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B R A N

Mention 'AirAsia' and many will automatically think of how our co-founders Tan Sri Tony and Datuk Din ventured boldly to turn around a loss-making airline into the region's first low-cost carrier, going where none before had been.

The name will also probably bring to mind the cool 'free ticket' campaigns during which we literally give away seats to fantastic destinations. And our Allstars who not only look after guests' needs but also make their flights total experiences to remember – who could possibly forget being greeted on board by our own 'Sheikh-speare' aka Capt Shaha with a Malay *pantun* or two, or even a Dr Zeuss-inspired rhyme? Then, there are the innovative offerings galore – freshly brewed coffee served by baristas on board, wifi, chat...

IF SOMETHING INNOVATIVE CAN BE DONE, WE'RE PROBABLY THE FIRST TO DO IT.

D I N G

There can be no doubt we are a 'cool, bold and innovative' airline.

Yet, it takes creative juices to keep reinforcing our brand image over the last 15 years. And that function is capably undertaken by a 30-strong team led by Rudy Khaw. We get them to talk about how they've helped to maintain, indeed build, such a strong brand.

How easy (or difficult) is it to keep reinforcing a brand that is already quite well established?

RK: It's not so much reinforcing the brand but rather ensuring it appeals to our guests in a way that resonates with them. As Asia (even Asean alone) is such a diverse market with numerous languages, cultures and socioeconomic levels – we have to make sure our efforts are relevant to our different target audiences. So, it's not so much difficult as it is interesting and challenging in a good way. It drives the team to ensure we're on the right path to grow our brand in these markets.

What have been some of the efforts you are most proud of? Which of your campaigns would you consider your coolest, boldest or most innovative?

RK: We've done so many campaigns over the year to both engage consumers and create awareness of our brand. Some of the notable ones are when we had the opportunity to fly Taylor Swift's RED tour (and even Tay-Tay herself!) around Asean on a Taylor Swift branded plane. The way we touch the lives of footballing enthusiasts around the region with our AirAsia-QPR Coaching Clinic Tours creates a really good feeling. Thinking of new ways to communicate our position as the world's best low-cost airline over the last eight years has also been interesting. More recently, the approach we've taken towards being a travel lifestyle brand with our campaigns *We'll Take You There* and *#Travelgr8*, which ran predominantly digitally and through social media to create a hashtag movement, shows how we constantly look into innovating the way we engage consumers with our brand.

What inspires you guys to come out with fresh campaigns?

RK: People. In my 10 years here, I've seen that AirAsia truly is a people-driven airline, both inside and outside of the brand. A lot of what we do is for the people. People are our greatest asset and at the same time, a lot of the campaigns we do are typically fuelled by the brand tagline 'Now Everyone Can Fly'. Our brand tagline in itself is already people driven, so that inspires us and a lot of our campaigns. The trick is to consistently keep things fresh, while the challenge is to say the same thing differently. This drives our creative thinking.

What is a typical day like in your nook of RedQ?

RK: Hectic! Fun! Lots of head-scratching (because we're always thinking of new things). As the brand and creative team, we have the benefit of dealing with just about every department in the company or perhaps nearly every part of the brand. You'll catch us speaking to our colleagues from Marketing, PR, Social Media, etc on a daily basis but every now and then you also see us working with the cabin crew department on uniforms or photoshoots; or the engineering team on plane livery designs or vehicles; ground operations on signages, kiosks, counter designs... We even played a part in the design of RedQ itself. Safe to say we're always in the thick of something somewhere.

People have started putting figures to brand value. Any idea what the valuation of the AirAsia brand is?

RK: The last publicly reported figure, by Brand Finance[1], puts us among the top 50 airlines globally in terms of brand value at USD535 million.

[1] *Taken from Brand Finance's Airlines 50 2017, cited as "the annual report on the world's most valuable airline brands"*

ANCILLARY

COFFEE, TEA OR PERHAPS DUTY-FREE?

"Coffee, sir? Tea?" is perhaps the most clichéd line that can be delivered by cabin crew. All airlines serve coffee and tea. It has become de rigueur on flights. Yet, how many travellers can say in all honesty that they enjoy their hot beverages on board a plane? We would venture to say, not so many – with the exception of our guests.

Any coffee aficionado would be delighted to know we offer real, freshly brewed coffee and tea on almost all our flights.

Not only are they made from quality beans and tea leaves, but these beans and leaves have been prepared to produce beverages that taste great when cruising at 35,000ft above ground. The fact is, our sense of taste is dulled at high altitudes, and it takes more than an ordinary cup of Joe to hit the spot while flying. Which is why in 2013 we partnered with budding coffee business T&Co to develop coffee and tea blends specifically for flights. Not only that, as a responsible Asean airline, we have begun sourcing the beans and leaves for our beverages from the region.

Of course, we do not aim to please only with our coffee and tea. We pay as much attention to the taste and quality of the variety of Asean food served to guests. Today, in fact, some of our staples like Pak Nasser's Nasi Lemak and Kamal's Mee Goreng Mamak have acquired such cult-like status that unless guests pre-order, they are not likely to be able to get these dishes on board – they sell out that quickly.

A great deal of thought and effort goes into our inflight food and beverage because it forms an important part of our ancillary income, ie income from all the extras guests can ask for to make their every flight an experience to remember. And we were extremely proud to see our efforts validated in April 2016, when Santan (our inflight menu) and Barista in the Sky (coffee and tea service) were shortlisted for Catering Innovation of the Year at the 2016 Onboard Hospitality Awards, with the Barista service making it as a Top 3 finalist. Onboard Hospitality (OBH) is a leading magazine covering airline, rail and cruise hospitality worldwide, and AirAsia was the only low-cost carrier in the world to be shortlisted as an award finalist.

To ensure more guests get to enjoy our food and beverage (F&B) innovations, during the year we offered incredible value-for-money Santan Combo Meals at only RM10 when pre-booked online. The idea was to build volume in sales to reduce our cost per unit. The strategy worked; in 2016 F&B earned RM87.02 million in revenue for AirAsia, marking an increase of 10% compared to 2015. This makes up 7% of our total ancillary revenue of RM1.26 billion.

Efforts to grow our ancillary revenue have produced results, both in absolute terms as well as spend per guest. In 2016, our ancillary revenue was 10% higher than in 2015, while revenue per guest increased 1% to RM47.68.

We do not depend only on the obvious for ancillary income. Over the years, we have introduced a number of new services that we believe would enhance our guests' travel experience. Some of these, such as inflight wifi, have been firsts among Malaysian airlines. We introduced ROKKI, our self-developed inflight entertainment and connectivity (IFEC) platform, in 2014, and have been steadily increasing its offerings as well as making it more widely available across the Group. Starting off with just chat, ROKKI now enables access to movies, music, magazine articles and games on 42 aircraft. Revenue from ROKKI increased 270% year-on-year to RM503,000, and will keep growing as we gradually expand the service to all Group aircraft, as well as make it a pre-book option. In addition, we hope to develop new streams of revenue from ROKKI by tapping into online shopping and advertising.

We are also pleased with the take-up of the value packs launched in January 2016, in which we have bundled together baggage, meals and standard seat selection at attractive rates. Every month during the year more guests opted for this value bundle, which we will further promote through strategic marketing.

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Currently, the take-up rate of ancillary services overall stands at 20%-30%, leaving much room for growth. We intend to tap into this potential through more effective data analysis and mining. By collating all relevant guest data onto one platform, we will be able to discover trends that would help us personalise our promotions.

Among the areas we will be focusing on is duty-free, which went online in 2015. During the year, we invested considerable resources in building our duty-free platform, both inflight as well as online. We upgraded our e-commerce infrastructure to drive a seamless user experience, and channelled more traffic onto bigdutyfree.com through attractive pre-book pricing and a revamped catalogue. Further enhancing duty-free, plans are in the pipeline to increase the range of items available for purchase, as well as to target these more effectively at guests taking into account their individual interests and profiles. We have an advantage over airports in that we know our guests and are able to target specific products to them based on past behaviour. With online duty-free, moreover, guests will have the same choice of products no matter where they travel, even if it is between second-tier cities, whereas small airports offer only limited duty-free choice, if at all.

We will also keep looking for new and better ways to increase our revenue from baggage; launch a second round of F&B service on flights that are longer than three hours; install T&Co coffee carts on our aircraft to reduce the serving time to 30 seconds per cup; and encourage guests to pre-book meals at various interfaces. There is much scope to be the McDonald's or Starbucks of the skies; and to put more smiles on the faces of our guests with affordable, high-quality offerings. And you can be sure, when our cabin crew go round with their carts on flights, they won't just ask if you would like coffee or tea (as fantastic as these will be). There will be a litany of other great offerings for you to choose from, ensuring we truly are a great way for you to fly.

SOCIAL MEDIA
IN HOW MANY WAYS CAN I LIKE THEE?

He's a rapper. He's a poet. He can compose a *pantun* on his feet (actually in his seat), and regularly regales our guests with this feat. He is none other than Captain Shaha, also known as Captain Shakespeare, a very talented AirAsia pilot whose rhymes – in Bahasa and English – delivered in an American accent (as he spent his most impressionable years growing up in the US), have gone viral.

We were one of the first corporations in the region to adopt social media in a big way, driven by the desire to humanise the airline.

And how did we discover our very own in-house bard? Through Twitter. A large number of guests who had flown on flights captained by Shaha tweeted about the almost surreal experience of being addressed by a captain in sonnets, or their equivalent. Almost all have asked to be flown by Capt Shaha on their next AirAsia flights. Although we cannot fulfill such requests, we have been happy to bring our rhyming captain into the public's eye by letting him front our Eid campaign, and more. He definitely was our social media sensation of the year, and greatly helped to connect us in a meaningful way with our guests, demonstrating we are not just an airline – we are a group of very real people, with many of the same likes, dislikes and interests as our guests, and a genuine desire to share these with them.

We were one of the first corporations in the region to adopt social media in a big way, driven by the desire to humanise the airline and form more personal bonds with our guests. Social media enables us to take the process of democratising travel a step further, dissolving the barriers between us and our guests to form one large AirAsia community in which we all share our love for travel, music, sports, food, anything at all.

We treat our fans as we would our friends, dishing out useful information (and sometimes also snippets of trivia!) that would be of interest to them. Often, this is related to AirAsia, such as our free seats promos and other campaigns, at other times it may not. Many among our leadership team are avid social media users too and post about anything that makes an impression on them which they would like to share.

Social media also represents an extremely effective platform for our guests to provide us with feedback. When they like something or someone related to AirAsia, they inform us. Similarly, if they ever have a bad experience, we get to hear about it too. And we truly value such feedback, both positive and negative, as it provides us with greater insight into what works and what does not. For our Allstars, feedback from guests can be an even stronger incentive than our annual appraisals, as it comes from the people who are directly impacted by the way we carry out our responsibilities.

To show fans how much we treasure their feedback, when we hit two million followers on our AirAsia Twitter account in March 2016, we made a YouTube video in which our CEO, Aireen Omar, and Allstars from different departments read out tweets related to them, and provided short, mostly fun responses. Most of our communication via social media is light-hearted and entertaining, reflecting our zest for life. But we are not just about having a good time. Many people around us give so generously from their hearts, and we like to show our appreciation to them too. So, in conjunction with Father's Day, we ran a short but poignant video on the special bond a girl has with her supportive father, ending with her becoming an AirAsia cabin crew and thanking her father for all he has done.

Our efforts to connect with guests and friends have seen our social media fan base grow steadily over the years. In 2016 alone, it grew by almost 13 million over all channels across all markets to hit a total of nearly 50 million fans. Although marketing and business objectives truly are secondary when it comes to social media, we are no doubt pleased to see how our growing presence has also translated into flight bookings, with organic social media contributing to 14 million unique flight searches on airasia.com during the year.

Reflecting the value we place on social media, this year we are setting up a new social media hub in the Philippines as part of efforts to connect better with our regional fans. In fact, we have a more ambitious goal. As we become a more integrated One AirAsia, we would like to be able to connect the people of Asean with each other too. We believe social media will be a great tool for this, and will be looking at how we can create a more cohesive Asean community through online and on-ground engagement. Ultimately, we would like all our guests not just to like AirAsia but also the region that we call home.

ADJACENCY BUSINESSES

MONETISING OUR SPIN-OFFS

Over the years, we have built a considerable portfolio of partnerships – some with global leaders in their areas of expertise, others with local entrepreneurs and intrepid start-ups – all with a single purpose: to leverage on our assets and resources to create additional sources of revenue for the Group. As these businesses have grown, we have made a strategic decision to monetise them by selling major shareholdings to third-party investors. The process began with divesting half of our initial equity in AirAsia Expedia joint venture in February 2015, leaving us with a 25% stake in the online travel agency, and enabling us to record a gain of RM320.5 million in the first quarter of 2015.

ASIA AVIATION CAPITAL LIMITED

Currently, the company closest to being divested is our wholly-owned leasing house, Asia Aviation Capital Limited (AACL). Though it is one of our newest adjacency businesses, AACL has made exceptional progress since being set up in September 2014.

Together with its wholly owned subsidiary, Asia Aviation Capital Limited, it currently has eight employees on its payroll. AACL has 63 aircraft on lease to our associates within the AirAsia Group as well as a third-party airline, and is in the process of purchasing another 38 aircraft from us. Once this is completed, by mid-2017, AACL will have a commendable portfolio of 74 A320 aircraft with an average age of 4.9 years and average remaining lease tenure of 8.6 years.

Led by a strong management team with mixed experience of the airlines and leasing industries, AACL is set to make the transition from being a captive lessor to our Group into a full-fledged global leasing company. Its dual-base operations in the Federal Territory of Labuan, Malaysia, and Singapore positions the company well to cater to the fast-growing Asia-Pacific aviation market, which is expected to account for 41% of the world's total new aircraft deliveries from 2016-2035[1].

[1] According to the Airbus Global Market Forecast, 2016-2035

Over the next five years, AACL's portfolio is expected to more than double with the potential addition of up to 102 A320neo and A321neo aircraft obtained at competitive terms given our long and strong relationship with Airbus and GE. This would make the company the third largest aircraft lessor headquartered in Asia-Pacific. AACL will also be able to diversify its business into spare engine leasing and bundle competitively priced maintenance programmes as part of its service offerings.

AACL has a clearly outlined strategy for growth which encompasses diversifying the company's credit and asset risks. It seeks to be actively involved in aircraft trading and purchasing in the secondary market with other lessors, while bidding in the sale and leaseback market from other airlines. Our continued involvement in AACL would safeguard its access to our keenly-priced order book, as well as maintain the platform's role as the captive lessor for the AirAsia Group.

During the year, the managements of AirAsia and AACL spent considerable time in discussions with potential investors and are confident of completing the process of a full or partial take-over by mid-2017.

ASIAN AVIATION CENTRE OF EXCELLENCE SDN BHD

The Asian Aviation Centre of Excellence Sdn Bhd (AACE), which fulfils our pilot and cabin crew training needs, continues to perform well. Driven mainly by pilot training, it exceeded both its top and bottom line targets, achieving RM130.7 million in revenue (target: RM113.5 million), and RM48.6 million in net income (target: RM33.4 million).

While AACE caters primarily for the Group's needs, third-party revenue is increasing and in 2016 comprised 39.7% of the total.

This joint venture with leading Canada-based aviation training provider CAE Inc currently operates out of a main training centre in the KLIA Complex in Sepang; a hub in Seletar, Singapore; and the 50% owned Philippine Academy for Aviation Training (PAAT) in the Clark Special Economic Zone, near Manila in the Philippines.

During the year, it expanded its portfolio of airline partners to provide type rating and recurrent training for Singapore Airlines, Pakistan International Airlines, Japan Airlines, Jetstar Japan, Asiana Airlines, Solaseed Air and Eagle Express. It also provided training for Indonesian flying school Aviaterra Dinamika. Based on increasing demand for pilot training in the region, a fourth centre – in Vietnam – was established in January 2017. The latest centre received its first Airbus A320 simulator in March 2017, and expects delivery of a Boeing B787 simulator in December, followed by that of an A350 simulator in June 2018.

AIRASIAEXPEDIA (AAE TRAVEL PTE LTD)

AirAsiaExpedia (AAE), our joint venture with the world's largest online travel company Expedia, celebrated its fifth anniversary in 2016 with significant growth under a refreshed business strategy.

Essentially, this saw AAE restructure its 11 Brand Expedia online travel sites into three key Asian sub-regions – Northeast Asia, Southeast Asia and India, and Japan – and merge its seven AirAsiaGo online sites into one unique AirAsiaGo Asia group. Each new business is led by its own General Manager, who is able to focus more intently on building the individual groupings based on their subtle yet distinctive cultural nuances as reflected in purchasing and travel behaviours.

The team also continued to innovate on Expedia's core value proposition of bringing better prices to travellers.

While the restructuring enables more strategic planning and marketing, Expedia also continued to strengthen the customer experience with enhancements to its technology. Its ultimate aim is to make booking a trip as simple as possible on the AirAsiaGo and Brand Expedia sites. Globally, Brand Expedia group implemented 1,450 tests in 2016, some based on traveller insights, up from 1,375 tests in 2015. Many of these resulted in improvements for its points of sale. One particular area that has seen significant enhancement is mobile shopping. AAE has a mobile responsive website design and has implemented user interaction upgrades on its mobile app, such as the latest Android Material design, to make the mobile shopping experience smoother, faster and more user-friendly.

The team also continued to innovate on Expedia's core value proposition of offering better prices to travellers. Delivering app-only deals and consistently good value bundled package savings through its 'dynamic package' product, it grew mobile room nights in Asian points of sale over 65% in the fourth quarter of 2016, with almost all key Asian markets getting more mobile visitors than desktop visitors.

Investments into technology for a better customer experience, combined with continuous expansion of products and value offerings, led to Expedia Asia winning the Best Online Travel Agent Consumer at the Travel Weekly Asia 2016 Readers Choice Awards; and the Best Online Travel Agency Website at the Travelmole ITB Awards 2016.

THINK BIG DIGITAL SDN BHD

Think BIG Digital Sdn Bhd, a joint venture established in November 2011 between AirAsia, Tune Group and Canada-based loyalty management company Aimia Inc, manages our award-winning AirAsia BIG Loyalty programme. In its five-year run, AirAsia BIG has grown to have more than 10 million members with an average of over 200,000 new members signing up every month.

Part of the programme's appeal is the ease of acceptance with which members can earn and redeem AirAsia BIG Points. Points are given out not only from AirAsia flight bookings, but also from using co-branded credit cards with, for example, Citibank, Bangkok Bank and CIMB Niaga as well as spending at partner e-commerce websites and retail outlets (eg Lazada and Paradigm Mall) or with travel partners (eg Expedia and Agoda). To redeem, members can use as little as 500 AirAsia BIG Points during the monthly member-exclusive Final Call Sale or choose to top up the rest with 'BIG Points + Cash'. There are also no blackout periods for redemption. In addition, AirAsia BIG members enjoy priority access to our sales and promotions, as well as exclusive travel deals for hotels and tours with our partners.

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Believing in continuous innovation and customer appeal, AirAsia BIG launched its mobile app in December 2016, making it easier and more convenient for members to access their accounts and redeem AirAsia flights. This also allows AirAsia BIG to engage directly and in a more personalised manner with members.

The year 2016 saw the total number of points issued increase by 57%, and the total number of points redeemed surge by 111%. AirAsia BIG also won a number of regional awards which have helped elevate the programme's visibility and credibility. It made a 'BIG' sweep at the Loyalty and Engagement Awards 2016, winning Gold for Loyalty Programme of the Year, Best Regional Loyalty Marketing Campaign, Best Use of Social Media, and Best Use of Direct Marketing. Its Final Call Sale, meanwhile, won the Campaign of the Year for Travel Co-Branded Cards and was a runner-up for Travel Co-Branded Card – Innovation of The Year at the Mega Awards 2016.

In 2017, AirAsia BIG is gearing up for an even stronger performance by targeting more than double the redemptions achieved in 2016 and to increase its overall points issuance and gross billings by more than 40%. These targets are underpinned by the revamping of AirAsia's frequent flyer programme, driving new co-brand card partnerships with financial institutions across Asean and North Asia, as well as enhanced mobile app offerings.

T&CO COFFEE SDN BHD

T&Co was a newly set-up beverages and snacks enterprise when we entered into a partnership with the founders in 2013. The idea was to enable us to develop different types of coffee and tea that would taste good on flights, given that taste buds are dulled at high altitudes.

Starting with the provision of coffee and tea on AirAsia flights, T&Co now also supplies our associates in Indonesia and the Philippines. Flights serving T&Co beverages and snacks are equipped with the brand's coffee carts and coffee machines, so passengers are assured of fresh, quality brews. Further expanding its business, in 2014, T&Co opened a flagship café in Mid Valley Megamall, Kuala Lumpur followed by another two outlets at the MiCasa All Suite Hotel, off Jalan Tun Razak in Kuala Lumpur and RedQ, our new headquarters.

In June 2016, AirAsia acquired an 80% stake in T&Co in order to better direct the company's product development. We are currently crafting an Asean blend of coffee using beans sourced from the region, which will be launched on board later this year. We also aim to further enhance the inflight service with greater use of drip bags and coffee machines on top of normal food carts. In addition, there are plans to offer take-away options on board and to expand T&Co's product offerings to the rest of our associate airlines by securing the necessary F&B approvals and certificates.

BIGPAY MALAYSIA SDN BHD

Bigpay Malaysia Sdn Bhd (formerly Tpaay Asia Sdn Bhd), licensed by Bank Negara Malaysia under the Money Services Business Act 2011, was incorporated in 2005 to engage in financial services for AirAsia and Tune Group.

In 2014, it issued one of the few prepaid cards in Malaysia, riding on a MasterCard network. Year 2016 saw a more than 30% increase in number of cards issued compared to 2015, contributing to about 70,000 cards currently in circulation. The company intends to increase this number to 100,000 by end 2017, focusing on the card's unique differentiators and further tapping into the travel segment through deeper integration with AirAsia.


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AirAsia FOUNDATION

AirAsia Foundation is the philanthropic arm of AirAsia. Established in 2012, it provides seed grants to social enterprises in the region to help them get their projects off the ground. The Foundation receives applications for funds and goes through each thoroughly to select a new batch of grant recipients every year. It has to date supported the work of 14 social enterprises in seven countries: Malaysia, Vietnam, Cambodia, Indonesia, Myanmar, the Philippines and Thailand.

In 2016, fresh funds were provided to Soksabike in Cambodia, Hla Day in Myanmar, FolkCharm in Thailand and The Basikal in Malaysia.

Soksabike, based in Battambang, trains local youth to become cultural and educational bicycle tour guides. With the Foundation's funding, it will develop new walking and cycling trails focusing on the area's Buddhist history and French colonial architecture, launch a new marketing campaign, and purchase more bicycle helmets and lights for enhanced safety of the tourists.

Hla Day, in Yangon, provides technical and design training to artisans to help them produce craft with modern appeal. With AirAsia Foundation's grant, it aims to up-skill 400 new artisans from Yangon and rural Myanmar.

Bangkok-based **FolkCharm** works with rural weaving communities in three villages to create wearable fashion using organic and natural materials. With the grant, FolkCharm will help the rural folk develop tours to their villages thus enable visitors to experience a traditional way of life that is fast disappearing.

The Basikal, in Kuala Lumpur, sells bicycles and offers repair services as well as classes on bicycle maintenance. It also supports disadvantaged groups to find work as bicycle mechanics. With the grant, it will purchase more bicycle tools to be able to train more underprivileged individuals either to work with the social enterprise itself or to start their own bicycle repair business.

In addition, during the year, AirAsia Foundation organised a trip for 30 Allstars to visit the Sumatran Orangutan Conservation Programme (SOCP) in Medan where Foundation grantee, **APE Malaysia**, is supporting rehabilitation work with rescued apes that have been either been held captive illegally as pets or injured by poachers and loggers. Meanwhile, another grantee – **Arkomjogja** – organised an inaugural architecture, film and arts festival at the historic enclave of Kotagede in Yogyakarta, Indonesia, to introduce visitors to the area's rich cultural heritage.


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What's Your Destination?

SUSTAINABILITY STATEMENT

As the biggest airline in Asean, and one of the biggest in Asia, we recognise we have an immense responsibility to our numerous stakeholders in ensuring we **operate safely, responsibly** and with **integrity**. This has formed the basis of our sustainability efforts over the years and will continue to drive our future performance.

Safety – of our guests and our employees (Allstars) – has been a key priority since the very beginning and is something we have never compromised on. Responsibility to our business partners also forms a core component of our corporate culture while, taking our social responsibility further, we have established the AirAsia Foundation which supports social enterprises throughout the Asean region. To enhance our business sustainability, as well as protect our shareholders' interest, we are driven to optimising our operational efficiencies thus secure a healthy bottom-line. Fuel efficiency is integral to our low-cost model and has seen us become one of the leading airlines in the region in terms of energy consumption. At the same time, it helps us reduce our carbon footprint, which has become a key consideration in itself as we embrace environmental stewardship as part of our corporate philosophy.

Our sustainability efforts, and particularly those related to providing exceptional guest service, have led to our being named the World's Best Low-Cost Airline by Skytrax World Airline Awards (based on the votes of more than 19 million travellers from around the world). These efforts reflect a commitment to sustainability as defined by a Sustainability Policy we developed in 2014. However, we acknowledge that the proper management of sustainability matters will become increasingly more critical as we continue to grow. Hence in 2016 we thoroughly reviewed our approach and conducted a materiality assessment to gain greater clarity on matters that are important to us. Steps are also being taken to develop a formal sustainability governance structure for the Company. While at present sustainability is driven by individual departments, we are looking at consolidating these initiatives through a Company-wide strategy.

Starting from this year, the Sustainability Statement in our Annual Report will be reviewed by our Board. Going forward, the Board will deliberate and decide on a suitable governance structure to drive the Company's sustainability agenda.

As we have just embarked on developing a Sustainability Statement based on materiality, the depth and scope of our reporting will improve with time, reflecting a commitment to meeting the highest standards of governance. Our aim is to present reports that are increasingly comprehensive and coherent, and which provide our stakeholders a clear picture of how successful we are in creating value for them.

**We would like to note that this year's Sustainability Statement covers principally the operations of AirAsia Berhad (AirAsia) and not our associates in other countries. However, where we have Group policies that impact the sustainability of AirAsia, these have been reported. As our sustainability monitoring matures, the scope of our reporting will extend to include the performance of our associate companies. This report covers the period 1 January – 31 December 2016.*

MATERIALITY ANALYSIS

A materiality assessment was conducted, using a three-phased approach to develop a materiality matrix for the company:

1. **Identification of materiality** - desktop research was conducted to determine matters that are material to the industry, inclusive of best practices. These were discussed in interviews with the Group Head of Corporate Development, Chief Global Affairs and Development Officer, Group Head of Investor Relations and Group Technical and Efficiency Manager; as well as at focus group sessions with 30 mid to senior management from across AirAsia's business units – ie Group Strategic Planning & Fleet, People Department, Communications and Safety.

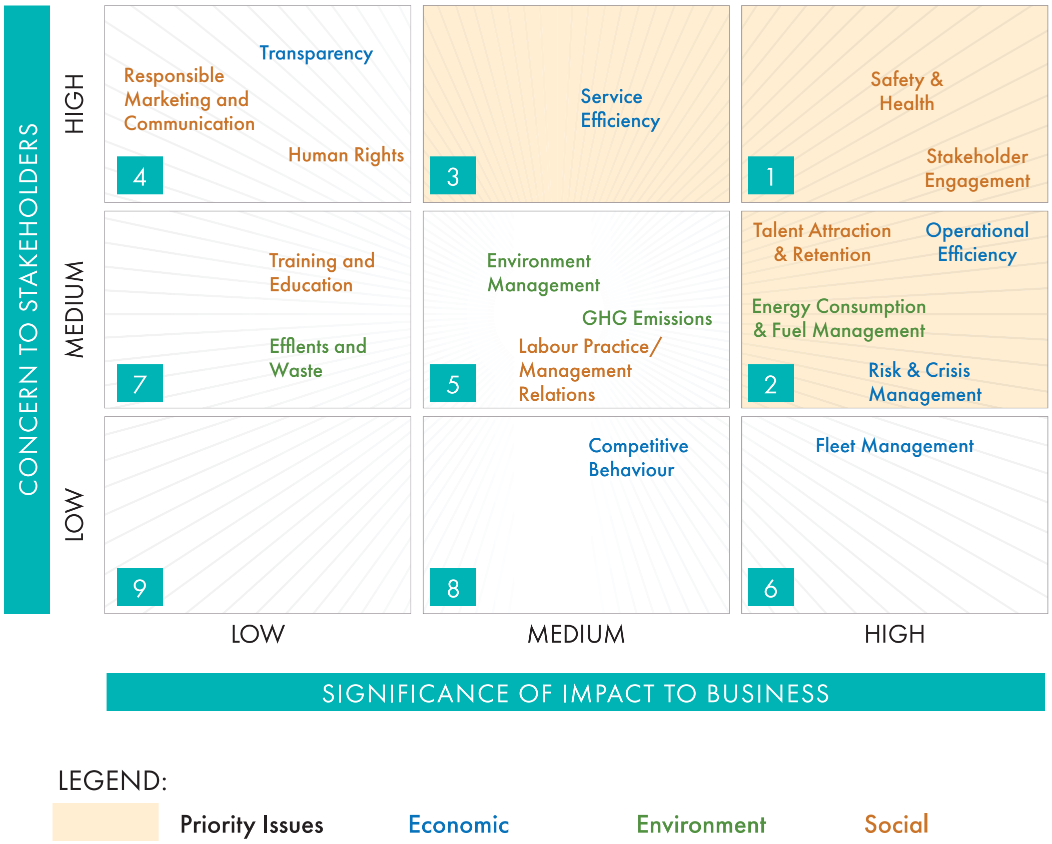
   The focus group sessions and interviews covered four main themes, namely AirAsia's understanding of sustainability; the challenges and opportunities in addressing sustainability initiatives; the company's aspirations; and material matters relevant to the business as well as key stakeholders.

2. **Prioritisation of material areas** - from the interviews and focus group sessions, it was determined that AirAsia's key stakeholders are the Government (and regulators), business partners, employees, customers and investors. In addition, 17 material matters were highlighted. These were then plotted in a materiality matrix according to their potential impact on AirAsia as well as their concern to stakeholders. From the matrix, seven matters were identified as being of high impact to AirAsia and/or to our stakeholders. These seven areas are:
   - Safety & Health
   - Stakeholder Engagement
   - Talent Attraction & Retention
   - Operational Efficiency
   - Service Efficiency
   - Energy Consumption & Fuel Management
   - Risk & Crisis Management

3. **Materiality validation** - one-on-one interviews with the Chief Financial Officer (CFO) and Chief Executive Officer (CEO) confirmed that the seven material matters identified through phases 1 and 2 are key to the company's sustainability.

AirAsia's Materiality Matrix

Materiality refers to issues that reflect an organisation's most significant economic, environmental and social impacts (x-axis), and the concern of the stakeholders (y-axis). Quadrants 1, 2 and 3 are prioritised issues to be reported in AirAsia's Annual Report 2016.



This Sustainability Statement focuses on initiatives undertaken with regard to the seven materiality matters within Quadrants 1, 2 and 3 in the matrix. Where possible, we provide quantitative data of our performance and outline targets as well as action plans to ensure enhanced outcomes in the future.

SAFETY & HEALTH

Our Safety & Health policies are aimed principally at ensuring the well-being of our guests and inflight crew, but also extend to cover practices on the ground such as ramp operations.

Safety Management System (SMS)

In line with requirements of the International Civil Aviation Organization (ICAO) and the Department of Civil Aviation Malaysia (DCAM), we have implemented a Safety Management System (SMS) with the aim of continuously improving our aviation safety through systematic hazard and risk management. The SMS consists of four pillars: Safety Policy and Objectives, Safety Risk Management (SRM), Safety Assurance (SA) and Safety Promotion.

Our Safety Policy and Objectives set the tone of management's commitment and responsibility to safety with clearly outlined accountabilities. To ensure our objectives are met, we have key safety personnel who overlook the entire SMS inclusive of our emergency response plan. SRM provides for initial identification of hazards and assessment of risk. Organisational risk controls are developed and rolled out to bring our risks to an acceptable level. The SA function takes over at this point to ensure the risk controls are practised and continue to achieve their intended objectives. The SA function also assesses the need for new controls in order to manage change in the operating environment. Finally, to promote a safety culture within the organisation, we continuously train and educate our Allstars on safety processes and behaviours, and encourage constant conversations on safety.

Safety Policy Statement

Safety is a core principle of how we run our business. We are committed to developing, implementing, maintaining and constantly improving strategies and processes to ensure that all our aviation activities take place under a balanced allocation of organisational resources. Our aim is 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 levels of management and all employees are accountable for the delivery of this highest level of safety performance, starting with the Chief Executive Officer (CEO).

Our commitment is to:

- Support the management of safety through the provision of all appropriate resources that will result 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 all 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 of the consequences of hazards resulting from our operations or activities to a point which is a as low as reasonably practicable (ALARP);
- Ensure that no action will be taken against any employee who discloses a safety concern through the hazard reporting system, unless such disclosure indicates, beyond any reasonable doubt, an illegal act, gross negligence, or a deliberate or wilful disregard of regulations or procedures;
- Comply with and, wherever possible, exceed, legislative and regulatory requirements and standards;
- Ensure that sufficient skilled and trained human resources are available to implement safety strategies and processes;
- Ensure that all Allstars are provided with adequate and appropriate aviation safety information and training hence are competent in safety matters, and are allocated only tasks commensurate with their skills;
- Establish and measure our safety performance against realistic safety performance indicators and safety performance targets;
- Continually improve our safety performance through management processes that ensure relevant safety action is taken and is effective; and
- Ensure externally supplied systems and services to support our operations are delivered meeting our safety performance standards.

AIREEN OMAR
Chief Executive Officer

SAFETY REVIEW AND ACTION MEETINGS

To ensure the Safety Management System is implemented throughout the organisation, the following safety meetings are held on a regular basis:

A SAFETY REVIEW BOARD (SRB) MEETINGS

The SRB is a very high-level strategic committee. Quarterly meetings are organised by Group Safety and chaired by the Safety Board of Director with the attendance of all Accountable Managers (the Chief Executive Officers) and Safety Directors, of each airline within AirAsia Group. The meetings deal with issues in relation to policies, resource allocation and organisational monitoring. All Safety Performance Indicators, significant events and security highlights are shared and discussed at these meetings. During the year, mitigation measures and reviews of existing processes for continuous improvement were tabled for standardisation among the AirAsia Group.

B SAFETY REVIEW MEETINGS (SRM)

The SRM is chaired by the Accountable Manager and attended by senior managers responsible for functional areas on a monthly basis. Members of SRM include the Director of Safety, Director of Flight Operations, Head of Security, Head of Engineering, Head of Ground Operations and Safety Managers.

The SRM provides input to the management process. In general, it covers results of audits, findings from inspections, operational feedback, changes in regulatory policy, follow-up actions from previous management reviews and security matters, among others. Safety reports are discussed in detail, involving all departments within the Group airlines.

Safety performance indicators are closely monitored through various dedicated safety targets. The SRM takes decisions and recommends actions to further improve processes throughout the management system, while ensuring safety and security requirements and resource needs are met.

C SAFETY ACTION GROUP (SAG) MEETINGS

SAG meetings are held monthly or when there is a need to review safety-related matters such as investigation reports, updates of policies and procedures, among others. It is eminently tactical and deals with implementation issues to satisfy the strategic directives of the SRB. Members of SAG are line managers and representatives of front line personnel. SAG members ensure implementation of specific activities at the 'grassroots' level to ensure safety risks control in line operations.

