

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

15 INVESTMENT IN ASSOCIATES (CONTINUED)

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

Set out below are the summarised financial information for the associates which are accounted for using the equity method:

Summarised balance sheet

	AAIPL		TAA		Total	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Current						
Cash and cash equivalents	23,169	-	196,152	386,138	219,321	386,138
Other current assets	739	-	617,874	327,400	618,613	327,400
Total current assets	23,908	-	814,026	713,538	837,934	713,538
Financial liabilities						
(excluding trade payables)	(191)	-	(707,978)	(488,618)	(708,169)	(488,618)
Other current liabilities (including trade payables)	-	-	(15,230)	(6,982)	(15,230)	(6,982)
Total current liabilities	(191)	-	(723,208)	(495,600)	(723,399)	(495,600)
Non-current						
Assets	383	-	1,257,240	336,029	1,257,623	336,029
Financial liabilities	-	-	(795,449)	(192,089)	(795,449)	(192,089)
Total non-current liabilities	-	-	(795,449)	(192,089)	(795,449)	(192,089)
Net assets	24,100	-	552,609	361,878	576,709	361,878

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15 INVESTMENT IN ASSOCIATES (CONTINUED)

Summarised financial information for associates (continued)

Summarised statement of comprehensive income

	AAIPL		TAA		Total	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Revenue	-	-	2,408,378	1,921,349	2,408,378	1,921,349
Depreciation and amortisation	(4)	-	(38,381)	(10,551)	(38,385)	(10,551)
Interest income	385	-	43,063	8,372	43,448	8,372
Interest expense	-	-	(6,611)	(2,024)	(6,611)	(2,024)
(Loss)/profit before taxation	(6,398)	-	263,739	184,292	257,341	184,292
Income tax expense	-	-	(67,093)	(31,891)	(67,093)	(31,891)
(Loss)/profit after taxation	(6,398)	-	196,646	152,401	190,248	152,401
Other comprehensive income	-	-	1,307	(338)	1,307	(338)
Total comprehensive income	(6,398)	-	197,953	152,063	191,555	152,063
Dividends received from associates	-	-	-	-	-	-

Reconciliations of summarised financial information

	AAIPL		TAA		Total	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Opening net assets at 1 January	-	-	361,878	(54,544)	361,878	(54,544)
Investment during the financial year	30,498	-	-	-	30,498	-
Impact of adoption of new standard on retained earnings	-	-	(2,770)	-	(2,770)	-
(Loss)/profit for the financial year	(6,398)	-	196,646	152,401	190,248	152,401
Other comprehensive income/ (loss)	-	-	1,307	(338)	1,307	(338)
Foreign exchange differences	-	-	(4,452)	(1,691)	(4,452)	(1,691)
Ordinary shares issued	-	-	-	266,050	-	266,050
Closing net assets at 31 December	24,100	-	552,609	361,878	576,709	361,878
Interest in associates at 49%, 45%	11,809	-	248,674	162,845	260,483	162,845
Carrying value at 31 December	11,809	-	248,674	162,845	260,483	162,845

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15 INVESTMENT IN ASSOCIATES (CONTINUED)

The Group has discontinued the recognition of its share of losses made by IAA and PAA as the Group's interests in IAA and PAA had been reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of these associates. The Group's share of losses of IAA and PAA for the current financial year, which have not been equity accounted for, amounted to RM55.3 million and RM36.0 million respectively. As at 31 December 2013, the unrecognised amounts of the Group's share of losses of IAA and PAA which have not been equity accounted for amounted to RM218.5 million (2012: RM163.2 million) and RM65.8 million (2012: RM29.8 million) respectively.

Acquisition of interests in associates during the financial year ended 31 December 2013

On 18 April 2013, the Company, through its wholly-owned subsidiary, AAIL, entered into a Shareholders' Agreement and a Share Subscription Agreement with Tata Sons Limited ("TSL") and Telestra Tradeplace Private Limited ("Telestra") for the purpose of forging a joint venture cooperation between the Company, TSL and Telestra to establish a low cost airline in India, i.e. AirAsia (India) Private Limited ("AAIPL"). On that date, AAIL subscribed to 24,500,000 ordinary shares, representing 49% of the paid-up capital in AAIPL for a consideration of INR245 million (equivalent to RM14.9 million).

On 25 March 2013, the Company, through its wholly-owned subsidiary, AAIL, acquired additional interest in AirAsia Japan Co. Ltd ("JAA") of 24,500 ordinary shares, maintaining the Group's 49% interest in JAA for a consideration of JPY1,225 million (equivalent to RM41 million).

Subsequently, on 25 June 2013, the Company terminated the joint venture on JAA with ANA Holdings Inc ("ANA") by entering into a Termination Agreement with JAA and ANA. The total amount of the issued and paid-up share capital of JAA is JPY5,000 million. The Company had subscribed, through AAIL, 25,120 voting shares and 23,880 non-voting shares at JPY50,000 per share, representing 49% of the paid-up share capital in JAA. The shares were disposed to ANA for a consideration of JPY2,450 million (equivalent to RM78.3 million). The resulting gain from the disposal recognised during the financial year was RM78.3 million.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>Group</u>		<u>Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
<u>Non-current</u>				
At 1 January	308,792	152,942	295,982	152,942
Reclassified from investments in associates (Note 15)	-	12,810	-	-
Additions	-	32,756	-	32,756
Fair value gain – recognised in other comprehensive income	265,788	110,284	265,788	110,284
Impairment loss charged for the year (Note 6)	(2,685)	-	-	-
At 31 December	<u>571,895</u>	<u>308,792</u>	<u>561,770</u>	<u>295,982</u>

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

The Company had in the previous financial year subscribed 42,666,667 Redeemable Convertible Preference Shares Series 1 of RM1.00 each ("RCPS") in AAX. On 10 May 2013, the Company converted the said 42,666,667 RCPS, on one-to-one basis, into 42,666,667 new Ordinary Shares of RM1.00 each in the share capital of AAX in accordance with the terms of the RCPS, without further consideration.

17 GOODWILL

	<u>Group</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
<u>Cost</u>		
At 1 January and 31 December	<u>7,334</u>	<u>7,334</u>

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

	<u>Group</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
<u>Cost</u>		
AirAsia Investment Ltd	<u>7,334</u>	<u>7,334</u>
	<u>7,334</u>	<u>7,334</u>

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18 DEFERRED TAXATION

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Deferred tax assets	381,195	361,396	381,195	361,396

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
At start of financial year	361,396	516,100	361,396	516,151
(Charged)/credited to income statements (Note 10)				
- Property, plant and equipment	(68,100)	(241,753)	(68,100)	(241,804)
- Tax incentives	88,267	87,049	88,267	87,049
- Tax losses	(368)	-	(368)	-
	19,799	(154,704)	19,799	(154,755)
At end of financial year	381,195	361,396	381,195	361,396
Deferred tax assets (before offsetting)				
Tax incentives	1,172,799	1,084,532	1,172,799	1,084,532
Tax losses	8,803	9,171	8,803	9,171
	1,181,602	1,093,703	1,181,602	1,093,703
Offsetting	(800,407)	(732,307)	(800,407)	(732,307)
Deferred tax assets (after offsetting)	381,195	361,396	381,195	361,396

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

18 DEFERRED TAXATION (CONTINUED)

	<u>2013</u>	<u>Group</u> <u>2012</u>	<u>2013</u>	<u>Company</u> <u>2012</u>
	RM'000	RM'000	RM'000	RM'000
Deferred tax liabilities (before offsetting)				
Property, plant and equipment	(800,407)	(732,307)	(800,407)	(732,307)
Offsetting	800,407	732,307	800,407	732,307
Deferred tax liabilities (after offsetting)	-	-	-	-

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

19 RECEIVABLES AND PREPAYMENTS

	31.12.2013		31.12.2012		1.1.2012	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
		(restated)	(restated)		(restated)	(restated)
<u>Non-current:</u>						
Trade receivables	28,141	28,141	-	28,141	28,141	-
Less: Allowance for impairment	(3,697)	-	-	(3,697)	-	-
	24,444	28,141	-	24,444	28,141	-
Prepayments	695,538	456,487	248,724	695,538	456,487	248,724
Deposits for maintenance of aircraft	70,595	64,014	50,352	70,595	64,014	50,352
Other deposits	58,996	64,773	76,975	58,996	64,773	76,975
	<u>847,573</u>	<u>613,415</u>	<u>376,051</u>	<u>847,573</u>	<u>613,415</u>	<u>376,051</u>
<u>Current:</u>						
Trade receivables	129,341	97,774	123,269	115,326	84,690	107,930
Less: Allowance for impairment	(3,316)	(1,458)	(1,458)	(3,316)	(1,458)	(1,458)
	126,025	96,316	121,811	112,010	83,232	106,472
Other receivables	197,346	160,057	143,746	174,868	139,741	130,623
Less: Allowance for impairment	(14,917)	(1,608)	(1,608)	(12,435)	(1,608)	(1,608)
	182,429	158,449	142,138	162,433	138,133	129,015
Prepayments	276,628	278,043	239,267	276,487	278,041	239,126
Deposits – cash collateral for derivatives	122,142	228,279	238,489	122,142	228,279	238,489
Other deposits	24,282	12,733	7,567	24,164	12,855	7,520
	<u>731,506</u>	<u>771,820</u>	<u>749,272</u>	<u>697,236</u>	<u>738,340</u>	<u>720,622</u>

Credit terms of trade receivables range from 30 to 60 days (31.12.2012: 30 to 60 days; 1.1.2012: 30 to 60 days).

