Extra	64,808	7,540	3,069	7,540
	– Thai AirAsia X Co Ltd	6,578	17,178	6,846	17,178
	– AirAsia Japan Co Ltd	4,021	18,150	4,019	18,150
	Recharges of expenses by				
	– Asia Aviation Capital Limited	1,958	–	1,958	–
	– Thai AirAsia Co. Ltd	–	–	–	–
(c)	**Other charges/(expenses):**				
	Maintenance reserve fund charged to				
	– PT Indonesia AirAsia*	–	131,928	43,309	70,581
	– AirAsia Inc (including Philippines AirAsia Inc)*	–	60,089	17,420	14,755
	– Thai AirAsia Co Ltd	375,592	358,292	173,076	191,950
	– AirAsia (India) Private Limited	84,121	41,238	36,907	19,746
	– PT Indonesia AirAsia Extra	36,814	31,169	–	–
	– AirAsia Japan Co Ltd	3,210	1,941	–	–
	Interest charges to:				
	– PT Indonesia AirAsia*	–	–	1,301	–
	– Philippines AirAsia Inc*	–	–	482	–
	– MadCience Consulting Sdn Bhd	–	–	870	870
	Provision of sponsorship to Queen Park Rangers Holdings Ltd	–	–	–	–
	Charter air travel services charged by AirAsia X Berhad	(9,021)	(42,867)	(9,021)	(42,867)
	Charter air travel services				
	– charged by Thai AirAsia X Co Ltd	–	–	–	–
	– charged by PT Indonesia AirAsia*	–	(8,617)	–	(8,617)
	– charged by PT Indonesia AirAsia Extra	(24,660)	(31,528)	(24,660)	(31,528)
	In-flight entertainment system and solutions costs charged by Rokki Avionics Sdn Bhd	–	–	–	(17,958)
	Training fee charged by Asian Aviation Centre of Excellence Sdn Bhd**	(11,035)	(10,480)	(11,035)	(10,480)
	Aircraft operating lease expense charged by Asia Aviation Capital Limited	–	–	(43,021)	(35,258)

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

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(c) Other charges/(expenses) (cont'd.):				
Management fees charged by AirAsia Global Services Sdn Bhd	–	–	6,216	–
Management fees charged to associates and related parties	18,014	14,630	–	–
(d) Key management compensation:				
– Basic salaries, bonus, allowances and other employee benefits	60,264	57,928	60,264	57,059
– Defined contribution plan	7,071	6,850	7,071	6,778
– Fees	2,321	1,268	2,321	1,268
	69,656	66,046	69,656	65,105

Included in the key management compensation are Executive Directors' remuneration for the years 2016 and 2017 which were approved by the Nomination and Remuneration committee during the current year. Breakdown of the Executive Directors' remuneration is as disclosed in Note 5 to the financial statements.

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(e) Receivables:				
Subsidiaries				
– PT Indonesia AirAsia*	–	–	400,752	–
– Rokki Sdn Bhd	–	–	3,813	–
– Ground Team Red Sdn Bhd	–	–	5,921	–
– AirAsia (Mauritius) Limited	–	–	–	5,365
– AirAsia Investment Ltd	–	–	713,921	224,087
– MadCience Consulting Sdn Bhd	–	–	13,796	–
– AirAsia Global Shared Services Sdn Bhd	–	–	17,575	14,374
– Asia Aviation Capital Limited	–	–	591,663	544,124
– Think Big Digital Sdn Bhd	–	–	6,447	6,667
– Others	–	–	5,214	6,353
Amounts due from subsidiaries	–	–	1,759,102	800,970
Joint venture				
–Touristly Travel Sdn Bhd	4,893	–	19	–
– Asian Aviation Centre of Excellence Sdn Bhd**	–	8,952	–	8,952
Amounts due from joint venture	4,893	8,952	19	8,952

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

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
(e) Receivables (cont'd.):				
Associates				
– PT Indonesia AirAsia*	–	539,464	–	440,190
– AirAsia Inc (including Philippines AirAsia Inc)*	–	68,407	–	13,126
– AirAsia (India) Private Limited	141,842	213,694	104,935	149,954
– AirAsia Japan Co Ltd	1,839	31,906	–	22,918
– Others	3,936	2,836	2,882	720
Amounts due from associates	147,617	856,307	107,817	626,908
Related parties				
– Caterhamjet Global Ltd	–	–	–	–
– Thai AirAsia X Co. Ltd	–	15,409	–	14,710
– PT Indonesia AirAsia Extra	–	20,623	–	–
– Asian Aviation Centre of Excellence Sdn Bhd**	1,788	–	1,788	–
– Tune Money Co	2,908	–	–	–
– PT Tune Money	2,079	–	–	–
– Tune Insurance Malaysia Bhd	1,074	–	1,074	–
– Others	26	1,392	26	1,392
Amounts due from related parties	7,875	37,424	2,888	16,102
(f) Payables:				
Subsidiaries				
– PT Indonesia AirAsia*	–	–	7,121	–
– Philippines AirAsia Inc*	–	–	34,757	–
– AirAsia (Mauritius) Limited	–	–	4,612	–
– AirAsia Exp Pte Ltd	–	–	52,452	–
– Others	–	–	102	–
Amounts due to subsidiaries	–	–	99,044	–

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

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(f) Payables (cont'd.):				
Associates				
– AirAsia Japan Co Ltd	–	–	2,305	–
– Thai AirAsia Co Ltd	122,874	68,215	44,925	28,761
– AirAsia (India) Private Limited	22,917	14,818	7,497	8,281
– PT Indonesia AirAsia*	–	21,832	–	5,517
– AirAsia Inc (including Philippines AirAsia Inc)*	–	18,011	–	4,665
Amounts due to associates	145,791	122,876	54,727	47,224
Related parties				
– AirAsia X Berhad	56,641	29,907	58,449	34,315
– Thai AirAsia X Co. Ltd	14,003	–	11,587	–
– PT Indonesia AirAsia Extra	34,261	9,455	95,452	24,016
– Others	53	92	–	20
Amounts due to related parties	104,958	39,454	165,488	58,351

* PT Indonesia AirAsia and AirAsia Inc (including Philippines AirAsia Inc) became subsidiaries during the year (Note 12). Accordingly, transactions between both entities and the Group are eliminated at group level.

** Asian Aviation Centre of Excellence Sdn Bhd has been disposed during the year (Note 13).

39. Financial instruments

(a) Financial instruments by category

	Loans and receivables RM'mil	Assets at fair value through the profit and loss RM'mil	Derivatives used for hedging RM'mil	Available for sale RM'mil	Total RM'mil
Group					
31 December 2017					
Assets as per statement of financial position					
Available-for-sale financial assets (Note 15)	–	–	–	302	302
Receivables (excluding prepayments and tax receivables) (Note 18)	1,581	–	–	–	1,581
Amounts due from associates (Note 20)	148	–	–	–	148
Amount due from a joint venture (Note 25)	5	–	–	–	5
Amounts due from related parties (Note 24)	8	–	–	–	8
Deposits on aircraft purchase (Note 19)	916	–	–	–	916
Derivative financial instruments (Note 21)	–	261	327	–	588
Deposits, cash and bank balances (Note 26)	1,882	–	–	–	1,882
Total	4,540	261	327	302	5,430

	Liabilities at fair value through the profit and loss RM'mil	Derivatives used for hedging RM'mil	Other financial liabilities RM'mil	Total RM'mil
Group				
31 December 2017 (cont'd.)				
Liabilities as per statement of financial position				
Borrowings (excluding finance lease liabilities) (Note 31)	–	–	8,671	8,671
Finance lease liabilities (Note 31)	–	–	637	637
Derivative financial instruments (Note 21)	92	54	–	146
Trade and other payables (excluding aircraft maintenance reserves and tax liabilities) (Note 21)	–	–	3,388	3,388
Amount due to associates (Note 20)	–	–	146	146
Amount due to related parties (Note 30)	–	–	105	105
Total	92	54	12,947	13,093

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

39. Financial instruments (cont'd.)

(a) Financial instruments by category (cont'd.)

	Loans and receivables RM'mil	Assets at fair value through the profit and loss RM'mil	Derivatives used for hedging RM'mil	Available-for-sale RM'mil	Total RM'mil
Group					
31 December 2016					
Assets as per statement of financial position					
Available-for-sale financial assets (Note 15)	–	–	–	357	357
Receivables (excluding prepayments and tax receivables) (Note 18)	804	–	–	–	804
Amounts due from associates (Note 20)	856	–	–	–	856
Amount due from a joint venture (Note 25)	9	–	–	–	9
Amounts due from related parties (Note 24)	37	–	–	–	37
Deposits on aircraft purchase (Note 19)	770	–	–	–	770
Derivative financial instruments (Note 21)	–	425	1,108	–	1,533
Deposits, cash and bank balances (Note 26)	1,742	–	–	–	1,742
Total	4,218	425	1,108	357	6,108

	Liabilities at fair value through the profit and loss RM'mil	Derivatives used for hedging RM'mil	Other financial liabilities RM'mil	Total RM'mil
Group				
31 December 2016				
Liabilities as per statement of financial position				
Borrowings (excluding finance lease liabilities) (Note 31)	–	–	9,760	9,760
Finance lease liabilities (Note 31)	–	–	819	819
Derivative financial instruments (Note 21)	148	449	–	597
Trade and other payables (excluding aircraft maintenance reserves and tax liabilities) (Note 27)	–	–	2,915	2,915
Amount due to associates (Note 20)	–	–	123	123
Amount due to related parties (Note 30)	–	–	39	39
Total	148	449	13,656	14,253

39. Financial instruments (cont'd.)

(a) Financial instruments by category (cont'd.)

