



Gearing for
GROWTH

2010
ANNUAL REPORT

Our Vision

To be the Number One Airline in Asia by 2015.

Our Mission

To be a Consistently Profitable Airline.

Our Customer Value Proposition

To deliver distinguished service to both business and leisure travellers who value comfort and personalised service. With **Malaysian Hospitality** in mind, at Malaysia Airlines, we make our guests feel welcome and special, enabling them to enjoy a consistently comfortable and comforting travel experience.

Non-stop **MH**.

This is **Malaysian Hospitality**.



Malaysia Airlines welcomed its first own Boeing 737-800 aircraft in November 2010. It was a historical milestone as it marks the beginning of a new and transformed Malaysia Airlines.

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BTP 2 Journey 2010

- Malaysian Aerospace Engineering & Spice Jet sign a three-year maintenance agreement



- 10 weekly flights to Perth launched
- 'Detik-detik MH' short film competition launched

Jan

Mar

Feb



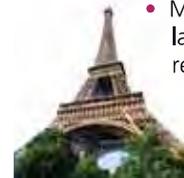
- MAS Touchdown for charity @ SkyPark
- 'Saya Nak Cuti', the first reality show by Malaysia Airlines



- Malaysia Airlines announces net profit of RM610 million for quarter ending 31 December 2009
- 'Saya Nak Cuti - Jom Sabah' campaign is launched
- Malaysia Airlines LAX wins 2009 Global Traveller Tested Award

Only in Oz!
GO UNIQUELY AUSSIE EXPERIENCES

- Malaysia Airlines and Australia Tourism partner for 'Only in Oz Holidays' promotion
- Daily flights to Paris introduced
- MAstraveller.com launched to inspire real travel experience



MAS traveller.com



- 'MHdeals' App launched
- Malaysia Airlines seals another two-year deal with Lembaga Tabung Haji



- Malaysia Airlines introduces daily flights to Yangon
- Malaysia Airlines announces RM3.9 million operating profit for first half of 2010
- Malaysia Airlines launches its Eastern Hub in Kota Kinabalu

- Malaysian Aerospace Engineering and Sabena Technics SA sign MoU for a joint venture

Jul

Sep

Aug

enterprise

- Malaysia Airlines signs agreement with HCL AXON & SAP for Enterprise Resource Planning solution
- Self service check-in facilities introduced in Kuching and Kota Kinabalu
- Malaysia Airlines and MERCY Malaysia visit the Orang Asli in Kluang



- Malaysia Airlines and Tata Consultancy Services (TCS) open Offshore Delivery Centre (ODC) in Chennai
- More direct flights to Sydney and Brisbane introduced
- Malaysia Airlines donates RM70,000 towards Pakistan flash flood relief fund





- Inaugural flight to Dammam
- MAskargo inks wet-lease agreement with Southern Air



May

Apr

- Agreement between Malaysia Airlines and Muhammadiyah Travel & Tours Sdn. Bhd
- First 'Make A Wish' career and travel wish granted
- Delta II Bootcamp



delta II



FirsttoFly B737-800

- B737-800 first aircraft arrives
 - Hillary Clinton attends the Welcome Reception
 - Inaugural flight to Haneda from Kota Kinabalu

Jun

- Malaysia Airlines signs code-share agreement with Oman Air
- World's first iPad kiosk launched at Malaysia Airlines' Ticket Office
- Malaysia Airlines introduces daily flights to Seoul



Nov

Oct

- Group IT receives Payment Card Industry Data Security Standard (PCI DSSS) certification



- Malaysia Airlines Engineering & Maintenance and AFI KLM E&M sign a 10-year component support contract
- Malaysia Airlines announces RM233 million net profit for third quarter 2010
- World Travel Awards (WTA) names Malaysia Airlines as 'World's Leading Airline to Asia'