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

19 RECEIVABLES AND PREPAYMENTS (CONTINUED)

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

Receivables that are neither past due nor impaired of RM223,802,000 and RM189,791,000 (2012: RM248,097,000 and RM214,697,000) 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 RM166,092,000 (2012: RM99,582,000) for the Group and Company. These are related to a number of independent customers which have no recent history of default. The ageing analysis of these receivables that are past due but not impaired is as follows:

	<u>Group and Company</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
1 to 90 days	70,621	20,786
91 to 120 days	5,729	8,066
121 to 180 days	58,083	28,344
181 to 365 days	3,466	6,769
Over 365 days	3,748	7,476
	<u>141,648</u>	<u>71,441</u>

Receivables that are past due but not impaired included in non-current asset at the balance sheet date relates to an amount due from a customer of RM24,444,000 (2012: RM28,141,000) for which arbitration proceedings is currently ongoing. However, the Directors of the Company have assessed the recoverability of the amount and is of the view that the balance of RM24,444,000 is recoverable.

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

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

	<u>Group</u>		<u>Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
Over 365 days	21,930	3,066	19,448	3,066
Less: Allowance for Impairment	(21,930)	(3,066)	(19,448)	(3,066)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

19 RECEIVABLES AND PREPAYMENTS (CONTINUED)

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
At 1 January	3,066	3,066	3,066	3,066
Impairment (Note 6)	18,864	-	16,382	-
At 31 December	<u>21,930</u>	<u>3,066</u>	<u>19,448</u>	<u>3,066</u>

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

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

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

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Ringgit Malaysia	151,375	50,701	151,323	50,701
US Dollar	160,880	453,959	126,803	420,481
Others	294,658	146,045	294,658	146,045
	<u>606,913</u>	<u>650,705</u>	<u>572,784</u>	<u>617,227</u>

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

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

20 DEPOSITS ON AIRCRAFT PURCHASE

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

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21 AMOUNTS DUE FROM/(TO) ASSOCIATES

	Group			Company		
	31.12.2013 RM'000	31.12.2012 RM'000 (restated)	1.1.2012 RM'000 (restated)	31.12.2013 RM'000	31.12.2012 RM'000 (restated)	1.1.2012 RM'000 (restated)
Amounts due from associates						
- current	738,735	356,874	289,492	689,372	331,407	289,492
- non-current	559,190	449,578	513,614	478,564	449,578	513,614
	<u>1,297,925</u>	<u>806,452</u>	<u>803,106</u>	<u>1,167,936</u>	<u>780,985</u>	<u>803,106</u>
Amount due to an associate						
- current	(467)	-	(4,444)	(467)	(13,553)	(4,444)
- non-current	(60,859)	(54,499)	-	(60,859)	(54,499)	-
	<u>(61,326)</u>	<u>(54,499)</u>	<u>(4,444)</u>	<u>(61,326)</u>	<u>(68,052)</u>	<u>(4,444)</u>
	<u>1,236,599</u>	<u>751,953</u>	<u>798,662</u>	<u>1,106,610</u>	<u>712,933</u>	<u>798,662</u>

Amounts due from associates include an amount of RM465,206,000 (31.12.2012: RM495,855,000, 1.1.2012: RM565,965,000) relating to advances to PT Indonesia AirAsia ("IAA") for purchase of aircraft in 2011 for the financing of aircraft purchase and are repayable over a term of up to 9 years at interest rates between 6.16% to 6.85% per annum. From this amount of RM465,206,000, RM413,676,000 (31.12.2012: RM449,578,000, 1.1.2012: RM513,614,000) is repayable after 12 months. The Company holds the aircraft as collateral. Other amounts due from associates were charged interest at 6% per annum with effect from 1 January 2010.

Advance to associate amounting to RM64.9 million (31.12.2012: Nil, 1.12.2012: Nil) is exclusively to fund the operations of Zest Airways Inc, which will be repayable from the drawdown date without need of demand. The advance is subject to pro-rated interest of 6% per annum, compounded monthly on the principal, payable on the final and full payment of the principal.

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21 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 RM972,189,000 and RM842,489,000 (31.12.2012: RM719,369,000 and RM693,902,000, 1.1.2012: RM695,336,000 and RM695,336,000) respectively.

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

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

Amounts due from associates of the Group and Company that are past due but not impaired amounted to RM325,736,000 and RM325,447,000 respectively (31.12.2012: RM87,083,000, 1.1.2012: RM107,770,000). The ageing analysis of these amounts is as follows:

	Group			Company		
	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000
Up to 3 months	141,907	87,083	106,776	141,937	87,083	106,776
Over 3 months	183,829	-	994	183,510	-	994
	<u>325,736</u>	<u>87,083</u>	<u>107,770</u>	<u>325,447</u>	<u>87,083</u>	<u>107,770</u>

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

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

	Group			Company		
	31.12.2013 RM'000	31.12.2012 RM'000 (restated)	1.1.2012 RM'000 (restated)	31.12.2013 RM'000	31.12.2012 RM'000 (restated)	1.1.2012 RM'000 (restated)
Amounts due from associates						
- US Dollar	1,297,925	804,774	803,106	1,167,936	779,307	803,106
- Philippines Peso	-	1,678	-	-	1,678	-
	<u>1,297,925</u>	<u>806,452</u>	<u>803,106</u>	<u>1,167,936</u>	<u>780,985</u>	<u>803,106</u>
Amount due to an associate						
- Singapore Dollar	-	-	(4,444)	-	-	(4,444)
- US Dollar	(61,326)	(54,499)	-	(61,326)	(68,052)	-
	<u>(61,326)</u>	<u>(54,499)</u>	<u>(4,444)</u>	<u>(61,326)</u>	<u>(68,052)</u>	<u>(4,444)</u>
	<u>1,236,599</u>	<u>751,953</u>	<u>798,662</u>	<u>1,106,610</u>	<u>712,933</u>	<u>798,662</u>

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22 DERIVATIVE FINANCIAL INSTRUMENTS

	2013		Group and Company 2012	
	Assets RM'000	Liabilities RM'000	Assets RM'000	Liabilities RM'000
<u>Non-current</u>				
Interest rate swaps				
– cash flow hedges	17,266	(195,490)	-	(368,984)
Interest rate swaps				
– held for trading	-	(56,278)	-	(95,463)
Interest rate caps				
– held for trading	4,570	-	2,364	-
Forward foreign exchange				
contracts – cash flow hedges	182,307	-	34,125	(39,782)
Forward foreign exchange				
contracts – held for trading	31,522	-	1,184	(5,979)
Total	235,665	(251,768)	37,673	(510,208)
<u>Current</u>				
Interest rate swaps				
– held for trading	-	(29,309)	-	(29,950)
Forward foreign exchange				
contracts – held for trading	1,282	(236)	-	(5,469)
Commodity derivatives				
– cash flow hedges	1,891	-	-	-
Total	3,173	(29,545)	-	(35,419)

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.

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22 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	2013		2012	
	Notional amount RM'000	Fair value RM'000	Notional amount RM'000	Fair value RM'000
Interest rate caps	357,569	4,570	371,746	2,364
Interest rate swaps	3,467,775	(263,811)	4,090,465	(494,397)
Cross currency interest rate swaps	151,869	1,225	158,540	(14,238)
Forward foreign exchange contracts	3,224,321	213,650	3,664,530	(1,683)
Commodity derivatives	77,328*	1,891	-	-

*: in barrels

(i) Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2013 were RM3.376 billion (2012: RM3.823 billion).