On top of the above, safety issues are also highlighted during the weekly management meetings with Heads of Department, which are chaired by the CEO.

Continuous Improvement Initiatives

We acknowledge that safety management is an ongoing process. While internally we ensure the highest levels of safety possible by adhering to our SMS and conducting internal safety audits, SMS audits, safety reviews, safety surveys and safety observations, we welcome the assurance of our safety standards via DCAM audits and surveillance programmes. DCAM performs audits on all airlines in Malaysia to ensure compliance with ICAO's requirements. Following our last DCAM audit in September 2016, we were given a two-year Air Operator Certificate (AOC) renewal, which is the maximum allowable period. This indicates a high level of compliance with international standards.

Safety Training

In order to create a safety culture at AirAsia, we make it compulsory for the identified operational personnel, supervisors, managers, senior managers and the Accountable Manager to undergo appropriate training. The objective is to ensure all relevant Allstars are competent to perform their SMS duties. Our Safety Department provides initial and recurrent SMS training throughout the year, and it is the responsibility of Heads of Department to ensure their Allstars have received adequate SMS training. Training is also coordinated, conducted and assessed by SMS trainers or the respective Safety Action Group members. SMS training forms part of the induction programme for new Allstars, while recurrent training is conducted every two years, when Allstars are updated on the latest in aviation safety management.

Food Safety & Product Quality

In 2016, we embarked on a Food Safety & Product Quality project to define a Global Quality Policy and to develop a Corporate Quality Chain Management System (QCMS) for food safety and product quality across the region, encompassing the entire value chain from product development and procurement, to operations and distribution. This will help us develop the highest quality food and beverage for inflight consumption.

We also aim for all food handling units across our Group to be ISO 22000 (World Food Safety Guidelines for Airline Catering) certified. Currently, only AirAsia's warehouse and kitchen have the certification. To achieve this, we would need to supplement the QCMS with:

- Monthly consumer complaint analysis
- Internal audits for full scope of quality policies
- Supplier audits and hazard analysis for any changes in food product or process development
- Sharing of best practices within the Group

STAKEHOLDER ENGAGEMENT

Different stakeholder groups, such as the public, our Allstars, investors, the government and all of our business partners, play an important role in our continuing success as a low-cost airline. Accordingly, we invest considerable resources to develop and maintain strong relationships with these groups.

As the AirAsia Group has been expanding, the communication of one vision and one message across all stakeholders has become of great importance to ensure consistency in the different markets we operate in. Thus, in February 2017, we established a new division, Group Global Affairs and Development, comprising Group Corporate Development, Group Government Affairs and Policy, Group Investor Relations, Group Communications and Group Branding.

Group Corporate Development and Group Government Affairs and Policy work together to develop an accurate and clear corporate vision as well as strategy and messages which are communicated to governments, international and local institutions and regulators. They collaborate with government entities, global organisations (eg World Economic Forum, World Travel & Tourism Council, ASEAN, ASEANTA), associations, think tanks and academics to develop the most feasible solutions for ASEAN aviation and other markets. Such solutions address issues such as airline ownership restrictions, and a fragmented aviation regulatory framework, while seeking to finalise the ASEAN Open Skies and provide the opportunity to develop an integrated ASEAN visa as well as trusted traveller programmes for seamless travel based on safety and security.

Group Investor Relations, Group Communications and Group Branding translate the above messages to their respective stakeholders, where appropriate.

In Malaysia, the Government Relations Department serves as the main focal point for all communication and engagement with the government and relevant agencies. The department contributes actively to the development of national and international aviation policy. Our Guest Service department oversees the functions of all Allstars who front the airline. Contact centres and other entities engaging with the public are managed by the Customer Experience department. Our Communications team is responsible for messages broadcast to the public (such as our press releases). It also takes the lead in community programmes that allow us to work with the public on issues that are meaningful to society. We have a Corporate Culture team, part of the People department, that organises company events, complementing the constant interaction that takes place on a daily basis between Allstars at all levels. Our Investor Relations (IR) team manages our investing community. Finally, it is the responsibility of everyone to ensure we maintain strong, mutually respectful ties with our business partners.

Our stakeholder engagement is guided by a high level of corporate governance which ensures we maintain an open, transparent and ethical environment in our dealings with our internal and external stakeholders.

STAKEHOLDER GROUP	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. To highlight issues and hurdles in the aviation industry for the government to look into and raise at the international level when needed.	Face-to-face meetings Parliamentary sessions Formal meetings with government officials initiated by AirAsia Tours and familiarisation visits to AirAsia and our operating units	Ad hoc 3 times in 2016 66 in 2016 25 in 2016
GUESTS	Our guests are the prime reason we operate. Without them, we would have no role to play.	Guest feedback through: Online survey Call Centres Online submissions Live Chat Twitter (Ask AirAsia) AirAsia Sales Offices AirAsia Travel & Service Centres	Sent out to the first flown guests listed in each booking number one day after their return flight (excluding employees, travel agents and complimentary flights) Available across all associates. Operating hours according to respective countries, as published on airasia.com Available Monday-Friday, 9am-6pm according to respective AOC Available daily 24/7 (English only) Available daily, 8am–8pm (English) Location and addresses are available and updated on airasia.com Location and addresses are available and updated on airasia.com
THE PUBLIC/ COMMUNITY	The public is our community. Their support is important to our brand reputation and long-term sustainability.	#AirAsiaMAKNA events #Green24 events	At least 15 times a year At least 10 times a year
ALLSTARS	Our Allstars form the backbone of the Company. Without them, we could not function.	Open office layout promotes constant conversation Personal announcements by leadership Workplace by Facebook Cultural, sports, well-being, appreciation events	24/7 Ad hoc 24/7 - 4 cultural celebrations in 2016 - Weekly sports events - 11 other major events involving all Allstars in 2016
INVESTORS	Investors provide us with critical funds that support our business operations and growth. It is important to provide our shareholders and the investment community clear indication of the Company's performance and strategy.	Analyst and investor briefings by senior management Non-deal roadshows (NDR), investor conferences, corporate forums Investor meetings and conference calls (excluding NDR and conferences) Annual General Meetings & Extraordinary General Meetings Investor Relations website and app Number of research houses covering AirAsia Berhad	Quarterly Please refer to the 2016 Investor Calendar, on pages 26 to 27 Please refer to the 2016 Investor Calendar, on pages 26 to 27 All formal requests for investor/ analyst meetings and conference calls were met. A total of 55 meetings (excluding NDRs, conferences and forums) were recorded in 2016 and reported to senior management via daily and weekly Investor Relations reports. Please refer to the 2016 Investor Calendar, on pages 26 to 27 24/7 23 at the end of 2016
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 starts a year before the anticipated aircraft deliveries to ensure we meet our financing objectives 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 Daily, available 24/7 24/7

HOPE FOR PATIENTS & FAMILIES WITH CANCER

Continuing with efforts made in 2015 to support the work of the National Cancer Council Malaysia (MAKNA), in 2016 we contributed a total of RM350,000 to the organisation by channelling 10 cents from each flight booking made online from 15 August - 16 September 2016 as well as sponsoring the MAKNA Klimb Kinabalu 2016 expedition. More than raise funds, our objective is to create greater conversation on cancer so that Malaysians are more aware of the disease, and of the help available to patients and their families. That we have been at least partially successful was reflected in the programme receiving a Silver for Best CSR Communications at the Marketing PR Awards 2017 on 24 March 2017. The awards recognise communication and public relations efforts across Asean.

STEPS TOWARDS A GREENER WORLD

We believe everyone has a responsibility towards protecting the environment, and seek to create greater awareness of climate change issues among Allstars and the pubic via #GREEN24. Starting in November 2015 with green efforts within our headquarters (then Red Fort), the initiative escalated into a 24-hour wave of green initiatives from 29-30 January during which all our global offices took on various climate change challenges. This generated a lot of hype on social media, with #GREEN24 trending on Twitter. Also on 30 January, we ran a community event/marketplace in Bangsar where members of the public were encouraged to deposit their recyclables, and pick up tips on how to live green from environmental organisations that came ready to share their knowledge.

OTHER ENVIRONMENTAL EFFORTS DURING THE YEAR INCLUDED:

Planting 400 seedlings and building a rainwater harvester in Bangsar, Kuala Lumpur together with NGO, Free Tree Society, in conjunction with Earth Hour day on 19 March.

Supporting the Pattaya City Council in a beach and reef clean-up in Pattaya, Thailand together with NGO Project AWARE, established by scuba divers focused on ocean protection.

Conducting a reef clean-up activity at Talim Bay in Batangas, the Philippines.

TALENT ATTRACTION & RETENTION

We have a unique culture at AirAsia in which everyone is treated as part of a big family. That means supporting each other but also being brutally honest when need be. Because of our open office layout, the leadership team is always 'available' for conversation with any Allstar. We have developed as flat an organisational hierarchy as possible to maintain a democratic work environment in which the opinions and contributions of everyone are valued and treated with respect.

Bringing in the Right Talent

Teamwork forms part of our DNA, as are passion and the willingness to go the extra mile to do the job at hand. It is not easy to find the right people who fit the criteria of what we look for in our Allstars, hence much emphasis is placed on ensuring we bring on board the right talent. Other than personal referrals, we engage in various more structured platforms to satisfy our recruitment needs.

At the fresh graduate level, we take in outstanding applicants who apply through normal recruitment channels. We also provide a four-month internship programme, Highflyer@AirAsia, targeted at those completing their undergraduate studies. This internship programme is run twice a year, each with about five interns. Those who find a good fit with AirAsia stay on as full-time Allstars. As a rule of thumb, three out of four interns stay on with us.

At the managerial level, we run a 12- to 18-month apprenticeship, Rocketeer@AirAsia, which exposes global talent with at least two years' work experience to different functions in the organisation. Only one programme is run a year, with eight to 10 participants chosen based on a selection process involving their participation in bottom-line impact projects. Traits that we look for include adaptability, the ability to switch between tasks and emotional intelligence.

More recently, in line with our digitalisation programme, we seek to bring on board data analysts via our DataWarrior@AirAsia programme. These 'data warriors' spend 12 months on projects across commercial and operations functions, and may be offered full-time employment at the end of their stints.

Developing our Talent

In 2016, we launched a Leadership and International Aviation Safety development programme with Cranfield University, a leading British postgraduate institution. This is targeted at our operational and commercial leaders across locations. In 2016, 27 participants took part in the programme which aims to develop competent Heads of Department who have a good understanding of the aviation business as well as strong leadership qualities that can be channelled towards developing and maintaining a world-class airline with world-class safety standards in AirAsia.

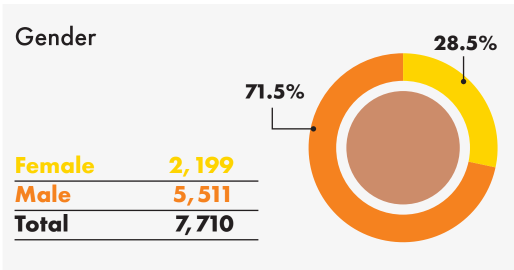
We also offer three to four scholarships a year to our top talent to undertake the 18-month MBA programme run by the Asia Business School, established by Bank Negara Malaysia in partnership with the MIT Sloan School of Management. In 2016, four scholarships were given out.

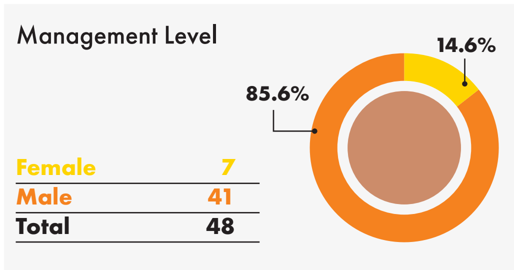
Talent Review

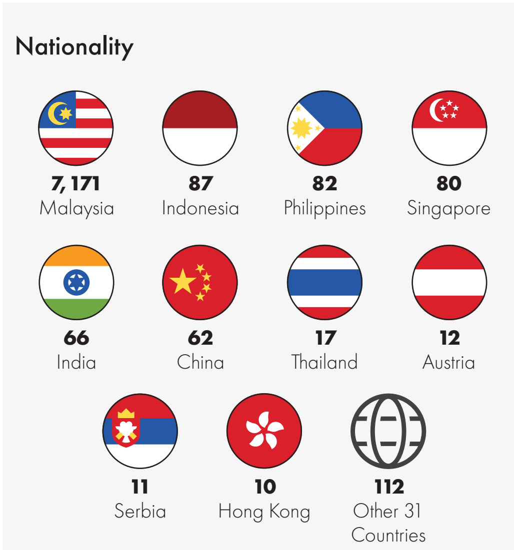
Every year, Heads of Department conduct a talent review to identify higher performers and Allstars who have demonstrated leadership potential. These talent are then placed on a fast-track programme that involves learning interventions that can help address any gaps they may have in their knowledge or skills-set to fully realise their potential. The talent review and subsequent development programme are essential towards the creation of a high-performance organisation while also serving to strengthen our leadership bench.

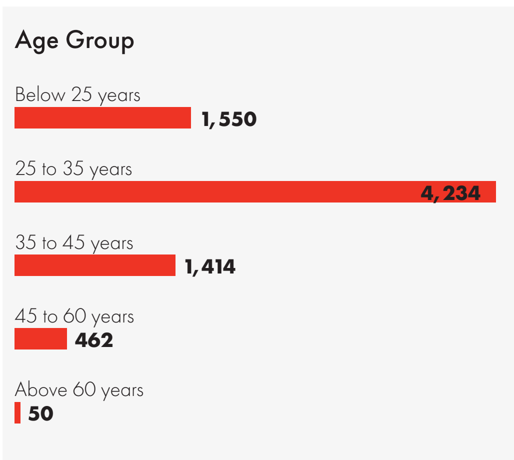
Our Employee Demographics

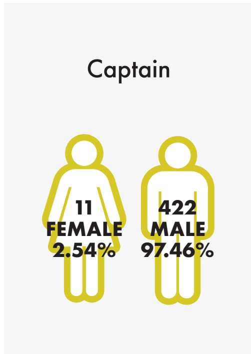
AirAsia employs 7,710 Allstars in Malaysia, a figure that has increased 15.8% from 6,657 Allstars as at end 2015. Of the total, 63.0% are Bumiputra and 71.5% are male. As an Asean airline, we have a significant number of Allstars from the major Asean nations. While 93.0% of Allstars are from Malaysia, we have 87 Indonesians, 82 Filipinos, 80 Singaporeans, 66 Indians, 62 Chinese, 17 Thais and smaller representations from other countries, including countries outside of Asean, such as Austria, Serbia and Hong Kong.

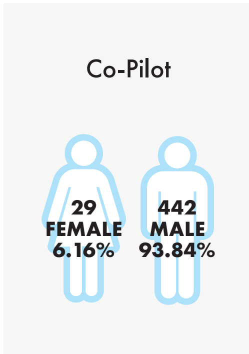


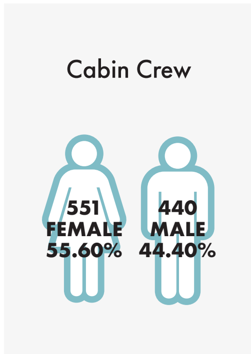


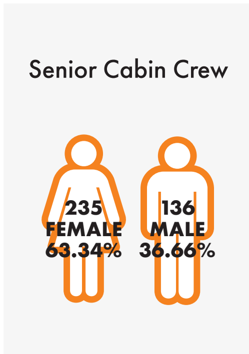


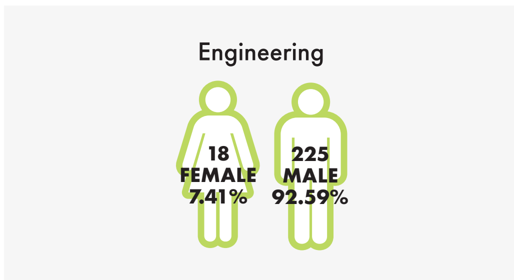












The diversity of our workforce reflects our belief in the benefits that people with different perspectives bring to the organisation. This is something we truly embrace and would like to further strengthen.

We pride ourselves on being a democratic, equal opportunity employer, and recruit as well as promote based on individual merit. All Allstars are given the same opportunity to advance within the organisation, however those who demonstrate leadership potential are enabled to take on roles of greater responsibility.

OPERATIONAL EFFICIENCY

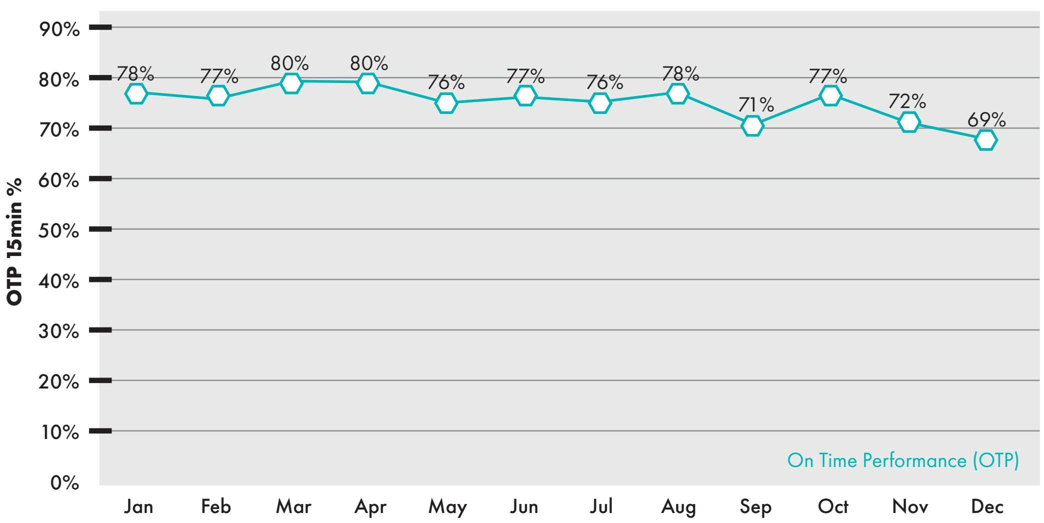
Operational efficiency is key to maintaining high standards of service, as well as to keeping our costs low. We have various programmes to ensure continuous improvement of our systems and processes.

Reduce Operational Disruption

We closely monitor operational disruptions and analyse them to determine and address their underlying cause(s).

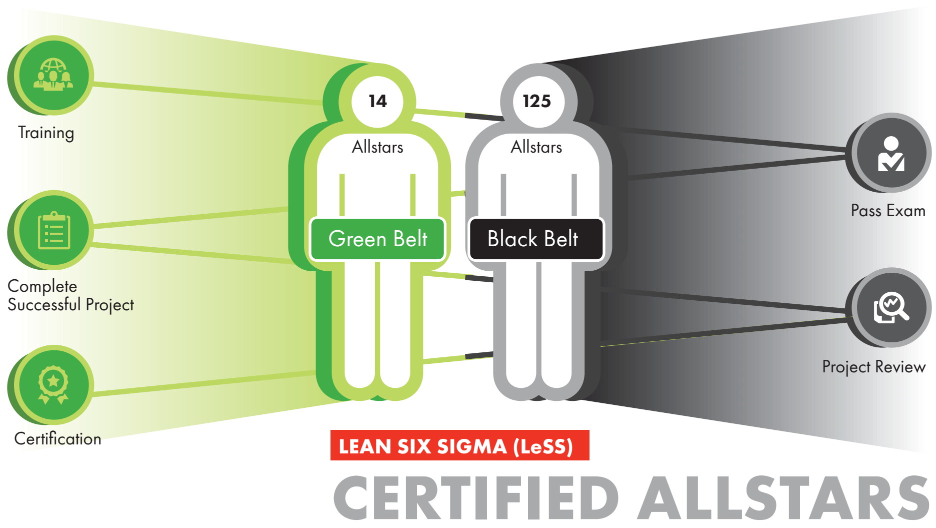
On-time Performance (OTP)

We have set ourselves the target of improving our OTP by 3% in 2017 through key initiatives such as zonal boarding, value chain mapping, and greater collaboration across related teams. For example, OTP walkabouts exist that see operational department leads collaboratively observe and review day-to-day challenges to avoid a blame culture and foster open and progressive discussions on solving real challenges.



Continuous Improvement Programme

In 2010, we embarked on a Continuous Improvement Programme (CIP) under which a dedicated team of Lean Six Sigma (LeSS)-certified Allstars help to create greater efficiencies across different departments in AirAsia. In addition to taking on projects, the CIP team encourages more Allstars to be LeSS-certified in order to increase our change-management capabilities as an organisation. To date, 14 Allstars have been trained for the LeSS Green Belt, and 125 for the LeSS Black Belt. All are involved in various levels of improvement initiatives within the Company.



Cost Out and Avoidance (COA)

This is a collaborative framework for LeSS knowledge transfer between AirAsia and GE Aviation to improve operational efficiencies and increase our cost discipline. Since it was established in 2012, the COA programme has achieved USD17.5 million in project savings. Among the successful COA projects carried out during the year were:

- **Aircraft Performance Degradation (APD) Pairing**
  As of 2014, we have been engaging both our Network Management Centre and Engineering to plan our aircraft allocation such that aircraft with low APD scores (hence are more fuel efficient) are used for longer routes. This has led to a more than 20% increase in yields and greater fuel reduction.

- **Tech Crew Resource Management**
  In the fourth quarter of 2015, we observed that a significant number of flights were affected by a reduced available technical crew count. By engaging in increased automation of our manpower planning, rostering, advanced crewing and day-to-day crewing; as well as holding monthly meetings with the scheduling team, and pre-peak period meetings with all relevant departments, we managed to reduce the number of delays by 10%. In parallel this has delivered a robust early indicator system enabling better operational response.

- **Check-in Counter Resource Planning**
  A study to understand why queues at our check-in counters were increasing determined that we were not managing our resources optimally. Hence a manpower planning template was designed, and queues were separated to spread counter loads at peak hours. This has helped considerably to manage our increasing passenger loads. Going forward, we will use historical data to predict the number of passengers that will be utilising counters for check-in/baggage transactions, and allocate our resources accordingly.

Note: The CIP team was also responsible for developing our Global Quality Policy and Corporate Quality Chain Management System for food safety across the region, which was reported under 'Safety & Health' above.

Electronic Point-of-Sale (EPOS)
We are employing greater automation to track our inflight sales with the intention of reducing wastage and paper use, while increasing ancillary revenue. In 2017, we will be implementing a digital system on all AirAsia X flights that promises to reduce our perishable food and beverages waste by 20%, while totally eliminating the use of paper. This will encompass WMS, for real-time inventory movement; vPACK, a packing system on tablet for warehouse crew instead of IFCSR paper; and vPOS, a mobile credit card reader for use by our crew. This will be supported by automated sync with our back-end office, and the use of business Intelligence for predictive load planning for F&B and duty-free products. EPOS will subsequently be rolled out in other airlines within the Group.

Standardising IT Security Policies
We are establishing IT security policies – on areas such as access control and acceptable/non-acceptable use of IT equipment – to govern and ensure compliance across AirAsia Group. The idea is for IT security consciousness to be integral to AirAsia's culture.

SERVICE EFFICIENCY

We place great emphasis on providing a high standard of service as we believe being affordable does not mean having to compromise on the level of professionalism with which we treat every guest. Numerous initiatives are undertaken to ensure our guests appreciate how much we value them, and consequently look forward to flying with us again.

Focus on our Guest Service (GS) Personnel
We strive to create an environment in which our GS Allstars are willing to go the extra mile and be of real service to guests – in order to create pleasant travel experiences, and enhance AirAsia's image. We regularly run Service Campaigns to reinforce the message of service excellence. And we make an effort to listen to our GS personnel so as to be able to address any issues they may face. This is achieved via a Staff Satisfaction Survey (SSS) which is conducted once a year in which our Allstars provide us honest feedback on their work conditions.

In 2015, we developed a GS Scorecard to assess the performance of our front-liners on a monthly basis. From the scorecard, which is filled up by each Allstar's immediate superior, we are able to identify both outstanding as well as under-performing staff. While the high performers are recognised, those who are not performing up to required levels are given further coaching.

Innovative Service Offerings
One of our hallmarks is innovation. This extends from having an innovative business model to providing innovative products and services to enhance our guests' flying experience.

We were one of the first airlines in the region to introduce a mobile app (iOS & Android) in 2010 and, in November 2015, launched an updated version of the service making the process of booking and check-in faster and more convenient. This guest service innovation won the World Travel Awards 2015 for the World's Leading Low-Cost Airline App. In March 2016, we enabled guests with the mobile app to make use of eBoarding Passes to proceed from the departure hall straight to the boarding gate.

We aim to keep enhancing the mobile platform to provide guests with a seamless experience from the time they make their booking till they board the plane. Two immediate goals are for mobile bookings to contribute to about 35% of digital bookings within AirAsia by end 2017, from 13% (or 3.9 million bookings) in 2016; and for the number of guests who use the eBoarding Pass with their mobile check-in to increase from 20% currently to 40% by end 2017.

We were also the first airline in Malaysia to offer wifi service on selected AirAsia flights in November 2014. As of March 2017, we have enabled 42 aircraft to offer the service, ROKKI, which was developed in-house. We aim to offer the most cost-effective, best-in-class inflight entertainment and connectivity, with no less than 150 hours of content by end 2017.

Customer Experience
We have in place a quality practice framework to improve and deliver exceptional customer service. The framework requires us to listen and respond to the voice of the customer in all channels and to enhance our customer experience as well as customer loyalty. As part of ongoing efforts to provide the best customer service, we are in the process of implementing a new system for the management of customer complaints and compliments to enable real-time reporting to the organisation.

Customer Experience Assessment
We have been conducting an online customer experience survey in order to discover areas in which we can improve our service. Questions are emailed to guests following travel on AirAsia, asking them how satisfied they were with their experience during the booking process, check-in, boarding, inflight and arrival, as well as how likely they are to recommend our airline to others. The results of these surveys are analysed on a quarterly and annual basis, and discussed at length with Heads of Department every year.

We are currently looking into ways to increase the response rate as we see this platform as important for us to continuously improve our service offering and keep our guests satisfied.

ENERGY CONSUMPTION & FUEL MANAGEMENT

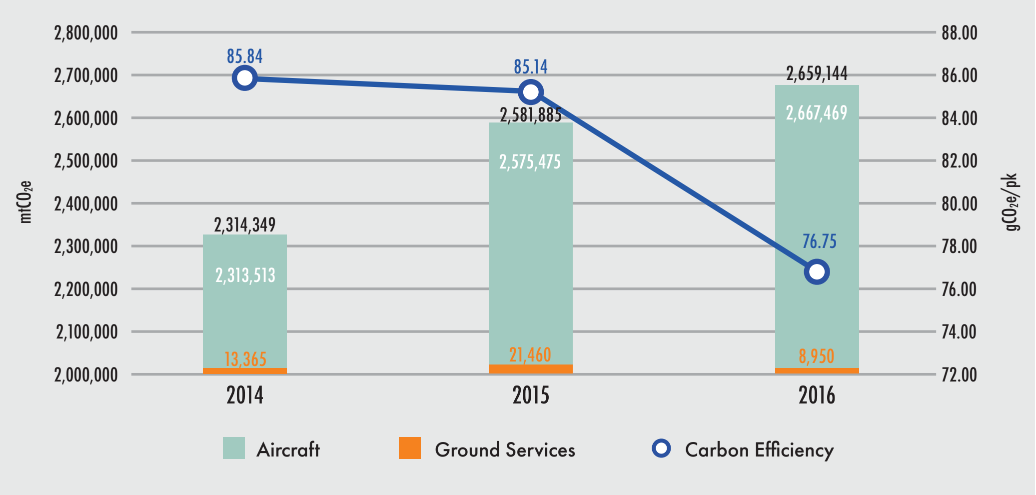
As a low-cost carrier in which around 31% of our costs are related to fuel, energy efficiency has always been a key consideration at AirAsia. Being able to manage our fuel consumption is critical to our sustainability and also helps us contribute to the sustainability of the natural environment. While it is difficult to make quantum changes in our energy consumption when we are already adopting best practices, we are motivated by the knowledge that every small saving per flight leads to large annual savings overall.

Under our Sustainability Policy we are committed to enhancing our fuel efficiency annually, and have been measuring our emissions from aircraft as well as ground vehicles since 2013.

As with any growing airline, our total emissions – measured in metric tonnes of CO_2 equivalent – have increased over the years. At the same time, however, our efficiency has improved from the perspective of:

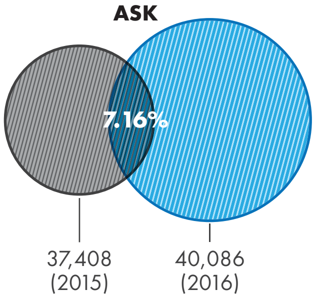
1) total emissions against average seat kilometre (ASK), where (ASK) captures our total flight passenger capacity – by multiplying the total number of seats available for scheduled passengers and the total number of kilometres in which those seats were flown.
2) grams of CO_2 emitted per passenger kilometre (inclusive of cargo weight).

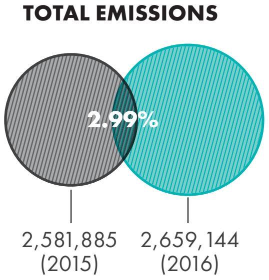
TOTAL CO_2 EMISSIONS VS CARBON EFFICIENCY (gCO_2e/pk)



Note:
- *Emission levels have been calculated based on consumption of the different fuels, using conversion formulas provided by the United States Environmental Protection Agency.*
- *Carbon efficiency is based on average CO2 emitted per flight/(average number of passengers per flight x average distance travelled per flight). The lower the figure, the more efficient our operations.*

Between 2015 and 2016, for example, ASK grew by 7.16% while total emissions increased only by 2.99%.





As the graph on the left indicates, our carbon efficiency has steadily increased as the total grams of CO_2 emitted per passenger km (plus cargo) has steadily decreased.

Going forward, we intend to broaden our reporting to include indirect emissions from electricity usage and emissions not controlled by AirAsia, such as from Allstars' commute. We started collecting data for indirect emissions from electricity in December 2016, and will commence for Allstars' commute in 2017.

Efficient Fuel

Our efforts start with the type of fuel we use, namely grade A1 jet fuel, which is the highest grade of kerosene, and produces less CO_2 emission than conventional fuels for cars.

Efficient Aircraft

We maintain a young fleet as fuel efficiency tends to deteriorate with age. The average age of our fleet currently is 66 months (five-and-a-half years), less than half the industry average of 140 months (11 years, 19 months). All our Airbus A320 aircraft are fully-compliant with emission standards set by the ICAO.

In 2012 we became the first airline in the world to take delivery of A320 aircraft fitted with Sharklet winglets, which reduce aerodynamics drag to further lower fuel burn. With these aircraft, we save up to 5% of fuel (147 litres) or 464kg of CO_2 on every flight. At the end of 2016, 30% of our aircraft were Sharklet-equipped.

In September 2016, we marked another milestone by becoming the first airline in Asean to fly the Airbus A320 new engine option (neo) aircraft. These enhance our fuel efficiency by another 16%-20%, enabling us to save up to 666 litres of fuel per flight. By 2020, around 19% of our aircraft will be neo models.

Reduced Aircraft Weight

The less an aircraft weighs, the less fuel it burns. We therefore look for ways to minimise our aircraft load.

- ☑ We have replaced about 23kg worth of flight documents – such as flight plans, voyage reports and aircraft manuals – with 2kg electronic flight bags (ie tablets). This currently saves two litres of fuel and 6kg of CO_2 per flight.
- ☑ Instead of filling the 200-litre water tanks with potable water, we carry only as much water as we need, based on the flight length. This has enabled us to reduce our CO_2 emissions by an average of 10kg per flight.
- ☑ When painting new livery, we strip the aircraft bare before painting on the new design using the latest Base Coat Clear Coat (BCCC) system. By combining the base coat with the clear coat, we halve the paint thickness compared to conventional painting methods.

Operational (Flight) Efficiencies

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

- In collaboration with the Department of Civil Aviation Malaysia, we have implemented ***Performance Based Navigation (PBN)*** procedures which make use of the aircraft's own ability to navigate the shortest possible approach instead of relying on ground-based equipment. With PBN, we can save about 182 litres of fuel and 575kg of CO_2 per flight. This presents the potential to save up to 3.12 million kg of CO_2 emissions between Kuala Lumpur and Kuching per year alone. To date, we have spent USD40 million to develop these procedures, which have been implemented at 11 of 14 airports that we fly to in Malaysia.
- We apply ***one-engine taxi*** procedures both before take-off and after landing for some of our flights. When taxiing out, only one engine is used until the aircraft reaches the runway and is about to take off. Conversely, one-engine is switched off after landing. This initiative saves us about nine litres of fuel per flight, reducing CO_2 emissions by 28kg while also reducing engine maintenance costs and noise pollution. In a year, it saves us 7.5 million kg of CO_2 emissions.

Better Maintenance for Better Efficiencies

We are also able to better manage our fuel consumption by ensuring our aircraft are maintained in the best possible condition. Among the programmes that contribute towards this are:

- **Landing Gear Overhaul.** New landing gear is able to reduce an aircraft's fuel consumption by up to 2%, which is equivalent to 336kg of fuel for a four-hour flight. As such, any landing gear that meets the requirement for overhaul will be removed accordingly.
- **Engine compressor wash.** As much as 0.2% of fuel per engine can be saved after the wash, amounting to savings of 171,000 litres of fuel per month for the AirAsia Group.

Together, the efforts outlined above resulted in a reduction in CO_2 emissions by more than 30,000 tonnes in 2016 - the equivalent of saving nearly 149,000 trees. This represents about 5% of AirAsia's annual emissions. We expect these savings to continue to grow every year as we deepen and expand our efforts through the work of our newly-established business sustainability and environmental teams. In addition to energy consumption and fuel management, programmes will also consider issues such as environmental policy and management systems, operational eco-efficiency and greenhouse gas emissions.

Our Own Green Wave

Efforts at AirAsia to be as optimally fuel-efficient as possible are motivated not only because it is important for our business. We believe strongly that, as an airline, we have a responsibility to take up the gauntlet of environmental stewardship and are making positive steps in this direction.

Waste management

Every month, our aircraft and ground equipment produce over 1,000 litres of waste fuel and at least 600 litres of waste oil. We also produce a sizeable amount of industrial waste such as metal scrap, used batteries, filters and paper, among others. In the last three years alone, we have collected over 29 tonnes worth of industrial waste. We are committed to ensuring all such waste is disposed of in an environmentally-sustainable manner, and have contracted appropriate licensed collectors to undertake the operations.

Reducing & Recycling

We have started to collect and segregate recyclable items on board our flights as well as within our headquarters, RedQ. Currently, waste is segregated into five categories: paper, cardboard boxes, tin, aluminium and plastic. Our aim is to expand this to 10 categories, and to increase the volume of recyclables collected by 5% per annum. We also intend to start composting food waste at RedQ.

At the same time, we are reducing paper usage in the office, replacing much paper work with e-forms which are accessible by Allstars on a centralised portal. For example, Allstar claims are being made online using Concur forms. As this is a fairly new initiative, measurements will commence from 2017 onwards. AirAsia aims to have a paperless office by 2018.

Meanwhile, environmentally-friendly chemicals are used for cleaning and maintenance of RedQ.