	Loans and receivables RM'mil	Assets at fair value through the profit and loss RM'mil	Derivatives used for hedging RM'mil	Available-for-sale RM'mil	Total RM'mil
Company					
31 December 2017					
Assets as per statement of financial position					
Available-for-sale financial assets (Note 15)	–	–	–	296	296
Receivables (excluding prepayments and tax receivables) (Note 18)	1,363	–	–	–	1,363
Amounts due from subsidiaries (Note 23)	1,759	–	–	–	1,759
Amounts due from associates (Note 20)	108	–	–	–	108
Amount due from a joint venture (Note 25)	–	–	–	–	–
Amounts due from related parties (Note 24)	3	–	–	–	3
Deposits on aircraft purchase (Note 19)	916	–	–	–	916
Derivative financial instruments (Note 21)	–	261	327	–	588
Deposits, cash and bank balances (Note 26)	1,302	–	–	–	1,302
Total	5,451	261	327	296	6,335

	Liabilities at fair value through the profit and loss RM'mil	Derivatives used for hedging RM'mil	Other financial liabilities RM'mil	Total RM'mil
Company				
31 December 2017				
Liabilities as per statement of financial position				
Borrowings (excluding finance lease liabilities) (Note 31)	–	–	6,242	6,242
Finance lease liabilities (Note 31)	–	–	486	486
Derivative financial instruments (Note 21)	108	54	–	162
Trade and other payables (excluding aircraft maintenance reserves and tax liabilities) (Note 27)	–	–	3,230	3,230
Amount due to associates (Note 20)	–	–	55	55
Amount due to subsidiaries (Note 29)	–	–	16	16
Amount due to related parties (Note 30)	–	–	165	165
Total	108	54	10,194	10,356

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

39. Financial instruments (cont'd.)

(a) Financial instruments by category (cont'd.)

	Loans and receivables RM'mil	Assets at fair value through the profit and loss RM'mil	Derivatives used for hedging RM'mil	Available-for-sale RM'mil	Total RM'mil
Company					
31 December 2016					
Assets as per statement of financial position					
Available-for-sale financial assets (Note 15)	–	–	–	351	351
Receivables (excluding prepayments and tax receivables) (Note 18)	701	–	–	–	701
Amounts due from subsidiaries (Note 23)	801	–	–	–	801
Amounts due from associates (Note 20)	627	–	–	–	627
Amount due from a joint venture (Note 25)	9	–	–	–	9
Amounts due from related parties (Note 24)	16	–	–	–	16
Deposits on aircraft purchase (Note 19)	770	–	–	–	770
Derivative financial instruments (Note 21)	–	425	1,108	–	1,533
Deposits, cash and bank balances (Note 26)	1,427	–	–	–	1,427
Total	4,351	425	1,108	351	6,235

	Liabilities at fair value through the profit and loss RM'mil	Derivatives used for hedging RM'mil	Other financial liabilities RM'mil	Total RM'mil
Company				
31 December 2016				
Liabilities as per statement of financial position				
Borrowings (excluding finance lease liabilities) (Note 31)	–	–	7,163	7,163
Finance lease liabilities (Note 31)	–	–	633	633
Derivative financial instruments (Note 21)	148	449	–	597
Trade and other payables (excluding aircraft maintenance reserves and tax liabilities) (Note 27)	–	–	3,007	3,007
Amount due to associates (Note 20)	–	–	47	47
Amount due to subsidiaries (Note 29)	–	–	–	–
Amount due to related parties (Note 30)	–	–	58	58
Total	148	449	10,908	11,505

39. Financial instruments (cont'd.)

(b) Credit quality of financial assets

The credit quality of financial assets that are not impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	Group		Company	
	2017 RM'mil	**2016 RM'mil**	**2017 RM'mil**	**2016 RM'mil**
Counterparties without external credit rating (Note 18)				
Group 1	4	1	4	1
Group 2	192	107	63	83
	196	108	67	84
Cash at bank and short term bank deposits (Note 26)				
AAA to A-	1,574	1,733	994	1,418
BBB to B3	308	9	308	9
	1,882	1,742	1,302	1,427
Derivative financial assets (Note 21)				
AA+ to A+	471	185	471	185
A to BBB-	103	1,015	103	1,015
No rating	14	333	14	333
	588	1,533	588	1,533

	Group		Company	
	2017 RM'mil	**2016 RM'mil**	**2017 RM'mil**	**2016 RM'mil**
Amounts due from subsidiaries Group 2	–	–	1,582	801
Amounts due from joint ventures Group 2	5	9	–	9
Amounts due from associates Group 2	148	856	108	627
Amounts due from related parties Group 2	8	37	3	16

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

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

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

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39. Financial instruments (cont'd.)

(b) Credit quality of financial assets (cont'd.)

All defaults were fully recovered.

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

40. Financial risk management policies

The Group and Company is exposed to market risk (including fuel price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk. The Group and Company uses financial instruments such as fuel swaps, interest rate swaps and caps, and foreign currency forwards to mitigate its financial risks.

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

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

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

(a) Market risk

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

(i) Fuel price risk

The Group and Company are exposed to jet fuel price risk and seek to hedge their fuel requirements using fuel swaps (Note 21). If a barrel of jet fuel/brent oil at 31 December 2017 had been USD5 higher/lower with all other variables held constant, the impact on the post-tax profit and equity for the year are as follows:

	Group and Company			
	2017		2016	
	+USD5 RM'mil	-USD5 RM'mil	+USD5 RM'mil	-USD5 RM'mil
Impact on post-tax profits	15.80	(15.80)	32.60	(37.90)
Impact on other comprehensive income	–	–	159.70	(159.70)

40. Financial risk management policies (cont'd.)

(a) Market risk (cont'd.)

(ii) Interest rate risk

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

Interest rate exposure arises from the Group's and Company's floating rate borrowings and is managed by entering into derivative financial instruments. Derivative financial instruments are used, as far as possible and where appropriate, to generate the desired fixed interest rate profile. Surplus funds are placed with reputable financial institutions.

The Group and Company manages its cash flow interest rate risk by entering into a number of immediate interest rate swap contracts and cross currency swap contracts that effectively converts its existing long-term floating rate debt facilities into fixed rate debt (Note 21).

If interest rate on USD denominated borrowings at 31 December 2017 and 31 December 2016 had been 60 basis points higher/lower with all other variables held constant, the impact on the post-tax profit for the year and equity arising from the cash flow interest rate risk would be minimal when considered with the hedging of the floating rate loans (Note 21).

If interest rate on USD denominated borrowings at 31 December 2017 and 31 December 2016 had been 60 basis points higher/lower with all other variables held constant, the impact on the post-tax profit for the financial year and equity, as a result of an increase/decrease in the fair value of the interest rate derivative financial instruments under cash flow hedges are tabulated below. The impact on post-tax profits arises only from derivative held for trading, and the impact to other comprehensive income arises from derivative designated as hedging instruments:

	Group and Company			
	2017		2016	
	+60bps RM'mil	-60bps RM'mil	+60bps RM'mil	-60bps RM'mil
Impact on post tax profits	17.95	(18.55)	27.90	(28.80)
Impact on other comprehensive income	33.73	(36.44)	51.30	(55.20)

The remaining terms of the outstanding interest rate derivative contracts of the Group and Company at balance sheet date, which are all denominated in USD, are as follows:

	2017 RM'mil	2016 RM'mil
Later than 1 year but less than 5 years:		
Interest rate caps	233	319
Interest rate swaps	1,445	1,256
Cross currency interest rate swaps	86	89
Later than 5 years:		
Interest rate swaps	1,495	2,486
Cross currency interest rate swaps	275	296
	3,534	4,446

NOTES TO THE FINANCIAL STATEMENTS
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40. Financial risk management policies (cont'd.)

(a) Market risk (cont'd.)

(iii) Foreign currency risk

The Group and Company is exposed to currency exchange risk. These exposures are managed, to the extent possible, by natural hedges that arise when payments for foreign currency payables are matched against receivables denominated in the same foreign currency or whenever possible, by intragroup arrangements and settlements.

46% (2016: 59%) of USD denominated borrowings are hedged by long dated foreign exchange forward contracts (Note 21).