As at 31 December 2013, the Group has hedged approximately 54% (2012: 59%) of its USD liabilities pertaining to its aircraft, engine and simulator loans into Malaysian Ringgit ("RM") by using long dated foreign exchange forward contracts to manage its foreign currency risk. The latest weighted average of USD:RM forward exchange rate is 3.2239 (2012: 3.2245). Gains and losses recognised in the hedging reserve in equity on hedging instruments as of 31 December 2013 will be continuously released to the income statement within foreign exchange gains/(losses) on borrowings until the full repayment of the term loans (refer Note 29 to the financial statements).

(ii) Interest rate hedging

The notional principal amounts of the outstanding interest rate contracts at 31 December 2013 were RM3.825 billion (2012: RM4.462 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 2013. As at 31 December 2013, the Group has hedged RM895.5 million (2012: RM935.0 million) of its existing aircraft loans at rates from 1.80% to 5.20% per annum (2012: 1.80% to 5.20% per annum) via interest rate swaps, interest rate caps and cross-currency swaps. As at 31 December 2013, the Group has hedged RM2.199 billion (2012: RM2.124 billion) of the term loans and RM734.0 million (2012: RM735.6 million) of the finance lease liabilities (Note 29). Gains and losses recognised in the hedging reserve in equity on hedging instruments as of 31 December 2013 will be continuously released to the income statement within finance cost until the full repayment of the term loans (refer Note 29 to the financial statements).

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

22 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(iii) Fuel contracts

The outstanding number of barrels of Singapore Jet Kerosene derivative contracts at 31 December 2013 was 77,328 barrels (2012: Nil).

As at 31 December 2013, the Group has entered into Singapore Jet Kerosene fixed swap which represents up to 7% (2012: Nil) of the Group's total expected fuel volume for the first half of 2014. 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 fuel contracts as of 31 December 2013 are recognised in the income statement in the period or periods during which the hedged forecast transactions affects the income statement.

23 INVENTORIES

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Consumables	27,922	16,950	27,922	16,950
In-flight merchandise and others	1,598	6,775	1,598	6,775
	<u>29,520</u>	<u>23,725</u>	<u>29,520</u>	<u>23,725</u>

24 AMOUNTS DUE FROM SUBSIDIARIES AND RELATED PARTIES

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

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

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Ringgit Malaysia	2,164	1,282	15,462	26,656
US Dollar	3,949	-	181,771	149,356
	<u>6,113</u>	<u>1,282</u>	<u>197,233</u>	<u>176,012</u>

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25 AMOUNTS DUE FROM/(TO) JOINT VENTURES

	<u>Group</u>		<u>Company</u>	
	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>2013</u> RM'000	<u>2012</u> RM'000
Amounts due from joint ventures	33,703	10,765	11,431	3,066
Amount due to a joint venture	-	-	(151)	-
	<u>33,703</u>	<u>10,765</u>	<u>11,280</u>	<u>3,066</u>

Amounts due from/(to) joint ventures are unsecured and have no fixed terms of repayment.

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

	<u>Group</u>		<u>Company</u>	
	<u>2013</u> RM'000	<u>2012</u> RM'000	<u>2013</u> RM'000	<u>2012</u> RM'000
Amounts due from joint ventures:				
- Ringgit Malaysia	1,604	3,066	1,604	3,066
- US Dollar	9,827	-	9,827	-
- Singapore Dollar	22,272	7,699	-	-
	<u>33,703</u>	<u>10,765</u>	<u>11,431</u>	<u>3,066</u>
Amounts due to a joint venture:				
- US Dollar	-	-	(151)	-
	<u>-</u>	<u>-</u>	<u>(151)</u>	<u>-</u>
	<u>33,703</u>	<u>10,765</u>	<u>11,280</u>	<u>3,066</u>

Company No.	
284669	W

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

26 CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Cash and bank balances	1,191,123	1,552,043	1,120,981	1,489,408
Deposits with licensed banks	189,312	571,425	185,945	568,328
Short term deposits with fund management companies	-	109,263	-	109,263
Deposits, cash and bank balances	1,380,435	2,232,731	1,306,926	2,166,999
Less: Deposits pledged as securities	(14,416)	(13,488)	(14,416)	(13,488)
Less: Restricted cash	(171,529)	-	(171,529)	-
	<u>1,194,490</u>	<u>2,219,243</u>	<u>1,120,981</u>	<u>2,153,511</u>

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Ringgit Malaysia	145,227	989,551	141,425	986,161
US Dollar	188,148	203,848	118,498	141,550
Singapore Dollar	26,535	133,847	26,483	133,812
Australian Dollar	25,687	118,736	25,687	118,736
Chinese Renminbi	910,944	419,699	910,944	419,699
Hong Kong Dollar	12,217	32,529	12,216	32,529
India Rupee	21,422	116,547	21,422	116,547
Thai Baht	3,911	5,788	3,907	5,783
Indonesian Rupiah	9,807	144,678	9,807	144,678
Brunei Dollar	3,020	10,557	3,020	10,557
Euro	10,192	2,749	10,192	2,748
Phillippine Peso	2,270	6,439	2,270	6,439
Vietnamese Dong	8,952	28,107	8,952	28,107
British Pound	5,639	9,766	5,639	9,763
Others	6,464	9,890	6,464	9,890
	<u>1,380,435</u>	<u>2,232,731</u>	<u>1,306,926</u>	<u>2,166,999</u>

The deposits with licensed banks of the Group and Company amounting to RM14,416,000 (2012: RM13,488,000) are pledged as securities for banking facilities granted to the Group and Company (Note 29).

Restricted cash was in relation to a cash deposit pledged for the Group's and Company's revolving credit as at 31 December 2013 (Note 29).

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

26 CASH AND CASH EQUIVALENTS (CONTINUED)

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

	Group		Company	
	2013 %	2012 %	2013 %	2012 %
Deposits with licensed banks	3.23	3.00	3.23	3.00
Short term deposits with fund management companies	-	2.80	-	2.80

27 TRADE AND OTHER PAYABLES

	Group			Company		
	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000
<u>Non-current:</u>						
Aircraft maintenance accruals	918,864	628,917	409,628	918,864	628,917	409,628
<u>Current:</u>						
Trade payables	71,899	85,134	81,268	37,841	42,652	57,428
Accrual for fuel	224,239	165,973	162,577	224,239	165,973	162,577
Other payables and accruals	448,860	435,041	483,759	398,229	429,382	473,430
	744,998	666,148	727,604	660,309	638,007	693,435

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

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

	Group			Company		
	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000	31.12.2013 RM'000	31.12.2012 RM'000	1.1.2012 RM'000
RM	451,680	107,439	525,939	412,672	107,439	525,939
USD	1,106,327	1,131,763	583,942	1,081,068	1,103,622	549,773
Others	105,855	55,863	27,351	85,432	55,863	27,351
	1,663,862	1,295,065	1,137,232	1,579,173	1,266,924	1,103,063

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28 AMOUNTS DUE TO A SUBSIDIARY AND A RELATED PARTY

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

29 BORROWINGS

	<u>Weighted average rate of finance</u>		<u>Group and Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	%	%	RM'000	RM'000
<u>Current:</u>				
<u>Secured</u>				
Term loans	4.21	4.42	853,314	637,860
Finance lease liabilities	5.68	5.67	66,407	58,193
Commodity Murabahah				
Finance	5.31	4.95	35,940	10,101
Sukuk	-	4.85	-	420,000
Revolving credit	2.07	-	163,776	-
			<u>1,119,436</u>	<u>1,126,154</u>
<u>Non-current:</u>				
<u>Secured</u>				
Term loans	4.21	4.42	7,903,560	6,446,740
Finance lease liabilities	5.68	5.67	744,420	757,060
Commodity Murabahah				
Finance	5.31	4.95	403,436	79,385
			<u>9,051,416</u>	<u>7,283,185</u>
Total borrowings			<u>10,170,852</u>	<u>8,409,339</u>

The borrowings are repayable as follows:

	<u>Group and Company</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Not later than 1 year	1,119,436	1,126,154
Later than 1 year and not later than 5 years	4,656,400	3,180,247
Later than 5 years	4,395,016	4,102,938
	<u>10,170,852</u>	<u>8,409,339</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

29 BORROWINGS (CONTINUED)

The currency profile of borrowings is as follows:

	<u>Group and Company</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Ringgit Malaysia	1,002,151	509,486
US Dollar	8,821,446	7,562,154
Euro	136,757	122,536
Singapore Dollar	210,498	215,163
	<u>10,170,852</u>	<u>8,409,339</u>

Total borrowings as at 31 December 2013 consist of the following banking facilities:

	<u>Group and Company</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Fixed rate borrowings	6,144,416	5,775,592
Floating rate borrowings	4,026,436	2,633,747
	<u>10,170,852</u>	<u>8,409,339</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

29 BORROWINGS (CONTINUED)

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

	2013		Group and Company	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Term loans	5,041,987	4,902,838	4,921,489	4,524,275
Finance lease liabilities	113,284	111,502	123,003	115,431
Commodity Murabahah Finance	403,436	397,280	79,385	75,002
	<u>5,558,707</u>	<u>5,411,620</u>	<u>5,123,877</u>	<u>4,714,708</u>

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

The fair values of the non-current fixed rate borrowings are based on cash flows discounted using borrowing rates that are reflective of the Group and Company's credit risk at the balance sheet date, at 5.28% to 5.84% (2012: 5.07% to 5.67%) per annum. The fair values of non-current borrowings are within level 3 of the fair value hierarchy.