RISK & CRISIS MANAGEMENT

Risk management is firmly embedded within the aviation industry due to the high level of regulatory oversight. The mandate of managing risks effectively for AirAsia lies with our Group Risk department (Group Risk). The key facets of risk management within AirAsia are realised by the establishment of a robust risk governance structure via the development and implementation of the Group Risk Policy, Enterprise Risk Framework and the Business Continuity Management Framework.

Group Risk Policy

The Group Risk Policy forms the basis of all risk frameworks, policies and procedures on risk management within AirAsia. It illustrates the gravity with which risk management is considered by senior management as well our commitment to excellence in risk management.

Enterprise Risk

The Enterprise Risk Framework strengthens 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 transparent identification of risks to operations from the bottom up and a top-down oversight and management of identified risks.

Business Continuity Management (BCM)

Business Continuity Management (BCM) aims to build organisational resilience and the 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.

Information technology plays a tremendous role in AirAsia's business. In line with ensuring that our business stays resilient to ICT related disruptions, we have set up an ICT Disaster Recovery Plan with two off-site business recovery centres. In tandem, we have also developed a Group Operational Response Plan that outlines the role of operations during an ICT related disruption.

The Asian Aviation Centre of Excellence in Sepang and Wisma Tune in Kuala Lumpur were established as AirAsia and AirAsia X's business recovery centres respectively, and tested for their operability in 2016.

In line with the Group's One AirAsia aspiration, BCM takes a regional stance in protecting local as well as shared Group assets by developing Business Continuity Plans for:

- AirAsia departments and stations
- AirAsia X departments
- AirAsia Indonesia & AirAsia X Indonesia departments
- AirAsia India departments

Risk Assessments

AirAsia's Enterprise Risk Management (ERM) Framework has outlined risk assessments as a crucial aspect of managing risk within the organisation. In 2016, Group Risk 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. The risk assessments have resulted in the development of each function's risk register whereby the risks as well as the corresponding controls and mitigation plans are specified.

In 2017, the risk assessment exercise will be further expanded to other key functions within AirAsia namely Finance, People and Ground Operations.

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STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors ("the Board") of AirAsia Berhad ("the Company" or "AirAsia") is committed to good corporate governance throughout the Group. Save as disclosed otherwise, the Board considers that, throughout the year under review, it has complied with the principles and recommendations as set out in the Malaysian Code on Corporate Governance 2012 ("the Code" or "MCCG 2012"), and the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Malaysia").

This statement explains how the Company applies the principles and supporting principles of the Code and MMLR, thus providing an insight into the corporate governance practices of the Company under the leadership of the Board.

BOARD OF DIRECTORS

Roles and Responsibilities of the Board

The roles of the Board and Management are separate, as defined in the Board Charter, while the decision-making limits of management within the Group are defined in the Limits of Authority manual ("LOA manual").

The Board is responsible for the oversight of the overall management of the Group and retains full and effective control over the affairs of the Group. It reviews policies and strategies, actively oversee the conduct, management and business affairs of the Company, and monitors 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 stakeholders. Its role can be summarised by the following:

- Reviews, approves and adopts strategic corporate plans and actions for the Company
- Approves the Company's annual budget, including major capital commitments, and periodically reviews achievements against business targets
- Approves new ventures
- Approves material acquisitions and disposals of undertakings and properties
- Identifies principal risks and ensures the implementation of appropriate internal control systems and mitigation measures to manage these
- Oversees and evaluates the conduct of the Company's businesses
- Monitors and, if necessary, approves changes to the management and control structure within the Company and its subsidiaries, including key policies and delegated authority limits
- Considers emerging issues which may be material to the business affairs of the Group
- Ensures the Company has a proper succession plan for Executive Directors and Senior Management
- Develops and implements an investor relations programme
- Reviews the adequacy and integrity of the Company's management information and system of internal controls
- Reviews key elements of business sustainability practices of the Company
- Reviews any other matters which requires its approval pursuant to the applicable rules, laws and regulations

The Board Charter is available on the Company's website at www.airasia.com, and is reviewed on an annual basis.

<u>Limits of Authority</u>

The LOA manual defines the decision-making limits of the Board and each level of Management within the Group. It clearly outlines matters over which the Board reserves authority and those which it delegates to Management, assigning to the latter authority on capital and operational expenditure and other key approval matters. 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 AirAsia and facilitates decision-making at the appropriate level in the organisation's hierarchy.

Reviewing and adopting a strategic plan

Every quarter, the Board and Audit Committee will review the operational and financial performance of the Company as well as subsidiaries, joint ventures and associates in the Group. Detailed reports on the airlines and non-airline investee companies within the Group are tabled for review and deliberation on their performance against budget and the corresponding quarter of the preceding year. This enables the Board to continually assess the Group's performance, as well as monitor progress of initiatives and projects. The Group budget and strategy meeting is chaired by the Group Chief Executive Officer ("GCEO") to chart the direction for the current and near-term period ahead and is attended by the Executive Chairman and the Chief Executive Officer ("CEO") of the Company, who are also Board members. The GCEO updates the Board every quarter on progress made in relation to business plans and any changes to these plans, including any new initiatives, if relevant.

Succession Planning

The Company places strong emphasis on the development of our staff, fondly known as Allstars, and their growth into our next generation of leaders. Our organisation structure reflects our commitment to continuously groom successors across the Group in the spirit of One AirAsia. Developing capabilities is crucial; and a Group Talent function has been established to develop policies and programmes to identify and build a robust talent pipeline to ensure the continuous supply of top talent. Talent reviews are conducted with Senior Management to map talent needs across our 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.

Board Balance and Independence

The Board consists of eight (8) members, whose details are given on pages 47 to 54 of this Annual Report. The eight members comprise:

- A Non-Independent Executive Chairman
- A Non-Independent Executive Director and GCEO
- A Non-Independent Executive Director and CEO
- A Non-Independent Executive Director and Deputy Group Chief Executive Officer (Operations)
- A Non-Independent Non-Executive Director
- A Senior Independent Non-Executive Director
- Two Independent Non-Executive Directors

In line with the Code, the positions of the Chairman and CEO of the Company are held by different individuals and their respective roles are as described on page 160.

Although the Chairman holds an Executive position, the Board is of the view that there is a sufficient number of experienced and independent Directors on the Board to provide the proper checks and balances. Datuk Kamarudin bin Meranun has considerable experience in the Group's businesses and provides leadership for the Board in considering and setting the overall strategies and objectives of the Company. The Board firmly believes it is in the interest of the Company to maintain the above arrangement to benefit from a Chairman who is knowledgeable about the businesses of the Group, capable of guiding Board discussions and who is able to brief the Board in a timely manner on key issues and developments.

Three (3) of the Non-Executive Directors fulfill the criteria of independence as defined in the MMLR. These Directors are considered by the Board to be independent of Management, hence are able to provide effective checks and balances in the functioning of the Board, reflecting AirAsia's commitment to high standards of corporate governance. The Nomination and Remuneration Committee ("NRC") and the Board are, meanwhile, actively seeking new Non-Executive Independent Directors to join the Company to increase the number of Independent Directors sitting on our Board.

The Board has appointed Dato' Fam Lee Ee as the Senior Independent Non-Executive Director and Chairman of the NRC.

Mr Tharumalingam was appointed a Non-Independent Executive Director of the Company effective from 6 March 2017.

Board members have declared their directorships in companies other than in the Group, and all satisfied the restriction of not being a director in more than five public listed companies. They have also declared their respective shareholdings in the Group, and interests in any contract with the Group, and abstained from any discussion or decision-making related to other companies in which they hold directorships or shareholdings.

STATEMENT ON CORPORATE GOVERNANCE

Roles and Responsibilities of the Executive Chairman ("EC"), GCEO, CEO and Deputy Group Chief Executive Officer (Operations) ("DGCEOO")

The roles of the EC, GCEO, CEO and DGCEOO are separate with clear divisions of responsibilities between them. This segregation of duties ensures an appropriate balance of roles, responsibilities and accountability at the Board level, such that no one individual has unfettered powers of decision.

The overall management of AirAsia Group rests with the following four Executive Directors, who are assisted by a number of key senior staff in their respective areas:

Executive Chairman: Datuk Kamarudin bin Meranun is the Executive Chairman and takes the lead in engaging with the government, aviation regulators and airport authorities in Malaysia. Based on his extensive experience in international finance, he is also the key person in handling the very large and critical financing needs of AirAsia, and overlooks the overall governance of the Company, its subsidiaries and associate companies.

Group Chief Executive Officer: Tan Sri (Dr.) Anthony Francis Fernandes is the GCEO and he provides overall leadership in building brand value, reducing costs and driving efficiencies to improve the performance of the airline and other AirAsia associate companies including AirAsia Thailand, AirAsia Indonesia, AirAsia Philippines, AirAsia India and AirAsia Japan.

Chief Executive Officer: Aireen Omar is the CEO of AirAsia Berhad, and is responsible for the overall performance and management of the Company while overseeing its day-to-day operations. She is the post holder on record with the various regulatory bodies, and is responsible to shareholders for the financial, business and operational performance of AirAsia Berhad. She is highly qualified based on her educational background and work experience both within AirAsia and elsewhere.

Deputy Group Chief Executive Officer (Operations): Mr Tharumalingam A/L Kanagalingam was promoted to DGCEOO in September 2016. His deep understanding of the operations and business enables him to supervise and oversee all key decisions with regard to the airline operations of AirAsia Indonesia, AirAsia Philippines, AirAsia India, AirAsia Japan, North Asia (China, Taiwan, Korea, Macau) and the operations of AirAsia in Singapore to drive process improvement and set up new airlines in the region for the Group. He also supervises the Commercial, Customer Experience, IT and Security functions of airlines within the Group, while managing Investments and Special Projects across the region.

Board size and composition

The size, balance and composition of the Board support its role, which is to determine the long-term direction and strategy of the Group, create value for shareholders, monitor the achievement of business objectives, ensure good corporate governance and that the Group meets its other responsibilities to all stakeholders.

The Non-Executive Directors are persons of high calibre and integrity. They collectively possess rich experience, primarily in legal, finance and private sector enterprises and bring wide and varied commercial experience to the Board and the Board Committee deliberations. The Non-Executive Directors have devoted sufficient time to their duties, as evidenced by their Board meeting attendance. Other professional commitments of the Non-Executive Directors are provided in their biographies on pages 47 to 54 of this Annual Report. The Board requires that all Independent Directors are independent in character and judgement; do not participate in the day-to-day management of the Company; and do not involve themselves in the business transactions or relationships with the Group, in order not to compromise their independence.

Strengthening Composition
Appointment of Directors and Board Diversity

The Company has adopted and implemented procedures for the nomination and election of Directors via the NRC. The NRC assesses candidates against the skills, knowledge and experience required by AirAsia. The Company recognises the benefits of having a diverse Board and, in line with its Board Diversity Policy, will ensure that women candidates are sought as part of the recruitment exercise. 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 nominee(s) for directorship and membership of Board Committees by going through their profile(s) and interviewing the nominee(s), following which they will submit their recommendations to the Board.

Potential candidates are required to declare and confirm in writing their current directorships, that they are not undischarged bankrupts, or involved in any court proceedings in connection with the promotion, formation or management of a corporation involved in fraud or dishonesty punishable upon conviction with imprisonment, or subject to any investigation by any regulatory authority under any legislation. Further, candidates being considered for the position of Independent Director are required to declare and confirm their independence based on the criteria set out in the MMLR.

Our diverse Board includes and makes good use of differences in skills, regional and industry experience, background, race, gender, ethnicity, age and other attributes of Directors. The Company also maintains a good mix of diversity among its Senior Management (please refer to details on page 149 of the Sustainability Report). The ultimate decisions on Board appointments will be based on merit and the value the candidate can bring to the Board.

The Company Secretary ensures all appointments are made according to set procedures, that all information necessary is obtained, as well as all legal and regulatory obligations are met.

Tenure of Independent Directors

The maximum tenure of an Independent Director is based on recommendation 3.3 of the MCCG 2012, which states that an Independent Director may remain after serving a cumulative term of nine (9) years, provided that the Board has concrete justification for the extension and has obtained shareholders' approval at a general meeting.

At the 23rd Annual General Meeting held on 30 May 2016, shareholders approved the continued service of Dato' Fam Lee Ee, who had served as an Independent Non-Executive Director of the Company since 8 October 2004. The Board is of the view that the ability of long serving Independent Directors to remain independent and to discharge their duties with integrity and competency should not be assessed solely by tenure of service or any pre-determined age. The Board has recommended that Dato' Fam Lee Ee remain as a Senior Independent Non-Executive Director based on the following justifications:

(a) His long service does not affect his independence and he continues to provide the necessary checks and balances in the best interest of the Company
(b) He has fulfilled the criteria under the definition of an Independent Director as stated in the MMLR of Bursa Malaysia
(c) He has vast experience in a diverse range of businesses and legal matters and therefore would be able to contribute constructive opinions; he exercises independent judgment and has the ability to act in the best interest of the Company
(d) He has devoted sufficient time and attention to his professional obligations for informed and balanced decision-making
(e) He has deep insight into the business and operations of the Company which would be advantageous to the Company
(f) He has continued to exercise his independence and due care during his tenure as an Independent Non-Executive Director of the Company and carried out his professional duties in the best interest of the Company and shareholders
(g) He has shown great integrity of independence and had not entered into any personal related party transaction with the Company

Annual Assessment of Directors

The NRC reviews the composition of the Board and the Board Committees annually. For the financial year ended 31 December 2016 ("Financial Year"), the NRC also reviewed and assessed the independence of the Independent Directors, the performance of the Board and Board committees, as well as the performance of individual Board and Committee members, using the following:

- Individual Director Self Evaluation
- Board & Board Committee Evaluation Form
- Independent Directors' Assessment Form
- Independent Directors' Self-Assessment Form
- Performance Evaluation Sheet for the Audit Committee

These assessments take into account the Directors' professionalism and integrity in the decision-making process, their ability to form independent judgements, as well as their objectivity and clarity in deliberations. Directors' contribution, performance and personality in relation to the skills, experience and other qualities they bring or advice to the Board at meetings are also evaluated.

Each Director and Board Committee member completes the evaluation form and submits it on a confidential basis to the Company Secretary who collates the responses and produces a report for tabling to the NRC Chairman. The NRC Chairman then reviews the report and submits its findings and the report to the NRC and the Board for assessment of the performance and effectiveness of the Board and Board Committees, the performance of each Non-Executive Director and each Audit Committee member.

The NRC was satisfied with the performance of all the Directors and Committee members during the Financial Year; and there were no dissenting views.

Re-election of Directors

The Articles of Association of the Company provide that at least one-third of the Directors are subject to retirement by rotation at each Annual General Meeting ("AGM"). All Directors are also required to retire once in every three years and, if eligible, can offer themselves for re-election. The Articles of Association provide that a Director who is appointed by the Board during the course of the year shall be subjected to re-election at the next AGM to be held following his appointment.

STATEMENT ON CORPORATE GOVERNANCE

Board Meetings

The Chairman ensures any concern or dissenting view expressed by any Director on any matter deliberated at meetings of the Board, or any of its Committees, as well as the meetings' decisions, are addressed and duly recorded in the minutes of meetings.

Board meetings for each financial year are scheduled in advance before the end of the preceding financial year so the Directors can plan and fit these meetings into their respective schedules.

The Board holds no less than five meetings a year, while Special Board meetings may be convened as and when necessary to consider urgent proposals or matters that require the Board's expeditious review or consideration.

The Board maintains a formal schedule of matters specifically reserved for its decision to ensure the direction and control of the Company is firmly in its hands.

The Board is satisfied that each Director has committed sufficient time to the Company as evident from the Directors' record of attendance at Board meetings. During the Financial Year, the Board held a total of seven meetings, with details of attendance as set out below:

Name of Director	No. of Board Meetings Attended
Datuk Kamarudin bin Meranun (Chairman)	7
Tan Sri (Dr.) Anthony Francis Fernandes	7
Dato' Abdel Aziz @ Abdul Aziz bin Abu Bakar	7
Dato' Fam Lee Ee	7
Dato' Mohamed Khadar bin Merican	7 Note 1
Aireen Omar	6
Stuart L Dean	7
Dato' Sri Gnanaraja A/L M. Gnanasundram	4 Note 2
Amit Bhatia	Nil Note 3
Uthaya Kumar A/L K Vivekananda	Nil Note 4

Note 1: Dato' Mohamed Khadar bin Merican was appointed on 16 February 2016.
Note 2: Dato' Sri Gnanaraja A/L M. Gnanasundram retired at the Annual General Meeting held on 30 May 2016.
Note 3: Mr Amit Bhatia resigned on 25 May 2016.
Note 4: Mr Uthaya Kumar A/L K Vivekananda resigned on 4 January 2016.

All current Directors have thus complied with Bursa Malaysia's MMLR and the Articles of Association of the Company which specifies that each Director must attend at least 50% of the Board meetings held in each financial year.

Decisions of the Board

Pursuant to the Company's Articles of Association, decisions made at Board meetings shall be decided by a majority of votes or, alternatively, written resolutions signed by the majority of Directors entitled to receive notice of a meeting of Directors.

Access to Information and Advice

Directors have independent access to the advice and dedicated support services of the Company Secretary to ensure effective functioning of the Board. The Directors may also seek advice from Management on issues pertaining to their respective jurisdiction, or independent professional advice at the Company's expenses in discharging their duties to AirAsia.

Prior to Board meetings, all Directors receive the agenda and a set of Board meeting papers duly signed and recommended by the relevant Key / Senior Management containing information for deliberation. This is to accord sufficient time for the Directors to review the Board papers and seek clarification, if required, from the Management or the Company

Secretary. The Company encourages a paperless environment which requires granting digital access via Google Drive to meeting documents instead of distributing hard copy documents. Google Drive allows Directors to access various Company documents which are uploaded onto personal or Company provided devices for easy reference and in a timely manner.

The Company makes use of video conferencing to enable the participation of members of Management from other offices without their need to travel, when the need arises. The video conference allows the Board to have access to information in a timely manner from the relevant person in charge while saving time and cost.

Company Secretary

The Company Secretary is a Fellow member of Malaysian Institute of Chartered Secretaries and Administration. All Directors have access to the Company Secretary who also serves in that capacity in the various Board Committees, save for the Safety Review Board ("SRB"), and ensures that Board procedures are followed. The Company Secretary advises on measures to be taken and requirements to be observed by the Company and Directors arising from new statutes and guidelines issued by Bursa Malaysia, the Securities Commission ("SC") and Companies Commission of Malaysia ("CCM"). The Company Secretary also advises the Directors on their obligations and duties to disclose their interest in the Company's securities, as well as any conflicts of interest in transactions involving the Company. In addition, the Company Secretary monitors and ensures the timely lodgment of statutory documents with Bursa Malaysia, SC and CCM.

The Company Secretary attends all Board and Board Committee meetings (save for SRB meetings which are handled by the SRB) and ensures that accurate and proper records of the proceedings and resolutions passed are maintained in the statutory records at the registered office of the Company. The Company Secretary also facilitates timely communication of decisions made and policies set by the Board at Board meetings, to the Senior Management for action. The Company Secretary works closely with the Management to ensure timely and appropriate information flows within and to the Board and Board Committees, and between the Non-Executive Directors and Management.

The Company Secretary also serves notice to Directors on the closed periods for trading in AirAsia's shares, in accordance with Chapter 14 on Dealings in Listed Securities of the MMLR.

The appointment and removal of the Company Secretary must be approved by the Board.

Directors' Training

The Company Secretary undertakes the role of coordinator in managing the Directors' training requirements, which include the Mandatory Accreditation Programme ("MAP") for newly appointed Directors, pursuant to Bursa Malaysia's MMLR. All the Directors have attended and completed the MAP save for Mr Tharumalingam A/L Kanagalingam, who was appointed to the Board effective from 6 March 2017 and will be attending the MAP within the required timeframe.

Directors are regularly updated on the Group's businesses and the competitive and regulatory environment in which they operate. Directors, especially newly appointed Non-Executive Directors, are encouraged to visit the Company's facilities to have an insight on the Company's operations which could assist in making effective decisions.

The Board is aware that continuous training of the Directors is vital to assist them in discharging their duties effectively, and encourages the Directors to attend appropriate external programmes on relevant subject matters.

There is a provision in the annual budget for training fees to encourage their participation in training programmes.

During the year under review, the Directors kept abreast with market developments with the aim of enhancing their skills, knowledge and experience.

STATEMENT ON CORPORATE GOVERNANCE

Among the training programmes, seminars, conferences and briefings attended during the year were:

Name	Programme
Datuk Kamarudin bin Meranun	• Forbes Global CEO Conference – Emerging Markets
Tan Sri (Dr.) Anthony Francis Fernandes	• US ASEAN Business Council Conference, San Francisco • Rajaratnam School of International Studies Talk, Singapore • MOHE CEO Talk, Kuala Lumpur • MATRADE Service Export Forum, Kuala Lumpur • Chief Editor Forum, Jakarta • F&N & Thai Beverage ASEAN Marketing Conference, Bangkok • World Economic Forum Summit on ASEAN, Kuala Lumpur • Deloitte World Meeting, Tokyo • 9th ABC-ASEAN Japan Public-Private Dialogue, Bangkok • Prudential Corp Asia Conference, Copenhagen • Young ASEAN Minds Summer Chapter, Kuala Lumpur • Russian Business Forum, Moscow • NS State Government Conference, Seremban • Fortune & Time Global Forum, Vatican City
Dato' Mohamed Khadar bin Merican	• Board Retail Management Programme – Oxford Institute of Retail Management, Oxford University • Cyber Risk Oversight – FIDE Forum • Strategic Discussion on Telecommunications, Media and Technology - Citigroup
Dato' Abdel Aziz @ Abdul Aziz bin Abu Bakar	• Fraud Risk Management Workshop – Bursa Malaysia • Latest Amendments to the MMLR
Dato' Fam Lee Ee	• 2016 Investment Strategy Seminar organised by HuaZhong • 2nd Investment Promotion Conference for Malaysia and China, "Two Countries, Twin Parks", organised by Malaysia-China Business Council ("MCBC") • Case Study Workshop for Independent Directors, "Rethinking-Independent Director: A New Frontier", organised by Bursa Malaysia • Annual Meeting of Malaysia-China Joint Business Council in Beijing • CG Breakfast Series with Directors: The Cybersecurity Threat and How Board Should Mitigate the Risks, organised by Bursa Malaysia • CG Breakfast series with Directors – Anti Corruption and Integrity-Foundation of Corporate Sustainability, organised by Bursa Malaysia • Bursa Malaysia's Sustainability Forum 2017, "The Velocity of Global Change and Sustainability – The New Business Model"
Aireen Omar	• International Aviation Safety & Leadership – Cranfield 3-Day Course at AirAsia Centre of Excellence ("AACE") • Crisis Communication Training at LCCT • Financial Times AEC+3 Business Symposium in Bangkok, Thailand • World Travel and Tourism Global Summit, Dallas • Malaysia-US Forum: Towards a Comprehensive Partnership, Washington DC • World Economic Forum project with Accenture called the Digital Transformation Initiative, New York • ASEAN-China Entrepreneurs ("ACE") Conference, Kuching • World Economic Forum on ASEAN, Kuala Lumpur • World Economic Forum Annual Meeting of New Champions, Tianjin • Third Joint ICAO – WCO Conference, Kuala Lumpur • World Economic Forum Digital Transformation of Industries Workshop • 2016 Global Customer Summit, US • CLSA Investor Conference, Hong Kong • World Tourism Conference 2016, Penang • World Economic Forum: Network of Global Future Councils, Dubai

Name	Programme
Aireen Omar	Aireen was a speaker at the following training programmes: • Skagen New Year Conference – AirAsia, Ups and Downs – a Long-Term Story, Oslo • 45-minute interview on stage during Financial Times AEC+3 Business Symposium, Bangkok • World Travel and Tourism Global Summit, Dallas – Big Horizons: Developments in Airline Business. Conference theme: Travel beyond boundaries • Malaysia-US Forum: Towards a Comprehensive Partnership, Washington DC – Deepening business cooperation: Opportunities from TPPA and AEC • World Economic Forum project with Accenture called the Digital Transformation Initiative - Interview by Accenture on Impact of digitalisation on aviation and travel and tourism industries, New York • ASEAN-China Entrepreneurs ("ACE") Conference: Insights on ASEAN Single Aviation Market, Kuching • Insight 2016 – Growth Opportunities From Competition: Air Connectivity, Key to Sustainable Regional Medical Tourism, Kuala Lumpur • Inspiring Orchid Conference 2016: Women Empowerment, Kuala Lumpur • World Economic Forum Annual Meeting of New Champions: Start-up Asia. What is fueling the explosion of high-growth enterprises in Asia • Phone interview with World Economic Forum's Saadia Zahidi for her book on Economics and Leadership of Women in the Muslim Community • World Economic Forum Digital Transformation of Industries Workshop: Views on Digital Transformation from Travel and Tourism and From AirAsia Angle • World Tourism Conference 2016: Tourism Delights: Delivering the Unexpected, Penang
Stuart L Dean	• CG Breakfast series with Directors – Anti Corruption and Integrity-Foundation of Corporate Sustainability, organised by Bursa Malaysia • Case Study Workshop for Independent Directors "Rethinking-Independent Director: A New Frontier", organised by Bursa Malaysia • Leadership Talk at IMD Singapore

All the Directors were also updated by the Company Secretary on changes to the MMLR, Companies Act, 2016 and relevant guidelines on regulatory and statutory requirements. Meanwhile, the external auditors briefed the AC members on significant changes in financial reporting standards, regulatory requirements as well as tax matters, if any.

Board Committees

To assist the Board in discharging its duties, it has established two Board Committees for which the composition and terms of reference are in accordance with Bursa Malaysia's MMLR, and consistent with recommendations of the MCCG 2012. The two Committees are:

1) The Audit Committee
2) The Nomination and Remuneration Committee

A Safety Review Board has also been established with specific delegated authorities to assist the Board in its responsibilities.

Audit Committee ("AC")

The AC comprises two Independent Non-Executive Directors and one Non-Independent Non-Executive Director.

The Chairman of the AC reports to the Directors at Board meetings any salient matters raised at the AC meetings which require the Board's notation, approval or decision.

The Board has delegated the responsibility of reviewing the effectiveness of risk management to the AC. The AC has oversight over the development of risk awareness culture within the Group by cascading the tone from the top on the importance of integrated risk management in organisational and operational processes. The AC also reviews AirAsia's risk management framework, processes and reports.

Further information on the composition, summary terms of reference and other information relating to the AC are set out on pages 170 to 172 of this Annual Report.

STATEMENT ON CORPORATE GOVERNANCE

Nomination and Remuneration Committee

The NRC comprises three Non-Executive Directors, namely:

Chairman: Dato' Fam Lee Ee
(Senior Independent Non-Executive Director)

Members: Dato' Abdel Aziz @ Abdul Aziz bin Abu Bakar
(Non-Independent Non-Executive Director)
Mr Stuart L Dean
(Independent Non-Executive Director)

The primary responsibilities of the NRC, in accordance with its terms of reference, are available on the Company's website at www.airasia.com.

The main activities of the NRC in 2016 included the following:

- Annual review of size and composition of the Board, Board balance and independence of Directors and skills of Directors.
- Annual assessment of effectiveness of the Board as a whole and of each individual Director.
- Annual review of the composition, functions and performance of the Board Committees.
- Reviewed and recommended to the Board the overall remuneration policy for the Directors, EC, GCEO and CEO to ensure that rewards are commensurate with their contributions to the Group's growth and profitability annually.
- Reviewed the service contract and performance of the EC, GCEO and CEO and recommended to the Board specific adjustments in remuneration and/or reward payments, if any, reflecting their contributions for the year. Their total remuneration package was also benchmarked against the market.
- Ensured the remuneration for Non-Executive Directors and Independent Directors is linked to their responsibilities in the Board and Board Committees and contributions to the effective functioning of the Board.

The NRC meets as and when required. It held three meetings during the Financial Year which were attended by all the members. The Chairman of the NRC reports to the Directors at Board meetings any salient matters raised at the NRC meetings which require the Board's notation, approval or decision.

The Board, through the NRC, carried out a review of the composition of the Board and Board Committees and is satisfied that the Board has an adequate and appropriate mix of knowledge, skills, attributes and core competencies. The NRC and the Board are actively seeking new Non-Executive Independent Director(s) to join the Company.

The Company maintains transparent procedures in determining the remuneration policy for Directors. Executive Directors play no part in decisions on their own remuneration. The remuneration packages of Non-Executive Directors are determined by the Board as a whole. All the individual Directors concerned abstain from discussing their own remuneration.

The Safety Review Board

The SRB was established in August 2005 to provide Board level oversight and input to the management of safety within AirAsia's operations. The Board appoints the Chairman of the Committee and a meeting is held each quarter to review progress and trends in relation to flight safety and airworthiness, including incident reports, investigations and recommendations and flight data analysis and recommendations. The Committee comprises two Non-Executive Directors and one Executive Director, namely:

Chairman: Mr Stuart L Dean
(Independent Non-Executive Director)

Members: Cik Aireen Omar
(Non-Independent Executive Director and CEO)
Dato' Mohamed Khadar bin Merican
(Independent Non-Executive Director)

The other participating members include a Senior Management team consisting of all operational heads, including the GCEO and is supported by a team of operational safety and security specialists from across the Company.

The Chairman of the SRB reports to the Directors at Board meetings on all salient matters raised at the SRB meetings and which require the Board's notation, approval or decision. The functions of the SRB include developing, implementing, maintaining and constantly improving strategies and processes to ensure that all our aviation activities take place under a balanced allocation of organisational resources, aimed at achieving the highest level of safety performance and meeting all applicable regulations and our own high standards. Further, safety data derived from the Safety Management System as well as significant incident investigations are reviewed to ensure corrective actions are implemented, assuring safety risks and hazards are mitigated accordingly.

Indemnification of Directors and Officers

Directors and Officers are indemnified under a Directors' and Officers' Liability Insurance against any liability incurred by them in the discharge of their duties while holding office as Directors and Officers of the Company. The Directors and Officers shall not be indemnified where there is any proven negligence, fraud, breach of duty or breach of trust.

A. DIRECTORS' REMUNERATION

The Directors' remuneration package is reviewed periodically to support long-term sustainability and shareholder value, consistent with AirAsia's business strategy. There is a clear distinction between the remuneration structures of the Non-Executive Directors and Executive Directors.

The remuneration package for the Financial Year comprises the following elements:

1. Fee

The fees payable to each Non-Executive Director for his or her service on the Board is based on the basic Board fee and the respective additional responsibilities on the Board's Committees during the year. Any proposed revision of the fees and benefits would be recommended by the NRC to the Board for final approval by shareholders of the Company at the AGM.

2. Basic salary

The basic salary for each Executive Director is recommended by the NRC and approved by the Board, taking into account the performance of the individual, the inflation price index and information from independent sources on the rates for similar positions in other comparable companies internationally. Salaries are reviewed annually.

3. Bonus scheme

The Group operates a bonus scheme for all employees, including the Executive Directors, which is based on various performance measures of the Group, together with an assessment of each individual's performance during the period. The bonus for the Executive Directors is recommended by the NRC and approved by the Board.

4. Benefits-in-kind

Other customary benefits (such as private medical care, travel coupons, etc) are made available as appropriate.

5. Service contract

The Executive Chairman, GCEO and CEO each have a three-year service contract with AirAsia.

6. Directors' share options

There are currently no share options for the Directors.

Details of the Directors' remuneration are set out in Note 2 of the Audited Financial Statements on pages 213 to 214 of this Annual Report. While the MMLR has prescribed for band disclosure packages, the Board is of the view that the transparency and accountability aspects of Corporate Governance in respect of the Directors' remuneration are appropriately and adequately addressed by the band disclosure in Note 2.

B. EFFECTIVE COMMUNICATION WITH SHAREHOLDERS

<u>Investor Relations</u>

The Company is committed to maintaining good communication with shareholders and investors. Communication is facilitated by a number of formal channels used to inform shareholders about the performance of the Group. These include the Annual Report, financial statements and announcements made through Bursa Malaysia, the Company's website as well as at the AGM.

Members of Senior Management are directly involved in investor relations through periodic roadshows and investor briefings in the country and abroad with financial analysts, institutional shareholders and fund managers.

STATEMENT ON CORPORATE GOVERNANCE

Reports, announcements and presentations given at appropriate intervals to representatives of the investment community are available for download on the Group's website at www.airasia.com. Shareholders may also access the Company's announcements to Bursa Malaysia on its website at www.bursamalaysia.com.

Any queries or concerns regarding the Group may be directed to the Investor Relations Department at investorrelations@airasia.com. Queries and concerns will be highlighted to the Executive Directors and will be directed to the Senior Independent Non-Executive Director for consultations on areas that cannot be resolved through the normal channels.

AGM

Given the size and geographical diversity of our shareholder base, the AGM is another important forum for shareholder interaction. All shareholders are notified of the meeting and provided with a copy of the Group's Annual Report at least 21 days before the meeting is held.

At the AGM, the GCEO and CEO will conduct a brief presentation on the Group's performance for the year and future prospects. The Executive Chairman and all Board Committee chairmen will be present to answer shareholders' questions and hear their views. Shareholders are encouraged to participate in the proceedings and engage in dialogue with the Board and Senior Management. Extracts of the minutes of the AGM for the year 2016 are available on the Company's website.

Poll Voting

In line with the Code and MMLR, AirAsia has taken necessary efforts to execute and promote poll voting by mandating poll voting for all resolutions set out in notices of any general meeting and also appointing independent scrutineers for poll voting.

C. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to ensure that the quarterly reports, annual audited financial statements as well as the annual review of operations in the Annual Report reflect full, fair and accurate recording and reporting of financial and business information in accordance with the MMLR of Bursa Malaysia.

The timely release of announcements on quarterly financial reports reflects the Board's commitment to providing transparent and up-to-date disclosure on the performance of the Group.

The Directors are also required by the Companies Act, 2016 to prepare the Group's annual audited financial statements with all material disclosures such that they are complete, accurate and conform with applicable accounting standards, rules and regulations. The AC assists the Board in overseeing the financial reporting process.

AC and Internal Control

The Board's governance policies include a process for the Board, through the AC, to review regularly the effectiveness of the system of internal control as required by the Code. A report from the AC and its summary terms of reference is presented on pages 170 to 172 of this Annual Report.

The Board has overall responsibility for the Group's system of internal control, which comprises a process for identifying, evaluating and managing the risks faced by the Group and for regularly reviewing its effectiveness in accordance with the Code.

The Board confirms that this process was in place throughout the year under review and up to the date of approval of these financial statements. The primary aim is to ensure the internal control systems in place are appropriate to the business and can, over time, increase shareholder value while safeguarding the Group's assets and managing its liabilities. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Statement on Risk Management and Internal Control is set out on pages 173 to 179 of this Annual Report.

Relationship with the External Auditors

The Board, through the AC, has maintained an appropriate, formal and transparent relationship with the external auditors and has adopted an External Auditors Independence Policy. The AC meets the external auditors without the presence of Management, whenever necessary, and at least twice a year. Meetings with the external auditors are held to further discuss the Group's audit plans, audit findings, financial statements as well as to seek their professional advice on other related matters. From time to time, the external auditors inform and update the AC on matters that may require their attention.

In the assessment of the performance of the external auditors, including their independence policies and procedures, the AC noted that the external auditors had in accordance with the independence requirements set out in the By-Laws (on professional ethics, conduct and practice) of the Malaysian Institute of Accountants, evaluated the level of threat to objectivity and potential safeguards to prevent any threats prior to acceptance of any non-audit engagement.