Dec

- MAS holidays now available online

MASHolidays







PURCHASE

Reserve your destination,
anytime, anywhere

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Fortieth Annual General Meeting of Malaysian Airline System Berhad will be held at the Auditorium, 1st Floor, South Wing, MAS Academy, No. 2 Jalan SS7/13, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan on Monday, 27 June 2011 at 10.00 a.m. for the following purposes:-

AGENDA

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2010 and the Reports of Directors and Auditors thereon.
2. To re-elect the following Directors who shall retire pursuant to Article 139 of the Company's Articles of Association, and who, being eligible, offer themselves for re-election:-
 - (i) Keong Choon Keat
 - (ii) Datuk Amar Wilson Baya Dandot
 - (iii) Martin Gilbert Barrow
3. To re-elect the following Directors who shall retire pursuant to Article 137 of the Company's Articles of Association, and who, being eligible, offer themselves for re-election:-
 - (i) Mohammed Rashdan bin Mohd Yusof
 - (ii) Datuk Sukarti bin Wakiman
4. To consider and if thought fit, to pass the following Ordinary Resolution pursuant to Section 129(6) of the Companies Act 1965:-

"THAT Dato' N. Sadasivan a/l N. N. Pillay, retiring pursuant to Section 129(6) of the Companies Act 1965, be and is hereby re-appointed a Director of the Company to hold office until the next Annual General Meeting."
5. To approve the payment of Directors' fees for the financial year ended 31 December 2010.
6. To re-appoint Messrs. Ernst & Young as Auditors of the Company for the financial year ending 31 December 2011 and authorise the Directors to fix their remuneration.

Resolution 1

**Resolution 2
Resolution 3
Resolution 4**

**Resolution 5
Resolution 6**

Resolution 7

Resolution 8

Resolution 9

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following Ordinary Resolution:-

7. Authority to Allot and Issue Shares

"THAT subject always to the Companies Act 1965, the Articles of Association of the Company and the approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby authorised pursuant to Section 132D of the Companies Act 1965, to issue and allot shares in the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may in their discretion deem fit, provided always that the aggregate number of shares to be issued pursuant to this resolution does not exceed ten per centum (10%) of the total issued capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval from Bursa Malaysia Securities Berhad for the listing and quotation of the additional shares so issued."

8. To transact any other ordinary business for which due notice has been given.

Resolution 10

Resolution 11

BY ORDER OF THE BOARD

**Shahjanaz binti Kamaruddin
(LS0009441)**

Company Secretary

Selangor Darul Ehsan
3 June 2011

EXPLANATORY NOTES ON SPECIAL BUSINESS

Ordinary Resolution 10

This is a renewal of the general mandate sought to grant authority to Directors to issue and allot shares in the Company under Section 132D of the Companies Act 1965 that was approved by the shareholders at the Thirty Ninth Annual General Meeting held on 21 June 2010. The general mandate will provide flexibility to the Company to undertake any possible fund raising exercises, including but not limited to further placement of shares for purpose of funding current and/or future investment projects, working capital and/or acquisitions, by the issuance of shares in the Company to such persons at any time, as the Directors may deem fit, without the need to convene a separate general meeting.

Up to the date of this Notice, the Company did not utilise the mandate granted at the Thirty Ninth Annual General Meeting and thus no proceeds were raised from the previous mandate.

The Ordinary Resolution 10 above, if passed, will empower the Directors to issue and allot shares in the Company up to an amount not exceeding in total ten per centum (10%) of the issued capital of the Company, subject to compliance with the relevant regulatory requirements. The approval is sought to avoid any delay and additional cost in convening a separate general meeting for such issuance of shares. This authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting.