If RM had weakened/strengthened by 5% against the USD as at 31 December 2017 with all other variables held constant, post-tax profit for the financial year would have been RM122.293 million (2016: RM149.67 million) lower/higher. Similarly, the impact on other comprehensive income would have been RM6.34 million (2016: RM13.4 million) higher/lower due to the cash flow hedging in USD.

The exposure to other foreign currency risk of the Group and Company is not material and hence, sensitivity analysis is not presented.

The Group's currency exposure profile of financial instruments denominated in currencies other than the functional currency is as follows:

	USD RM'mil	SGD RM'mil	RMB RM'mil	Others RM'mil
At 31 December 2017				
Financial assets				
Receivables	290	10	–	974
Deposits on aircraft purchase	916	–	–	–
Amounts due from associates	148	–	–	–
Derivative financial instruments	193	–	–	–
Amount due from a related party	3	–	–	–
Deposits, cash and bank balances	917	–	183	573
	2,467	10	183	1,547
Financial liabilities				
Trade and other payables	1,857	12	23	230
Amounts due to associates	146	–	–	–
Amounts due to related parties	48	–	–	–
Borrowings	8,127	183	–	264
Derivative financial instruments	144	–	–	–
	10,322	195	23	494
Net exposure	(7,855)	(185)	160	1,053

40. Financial risk management policies (cont'd.)

(a) Market risk (cont'd.)

(iii) Foreign currency risk (cont'd.)

	USD RM'mil	SGD RM'mil	RMB RM'mil	Others RM'mil
At 31 December 2016				
Financial assets				
Receivables	611	–	–	25
Deposits on aircraft purchase	770	–	–	–
Amounts due from associates	856	–	–	–
Derivative financial instruments	750	–	–	–
Amount due from a related party	36	–	–	–
Deposits, cash and bank balances	756	39	251	250
	3,779	39	251	275
Financial liabilities				
Trade and other payables	827	1	–	1
Amounts due to associates	123	–	–	–
Amounts due to related parties	9	–	–	–
Borrowings	9,136	204	–	180
Derivative financial instruments	597	–	–	–
	10,692	205	–	181
Net exposure	(6,913)	(166)	251	94

The Company's currency exposure profile of financial instruments denominated in currencies other than the functional currency is as follows:

	USD RM'mil	SGD RM'mil	RMB RM'mil	Others RM'mil
At 31 December 2017				
Financial assets				
Receivables	631	10	–	448
Amounts due from subsidiaries	1,707	–	–	–
Amounts due from associates	108	–	–	–
Amounts due from related parties	3	–	–	–
Deposits on aircraft purchase	916	–	–	–
Derivative financial instruments	193	–	–	–
Deposits, cash and bank balances	650	–	181	321
	4,208	10	181	769

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

40. Financial risk management policies (cont'd.)

(a) Market risk (cont'd.)

(iii) Foreign currency risk (cont'd.)

	USD RM'mil	SGD RM'mil	RMB RM'mil	Others RM'mil
At 31 December 2017 (cont'd.)				
Financial liabilities				
Trade and other payables	2,144	8	1	36
Amounts due to subsidiaries	46	–	–	–
Amounts due to associates	55	–	–	–
Amounts due to related parties	107	–	–	–
Borrowings	5,701	183	–	109
Derivative financial instruments	160	–	–	–
	8,213	191	1	145
Net exposure	(4,005)	(181)	180	624
At 31 December 2016				
Financial assets				
Receivables	531	–	–	21
Amounts due from subsidiaries	773	–	–	–
Amounts due from associates	627	–	–	–
Amounts due from related parties	16	–	–	–
Deposits on aircraft purchase	770	–	–	–
Derivative financial instruments	750	–	–	–
Deposits, cash and bank balances	518	9	251	250
	3,985	9	251	271
Financial liabilities				
Trade and other payables	729	1	–	1
Amounts due to subsidiaries	–	–	–	–
Amounts due to associates	47	–	–	–
Amounts due to related parties	24	–	–	–
Borrowings	6,412	204	–	120
Derivative financial instruments	597	–	–	–
	7,809	205	–	121
Net exposure	(3,824)	(196)	251	150

40. Financial risk management policies (cont'd.)

(b) Credit risk

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

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

Credit risks are controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised by monitoring receivables regularly. In addition, credit risks are also controlled as majority of the Group's and Company's deposits and bank balances and derivative financial instruments are placed or transacted with major financial institutions and reputable parties. The Directors are of the view that the possibility of non-performance by the majority of these financial institutions is remote on the basis of their financial strength and support of their respective governments. The credit quality of financial assets that are neither past due nor impaired are disclosed in Note 39(b) to the financial statements.

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

(c) Liquidity and cash flow risk

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

The Directors are committed to ensuring that the Group and Company will have sufficient funds to enable the Group and Company to meet their liabilities as they fall due and to carry on their business without significant curtailment of operations, including raising funds from the market. During the financial year, the Company increased its issued share capital by 559,000,000 new ordinary shares of RM0.10 each as disclosed in Note 33 to the financial statements. The new shares were issued at RM1.80 each for a total cash consideration of RM1.0 billion.

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

	Less than 1 year RM'mil	1 - 2 years RM'mil	2 - 5 years RM'mil	Over 5 years RM'mil
Group				
At 31 December 2017				
Term loans	1,870	1,447	3,549	2,300
Finance lease liabilities	174	126	459	–
Commodity Murabahah Finance	84	85	206	263
Revolving credit	–	–	–	–
Trade and other payables	2,148	222	–	–
Amounts due to associates	59	–	–	86
Amounts due to related parties	94	–	–	11
	4,429	1,880	4,214	2,660

NOTES TO THE FINANCIAL STATEMENTS
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40. Financial risk management policies (cont'd.)

(c) Liquidity and cash flow risk (cont'd.)

	Less than 1 year RM'mil	1 - 2 years RM'mil	2 - 5 years RM'mil	Over 5 years RM'mil
Group				
At 31 December 2016				
Term loans	2,063	1,654	4,118	2,791
Finance lease liabilities	151	188	338	305
Commodity Murabahah Finance	84	84	227	326
Revolving credit	48	–	–	–
Trade and other payables	1,773	772	12	–
Amounts due to associates	4	–	–	119
Amounts due to related parties	30	–	–	9
	4,153	2,698	4,695	3,550
Company				
At 31 December 2017				
Term loans	1,464	1,043	2,419	1,872
Finance lease liabilities	156	107	344	–
Commodity Murabahah Finance	84	85	206	263
Trade and other payables	1,777	222	–	–
Amounts due to subsidiaries	83	–	–	16
Amounts due to associates	47	–	–	8
Amounts due to related parties	165	–	–	–
	3,776	1,457	2,969	2,159

40. Financial risk management policies (cont'd.)

(c) Liquidity and cash flow risk (cont'd.)

	Less than 1 year RM'mil	1 - 2 years RM'mil	2 - 5 years RM'mil	Over 5 years RM'mil
Company				
At 31 December 2016				
Term loans	1,643	1,234	2,182	1,982
Finance lease liabilities	125	162	257	212
Commodity Murabahah Finance	84	84	227	326
Revolving credit	48	–	–	–
Trade and other payables	1,710	618	12	–
Amounts due to associates	25	–	–	22
Amounts due to related parties	58	–	–	–
	3,693	2,098	2,678	2,542
Group				
At 31 December 2017				
Net-settled derivatives				
Trading	72	12	8	–
Hedging	29	13	12	–
Gross-settled derivatives				
Trading - outflow	–	–	–	–
Trading - inflow	–	–	–	–
At 31 December 2016				
Net-settled derivatives				
Trading	106	21	21	–
Hedging	390	30	29	–
Gross-settled derivatives				
Trading - outflow	–	–	–	–
Trading - inflow	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

40. Financial risk management policies (cont'd.)

(c) Liquidity and cash flow risk (cont'd.)

	Less than 1 year RM'mil	1 - 2 years RM'mil	2 - 5 years RM'mil	Over 5 years RM'mil
Company				
At 31 December 2017				
Net-settled derivatives				
Trading	88	12	8	–
Hedging	29	13	12	–
Gross-settled derivatives				
Trading - outflow	–	–	–	–
Trading - inflow	–	–	–	–
At 31 December 2016				
Net-settled derivatives				
Trading	106	21	21	–
Hedging	390	30	29	–
Gross-settled derivatives				
Trading - outflow	–	–	–	–
Trading - inflow	–	–	–	–

(d) Capital risk management

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

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

40. Financial risk management policies (cont'd.)

(d) Capital risk management (cont'd.)

The Group's and Company's overall strategy remains unchanged from 2016.

Consistent with others in the industry, the Group and Company monitors capital utilisation on the basis of the net gearing ratio. This net gearing ratio is calculated as net debts divided by total equity. Net debts are calculated as total borrowings (including "short term and long term borrowings" as shown in the Group's and Company's balance sheet) less deposit, cash and bank balances.