The external auditors have provided their written confirmation to the AC in respect of their independence throughout the audit engagement with the Group for the financial year 2016.

The external auditor's remuneration including Non-Audit Fees for the Company and the Group for the Financial Year is as follows:

	Group (RM'000)	Company (RM'000)
Statutory audit fees	1,030	879
Non-audit fees	281	281
Total	1,311	1,160

The Company's existing auditors, Messrs PricewaterhouseCoopers ("PwC"), were re-appointed as the auditors of the Company at the Twenty Third Annual General Meeting ("AGM") of the Company held on 30 May 2016 to hold office until the conclusion of the forthcoming AGM of the Company. PwC have been the auditors of the Company since May 2004.

The Company has received a letter dated 14 February 2017 from one of its major shareholders, Tune Air Sdn Bhd, nominating Messrs Ernst & Young ("EY"), as the new statutory auditors of the Company. A copy of this letter is annexed and marked as 'Appendix A' in this Annual Report 2016. The proposed change is in line with good corporate governance of revisiting the appointment of the company's auditors from time to time.

D. OTHERS

Corporate Disclosure Policy and Procedures

AirAsia observes the continuing disclosure obligation under the MMLR. A Corporate Disclosure Policy and Procedures was approved by the Board, which provides accurate, balanced, clear, timely and complete disclosure of corporate information to enable informed and orderly market decisions by investors.

Material information will in all cases be disseminated via Bursa Malaysia and other means.

Code of Conduct/Ethics

The Company has formalised ethical standards through a Code of Conduct and will ensure its compliance. The Code of Conduct is published on the Company's website. The Directors are also required to observe the Code of Ethics established by the Companies Commission of Malaysia in furtherance of their duties.

Whistleblowing Programme

In order to improve the overall organisational effectiveness and to uphold the integrity of the Company in the eyes of the public, the Company updated its whistleblowing programme during the year, which acts as a formal communication channel where all stakeholders can communicate their concerns in cases where the Company's business conduct is deemed to be contrary to the Company's common values.

All concerns should be addressed to the Group Head of Internal Audit who will then assess all concerns reported and recommend the appropriate action, and subsequently:

- Compile all reports received and submit to the Chairman of the AC; and
- Report to the AC the results of the investigation for further action.

All details pertaining to the name and position of the whistleblower will be kept strictly confidential throughout the investigation proceedings.

Company's strategies in promoting Corporate Social Responsibility ("CSR")

AirAsia has always viewed its people as the organisation's biggest strength and through its growth over the years has always strived to be part of the community via active involvement in CSR programmes and, more recently, through the work of AirAsia Foundation. AirAsia Foundation is the philanthropic arm of AirAsia Group and seeks to effect social change through entrepreneurship. Reports, announcements and presentations of all the foundation's activities can be accessed on its website at www.airasiafoundation.com.

This statement is made in accordance with a resolution of the Board of Directors of AirAsia dated 17 April, 2017.

AUDIT COMMITTEE REPORT

This Report has been reviewed by the Audit Committee ("the AC") and approved by the Board of Directors ("Board") for inclusion in this Annual Report.

The AC assists our Board in fulfilling its responsibilities with respect to its oversight responsibilities. The AC is committed to its role of ensuring the integrity of the Group's financial reporting process; the management of risks and system of internal controls, external and internal audit processes, and 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 the Group is fulfilled through reviews of Group Internal Audit's quarterly reports.

Composition of the Audit Committee and Attendance of Meetings

The AC has been established by the Board and comprises three (3) members, the majority of whom are Independent Non-Executive Directors. Members of the AC elect among themselves an Independent Director, who is not the Chairman of the Company, 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 Bhd ("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.

Attendance of Meetings

A total of eight (8) meetings were held for the financial year ended 31 December 2016 ("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	8
Dato' Fam Lee Ee	Senior Independent Non-Executive Director	8
Dato' Abdel Aziz @ Abdul Aziz bin Abu Bakar	Non-Independent Non-Executive Director	8

Note: Dato' Mohamed Khadar bin Merican was appointed as AC Chairman on 16 February 2016. The previous AC Chairman, Mr Uthaya Kumar A/L K Vivekananda, resigned from the Board on 4 January 2016.

The AC meets on a scheduled basis during the financial year, and as and when required. The AC is assisted by an independent Group Internal Audit Department ("IAD") in carrying out its functions. The Chief Executive Officer ("CEO") of the Company, Deputy Group Chief Executive Officer, Corporate Services ("DGCEO, Corporate Services"), Group Chief Financial Officer ("GCFO"), Chief Financial Officer ("CFO") of the Company, Group Head of Internal Audit, Group Head of Legal and Group Head of Risk 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 http://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 2012 ("MCCG 2012"), and Corporate Governance Guide: Towards Boardroom Excellence and other best practices.

AUDIT COMMITTEE REPORT

During the Financial Year, the AC carried out the following activities in the discharge of its roles and responsibilities:

Internal Audit

- Provided oversight on the performance of the Group IAD to ensure it is able to operate independently, is adequately staffed by personnel with appropriate competencies, and that appropriate targets are met.
- Reviewed and approved the Group Internal Audit Plan to ensure adequate coverage of auditable areas within the Group in accordance with the appropriate identified risk profiles, ensuring the internal audit assignments could be completed in an effective, efficient and timely manner.
- Reviewed audit reports, including ad-hoc and investigation reports, presented by the Group IAD on their findings and recommendations, and discussed remedial actions, where necessary.
- Reviewed the human resource of the Group IAD with a focus on competencies and succession planning.
- Reviewed the Internal Audit Charter, which defines the purpose, authority, scope and responsibility of the IADs within the Group, to ensure that it is fit for purpose.
- Reviewed significant whistleblowing cases reported within the Group's Whistleblowing Policy, and ensured that appropriate action is taken, where necessary, and that the appropriate level of confidentiality is maintained for the protection of the whistleblower.
- Reviewed the performance of the Group Head of Internal Audit and approved matters relating to remuneration and compensation.

Risk Management

- Provided oversight on the development of a risk awareness culture within the Group by cascading the tone from the top on the importance of integrated risk management in organisational and operational processes.
- Reviewed the Risk Management Policy and evaluated the adequacy and effectiveness of the Risk Management Framework.
- Reviewed the development of key risk profiles within an Enterprise Risk Management programme for the Group and Company.
- Reviewed the comprehensiveness of the Business Continuity Programme, including a regular testing thereof.
- Reviewed the Group's insurance programmes and recommended improvements, where necessary, to ensure that an adequate and effective risk transfer mechanism is in place to protect the interests of the Group.
- Reviewed the Statement on Risk Management and Internal Control and Audit Committee Report for inclusion in the 2016 Annual Report.

External Audit

- Reviewed the external auditors' overall work plan and recommended to the Board the Terms of Engagement.
- Reviewed the external auditors' reports, performance and independence and the effectiveness of the overall audit process.
- Reviewed updates on the Malaysian Financial Reporting Standards and assessed how they will impact the Group and Company, as well as the Group's and Company's preparedness in adopting these new standards.
- Considered updates by the external auditors on changes to relevant guidelines on regulatory and statutory requirements and their effects on the Group and Company.
- Met with the external auditors in private, without the presence of Management, to confirm that there were no restrictions on the scope of their audit and to discuss any other matters.
- Reviewed the external audit fees proposed in respect of the scope of work required for the financial year and recommended the same for approval by the Board.
- Reviewed reports arising from the external auditors for the Financial Year, including Management's proposed actions to resolve matters highlighted.

Financial Reporting

- Reviewed the Quarterly Financial Announcements and Audited Annual Financial Statements prior to recommending to the Board for approval.
- Reviewed the Auditors' Report for the Financial Year, in particular matters raised as Key Audit Matters.

Related Party Transactions

- Reviewed related party transactions entered into by AirAsia Berhad to ensure the transactions are fair and reasonable, are carried out at arm's length and that they are in the best interest of the Company.

AUDIT COMMITTEE REPORT

INTERNAL AUDIT FUNCTION

The AirAsia Group has a well-established in-house Group IAD to assist the AC in carrying out its functions. The Group IAD maintains its independence through reporting directly to the AC. The Group IAD 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 IAD. The Group IAD reviews and compiles their reports as a Group Internal Audit Report to be submitted and presented to the AC for its review and deliberation.

The Group IAD is guided by its Internal Audit Charter that provides independence and reflects the roles, responsibilities, accountability and scope of work of the department. The Group IAD reports functionally to the AC and administratively to the Group Chief Executive Officer ("GCEO").

The principal responsibility of the Group IAD 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 Group IAD adopts a risk-based audit methodology 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 the Company'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.

The AC reviews and approves the Group IAD 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 Group IAD and IADs in other AOCs for 2016 was RM3,953,863.

INTERNAL AUDIT ACTIVITIES DURING THE FINANCIAL YEAR

The Group IAD 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 Group IAD and the respective IADs' audit plan. In doing so, the AC ensured, among others, consistency in the audit methodology deployed, as well as robustness in the audit planning process.

During the Financial Year, audit reviews were conducted based on the internal audit plan approved by the AC. The Group IAD and IADs in other AOCs completed and reported on 122 audit assignments covering 52 station audits, 23 corporate audits, 11 IT audits and 36 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 ancillary income, quality assurance, customer experience, regulatory, procurement, finance, contract management, ground operations, IT project management and IT systems. The Group Head of Internal Audit attended the AC meetings to brief the AC on audit results and significant matters raised in the detailed Group IAD 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 the Company are updated on the current status of open action plans. The Group IAD submits the compiled Group Internal Audit Report to the AC every quarter on the status of audit plans, audit findings, and actions taken by Management on such findings.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

AirAsia Group is committed to maintaining a comprehensive and robust risk management and internal control system as part of our corporate governance and in line with best practices. The Board 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 2012 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 2016.

RESPONSIBILITY

The Board

The Board is responsible for identifying risks that could impact AirAsia Group, and for the implementation of appropriate systems to manage and control these risks. It, in turn, has delegated the oversight and governance of Group risks to the Board Audit Committee ("AC") comprising two Independent Non-Executive Directors – one of whom serves as Chairman – and one Non-Independent Non-Executive Director. The AC's composition ensures an independent oversight of internal controls and risk management. Notwithstanding the delegation of responsibilities, the Board acknowledges that the internal control systems are designed to manage and minimise risks as it may not be possible to totally eliminate the occurrence of unforeseeable circumstances, fraud or loss.

<u>The Board and Operational Committees</u>

- The Board has established an organisation structure with clearly defined lines of responsibility, authority limits and accountability aligned with business and operations requirements which support the maintenance of a strong internal control environment.

- Board Committees have been set up with clearly defined responsibilities, terms of reference and organisation structures to assist the Board in performing its oversight functions. These include the Nomination and Remuneration Committee ("NRC"), AC and Safety Review Board ("SRB"), which examine matters within their scope and report to the Board with their recommendations.

- Operational committees – such as the Financial Risk Committee and Quality and On-Time Performance Committee – ensure the effective management and supervision of some of the Group's core business operations. They meet frequently to address emerging issues, concerns and action plans.

Audit Committee

The main responsibility of the AC is to assist the Board in fulfilling its statutory and fiduciary responsibilities of monitoring the Group's management of financial risk processes, accounting and financial reporting practices. Towards this end, it reviews the processes and quality of the Group's accounting function, as well as the financial reporting and systems of internal controls.

The AC also monitors compliance with established policies and procedures.

In addition, the AC assists the Board in ensuring the implementation of appropriate systems to manage the overall risk exposure of the Group. This includes identifying significant risks and ensuring the Group Risk Management Framework encompasses all the necessary policies and mechanisms to manage the Group's overall risk exposure. The AC also reviews the effectiveness of the Group's Risk Management Framework and the results of risk assessments, while recommending new policies and/or frameworks, if required, for the Board's approval.

In fulfilling its responsibilities in risk management, the AC is assisted by the Group Risk department.

Management

Management is responsible for implementing frameworks, policies and procedures related to risk management and internal control. Members of Management are accountable for identifying and evaluating risks, and monitor the achievement of business goals and objectives within the risk appetite parameters approved by the Board.

Management is required to provide assurance to the Board that the Group's risk management and internal control systems are operating adequately and effectively based on the risk management framework adopted by the Group.

The Chief Executive Officer ("CEO") of the Company is responsible for driving the implementation of risk management activities in accordance with the risk management policy and framework of AirAsia, and is assisted by Group Risk in this role.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

Group Risk

Risk management oversight is coordinated by Group Risk. Group Risk develops risk policies, sets minimum standards, provides guidance on risk related matters, coordinates risk management activities with other departments, as well as monitors AirAsia's business risks. Group Risk'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 communicate to the AC and CEO critical risks to the organisation, as well as corresponding control action plans for managing such risks

Significant risk issues evaluated by Group Risk and/or major changes proposed by the AC and/or the CEO are discussed at Management meetings and at meetings convened by the AC.

Risk Management Framework

One of the key features of the Group Risk Management Framework is a risk governance structure comprising the three lines of defence model with established and clear functional responsibilities and accountabilities for the management of risk.

Risk Management Framework
First Line of Defence **Management**
Second Line of Defence **Group Risk**
Third Line of Defence **Internal Audit**

Figure 1: Three Lines of Defense Model

First Line of Defence

Management is the first line of defence and is accountable for all risks assumed under their respective areas of responsibility. Management is also responsible for creating a culture of risk awareness, which will promote greater understanding of the importance of risk management and ensure its principles are embedded in key operational processes and in all projects.

Second Line of Defence

The second line of defence is provided by the Group Risk functional unit with oversight by the AC. Group Risk is responsible for effective implementation of the Group Risk Management Framework and related policies and objectives. Group Risk is accountable for executing any AC directive aimed at maintaining sound risk management within AirAsia Group.

Third Line of Defence

The third line of defence is provided by the Group Internal Audit Department ("IAD"). The Group IAD reports directly to the AC and provides independent assurance of the adequacy and reliability of risk management processes and system of internal controls, while ensuring compliance with risk-related regulatory requirements.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

AIRASIA'S RISK MANAGEMENT PROCESS

AirAsia's risk management process governs the way the Group assesses and mitigates risks. This comprises five key steps, namely: identification, measurement, control, monitoring and reporting of risks.

The result of the risk management process is the systematic identification, documentation, mitigation and monitoring of AirAsia's risks.

Risk management workshops are conducted by Group Risk for senior staff of the different functions, with each function producing a risk register and a departmental risk profile. Each departmental risk register outlines the principal risks relevant to that department as well as the corresponding controls and treatment plans.

Control Action Tasks

Available methods of risk treatment include: (See Figure 2 below)

Terminate	Reduce
• Avoid the risk, preventing it from crystallising • **Example:** Exit the business/market segment	• Reducing either the likelihood/impact of the risk • **Example:** Fire - Likelihood → Awareness & Safety initiatives - Impact → Install sprinkler system & fire extinguishers
Accept	**Pass-On**
• Allow minor risks to exist when cost outweighs benefit-status quo • **Example:** Inherit risks such as weather, political, etc.	• Sharing some of the risks but it does not necessarily reduce the overall risk level • **Example:** Contracts, insurance, outsource, JVs

Figure 2: AirAsia's Key Risk Treatment Strategies

Upon determining the priorities in risk treatment, the following tasks are initiated:

Task	Focus
Control action plan	Determine the plan to be undertaken to manage the risk based on the risk treatment.
Control action cost	Ascertain the estimated cost of risk treatment.
Expectations/benefit	Ascertain the expected outcome to be generated from the planned action, e.g. in monetary terms (cost savings/revenue generation) or Key Performance Indicators ("KPIs").
Risk owner	A named person responsible for the action - it is important to identify a named person for leading or coordinating the action. Most individuals and teams will need to take some responsibilities for risk management issues, but this will depend on their skills and time available.
Completion date	Time scale for action - this depends on the nature of the problem and action required. Short-term action can be deployed almost immediately; medium-term action normally requires a longer time, perhaps up to six months to implement. Long-term actions are those that will take more than six months to be implemented.
Control action status	Status of the action plan.

Management will decide on the risk tolerance level in the context of the business objectives, strategies and KPIs. The objective is not to eliminate all risks but rather to ensure that risk is mitigated to an acceptable level in a cost-effective manner.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

RISK MANAGEMENT PROGRAMMES IN 2016

Risk management programmes by AirAsia consisted of activities to: (1) strengthen the risk management foundation, (2) improve capabilities and extend the scope of risk management, and (3) "deep-dive" solutions to prevailing risk issues.

Strengthening risk management foundations	
Risk management direction	The CEO reaffirmed Management's commitment to building a strong risk culture and mitigating risks to key revenue-generating and operating resilience, following the AC's direction to focus on promoting risk awareness at all levels and departments within the organisation and addressing key risks to the organisation as a whole.
Risk management policies, framework and tools	A review was conducted on enterprise risk management and business continuity management policies in light of changes to the organisation structure over the past few years, as well as to improve Allstars' appreciation of their risk responsibilities. Efforts are also being undertaken to ensure our risk management framework and methodology are consistent with the safety management system. Other improvements include requiring risk evaluation to be expressed in monetary terms wherever possible, and new templates for departmental risk registers.
Risk Reporting	Group Risk has provided risk reports to the AC periodically on the status and outcomes of risk assessments conducted for the year in review.
Training and awareness	All Heads of Department ("HODs") and their key team members attended briefings by the CEO, Chief Financial Officer ("CFO"), risk team and internal audit on the organisation's commitment to risk management, as well as on their own individual responsibilities and expected contributions. Group Risk also carried out technical briefings and workshops for all HODs on enterprise risk and business continuity management. Programmes to develop risk registers, control action plans and business continuity plans for their respective departments, which are ongoing, arose from these briefings.

Improve capabilities and extend scope of risk management	
Risk identification	Group Risk facilitated a bottom-up risk assessment exercise with key revenue-generating and operations functions to identify financial, strategic, operational and reputation risks. At the same time, business continuity assessments were conducted for all Malaysia-based operations with completion targeted for 2017.
Risk mitigation	Risk mitigation roles were assigned for these key revenue-generating functions and operations using the RACI model, i.e. the Responsibility for plan execution, Accountability for plan success, and those who should be Consulted and kept Informed. Based on these accountabilities, risk mitigation responses and formal business continuity plans were established, including control action plans to track risk mitigation activities and their progress. Several key regional operations also identified how much business continuity risk they could withstand, and how much exposure they would be comfortable with.
Business continuity management	Operational Response Plans were developed for a number of situations that could affect local and regional operations and Group functions. These included critical Information Technology ("IT") systems outage, natural phenomenon, loss of operational headquarters, and loss of specific critical airport infrastructure and facilities.

"Deep-dive" solutions to prevailing risk issues	
Managing well-known risks	Cross-functional reviews were completed for possible workplace disruption, access to third-party airport facilities and specific types of cyber threats. Solutions to mitigate, address or resolve these risks were facilitated by Group Risk through a series of workshops and group discussions.
Understanding uncertainty	Several "what-if" exercises were conducted in an effort to understand "tail risks", i.e. events that may not be well defined or on which no consensus yet existed, but that may have occurred to other airlines or companies. These included catastrophic operations systems failure, catastrophic loss of airport facilities and new forms of cyber risks.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

SIGNIFICANT RISKS

Strategic Risks

Sales shocks in the form of sudden changes in demand caused by events such as pandemics in key markets, political unrest or market downturns could impact our revenue stream significantly.
Mitigation action: Commercial has conducted periodic market analysis and coordinated responses to market events. AirAsia has also launched low-fare promotions from time to time to generate sales in periods of low demand.

Negative publicity is reputational risk that stems from widespread social networks that have acted as platforms for airing consumer grievances or waging anti-sentiment campaigns. Aggressive marketing by competitors may also contribute to negative sentiment.
Mitigation action: AirAsia conducts annual brand health assessments with the results used to execute positive PR actions including targeted marketing campaigns.

Intense competition from rapid expansion of competitor's network and price erosion stemming from price wars with competition. Corporate espionage resulting in loss of strategic advantage.
Mitigation action: Strategic network expansion into greenfield markets to achieve "first entrant" incentives such as lower airport charges. We are also utilising revenue modelling to lower price points for targeted routes to maximise profitability.

Operational Risks

Prolonged outages of mission-critical systems required for continuity of flight operations and revenue channels have occurred more frequently in the commercial aviation industry over the past 12 months costing significant financial loss to affected airlines.
Mitigation action: AirAsia has developed, implemented and tested systems-specific backup and failovers to reduce the impact of prolonged systems outages. We have also developed an IT Disaster Recovery Plan and a complementary Group Operational Response Plan to ensure that business continues to run in the event of a critical systems outage.

Failure in airport services, such as airport fueling systems, baggage handling systems or customs, immigration and quarantine processing could impact our operational continuity and lead to significant delays and business disruption.
Mitigation action: AirAsia 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 in light of several actual incidents during the year. Further contingency plans for loss of airport bays are also being developed and due by the end of 2017.

Financial Risks

Fuel price rises above USD75 per barrel: A surge in fuel price would have a significant impact on AirAsia's profits with fuel making up one of the key cost components for operations.
Mitigation action: Nearly 75% of AirAsia's jet fuel exposure is hedged until the end of 2017.

Asian currencies depreciate beyond expected lower limits: Unexpected massive currency depreciation, in particular the Malaysian Ringgit to the US Dollar, will have a detrimental effect on the cost of financing for AirAsia.
Mitigation action: AirAsia has hedged approximately 59% of US Dollar loan liabilities with forward foreign exchange contracts.

Cyber Security Risks

Cyber intrusion: AirAsia is exposed to cyber intrusion due to our heavy focus on online sales channels, guest feedback, help channels and other digital solutions. The integrity of our online activities, electronic and network systems, as well as digital storage of business and operations information could be compromised by cyber intrusion.
Mitigation action: AirAsia has established a centralised team responsible for managing and improving our cyber security. This team regularly reviews and monitors cyber threats globally. We have also achieved ISO/IEC 27001 Information Security Management System ("ISMS") certification for our control systems.

Cyber fraud: There is an increasing number of cyber fraud from phishing, or fraudulent emails, by automated ticket touts manipulating our booking engine.
Mitigation action: We have implemented specialised tools to mitigate the risk of automated ticket touts as well as awareness campaigns on e-mail phishing prevention.

Compliance Risks

Non-compliance to changes in regulatory requirement: AirAsia must meet regulatory requirements of local aviation and consumer authorities in multiple jurisdictions. Unexpected or sudden changes in these requirements may risk non-compliance of local rules and regulations.
Mitigation action: AirAsia 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 monitor the local regulatory landscape for new or amended regulations that AirAsia is required to comply with.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

SIGNIFICANT RISKS (CONTINUED)

Safety Risks

General safety risk exposure: Our exposure to operational safety hazards and risks increases as we grow our routes, flights and passenger volume. Managing latent threats to our business is especially important as these may be amplified through our growth.

Mitigation action: We are required by regulation to implement a Safety Management System, which we have in place. However, we go beyond this by adopting industry best practice. In 2016, we began preparations for eventually submitting to the IATA Operational Safety Audit. Group Safety oversees efforts by AirAsia to adopt the highest standards in identifying, managing and communicating with each other on safety risks across the Group. It is also responsible for promoting a strong safety culture at all levels of the organisation. Our safety policy is to ensure that all employees of AirAsia are aware of their responsibilities and contribution towards safety.

KEY ELEMENTS OF INTERNAL CONTROL FRAMEWORK

The following represent key elements of the Group's internal control framework:

Board Oversight

Board has oversight 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. Other Board Committees, namely the AC, NRC and SRB are established to assist the Board execute its governance responsibilities and oversight function as delegated by the Board. Further information on the various Board Committees is included in the Statement on Corporate Governance from pages 158 to 169.

Senior Management Oversight

Regular management and operation meetings are conducted by Senior Management which comprises the GCEO, CEO and HODs.

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

Financial Budgets

A detailed budgeting process has been established requiring all HODs to prepare budgets and business plans annually for deliberation and approval by the Board. A reporting system on actual performance against the approved budget is also in place, which requires explanations for significant variances and action plans by Management to address these.

Human Capital Management

AirAsia acknowledges that one of the key elements of a robust internal control system is our people. Our system of risk management and internal control is dependent on the responsibility, integrity and judgement that people apply to their work. Consequently, the Group has in place policies and procedures that govern our recruitment, appointment, performance management, compensation and reward mechanisms as well as policies and procedures that govern discipline, termination and dismissal of employees.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

KEY ELEMENTS OF INTERNAL CONTROL FRAMEWORK (CONTINUED)

Insurance

The Group undertakes adequate insurance and maintains physical safeguards on assets to ensure these are sufficiently covered against any mishap that will result in material loss. AirAsia Aviation Insurance 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
- Aviation war, hijacking and other perils excess liability (Excess AVN52)

Information Security

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 on IT to promote effectiveness and efficiency of business operations. Heavy reliance on IT may pose emerging cyber security threats, hence AirAsia Cyber Risk Management is in place to manage cyber security risk. The Cyber Risk Management programme includes:

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

Internal Audit

Group IAD regularly reviews the Group's operations and 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 business units and frequency of audits. The annual audit plan for AirAsia Group is reviewed and approved by the AC.

Conclusion

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

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

Review of the Statement by External Auditors

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad MMLR, the External Auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised 2015) issued by the Malaysian Institute of Accountants. RPG 5 (Revised 2015) 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 dated 17 April, 2017.

ADDITIONAL COMPLIANCE INFORMATION

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

There were no proceeds raised by the Company from corporate proposals during the financial year ended 31 December 2016 ("Financial Year").

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

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

a. The Company entered into a Subscription Agreement with Tune Live Sdn. Bhd. on 1 April 2016 for the issuance and allotment of 559,000,000 new ordinary shares of RM0.10 each in the Company ("Subscription Shares") to Tune Live Sdn. Bhd ("Shares Issuance"). The Shares Issuance has been completed following the listing of and quotation for the Subscription Shares on the Main Market of Bursa Malaysia on 26 January 2017.

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

At the Annual General Meeting held on 30 May 2016, the Company had obtained a shareholders' mandate to allow the Company and/or its subsidiaries to enter into recurrent related party transactions ("RRPT") of a revenue or trading nature.

The RRPT Mandate is valid until the conclusion of the forthcoming Twenty Fourth Annual General Meeting of the Company to be held on 25 May 2017. The Company proposes to seek a renewal of the existing RRPT Mandate and a new RRPT Mandate at its forthcoming Twenty Fourth Annual General Meeting. The renewal of the existing RRPT Mandate and the new RRPT Mandate, if approved by the shareholders, will be valid until the conclusion of the Company's next Annual General Meeting. Details of the RRPT Mandate being sought is provided in the Circular to Shareholders dated 28 April 2017 sent together with the Annual Report.

ADDITIONAL COMPLIANCE INFORMATION

Pursuant to paragraph 10.09(2)(b) and paragraph 3.1.5 of Practice Note 12 of the MMLR of Bursa Malaysia, 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	Aggregate value of transactions during the Financial Year
Revenue/income				
1.	AirAsia X Berhad ("AAX") (Company No. 734161-K)	Provision of the following range of services by our Company 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) Revenue & Process Assurance - Card Fraud Team (d) Cargo (e) Manpower cost (affiliate of companies in China) (f) IT Internal Audit & Investigation (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	**Interested Directors and Major Shareholders** Tan Sri (Dr.) Anthony Fernandes ("Tan Sri (Dr.) Tony Fernandes") Datuk Kamarudin bin Meranun ("Datuk Kamarudin") **Interested Major Shareholder** Tune Air Sdn. Bhd. (Company No. 548526-V) ("TASB")	RM15,048,000.00
2.	AAX	Provision of the rights by our Company 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 Fernandes Datuk Kamarudin **Interested Major Shareholder** TASB	RM8,530,000,00

ADDITIONAL COMPLIANCE INFORMATION

No.	Transacting Parties	Nature of RRPT	Class and relationship of the Related Parties	Aggregate value of transactions during the Financial Year
Revenue/income				
3.	AAX	Provision of charter services to Beirut, Lubnan to be provided by AAX for the Malbatt contingent	**Interested Directors and Major Shareholders** Tan Sri (Dr.) Tony Fernandes Datuk Kamarudin **Interested Major Shareholder** TASB	RM279,000.00
4.	Tune Protect Group Berhad (Company No. 948454-K) ("TPB")	Provision of the right to access our Company's customer database by our Company to TPB to conduct telesales marketing on TPB's and/or third party insurance products and the provision of management services by TPB to our Company's travel insurance business	**Interested Directors and Major Shareholders** Tan Sri (Dr.) Tony Fernandes Datuk Kamarudin **Interested Major Shareholder** TASB	RM76,000.00
5.	Tune Insurance Malaysia Berhad (Company No. 30686-K)	Provision of travel insurance to our customers for journeys originated from Malaysia resulting in sales commission received by our Company	**Interested Directors and Major Shareholders** Tan Sri (Dr.) Tony Fernandes Datuk Kamarudin **Interested Major Shareholder** TASB	RM13,941,000.00
6.	Thai AirAsia X Co. Ltd (Company No.0105556044936) ("TAAX")	Provision of the rights by our Company 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 Fernandes Datuk Kamarudin **Interested Major Shareholder** TASB	USD3,171,000.00 (RM14,222,886.00)
7.	TAAX	Provision of price risk management through fuel hedging by our Company with hedging counterparties, on behalf of TAAX	**Interested Directors and Major Shareholders** Tan Sri (Dr.) Tony Fernandes Datuk Kamarudin **Interested Major Shareholder** TASB	RM144,000.00
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 Fernandes Datuk Kamarudin **Interested Major Shareholder** TASB	RM1,291,000.00
9.	Think Big Digital Sdn. Bhd. (Company No. 924656-U) ("Think BIG")	Revenue from ticket sales and/or other ancillary sales arising from redemption of loyalty points from Think BIG, which operated and manages a loyalty program branded as the BIG Loyalty Program	**Interested Directors and Major Shareholders** Tan Sri (Dr.) Tony Fernandes Datuk Kamarudin **Interested Major Shareholder** TASB	RM3,057,000.00

ADDITIONAL COMPLIANCE INFORMATION

No.	Transacting Parties	Nature of RRPT	Class and relationship of the Related Parties	Aggregate value of transactions during the Financial Year
Revenue/income				
10.	PT Indonesia AirAsia Extra (Registration No. 09.03.1.51.89121) ("IAAX")	Provision of price risk management through fuel hedging by our Company with hedging counterparties, on behalf of IAAX	**Interested Directors and Major Shareholders** Tan Sri (Dr.) Tony Fernandes Datuk Kamarudin **Interested Major Shareholder** TASB	RM144,000.00
11.	IAAX	Provision of the rights by our Company 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 Fernandes Datuk Kamarudin **Interested Major Shareholder** TASB	USD617,000.00 (RM2,767,430.00)
12.	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 Fernandes Datuk Kamarudin **Interested Major Shareholder** TASB	USD16,743,000.00 (RM75,097,378.00)
13.	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 Fernandes Datuk Kamarudin **Interested Major Shareholder** TASB	RM1,290,000.00
14.	AirAsia (India) Limited (Corporate Identity No. U62200KA2013PLC086204) ("AAI")	Provision of price risk management through fuel hedging by our Company with hedging counterparties, on behalf of AAI.	**Interested Directors** Amit Bhatia	RM144,000.00
15.	AAI	Provision of leasing of aircraft by AACL to AAI	**Interested Directors** Amit Bhatia	USD10,122,000.00 (RM45,400,207.00)
16.	AAI	Provision of the following services by our Company to AAI: (a) Network Regulatory; (b) Quality & Assurance; (c) Engineering; (d) Operations Control Centre; (e) Audit (Investigation); and (f) Inflight Business.	**Interested Directors** Amit Bhatia	RM1,425,000.00

ADDITIONAL COMPLIANCE INFORMATION

No.	Transacting Parties	Nature of RRPT	Class and relationship of the Related Parties	Aggregate value of transactions during the Financial Year
Revenue/income				
17.	AAI	Provision of the following shared services by AGSS to AAI: (a) Finance and accounting support operation services; (b) People department support operation services; and (c) Information and technology operation support services.	**Interested Directors** Amit Bhatia	RM2,106,000.00
18.	AAX	Provision of the following shared services by AGSS to AAX: (a) Finance and accounting support operation services; (b) People department support operation services; and (c) Information and technology operation support services.	**Interested Directors and Major Shareholders** Tan Sri (Dr.) Tony Fernandes Datuk Kamarudin **Interested Major Shareholder** TASB	RM3,239,000.00
Expense				
19.	QPR Holdings Limited (Company No. 3197756)	Provision of back of kit sponsorship by our Company to QPR in the Football League Championship	**Interested Directors and Major Shareholders** Tan Sri (Dr.) Tony Fernandes Datuk Kamarudin	GBP83,000.00 (RM459,563.00) - Sponsorship fee for the 2016/17 season
20.	Think BIG	Purchase of loyalty points from Think BIG, which operates and manages a loyalty program branded as the BIG Loyalty Program	**Interested Directors and Major Shareholders** Tan Sri (Dr.) Tony Fernandes Datuk Kamarudin **Interested Major Shareholder** TASB	RM8,878,000.00
21.	Caterhamjet Global Ltd. (Company No. 995558-T) ("CaterhamJet")	Provision of Bombardier Global Express aircraft operated by CaterhamJet and maintenance support for the aircraft to our Company	**Interested Directors** Tan Sri (Dr.) Tony Fernandes Datuk Kamarudin	USD4,458,000.00 (RM19,995,467.00)
22.	Tune Group Sdn. Bhd. (Company No. 798868-P) ("Tune Group")	Secondment of personnel from Tune Group to our Company for the purposes of operating Bombardier Global Express aircraft operated by CaterhamJet	**Interested Directors** Tan Sri (Dr.) Tony Fernandes Datuk Kamarudin	RM3,041,000.00
23.	AAX	Provision of charter and/or wet lease of A330 aircraft by AAX to our Company	**Interested Directors and Major Shareholders** Tan Sri (Dr.) Tony Fernandes Datuk Kamarudin **Interested Major Shareholder** TASB	USD8,391,000.00 (RM37,636,152.00)

ADDITIONAL COMPLIANCE INFORMATION

The shareholdings of the interested Directors and interested Major Shareholders in the Company as at 20 March 2017 were 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				
TASB	516,485,082	15.45	-	-
Tune Live Sdn. Bhd. (Company No. 948620-U) ("TLSB")	559,000,000	16.73		

Note:

* Deemed interested via their interests in TASB and TLSB, being the Major Shareholders of our Company pursuant to Section 8 of the Companies Act, 2016.

Please refer to the note of Section 2.3 of the Circulars to shareholders dated 29 April 2016 and 28 April 2017 respectively on the directorships and shareholdings of the interested directors and interested major shareholder in the transacting parties.

DIRECTORS' REPORT

The Directors hereby submit their annual report to the members together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

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 9 to the financial statements. There were no significant changes in the nature of these activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Net profit for the financial year	2,046,942	2,224,781

DIVIDENDS

The dividends on ordinary shares paid by the Company since the end of the previous financial year were as follows:

	RM'000
In respect of the financial year ended 31 December 2015,	
- a first and final single-tier dividend of 4 sen per ordinary share each on 2,782,874,080 ordinary shares of RM0.10 each, paid on 29 June 2016	111,315

The Directors now recommend a first and final single-tier dividend in respect of the financial year ended 31 December 2016 of 12 sen per share on 3,341,874,080 ordinary shares of RM0.10 each amounting to RM401,024,890 which is subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

SHARE CAPITAL AND DEBENTURES

There was no issuance of shares and debentures during the financial year.