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

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

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

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30 SHARE CAPITAL

	<u>Group and Company</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
<u>Authorised:</u>		
Ordinary shares of RM0.10 each:		
At beginning and end of the financial year	500,000	500,000
<u>Issued and fully paid up:</u>		
Ordinary shares of RM0.10 each:		
At beginning of the financial year	277,991	277,809
Issued during the financial year	115	182
At end of the financial year	278,106	277,991

During the financial year, the Company increased its issued and paid-up ordinary share capital from RM277,990,658 to RM278,106,258 by way of issuance of 1,156,000 ordinary shares of RM0.10 each pursuant to the exercise of the Employee Share Option Scheme ("ESOS") at an exercise price of RM1.08 per share. The premium arising from the exercise of ESOS of RM1,132,880, has been credited to the Share Premium account.

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

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

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

EMPLOYEE SHARE OPTION SCHEME ("ESOS")

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

30 SHARE CAPITAL (CONTINUED)

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

The main features of the ESOS are as follows:

- (a) The maximum number of ordinary shares, which may be allotted pursuant to the exercise of options under the Scheme, shall not exceed ten per cent (10.0%) of the issued and paid-up share capital of the Company at any point in time during the duration of the Scheme.
- (b) The Option Committee may from time to time decide the conditions of eligibility to be fulfilled by an Eligible Person in order to participate in the Scheme.
- (c) The aggregate number of shares to be offered to any Eligible Person who has fulfilled the eligibility criteria for the time being by way of options in accordance with the Scheme shall be at the discretion of the Option Committee. The Option Committee may consider circumstances such as the Eligible Person's scope of responsibilities, performance in the Group, rank or job grade, the number of years of service that the Eligible Person has rendered to the Group, the Group's retention policy and whether the Eligible Person is serving under an employment contract for a fixed duration or otherwise. The Option Committee's decision shall be final and binding.
- (d) The maximum number of shares allocated to Executive Directors, Non-Executive Directors and senior management by way of options shall in aggregate not exceed fifty per cent (50.0%) of the total number of shares (or such other percentage as may be permitted by the relevant regulatory authorities from time to time) available under the Scheme.
- (e) The subscription price, in respect of options granted prior to the date of listing in Bursa Malaysia, shall be RM1.08 per share.
- (f) The options granted are exercisable one year beginning from the date of grant.

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

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

At 31 December 2013, options to subscribe for 2,583,900 (2012: 3,739,000) ordinary shares of RM0.10 each at the exercise price of RM1.08 per share remain unexercised. These options granted do not confer any right to participate in any share issue of any other company.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

30 **SHARE CAPITAL (CONTINUED)**

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

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

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price</u> RM/share	<u>At</u> <u>1.1.2013</u> '000	<u>Granted</u> '000	<u>Exercised</u> '000	<u>Lapsed</u> '000	<u>At</u> <u>31.12.2013</u> '000
1 September 2004	6 June 2014	1.08	3,739	-	(1,156)	-	2,583

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

	<u>2013</u> '000	<u>2012</u> '000
Number of share options vested at balance sheet date	2,583	3,739

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

<u>Exercise date</u>	<u>Quoted price</u> <u>of shares</u> <u>at share</u> <u>issue date</u> RM/share	<u>Exercise price</u> RM/share	<u>Number</u> <u>of shares</u> <u>issued</u> '000
January 2013 to March 2013	2.42 – 2.87	1.08	600
April 2013 to June 2013	2.77 – 3.54	1.08	34
July 2013 to September 2013	2.44 – 3.25	1.08	456
October 2013 to December 2013	2.18 – 2.97	1.08	66
			<u>1,156</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

30 SHARE CAPITAL (CONTINUED)

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

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

	<u>2013</u> RM'000	<u>2012</u> RM'000
Ordinary share capital at par	115	182
Share premium	1,133	1,785
	<u>1,248</u>	<u>1,967</u>
Proceeds received on exercise of share options	1,248	1,967
	<u>3,286</u>	<u>6,413</u>
Fair value at exercise date of shares issued	3,286	6,413

31 RETAINED EARNINGS

As at 31 December 2013, the Company does not have any Section 108 tax credits and has therefore automatically moved to the single-tier tax system, which came into effect from the year of assessment 2008, under which 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.

32 DIVIDENDS

Dividends declared or proposed by the Company are as follows:

	<u>2013</u>		<u>2012</u>	
	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 dividend paid in respect of the financial year ended 31 December 2012:				
Single-tiered Interim 'special' dividend of 18 sen per share	18.00	500,383	-	-
Single-tiered dividend of 6 sen per share (2012: 5.00 sen per share)	6.00	166,831	5.00	138,957
	<u>24.00</u>	<u>667,214</u>	<u>5.00</u>	<u>138,957</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

33 COMMITMENTS AND OPERATING LEASES

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

	<u>Group and Company</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Property, plant and equipment:		
- Approved and contracted for	55,515,081	51,144,087
- Approved but not contracted for	12,988,262	13,756,500
	<u>68,503,343</u>	<u>64,900,587</u>

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

(b) Non-cancellable operating leases

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

	<u>Group and Company</u>			
	<u>2013</u>		<u>2012</u>	
	<u>Future</u>	<u>Future</u>	<u>Future</u>	<u>Future</u>
	<u>minimum</u>	<u>minimum</u>	<u>minimum</u>	<u>minimum</u>
	<u>lease</u>	<u>sublease</u>	<u>lease</u>	<u>sublease</u>
	<u>payments</u>	<u>receipts</u>	<u>payments</u>	<u>receipts</u>
	RM'000	RM'000	RM'000	RM'000
Not later than 1 year	202,338	760,328	198,800	591,550
Later than 1 year and not later than 5 years	790,787	2,958,635	795,200	2,236,713
Later than 5 years	733,926	2,750,514	1,036,015	2,670,361
	<u>1,727,051</u>	<u>6,469,477</u>	<u>2,030,015</u>	<u>5,498,624</u>

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

34 CONTINGENT LIABILITIES

At 31 December 2013 the Group and Company had contingent liabilities amounting to RM20.7 million (2012: RM Nil). Of the total, RM10.0 million relates to a fine imposed by the Malaysian Competition Commission, against which the Company intends to appeal to the Competition Appeal Tribunal, and RM10.7 million relates to a single customer claim against the Company which is subject to arbitration proceedings. Having considered legal advice the Directors are of the opinion that the possibility of outflow is not probable.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

35 SEGMENTAL INFORMATION

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

The Group's operations are conducted predominantly in Malaysia.

36 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

The related parties of the Company and their relationships at 31 December 2013 are as follows:

<u>Related companies</u>	<u>Relationship</u>
AirAsia Go Holiday Sdn Bhd	Subsidiary
AirAsia (Mauritius) Limited	Subsidiary
AirAsia Investment Limited	Subsidiary
Koolred Sdn Bhd	Subsidiary
AirAsia Global Shared Services Sdn Bhd	Subsidiary
AirAsia Philippines Inc	Associate
PT Indonesia AirAsia	Associate of a subsidiary
AirAsia Inc	Associate of a subsidiary
AirAsia Pte Limited	Associate of a subsidiary
Thai AirAsia Co. Ltd	Associate of a subsidiary
AirAsia Japan Co. Ltd	Associate of a subsidiary
AirAsia (India) Private Limited	Associate of a subsidiary
Zest Airways Inc	Subsidiary of an associate
Aslawlde Airways Inc	Subsidiary of an associate
AAE Travel Pte Ltd	Joint venture of a subsidiary
Asian Aviation Centre of Excellence Sdn Bhd	Joint venture
Think Big Digital Sdn Bhd	Joint venture
AirAsia X Berhad	Company with common directors and shareholders
AirAsia Asean Inc.	Common directors
Tune Money Sdn Bhd	Common directors