The net gearing ratio as at 31 December 2017 and 31 December 2016 was as follows:

	Group		Company	
	2017 RM'mil	2016 RM'mil	2017 RM'mil	2016 RM'mil
Total borrowings (Note 31)	9,309	10,579	6,728	7,796
Less: Deposit, cash and bank balances	(1,882)	(1,742)	(1,302)	(1,427)
Net debts	7,427	8,837	5,426	6,369
Total equity	6,710	6,628	7,573	5,965
Net Gearing Ratio (times)	1.11	1.33	0.72	1.07

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2017 and 31 December 2016.

(e) Fair value measurement

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

Determination of fair value and fair value hierarchy

The Group's and Company's financial instruments are measured in the statement of financial position at fair value. Disclosure of fair value measurements are by level of the following fair value measurement hierarchy:

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

40. Financial risk management policies (cont'd.)

(e) Fair value measurement (cont'd.)

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

	Level 1 RM'mil	Level 2 RM'mil	Level 3 RM'mil	Total RM'mil
Group				
31 December 2017				
Assets				
Financial assets at fair value through profit or loss – Trading derivatives	–	261	–	261
Derivatives used for hedging	–	327	–	327
Available-for-sale financial assets	301	–	5	306
	301	588	5	894
Liabilities				
Financial liabilities at fair value through profit or loss – Trading derivatives	–	92	–	92
Derivatives used for hedging	–	54	–	54
	–	146	–	146
31 December 2016				
Assets				
Financial assets at fair value through profit or loss – Trading derivatives	–	425	–	425
Derivatives used for hedging	–	1,108	–	1,108
Available-for-sale financial assets	351	–	6	357
	351	1,533	6	1,890
Liabilities				
Financial liabilities at fair value through profit or loss – Trading derivatives	–	148	–	148
Derivatives used for hedging	–	449	–	449
	–	597	–	597

40. Financial risk management policies (cont'd.)

(e) Fair value measurement (cont'd.)

The following table presents the Group's and Company's assets and liabilities that are measured at fair value (cont'd).

	Level 1 RM'mil	Level 2 RM'mil	Level 3 RM'mil	Total RM'mil
Company				
31 December 2017				
Assets				
Financial assets at fair value through profit or loss – Trading derivatives	–	261	–	261
Derivatives used for hedging	–	327	–	327
Available-for-sale financial assets	301	–	5	306
	301	588	5	894
Liabilities				
Financial liabilities at fair value through profit or loss – Trading derivatives	–	108	–	108
Derivatives used for hedging	–	449	–	449
	–	557	–	557
31 December 2016				
Assets				
Financial assets at fair value through profit or loss – Trading derivatives	–	425	–	425
Derivatives used for hedging	–	1,108	–	1,108
Available-for-sale financial assets	351	–	–	351
	351	1,533	–	1,884
Liabilities				
Financial liabilities at fair value through profit or loss – Trading derivatives	–	148	–	148
Derivatives used for hedging	–	449	–	449
	–	597	–	597

40. Financial risk management policies (cont'd.)

(e) Fair value measurement (cont'd.)

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

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

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
- The fair value of fuel swap contracts is determined using forward fuel price at the balance sheet date, with the resulting value discounted back to present value.

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

41. Unconsolidated structured entities

The Company has set up Merah entities, special purpose companies ("SPC") pursuant to aircraft related borrowings obtained from various financial institutions. Under the arrangement, the Company enters into an Aircraft Instalment Sale Agreement with the SPC, permitting the Company to possess and operate each of the Airbus A320 aircraft financed under the facility.

The SPC are orphan trust companies in which the Company has no equity interest. The SPC do not incur any losses or earn any income during the financial year ended 31 December 2017. The aircraft and the corresponding term loans and finance costs associated with the SPC have been recognised by the Group and Company upon the purchase of the aircraft.

The Group and Company does not provide any financial support to the SPC or have any contractual obligation to make good the losses, if any.

41. Unconsolidated structured entities (cont'd.)

The details of the Merah entities are as follows:

Name	Incorporation	Purpose
Merah Satu Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Tiga Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Empat Sdn Bhd	Malaysia	Aircraft financing special purpose company
Merah Lima Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Enam Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Tujuh Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Sembilan 9M-AFX Sdn Bhd	Malaysia	Aircraft financing special purpose company
Merah Sepuluh Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Sebelas Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Duabelas Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Tigabelas Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Empatbelas Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Enambelas Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Lapanbelas Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Duapuluh Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Duapuluhsatu Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Duapuluhtiga Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Duapuluhlima Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Duapuluhtujuh Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Duapuluhlapan Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Duapuluhsembilan Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Tigapuluhsatu Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Tigapuluh Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Tigapuluhdua Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Tigapuluhempat Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Tigapuluhenam Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Tigapuluhtujuh Limited	Labuan, Malaysia	Aircraft financing special purpose company
Merah Tigapuluhsembilan Limited	Labuan, Malaysia	Aircraft financing special purpose company

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

42. Prior year adjustment

During the financial year, the Group reviewed the internal process at arriving to the cash flow hedge reserves balance and identified an accounting error in the cash flow hedge reserves, foreign exchanges losses and the retained earnings in 2016. The following figures have been adjusted as follows:

Recycling of cash flow hedge reserve to the Income statements

Group

Income statements
For the financial year ended 31 December 2016

	As previously stated RM'000	Adjustment (Note (a)) RM'000	Other Adjustments (Note 43) RM'000	As restated RM'000
Foreign exchange gains (Note 8(c))	484,685	(428,384)	4,838	61,139

Statement of comprehensive income
For the financial year ended 31 December 2016

	As previously stated RM'000	Adjustment (Note (a)) RM'000	Other Adjustments (Note 43) RM'000	As restated RM'000
Cash flow hedges	64,411	428,384	–	492,795

Statement of financial position
As at 31 December 2016

	As previously stated RM'000	Adjustment (Note (a)) RM'000	As restated RM'000
Retained earnings (Note 34(a))	5,294,468	(428,384)	4,866,084
Other reserves (Note 34(b))	(217,554)	428,384	210,830

Consolidated statement of changes in equity
For the financial year ended 31 December 2016

	As previously stated RM'000	Adjustment (Note (a)) RM'000	As restated RM'000
Retained earnings (Note 34(a))	5,294,468	(428,384)	4,866,084
Other reserves (Note 34(b))	(217,554)	428,384	210,830

42. Prior year adjustment (cont'd.)

Group (cont'd.)

Statement of cash flow
For the financial year ended 31 December 2016

	As previously stated RM'000	Adjustment (Note (a)) RM'000	Other Adjustments (Note 43) RM'000	As restated RM'000
Cash flow from operating activities				
Profit before taxation	2,133,075	(428,384)	–	1,704,691
Net unrealised foreign exchange (gain)/loss	344,715	428,384	(307,553)	465,546

Company

Income statements
For the financial year ended 31 December 2016

	As previously stated RM'000	Adjustment (Note (a)) RM'000	Other Adjustments (Note 43) RM'000	As restated RM'000
Foreign exchange gains (Note 8 (c))	482,105	(428,384)	4,838	58,559

Statement of comprehensive income
For the financial year ended 31 December 2016

	As previously stated RM'000	Adjustment (Note (a)) RM'000	Other Adjustments (Note 43) RM'000	As restated RM'000
Cash flow hedges	64,411	428,384	–	492,795

Statement of financial position
As at 31 December 2016

	As previously stated RM'000	Adjustment (Note (a)) RM'000	As restated RM'000
Retained earnings (Note 34(a))	4,644,678	(428,384)	4,216,294
Other reserves (Note 34(b))	(188,987)	428,384	239,397

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

42. Prior year adjustment (cont'd.)

Company (cont'd.)

Statement of changes in equity
For the financial year ended 31 December 2016

	As previously stated RM'000	Adjustment (Note (a)) RM'000	As restated RM'000
Retained earnings (Note 34(a))	4,644,678	(428,384)	4,216,294
Other reserves (Note 34(b))	(188,987)	428,384	239,397

Statement of cash flow
For the financial year ended 31 December 2016

	As previously stated RM'000	Adjustment (Note (a)) RM'000	Other Adjustments (Note 43) RM'000	As restated RM'000
Cash flow from operating activities				
Profit before taxation	2,309,916	(428,384)	–	1,881,532
Net unrealised foreign exchange (gain)/loss	239,029	428,384	(307,553)	359,860

43. Comparatives

Certain comparatives were reclassified to conform with current financial year's presentation.

Group

Income statements
For the financial year ended 31 December 2016

	As previously stated RM'000	Reclassifications RM'000	Adjustment as disclosed in (Note 42) RM'000	As restated RM'000
Aircraft fuel expenses	(1,578,473)	(45,733)	–	(1,624,206)
Finance income (Note 8(a))	134,923	(29,591)	–	105,332
Foreign exchange gains (Note 8(c))	484,685	4,838	(428,384)	61,139
Fair value (loss)/gain on derivatives (Note 8(d))	–	70,486	–	70,486

43. Comparatives (cont'd.)

Group (cont'd.)