DIRECTORS

The Directors who have held office during the period since the date of the last report are as follows:

Datuk Kamarudin bin Meranun	
Tan Sri (Dr.) Anthony Francis Fernandes	
Dato' Abdel Aziz @ Abdul Aziz bin Abu Bakar	
Dato' Fam Lee Ee	
Aireen Omar	
Stuart L Dean	
Dato' Mohamed Khadar bin Merican	
Tharumalingam A/L Kanagalingam	Appointed on 6 March 2017
Dato' Sri Gnanaraja A/L M. Gnanasundram	Retired on 30 May 2016
Amit Bhatia	Resigned on 25 May 2016

DIRECTORS' BENEFITS

During and at the end of the financial year ended 31 December 2016, 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 2 and Note 31 to the financial statements.

DIRECTORS' INTERESTS IN SHARES

According to the register of Directors' shareholdings, particulars of interests of Directors who held office at the end of the financial year in shares and options over shares in the Company are as follows:

	Number of ordinary shares of RM0.10 each			
	At 1.1.2016	**Acquired**	**(Disposed)**	**At 31.12.2016**
Direct interests in the Company				
Tan Sri (Dr.) Anthony Francis Fernandes**	1,600,000	-	-	1,600,000
Datuk Kamarudin bin Meranun**	2,000,000	-	-	2,000,000
Aireen Omar	50,000	-	-	50,000
Stuart L Dean	40,000	-	-	40,000
Indirect interests				
Tan Sri (Dr.) Anthony Francis Fernandes*	528,542,082	-	(12,057,000)	516,485,082
Datuk Kamarudin bin Meranun*	528,542,082	-	(12,057,000)	516,485,082

* By virtue of their interests in shares in the substantial shareholder of the Company, Tune Air Sdn. Bhd. ("TASB"), 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 interests therein, in accordance with Section 6A of the Companies Act, 1965.

** Shares held under CIMB Group Nominees (Tempatan) Sdn Bhd

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

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the financial statements of the Group and the Company were made out, the Directors took reasonable steps:

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

(b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and Company had been written down to an amount which they might be expected so to realise.

DIRECTORS' REPORT

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

At the date of this report, the Directors are not aware of any circumstances:

(a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and Company inadequate to any substantial extent; or

(b) which would render the values attributed to current assets in the financial statements of the Group and Company misleading; or

(c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and Company misleading or inappropriate.

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, in the opinion of the Directors, will or may affect the ability of the Group or Company to meet their obligations as and when they fall due.

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

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

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

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

In the opinion of the Directors:

(a) the results of the Group's and Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than as disclosed in the Income Statements; and

(b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and Company for the financial year in which this report is made other than as disclosed in Note 35 to the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

In accordance with a resolution of the Board of Directors dated 5 April 2017.

DATUK KAMARUDIN BIN MERANUN
DIRECTOR

AIREEN OMAR
DIRECTOR

GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A GENERAL INFORMATION

The principal activity of the Company is that of providing air transportation services. The principal activities of the subsidiaries are described in Note 9 to the financial statements. There were no significant changes in the nature of these activities during the financial year.

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 financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 5 April 2017.

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements:

(a) Basis of preparation

The financial statements of the Group and Company have been prepared in accordance with the Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Group and Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note C.

(b) 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 2016:

- Amendments to MFRS 11 'Joint arrangements' – Accounting for acquisition of interests in joint operations
- Amendments to MFRS 101 'Presentation of financial statements' – Disclosure initiative
- Amendments to MFRS 127 "Equity method in separate financial statements"
- Amendments to MFRS 10, 12 & 128 "Investment entities – Applying the consolidation exception"
- Annual Improvements to MFRSs 2012 – 2014 Cycle

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

GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group but not yet effective

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 January 2016. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative' (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.

- Amendments to MFRS 112 'Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses' (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

  In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

  The amendments shall be applied retrospectively.

- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' (effective from 1 January 2018) applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

  IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

  The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

  If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

  An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

  MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

  A new five-step process is applied before revenue can be recognised:

  - Identify contracts with customers;
  - Identify the separate performance obligations;
  - Determine the transaction price of the contract;
  - Allocate the transaction price to each of the separate performance obligations; and
  - Recognise the revenue as each performance obligation is satisfied

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group but not yet effective (continued)

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal. Determine the transaction price of the contract.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

  Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

  The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

  For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The Group and Company are in the process of assessing the full impact of the above standards, amendments to published standards and interpretations on the financial statements of the Group and Company in the year of initial application.

(d) Basis of consolidation

(i) 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 acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Basis of consolidation (continued)

(i) Subsidiaries (continued)

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.

(ii) 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 re-measure 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.

(iii) 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.

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Basis of consolidation (continued)

(iii) Associates (continued)

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.

(e) 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 B(s) 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.

The useful lives for this purpose are as follows:

Aircraft	
- engines and airframe excluding service potential	25 years
- service potential of engines and airframe	8 or 13 years
Aircraft spares	10 years
Aircraft fixtures and fittings	Useful life of aircraft or remaining lease term of aircraft, whichever is shorter
Buildings	
- simulator	28.75 years
- 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

GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

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 2016, the estimated residual value for aircraft airframes and engines is 10% of their cost (2015: 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 airframe. 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.

The cost of subsequent major airframe and engine maintenance checks as well as upgrades to leased assets are capitalised and amortised over the shorter of the period to the next check or the remaining life of the aircraft.

At the end of the reporting period, the Group assesses whether there is any indication of impairment. If such an indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note B(h) 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.

(f) Intangible assets

(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.

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Intangible assets (continued)

(ii) 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.

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.

(g) 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 B(h)). 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.

(h) 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 cost to sell 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.

(i) Maintenance and overhaul

<u>Owned aircraft</u>

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

<u>Leased aircraft</u>

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.

GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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.

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 B(e) 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.

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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.

(l) Financial assets

(i) 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.

<u>Financial assets at fair value through profit or loss</u>

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 B(n)). Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

<u>Loans and receivables</u>

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 balance sheets.

<u>Available-for-sale financial assets</u>

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 it within 12 months of the end of the reporting period.

(ii) 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.

(iii) 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 B(1)) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in the income statement, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

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

GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial assets (continued)

(iv) 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 asset's 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.

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.

(v) De-recognition

Financial assets are de-recognised 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.

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the balance sheets 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.

(n) 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 re-measured 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 B(l). 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 18 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.

<u>Cash flow hedge</u>

The effective portion of changes in the fair value of derivatives that are designated and qualify 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 5).

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

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'finance income/(costs)' and 'foreign exchange losses' (Note 5).

(o) Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. Otherwise, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(p) Cash and cash equivalents

For the purpose of the cash flow statements, 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.

(q) 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.

GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Share capital

(i) Classification

Ordinary shares with discretionary dividends are classified as equity.

(ii) Share issue costs

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

(iii) 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.

(s) 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.

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.

(t) 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.

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Current and deferred income tax (continued)

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

(u) Employee benefits

(i) 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.

(ii) 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.

(v) Revenue and other income

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.

Fuel and insurance surcharges, administrative fees, baggage fees, freight and ancillary sales are recognised upon the completion of services rendered. Related revenue is recognised upon the completion of services rendered and net of discounts.

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 participates in a loyalty programme where customers 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 when the points are redeemed. The amount of revenue is based on the number of points redeemed and the redemption value of each point. Award points expire 36 months after the initial sale.

(w) Foreign currencies

(i) 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.

GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Foreign currencies (continued)

(ii) 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 re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

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

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

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

(iii) 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 re-attributed 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.

(x) 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.

(y) 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.

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Contingent assets and liabilities (continued)

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'.

(z) 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.

(aa) 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.

C 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.

(i) Estimated useful lives and residual values of aircraft frames 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.

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 B(e), 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 2016 by RM 22,780,000 and RM 16,783,000 and decrease the carrying amount of property, plant and equipment as at 31 December 2016 by RM91,827,000 and RM70,980,000 for the Group and Company respectively.

(ii) 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.

(iii) Impairment of investment in associates and amounts due from associates

Management reviews the investment in associates and amounts due from associates with reference to any evidence of impairment. This evidence may include observable data indicating that there has been an adverse change in working capital of the associates and the local economic conditions that correlate with the potential risk of impairment on the transactions. Impairment assessment is performed on the investment in associates and amounts due from associates whenever events or changes in circumstance indicate indicator of impairment. This impairment assessment exercise requires significant judgment in estimating the recoverable amount of the associates, which are affected by assumptions made in respect of fares, load factor, fuel price, maintenance costs and currency movements.

INCOME STATEMENTS

for the financial year ended 31 December 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Revenue	1(a)	6,846,085	6,297,658	5,948,139	6,001,933
Other income	1(b)	352,703	257,975	917,035	212,153
Operating expenses					
- Staff costs	2	(1,015,258)	(759,420)	(964,825)	(732,935)
- Depreciation of property, plant and equipment	8	(710,843)	(703,245)	(562,024)	(691,853)
- Aircraft fuel expenses		(1,578,473)	(2,000,650)	(1,578,473)	(2,000,650)
- Maintenance and overhaul		(218,753)	(196,883)	(227,958)	(196,637)
- User charges	4	(801,656)	(685,013)	(801,656)	(684,342)
- Aircraft operating lease expenses		(479,485)	(330,791)	(90,844)	(102,232)
- Other operating expenses	3	(283,031)	(283,758)	(231,679)	(260,394)
Operating profit		2,111,289	1,595,873	2,407,715	1,545,043
Finance income	5	134,923	154,148	110,190	127,004
Finance costs	5	(593,061)	(724,035)	(526,344)	(713,196)
Net operating profit		1,653,151	1,025,986	1,991,561	958,851
Foreign exchange gain/(losses)	5	484,685	(331,338)	482,105	(336,560)
Gain on disposal of interest in a joint venture	11	-	320,500	-	-
Impairment of investment in associates		(163,750)	-	(163,750)	(875,653)
Share of results of joint ventures	10	24,285	25,492	-	-
Share of results of associates	11	134,704	(825,490)	-	-
Profit/(loss) before taxation		2,133,075	215,150	2,309,916	(253,362)
Taxation					
- Current taxation	6	(6,394)	(35,852)	(5,396)	(35,838)
- Deferred taxation	6	(79,739)	361,982	(79,739)	361,809
		(86,133)	326,130	(85,135)	325,971
Net profit for the financial year		2,046,942	541,280	2,224,781	72,609

	Note	Group 2016 RM'000	Group 2015 RM'000
Net profit for the financial year attributable to:			
- Owners of the Company		2,050,043	541,194
- Non-controlling interests		(3,101)	86
		2,046,942	541,280
Earnings per share attributable to owners of the Company (sen)			
- Basic	7	73.7	19.4
- Diluted	7	73.7	19.4

STATEMENTS OF COMPREHENSIVE INCOME

for the financial year ended 31 December 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Net profit for the financial year		2,046,942	541,280	2,224,781	72,609
Other comprehensive income/(loss) income					
Items that may be subsequently reclassified to profit or loss					
Available-for-sale investments					
- Net change in fair values	12	116,070	(203,504)	116,070	(203,504)
Cash flow hedges		64,411	(335,664)	64,411	(335,664)
Share of other comprehensive income of an associate		33,563	(31,430)	-	-
Foreign currency translation differences		28,045	10,130	-	-
Other comprehensive income/(loss) for the financial year, net of tax		242,089	(560,468)	180,481	(539,168)
Total comprehensive income/(loss) for the financial year		2,289,031	(19,188)	2,405,262	(466,559)
Total comprehensive income/(loss) attributable to:					
- Owners of the Company		2,292,132	(19,274)		
- Non-controlling interests		(3,101)	86		
		2,289,031	(19,188)		

BALANCE SHEETS

as at 31 December 2016

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
NON-CURRENT ASSETS					
Property, plant and equipment	8	10,826,682	10,927,645	7,858,892	9,805,655
Investment in subsidiaries	9	-	-	179,754	64,860
Investment in joint ventures	10	188,309	164,024	81,559	81,559
Investment in associates	11	2,210,587	1,020,640	1,533,678	712,398
Available-for-sale financial assets	12	356,605	235,097	351,167	235,097
Intangible assets	13	121,829	19,184	-	-
Deferred tax assets	14	749,211	828,950	749,038	828,777
Receivables and prepayments	15	1,433,054	1,412,242	1,379,778	1,385,308
Deposits on aircraft purchase	16	112,133	334,487	112,132	334,487
Amounts due from associates	17	344,861	1,142,119	344,861	1,034,869
Derivative financial instruments	18	867,949	945,490	867,949	945,490
		17,211,220	17,029,878	13,458,808	15,428,500
CURRENT ASSETS					
Inventories	19	43,866	26,152	43,650	26,152
Receivables and prepayments	15	1,087,657	617,422	1,004,718	536,340
Deposits on aircraft purchase	16	658,115	348,820	658,115	348,820
Derivative financial instruments	18	665,668	419,112	665,668	419,112
Amounts due from subsidiaries	20	-	-	800,970	406,225
Amounts due from joint ventures	21	8,952	5,708	8,952	5,708
Amounts due from associates	17	511,446	394,970	282,047	297,976
Amounts due from related parties	20	37,424	43,851	16,102	15,787
Tax recoverable		19,466	3,648	19,856	3,338
Deposits, cash and bank balances	22	1,741,573	2,426,696	1,426,886	2,262,641
		4,774,167	4,286,379	4,926,964	4,322,099

BALANCE SHEETS

as at 31 December 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
LESS: CURRENT LIABILITIES					
Trade and other payables	23	1,882,183	1,634,057	1,819,376	1,523,359
Sales in advance		607,735	664,251	606,018	662,330
Amounts due to subsidiaries	24	-	-	-	341,216
Amounts due to associates	17	3,978	-	25,290	-
Amounts due to related parties	24	29,999	13,661	58,351	13,661
Borrowings	25	1,945,203	2,377,256	1,575,721	2,251,537
Derivative financial instruments	18	448,873	582,491	448,873	582,491
		4,917,971	5,271,716	4,533,629	5,374,594
NET CURRENT (LIABILITIES)/ASSETS		(143,804)	(985,337)	393,335	(1,052,495)
NON-CURRENT LIABILITIES					
Trade and other payables	23	1,529,293	1,043,994	1,497,466	1,013,936
Amounts due to associates	17	118,898	76,216	21,934	21,622
Amount due to a related party	24	9,455	-	-	-
Borrowings	25	8,633,939	10,235,579	6,219,922	9,431,567
Derivative financial instruments	18	148,052	237,898	148,052	237,898
		10,439,637	11,593,687	7,887,374	10,705,023
		6,627,779	4,450,854	5,964,769	3,670,982
CAPITAL AND RESERVES					
Share capital	26	278,297	278,297	278,297	278,297
Share premium		1,230,941	1,230,941	1,230,941	1,230,941
Treasury shares		(160)	-	(160)	-
Foreign exchange reserve		46,993	18,948	-	-
Retained earnings	27(a)	5,294,468	3,355,740	4,644,678	2,531,212
Other reserves	27(b)	(217,554)	(431,598)	(188,987)	(369,468)
		6,632,985	4,452,328	5,964,769	3,670,982
Non-controlling interests		(5,206)	(1,474)	-	-
Total equity		6,627,779	4,450,854	5,964,769	3,670,982

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2016

		Attributable to owners of the Company										
		Issued and fully paid ordinary shares of RM0.10 each										
	Note	Number of shares '000	Nominal value RM'000	Share premium RM'000	Foreign exchange reserve RM'000	Cash flow hedge reserve RM'000	Available-for-sale reserve RM'000	Treasury shares RM'000	Retained earnings RM'000	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	(539,968)	108,370	-	3,355,740	4,452,328	(1,474)	4,450,854
Net profit for the financial year		-	-	-	-	-	-	-	2,050,043	2,050,043	(3,101)	2,046,942
Other comprehensive income		-	-	-	28,045	97,974	116,070	-	-	242,089	-	242,089
Total comprehensive income/(loss)		-	-	-	28,045	97,974	116,070	-	2,050,043	2,292,132	(3,101)	2,289,031
Transactions with owners:												
Dividends	28	-	-	-	-	-	-	-	(111,315)	(111,315)	-	(111,315)
Buy-back of ordinary shares		-	-	-	-	-	-	(160)	-	(160)	-	(160)
Non-controlling interest arising from business combination	9	-	-	-	-	-	-	-	-	-	(631)	(631)
At 31 December 2016		2,782,974	278,297	1,230,941	46,993	(441,994)	224,440	(160)	5,294,468	6,632,985	(5,206)	6,627,779

		Attributable to owners of the Company									
		Issued and fully paid ordinary shares of RM0.10 each									
	Note	Number of shares '000	Nominal value RM'000	Share premium RM'000	Foreign exchange reserve RM'000	Cash flow hedge reserve RM'000	Available-for-sale reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 January 2015		2,782,974	278,297	1,230,941	8,818	(172,874)	311,874	2,898,035	4,555,091	-	4,555,091
Net profit for the financial year		-	-	-	-	-	-	541,194	541,194	86	541,280
Other comprehensive income/(loss)		-	-	-	10,130	(367,094)	(203,504)	-	(560,468)	-	(560,468)
Total comprehensive income/(loss)		-	-	-	10,130	(367,094)	(203,504)	541,194	(19,274)	86	(19,188)
Transactions with owners:											
Dividends	28	-	-	-	-	-	-	(83,489)	(83,489)	-	(83,489)
Non-controlling interest arising from business combination	9	-	-	-	-	-	-	-	-	(1,560)	(1,560)
At 31 December 2015		2,782,974	278,297	1,230,941	18,948	(539,968)	108,370	3,355,740	4,452,328	(1,474)	4,450,854

COMPANY STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2016

	Note	Issued and fully paid ordinary shares of RM0.10 each		Non-distributable				Distributable	
		Number of shares '000	Nominal value RM'000	Cash flow hedge reserve RM'000	Available-for-sale reserve RM'000	Share premium RM'000	Treasury shares RM'000	Retained earnings RM'000	Total RM'000
At 1 January 2016		2,782,974	278,297	(477,838)	108,370	1,230,941	-	2,531,212	3,670,982
Net profit for the financial year		-	-	-	-	-	-	2,224,781	2,224,781
Other comprehensive income		-	-	64,411	116,070	-	-	-	180,481
Total comprehensive income		-	-	64,411	116,070	-	-	2,224,781	2,405,262
Transactions with owners:									
Dividends	28	-	-	-	-	-	-	(111,315)	(111,315)
Buy-back of ordinary shares		-	-	-	-	-	(160)	-	(160)
Non-controlling interest arising from business combination		-	-	-	-	-	-	-	-
At 31 December 2016		2,782,974	278,297	(413,427)	224,440	1,230,941	(160)	4,644,678	5,964,769

	Note	Issued and fully paid ordinary shares of RM0.10 each		Non-distributable			Distributable	
		Number of shares '000	Nominal value RM'000	Cash flow hedge reserve RM'000	Available-for-sale reserve RM'000	Share premium RM'000	Retained earnings RM'000	Total RM'000
At 1 January 2015		2,782,974	278,297	(142,174)	311,874	1,230,941	2,542,092	4,221,030
Net profit for the financial year		-	-	-	-	-	72,609	72,609
Other comprehensive loss		-	-	(335,664)	(203,504)	-	-	(539,168)
Total comprehensive (loss)/income		-	-	(335,664)	(203,504)	-	72,609	(466,559)
Transactions with owners:								
Dividends	28	-	-	-	-	-	(83,489)	(83,489)
At 31 December 2015		2,782,974	278,297	(477,838)	108,370	1,230,941	2,531,212	3,670,982

CASH FLOW STATEMENTS

for the financial year ended 31 December 2016

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before taxation	2,133,075	215,150	2,309,916	(253,362)
Adjustments for:				
Property, plant and equipment				
- Depreciation	710,843	703,245	562,024	691,853
- (Gain)/loss on disposals	(104,200)	(19,654)	(470,545)	(19,656)
Amortisation of intangible assets	281	24	-	-
Impairment of property, plant and equipment	11,659	13,281	-	-
(Reversal of)/impairment of trade and other receivables	(3,037)	17,523	(3,037)	17,523
Write-off of amount due from related party	-	5,247	-	5,247
Impairment of amount due from a subsidiary	-	-	21,328	-
Impairment of investment in associates	163,750	-	163,750	875,653
Fair value gain on derivative financial instruments	(302,715)	(937,678)	(302,715)	(937,678)
Share of results of joint ventures	(24,285)	(25,492)	-	-
Share of results of associates	(134,704)	825,490	-	-
Gain on disposal of interest in a joint venture	-	(320,500)	-	-
Net unrealised foreign exchange loss	344,715	1,268,394	239,029	1,265,653
Dividend income from:				
- available-for-sale financial assets	(5,130)	(4,145)	(5,130)	(4,145)
- a subsidiary	-	-	(302,095)	-
- associates	(72,527)	(48,064)	(1,675)	-
Interest expense	593,061	724,035	526,344	713,196
Interest income	(134,923)	(154,148)	(110,190)	(127,004)
	3,175,863	2,262,708	2,627,004	2,227,280
Changes in working capital:				
Inventories	(17,714)	(8,000)	(17,498)	(8,000)
Receivables and prepayments	(525,617)	(114,875)	(530,176)	(200,232)
Trade and other payables	520,684	782,652	809,143	676,787
Amounts due from/to subsidiaries, associates, joint venture and related parties	(423,879)	(177,536)	(388,720)	3,725
Cash generated from operations	2,729,337	2,744,949	2,499,753	2,699,560
Interest paid	(558,634)	(658,177)	(473,799)	(647,338)
Interest received	14,377	148,280	14,372	121,135
Tax paid	(17,960)	(31,114)	(17,960)	(31,114)
Net cash from operating activities	2,167,120	2,203,938	2,022,366	2,142,243

CASH FLOW STATEMENTS

for the financial year ended 31 December 2016

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
CASH FLOWS FROM INVESTING ACTIVITIES				
Property, plant and equipment				
- Additions	(1,216,547)	(613,913)	(989,755)	(580,489)
- Proceeds from disposals	736,791	227,881	932,230	227,881
Repayment of advances by an associate	53,962	71,423	53,962	71,423
Advances to subsidiaries	-	-	(146,052)	(80,209)
Additional investment in available-for-sale financial assets	(5,438)	(53,811)	-	(53,811)
Proceeds from disposal of interest in a joint venture	-	347,044	-	347,044
Dividend received from:				
- available-for-sale financial assets	5,130	4,145	5,130	4,145
- an associate	72,527	48,064	1,675	-
Acquisition of subsidiaries	(79,036)	(30,810)	(102,314)	(17,236)
Additional subscription of shares in associates	(143,218)	(78,695)	-	-
Additional subscription of shares in subsidiaries	-	(24,144)	(8,750)	(24,144)
Net cash used in investing activities	(575,829)	(102,816)	(253,874)	(105,396)
CASH FLOWS FROM FINANCING ACTIVITIES				
Buy-back of shares	(160)	-	(160)	-
Proceeds from borrowings	832,208	1,458,223	300,370	500,161
Repayment of borrowings	(3,154,447)	(2,677,406)	(2,922,397)	(1,800,203)
Dividends paid	(111,315)	(83,489)	(111,315)	(83,489)
Net cash used in financing activities	(2,433,714)	(1,302,672)	(2,733,502)	(1,383,531)

CASH FLOW STATEMENTS

for the financial year ended 31 December 2016

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
NET MOVEMENT FOR THE FINANCIAL YEAR	(842,423)	798,450	(965,010)	653,316
CURRENCY TRANSLATION DIFFERENCES	157,300	290,397	129,255	290,240
DEPOSITS, CASH AND BANK BALANCES AT BEGINNING OF THE FINANCIAL YEAR	2,426,696	1,337,849	2,262,641	1,319,085
DEPOSITS, CASH AND BANK BALANCES AT END OF THE FINANCIAL YEAR	1,741,573	2,426,696	1,426,886	2,262,641

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deposits, cash and bank balances (Note 22)	1,741,573	2,426,696	1,426,886	2,262,641
Less: Deposits pledged as securities and restricted cash	(65,973)	(710,986)	(4,605)	(710,986)
Cash and cash equivalents	1,675,600	1,715,710	1,422,281	1,551,655

The deposits with licensed banks of the Group and the Company amounting to RM65,973,000 and RM4,605,000 (2015: Group and Company RM710,986,000) 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

(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 11 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	2015 RM'000
Proceeds from disposal of property, plant and equipment to a subsidiary	2,032,863	1,105,736
Settlement of borrowings and related finance cost by lessor on behalf of the Company	-	(184,439)
Borrowings transferred to subsidiary	(1,565,699)	(689,172)
Amounts due from a subsidiary	(271,725)	(232,125)
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"), 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

31 December 2016

1 REVENUE AND OTHER INCOME

(a) REVENUE

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Passenger seat sales	4,391,253	3,648,913	4,391,253	3,648,913
Baggage fees	568,134	491,787	568,134	491,787
Aircraft operating lease income	1,257,681	1,423,122	359,735	1,127,397
Surcharges and fees	32,761	180,171	32,761	180,171
Other revenue	596,256	553,665	596,256	553,665
	6,846,085	6,297,658	5,948,139	6,001,933

During the financial year, the Company novated certain of its aircraft lease arrangements to its subsidiary. Following the novation, the subsidiary became the lessor of the aircraft.

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

(b) OTHER INCOME

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Gain on disposals of property, plant and equipment	104,200	19,654	470,545	19,656
Fees charged to associates providing commercial air transport services	62,969	68,770	62,969	68,770
Dividend income from a subsidiary	-	-	302,095	-
Others	185,534	169,551	81,426	123,727
	352,703	257,975	917,035	212,153

Other income ('others') includes commission income, advertising income and fees charged to related parties providing commercial air transport services.

2 STAFF COSTS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Salaries, bonus, allowances and other employee's benefit	922,185	686,917	875,884	662,710
Defined contribution retirement plan	93,073	72,503	88,941	70,225
	1,015,258	759,420	964,825	732,935

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2 STAFF COSTS (CONTINUED)

Included in staff costs are Executive Directors' remuneration. The Executive Directors' and Non-Executive Directors' remuneration are as follows:

	Group and Company	
	2016 RM'000	2015 RM'000
Executive Directors		
- salaries, bonus and allowances	44,290	12,220
- defined contribution plan	5,315	1,466
	49,605	13,686
Non-Executive Directors		
- fees	1,268	1,246
	50,873	14,932

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

	Executive		Non-executive	
	2016	2015	2016	2015
Range of remuneration				
Below RM500,000	-	-	6	7
RM500,001 to RM1,000,000	-	-	-	-
RM1,000,001 to RM3,000,000	-	1	-	-
RM3,000,001 to RM5,000,000	1	1	-	-
RM5,000,001 to RM10,000,000	-	1	-	-
RM10,000,001 to RM20,000,000	-	-	-	-
RM20,000,001 to RM30,000,000	2	-	-	-

3 OTHER OPERATING EXPENSES

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Impairment/(reversal of impairment) of:				
- Amount due from a subsidiary (Note 20)	-	-	21,328	-
- Property, plant and equipment (Note 8)	11,659	13,281	-	-
- Trade and other receivables (Note 15)	(3,037)	17,523	(3,037)	17,523
Write off of amount due from related parties	-	5,247	-	5,247
Rental of land and building	25,310	18,126	23,862	16,987
Auditors' remuneration				
- audit fees				
(i) PricewaterhouseCoopers Malaysia	1,030	887	879	776
(ii) Others	65	40	-	-
- non-audit fees				
(i) PricewaterhouseCoopers Malaysia	281	642	281	642
Rental of equipment	1,470	1,001	1,413	935
Advertising costs	53,373	52,131	53,369	52,131

4 USER CHARGES

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

5 FINANCE INCOME/(COSTS) AND FOREIGN EXCHANGE GAIN/(LOSSES)

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
(a) Finance income				
Interest income from:				
- deposits with licensed banks	14,377	28,058	14,372	28,058
- amounts due from associates	29,694	66,462	29,521	66,462
Gain from interest rate contracts	25,353	3,605	25,353	3,605
Impact of discounting effect on financial instruments	56,739	51,475	32,426	24,366
Others	8,760	4,548	8,518	4,513
	134,923	154,148	110,190	127,004
(b) Finance costs				
Interest expense				
- bank borrowings	(558,634)	(679,500)	(495,701)	(677,878)
Amortisation of premiums for interest rate caps	(9,420)	(9,090)	(9,420)	(9,090)
Impact of discounting effect on financial instruments	(20,040)	(25,527)	(17,463)	(16,742)
Bank facilities and other charges	(4,967)	(9,918)	(3,760)	(9,486)
	(593,061)	(724,035)	(526,344)	(713,196)
(c) Foreign exchange gain/(losses) from:				
Borrowings:				
- foreign exchange losses	(122,613)	(2,291,318)	(122,613)	(2,296,540)
- fair value movement recycled from cash flow hedge reserve	257,584	820,766	257,584	820,766
- gain/(loss) from forward foreign exchange contracts	(4,838)	96,736	(4,838)	96,736
Operations	108,559	440,770	105,979	440,770
Amounts due from associates and joint ventures	245,993	601,708	245,993	601,708
	484,685	(331,338)	482,105	(336,560)

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 statement within foreign exchange gains/(losses).

6 TAXATION

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current taxation				
- Malaysian tax	3,852	33,266	2,854	33,252
- Foreign tax	2,542	2,586	2,542	2,586
Deferred taxation (Note 14)	79,739	(361,982)	79,739	(361,809)
	86,133	(326,130)	85,135	(325,971)
Current taxation				
- Current financial year	6,394	35,852	5,396	35,838
Deferred taxation				
- Origination and reversal of temporary differences	(38,329)	(308,539)	(38,329)	(308,366)
- Tax incentives	118,068	(53,443)	118,068	(53,443)
	79,739	(361,982)	79,739	(361,809)
	86,133	(326,130)	85,135	(325,971)

The explanation of the relationship between taxation and profit/(loss) before taxation is as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit/(loss) before taxation	2,133,075	215,150	2,309,916	(253,362)
Tax calculated at Malaysian tax rate of 24% (2015: 25%)	511,938	53,788	554,380	(63,341)
Tax effects of:				
- expenses not deductible for tax purposes	113,589	97,117	113,560	334,279
- income not subject to tax	(487,901)	(679,634)	(645,307)	(599,508)
- associates' results reported net of tax	(37,630)	206,373	-	-
- joint ventures' results reported net of tax	(5,828)	(6,373)	-	-
- tax incentives	62,502	2,599	62,502	2,599
- differences in tax rate	(70,537)	-	-	-
Taxation	86,133	(326,130)	85,135	(325,971)

7 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	
	2016	2015
Net profit for the financial year attributable to owners of the Company (RM'000)	2,050,043	541,194
Weighted average number of ordinary shares in issue ('000)	2,782,874	2,782,974
Basic and diluted earnings per share (sen)	73.7	19.4

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.

8 PROPERTY, PLANT AND EQUIPMENT

	At 1 January 2016 RM'000	Additions RM'000	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, airframe 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.

	Cost RM'000	Accumulated depreciation RM'000	Accumulated impairment loss RM'000	Carrying amount RM'000
Group				
At 31 December 2016				
Aircraft engines, airframe 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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	At 1 January 2015 RM'000	Additions RM'000	Acquisition of subsidiaries RM'000	Disposals RM'000	Depreciation charge RM'000	Impairment loss RM'000	At 31 December 2015 RM'000
Group							
Carrying amount							
Aircraft engines, airframe and service potential	12,291,382	452,030	-	(1,495,339)	(650,571)	-	10,597,502
Aircraft spares	122,752	25,122	-	(8,986)	(15,544)	-	123,344
Aircraft fixtures and fittings	43,196	24,285	-	-	(12,907)	-	54,574
Buildings	1,655	-	-	-	(42)	-	1,613
Motor vehicles	7,582	450	-	-	(2,300)	-	5,732
Office equipment, furniture and fittings	25,137	43,542	888	(163)	(13,962)	(13,281)	42,161
Office renovation	6,508	398	323	-	(2,553)	-	4,676
Simulator equipment	1,089	-	-	-	(38)	-	1,051
Operating plant and ground equipment	12,462	6,198	-	-	(4,865)	-	13,795
In-flight equipment	384	-	-	-	(184)	-	200
Training equipment	135	169	-	-	(279)	-	25
Work in progress	21,253	61,719*	-	-	-	-	82,972
	12,533,535	613,913	1,211	(1,504,488)	(703,245)	(13,281)	10,927,645

* Included work in progress completed during the financial year amounting to RM4.4million which were reclassified to respective asset classes.

	Cost RM'000	Accumulated depreciation RM'000	Accumulated impairment loss RM'000	Carrying amount RM'000
Group				
At 31 December 2015				
Aircraft engines, airframe and service potential	13,965,974	(3,368,472)	-	10,597,502
Aircraft spares	266,993	(143,649)	-	123,344
Aircraft fixtures and fittings	144,676	(90,102)	-	54,574
Buildings	2,114	(501)	-	1,613
Motor vehicles	26,941	(21,209)	-	5,732
Office equipment, furniture and fittings	124,956	(69,514)	(13,281)	42,161
Office renovation	23,754	(19,078)	-	4,676
Simulator equipment	4,967	(3,916)	-	1,051
Operating plant and ground equipment	50,777	(36,982)	-	13,795
In-flight equipment	1,696	(1,496)	-	200
Training equipment	4,588	(4,563)	-	25
Work in progress	82,972	-	-	82,972
	14,700,408	(3,759,482)	(13,281)	10,927,645

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	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, airframe 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

During the financial year, the Company disposed aircraft and spare engines with carrying amount of RM1.8 billion (2015: RM1.1billion) to its subsidiary, Asia Aviation Capital Limited for a total sale consideration of RM2.0 billion (2015: RM1.1billion).

	Cost RM'000	Accumulated depreciation RM'000	Carrying amount RM'000
Company			
At 31 December 2016			
Aircraft engines, airframe 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

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8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	At 1 January 2015 RM'000	Additions RM'000	Disposals RM'000	Depreciation charge RM'000	At 31 December 2015 RM'000
Company					
Carrying amount					
Aircraft engines, airframe and service potential	12,291,382	452,030	(2,601,076)	(644,738)	9,497,598
Aircraft spares	122,752	25,122	(8,986)	(15,544)	123,344
Aircraft fixtures and fittings	43,196	23,911	-	(12,825)	54,282
Buildings	1,655	-	-	(42)	1,613
Motor vehicles	7,582	450	-	(2,300)	5,732
Office equipment, furniture and fittings	22,743	9,314	(90)	(9,123)	22,844
Office renovation	4,274	340	-	(1,915)	2,699
Simulator equipment	1,089	-	-	(38)	1,051
Operating plant and ground equipment	12,462	6,198	-	(4,865)	13,795
In-flight equipment	384	-	-	(184)	200
Training equipment	135	169	-	(279)	25
Work in progress	19,517	62,955	-	-	82,472
	12,527,171	580,489	(2,610,152)	(691,853)	9,805,655

	Cost RM'000	Accumulated depreciation RM'000	Accumulated impairment loss RM'000	Carrying amount RM'000
Company				
At 31 December 2015				
Aircraft engines, airframe and service potential	12,402,743	(2,905,145)	-	9,497,598
Aircraft spares	266,993	(143,649)	-	123,344
Aircraft fixtures and fittings	140,516	(86,234)	-	54,282
Buildings	2,114	(501)	-	1,613
Motor vehicles	26,941	(21,209)	-	5,732
Office equipment, furniture and fittings	86,766	(63,922)	-	22,844
Office renovation	19,794	(17,095)	-	2,699
Simulator equipment	4,967	(3,916)	-	1,051
Operating plant and ground equipment	50,777	(36,982)	-	13,795
In-flight equipment	1,696	(1,496)	-	200
Training equipment	4,588	(4,563)	-	25
Work in progress	82,472	-	-	82,472
	13,090,367	(3,284,712)	-	9,805,655

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Carrying amount of owned aircraft sub-leased to associates	3,368,288	3,083,383	798,862	2,304,378
Aircraft pledged as security for borrowings (Note 25)	10,369,963	10,597,502	7,421,139	9,497,598

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.