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

36 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
(a) <u>Income:</u>				
Aircraft operating lease income for owned and leased aircraft				
- Thai AirAsia Co. Ltd	333,618	310,553	333,618	310,553
- PT Indonesia AirAsia	257,045	184,323	257,045	184,323
- AirAsia Inc	30,435	26,012	30,435	26,012
- AirAsia Japan Co. Ltd	41,973	13,985	41,973	13,985
- Zest Airways Inc	2,770	-	2,770	-
Gain on disposal of aircraft to Thai AirAsia Co. Ltd	23,367	9,574	-	-
Services and fees charged to AirAsia X Berhad	15,376	14,149	15,376	14,149
Fees charged to associates providing commercial air transport services	54,751	-	54,751	-
(b) <u>Recharges:</u>				
Recharges of expenses to				
- Thai AirAsia Co. Ltd	66,241	70,943	66,241	70,943
- PT Indonesia AirAsia	306,196	107,005	306,196	107,005
- AirAsia Inc	10,267	15,337	10,267	15,337
- AirAsia Japan Co. Ltd	-	12,806	-	12,806
Recharges of expenses by				
- Thai AirAsia Co. Ltd	(11,494)	(11,502)	(11,494)	(11,502)

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

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

	<u>Group</u>		<u>Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
(c) <u>Other charges:</u>				
Maintenance reserve fund charged to				
- PT Indonesia Airasia	142,640	100,977	142,640	100,977
- Thai AirAsia Co. Ltd	145,631	117,357	145,631	117,357
- AirAsia Inc	13,638	6,543	13,638	6,543
- AirAsia Japan Co. Ltd	13,185	6,069	13,185	6,069
- Zest Airways Inc	580	-	580	-
Interest charges to				
- PT Indonesia AirAsia	12,758	49,417	12,758	49,417
- AirAsia Inc	5,357	1,590	5,357	1,590
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
(d) <u>Regional expenses receivable:</u>				
- AirAsia Asean Inc.	2,417	24,498	2,417	24,498
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
(e) <u>Key management compensation:</u>				
- basic salaries, bonus and allowances	18,046	22,939	17,007	22,939
- defined contribution plan	2,052	2,390	1,927	2,390
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>20,098</u>	<u>25,329</u>	<u>18,934</u>	<u>25,329</u>

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

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

	<u>Group</u>		<u>Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
		(restated)		(restated)
(f) Receivables:				
- AirAsia (Mauritius) Limited	-	-	88,641	77,321
- AirAsia Investment Limited	-	-	74,034	72,020
- Koolred Sdn Bhd	-	-	14,985	19,811
- AirAsia Global Shared Services Sdn Bhd	-	-	13,298	-
- AirAsia Go Holiday Sdn Bhd	-	-	-	5,563
- Thai AirAsia Co. Ltd	62,209	25,467	13,851	-
- Asian Aviation Centre of Excellence Sdn Bhd	9,461	3,066	9,461	3,066
- PT Indonesia AirAsia	850,246	706,635	849,590	706,635
- AirAsia Philippines Inc	-	1,678	-	1,678
- AirAsia Inc	366,280	40,525	285,623	40,525
- AirAsia Japan Co. Ltd	-	32,147	-	32,147
- AirAsia (India) Private Limited	664	-	664	-
- Zest Airways Inc	18,527	-	18,208	-
- AAE Travel Pte Ltd	22,274	7,699	-	-
- Think Big Digital Sdn Bhd	1,970	-	1,970	-
- Tune Money Sdn Bhd	1,401	-	1,401	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
(g) Payables:				
- AirAsia Go Holiday Sdn Bhd	-	-	10,185	-
- Thai AirAsia Co. Ltd	60,859	54,499	60,859	68,052
- AAE Travel Pte Ltd	-	-	151	-
- AirAsia X Berhad	15,145	12,639	15,145	12,639
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

37 **FINANCIAL RISK MANAGEMENT POLICIES**

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

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

(a) Market risk

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

(i) Fuel price risk

The Group and Company are exposed to jet fuel price risk arising from the fluctuations in the prices of jet fuel, and seek to hedge their fuel requirements using fuel swaps in order to address the risk of rising fuel prices (Note 22). As at 31 December 2013 there were no existing trades that would impact the post-tax profit for the year and equity. As at 31 December 2013, if USD denominated barrel had been USD5 higher/lower with all other variables held constant, the impact on the post-tax profit and equity for the year end are tabulated below:

	2013		2012	
	+USD5 RM'000	-USD5 RM'000	+USD5 RM'000	-USD5 RM'000
Impact on post tax profits	-	-	-	-
Impact on other comprehensive income	1,266	(1,266)	-	-

(ii) Interest rate risk

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

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

(a) Market risk (continued)

(i) Interest rate risk (continued)

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

As at 31 December 2013 and 31 December 2012, if interest rate on USD denominated borrowings had been 60 basis points higher/lower with all other variables held constant, the impact on the post-tax profit for the year and equity arising from the cash flow interest rate risk would be minimal, after considering the hedging of the floating rate loans (Note 22).

At 31 December 2013, if interest rate on USD denominated borrowings had been 60 basis points higher/lower with all other variables held constant, the impact on the post-tax profit for the financial year and equity, as a result of an increase/decrease in the fair value of the interest rate derivative financial instruments under cash flow hedges are tabulated below. 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:

	2013		2012	
	+60bps	-60bps	+60bps	-60bps
	RM'000	RM'000	RM'000	RM'000
Impact on post tax profits	21,235	(21,198)	24,969	(20,810)
Impact on other comprehensive income	79,873	(86,895)	116,294	(122,157)

The remaining terms of the outstanding interest rate derivative contracts of the Company at 31 December 2013, which are denominated in USD, are as follows:

	2013	2012
	RM'000	RM'000
<u>Later than 1 year but less than 5 years:</u>		
Interest rate swaps	584,553	15,172
<u>Later than 5 years:</u>		
Interest rate caps	357,569	371,746
Interest rate swaps	2,883,222	4,075,293
Cross currency interest rate swaps	151,869	158,540
	<u>3,977,213</u>	<u>4,620,751</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(a) Market risk (continued)

(iii) Foreign currency risk

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

For the USD denominated borrowings, 54% of these are hedged by long dated foreign exchange forward contracts to manage the foreign currency risk (Note 22).

As at 31 December 2013, if RM had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax profit for the financial year would have been RM242.3 million (2012: RM191.1 million) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD denominated receivables and borrowings (term loan and finance lease). Similarly, the impact on other comprehensive income would have been RM18.5 million (2012: RM20.0 million) higher/lower due to the cash flow hedging in USD. The exposure to other foreign currency risk of the Group is not material and hence, sensitivity analysis is not presented.

The Group's currency exposure is as follows:

At 31 December 2013	USD RM'000	AUD RM'000	SGD RM'000	RMB and HKD RM'000	Others RM'000
Financial assets					
Receivables	180,880	9,009	52,923	8,833	223,893
Amounts due from associates	1,297,925	-	-	-	-
Amounts due from joint ventures	9,827	-	22,272	-	-
Derivative financial instruments	238,838	-	-	-	-
Amount due from a related party	3,949	-	-	-	-
Deposits, cash and bank balances	188,148	25,687	26,535	923,161	71,677
	<u>1,898,567</u>	<u>34,696</u>	<u>101,730</u>	<u>931,994</u>	<u>295,570</u>
Financial liabilities					
Trade and other payables	187,463	4,267	21,710	39,339	40,539
Amount due to an associate	61,326	-	-	-	-
Borrowings	6,821,446	-	210,498	-	136,757
Derivative financial instruments	281,313	-	-	-	-
	<u>8,351,548</u>	<u>4,267</u>	<u>232,208</u>	<u>39,339</u>	<u>177,296</u>
Net exposure	<u>(7,451,981)</u>	<u>30,429</u>	<u>(130,478)</u>	<u>892,655</u>	<u>118,274</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

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

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

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

The Group's currency exposure is as follows: (continued)

<u>At 31 December 2012</u>	<u>USD</u>	<u>AUD</u>	<u>SGD</u>	<u>RMB and HKD</u>	<u>Others</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Financial assets</u>					
Receivables	453,959	-	-	-	146,045
Amounts due from associates	804,774	-	-	-	1,678
Amount due from a joint venture	-	-	7,699	-	-
Derivative financial instruments	37,673	-	-	-	-
Deposits, cash and bank balances	203,848	118,736	133,847	452,228	334,521
	<u>1,500,254</u>	<u>118,736</u>	<u>141,546</u>	<u>452,228</u>	<u>482,244</u>
<u>Financial liabilities</u>					
Trade and other payables	502,846	-	-	-	55,863
Amount due to an associate	54,499	-	-	-	-
Borrowings	7,562,154	-	215,163	-	122,536
Derivative financial instruments	545,627	-	-	-	-
	<u>8,665,126</u>	<u>-</u>	<u>215,163</u>	<u>-</u>	<u>178,399</u>
Net exposure	<u>(7,164,872)</u>	<u>118,736</u>	<u>(73,617)</u>	<u>452,228</u>	<u>303,845</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