Statement of cash flow
For the financial year ended 31 December 2016

	As previously stated RM'000	Reclassifications RM'000	Adjustment as disclosed in (Note 42) RM'000	As restated RM'000
Cash flow from operating activities				
Fair value (loss)/gain on derivatives (Note 8(d))	(302,715)	232,229	–	(70,486)
Net unrealised foreign exchange (gain)/loss	344,715	(307,553)	428,384	465,546
Interest income	(134,923)	29,591	–	(105,332)
Dividend income from:				
– associates	(72,527)	72,527	–	–
Changes in working capital:				
Trade and other payables	520,684	(26,794)	–	493,890

Company

Income statements
For the financial year ended 31 December 2016

	As previously stated RM'000	Reclassifications RM'000	Adjustment as disclosed in (Note 42) RM'000	As restated RM'000
Aircraft fuel expenses	(1,578,473)	(45,733)	–	(1,624,206)
Finance income (Note 8(a))	110,190	(29,591)	–	80,599
Foreign exchange gains (Note 8(c))	482,105	4,838	(428,384)	58,559
Fair value (loss)/gain on derivatives (Note 8(d))	–	70,486	–	70,486

Statement of cash flow
For the financial year ended 31 December 2016

	As previously stated RM'000	Reclassifications RM'000	Adjustment as disclosed in (Note 42) RM'000	As restated RM'000
Cash flow from operating activities				
Fair value (loss)/gain on derivatives (Note 8(d))	(302,715)	232,229	–	(70,486)
Net unrealised foreign exchange (gain)/loss	239,029	(307,553)	428,384	359,860
Interest income	(110,190)	29,591	–	(80,599)
Changes in working capital:				
Trade and other payables	809,143	45,733	–	854,876

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

44. Significant events

(i) Sale of interest in a joint venture

On 24 August 2017, the Company disposed its entire shareholding in AACOE. Details of the transaction are disclosed in Note 13.

(ii) Consolidation of IAA and PAA

In the first quarter of 2017, the Company entered into a Supplementary BLA with IAA and PAA. Effective from 1 January 2017, the effective date specified in the Supplementary BLAs, the respective investees have undertaken to comply at all times with the recommendations made by the Company under the BLA. Pursuant to this, in accordance to MFRS 10, these investees are deemed as subsidiaries for accounting consolidation purpose. Details of the transaction are disclosed in Note 12.

(iii) Reverse acquisition of AAID

On 29 August 2017, the Company executed Conditional Sale of Perpetual Capital Securities agreements with PT Fersindo Nusaperkasa ("FNP") and AAIL respectively. Perpetual Capital Securities ("PERPS") with a nominal value of IDR1,326,510,000,000 (equivalent to RM426.1 million) and IDR1,274,490,000,000 (equivalent to RM409.4 million) were sold to FNP and AAIL accordingly. Details of the transaction are disclosed in Note 12.

(iv) Issuance and allotment of 559 million new ordinary shares in the Company

AirAsia Berhad obtained approval from its shareholders at the Extraordinary General Meeting held on 9 May 2016 for the issuance and allotment of 559,000,000 new ordinary shares in AirAsia Berhad to Tune Live Sdn. Bhd. at an adjusted issue price of RM1.80 per share. The shares issuance has been completed on 26 January 2017 following the listing of and quotation for the Subscription Shares on the Main Market of Bursa Securities.

45. Subsequent events

(i) On 4 January 2018, the share swap agreement between Ground Team Red Holdings Sdn Bhd ("GTRH") and SATS Ltd. ("SATS") was completed, wherein GTRH acquired 80% equity stake in SATS Ground Services Singapore Pte. Ltd in exchange for an 11.4% equity stake in GTRH. In addition to this, the transaction for the Company to sell and transfer 38.6% of its shareholding in GTRH to SATS for a consideration of SGD119,300,000 has been completed on 14 February 2018.

(ii) On 28 February 2018, the Company entered into sale and purchase agreements to divest its aircraft leasing operations that are currently undertaken by Asia Aviation Capital Limited ("AACL"), a wholly-owned subsidiary of the Company, to entities managed by BBAM Limited Partnership for a disposal consideration of USD1,185.0 million (approximately RM4,619.7 million).

(iii) Internal reorganisation

On 15 March 2018, the High Court has approved the internal reorganisation by way of a Members' Scheme of Arrangement under Section 366 of the Companies Act, 2016 for the following proposals;

(a) the exchange of 3,341,974,080 ordinary shares in the Company (including treasury shares), representing the entire issued share capital of AAB, with 3,341,974,080 new ordinary shares in AirAsia Group Berhad ("AAGB"), a newly incorporated investment holding company, on the basis of 1 new AAGB Share for every 1 existing AAB Share held on 6 April 2018; and

(b) the assumption of the listing status of AAB by AAGB and the admission of AAGB to and withdrawal of AAB from the Official List of Bursa Malaysia Securities Berhad, with the listing of and quotation for AAGB Shares on the Main Market of Bursa Securities.

Accordingly, the internal reorganisation has been completed on 16 April 2018.

ANALYSIS OF SHAREHOLDINGS OF AIRASIA GROUP BERHAD

AS AT 18 APRIL 2018

DISTRIBUTION OF SHAREHOLDINGS

Class of shares : Ordinary shares
Voting rights : One vote per ordinary share

Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
Less than 100	123	0.51	1,535	0.00
100 – 1,000	7,856	32.55	6,260,768	0.19
1,001 – 10,000	12,191	50.52	51,726,555	1.55
10,001 – 100,000	2,876	11.92	92,324,144	2.76
100,001 to less than 5% of issued shares	1,085	4.50	2,116,175,996	63.32
5% and above of issued shares	2	0.01	1,075,485,082	32.18
	24,133	100.00	3,341,974,080	100.00

SUBSTANTIAL SHAREHOLDERS

The direct and indirect shareholdings of the shareholders holding more than 5% in AirAsia Group Berhad ("AirAsia") based on the Register of Substantial Shareholders are as follows:-

	Direct		Indirect	
Name	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
Tune Live Sdn Bhd ("TLSB")	559,000,000[1]	16.73	–	–
Tune Air Sdn Bhd ("TASB")	516,485,082[1]	15.45	–	–
Tan Sri (Dr) Anthony Francis Fernandes	1,600,000[1]	0.05	1,075,485,082[2]	32.18
Datuk Kamarudin bin Meranun	2,000,000[1]	0.06	1,075,485,082[2]	32.18
Employees Provident Fund Board	169,669,049[3]	5.08	–	–

NOTES:

(1) Shares held under HSBC Nominees (Tempatan) Sdn Bhd
(2) Deemed interested by virtue of Section 8 of the Companies Act, 2016 ("the Act") through a shareholding of more than 20% in TLSB and TASB. Shares held under HSBC Nominees (Tempatan) Sdn Bhd
(3) Shares held under Citigroup Nominees (Tempatan) Sdn Bhd

ANALYSIS OF SHAREHOLDINGS OF AIRASIA GROUP BERHAD
AS AT 18 APRIL 2018

DIRECTORS' SHAREHOLDINGS

The interests of the Directors of AirAsia in the Shares and options over shares in the Company and its related corporations based on the Company's Register of Directors' Shareholdings are as follows:-

	Direct		Indirect	
	No. of Shares Held	**% of Issued Shares**	**No. of Shares held**	**% of Issued Shares**
Tan Sri (Dr) Anthony Francis Fernandes	1,600,000[1]	0.05	1,075,485,082[2]	32.18
Datuk Kamarudin Bin Meranun	2,000,000[1]	0.06	1,075,485,082[2]	32.18
Dato' Abdel Aziz @ Abdul Aziz Bin Abu Bakar	18,000[3]	–*	–	–
Dato' Fam Lee Ee	–	–	–	–
Stuart L Dean	40,000[5]	–*	–	–
Noor Neelofa Binti Mohd Noor	–	–	–	–
Dato' Mohamed Khadar Bin Merican	120,000[4]	–*	–	–

NOTES:

* Negligible.
(1) Shares held under HSBC Nominees (Tempatan) Sdn Bhd
(2) Deemed interested by virtue of Section 8 of the Companies Act, 2016 through a shareholding of more than 20% in Tune Air Sdn Bhd and Tune Live Sdn Bhd
(3) Shares held under MIDF Amanah Investment Nominees (Tempatan) Sdn Bhd
(4) Shares held under Citigroup Nominees (Tempatan) Sdn Bhd
(5) Shares held under Cimsec Nominees (Asing) Sdn Bhd