9 INVESTMENT IN SUBSIDIARIES

	Company	
	2016 RM'000	2015 RM'000
Unquoted investments, at cost	179,790	64,896
Less: Accumulated impairment losses	(36)	(36)
	179,754	64,860
At 1 January	64,860	23,480
Additional investment in subsidiaries	114,894	41,380
At 31 December	179,754	64,860

The details of the subsidiaries are as follows:

Name of entity	Country of incorporation	Group's effective equity interest 2016 %	Group's effective equity interest 2015 %	Principal activities
Directly held by the Company				
AirAsia Investment Ltd ("AAIL")*	Malaysia	100	100	Investment holding
AirAsia Go Holiday Sdn Bhd ("AGH")	Malaysia	100	100	Tour operating business
AirAsia (Mauritius) Limited*	Mauritius	100	100	Providing aircraft leasing facilities to Thai AirAsia Co. Ltd
AirAsia Corporate Services Limited*	Malaysia	100	100	Facilitate business transactions for AirAsia Group with non-resident goods and service providers
Ground Team Red Sdn Bhd	Malaysia	100	100	Special purpose vehicle for financing arrangements required by AirAsia
Koolred Sdn Bhd	Malaysia	100	100	Investment holding
AirAsia Global Shared Services Sdn Bhd	Malaysia	100	100	To provide shared services and outsourcing for its affiliates

9 INVESTMENT IN SUBSIDIARIES (CONTINUED)

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

Name of entity	Country of incorporation	Group's effective equity interest 2016 %	Group's effective equity interest 2015 %	Principal activities
Directly held by the Company (continued)				
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
TPaay Asia Sdn Bhd (formerly known as Tune Money Sdn Bhd) ("TPaay")*	Malaysia	100	100	Provision of financial and other related services
Rokki Sdn Bhd (formerly known as Tune Box Sdn Bhd)	Malaysia	73	73	Trading of multimedia content and equipment
Think Big Digital Sdn Bhd ("BIG")*	Malaysia	69.3**	-	Financial services and managing customer loyalty points
T & Co Coffee Sdn Bhd*	Malaysia	80	-	Trading in coffee and tea related products
Held by AGH				
AirAsia Exp Pte. Ltd ("AAE")*	Singapore	100	100	Investment holding
Held by AAIL				
AirAsia Capital Ltd *	Malaysia	100	100	Dormant
AirAsia Pte. Ltd. *	Singapore	100	-	Airline operation services
Held by AAC				
Asia Aviation Pte Ltd *	Singapore	100	-	Dormant

* Not audited by PricewaterhouseCoopers, Malaysia
** Reclassified from investment in associates during the year (Note 11)

Acquisition of additional interest in BIG

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

9 INVESTMENT IN SUBSIDIARIES (CONTINUED)

Acquisition of additional interest in BIG (continued)

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 13)	102,926
Net assets acquired	101,500

	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 RM2,039,782,000 respectively.

Subscription of redeemable preference shares in TPaay

On 30 December 2015, the Directors approved the subscription of redeemable preference shares ("RPS") issued by TPaay amounting up to RM13.75 million. The Company subscribed to 50 million of RPS for RM5 million in the previous financial year. The subscription of the remaining RPS was carried out in the following stages during the financial year:

Date of subscription	**Number of RPS million**	**Amount RM'000**
20 April 2016	40	4,000
19 October 2016	20	2,000
28 December 2016	22	2,750
		8,750

Acquisition of T & Co Coffee Sdn. Bhd.

On 27 June 2016, the Company entered into a Share Sale Agreement ("SSA") with Datin Charlene Yeo Ming Ling ("CY") to purchase 881,873 ordinary shares of RM1.00 each in T & Co Coffee Sdn. Bhd. ("T&Co"), which is equivalent to eighty percent (80%) of the share capital of T&Co for a total purchase consideration of RM914,000 upon terms and conditions as stipulated in the SSA. The purchase consideration was satisfied in part by cash of RM814,000 and in part by AirAsia credit shell of RM100,000 which may be used to pay for flights on all carriers within AirAsia Group. This acquisition did not have any material impact to the financial statements of the Group and Company.

The Company does not have any subsidiaries with non-controlling interests that are material to the Group. There were no transactions with non-controlling interests during the current financial year.

10 INVESTMENT IN JOINT VENTURES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Unquoted investments, at cost	81,559	81,559	81,559	81,559
Share of post-acquisition profits	106,750	82,465	-	-
	188,309	164,024	81,559	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		Principal activities
		2016 %	2015 %	
Directly held by the Company				
Asian Aviation Centre of Excellence Sdn Bhd ("AACOE")	Malaysia	50	50	Aviation training
Held by Madcience Consulting Sdn Bhd				
Big Data for Human APAC Limited ("BD4H")	United Kingdom	50	-	Dormant

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.

The Directors considers AACOE as a material joint venture to the Group. AACOE is an aviation training centre with operations in Malaysia and Singapore. AACOE is a strategic partner of the Company and provides initial and recurrent training for both pilots and flight attendants. AACOE also provides training to TAA, IAA, PAA, AAIPL and other airline clients in the region.

10 INVESTMENT IN JOINT VENTURES (CONTINUED)

Summarised financial information for material joint venture

Set out below is the summarised financial information of AACOE which is accounted for using the equity method:

Summarised balance sheet

	AACOE	
	2016 RM'000	2015 RM'000
Current		
Cash and cash equivalents	44,649	50,831
Other current assets	138,593	59,429
Total current assets	183,242	110,260
Financial liabilities (excluding trade payables)	(5,182)	(7,291)
Other current liabilities (including trade payables)	(66,574)	(25,486)
Total current liabilities	(71,756)	(32,777)
Non-current		
Assets	359,593	363,382
Liabilities	(94,460)	(112,817)
Net assets	376,619	328,048

Summarised statement of comprehensive income

	AACOE	
	2016 RM'000	2015 RM'000
Revenue	130,714	107,103
Depreciation and amortisation	(17,867)	(15,151)
Interest income	3,881	-
Interest expense	-	(3,977)
Profit before taxation	53,938	51,040
Tax expense	(7,841)	(2,559)
Share of results from joint venture	2,474	-
Profit after taxation and total comprehensive income	48,571	48,481
Dividends received from joint ventures	-	-

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10 INVESTMENT IN JOINT VENTURES (CONTINUED)

Summarised financial information for material joint venture (continued)

Reconciliations of summarised financial information

	AACOE	
	2016 RM'000	**2015 RM'000**
Opening net assets at 1 January	328,048	279,567
Profit after taxation and total comprehensive income	48,571	48,481
Closing net assets at 31 December	376,619	328,048
Interest in joint ventures at 50%	188,309	164,024
Carrying value at 31 December	188,309	164,024

11 INVESTMENT IN ASSOCIATES

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Unquoted investments	2,924,097	1,847,478	1,533,678	712,398
Share of post-acquisition loss	(684,950)	(764,708)	-	-
Share of post-acquisition reserves	(28,560)	(62,130)	-	-
	2,210,587	1,020,640	1,533,678	712,398

Included in the carrying amount of the investment in associates of the Group and the Company is an impairment loss of RM163,750,000 (2015: Nil for the Group and RM875,653,000 for the Company) recognised during the financial year.

11 INVESTMENT IN ASSOCIATES (CONTINUED)

The details of the associates are as follows:

Name of entity	Principal place of business/country of incorporation	Group's effective equity interest 2016 %	Group's effective equity interest 2015 %	Principal activities
AirAsia Philippines Inc	Philippines	39.9	39.9	Providing air transportation services, currently dormant
Asian Contact Centres Sdn. Bhd.	Malaysia	50.0	50.0	Providing end-to-end solutions for customers contact management and contact centre
Think Big Digital Sdn Bhd ("BIG")	Malaysia	-*	44.4	Financial services and managing customer loyalty points
Held by AAE				
AAE Travel Pte Ltd ("AAE Travel")	Singapore	25.0	25.0	Online travel agency
Held by AAIL				
PT Indonesia AirAsia ("IAA")	Indonesia	48.9	48.9	Commercial air transport services
Thai AirAsia Co. Ltd ("TAA")	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	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	49.0	49.0	Commercial air transport services

* Reclassified as investment in subsidiary during the year (Note 9)

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 2016

(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.

11 INVESTMENT IN ASSOCIATES (CONTINUED)

Acquisition of additional interests in associates during the financial year ended 31 December 2015

(a) On 25 February 2015, AAIL subscribed to 3,174,927 shares of common stock representing 49% of the paid-up capital in JAA for a cash consideration of JPY490 million (equivalent to RM12.6 million). On 29 September 2015, AAIL subscribed to an additional 14,000,000 shares in JAA for a cash consideration of JPY980 million (equivalent to RM36.5 million).

(b) On 29 July 2015, AAIL invested an additional 496,536,640 ordinary shares in AirAsia (India) Private Limited ("AAIPL") for a cash consideration of USD7.7 million (equivalent to RM29.5 million). The Group's equity interest in AAIPL remains as 49%.

(c) On 29 September 2015, the Company subscribed to 49% of perpetual capital security issued by IAA amounting to IDR2,058 billion (RM625 million) in proportion to its equity shareholding in IAA. 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 as 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 loss on investment in associates

As at 31 December 2016, the Group's and the Company's investment in IAA and PAA were tested for impairment due to additional investment from the Company to address their negative equity position and continuing losses incurred respectively. 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 2017 to 2021. Assumptions applied in determining the recoverable amount include operational fleet size, load factor, average fare and jet fuel price.

As a result of the impairment assessment, the carrying amount of the investment in PAA has been written down to its recoverable amount as the Group and the Company recognised an impairment loss of RM164 million on the investment in PAA in the income statement. No impairment is recorded for the investment in IAA.

The key assumptions used in determining the recoverable amount of the investment in PAA are as follows:
- Discount rate of 10%
- Long-term growth rate of 3.5%

The recoverable amount of the investment in PAA 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	Fair value at 31 December 2016 (RM'000)	Unobservable inputs *	Inputs	Relationship of unobservable inputs to fair value
Investment in PAA	748,484	Discount rate	10%	Increased discount rate by 1% would decrease fair value by RM193,405,000
		Long-term growth rate per annum	3.5%	Decreased long-term growth rate by 1% would decrease fair value by RM97,962,000

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

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.

11 INVESTMENT IN ASSOCIATES (CONTINUED)

Material associates

The Directors consider TAA, IAA, and PAA as material associates to the Group. TAA, IAA and PAA are all operators of commercial air transport services which are based in Thailand, Indonesia and the Philippines respectively. These associate companies are strategic investments of the Company and form an essential part of the Company's growth strategy. They provide access to a wider geographical market and network coverage in the provision of air transport services across the 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.

Summarised balance sheet

	IAA		PAA		TAA	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current						
Cash and cash equivalents	79,403	32,576	2,493	1,620	569,258	723,295
Other current assets	220,289	320,920	1,280,739	1,249,220	437,754	216,715
Total current assets	299,692	353,496	1,283,232	1,250,840	1,007,012	940,010
Financial liabilities (excluding trade payables)	(363,829)	(1,188,103)	(1,609,694)	(1,581,592)	(1,163,815)	(219,936)
Other current liabilities (including trade payables)	(283,432)	(175,455)	(14,669)	(19,155)	(61,185)	(776,539)
Total current liabilities	(647,261)	(1,363,558)	(1,624,363)	(1,600,747)	(1,225,000)	(996,475)
Non-current						
Assets	1,728,456	1,151,299	8,190	129,738	2,842,192	2,291,082
Liabilities	(411,961)	(494,425)	(3,607)	(52,049)	(1,780,154)	(1,597,644)
Net assets/(liabilities)	968,926	(353,188)	(336,548)	(272,218)	844,050	636,973

Summarised statement of comprehensive income

	IAA		PAA		TAA	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Revenue	1,197,913	1,464,188	8,687	58,720	3,818,482	3,379,132
Depreciation and amortisation	(33,510)	(28,687)	(23,643)	(34,631)	(136,835)	(126,367)
Interest income	901	795	3	-	8,964	13,543
Interest expense	(40,250)	(58,374)	(6,803)	(24,687)	(64,985)	(54,930)
Profit/(loss) before taxation	57,544	(685,736)	(141,722)	(71,107)	378,697	230,850
Tax (expense)/income	207,539	7,472	-	-	18,106	(21,902)
Net profit/(loss) for the financial year	265,083	(678,264)	(141,722)	(71,107)	396,803	208,948
Other comprehensive income/(loss)	-	-	-	306	(74,587)	(69,845)
Total comprehensive income/(loss)	265,083	(678,264)	(141,722)	(70,801)	322,216	139,103
Dividends received from associates	-	-	-	-	70,852	48,064

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11 INVESTMENT IN ASSOCIATES (CONTINUED)

Summarised financial information for associates (continued)

Reconciliations of summarised financial information

	IAA		PAA		TAA	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Opening net (liabilities)/assets at 1 January	(353,188)	(836,357)	(272,218)	(106,633)	636,973	604,766
Issuance of perpetual capital security	1,012,986	1,278,147	-	-	-	-
Dividend paid	-	-	-	-	(157,449)	(106,809)
Profit/(loss) for the financial year	265,083	(678,264)	(141,722)	(71,107)	396,803	208,948
Other comprehensive loss	-	-	-	306	(74,587)	(69,845)
Foreign exchange differences	44,045	(116,714)	77,392	(94,784)	42,310	(87)
Closing net assets/(liabilities) at 31 December	968,926	(353,188)	(336,548)	(272,218)	844,050	636,973
Group's interest in associates	48.9%	48.9%	40%	40%	45%	45%
Interest in associates	473,805	(172,709)	(134,619)	(108,887)	379,823	286,638
Net investment and subscription of perpetual capital security, net of impairment losses	496,363	873,477	883,103	116,758	-	-
Carrying value at 31 December	970,168	700,768	748,484	7,871	379,823	286,638

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	
	2016 RM'000	2015 RM'000
Aggregate carrying amount of individually immaterial associates	112,111	73,450
Aggregate amounts of the Group's share of:		
Loss from continuing operations	(116,794)	(38,216)
Other comprehensive income	-	-
Total comprehensive income	(116,794)	(38,216)

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Listed equity securities				
At 1 January	235,097	384,790	235,097	384,790
Addition	-	53,811	-	53,811
Fair value gain/(loss) - recognised in other comprehensive income	116,070	(203,504)	116,070	(203,504)
At 31 December	351,167	235,097	351,167	235,097
Unquoted debt securities				
At 1 January	-	-	-	-
Addition	5,438	-	-	-
At 31 December	5,438	-	-	-

13 INTANGIBLE ASSETS

	Goodwill RM'000	Internally developed software RM'000	Total RM'000
Group			
Cost			
At 1 January 2016	17,703	1,505	19,208
Additions - acquisitions (Note 9)	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
Cost			
At 1 January 2015	7,334	-	7,334
Additions - acquisitions	10,369	1,505	11,874
At 31 December 2015	17,703	1,505	19,208
Accumulated amortisation			
At 1 January 2015	-	-	-
Amortisation expense	-	(24)	(24)
At 31 December 2015	-	(24)	(24)
Carrying amount as at 31 December 2015	17,703	1,481	19,184

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13 INTANGIBLE ASSETS (CONTINUED)

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

	Group	
	2016 RM'000	2015 RM'000
Cash-generating unit		
AirAsia Malaysia CGU	102,926	-
AirAsia Investment Ltd	7,334	7,334
TPaay Asia Sdn Bhd	5,275	5,275
Tune Box Sdn Bhd	5,094	5,094

Goodwill impairment assessment for AirAsia Malaysia CGU

Management reviews the business based on geography and type of business. As disclosed in Note 30 to the financial statements, management has identified Malaysia as one of the geography. The AirAsia Malaysia CGU reflects the airline business operated by AirAsia Malaysia.

The recoverable amount of the AirAsia Malaysia CGU is determined using value-in-use method by discounting a 5-year cash flows projections from 2017 to 2021 at a weighted average cost of capital of 11.6%. Cash flows projections beyond the 5-year period are estimated using a long term growth rate of 3%.

Based on the assessment performed, there is no impairment of goodwill attributable to the AirAsia Malaysia CGU. There are no reasonably possible changes in any of the key assumptions used that would cause the carrying amount of this CGU to materially exceed the recoverable amount.

14 DEFERRED TAXATION

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deferred tax assets	749,211	828,950	749,038	828,777

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At start of financial year	828,950	466,968	828,777	466,968
(Charged)/credited to income statements (Note 6)				
- Property, plant and equipment	(82,071)	308,539	(82,071)	308,366
- Tax incentives	(118,068)	53,443	(118,068)	53,443
- Sales in advance	145,445	-	145,445	-
- Derivatives	(57,219)	-	(57,219)	-
- Provisions and others	32,174	-	32,174	-
	(79,739)	361,982	(79,739)	361,809
At end of financial year	749,211	828,950	749,038	828,777

14 DEFERRED TAXATION (CONTINUED)

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deferred tax assets (before offsetting)				
Tax incentives	1,274,056	1,392,124	1,274,056	1,392,124
Tax losses	8,803	8,803	8,803	8,803
Sales in advance	145,445	-	145,445	-
Provisions and others	32,174	-	32,174	-
	1,460,478	1,400,927	1,460,478	1,400,927
Offsetting	(711,267)	(571,977)	(711,440)	(572,150)
Deferred tax assets (after offsetting)	749,211	828,950	749,038	828,777
Deferred tax liabilities (before offsetting)				
Property, plant and equipment	(654,048)	(571,977)	(654,221)	(572,150)
Derivatives	(57,219)	-	(57,219)	-
	(711,267)	(571,977)	(711,440)	(572,150)
Offsetting	711,267	571,977	711,440	572,150
Deferred tax liabilities (after offsetting)	-	-	-	-

Unrecognised deferred tax assets

Deferred tax has not been recognised for the following items:

	Group	
	2016 RM'000	2015 RM'000
Deferred revenue	59,035	-
Deferred breakage	20,057	-
Provisions and others	5,594	-
	84,686	-

Deferred tax assets in respect of the above items arose from a subsidiary acquired during the 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 C 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.

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15 RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Non-current:				
Other receivables	131,687	-	131,687	-
Prepayments	1,100,731	1,261,540	1,100,731	1,261,540
Deposits for maintenance of aircraft	118,835	90,472	116,311	90,472
Other deposits	81,801	60,230	31,049	33,296
	1,433,054	1,412,242	1,379,778	1,385,308
Current:				
Trade receivables	138,382	145,852	114,906	120,398
Less: Allowance for impairment	(30,476)	(35,493)	(30,476)	(35,254)
	107,906	110,359	84,430	85,144
Other receivables	332,200	248,066	310,688	226,185
Less: Allowance for impairment	(3,482)	(1,906)	(3,482)	(1,906)
	328,718	246,160	307,206	224,279
Prepayments	615,899	180,232	583,141	153,294
Other deposits	35,134	80,671	29,941	73,623
	1,087,657	617,422	1,004,718	536,340

Credit terms of trade receivables range from 30 to 60 days (2015: 30 to 60 days).

Included in the non-current and current portions of other receivables is unbilled amounts due from associates relating to aircraft maintenance of RM181,574,000 (2015: RM86,508,000).

15 RECEIVABLES AND PREPAYMENTS (CONTINUED)

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

Receivables that are neither past due nor impaired amounted to RM700,233,000 and RM620,924,000 (2015: RM504,355,000 and RM438,533,000) for the Group and Company respectively. These are substantially companies with good collection track records with the Group and Company.

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

Receivables that are past due but not impaired amounted to RM103,848,000 and RM79,700,000 (2015: RM83,537,000 and RM68,281,000) 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	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
1 to 90 days	39,424	27,822	35,472	14,370
91 to 120 days	9,005	16,290	8,006	15,977
121 to 180 days	24,451	10,138	5,743	8,966
181 to 365 days	13,930	13,080	13,448	12,753
Over 365 days	17,038	16,207	17,031	16,215
	103,848	83,537	79,700	68,281

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

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Over 365 days	33,958	37,399	33,958	37,160
Less: Allowance for impairment	(33,958)	(37,399)	(33,958)	(37,160)
	-	-	-	-

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

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	37,399	37,600	37,160	29,320
Utilised	(404)	(17,724)	(165)	(9,683)
(Reversal)/impairment (Note 3)	(3,037)	17,523	(3,037)	17,523
At 31 December	33,958	37,399	33,958	37,160

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

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15 RECEIVABLES AND PREPAYMENTS (CONTINUED)

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

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

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Ringgit Malaysia	168,221	144,036	148,316	131,608
US Dollar	611,359	387,197	531,638	318,548
Others	24,501	56,659	20,670	56,658
	804,081	587,892	700,624	506,814

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

16 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.

17 AMOUNTS DUE FROM/(TO) ASSOCIATES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Amounts due from associates				
- current	511,446	394,970	282,047	297,976
- non-current	344,861	1,142,119	344,861	1,034,869
	856,307	1,537,089	626,908	1,332,845
Amounts due to associates				
- current	(3,978)	-	(25,290)	-
- non-current	(118,898)	(76,216)	(21,934)	(21,622)
	(122,876)	(76,216)	(47,224)	(21,622)

Amounts due from associates include an amount of RM438.7million (2015: RM492.7 million) relating to advances to PT Indonesia AirAsia ("IAA") for purchase of aircraft in 2011 for the financing of aircraft purchase and are repayable over terms ranging from 7 years to 9 years at interest rates between 6.16% to 6.65% per annum. From this amount, RM343.4 million (2015: RM419.6 million) is repayable after 12 months. The Company holds the aircraft as collateral. Other amounts due from/(to) associates are unsecured.

During the financial year, the Group and the Company reclassified the net amounts due from AirAsia Inc. ("PAA") of RM961.1 million and RM848.9 million respectively to Investment in Associates. In February 2017, the Board of Directors had approved for management to discuss with PAA on the conversion of the amounts due from PAA into perpetual capital securities. Subject to the finalisation of the subscription of the perpetual capital securities in PAA, settlement of these receivables is unlikely to occur in the foreseeable future and therefore the amounts, in substance, form part of the Group's net investment in the associate. The amounts reclassified to Investment in Associates include advances to PAA of RM755.1 million (2015: RM722.5 million) and RM642.9 million (2015: RM615.3 million) for the Group and the Company respectively. These advances are contractually repayable over a term of up to 10 years from drawdown date and are subject to interest of 6% per annum.

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

(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 RM519,795,000 and RM519,795,000 (2015: RM1,313,208,000 and RM1,174,886,000) 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 RM336,512,000 and RM107,113,000 respectively (2015: RM223,881,000 and RM157,959,000). The ageing analysis of these amounts is as follows:

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Up to 1 year	336,512	223,881	107,113	157,958
Over 1 year	-	-	-	-
	336,512	223,881	107,113	157,958

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 past due and/or impaired

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

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

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

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Amounts due from associates				
- US Dollar	856,307	1,533,906	626,908	1,329,662
- Ringgit Malaysia	-	3,183	-	3,183
	856,307	1,537,089	626,908	1,332,845
Amounts due to associates				
- US Dollar	(122,876)	(76,216)	(47,224)	(21,622)

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18 DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company			
	2016		2015	
	Assets RM'000	Liabilities RM'000	Assets RM'000	Liabilities RM'000
Non-current				
Interest rate swaps - cash flow hedges	5,335	(105,678)	613	(194,082)
Interest rate swaps - held for trading	4,272	(42,374)	-	(43,816)
Interest rate caps - held for trading	261	-	575	-
Forward foreign exchange contracts - cash flow hedges	536,825	-	645,729	-
Forward foreign exchange contracts - held for trading	184,434	-	132,609	-
Cross currency Interest rate swaps - cash flow hedges	71,156	-	-	-
Cross currency Interest rate swaps - held for trading	65,666	-	-	-
Total	867,949	(148,052)	945,490	(237,898)
Current				
Interest rate swaps - held for trading	-	(33,123)	-	(27,347)
Forward foreign exchange contracts - held for trading	62,443	-	37,569	(1,029)
Commodity derivatives cash flow hedges	495,572	(343,751)	356,308	(517,468)
Commodity derivatives - held for trading	104,373	(71,999)	25,235	(36,647)
Cross currency interest rate swaps - held for trading	3,280	-	-	-
Total	665,668	(448,873)	419,112	(582,491)

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.

	2016		2015	
	Notional amount RM'000	Fair value RM'000	Notional amount RM'000	Fair value RM'000
Interest rate caps	318,524	261	361,025	575
Interest rate swaps	3,742,478	(171,568)	3,753,974	(264,632)
Cross currency interest rate swaps	384,851	140,102	431,441	132,609
Forward foreign exchange contracts	1,952,282	783,702	2,443,449	848,233
Commodity derivatives	4,848,218*	184,195	3,565,705*	(172,572)

* in barrels

18 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(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 2016 were RM2.337 billion (2015: RM2.875 billion).

As at 31 December 2016, the Group has hedged approximately 59% (2015: 58%) 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 3.2373 (2015: 3.2364). Gains and losses recognised in the hedging reserve in equity on hedging instruments as of 31 December 2016 will be continuously released to the income statement within foreign exchange gains/(losses) until the full repayment of the term loans (refer Note 25 to the financial statements).

(ii) Interest rate contracts

The notional principal amounts of the outstanding interest rate contracts at 31 December 2016 were RM 4.061 billion (2015: RM 4.115 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 2015. As at 31 December 2016, the Group has hedged RM 4,445 million (2015: RM 908.3 million) of its existing aircraft loans at rates from 1.8% to 5.2% per annum (2015: 1.80% 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 2016 will be continuously released to the income statement within finance cost until the full repayment of the term loans (refer Note 25 to the financial statements).

(iii) Fuel contracts

The outstanding number of barrels of Singapore Jet Kerosene, Brent and Crack derivative contracts at 31 December 2016 was 4,848,218 barrels (2015: 3,565,705 barrels).

As at 31 December 2016, the Group has entered into Singapore Jet Kerosene fixed swap Brent option, Brent fixed swap and Crack fixed swap contracts which represent 75% (2015: 4%) of the Group's total expected fuel volume for the financial year 2017. This is to hedge against the fuel price risk that the Group is exposed to. Gains and losses recognised in the hedging reserve in equity on Brent and fuel derivative contracts as of 31 December 2016 are recognised in the income statement in the period or periods during which the hedged forecast transactions affect the income statements.

19 INVENTORIES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Consumables, in-flight merchandise and others	43,866	26,152	43,650	26,152

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20 AMOUNTS DUE FROM SUBSIDIARIES AND RELATED PARTIES

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Amounts due from subsidiaries	-	-	842,588	426,515
Less: Allowance for impairment	-	-	(41,618)	(20,290)
	-	-	800,970	406,225
Amounts due from related parties	37,424	43,851	16,102	15,787
	37,424	43,851	817,072	422,012

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

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
At 1 January	-	-	20,290	20,290
Less: Allowance for impairment	-	-	21,328	-
At 31 December	-	-	41,618	20,290

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

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

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Ringgit Malaysia	1,392	7,261	27,782	36,497
US Dollar	36,032	36,590	789,290	385,515
	37,424	43,851	817,072	422,012

21 AMOUNTS DUE FROM JOINT VENTURES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Amounts due from joint ventures	8,952	5,708	8,952	5,708

Amounts due from joint ventures are unsecured, interest free and have no fixed terms of repayment. Carrying amounts of amounts due from joint ventures approximate their fair values.

The currency profile of the amounts due from joint ventures is as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Amounts due from joint ventures:				
- Ringgit Malaysia	8,952	5,708	8,952	5,708

22 DEPOSITS, CASH AND BANK BALANCES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deposits with licensed banks	605,900	1,030,228	527,588	1,013,300
Cash and bank balances	1,135,673	1,396,468	899,298	1,249,341
	1,741,573	2,426,696	1,426,886	2,262,641

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Ringgit Malaysia	445,622	456,224	398,575	435,123
US Dollar	755,930	1,012,605	518,234	899,104
Chinese Renminbi	251,450	765,242	251,450	765,242
Others	288,571	192,625	258,627	163,172
	1,741,573	2,426,696	1,426,886	2,262,641

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

	Group		Company	
	2016 %	2015 %	2016 %	2015 %
Deposits with licensed banks	1.69	2.42	1.69	2.42

23 TRADE AND OTHER PAYABLES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Non-current:				
Trade and other payables	1,116,098	677,214	1,245,553	648,019
Aircraft maintenance provision	413,195	366,780	251,913	365,917
	1,529,293	1,043,994	1,497,466	1,013,936
Current:				
Trade payables	377,128	269,960	369,201	241,884
Accrual for fuel	112,300	62,739	112,300	62,739
Collateral for derivatives	355,040	372,575	355,040	372,575
Aircraft maintenance provision	83,678	97,363	57,612	97,363
Other payables and accruals	954,037	831,420	925,223	748,798
	1,882,183	1,634,057	1,819,376	1,523,359

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

Included in non-current and current portions of accruals are maintenance reserve of RM483,969,000 and RM387,862,000 (2015: RM340,454,000 and RM336,228,000) for the Group and Company respectively.

The movement in the aircraft maintenance provision is as follows:

	2016	
	Group RM'000	Company RM'000
Opening at 1 January 2016	464,143	463,280
Addition during the year	157,383	-
Reversal during the year	-	(48,449)
Utilised during the year	(137,013)	(105,306)
Foreign exchange differences	12,360	-
Closing as at 31 December 2016	496,873	309,525

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
RM	2,085,824	1,228,047	2,276,573	1,106,060
USD	1,323,481	1,422,595	1,038,102	1,403,826
Others	2,171	27,409	2,167	27,409
	3,411,476	2,678,051	3,316,842	2,537,295

24 AMOUNTS DUE TO SUBSIDIARIES AND RELATED PARTIES

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

The currency profile of the amounts due to subsidiaries and related parties are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Amounts due to subsidiaries and related parties				
- Ringgit Malaysia	29,999	-	34,335	302,173
- US Dollar	9,455	13,661	24,016	52,704
	39,454	13,661	58,351	354,877

25 BORROWINGS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current:				
Term loans	1,732,325	1,494,047	1,381,295	1,368,328
Finance lease liabilities (Ijarah)	109,986	98,615	91,534	98,615
Commodity Murabahah Finance	54,892	53,069	54,892	53,069
Revolving credit	48,000	731,525	48,000	731,525
	1,945,203	2,377,256	1,575,721	2,251,537
Non-current:				
Term loans	7,421,005	8,893,565	5,175,409	8,089,553
Finance lease liabilities (Ijarah)	709,391	783,699	540,970	783,699
Commodity Murabahah Finance	503,543	558,315	503,543	558,315
	8,633,939	10,235,579	6,219,922	9,431,567
Total borrowings	10,579,142	12,612,835	7,795,643	11,683,104

	Group		Company	
	2016 %	2015 %	2016 %	2015 %
Weighted average interest rate				
Term loans	4.25	4.21	4.46	4.24
Finance lease liabilities (Ijarah)	6.12	6.12	6.12	6.12
Commodity Murabahah Finance	5.53	5.64	5.53	5.64
Revolving credit	3.86	2.55	3.86	2.55

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25 BORROWINGS (CONTINUED)

The borrowings are repayable as follows:

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Not later than 1 year	1,945,203	2,377,256	1,575,721	2,251,537
Later than 1 year and not later than 5 years	5,529,785	5,924,452	3,965,081	5,365,719
Later than 5 years	3,104,154	4,311,127	2,254,841	4,065,848
	10,579,142	12,612,835	7,795,643	11,683,104

The currency profile of borrowings is as follows:

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Ringgit Malaysia	1,059,435	1,494,381	1,059,435	1,494,381
US Dollar	9,135,547	10,734,446	6,411,512	9,828,501
Euro	179,853	167,504	120,389	143,718
Singapore Dollar	204,307	216,504	204,307	216,504
	10,579,142	12,612,835	7,795,643	11,683,104

Total borrowings as at reporting date consist of the following banking facilities:

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Fixed rate borrowings	9,138,150	10,137,111	6,870,146	9,409,211
Floating rate borrowings	1,440,992	2,475,724	925,497	2,273,893
	10,579,142	12,612,835	7,795,643	11,683,104

The carrying amounts and fair values of the fixed rate borrowings are as follows:

	Group			
	2016		2015	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Term loans	8,462,449	8,398,488	9,206,797	9,522,022
Finance lease liabilities (Ijarah)	627,701	679,470	882,314	1,013,628
Revolving credit	48,000	48,000	48,000	48,000
	9,138,150	9,125,958	10,137,111	10,583,650

25 BORROWINGS (CONTINUED)

The carrying amounts and fair values of the fixed rate borrowings are as follows: (continued)

	Company			
	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Term loans	6,194,445	6,734,561	8,478,897	8,764,822
Finance lease liabilities (Ijarah)	627,701	679,470	882,314	1,013,628
Revolving credit	48,000	48,000	48,000	48,000
	6,870,146	7,462,031	9,409,211	9,826,450

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 2.6% to 4.3% (2015: 2.6% to 4.1%) 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 RM10.0 billion and RM 7.3 billion respectively (2015: RM11.7 billion and RM10.8 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

26 SHARE CAPITAL

	Group and Company	
	2016 RM'000	2015 RM'000
Authorised:		
Ordinary shares of RM0.10 each:		
At beginning and end of the financial year	500,000	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	-	-
At end of the financial year	278,297	278,297

There were no issuance of shares during the financial year.

27 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

	Cash flow hedge reserve RM'000	Available-for-sale reserve RM'000	Total RM'000
Group			
At 1 January 2016	(539,968)	108,370	(431,598)
Net change in fair value	235,750	116,070	351,820
Amounts transferred to income statement	(171,339)	-	(171,339)
Share of other comprehensive income of an associate	33,563	-	33,563
At 31 December 2016	(441,994)	224,440	(217,554)
At 1 January 2015	(172,874)	311,874	139,000
Net change in fair value	485,102	(203,504)	281,598
Amounts transferred to income statement	(820,766)	-	(820,766)
Share of other comprehensive income of an associate	(31,430)	-	(31,430)
At 31 December 2015	(539,968)	108,370	(431,598)
Company			
At 1 January 2016	(477,838)	108,370	(369,468)
Net change in fair value	235,750	116,070	351,820
Amounts transferred to income statement	(171,339)	-	(171,339)
At 31 December 2016	(413,427)	224,440	(188,987)
At 1 January 2015	(142,174)	311,874	169,700
Net change in fair value	485,102	(203,504)	281,598
Amounts transferred to income statement	(820,766)	-	(820,766)
At 31 December 2015	(477,838)	108,370	(369,468)

28 DIVIDENDS

Dividends declared or proposed by the Company are as follows:

	2016		2015	
	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 4 sen per ordinary share paid in respect of the financial year ended 31 December 2015 (2015: First and final single-tier dividend of 3 sen per ordinary share in respect of the financial year ended 31 December 2014)	4.00	111,315	3.00	83,489

29 COMMITMENTS AND OPERATING LEASES

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

	Group and Company	
	2016 RM'000	2015 RM'000
Property, plant and equipment:		
- Approved and contracted for	91,092,265	76,136,654
- Approved but not contracted for	9,801,838	18,397,931
	100,894,103	94,534,585

The capital commitments for the Group and Company are in respect of aircraft purchase and the construction of a new office building. The future commitments of aircraft purchase and construction of new office building are as follows:

	Group and Company	
	2016 RM'000	2015 RM'000
Not later than 1 year	3,485,188	1,716,182
Later than 1 year and not later than 5 years	14,150,774	12,855,609
Later than 5 years	73,456,303	61,564,863
	91,092,265	76,136,654

29 COMMITMENTS AND OPERATING LEASES (CONTINUED)

(b) Non-cancellable operating leases

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

	2016		2015	
	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	559,841	1,146,130	471,114	1,059,115
Later than 1 year and not later than 5 years	2,395,316	3,879,218	2,036,298	4,608,811
Later than 5 years	790,591	1,883,018	418,746	1,683,782
	3,745,748	6,908,366	2,926,158	7,351,708
Company				
Not later than 1 year	125,615	188,169	61,666	385,499
Later than 1 year and not later than 5 years	464,773	486,640	272,287	1,645,773
Later than 5 years	241,521	286,499	-	1,170,076
	831,909	961,308	333,953	3,201,348

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.