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

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

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

The Company's currency exposure is as follows:

<u>At 31 December 2013</u>	<u>USD</u> RM'000	<u>AUD</u> RM'000	<u>SGD</u> RM'000	<u>RMB and HKD</u> RM'000	<u>Others</u> RM'000
<u>Financial assets</u>					
Receivables	126,803	9,009	52,923	8,833	223,893
Amounts due from subsidiaries	177,822	-	-	-	-
Amounts due from associates	1,167,936	-	-	-	-
Amounts due from joint ventures	9,827	-	-	-	-
Amount due from related parties	3,949	-	-	-	-
Derivative financial instruments	238,838	-	-	-	-
Deposits, cash and bank balances	118,498	25,687	26,483	923,160	71,673
	<u>1,843,673</u>	<u>34,696</u>	<u>79,406</u>	<u>931,993</u>	<u>295,566</u>
<u>Financial liabilities</u>					
Trade and other payables	162,205	4,267	1,291	39,339	40,535
Amounts due to joint ventures	151	-	-	-	-
Amount due to an associate	61,326	-	-	-	-
Borrowings	8,821,446	-	210,498	-	136,757
Derivative financial instruments	281,313	-	-	-	-
	<u>9,326,441</u>	<u>4,267</u>	<u>211,789</u>	<u>39,339</u>	<u>177,292</u>
Net exposure	<u>(7,482,768)</u>	<u>30,429</u>	<u>(132,383)</u>	<u>892,654</u>	<u>118,274</u>
<u>At 31 December 2012</u>					
<u>Financial assets</u>					
Receivables	420,481	-	-	-	146,045
Amounts due from subsidiaries	149,356	-	-	-	-
Amounts due from associates	779,307	-	-	-	1,678
Derivative financial instruments	37,873	-	-	-	-
Deposits, cash and bank balances	141,550	118,736	133,812	452,228	334,512
	<u>1,528,367</u>	<u>118,736</u>	<u>133,812</u>	<u>452,228</u>	<u>482,235</u>
<u>Financial liabilities</u>					
Trade and other payables	474,705	-	-	-	55,863
Amount due to an associate	68,052	-	-	-	-
Borrowings	7,562,164	-	215,163	-	122,536
Derivative financial instruments	545,627	-	-	-	-
	<u>8,650,538</u>	<u>-</u>	<u>215,163</u>	<u>-</u>	<u>178,399</u>
Net exposure	<u>(7,122,171)</u>	<u>118,736</u>	<u>(81,351)</u>	<u>452,228</u>	<u>303,836</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit risk

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

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

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

The Group generally has no concentration of credit risk arising from trade receivables, except as disclosed in Note 19 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

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

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

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

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

<u>Group</u>	<u>Less than 1 year RM'000</u>	<u>1 - 2 years RM'000</u>	<u>2-5 years RM'000</u>	<u>Over 5 years RM'000</u>
<u>At 31 December 2013</u>				
Term loans	1,212,470	1,208,055	3,999,315	4,119,772
Finance lease liabilities	111,684	112,289	367,112	472,644
Commodity Murabahah				
Finance	58,857	57,844	167,940	321,749
Revolving credit	167,043	-	-	-
Trade and other payables	744,998	-	-	-
Amount due to an associate	467	-	-	60,859
Amount due to a related party	15,145	-	-	-
	<u>2,310,664</u>	<u>1,378,188</u>	<u>4,534,367</u>	<u>4,975,024</u>
<u>At 31 December 2012</u>				
Term loans	936,603	933,049	2,816,548	3,838,064
Finance lease liabilities	103,748	104,279	316,366	572,529
Commodity Murabahah				
Finance	14,353	14,391	43,478	35,350
Sukuk	430,185	-	-	-
Trade and other payables	666,148	-	-	-
Amount due to an associate	-	-	-	54,499
Amount due to a related party	12,639	-	-	-
	<u>2,163,676</u>	<u>1,051,719</u>	<u>3,176,412</u>	<u>4,500,442</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

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

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

<u>Company</u>	<u>Less than 1 year RM'000</u>	<u>1 – 2 years RM'000</u>	<u>2-5 years RM'000</u>	<u>Over 5 years RM'000</u>
<u>At 31 December 2013</u>				
Term loans	1,212,470	1,208,055	3,999,315	4,119,772
Finance lease liabilities	111,684	112,289	367,112	472,644
Commodity Murabahah				
Finance	58,857	57,844	167,940	321,749
Revolving credit	167,043	-	-	-
Trade and other payables	660,309	-	-	-
Amount due to joint ventures	151	-	-	-
Amount due to associates	467	-	-	60,859
Amount due to a related party	15,145	-	-	-
	<u>2,226,126</u>	<u>1,378,188</u>	<u>4,534,367</u>	<u>4,975,024</u>
<u>Company</u>				
<u>At 31 December 2012</u>				
Term loans	936,603	933,049	2,816,548	3,838,064
Finance lease liabilities	103,748	104,279	316,386	572,529
Commodity Murabahah				
Finance	14,353	14,391	43,478	35,350
Sukuk	430,185	-	-	-
Trade and other payables	638,007	-	-	-
Amount due to an associate	13,553	-	-	54,499
Amount due to a related party	12,639	-	-	-
	<u>2,149,088</u>	<u>1,051,719</u>	<u>3,176,412</u>	<u>4,500,442</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

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

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

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

	Less than <u>1 year</u> RM'000	<u>1 – 2 years</u> RM'000	<u>2-5 years</u> RM'000	<u>Over 5 years</u> RM'000
<u>Group and Company</u>				
<u>At 31 December 2013</u>				
Net-settled derivatives				
Trading	29,341	24,638	31,176	1,551
Hedging	68,052	57,138	70,350	2,614
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Gross-settled derivatives				
Trading – outflow	46,579	-	-	-
Trading – inflow	(45,751)	-	-	-
Hedging – outflow	-	-	-	-
Hedging – inflow	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>At 31 December 2012</u>				
Net-settled derivatives				
Trading	29,967	26,642	53,415	15,508
Hedging	96,560	90,421	169,949	15,508
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Gross-settled derivatives				
Trading – outflow	97,055	94,184	242,657	245,157
Trading – inflow	(90,618)	(87,932)	(226,500)	(229,167)
Hedging – outflow	121,710	121,455	404,485	438,867
Hedging – inflow	(112,424)	(112,188)	(372,849)	(404,578)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

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

(d) Capital risk management

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

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

The Group's overall strategy remains unchanged from 2012.

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

The gearing ratio as at 31 December 2013 and 31 December 2012 was as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Total borrowings (Note 29)	10,170,852	8,409,339	10,170,852	8,409,339
Less: Cash and cash equivalents (Note 26)	(1,380,435)	(2,232,731)	(1,306,926)	(2,166,999)
Net debt	8,790,417	6,176,608	8,863,926	6,242,340
Total equity attributable to equity holders of the Company	5,000,932	4,860,369	4,894,156	4,731,141
	<u>13,791,349</u>	<u>11,036,977</u>	<u>13,558,082</u>	<u>10,973,481</u>
Gearing ratio	63.7%	56.0%	65.4%	56.9%

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2013 and 31 December 2012.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

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

(e) Fair value measurement

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

Determination of fair value and fair value hierarchy

The Group's financial instruments are measured in the statement of financial position at fair value. Disclosure of fair value measurements are by level of the following fair value measurement hierarchy:

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

The following table presents the Group and Company's assets and liabilities that are measured at fair value at 31 December 2013, 31 December 2012.

	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>Group</u>				
<u>31 December 2013</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	37,374	-	37,374
Derivatives used for hedging	-	201,464	-	201,464
Available-for-sale financial assets				
- Equity securities	561,770	-	10,125	571,895
	<u>561,770</u>	<u>238,838</u>	<u>10,125</u>	<u>810,733</u>
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	85,823	-	85,823
Derivatives used for hedging	-	195,490	-	195,490
	-	<u>281,313</u>	-	<u>281,313</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) Fair value measurement (continued)

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
<u>Group (continued)</u>				
<u>31 December 2012</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	3,548	-	3,548
Derivatives used for hedging	-	34,125	-	34,125
Available-for-sale financial assets				
- Equity securities	-	-	308,792	308,792
	-	37,673	308,792	346,465
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	136,861	-	136,861
Derivatives used for hedging	-	408,766	-	408,766
	-	545,627	-	545,627
<u>Company</u>				
<u>31 December 2013</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	37,374	-	37,374
Derivatives used for hedging	-	201,464	-	201,464
Available-for-sale financial assets				
- Equity securities	561,770	-	-	561,770
	561,770	238,838	-	800,608
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	85,823	-	85,823
Derivatives used for hedging	-	195,490	-	195,490
	-	281,313	-	281,313

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

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

(e) Fair value measurement (continued)

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

37 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) Fair value measurement (continued)

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.