LIST OF TOP 30 LARGEST SHAREHOLDERS

	Name of Shareholders	No. of Shares Held	% of Issued Share Capital
1.	HSBC Nominees (Tempatan) Sdn Bhd *Pledged Securities Account - Credit Suisse AG, Singapore For Tune Live Sdn. Bhd.*	559,000,000	16.73
2.	HSBC Nominees (Tempatan) Sdn Bhd *Pledged Securities Account - Credit Suisse AG, Singapore For Tune Air Sdn. Bhd.*	516,485,082	15.45
3.	Amanahraya Trustees Berhad *Amanah Saham Bumiputera*	135,000,000	4.04
4.	Citigroup Nominees (Tempatan) Sdn Bhd *Employees Provident Fund Board*	132,960,349	3.98
5.	Citigroup Nominees (Tempatan) Sdn Bhd *Exempt An for AIA Bhd.*	81,647,600	2.44
6.	Cartaban Nominees (Asing) Sdn Bhd *Exempt An for State Street Bank & Trust Company (West CLT OD67)*	50,044,500	1.50
7.	Citigroup Nominees (Asing) Sdn Bhd *Exempt An for Citibank New York (Norges Bank 14)*	43,114,112	1.29
8.	HSBC Nominees (Asing) Sdn Bhd *BBH and Co Boston for Emerging Markets Opportunities Portfolio (WTC CTF)*	42,339,462	1.27

	Name of Shareholders	No. of Shares Held	% of Issued Share Capital
9.	HSBC Nominees (Asing) Sdn Bhd *JPMCB NA for Stichting Depositary APG Emerging Markets Equity Pool*	38,439,700	1.15
10.	HSBC Nominees (Asing) Sdn Bhd *HSBC BK PLC for Saudi Arabian Monetary Authority*	38,101,175	1.14
11.	Cartaban Nominees (Tempatan) Sdn Bhd *PAMB for Prulink Equity Fund*	34,673,500	1.04
12.	Cartaban Nominees (Asing) Sdn Bhd *GIC Private Limited for Government of Singapore (C)*	32,984,500	0.99
13.	Amanahraya Trustees Berhad *Amanah Saham Bumiputera 2*	30,000,000	0.90
14.	HSBC Nominees (Asing) Sdn Bhd *JPMCB Na for Vanguard Emerging Markets Stock Index Fund*	27,027,148	0.81
15.	DB (Malaysia) Nominee (Asing) Sdn Bhd *BNYM SA/NV for Causeway Emerging Markets Fund*	25,057,800	0.75
16.	HSBC Nominees (Asing) Sdn Bhd *JPMCB NA for The National Farmers Union Mutual Insurance Society Ltd*	23,831,600	0.71
17.	HSBC Nominees (Asing) Sdn Bhd *JPMCB NA for Vanguard Total International Stock Index Fund*	20,447,000	0.61
18.	Citigroup Nominees (Tempatan) Sdn Bhd *Employees Provident Fund Board (CIMB PRIN)*	18,757,100	0.56
19.	Valuecap Sdn Bhd	18,532,900	0.55
20.	Citigroup Nominees (Asing) Sdn Bhd *CBNY for Dimensional Emerging Markets Value Fund*	17,947,500	0.54
21.	Citigroup Nominees (Asing) Sdn Bhd *Exempt An for Citibank New York (Norges Bank 9)*	17,511,588	0.52
22.	Citigroup Nominees (Asing) Sdn Bhd *CBNY For Emerging Market Core Equity Portfolio DFA Investment Dimensions Group Inc*	16,760,400	0.50
23.	HSBC Nominees (Asing) Sdn Bhd *JPMCB NA for AQR Emerging Equities Fund, LP*	15,920,300	0.48
24.	Citigroup Nominees (Asing) Sdn Bhd	14,960,201	0.45
25.	DB (Malaysia) Nominee (Asing) Sdn Bhd *State Street London Fund GMT9 For M&G Investment Funds (12) - M&G Global Recovery Fund*	13,250,000	0.40
26.	HSBC Nominees (Asing) Sdn Bhd *TNTC for British Columbia Investment Management Corporation*	13,210,300	0.40
27.	HSBC Nominees (Asing) Sdn Bhd *JPMCB NA For Commingled Pension Trust Fund (Emerging Markets- Equity) of JPMorgan Chase Bank, NA*	12,863,100	0.38
28.	HSBC Nominees (Asing) Sdn Bhd *Caceis Bk Lux for Most Diversified Portfolio Sicav-Tobam Anti-Benchmark Emerging Markets Equity Fund*	12,860,200	0.38
29.	DB (Malaysia) Nominee (Asing) Sdn Bhd *SSBT Fund Wtau for Wisdomtree Emerging Markets Smallcap Dividend Fund*	12,693,400	0.38
30.	HSBC Nominees (Asing) Sdn Bhd *JP Morgan Securities Plc*	12,501,600	0.37

LIST OF PROPERTIES HELD UNDER AIRASIA BERHAD

Owner Of Building	Postal Address/ Location Of Building	Description/ Existing Use Of Building	Tenure/Date Of Expiry Of Lease	Build-Up Area	Approximate Age Of Building	Audited Net Book Value As At 31 Dec 2017 ('000)
AirAsia Berhad	Part of PT.39, Taxiway Charlie at KLIA, Sepang[1]	Non-permanent structure/aircraft maintenance hangar	31 December 2018[2]	2,400 sqm	15 years	1,524
	RedQ, Jalan Pekeliling 5, Kuala Lumpur International Airport2 (KLIA2), KL International Airport 64 000 Sepang, Selangor Darul Ehsan	Permanent Structure/Office building & car park	31 January 2034[3]	56,000 sqm	14 months[4]	157,787

[1] On the fitness of occupation of the hangar, it is the subject of a year-to-year "Kelulusan Permit Bangunan Sementara" issued by the Majlis Daerah Sepang.

[2] The land area occupied is approximately 2,400 square meters. The land is owned by Malaysia Airports (Sepang) Sdn. Bhd. ("MAB") and the Company has an automatic renewal of tenancy on a month to month basis. The properties completion date was on December 2003. Revaluation of properties has not been carried out on any of the above properties to date.

[3] This refers to the date of expiry of the concession from Malaysia Airports Holdings Berhad for the plot of land occupied by the AirAsia Headquarters (RedQ).

[4] Construction commencement date : 1 December 2014
Building completion date : 15 October 2016
Building handover date : 7 November 2016

The 14 months period mentioned in the table refers to November and December 2016 as the last column reflects the audited book date as at 31 December 2017.

AirAsia Group Berhad does not hold any properties under its name

SALES OFFICES AND STATIONS

CAMBODIA

Phnom Penh

- No 179, Street SIsowath, Sangkat Phsar Kandal 1, Khan Daun Penh, 12204 Phnom Penh
- Ground Floor, #132 Street Samdach Sothearos, Sangkat Tonle Bassac, Phnom Penh

Siem Reap

- 30Eo, St Sivutha, Modol II Village, Svay Dangkum Commune, Siem Reap

CHINA

Beijing

- Room 0163A, Block C, Chaowai Soho, Chaowai Street, Chaoyang District, Beijing

Changsha

- No 191 Laodong West Road, Tianxin District Changsha City, Hunan

Chengdu

- No 88, Four Section of Hongxing Road, Chengdu

Chongqing

- #1-19, Block 27 Huarun 24 City, Xiejiawan, Jiulongpo District, Chongqing

Guangzhou

- Room L1004, Jiedeng Plaza, Yuexiu District, Guangzhou
- Shop 105-2, No 50 Ti Yu Road West, TianHe District, Guangzhou

Hangzhou

- No 567 Jianguo North Road, Hangzhou

Kunming

- No 156, Huancheng South Road near Yunlu Centre, Guandu District, Kunming, Yunnan

Nanning

- Level 1, 3 of Ziyun Xuan Building in Mingyuan Hotel, 38 Xinmin Road, Nanning, Guangxi

Shanghai

- No 739 Changde Road, Jingan District, Shanghai

Shenyang

- 11 Door, Building C Zuanshixingzuo 222#, Nanjingbei Street, Heping, Shenyang, Liaoning

Shenzhen

- 114, Fengge Mingyuan Podium Building, No 1038-4, Honggui Road, Luohu District, Shenzhen

Xi'an

- No 6 Kejishangmao Building, East of Xidian University Community, Keji Road, Yanta District, Xian, Shaanxi

Wuhan

- Room A-1-2, No 728, Jianghan District, Wuhan, Hubei

Zhuhai

- No 1026-1027, No 68 Gongbei Lingnan Road, Zhuhai City, Guangdong

Macau

- No 7 South Bay Harbour Building, Underground Building C, Bei Di Xiang, Macau

INDIA

Kolkata

- A/2D, Dr Md Ishaque Road, Chowringhee Mansions, Block-E, Kolkata 700016

New Delhi

- D-85, 1st Floor, 100 Ft Road, Chattarpur Enclave, New Delhi

INDONESIA

Banda Aceh

- No 130 Jl Twk M Daudsyah, GP Peunayong, Kec Kuta Alam, Kota Banda Aceh 23122

Bandung

- Grand Serela Hotel, No 56 Jl RE Martadinata, Bandung, West Java

Malang

- Komplek Ruko Sarangan Kav 1-D, Jl Sarangan, Malang, East Java

Medan

- Jl Asia No 548 P, Medan
- Jl Bakaran Batu No 189 B, Lubuk Pakam, North Sumatera

Padang

- Jl Veteran No 75B Purus (Purus Baru), Padang Barat, Kota Padang, Sumatera Barat