30 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.

30 SEGMENTAL INFORMATION (CONTINUED)

The segmental information provided to the GCEO for the reportable segments are as follows:

	Malaysia RM'000	Thailand RM'000	Indonesia RM'000	Philippines RM'000	India RM'000	Japan RM'000	Elimination adjustments RM'000	Total RM'000
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 and other related expenses	(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	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 gain/(losses)	484,685	(9,351)	59,949	(84,684)	(1,904)	(1,966)	-	446,729
Impairment of investment in associate	(163,750)	-	-	-	-	-	163,750	-
Share of results of joint ventures	24,285	-	-	-	-	-	-	24,285
Share of results of associates	134,704	-	-	-	-	-	(105,915)	28,790
Profit/(loss) before taxation	2,133,075	378,697	57,544	(265,816)	(89,107)	(160,260)	57,835	2,111,969
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)

There is no single customer who contributed to 10% or more of the Group's total revenue.

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30 SEGMENTAL INFORMATION (CONTINUED)

The segmental information provided to the GCEO for the reportable segments are as follows: (continued)

	Malaysia RM'000	Thailand RM'000	Indonesia RM'000	Philippines RM'000	India RM'000	Japan RM'000	Elimination adjustments RM'000	Total RM'000
2015								
Segment results								
Revenue	6,297,658	3,369,183	1,464,188	768,019	318,967	-	(1,423,121)	10,794,894
Operating expenses:								
- Staff costs	(759,420)	(385,096)	(196,253)	(126,384)	(76,138)	(43,728)	-	(1,587,019)
- Depreciation of property, plant and equipment	(703,245)	(126,367)	(28,687)	(36,486)	(2,773)	(946)	-	(898,504)
- Aircraft fuel expenses	(2,000,650)	(1,122,449)	(616,241)	(355,032)	(139,646)	(1,096)	-	(4,235,114)
- Maintenance and overhaul	(196,883)	(266,951)	(224,413)	(143,675)	(29,521)	(868)	457,064	(405,247)
- User charges and other related expenses	(685,013)	(540,704)	(238,698)	(105,043)	(44,847)	(841)	-	(1,615,146)
- Aircraft operating lease expenses	(330,791)	(473,551)	(336,140)	(170,125)	(68,311)	(4,428)	966,057	(417,289)
- Other operating expenses	(283,758)	(218,125)	(99,438)	(58,554)	(62,793)	(12,277)	68,770	(666,175)
Other income	257,975	71,040	17,683	48,090	3,496	-	(68,770)	329,514
Operating profit/(loss)	1,595,873	306,980	(257,999)	(179,190)	(101,566)	(64,184)	-	1,299,914
Finance income	154,148	13,543	795	50	2,568	2	(34,602)	136,504
Finance costs	(724,035)	(52,189)	(58,374)	(33,851)	(4)	(28)	34,602	(833,879)
Net operating profit/(loss)	1,025,986	268,334	(315,578)	(212,991)	(99,002)	(64,210)	-	602,539
Foreign exchange losses	(331,338)	(23,380)	(370,159)	(53,600)	(7,857)	(125)	-	(786,459)
Gain on disposal of interest in a joint venture	320,500	-	-	-	-	-	-	320,500
Share of results of joint ventures	25,492	-	-	-	-	-	-	25,492
Share of results of associates	(825,490)	-	-	-	-	-	839,984	14,494
Profit/(Loss) before taxation	215,150	244,954	(685,737)	(266,591)	(106,859)	(64,335)	839,984	176,566
Segment Assets								
Property, plant and equipment	10,927,645	2,160,469	449,194	226,110	23,143	11,301	-	13,797,862
Deposits, cash and bank balances	2,426,696	900,355	32,576	13,777	34,900	21,349	-	3,429,653
Investment in joint ventures and associates	1,184,664	-	-	-	-	-	(839,984)	344,680
Other assets	6,777,252	394,908	1,023,025	1,316,991	48,089	27,573	(1,449,608)	8,138,230
	21,316,257	3,455,732	1,504,795	1,556,878	106,132	60,223	(2,289,592)	25,710,425
Segment Liabilities								
Borrowings	(12,612,835)	(1,672,237)	(494,425)	(379,597)	-	-	492,682	(14,666,412)
Others	(4,252,568)	(918,939)	(1,421,580)	(2,776,956)	(170,025)	(9,378)	956,926	(8,592,520)
	(16,865,403)	(2,591,176)	(1,916,005)	(3,156,553)	(170,025)	(9,378)	1,449,608	(23,258,932)

There is no single customer who contributed to 10% or more of the Group's total revenue.

30 SEGMENTAL INFORMATION (CONTINUED)

		2016 RM'000	2015 RM'000
(a)	**Reconciliation of segment revenue to reported revenue:**		
	Segment revenue	13,311,220	12,218,015
	Less: Inter-segment revenue	(1,169,553)	(1,423,121)
	Less: Revenue from associated companies which were not consolidated	(5,295,582)	(4,497,236)
		6,846,085	6,297,658
(b)	**Reconciliation of segment profit before taxation to reported profit before taxation:**		
	Segment profit/(loss) before taxation	2,111,969	176,566
	Add: Expenses from affiliates which were not consolidated	21,106	38,584
		2,133,075	215,150
(c)	**Reconciliation of segment assets to reported total assets**		
	Segment assets	24,632,249	25,710,425
	Less: Assets of affiliates which were not consolidated	(2,646,862)	(4,394,168)
		21,985,387	21,316,257
(d)	**Reconciliation of segment liabilities to reported total liabilities**		
	Segment liabilities	19,672,481	23,258,932
	Less: Liabilities of affiliates which were not consolidated	(4,314,873)	(6,393,529)
		15,357,608	16,865,403

NOTES TO THE FINANCIAL STATEMENTS

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31 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

The related parties of the Company and their relationships at 31 December 2016 are as follows:

Related companies	Relationship
AirAsia Go Holiday Sdn Bhd	Subsidiary
AirAsia (Mauritius) Limited	Subsidiary
AirAsia Investment Limited	Subsidiary
Koolred Sdn Bhd	Subsidiary
AirAsia Global Shared Services Sdn Bhd	Subsidiary
Asia Aviation Capital Ltd	Subsidiary
MadCience Consulting Sdn Bhd	Subsidiary
TPaay Asia Sdn Bhd (formerly known as Tune Money 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	Associate of a subsidiary
AirAsia Inc	Associate of a 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
Philippines AirAsia Inc. (formerly known as Zest Airways Inc)	Associate of an associate
Asian Aviation Centre of Excellence 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

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 31(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.

31 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(a) Income:				
Aircraft operating lease income for owned and leased aircraft				
- Thai AirAsia Co. Ltd	521,434	458,246	109,306	286,874
- PT Indonesia AirAsia	182,139	327,657	65,158	283,937
- AirAsia Inc. (including Philippines AirAsia Inc.)	104,751	82,899	26,608	61,928
- AirAsia (India) Private Limited	99,620	67,550	57,295	56,799
- AirAsia Japan Co. Ltd	30,528	3,617	-	-
- PT Indonesia AirAsia Extra	69,547	22,064	-	-
Gain on disposal of aircraft to Thai AirAsia Co. Ltd	35,009	12,517	-	-
Gain on disposal of aircraft and engines to Asia Aviation Capital Ltd	-	-	374,488	-
Fees charged to associates and related parties providing commercial air transport services	87,048	91,076	87,048	91,076
Commission on travel insurance for passengers charged to Tune Insurance Malaysia Berhad	11,766	18,714	11,766	18,714
(b) Recharges:				
Recharges of expenses to				
- Thai AirAsia Co. Ltd	153,911	159,766	153,911	159,766
- PT Indonesia AirAsia	11,836	111,295	11,836	111,295
- AirAsia Inc (including Philippines AirAsia Inc.)	63,788	63,934	63,788	63,934
- AirAsia X Berhad	65,640	7,833	65,640	7,833
- AirAsia (India) Private Limited	28,488	-	28,488	-
- Asia Aviation Capital Ltd	27,993	-	27,993	-
- PT Indonesia AirAsia Extra	7,540	-	7,540	-
- Thai AirAsia X Co. Ltd	17,178	-	17,178	-
- AirAsia Japan Co. Ltd	18,150	-	18,150	-
Recharges of expenses by				
- Thai AirAsia Co. Ltd	-	(8,881)	-	(8,881)

31 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(c) Other charges/(expenses):				
Maintenance reserve fund charged to				
- PT Indonesia Airasia	131,928	157,843	70,581	156,594
- Thai AirAsia Co. Ltd	358,292	177,446	191,950	167,868
- AirAsia Inc (including Philippines AirAsia Inc.)	60,089	45,602	14,755	43,410
- AirAsia (India) Private Limited	41,238	23,268	19,746	22,624
- PT Indonesia AirAsia Extra	31,169	7,563	-	-
- AirAsia Japan Co. Ltd	1,941	-	-	-
Interest charges to				
- PT Indonesia AirAsia	-	22,179	-	22,179
- Philippines AirAsia	-	12,423	-	12,423
- MadCience Consulting Sdn Bhd	-	-	870	399
Provision of sponsorship to Queen Park Rangers Holdings Ltd	-	(5,620)	-	(5,620)
Charter air travel services charged by AirAsia X Berhad	(42,867)	(10,940)	(42,867)	(10,940)
Charter air travel services charged by Thai AirAsia X Co. Ltd	-	(772)	-	(772)
- charged by PT Indonesia Airasia	(8,617)	-	(8,617)	-
- charged by PT Indonesia AirAsia Extra	(31,528)	-	(31,528)	-
In-flight entertainment system and solutions costs charged by Rokki Avionics Sdn Bhd	-	-	(17,958)	(19,095)
Training fee charged by AACOE	10,480	15,936	10,480	15,396
Aircraft operating lease expense charged by Asia Aviation Capital Limited	-	-	(35,258)	-
Management fees charged by AirAsia Global Services Sdn Bhd	-	-	(8,657)	(9,741)
Management fees charged to associates and related parties	14,630	14,979	-	-
(d) Key management compensation:				
- Basic salaries, bonus, allowances and other employee benefits	57,928	24,638	57,059	23,078
- Defined contribution plan	6,850	2,879	6,778	2,692
- Fees	1,268	1,246	1,268	1,246
	66,046	28,763	65,105	27,016

Included in the key management compensation are Executive Directors' remuneration for the years 2015 and 2016 which were approved by the Nomination and Remuneration committee during the current year. Breakdown of the Executive Directors' remuneration is as disclosed in Note 2 to the financial statements.

31 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(e) Receivables:				
Subsidiaries				
- AirAsia (Mauritius) Limited	-	-	5,365	-
- AirAsia Investment Limited	-	-	224,087	100,645
- MadCience Consulting Sdn Bhd	-	-	-	14,905
- AirAsia Global Shared Services Sdn Bhd	-	-	14,374	14,469
- Asia Aviation Capital Limited	-	-	544,124	274,104
- Think Big Digital Sdn Bhd	-	-	6,667	-
- Others	-	-	6,353	2,102
Amounts due from subsidiaries	-	-	800,970	406,225
Joint venture				
- Asian Aviation Centre of Excellence Sdn Bhd	8,952	5,708	8,952	5,708
Amounts due from joint venture	8,952	5,708	8,952	5,708
Associates				
- Thai AirAsia Co. Ltd	-	84,247	-	29,710
- PT Indonesia AirAsia	539,464	534,087	440,190	510,775
- AirAsia Inc. (including Philippines AirAsia Inc.)	68,407	842,149	13,126	722,454
- AirAsia (India) Private Limited	213,694	64,652	149,954	60,266
- Think Big Digital Sdn Bhd	-	3,183	-	3,183
- AirAsia Japan Co. Ltd	31,906	6,232	22,918	6,003
- Others	2,836	2,539	720	454
Amounts due from associates	856,307	1,537,089	626,908	1,332,845
Related parties				
- Caterhamjet Global Ltd	-	1,366	-	1,366
- Thai AirAsia X Co. Ltd	15,409	10,076	14,710	9,401
- PT Indonesia AirAsia Extra	20,623	25,115	-	-
- AirAsia X Berhad	-	6,009	-	3,735
- Others	1,392	1,285	1,392	1,285
Amounts due from related parties	37,424	43,851	16,102	15,787

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31 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(f) Payables:				
Subsidiaries				
- AirAsia Go Holiday Sdn Bhd	-	-	-	302,172
- AirAsia (Mauritius) Limited	-	-	-	38,813
- Others	-	-	-	231
Amounts due to subsidiaries	-	-	-	341,216
Associates				
- Thai AirAsia Co. Ltd	68,215	65,364	28,761	14,645
- AirAsia (India) Private Limited	14,818	10,852	8,281	6,977
- PT Indonesia AirAsia	21,832	-	5,517	-
- AirAsia Inc. (including Philippines AirAsia Inc.)	18,011	-	4,665	-
Amounts due to associates	122,876	76,216	47,224	21,622
Related parties				
- AirAsia X Berhad	29,907	-	34,315	-
- PT Indonesia AirAsia Extra	9,455	13,661	24,016	13,661
- Others	92	-	20	-
Amounts due to related parties	39,454	13,661	58,351	13,661

32 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 2016					
Assets as per balance sheet					
Available-for-sale financial assets	-	-	-	357	357
Receivables (excluding prepayments and tax receivables)	749	-	-	-	749
Amounts due from associates	856	-	-	-	856
Amounts due from joint ventures	9	-	-	-	9
Amounts due from related parties	37	-	-	-	37
Deposits on aircraft purchase	770	-	-	-	770
Derivative financial instruments	-	425	1,108	-	1,533
Deposits, cash and bank balances	1,742	-	-	-	1,742
Total	4,163	425	1,108	357	6,053

	Liabilities at fair value through the profit and loss RM'mil	Derivatives used for hedging RM'mil	Other financial liabilities at amortised cost RM'mil	Total RM'mil
Group				
31 December 2016				
Liabilities as per balance sheet				
Borrowings (excluding finance lease liabilities)	-	-	9,760	9,760
Finance lease liabilities	-	-	819	819
Derivative financial instruments	148	449	-	597
Trade and other payables (excluding aircraft maintenance reserves and tax liabilities)	-	-	2,601	2,601
Amount due to associates	-	-	123	123
Amount due to related parties	-	-	39	39
Total	148	449	13,342	13,939

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32 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments by category (continued)

	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 2015					
Assets as per balance sheet					
Available-for-sale financial assets	-	-	-	235	235
Receivables (excluding prepayments and tax receivables)	588	-	-	-	588
Amounts due from associates	1,537	-	-	-	1,537
Amounts due from joint ventures	6	-	-	-	6
Amounts due from related parties	44	-	-	-	44
Deposits on aircraft purchase	683	-	-	-	683
Derivative financial instruments	-	229	1,136	-	1,365
Deposits, cash and bank balances	2,427	-	-	-	2,427
Total	5,285	229	1,136	235	6,885

	Liabilities at fair value through the profit and loss RM'mil	Derivatives used for hedging RM'mil	Other financial liabilities at amortised cost RM'mil	Total RM'mil
Group				
31 December 2015				
Liabilities as per balance sheet				
Borrowings (excluding finance lease liabilities)	-	-	11,731	11,731
Finance lease liabilities	-	-	882	882
Derivative financial instruments	108	712	-	820
Trade and other payables (excluding aircraft maintenance reserves and tax liabilities)	-	-	2,042	2,042
Amount due to associates	-	-	76	76
Amount due to related parties	-	-	14	14
Total	108	712	14,745	15,565

32 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments by category (continued)

	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 balance sheet					
Available-for-sale financial assets	-	-	-	351	351
Receivables (excluding prepayments and tax receivables)	644	-	-	-	644
Amounts due from subsidiaries	801	-	-	-	801
Amounts due from associates	627	-	-	-	627
Amounts due from joint ventures	9	-	-	-	9
Amounts due from related parties	16	-	-	-	16
Deposits on aircraft purchase	770	-	-	-	770
Derivative financial instruments	-	425	1,108	-	1,533
Deposits, cash and bank balances	1,427	-	-	-	1,427
Total	4,294	425	1,108	351	6,178

	Liabilities at fair value through the profit and loss RM'mil	Derivatives used for hedging RM'mil	Other financial liabilities at amortised cost RM'mil	Total RM'mil
Company				
31 December 2016				
Liabilities as per balance sheet				
Borrowings (excluding finance lease liabilities)	-	-	7,163	7,163
Finance lease liabilities	-	-	633	633
Derivative financial instruments	148	449	-	597
Trade and other payables (excluding aircraft maintenance reserves and tax liabilities)	-	-	2,384	2,384
Amount due to associates	-	-	47	47
Amount due to related parties	-	-	58	58
Total	148	449	10,285	10,882

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32 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments by category (continued)

	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 2015					
Assets as per balance sheet					
Available-for-sale financial assets	-	-	-	235	235
Receivables excluding prepayments	507	-	-	-	507
Amounts due from subsidiaries	406	-	-	-	406
Amounts due from associates	1,333	-	-	-	1,333
Amounts due from joint ventures	6	-	-	-	6
Amounts due from related parties	16	-	-	-	16
Deposits on aircraft purchase	683	-	-	-	683
Derivative financial instruments	-	229	1,136	-	1,365
Deposits, cash and bank balances	2,263	-	-	-	2,263
Total	5,214	229	1,136	235	6,814

	Liabilities at fair value through the profit and loss RM'mil	Derivatives used for hedging RM'mil	Other financial liabilities at amortised cost RM'mil	Total RM'mil
Company				
31 December 2015				
Liabilities as per balance sheet				
Borrowings (excluding finance lease liabilities)	-	-	10,801	10,801
Finance lease liabilities	-	-	882	882
Derivative financial instruments	108	712	-	820
Trade and other payables (excluding aircraft maintenance reserves and tax liabilities)	-	-	1,902	1,902
Amount due to associates	-	-	22	22
Amount due to subsidiaries	-	-	341	341
Amount due to related parties	-	-	14	14
Total	108	712	13,962	14,782

32 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit quality of financial assets

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

	Group		Company	
	2016 RM'mil	2015 RM'mil	2016 RM'mil	2015 RM'mil
Counterparties without external credit rating				
Group 1	1	2	1	2
Group 2	107	108	83	83
	108	110	84	85
Cash at bank and short term bank deposits				
AAA to A-	1,733	1,855	1,418	1,688
BBB to B3	9	572	9	575
	1,742	2,427	1,427	2,263
Derivative financial assets				
AA+ to A+	185	115	185	115
A to BBB-	1,015	868	1,015	868
No rating	333	382	333	382
	1,533	1,365	1,533	1,365

32 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit quality of financial assets (continued)

	Group		Company	
	2016 RM'mil	2015 RM'mil	2016 RM'mil	2015 RM'mil
Amounts due from subsidiaries				
Group 2	-	-	801	406
Amounts due from joint ventures				
Group 2	9	6	9	6
Amounts due from associates				
Group 2	856	1,537	627	1,333
Amounts due from related parties				
Group 2	37	44	16	16

Group 1 – New customers/related parties (Less than 6 months).
Group 2 – Existing customers/related parties (more than 6 months) with no defaults in the past.
Group 3 – Existing customers/related parties (more than 6 months) with some defaults in the past.

All defaults were fully recovered.

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

33 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.

33 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(a) Market risk (continued)

(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 18). If a barrel of jet fuel/Brent oil at 31 December 2016 and 31 December 2015 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			
	2016		2015	
	+USD5 RM'mil	-USD5 RM'mil	+USD5 RM'mil	-USD5 RM'mil
Impact on post-tax profits	32.6	(37.9)	3.8	(4.6)
Impact on other comprehensive income	159.7	(159.7)	58.2	(58.2)

(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 18).

If interest rate on USD denominated borrowings at 31 December 2016 and 31 December 2015 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 18).

If interest rate on USD denominated borrowings at 31 December 2016 and 31 December 2015 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			
	2016		2015	
	+60bps RM'mil	-60bps RM'mil	+60bps RM'mil	-60bps RM'mil
Impact on post tax profits	27.9	(28.8)	13.0	(12.8)
Impact on other comprehensive income	51.3	(55.2)	72.1	(76.2)

33 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

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:

	2016 RM'mil	2015 RM'mil
Later than 1 year but less than 5 years:		
Interest rate caps	319	361
Interest rate swaps	1,256	1,496
Cross currency interest rate swaps	89	111
Later than 5 years:		
Interest rate swaps	2,486	2,258
Cross currency interest rate swaps	296	321
	4,446	4,547

(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.

59% (2015: 58%) of USD denominated borrowings are hedged by long dated foreign exchange forward contracts (Note 18).

If RM had weakened/strengthened by 5% against the USD as at 31 December 2016 with all other variables held constant, post-tax profit for the financial year would have been RM149.67 million (2015: RM293.9 million) lower/higher. Similarly, the impact on other comprehensive income would have been RM13.4 million (2015: RM15.9 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.

33 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(a) Market risk (continued)

(iii) Foreign currency risk (continued)

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 2016				
Financial assets				
Receivables	611	-	-	24
Deposits on aircraft purchase	770	-	-	-
Amounts due from associates	856	-	-	-
Derivative financial instruments	1,533	-	-	-
Amount due from a related party	36	-	-	-
Deposits, cash and bank balances	756	39	251	250
	4,562	39	251	274
Financial liabilities				
Trade and other payables	1,136	1	-	1
Amounts due to associates	123	-	-	-
Amounts due to related parties	9	-	-	-
Borrowings	9,136	204	-	180
Derivative financial instruments	597	-	-	-
	11,001	205	-	181
Net exposure	(6,439)	(166)	251	93
At 31 December 2015				
Financial assets				
Receivables	387	-	-	57
Deposits on aircraft purchase	683	-	-	-
Amounts due from associates	1,534	-	-	-
Derivative financial instruments	1,365	-	-	-
Amount due from a related party	37	-	-	-
Deposits, cash and bank balances	1,013	43	765	150
	5,019	43	765	207
Financial liabilities				
Trade and other payables	787	17	-	10
Amounts due to associates	76	-	-	-
Amounts due to related parties	14	-	-	-
Borrowings	10,734	217	-	168
Derivative financial instruments	820	-	-	-
	12,431	234	-	178
Net exposure	(7,412)	(191)	765	29

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33 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(a) Market risk (continued)

(iii) Foreign currency risk (continued)

The Company's currency exposure profile of financial instruments denominated in currencies other than the functional currency is as follows:

	USD RM'mil	SGD RM'mil	RMB RM'mil	Others RM'mil
At 31 December 2016				
Financial assets				
Receivables	532	-	-	21
Amounts due from subsidiaries	775	-	-	-
Amounts due from associates	627	-	-	-
Amounts due from related parties	15	-	-	-
Deposits on aircraft purchase	770	-	-	-
Derivative financial instruments	1,533	-	-	-
Deposits, cash and bank balances	518	9	251	250
	4,770	9	251	271
Financial liabilities				
Trade and other payables	1,038	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	-	-	-
	8,118	205	-	121
Net exposure	(3,348)	(196)	251	150
At 31 December 2015				
Financial assets				
Receivables	319	-	-	57
Amounts due from subsidiaries	375	-	-	-
Amounts due from associates	1,330	-	-	-
Amounts due from related parties	11	-	-	-
Deposits on aircraft purchase	683	-	-	-
Derivative financial instruments	1,365	-	-	-
Deposits, cash and bank balances	900	13	765	150
	4,983	13	765	207
Financial liabilities				
Trade and other payables	769	17	-	10
Amounts due to subsidiaries	39	-	-	-
Amounts due to associates	22	-	-	-
Amounts due to related parties	14	-	-	-
Borrowings	9,829	217	-	144
Derivative financial instruments	820	-	-	-
	11,493	234	-	154
Net exposure	(6,510)	(221)	765	53

33 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(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 32(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. Subsequent to the financial year end, the Company increased its issued share capital by 559,000,000 new ordinary shares of RM0.10 each as disclosed in Note 35 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 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

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33 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(c) Liquidity and cash flow risk (continued)

	Less than 1 year RM'mil	1-2 years RM'mil	2-5 years RM'mil	Over 5 years RM'mil
Group (continued)				
At 31 December 2015				
Term loans	1,908	1,657	4,709	3,909
Finance lease liabilities	148	149	417	385
Commodity Murabahah Finance	85	84	245	394
Revolving credit	732	-	-	-
Trade and other payables	1,512	530	-	-
Amounts due to associates	-	-	-	76
Amounts due to related parties	14	-	-	-
	4,399	2,420	5,371	4,764
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
At 31 December 2015				
Term loans	1,746	1,494	4,218	3,655
Finance lease liabilities	148	149	417	385
Commodity Murabahah Finance	85	84	245	394
Revolving credit	732	-	-	-
Trade and other payables	1,401	501	-	-
Amounts due to subsidiaries	341	-	-	-
Amounts due to associates	-	-	-	22
Amounts due to related parties	14	-	-	-
	4,467	2,228	4,880	4,456

33 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(c) Liquidity and cash flow risk (continued)

	Less than 1 year RM'mil	1-2 years RM'mil	2-5 years RM'mil	Over 5 years RM'mil
Group and Company				
At 31 December 2016				
Net-settled derivatives				
Trading	104	21	21	-
Hedging	392	30	29	-
Gross-settled derivatives				
Trading - outflow	-	-	-	-
Trading - inflow	-	-	-	-
At 31 December 2015				
Net-settled derivatives				
Trading	37	19	26	-
Hedging	580	52	63	5
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.

The Group's and Company's overall strategy remains unchanged from 2015.

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.

33 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(d) Capital risk management (continued)

The net gearing ratio as at 31 December 2016 and 31 December 2015 was as follows:

	Group		Company	
	2016 RM' mil	2015 RM' mil	2016 RM' mil	2015 RM' mil
Total borrowings (Note 25)	10,579	12,613	7,796	11,683
Less: Deposit, cash and bank balances	(1,742)	(2,427)	(1,427)	(2,263)
Net debts	8,837	10,186	6,369	9,420
Total equity	6,628	4,451	5,965	3,671
Net Gearing Ratio (times)	1.33	2.29	1.07	2.57

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2016 and 31 December 2015.

(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.

<u>Determination of fair value and fair value hierarchy</u>

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); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

33 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) Fair value measurement (continued)

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

	Level 1 RM'mil	Level 2 RM'mil	Level 3 RM'mil	Total RM'mil
Group				
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 investments	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
31 December 2015				
Assets				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	229	-	229
Derivatives used for hedging	-	1,136	-	1,136
Available-for-sale investments	235	-	-	235
	235	1,365	-	1,600
Liabilities				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	108	-	108
Derivatives used for hedging	-	712	-	712
	-	820	-	820

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

33 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) Fair value measurement (continued)

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

	Level 1 RM'mil	Level 2 RM'mil	Level 3 RM'mil	Total RM'mil
Company				
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 investments	351	-	-	351
	351	1,533	-	1,884
Liabilities				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	148	-	148
Derivatives used for hedging	-	449	-	449
	-	597	-	597
31 December 2015				
Assets				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	229	-	229
Derivatives used for hedging	-	1,136	-	1,136
Available-for-sale investments	235	-	-	235
	235	1,365	-	1,600
Liabilities				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	108	-	108
Derivatives used for hedging	-	712	-	712
	-	820	-	820

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.

33 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) Fair value measurement (continued)

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.

34 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 2016. 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

34 UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

The details of the Merah entities are as follows:

Name	Country of 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

35 SUBSEQUENT EVENTS

On 26 January 2017, the Company increased its issued share capital by 559,000,000 new ordinary shares of RM0.10 each at an issue price of RM1.80. These shares rank pari passu with the existing ordinary shares.

36 RECLASSIFICATION OF COMPARATIVES

(a) Change in accounting policy on foreign currencies

Foreign exchange gains and losses arising from operations were previously included in "Other Operating Expenses" to arrive at the operating profit while foreign exchange gains and losses arising from borrowings (after effects of effective hedges) and amounts due from associates and joint ventures are separately disclosed after net operating profit.

During the financial year ended 31 December 2016, foreign exchange gains and losses arising from operations, borrowings and amounts due from associates and joint ventures are disclosed in aggregate as a separate line after net operating profit. Components of the foreign exchange gains and losses continue to be disclosed in the notes to the financial statements (refer to Note 5(c)).

(b) Re-presentation of impairment on investment in associates

Impairment on investment in associates was previously included in "Other operating expenses" to arrive at operating profit.

For the financial year ended 31 December 2016, the presentation of impairment on investment in associates was changed to better reflect the performance of the Group and the Company. The impairment on investment in associates is disclosed separately below the net operating profit/(loss) as the impairment losses did not arose from the Company's principal activities of providing of air transportation services. With the re-presentation, the Group discloses all financial results relating to its associates and joint venture in a consistent manner below the net operating profit.

36 RECLASSIFICATION OF COMPARATIVES (CONTINUED)

Comparatives have been restated as follows to align with current year's presentation of foreign exchange gains and losses and impairment on investment in associates.

	Group			
	As previously reported 31.12.2015 RM'000	Reclassfication (a) RM'000	Reclassfication (b) RM'000	As restated 31.12.2015 RM'000
Income statement				
Operating expenses				
- Other operating expenses	157,012	(440,770)	-	(283,758)
Foreign exchange losses on borrowings	(1,373,816)	1,373,816	-	-
Foreign exchange gains on amounts due from associates and joint ventures	601,708	(601,708)	-	-
Foreign exchange gain/(losses)	-	(331,338)	-	(331,338)

	Company			
	As previously reported 31.12.2015 RM'000	Reclassfication (a) RM'000	Reclassfication (b) RM'000	As restated 31.12.2015 RM'000
Income statement				
Operating expenses				
- Other operating expenses	(695,277)	(440,770)	875,653	(260,394)
Foreign exchange losses on borrowings	(1,379,038)	1,379,038	-	-
Foreign exchange gains on amounts due from associates and joint ventures	601,708	(601,708)	-	-
Foreign exchange gain/(losses)	-	(336,560)	-	(336,560)
Impairment of investment in associates	-	-	(875,653)	(875,653)

SUPPLEMENTARY INFORMATION

Disclosed Pursuant to Bursa Malaysia Securities Berhad Listing Requirements

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

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Total retained earnings of AirAsia Berhad and its subsidiaries:				
- Realised	6,883,363	5,771,224	5,520,224	4,237,044
- Unrealised	(1,031,354)	(1,698,954)	(875,546)	(1,705,832)
	5,852,009	4,072,270	4,644,678	2,531,212
Total share of accumulated gains from associated companies:				
- Realised	(687,264)	(821,968)	-	-
Total share of accumulated gains from joint ventures				
- Realised	129,723	105,438	-	-
Total retained earnings as per consolidated financial statements	5,294,468	3,355,740	4,644,678	2,531,212

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

STATEMENT BY DIRECTORS

pursuant to section 169(15) of the Companies Act, 1965

We, Datuk Kamarudin bin Meranun and Aireen Omar, being two of the Directors of AirAsia Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 189 to 276 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2016 and of the results and the cash flows of the Group and Company for the financial year ended on that date in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965.

The supplementary information set out in page 277 have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

In accordance with a resolution of the Board of Directors dated 5 April 2017.

DATUK KAMARUDIN BIN MERANUN
DIRECTOR

AIREEN OMAR
DIRECTOR

STATUTORY DECLARATION

pursuant to section 169(16) of the Companies Act, 1965

I, How Kim Lian, the Officer primarily responsible for the financial management of AirAsia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 189 to 276 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.

HOW KIM LIAN

Subscribed and solemnly declared by the abovenamed How Kim Lian at Kuala Lumpur in Malaysia on 5 April 2017, before me.

PESURUHJAYA SUMPAH
No. W 530
TAN SEOK KETT
MALAYSIA

COMMISSIONER FOR OATHS

136
Lot 350, 3rd Floor, Wisma MPL,
Jalan Raja Chulan,
50200 Kuala Lumpur.

INDEPENDENT AUDITORS' REPORT

to the members of Airasia Berhad (incorporated in Malaysia) (Company no. 284669-W)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of AirAsia Berhad ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, 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, 1965 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Company, which comprise the balance sheets as at 31 December 2016 of the Group and of the Company, and the 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 189 to 276.

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.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements of the Group and the Company. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group and of the Company, the accounting processes and controls, and the industry in which the Group and the Company operate.

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.