In the current financial year, the Group's investments in Tune Insurance Holdings Berhad and AirAsia X Berhad, classified as available-for-sale financial assets, were listed on the Main Market of Bursa Securities Malaysia following an initial public offering of shares. This resulted in a transfer from a Level 3 instrument to a Level 1 instrument in the current financial year as the investments are now observable in an active market.

38 FINANCIAL INSTRUMENTS

(a) Financial instruments by category

	Loans and receivables RM'000	Assets at fair value through the profit and loss RM'000	Derivatives used for hedging RM'000	Available for sale RM'000	Total RM'000
<u>Group</u>					
<u>31 December 2013</u>					
<u>Assets as per balance sheet</u>					
Available-for-sale financial assets	-	-	-	571,895	571,895
Receivables excluding prepayments	606,913	-	-	-	606,913
Amounts due from associates	1,297,925	-	-	-	1,297,925
Amounts due from joint ventures	33,703	-	-	-	33,703
Amounts due from related parties	6,113	-	-	-	6,113
Derivative financial instruments	-	37,374	201,464	-	238,838
Deposits, cash and bank balances	1,380,435	-	-	-	1,380,435
Total	3,325,089	37,374	201,464	571,895	4,135,822

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

38 **FINANCIAL INSTRUMENTS (CONTINUED)**

(a) **Financial instruments by category (continued)**

	Liabilities at fair value through the profit and loss RM'000	Derivatives used for hedging RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000	
<u>Group (continued)</u>					
<u>31 December 2013 (continued)</u>					
<u>Liabilities as per balance sheet</u>					
Borrowings (excluding finance lease liabilities)	-	-	9,360,025	9,360,025	
Finance lease liabilities	-	-	810,827	810,827	
Derivative financial instruments	85,823	195,490	-	281,313	
Trade and other payables	-	-	744,998	744,998	
Amount due to an associate	-	-	61,326	61,326	
Amount due to a related party	-	-	15,145	15,145	
Total	85,823	195,490	10,992,321	11,273,634	
	Loans and receivables RM'000	Assets at fair value through the profit and loss RM'000	Derivatives used for hedging RM'000	Available for sale RM'000	Total RM'000
<u>31 December 2012</u>					
<u>Assets as per balance sheet</u>					
Available-for-sale financial assets	-	-	-	308,792	308,792
Receivables excluding prepayments	650,705	-	-	-	650,705
Amounts due from associates	806,452	-	-	-	806,452
Amount due from a joint venture	10,765	-	-	-	10,765
Amount due from a related party	1,282	-	-	-	1,282
Derivative financial instruments	-	3,548	34,125	-	37,673
Deposits, cash and bank balances	2,232,731	-	-	-	2,232,731
Total	3,701,935	3,548	34,125	308,792	4,048,400

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

38 **FINANCIAL INSTRUMENTS (CONTINUED)**

(a) Financial instruments by category (continued)

	Liabilities at fair value through the profit and loss RM'000	Derivatives used for hedging RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000	
<u>Group (continued)</u>					
<u>31 December 2012 (continued)</u>					
<u>Liabilities as per balance sheet</u>					
Borrowings (excluding finance lease liabilities)	-	-	7,594,086	7,594,086	
Finance lease liabilities	-	-	815,253	815,253	
Derivative financial instruments	136,861	408,766	-	545,627	
Trade and other payables	-	-	666,148	666,148	
Amount due to an associate	-	-	54,499	54,499	
Amount due to a related party	-	-	12,639	12,639	
Total	136,861	408,766	9,142,625	9,688,252	
<u>Assets at fair value</u>					
	Loans and receivables RM'000	through the profit and loss RM'000	Derivatives used for hedging RM'000	Available for sale RM'000	Total RM'000
<u>Company</u>					
<u>31 December 2013</u>					
<u>Assets as per balance sheet</u>					
Available-for-sale financial assets	-	-	-	561,770	561,770
Receivables excluding prepayments	572,784	-	-	-	572,784
Amounts due from subsidiaries	191,120	-	-	-	191,120
Amounts due from associates	1,167,936	-	-	-	1,167,936
Amounts due from joint ventures	11,431	-	-	-	11,431
Amounts due from related parties	6,113	-	-	-	6,113
Derivative financial instruments	-	37,374	201,464	-	238,838
Deposits, cash and bank balances	1,306,926	-	-	-	1,306,926
Total	3,256,310	37,374	201,464	561,770	4,056,918

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

38 **FINANCIAL INSTRUMENTS (CONTINUED)**

(a) **Financial instruments by category (continued)**

<u>Company (continued)</u>	<u>Liabilities at fair value through the profit and loss RM'000</u>	<u>Derivatives used for hedging RM'000</u>	<u>Other financial liabilities at amortised cost RM'000</u>	<u>Total RM'000</u>	
<u>31 December 2013 (continued)</u>					
<u>Liabilities as per balance sheet</u>					
Borrowings (excluding finance lease liabilities)	-	-	9,360,025	9,360,025	
Finance lease liabilities	-	-	810,827	810,827	
Derivative financial instruments	85,823	195,490	-	281,313	
Trade and other payables	-	-	660,309	660,309	
Amount due to a subsidiary	-	-	10,185	10,185	
Amount due to an associate	-	-	61,326	61,326	
Amount due to a joint venture	-	-	151	151	
Amount due to a related party	-	-	15,145	15,145	
Total	85,823	195,490	10,917,968	11,199,281	
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	
	<u>Loans and receivables RM'000</u>	<u>Assets at fair value through the profit and loss RM'000</u>	<u>Derivatives used for hedging RM'000</u>	<u>Available for sale RM'000</u>	<u>Total RM'000</u>
<u>31 December 2012</u>					
<u>Assets as per balance sheet</u>					
Available-for-sale financial assets	-	-	-	295,982	
Receivables excluding prepayments	617,227	-	-	617,227	
Amounts due from subsidiaries	174,730	-	-	174,730	
Amounts due from associates	780,985	-	-	780,985	
Amounts due from joint ventures	3,066	-	-	3,066	
Amounts due from a related parties	1,282	-	-	1,282	
Derivative financial instruments	-	3,548	34,125	37,673	
Deposits, cash and bank balances	2,166,999	-	-	2,166,999	
Total	3,744,289	3,548	34,125	4,077,944	
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

38 **FINANCIAL INSTRUMENTS (CONTINUED)**

(a) Financial instruments by category (continued)

	Liabilities at fair value through the profit and loss RM'000	Derivatives used for hedging RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
<u>Company (continued)</u>				
<u>31 December 2012 (continued)</u>				
<u>Liabilities as per balance sheet</u>				
Borrowings (excluding finance lease liabilities)	-	-	7,594,086	7,594,086
Finance lease liabilities	-	-	815,253	815,253
Derivative financial instruments	136,861	408,766	-	545,627
Trade and other payables	-	-	638,007	638,007
Amount due to an associate	-	-	68,052	68,052
Amount due to a related party	-	-	12,639	12,639
Total	136,861	408,766	9,128,037	9,673,664

(b) Credit quality of financial assets

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

	<u>Group</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
<u>Counterparties without external credit rating</u>		
Group 1	13,198	2,693
Group 2	83,752	93,623
Total trade receivables that are neither past due nor impaired	96,950	96,316
<u>Cash at bank and short term bank deposits</u>		
AAA to A-	1,370,417	1,788,499
BBB to B3	10,018	444,232
	1,380,435	2,232,731

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

38 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit quality of financial assets (continued)

	<u>2013</u>	<u>Group</u>
	RM'000	2012
		RM'000
<u>Derivative financial assets</u>		
AA+ to A+	43,376	18,744
A to BBB-	195,462	18,929
	<u>238,838</u>	<u>37,673</u>
<u>Loans to related parties</u>		
Group 2	<u>1,237,066</u>	<u>780,985</u>

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

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

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

All defaults were fully recovered.