Pekanbaru

- Jl Arifin Ahmad No 75 D, Pekanbaru, Riau 28289

Semarang

- Komp Pertokoan Simpang Lima, Blok C No 1 Semarang

Surabaya

- LG Floor A6-01 / A6-50, Pakuwon Trade Centre Supermall, Jl Puncak Indah Lontar 2 Surabaya 60123
- Jl Raya Golokan No 123, Sidayu, Gresik, East Java

JAPAN

Tokyo

- Shinjuku Westcourt 5F, 7-2-11 Nishishinjuku,Shinjuku-ku, Tokyo 160-0023

SALES OFFICES AND STATIONS

MALAYSIA

Kuala Lumpur
- Lot 4, Level 2, Stesen Sentral, Kuala Lumpur Sentral, 50470 Kuala Lumpur
- Lot G027B, Ground Floor, Podium Block, Plaza Berjaya, No 12 Jalan Imbi, 55100 Kuala Lumpur
- Lot No K16 (New Wing) Utility Level, Stesen Monorail Jalan Sultan Ismail PT 88, Seksyen 67, Jalan Sultan Ismail, 55100 Kuala Lumpur

Selangor

Subang Jaya
- Lot No G-35, Mydin Hypermarket, Persiaran Subang Permai, USJ 1, 47500 Subang Jaya
- G2, Terminal SkyPark, Lapangan Terbang Sultan Abdul Aziz Shah, 47200 Subang

Kajang
- Lot S141, Second Floor, Plaza Metro Kajang, Section 7, Jalan Tun Abdul Aziz, 43000 Kajang, Selangor

KLIA
- Level 5, Departure Hall, Main Terminal Building, Kuala Lumpur International Airport (KLIA)
- Level 3, Departure Hall, Main Terminal Building, Kuala Lumpur International Airport 2 (KLIA2)

Johor

Johor Bahru
- Tune Hotel Danga Bay, Lot PTB 22819, Jalan Skudai, Johor Bahru
- Lot 57, Aeromall Airport, Senai International Airport, 81250 Senai

Muar
- No 26, Jalan Bakri, 84000 Muar

Kedah

Alor Setar
- Level 1, Lapangan Terbang Sultan Abdul Halim, 06550 Kepala Batas, Alor Setar

Sungai Petani
- Lot 1F TR 01, 1st Floor, Central Square Shopping Centre, No 23, Jalan Kampung Baru, 08000 Sungai Petani

Langkawi
- Langkawi International Airport, Padang Mat Sirat, 07100 Langkawi

Penang
- Lot 8, Departure Concourse, Penang International Airport, 11900 Bayan Lepas, Penang
- 332, Ground Floor, Kim Mansion, Lebuh Chulia, 10200 Penang
- No 12H-G, Jalan Tun Dr Awang, 11900 Bayan Lepas, Penang
- A-G-7, Jalan Todak 4, Sunway Business Park, Pusat Bandar Seberang Jaya, 13700 Seberang Perai, Penang

Perak

Ipoh
- A15, Jalan Dato Tahwil Azhar, 30300 Ipoh

Terengganu

Kuala Terengganu
- Level 1, Terminal Building, Lapangan Terbang Sultan Mahmud, 21300 Kuala Terengganu

Kelantan

Kota Bharu
- Ground Floor, Lapangan Terbang Sultan Ismail Petra, Pengkalan Chepa, 16100 Kota Bharu

Sabah

Sandakan
- Lots 1 & 2, First Floor, Sandakan Airport, 90000 Sandakan

Tawau
- FL 4, First Floor, Tawau Airport Building, Jalan Apas-Balung, 91100 Tawau
- TB228, Lot 5 Ground Floor, Istana Monaco Hotel, Jalan Bunga, Fajar Complex, 91000 Tawau

Kota Kinabalu
- Lot G24, Ground Floor, Wisma Sabah, Jalan Tun Razak, 88000 Kota Kinabalu
- Level 2 (Domestic Departure Hall Entrance) Terminal 1, Kota Kinabalu International Airport, Jalan Petagas Kota Kinabalu, 88100 Kota Kinabalu

Lahad Datu
- Lot G-2, Ground Floor, Plaza USIA Building, Jalan Teratai, MDLD 7084, 91100 Lahad Datu

Sarawak

Kuching
- Lot L1L C15, Ground Floor, Arrival Level, Kuching International Airport, 93250 Kuching
- No 69, Ground Floor, Pusat Komersil Swan, Lot 14508, Seksyen 65, KTLD, Batu 4, Jalan Matang, 93050 Kuching

Sibu
- Lot GFL01, Common Departure Area, Level 1 Landslide, Sibu Airport, 96000 Sibu
- Lot 1 (Sub-Lot A1), Ground Floor The Sibu Heritage Centre, Jalan Central, 96000 Sibu

Bintulu
- Ground Floor, No 64 Medan Sepadu, Jalan Abang Galau, 97000 Bintulu
- GL-02-G, Jalan Bintulu, Lapangan Terbang Bintulu, 97000 Bintulu

Miri
- Lot GL08, Ground Floor, Public Concourse, Miri Airport, 98000 Miri

MALDIVES

Malé
- H Ruvaamaage Aage, 2nd Floor, Janavaree Magu, Malé 20045

MYANMAR

Mandalay
- 73rd Street (between 29th and 30th Street), Chan Aye Thazan Township, Mandalay

Yangon
- No 37, Level 1, Room 111, La Pyae Wun Plaza, Dagon Township, Yangon

PHILIPPINES

Cebu
- L3, Service Lane, Elizabeth Mall, N Bacalso Avenue Corner, Leon Kilat Street, 6000 Cebu City
- Pre-Domestic Departure Area, Mactan, Cebu International Airport

Davao
- G/F, Passenger Terminal Building, Davao International Airport, Sasa, Davao City
- 2/F, Victoria Plaza, JP Laurel Avenue, Brgy. 20-B, Davao City

Iloilo
- Iloilo International Airport, Cabatuan, Iloilo

Kalibo
- Sitio Manggayad, Barangay Manocmanoc, Boracay Island, Malay, Aklan, 5608 Kalibo

Manila
- Old Terminal, Domestic Road Barangay 191, Pasay, Metro Manila
- 576 San Andres Street, Malate, Manila
- NAIA Terminal 4, Concessionaires Area, Domestic Road, Pasay City, Philippines
- G/F, Colonnade Residences Condominium, 132 C Palanca Jr Street, Legaspi Village, Makati City
- Unit 106, SM City North EDSA, The Block, SM City Complex North EDSA, PAE-ASA 1, Quezon City
- 5th floor, SM Megamall B, EDSA Corner, J Vargas Avenue, Mandaluyong City

Puerto Princesa
- Airport Compound BGYM San Miguel, Puerto Princesa City 5300, Puerto Princesa City

Tacloban
- Stall no 13 DZR Airport San Jose, Tacloban City

Tagbilaran
- G/F Talibon Commercial Center, Talibon, Bohol
- 2nd Floor Airport Terminal Building, Airport Road, Tagbilaran City

THAILAND

Bangkok
- 1st floor, 1710, Sukhumvit Road, Klong Toey, Bangkok, 10110
- 2nd Floor, 2929 Rama 4 Road, Klongton, Klongtoey, Bangkok 10110
- 127 Tanow Road, Bovornivet, Phra Nakorn, BKK 10200
- 2nd Floor, 59 Moo 4, Anusaowaree, Bangkhen, Bangkok 10220
- 2nd Floor, 3109 Ladpro Road, Bangkapi, Bangkok, 10240
- 3rd Floor, 97/11 Rajdamri Road Lumpini, Pathumwan Bangkok 10330
- 3rd Floor, 831 Rama 1 Road, Wangmai, Pathumwan, Bangkok,10330
- 2nd Floor, Paholyothin Road, Kwaeng Samsaennai, Khet Payathai, Bangkok 10400
- 1190, Phahonyothin Road, Jompol, Jatujak, Bangkok, 10900
- 2nd Floor, 9/9 Moo 11, Talingchan-Suphanburi Road, Bangrakpattana, Bangbuathong, Nonthaburi 11110
- 1st Floor, 94 Paholyothin Road, Tanyaburi District, Pathumtani Province 12130

Buri Ram
- 1st Floor, 150 Moo 7, Isaan Subdistrict, Muang Buriram District, Buriram Province

Chiang Mai
- 416, Thaphae Road, Chiang Mai
- 2nd Floor, 208 Moo 3, Tasala Subdistrict, Chiang Mai Muang District, Chiang Mai Province 50000

SALES OFFICES AND STATIONS

Chiang Rai
- 2nd Floor, 184 Moo 25, Roabwieng Subdistrict, Muang District, Chiang Rai Province 57000

Hat Yai
- 69 Thumnoonvithi Road, Hat Yai, Songkhla 90110

Khon Kaen
- 2nd Floor, 290/1 Moo 17, Naimuang Sub-district, Muang District, Khonkaen Province 40000
- 2nd. Floor, 92 Thumvithi 4 Soi, Thumvithi Road, Nai-muang Subdistrict, Muang Ubolratthani District, Ubolratthani Province 34000