INDEPENDENT AUDITORS' REPORT

to the members of AirAsia Berhad (incorporated in Malaysia) (Company no. 284669-W)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Revenue recognition from scheduled flights Refer to Note 1(a) to the financial statements of the Group and Company for revenue and balance sheets for sales in advance. Revenue from Group and Company for the financial year ended 31 December 2016 were primarily derived from scheduled flights. Passengers pay for their flights in advance and the amounts paid are recognised as 'sales in advance' on the balance sheets. The amounts are subsequently recognised as revenue when the flight has flown. Accuracy of revenue recognised in the income statements of the Group and Company is dependent on the fares paid by passengers, foreign exchange rates at the flight booking date to translate foreign currency transactions and changes to flights (flown, unflown or cancelled) recorded in the flight reservation system. The Group and Company uses an integrated revenue accounting system which interfaces with the flight reservation system to generate journal entries to be posted into the general ledger. There is a high dependency on the flight reservation and revenue accounting systems for accuracy of the amount revenue recognised and in the correct period. The Company also uses a reconciliation system to reconcile flight booking data in the flight reservation system with payment data from financial institutions and online payment gateways. The reconciliation system generates exception report showing flight booking data that are not matched to payment data. Revenue from scheduled flights is a key audit matter due to the magnitude of the revenue and sales in advance balance, significant volume of transactions and the significant audit effort spent on this area.	The flight reservation system is managed by a third party vendor in Australia. We tested the information technology general controls over the flight reservation system. Where information technology general controls over this system are managed by the vendor, these controls were tested by the vendor's external auditors. We obtained and evaluated the external auditors' report on the operating effectiveness of those controls. We tested the relevant controls over approval for changes in base fares and ancillary fares and approval for fare override in the flight reservation system. We also tested the information technology general controls over the reconciliation system and the payment gateway system. We tested reliability of the exception reports generated by the reconciliation system by tracing samples of exceptions to the flight booking data and payment data. We also tested how management reviews these reports and resolves the exceptions via inquiries with management and tracing samples of exception items to supporting documents. We tested the sales in advance and revenue recognised by performing the following procedures: a) Agreed samples of flight bookings of which cash has been received from passengers, to the external payment reports from financial institutions and online payment gateways; b) Tested the foreign currency translation for samples of flight bookings made in foreign currencies; c) Agreed the revenue recognised during the financial year to each monthly journals generated by the revenue accounting system and posted by management; d) Agreed samples of revenue transactions to flight manifests of flown flights and to a third party flight tracking website; and e) Tested completeness of revenue and sales in advance by tracing samples of travel itineraries for flights during the year and flights subsequent to year end to revenue transactions and sales in advance balances respectively.
Impairment assessment of investment in associates in Indonesia and the Philippines Refer to Note 11 to the consolidated financial statements. As at 31 December 2016, the Group recorded investments in associates in Indonesia and the Philippines amounting to RM970.2 million and RM748.5 million respectively. Management had assessed the carrying amounts of investments in associates for impairment as the associates were loss-making and/or required additional investment from the Company to address their negative equity position. The recoverable amount of the associates were determined based on cash flow projections using 'fair value less cost to sell' method. The key assumptions applied in the cash flow projections of both associates were long term growth rate, discount rate, operation fleet size, load factor, average fare and jet fuel price. Based on the assessment performed, an impairment loss of RM163.8 million on investment in the Philippines associate was recorded in the income statements of the Group and Company. No impairment was recorded for the Indonesian associate. We focused on this area in our audit due to the magnitude of the carrying amount. In addition, impairment assessment of the investments in associates require management's judgements and estimates in determining the recoverable amounts of these investments.	We discussed the 'fair value less cost to sell' method with management in relation to the key assumptions used in the cash flow projections, discount rate and long term growth rate. We independently derived the weighted average cost of capital based on similar low cost airlines in countries where the associates operate and compared it to the discount rate applied by management. We assessed the projected long term growth rates by comparing with the respective countries' projected inflation rates. We tested the reasonableness of the key assumptions used in the preparation of the cash flow projections by performing the following procedures: a) Compared the estimated aircraft fleet size to current existing fleet size and management's expansion plans based on expected market demands; b) Compared the projected load factor with past achievements and management's future plans for increased route frequency and new routes. We also assessed the projected load factor against the passenger growth rate in Indonesia and the Philippines for the past 5 to 8 years up to 2015; c) Evaluated the projected average fare by domestic and international routes. We also benchmarked the projected average fare for international routes to market competitors on a sample basis; and d) Assessed the projected jet fuel price per barrel by comparing to analysts forecast and industry data. We stress-tested the assumptions within a reasonably foreseeable range to analyse the impact on the recoverable amount of investments in the associates.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Aircraft maintenance provision	
The Group and Company operate aircraft which are owned or held under finance or operating lease arrangement. For aircraft under operating lease, the Group and Company is contractually committed to return the aircraft at the end of the lease term in a certain condition agreed with lessors. Accordingly, management provides for aircraft maintenance cost at the end of each reporting period for all the Group's and the Company's leased aircraft. The provision is calculated using average monthly engine flight hours per aircraft and engine maintenance cost per flight hour. As at 31 December 2016, aircraft maintenance provision of the Group and the Company amounted to RM497 million and RM310 million respectively. The provision is included within trade and other payables in Note 23 to the financial statements. We have identified aircraft maintenance provision as a key audit matter because of the magnitude of the balance and significant audit effort spent on this area.	We discussed with management the basis in calculating the aircraft maintenance provision. We read the lease agreements for changes in the maintenance arrangement between the Group and the lessors. We compared the average monthly engine flight hours of selected aircraft to the aircraft utilisation reports. The engine maintenance cost per hour is determined based on the rates set out in an aircraft maintenance agreement entered into by the Group with a third party vendor. We agreed the engine maintenance cost per hour used in calculating the provisions for all leased aircraft to the aircraft maintenance agreement. We read the revised aircraft maintenance agreement to test the change in rates used in the estimation of provision.
Derivative financial instruments	
The Group and the Company enters 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 and fuel swap contracts. As at 31 December 2016, the derivative financial assets and liabilities of the Group and the Company as at 31 December 2016 are disclosed in Note 18 to the financial statements. Net gains and losses on 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. We focused on this area due to the magnitude of these balances to the financial statements, the specific criteria required under MFRS139 "Financial Instruments: Recognition & Measurement" for the application of hedge accounting and the corresponding accounting entries.	We tested the existence of all derivative financial instruments as at financial year end by obtaining confirmations from respective counterparties. We recomputed the fair value of samples of derivative financial instruments by obtaining the observable inputs from the market and compared the fair values to the amounts recorded in the financial statements. We assessed whether requirements for hedge documentation have been met by examining samples of hedge documentation. We tested the hedge effectiveness of selected hedges by checking the accuracy of contractual inputs in the models used by management to the supporting derivative contracts. We tested the accounting entries pertaining to the effective and ineffective cash flow hedges arising during the year. We also tested the discontinuance of cash flow hedge accounting for forecasted transactions that are no longer expected to occur by checking reclassification of cumulative fair value gain or loss to the income statements.

INDEPENDENT AUDITORS' REPORT

to the members of AirAsia Berhad (incorporated in Malaysia) (Company no. 284669-W)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 Directors' Report and Statement on Risk Management & Internal Control, which we obtained prior to the date of this auditor's report, and the Management's Discussion and Analysis, Chairman's Statement, Statement on Corporate Governance, Audit Committee Report, Sustainability Report and other sections of the 2016 Annual Report, which are expected to be made available to us after that date. Other information does not include the financial statements of the Group and of the Company and our auditors' report thereon.

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.

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of the 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, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements 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 intend to liquidate the Group or 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 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 judgement and maintain professional scepticism throughout the audit. We also:

(a) 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.

(b) 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 the Company's internal control.

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

(d) 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.

(e) 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.

(f) 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.

INDEPENDENT AUDITORS' REPORT

to the members of AirAsia Berhad (incorporated in Malaysia) (Company no. 284669-W)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

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 for 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, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

(b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 9 to the financial statements.

(c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(d) The auditors' reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in page 277 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

NG GAN HOOI
(No. 2914/04/17 (J))
Chartered Accountant

Kuala Lumpur
5 April 2017

ANALYSIS OF SHAREHOLDINGS

as at 20 March 2017

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	111	0.40	1,361	0.00
100 – 1,000	7,441	27.12	6,163,650	0.18
1,001 – 10,000	14,746	53.73	65,568,993	1.97
10,001 – 100,000	4,037	14.71	128,353,598	3.84
100,001 to less than 5% of issued shares	1,106	4.03	2,066,301,396	61.83
5% and above of issued shares	2	0.01	1,075,485,082	32.18
	27,443	100.00	3,341,874,080	100.00

SUBSTANTIAL SHAREHOLDERS

The direct and indirect shareholdings of the shareholders holding more than 5% in AirAsia 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	171,249,949[3]	5.12	-	-

NOTES:

(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 TLSB and TASB. Shares held under HSBC Nominees (Tempatan) Sdn. Bhd.
(3) Shares held under Citigroup Nominees (Tempatan) Sdn. Bhd.

ANALYSIS OF SHAREHOLDINGS
as at 20 March 2017

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	255,000[(3)]	-*	-	-
Dato' Fam Lee Ee	-	-	-	-
Dato' Mohamed Khadar bin Merican	50,000[(4)]	-*	-	-
Aireen Omar	50,000	-*	-	-
Stuart L Dean	40,000[(5)]	-*	-	-
Tharumalingam A/L Kanagalingam	50,000	-*	-	-

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 TASB and TLSB.
(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.	Citigroup Nominees (Tempatan) Sdn. Bhd. *Employees Provident Fund Board*	127,220,549	3.81
4.	Amanahraya Trustees Berhad *Amanah Saham Bumiputera*	101,808,000	3.05
5.	HSBC Nominees (Asing) Sdn. Bhd. *Exempt An for JPMorgan Chase Bank, National Association (U.S.A.)*	94,680,318	2.83
6.	Citigroup Nominees (Tempatan) Sdn. Bhd. *Exempt An for AIA Bhd.*	90,013,900	2.69
7.	HSBC Nominees (Asing) Sdn. Bhd. *BBH and Co Boston for Emerging Markets Opportunities Portfolio (WTC CTF)*	44,915,264	1.34
8.	Cartaban Nominees (Asing) Sdn. Bhd. *Exempt An for State Street Bank & Trust Company (West CLT OD67)*	40,422,500	1.21
9.	HSBC Nominees (Asing) Sdn. Bhd. *HSBC BK PLC for Saudi Arabian Monetary Authority*	40,411,900	1.21

ANALYSIS OF SHAREHOLDINGS

as at 20 March 2017

LIST OF TOP 30 LARGEST SHAREHOLDERS (CONTINUED)

	Name of Shareholders	No. of Shares Held	% of Issued Share Capital
10.	HSBC Nominees (Asing) Sdn. Bhd. *Exempt An for JPMorgan Chase Bank, National Association (JPMELAB AIF APG)*	39,031,200	1.17
11.	HSBC Nominees (Asing) Sdn. Bhd. *Exempt An for JPMorgan Chase Bank, National Association (U.K.)*	33,526,398	1.00
12.	DB (Malaysia) Nominee (Asing) Sdn. Bhd. *BNYM SA/NV for Causeway Emerging Markets Fund*	29,727,600	0.89
13.	HSBC Nominees (Asing) Sdn. Bhd. *BBH and Co Boston for Vanguard Emerging Markets Stock Index Fund*	23,812,148	0.71
14.	Cartaban Nominees (Asing) Sdn. Bhd. *GIC Private Limited for Government of Singapore (C)*	23,403,100	0.70
15.	CIMB Group Nominees (Tempatan) Sdn. Bhd. *CIMB Bank Berhad (EDP 2)*	23,076,300	0.69
16.	Cartaban Nominees (Tempatan) Sdn. Bhd. *PAMB for Prulink Equity Fund*	18,638,600	0.56
17.	HSBC Nominees (Asing) Sdn. Bhd. *TNTC for General Organization for Social Insurance*	18,126,400	0.54
18.	Cartaban Nominees (Asing) Sdn. Bhd. *Exempt An for RBC Investor Services Trust (Clients Account)*	17,989,900	0.54
19.	Citigroup Nominees (Asing) Sdn. Bhd. *CBNY for Emerging Market Core Equity Portfolio DFA Investment Dimensions Group Inc*	16,760,400	0.50
20.	Citigroup Nominees (Asing) Sdn. Bhd. *CBNY for Dimensional Emerging Markets Value Fund*	16,627,400	0.50
21.	HSBC Nominees (Asing) Sdn. Bhd. *TNTC for Hosking Global Fund Public Limited Company*	16,428,737	0.49
22.	DB (Malaysia) Nominee (Asing) Sdn. Bhd. *State Street London Fund GMT9 for M&G Investment Funds (12) - M&G Global Recovery Fund*	16,152,100	0.48
23.	HSBC Nominees (Asing) Sdn. Bhd. *Exempt An for BNP Paribas Securities Services (CLT Asset-AIFM)*	14,289,900	0.43
24.	Citigroup Nominees (Tempatan) Sdn. Bhd. *Employees Provident Fund Board (CIMB PRIN)*	14,245,100	0.43
25.	Maybank Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Siti Nur Aishah binti Ishak*	13,862,100	0.41
26.	Cartaban Nominees (Asing) Sdn. Bhd. *SSBT Fund ZVE4 for State Street Emerging Markets Active Securities Lending QIB Common Trust Fund*	13,750,800	0.41
27.	HSBC Nominees (Asing) Sdn. Bhd. *J.P Morgan Securities Plc*	13,487,900	0.40
28.	Cartaban Nominees (Asing) Sdn. Bhd. *Exempt An for Bank J.Safra Sarasin Ltd, Hong Kong Branch-Clients' Account (Foreign)*	13,190,000	0.39
29.	DB (Malaysia) Nominee (Asing) Sdn. Bhd. *SSBT Fund S9PE for People's Bank of China*	12,715,800	0.38
30.	HSBC Nominees (Asing) Sdn. Bhd. *TNTC for British Columbia Investment Management Corporation*	12,319,000	0.37

LIST OF PROPERTIES HELD

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 2016 ('000)
AirAsia Berhad	Part of PT.39, Taxiway Charlie at KLIA, Sepang[1]	Non-permanent structure/aircraft maintenance hangar	31 December 2017[2]	2,400 sqm	14 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	2 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 2 month period mentioned in the table refers to November and December 2016 as the last column reflects the audited book date as at 31 December 2016.

SALES OFFICES AND STATIONS

BANGLADESH
- Erectors House (5th Floor)
  18 Kemal Ataturk Avanue, Banani
  C/A, Dhaka 1213, Bangladesh

BRUNEI DARUSSALAM

Bandar Seri Begawan
- No 3, Departure Hall
  Brunei International Airport
  Bandar Seri Begawan
  BS2513, Brunei Darussalam

CAMBODIA

Phnom Penh
- Phnom Penh International Airport
  National Road No 4
  Kakab Commune Posenchay District
  Phnom Penh

- River Side
  No 179, Street Sisowath
  Sangket Phsar Kandai 1
  12204 Phnom Penh

- AEON Mall, Ground Floor, #132
  Street Samdach Sothearos
  Sangkat Tonle Bassac
  Khan Chamkarmon, Phnom Penh

Siem Reap
- No C1, Street Central Market
  Mondul 1 Village, Sangkat Svay
  Dangkum, Siem Reap City

CHINA

Macau
- Century Holiday International Travel
  Service (Macau), Co Ltd
  No 7 South Bay Harbour Building
  Underground Building C
  Bei Di Xiang

Shenzen
- Century Holiday International Travel
  Service (Shenzhen), Co Ltd
  114, Fengge Mingyuan Podium Building
  No 1038-4, Honggui Road
  Luohu District, Shenzhen

Guangzhou
- Century Holiday International Travel
  Service (Guangzhou), Co Ltd
  Shop 105-2,
  No 50 Ti Yu Road West
  Tian He District, Guangzhou

- Century Holiday International Travel
  Service (Guangzhou), Co Ltd
  First floor
  No 8 Zhong Shan 3 Road
  Guang Zhou 510000

Beijing
- Century Holiday International Travel
  Service (Beijing) Co Ltd
  Room 0163A, Block C, Chaowai Soho
  Chaowai Street,Chaoyang District
  Beijing 100022

Chengdu
- Century Holiday International Travel
  Service (ChengDu) Co Ltd
  No 172-5 Binjang East Road
  Jinjang District, ChengDu

Shanghai
- Century Holiday International Travel
  Service (Shanghai) Co Ltd
  No 739, Changde Road
  Jing'an District, Shanghai

Hangzhou
- No 567 Jianguo North Road
  (near Moyaying Bustop)
  Hangzhou

Chongqing
- Chongqing Best Service Int'l Travel
  Services Co Ltd
  No 6101-5,International United
  (Temporary Outlet)
  No 201 Xinhua Road
  Yuzhong District, Chongqing

Kunming
- No 1108 Huancheng South Road
  Kunming, Yunnan

Xi'an
- No 6 Kejishangmao Building
  East of Xidian University
  Community, Keji Road
  Yanta District, Xi'an

Nanning
- Century Holiday International Travel
  Service (Nanning) Co Ltd, No 1108
  Level1, 3 of Ziyun Xuan building
  in MingYuan Hotel
  38 Xinmin Road, Nanning
  Guangxi Province

Changsa
- Century Holiday International Travel
  Service (Changsa) Co Ltd, No 1108
  No191 Laodong West Road
  Tianxin District Changsha City
  Hunan Province

Shenyang
- Shenyang Lingxiao Air Service
  Door 11
  Building C Zuanshixingzuo 222#
  Nanjingbei ST, Heping
  Shenyang, Liaoning

Wuhan
- Hubei Easytour Workl Int'l Travel Service
  Co Ltd
  Room A-1-2, No 728
  Jianghan Distrcit, Wuhan
  Hubei Province

TAIWAN

Kaohsiung
- Peace Travel Service Co Ltd
  8F-1, No151 Chungcheng 4th Road
  Chienchin District
  Kaohsiung City

INDIA

New Delhi
- Track India Pvt Ltd
  405, Surya Kiran Building
  Kasturba Gandhi Marg
  New Delhi-110001

Kolkata
- Track India Pvt Ltd
  A/2D, Dr Md Ishaque Road
  Chowringhee Mansions
  Block-E, Kolkata 700016

Jaipur
- LAP Travel Pvt Ltd
  M2 Usha Plaza
  MI road, Jaipur

Chandigarh
- LAP Travel Pvt Ltd
  SCO 59-60, First floor
  Sector -9D, Chandigarh

INDONESIA

Banda Aceh
- Bandara Sultan Iskandar Muda
  Blang Bintang, Banda Aceh

- Jalan TWK Mohd Daudsyah No 130
  Gp Peunayong Kec Kuta Alam
  Banda Aceh

Balikpapan
- Departure Terminal, Sepinggan
  International Airport, Jl Marsma R
  Iswahyudi, Sepinggan, Balikpapan

Lombok
- Departure Terminal, Lombok
  International Airport
  Praya, Lombok
  Nusa Tenggara Barat

Pontianak
- Customer Service Office
  Supadio International Airport
  Pontianak, Kalimantan Barat 78381

Denpasar, Bali
- Terminal Keberangkatan Domestik
  Lantai 1
  Bandara Internasional Ngurah Rai
  Bali 80361

- Sun Boutique Hotel, Jl Sunset Road
  No 23, Bali

Bandung
- No 36A Jl Kopo Bihbul, Bandung

- Hotel Grand Serela
  Jl L.L.RE Martadinata (RIAU) No 56
  Bandung

Jakarta
- Soekarno-Hatta International
  Airport Terminal 3, Departure Hall
  Airlines Offices, Cengkareng

- Jl Boulevard Raya, Blok LA 4
  No 10 Kelapa Gading, Jakarta Utara

- Komp Rukan Dharmawangsa
  No 43 Jl Dharmawangsa VI
  Jakarta Selatan

- Sarinah Plaza (LG level)
  No 11 Jl Mh Thamrin, Jakarta Pusat

- Head Quarters PT Indonesia AirAsia
  No 1 Jl Marsekal Suryadharma
  Kel Selapajang Jaya,Tangerang

Makassar
- Sultan Hasanuddin International
  Airport, Departure Terminal
  Makassar, South Sulawesi

Medan
- Kualanamu International Airport
  1st floor, Ticketing Lounge
  Terminal Kedatangan Internasional Lt 1

- No 548P Jl Asia, Medan

- No 189B Jl Bakaran Batu
  Lubuk Pakam, Medan

- Garuda Plaza Hotel, Lobby Level
  JL. Sisingamanga Raja No 18
  Medan

Padang
- Minangkabau International Airport
  Padang, West Sumatra

- No 75B Jl Veteran, Purus, Padang
  Barat, Padang, West Sumatra

Palembang
- Sultan Mahmud Badaruddin II
  Airport, Palembang, South Sumatra

Pekanbaru
- Sultan Syarif Kasim II, International
  Airport, Jl Perhubungan Udara
  Simpang Tiga, Pekanbaru, Sumatra

- Jalan Arifin Ahmad, No 75D
  Pekanbaru

Solo
- Adi Soemarmo International
  Airport, Solo, Central Java

SALES OFFICES AND STATIONS

Surabaya
- Juanda International Airport
  Terminal 2, Jl Raya Juanda
  Surabaya, Jawa Timur
- Jalan Raya Golokan No 123
  Surabaya
- LG Floor A6-01/A6-50
  Pakuwon Trade Centre Supermall
  No 2 Jl Puncak Indah Lontar
  Surabaya
- Plaza East UG Unit 48
  Tunjungan Plaza 1 Surabaya
  Jl Basuki Rachmat No 8-12

Malang
- No 6 Jl. Sarangan
  Lowokwaru, Malang

Yogyakarta
- Adisutjipto International Airport
  Jl Solo Km9, Yogyakarta 55282
- No 119c Jl HOS Cokroaminoto
  Yogyakarta

Semarang
- Ahmad Yani International Airport
  Jl. Puad A. Yani, Semarang
- Komp. Pertokoan Simpang Lima
  Blok C No 1, Semarang

MALAYSIA

Johor
- GL 13 Sultan Ismail Airport
  81250 Johor Bahru, Johor
- AirAsia Sales Centre (Danga Bay)
  Tune Hotel - Danga Bay
  Lot PTB 22819 Jalan Skudai
  Mukim Bandar Johor Bahru
  80200 Johor
- AirAsia Sales Centre (Muar)
  No 26 Jalan Bakri
  84000 Muar, Johor

Kedah

Alor Setar
- Level 1
  Lapangan Terbang Sultan Abdul Halim
  06550 Kepala Batas
  Alor Star

Sungai Petani
- AirAsia Sales Centre (Sg Petani)
  Lot 1F TR 01, 1st Floor
  Central Square Shopping Centre
  No 23, Jalan Kampung Baru
  08000 Sg Petani

Langkawi
- Langkawi International Airport
  07100 Padang Mat Sirat
  Langkawi

Kuala Lumpur
- AirAsia Sales Centre (KL Sentral)
  Lot 4, Level 2, Stesen Sentral
  50470 Kuala Lumpur
- AirAsia Sales Centre (BB Monorail)
  Lot No K16 (New Wing) Utility Level
  Stesen Monorail di atas Jln Sultan
  Ismail PT88, Seksyen 67
  Jalan Sultan Ismail, 55100 Kuala Lumpur
- AirAsia Sales Centre (Plaza Berjaya)
  Lot G027B, Ground Floor
  Podium Block Plaza Berjaya
  No 12 Jalan Imbi
  55100 Kuala Lumpur

Kelantan
- Ground Floor, Lapangan Terbang
  Sultan Ismail Petra
  Pengkalan Chepa
  16100 Kota Bharu, Kelantan

Perak
- PI Hotel - Ipoh, No 2 Ground Floor
  The Host, Jalan Veerasamy
  30000 Ipoh, Perak

Terengganu
- Sultan Mahmud Airport, Level 1
  Terminal Building
  21300 Kuala Terengganu
  Terengganu

Labuan
- Labuan Airport Terminal, Level 1
  87008 Wilayah Persekutuan Labuan

Penang
- Lot 8, Departure Concourse
  Penang International Airport
  11900 Bayan Lepas, Penang
- AirAsia Sales Centre (L.Chulia)
  332, Ground Floor Kim Mansion
  Lebuh Chulia, 10200 Penang
- AirAsia Sales Centre (Bukit Jambul)
  No 12H-G Jln Tun Dr Awang
  11900 Bayan Lepas, Penang
- AirAsia Sales Centre (Seberang Perai)
  A-G-07, Jalan Todak 4
  Sunway Business Park
  Pusat Bandar Seberang Jaya
  13700 Perai Penang

Sabah

Kota Kinabalu
- AirAsia Sales Centre
  Lot G24, Ground Floor Wisma
  Sabah, Jln Tun Razak
  88000 Kota Kinabalu, Sabah
- Level 2 (Domestic Departure Hall
  Entrance), Terminal 1 Kota Kinabalu
  International Airport
  Jalan Petagas Kota Kinabalu
  88100 Kota Kinabalu, Sabah

Sandakan
- Level, Lot 2
  Sandakan Airport
  90000 Sandakan, Sabah.

Tawau
- AirAsia Sales Centre
  TB228, Lot 5 Ground Floor
  Istana Monaco Hotel
  Jalan Bunga Fajar Complex
  91000 Tawau, Sabah

Lahad Datu
- AirAsia Sales Centre
  Lot G-2, Ground Floor Plaza USIA
  Building, Jalan Teratai, MDLD 7084
  91100 Lahad Datu, Sabah

Sarawak

Sibu
- Lot GFL01, Common Departure Area
  Level 1 Landslide, Sibu Airport
  96007 Sibu, Sarawak

Bintulu
- AirAsia Sales Centre
  GF, Lot 4034 Parkcity Commercial
  Square, Phase 5
  97000 Bintulu, Sarawak
- GL-02-G, Jalan Bintulu
  Lapangan Terbang Bintulu
  97000 Bintulu, Sarawak

Kuching
- AirAsia Sales Centre (Jalan Matang)
  Pusat Komersil Swan
  Ground Floor, No 69
  Lot 14508, Section 65
  KTLD, Batu 4, Jalan Matang
  93050 Kuching, Sarawak
- Lot L1L C15, Ground Floor Arrival
  Level, Kuching International Airport
  93250 Kuching, Sarawak

Miri
- AirAsia Sales Centre
  GF, Lot 946 Jalan Parry
  98000 Miri, Sarawak
- Lot GL08 Ground Floor
  Public Concourse
  98000 Miri Airport, Sarawak

Selangor
- KLIA
  Level 5, Departure Hall
  Main Terminal Building
  Kuala Lumpur International Airport (KLIA)
  64000 Sepang, Selangor
- Klia2
  Level 3, Departure Hall
  Main Terminal Building
  Kuala Lumpur International Airport 2
  (Klia2)
  64000 Sepang, Selangor
- AirAsia Sales Centre (Subang)
  G2, Terminal SkyPark
  Lapangan Terbang Sultan Abdul
  Aziz Shah, 47200 Subang
  Selangor
- AirAsia Sales Centre (Mydin USJ)
  Lot No G-35, Mydin Hypermarket
  Persiaran Subang Permai USJ1
  47500 Subang Jaya, Selangor
- AirAsia Sales Centre (Kajang)
  Lot S141, 2nd Floor Plaza Metro
  Kajang, Section 7
  Jalan Tun Abdul Aziz
  43000 Kajang, Selangor
- AirAsia Sales Centre (Klang)
  LG-09, Shaw Centrepoint
  Jalan Raja Hassan
  41400 Selangor

MALDIVES
- G. Fasmugoo 1st Floor
  Bodurasgefaanu Magu
  Male' 20133, Republic of Maldives
- ALL H Maldives
  G Fasmugoo, 1st Floor
  Bodurasgefanuu Magu
  Male 20133

MYANMAR

Yangon
- No (37), Level 1, Room 111
  La Pyae Wun Plaza, Dagon Township
- Junction Square Shopping Centre
  Room No. F139, First Floor

Mandalay
- Room 3, 26th (B) Road
  (between 78th and 79th Road)
  Mandalay

PHILIPPINES

Cebu
- West Wing Domestic Area
  Mactan Cebu Int'l Airport Pusok
  Lapu Lapu City, Cebu
- 3rd Floor Service Lane
  Elizabeth Mall N. Bacalso Ave
  Cebu City

Manila
- Naia Terminal 4, Domestic Road
  Pasay City
- G/F Colonnande Residences 132 C
  Palanca Street, Legaspi Village
  Makati City
- Unit 126 South Parking Building
  SM Mall of Asia Complex
  JW Diokno Boulevard, Pasay City

SALES OFFICES AND STATIONS

- Unit 108 SM City
  North Edsa - The Block, SM City Complex
  North Edsa, Pag-Asa 1, Quezon City
- 5/F Bldg,SM Megamall
  Mandaluyong 1550

Davao
- Francisco Bangoy International Airport, Buhangin, Davao City
- 2/L Victoria Plaza, JP Laurel Avenue, Davao City

Boracay
- Ground Floor, Crown Regency Hotel
  Balabang, Boracay Island 5608
  Malay, Aklan

Tagbilaran
- Talibon Commercial Center 1
  Talibon, Bohol
- Airport Building, 2nd Floor, Airport Road, Tagbilaran City, Bohol

Puerto Princesa
- Bgy Bancao-Bancao, Airport Compound, Puerto Princesa City

Tacloban
- DZR Airport
  San Jose Tacloban City

SINGAPORE
- Singapore Changi Airport
  Terminal 1, Rows 13 & 14
  Departure Level 2, Singapore

SRI LANKA

Colombo
- Setmil Aviation (Pvt) Ltd
  Ground Floor, Setmil Maritime Centre
  256 Srimath Ramanathan Mawatha
  Colombo 15, Sri Lanka

THAILAND

Bangkok
- 127 Tanao Road, Phra Nakorn
  Bangkok 10200
- Suvarnabhumi International Airport
  Room A1-062 Ground Floor
  Concourse A, Bangna-Trad Road
  Racha Teva, Bang Pli
  Samutprakarn 10540
- Tesco Lotus - Bangkapi, 2nd Floor
  3109 Ladpro Road, Bangkapi
  Bangkok 10240
- Tesco Lotus - Rama1, 3rd Floor
  831 Rama 1 Road, Wangmai
  Pathumwan, Bangkok10330
- Tesco Lotus - Sukhumvit 50
  1st floor, 1710, Sukhumvit Road
  Klong Toey, Bangkok 10110
- Tesco Lotus - Lad Prao, 2nd Floor
  1190, Phahonyothin Road, Jompol
  Jatujak, Bangkok 1090

Chiang Mai
- Chiangmai International Airport
  60, 1st Floor, Tambol Sutep
  Amphur Muang, Chiang Mai 50200
- 416 Thaphae Road, Chiang Mai

Chiang Rai
- Chiang Rai International Airport
  2305/2 404 Moo 10, Tambol Bandu
  Amphur Muang, Chiang Rai 57100

Hat Yai
- Hat Yai International Airport
  125 Moo 3 Klongla, Klonghoikong
  Songkhla 90115
- 69 Thumnoonvithi Rd Hat Yai
  Songkhal 90110

Krabi
- Krabi International Airport Room
  No 133, Moo 5, Petchakasem Rd
  Nuaklong Sub District, Nuaklong
  District, Krabi 81130

Nakhon Phanom
- Nakhon Phanom Airport
  Level 1 40 M6,Nittayo Road
  Photak District, Nakhon Phanom
  48000

Nakorn Si Thammarat
- Nakorn Si Thammarat Airport
  Muang District, Nakorn Si
  Thammarat

Narathiwat
- Narathiwat Airport, 330 Moo 5
  Tambol Kok-Kian, Amphur Muang
  Narathiwat 96000

Phuket
- Phuket International Airport
  312, 3rd Floor, Tumbol Maikao
  Amphur Thalang, Phuket 83110
- Unit 9, Laflora Patong Area
  No 39, 39/1, Thaveewong Rd
  Patong, Kratoo, Phuket
- Tesco Lotus - Phuket, 2nd Floor
  104, Chalermprakiat Road, Rasada
  Sub District, Muang District
  Phuket 83000

Surat Thani
- Surat Thani International Airport
  73 Moo 3 Tambol Huatuey, Amphur
  Punpin, Surat Thani

Trang
- Trang Airport House No 170
  Village No 12, Trang-Paliean Road
  Koklor sub-district, Mueang Trang District
  Trang, 92000

Ubon Ratchathani
- Ubon Ratchathani Airport
  297 Ubon Ratchathani Airport
  Thepyotee Road, Amphur Nai Muang
  Ubon Ratchathani 34000

Udon Thani
- Udon Thani International Airport
  224 Moo 1, Tambol Makkhang
  Amphur Muang, Udon Thani 41000

Pattaya
- Tesco Lotus - South Pattaya
  2nd Floor, 408/2 Moo 12
  South Pattaya, Sukhumvit Rd
  Nongprue Banglamung
  Chonburi 20150

VIETNAM

Hanoi
- NoiBai Airport, Terminal 1
  International Departure Hall
  3rd Floor, Hanoi, Vietnam
- 345 Kim Ma ST, Ba Dinh Ward,
  Ha Noi City, Vietnam

Ho Chi Minh
- Tan Son Nhat International Airport
  Room # 1.4.19
- 84B Bui Vien, District 1
  Ho Chi Minh City, Vietnam

Da Nang
- 108 Nguyen Van Linh
  Da Nang City, Vietnam

Call Centres

Australia
+61 2 8188 2133

China
+86 512 8555 7711

India
1860 500 8000

Indonesia
+62 21 2927 0999
+62 804 1333 333

Iran
+08 21 2620 0686

Japan
+81 50 6864 8181

Hong Kong
+852 3013 5060

Macau
+853 6262 6352

Malaysia
1600 85 8888
(AirAsia X Premium Line)
chargeable at RM1.95 per minute

New Zealand
+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
184472744590
(text telephone - for guests with hearing or speech disabilities)

GLOSSARY

AirAsia Berhad	"The Company" or "AirAsia".
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.

AIRASIA BERHAD
ANNUAL REPORT 2016

AIRASIA TEAM LEAD

- ELINA EFFENDI
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CREATIVE AGENCY

- NOVA FUSION SDN BHD
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FORM OF PROXY

AIRASIA BERHAD
(Company No.: 284669-W)
Incorporated in Malaysia

I/We ______________________________ NRIC No./Co No.: ______________________________
(FULL NAME IN BLOCK LETTERS) (COMPULSORY)

of ____
(ADDRESS)

telephone no. ______________________________ being a member of the Company hereby appoints
(COMPULSORY)

______________________________ NRIC No.: ______________________________
(FULL NAME IN BLOCK LETTERS) (COMPULSORY)

of ____
(ADDRESS)

and/or ______________________________ NRIC No.: ______________________________
(FULL NAME IN BLOCK LETTERS) (COMPULSORY)

of ____
(ADDRESS)

as my / our proxy(ies) to vote in my / our name and on my / our behalf at the Twenty Fourth Annual General Meeting of the Company to be held on Thursday, 25 May 2017 at 10.00 a.m. and at any adjournment of such meeting and to vote as indicated below:

Agenda			
No. 1	To consider the Audited Financial Statements and the Reports of Directors and Auditors thereon		
Resolutions	**Description**	**For**	**Against**
No. 1	**Ordinary Business** To approve the payment of a First and Final Single Tier Dividend of 12 sen per ordinary share in respect of the financial year ended 31 December 2016		
No. 2	To approve the fees of an additional RM300,000 per annum per Non-Executive Director for the financial year ended 31 December 2016		
No. 3	To approve the Non-Executive Directors' Remuneration with effect from the financial year ending 31 December 2017 until the next Annual General Meeting of the Company to be held in the year 2018		
No. 4	Re-election of Tan Sri (Dr.) Anthony Francis Fernandes in accordance with Article 124 of the Company's Articles of Association		
No. 5	Re-election of Datuk Kamarudin bin Meranun in accordance with Article 124 of the Company's Articles of Association		
No. 6	Re-election of Mr Tharumalingam A/L Kanagalingam in accordance with Article 129 of the Company's Articles of Association		
No. 7	Appointment of Messrs Ernst & Young in place of the retiring Auditors, Messrs PricewaterhouseCoopers and authority to the Directors to determine the Auditors' remuneration		
No. 8	**Special Business** Proposal for Dato' Fam Lee Ee to be retained as Senior Independent Non-Executive Director of the Company		
No. 9	Authority to allot shares pursuant to Sections 75 and 76 of the Companies Act, 2016		
No. 10	Proposed renewal of existing and 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)

No. of shares held:			
CDS Account No.:			
The proportion of my/our holding to be represented by my/our proxies are as follows:		**No. of Shares**	**Percentage**
	First Proxy		
	Second Proxy		
Date:			

____
Signature of Shareholder/Common Seal

Notes to Form of Proxy

a. Pursuant to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 and Article 43(1) of the Company's Articles of Association, 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, 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 forthcoming Annual General Meeting.

b. A member must be registered in the Record of Depositors at 5.00 p.m. on 18 May 2017 ("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.

c. A member entitled to attend and vote is entitled to appoint up to two (2) proxies (or in the case of a corporation, to appoint 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).

d. 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.

e. Where a member appoints two proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.

f. 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.

g. The Proxy Form or other instruments of appointment shall not be treated as valid unless deposited at the Registered Office of the Company at B-13-15, Level 13, Menara Prima Tower B, Jalan PJU 1/39, Dataran Prima, 47301 Petaling Jaya, Selangor Darul Ehsan, 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.**

h. 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.

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COMPANY SECRETARY

AirAsia Berhad (Company No. 284669-W)

B-13-15, Level 13
Menara Prima Tower B
Jalan PJU 1/39, Dataran Prima
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia

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