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

39 RECLASSIFICATION OF COMPARATIVES

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

	As		Group		Company	
	previously reported	Effects of reclassification	As restated	As previously reported	Effects of reclassification	As restated
	<u>1.1.2012</u>		<u>1.1.2012</u>	<u>1.1.2012</u>		<u>1.1.2012</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Balance sheet</u>						
<u>Non-current assets</u>						
Receivables and prepayments	15,548	360,503	376,051	15,548	360,503	376,051
<u>Current assets</u>						
Receivables and prepayments	1,109,775	(360,503)	749,272	1,081,125	(360,503)	720,622
<u>Current liabilities</u>						
Trade and other payables	(1,137,232)	409,628	(727,604)	(1,103,063)	409,628	(693,435)
<u>Non-current liabilities</u>						
Other payables and accruals	-	(409,628)	(409,628)	-	(409,628)	(409,628)

- (i) Prepayments and deposits relating to aircraft overhaul and maintenance which were previously classified as current assets have been reclassified to non-current assets to be consistent with the period in which the prepayments and deposits are to be utilised.
- (ii) Accruals relating to aircraft maintenance which were previously classified as current liabilities have been reclassified to non-current liabilities to be consistent with the period in which the accruals are to be settled.
- (iii) Deposits received from sub-lessees which were previously included in amounts due from/(to) associates within current assets and current liabilities have now been reclassified to amounts due to associates in non-current liabilities to be consistent with the period in which the deposits are to be utilised.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

39 RECLASSIFICATION OF COMPARATIVES (CONTINUED)

The effects of the changes on the Group and Company's financial statements are as follows:
(continued)

	Group			Company		
	As previously reported 31.12.2012 RM'000	Effects of reclass- -ification RM'000	As restated 31.12.2012 RM'000	As previously reported 31.12.2012 RM'000	Effects of reclass- -ification RM'000	As restated 31.12.2012 RM'000
<u>Balance sheet</u>						
<u>Non-current assets</u>						
Receivables and prepayments	28,141	585,274	613,415	28,141	585,274	613,415
<u>Current assets</u>						
Receivables and prepayments	1,357,094	(585,274)	771,820	1,323,614	(585,274)	738,340
Amounts due from associates	331,407	25,467	356,874	331,407	-	331,407
<u>Current liabilities</u>						
Trade and other payables	(1,295,065)	628,917	(666,148)	(1,266,924)	628,917	(638,007)
Amount due to an associate	(29,032)	29,032	-	(68,052)	54,499	(13,553)
<u>Non-current liabilities</u>						
Other payables	-	(628,917)	(628,917)	-	(628,917)	(628,917)
Amounts due to associates	-	(54,499)	(54,499)	-	(54,499)	(54,499)

In addition, for the financial year ended 31 December 2013, the presentation of the income statement has been changed to include the Group's share of results of joint ventures and associates within operating profit as it better reflects the performance of the Group.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

40 CHANGE OF ACCOUNTING POLICY

In 2012, the Group's effective interest in Thai AirAsia Co. Ltd ("TAA") was reduced from 48.9% to 45%, following the initial public offering of Asia Aviation Plc, the major shareholder of TAA. As a consequence of the reduction in shareholding, TAA ceased to be a joint venture of the Group and became an associate of the Group. Accordingly, in the previous financial year, the Group reclassified its investment in TAA from investment in joint ventures to investment in associates. In accordance with MFRS 131 "Interest in Joint Ventures", this resulted in a gain on disposal of the 4% equity interest of RM118.6 million and a fair value gain on the remaining 45% equity interest retained in TAA of RM1,041.7 million, which was presented in the previous year's income statement as a "Fair value and gain on disposal of Interest in Thai AirAsia Co Ltd".

During the current financial year, the Group adopted MFRS 128 "Investments in Associates and Joint Ventures". MFRS 128 states that where an entity loses joint control over a joint venture but retains significant influence, the entity will continue to equity account for its interest. However, the entity does not re-measure its continued ownership interest at fair value. This standard is applied retrospectively. As such, the income statement for the financial year ended 31 December 2012 had been restated to reflect the requirements of MFRS 128.

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

	Group		
	Financial year ended 31 December 2012		
	As previously reported	Effects of restatement	As restated
	RM'000	RM'000	RM'000
<u>Income statement</u>			
Fair value and gain on disposal of interest in Thai AirAsia Co Ltd	1,160,370	(1,041,730)	118,640
<u>Basic and diluted earnings per share</u>			
Net profit for the financial year	1,831,338	(1,041,730)	789,608
Weighted average number of ordinary shares in issue ('000)	2,779,057	-	2,779,057
Basic earnings per share (sen)	65.9		28.4
Net profit for the financial year	1,831,338	(1,041,730)	789,608
Weighted average number of ordinary shares in issue ('000)	2,779,057	-	2,779,057
Adjustment for ESOS ('000)	3,124	-	3,124
Weighted average number of ordinary shares for diluted earnings per share ('000)	2,782,181		2,782,181
Diluted earnings per share (sen)	65.8		28.4

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

40 CHANGE OF ACCOUNTING POLICY (CONTINUED)

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

	<u>Group</u>		
	<u>At 31 December 2012</u>		
	As previously reported <u>31.12.2012</u> RM'000	Effects of <u>restatement</u> RM'000	As restated <u>31.12.2012</u> RM'000
<u>Balance sheet</u>			
<u>Non-current assets</u>			
Investments in associates	1,204,575	(1,041,730)	162,845
Retained earnings	<u>4,273,311</u>	<u>(1,041,730)</u>	<u>3,231,581</u>

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41 UNCONSOLIDATED STRUCTURED ENTITIES

The Company has set up Merah entities, special purpose companies ("SPC") pursuant to aircraft related borrowings obtained from various financial institutions. Under the arrangement, the Company enters into an Aircraft Instalment Sale Agreement with the SPC, permitting the Company to possess and operate each of the Airbus A320 aircraft financed under the facility.

The SPC are orphan trust companies in which the Company has no equity interest. The SPC did not incur any losses or earn any income during the financial year ended 31 December 2013. The aircraft and the corresponding term loans and finance costs associated with the SPC have been recognised by the Group and Company upon the purchase of the aircraft.

The Group and Company does not provide any financial support to the SPC or have any contractual obligation to make good the losses, if any.

The details of the Merah entities are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Purpose</u>
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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

41 UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

The details of the Merah entities are as follows: (continued)

<u>Name</u>	<u>Country of incorporation</u>	<u>Purpose</u>
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 Duapuluh tujuh 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 Tigapuluh Limited	Labuan, Malaysia	Aircraft financing special purpose company

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

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

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

The Group has adopted MFRS 128 "Investments in Associates and Joint Ventures" during the current financial year. This standard has been applied retrospectively in restating the retained earnings as at 31 December 2012 (Note 40).

	<u>Group</u>		<u>Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000 (restated)	RM'000	RM'000
Total retained earnings of AirAsia Berhad and its subsidiaries:				
- Realised	2,358,327	2,184,802	2,114,139	2,175,079
- Unrealised	512,256	1,046,133	506,431	927,725
	<u>2,870,583</u>	<u>3,230,935</u>	<u>2,620,570</u>	<u>3,102,804</u>
Total share of accumulated gains/(losses) from associated companies:				
- Realised	33,228	(8,435)	-	-
Total share of accumulated gains from joint ventures				
- Realised	22,680	9,081	-	-
Total retained earnings as per consolidated financial statements	<u>2,926,491</u>	<u>3,231,581</u>	<u>2,620,570</u>	<u>3,102,804</u>

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

Company No.

284669

W

AIRASIA BERHAD
(Incorporated in Malaysia)

**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 6 to 112 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 2013 and of the results and the cash flows of the Group and Company for the financial year ended on that date in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965.

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

In accordance with a resolution of the Board of Directors dated 28 April 2014.



DATUK KAMARUDIN BIN MERANUN
DIRECTOR



AIREEN OMAR
DIRECTOR

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

I, Rozman Bin Omar, the Officer primarily responsible for the financial management of AirAsia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 6 to 112 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.



ROZMAN BIN OMAR

Subscribed and solemnly declared by the abovenamed Rozman Bin Omar at Petaling Jaya in Malaysia on 28 April 2014, before me.

COMMISSIONER FOR OATHS



3-1, Block B2, Jalan PJU 1/42A,
Dataran Prima, 47301 Petaling Jaya
Selangor Darul Ehsan



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AIRASIA BERHAD
(Incorporated in Malaysia)
(Company No. 281669 W)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of AirAsia Berhad on pages 6 to 112, which comprise the balance sheets as at 31 December 2013 of the Group and of the Company, and the statements of income, comprehensive income, changes in equity and cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out in Notes 1 to 41.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



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

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2013 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 42 on page 113 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysia Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.



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

OTHER MATTERS

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

PRICEWATERHOUSE COOPERS
(No. AF: 1146)
Chartered Accountants

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

Kuala Lumpur
28 April 2014