Phuket
- 2nd Floor, 104, Chalermprakiat Road, Rasada Sub District, Muang District, Phuket, 83000

Roi Et
- 320 Moo 10 Nuea Muang, Muang Roi Et 45000
- 1st Floor, 238/1-3 Moo 11, Koeng Sub-district, Muang Maha Sarakham District, Maha Sarakham Province 44000

U-Tapao
- 408/2 Moo 12, Sukhumvit Road, Nongprue, Banglamung, Chonburi 20150
- 2nd Floor, 15/11 Bangna-Trad Road, Chuengnuen Sub-district, Muang Rayong District, Rayong Province 21000

Udonthani
- 2nd Floor, 415 Moo 3, Mahkkaeng Subdistrict, Muang District, Udonthani Province 41000

VIETNAM

Da Nang
- 108, Nguyen Van Linh, Da Nang City

Hanoi
- 345 Kim Ma, Ba Dinh, Hanoi

Ho Chi Minh
- 62 Nguyen Chu Trinh, Pham Ngu Lao Ward, District 1, Ho Chi Minh City

CALL CENTRES

Australia
+61 2 8188 2133

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+62 21 2927 0999
+62 804 1333 333

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+91 80 6766 2222

Iran
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+81 50 6864 8181

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Macau
+853 6262 6352

Malaysia
1600 85 8888

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+64 9 887 6920

Philippines
+632 722 2742

South Korea
050 4092 00525

Taiwan
+886 2 8793 3532

Thailand
+66 2 515 9999

United States
18447274588
18447274590
(Text Telephone - For guests with hearing or speech disabilities)

GLOSSARY

AirAsia Group	Comprises of AirAsia Berhad (Consolidated AOCs - AirAsia Malaysia, AirAsia Indonesia, AirAsia Philippines), AirAsia Thailand, AirAsia India and AirAsia Japan.
Aircraft at end of period	Number of aircraft owned or on lease arrangements of over one month's duration at the end of the period.
Aircraft utilisation	Average number of block hours per day per aircraft operated.
Available Seat Kilometres (ASK)	Total seats flown multiplied by the number of kilometres flown.
Average fare	Passenger seat sales, surcharges and fees divided by number of passengers.
Block hours	Hours of service for aircraft, measured from the time that the aircraft leaves the terminal at the departure airport to the time that it arrives at the terminal at the destination airport.
Capacity	The number of seats flown.
Cost per ASK (CASK)	Revenue less operating profit divided by available seat kilometres.
Cost per ASK, excluding fuel (CASK ex fuel)	Revenue less operating profit and aircraft fuel expenses, divided by available seat kilometres.
Load factor	Number of passengers as a percentage of capacity.
Passengers carried	Number of earned seats flown. Earned seats comprises seats sold to passengers (including no-shows), seats provided for promotional purposes and seats provided to staff for business travel.
Revenue per ASK (RASK)	Revenue divided by available seat kilometres.
Revenue Passenger Kilometres (RPK)	Number of passengers multiplied by the number of kilometres those passengers have flown.
Stage	A one-way revenue flight.

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FORM OF PROXY

AIRASIA GROUP BERHAD
(Company No. 1244493-V)
Incorporated in Malaysia

Gender (please √) : ☐ Female ☐ Male
Nationality (please √) : ☐ Malaysian ☐ Non-Malaysian

I/We ______________________ NRIC No./Passport No./Co No.: ______________________
(FULL NAME AS PER NRIC IN BLOCK LETTERS) (COMPULSORY)

of ____
(ADDRESS)

mobile no. ______________________, email address ______________________ being a member of the
(COMPULSORY) (COMPULSORY)

Company hereby appoints *the Chairman of the Meeting or ______________________
(FULL NAME IN BLOCK LETTERS)

NRIC No./Passport No.: ______________________ of ______________________
(COMPULSORY) (ADDRESS)

______________________ telephone no. ______________________, email address ______________________
(COMPULSORY) (COMPULSORY)

and/or ______________________ NRIC No./Passport No.: ______________________
(FULL NAME IN BLOCK LETTERS) (COMPULSORY)

of ____
(ADDRESS)

telephone no. ______________________, email address ______________________
(COMPULSORY) (COMPULSORY)

as my/our proxy(ies) to vote in my/our name and on my/our behalf at the First Annual General Meeting of the Company to be held on Wednesday, 20 June 2018 at 10.00 a.m. and at any adjournment of such meeting and to vote as indicated below:

AGENDA			
No. 1	To receive the Audited Financial Statements and the Reports of Directors and Auditors thereon		
Resolutions	**Description**	**FOR**	**AGAINST**
Ordinary No. 1	**Ordinary Business** To approve the Non-Executive Directors' Remuneration with effect from their date of appointment in the Company for the financial year ending 31 December 2018 until the next Annual General Meeting of the Company to be held in the year 2019.		
No. 2	Re-election of Datuk Kamarudin Bin Meranun in accordance with Article 124 of the Company's Constitution.		
No. 3	Re-election of Tan Sri (Dr) Anthony Francis Fernandes in accordance with Article 124 of the Company's Constitution.		
No. 4	Re-election of Dato' Abdel Aziz @ Abdul Aziz Bin Abu Bakar in accordance with Article 124 of the Company's Constitution.		
No. 5	Re-election of Dato' Fam Lee Ee in accordance with Article 124 of the Company's Constitution.		
No. 6	Re-election of Dato' Mohamed Khadar Bin Merican in accordance with Article 124 of the Company's Constitution.		
No. 7	Re-election of Stuart L Dean in accordance with Article 124 of the Company's Constitution.		
No. 8	Re-election of Noor Neelofa Binti Mohd Noor in accordance with Article 124 of the Company's Constitution.		
No. 9	Re-appointment of Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to determine their remuneration.		
No. 10	**Special Business** Authority to allot shares pursuant to Sections 75 and 76 of the Companies Act, 2016.		
No. 11	Proposed new shareholders' mandate for Recurrent Related Party Transactions of a revenue or trading nature.		

(Please indicate with an "X" in the spaces provided how you wish your votes to be cast. If you do not do so, the proxy will vote or abstain from voting as he thinks fit).

** Delete the words "the Chairman of the Meeting or" if you wish to appoint some other person to be your proxy.*

<table>
<tr><td>No. of shares held:</td><td colspan="3"></td></tr>
<tr><td>CDS Account No.:</td><td colspan="3"></td></tr>
<tr><td rowspan="3">The proportion of my/our holding to be represented by my/our proxies are as follows:</td><td></td><td>No. of Shares</td><td>Percentage</td></tr>
<tr><td>First Proxy</td><td></td><td></td></tr>
<tr><td>Second Proxy</td><td></td><td></td></tr>
<tr><td>Date:</td><td></td><td></td><td></td></tr>
</table>

Signature of Shareholder/Common Seal

Notes to Form of Proxy

1. Pursuant to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 and Article 41(a) of the Company's Constitution, only those Foreigners (as defined in the Articles) who hold shares up to the current prescribed foreign ownership limit of 45.0% of the total number of issued shares of the Company, on a first-in-time basis based on the Record of Depositors to be used for the forthcoming Annual General Meeting ("AGM"), shall be entitled to vote. A proxy appointed by a Foreigner not entitled to vote, will similarly not be entitled to vote. Consequently, all such disenfranchised voting rights shall be automatically vested in the Chairman of the AGM.

2. A member must be registered in the Record of Depositors at 5.00 p.m. on 13 June 2018 ("General Meeting Record of Depositors") in order to attend and vote at the Meeting. A depositor shall not be regarded as a Member entitled to attend the Meeting and to speak and vote thereat unless his name appears in the General Meeting Record of Depositors. Any changes in the entries on the Record of Depositors after the abovementioned date and time shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

3. A member entitled to attend and vote is entitled to appoint two (2) proxies (or in the case of a corporation, to appoint a representative(s)), in accordance with Section 333 of the Companies Act, 2016, to attend and vote in his stead. There shall be no restriction as to the qualification of the proxy(ies).

4. The Proxy Form in the case of an individual shall be signed by the appointor or his attorney, and in the case of a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.

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

6. Where a Member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

7. The Proxy Form or other instruments of appointment shall not be treated as valid unless deposited at the Registered Office of the Company at Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Wilayah Persekutuan, Malaysia not less than forty-eight (48) hours before the time set for holding the meeting. **Faxed copies of the duly executed form of proxy are not acceptable.**

8. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in this Notice will be put to vote by way of poll.

9. By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

(FOLD HERE)

COMPANY SECRETARY
AirAsia Group Berhad (Company No. 1244493-V)
Unit 30-01, Level 30, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur
Wilayah Persekutuan
Malaysia

(FOLD HERE)

airasia.com

AIRASIA GROUP BERHAD 1244493-V
RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa
Kuala Lumpur (klia2), 64000 KLIA, Selangor Darul Ehsan
MALAYSIA

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E investorrelations@airasia.com