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint more than two (2) proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Companies Act 1965 shall not apply to the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer or attorney duly authorised.
3. Where a member appoints two (2) or more proxies, he shall specify the proportion of his shareholding to be represented by each proxy.
4. The right of foreigners to vote in respect of their deposited securities is subject to Section 41(1)(e) and Section 41(2) of the Securities Industry (Central Depositories) Act 1991 and the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996. The position of such Depositors in this regard will be determined based on the General Meeting Record of Depositors. Such Depositors whose shares exceed the Company's foreign shareholding limit of 45% as at the date of the General Meeting Record of Depositors may attend the above Meeting but are not entitled to vote. Consequently, a proxy appointed by such Depositor who is not entitled to vote will also not be entitled to vote at the above Meeting.
5. The instrument appointing a proxy must be deposited at **Symphony Share Registrars Sdn. Bhd., Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia**, not less than 48 hours before the time for holding the Meeting or at any adjournment thereof.
6. Shareholders' attention is hereby drawn to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, which allows a member of the Company who is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, to appoint at least one (1) proxy in respect of each securities account he holds with ordinary shares of the Company standing to the credit of the said securities account.

Statement Accompanying the Notice of Annual General Meeting

Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

Directors who are seeking re-election or re-appointment at the Fortieth Annual General Meeting of the Company:

(i) The Directors retiring pursuant to Article 139 of the Company's Articles of Association and seeking re-election are as follows:-

- Keong Choon Keat
- Datuk Amar Wilson Baya Dandot
- Martin Gilbert Barrow

(ii) The Directors retiring pursuant to Article 137 of the Company's Articles of Association and seeking re-election are as follows:-

- Mohammed Rashdan bin Mohd Yusof
- Datuk Sukarti bin Wakiman

(iii) The Director who is over the age of seventy and seeking re-appointment is as follows:-

- Dato' N. Sadasivan a/l N. N. Pillay

The details of the above Directors seeking re-election or re-appointment are set out in their respective profiles on pages 14 to 21 of this Annual Report. None of the Directors hold any shares in the Company.

Corporate Information

COMPANY SECRETARY

Shahjanaz binti Kamaruddin (LS 0009441)

REGISTERED OFFICE

3rd Floor, Administration Building 1

MAS Complex A

Sultan Abdul Aziz Shah Airport

47200 Subang

Selangor Darul Ehsan

Malaysia

Tel: 603 7840 4550

Fax: 603 7846 3932

Website: www.malaysiaairlines.com

AUDITORS

Ernst & Young (AF 0039)

Chartered Accountants

Level 23A, Menara Milenium

Jalan Damanlela

Pusat Bandar Damansara

Damansara Heights

50490 Kuala Lumpur

Malaysia

Tel: 603 7495 8000

Fax: 603 2095 9076

REGISTRAR

Symphony Share Registrars Sdn. Bhd.

(378993-D)

Level 6, Symphony House

Pusat Dagangan Dana 1

Jalan PJU 1A/46

47301 Petaling Jaya

Selangor Darul Ehsan

Malaysia

Tel: 603 7841 8000

Fax: 603 7841 8151

INVESTOR RELATIONS

Aizzura Ab Rahim

Finance Division

5th Floor, Administration Building 2

MAS Complex A

Sultan Abdul Aziz Shah Airport

47200 Subang

Selangor Darul Ehsan

Malaysia

Tel: 603 7840 4523

Fax: 603 7847 3085

investor@malaysiaairlines.com

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia

Securities Berhad

(Listed since 16 December 1985)

(Stock code: 3786)

PRINCIPAL BANKERS

Citibank Berhad (297089-M)

Menara Citibank

165 Jalan Ampang

50450 Kuala Lumpur

Malaysia

Malayan Banking Berhad (3813-K)

Menara Maybank

100 Jalan Tun Perak

50050 Kuala Lumpur

Malaysia

CIMB Bank Berhad (13491-P)

5th Floor, Bangunan CIMB

Jalan Semantan

Damansara Heights

50490 Kuala Lumpur

Malaysia

RHB Bank Berhad (6171-M)

Level 7, Tower Three

RHB Centre, Jalan Tun Razak

50400 Kuala Lumpur

Malaysia

Financial Calendar

25 January 2010

Announcement of Full Year 2009 Annual Results

25 February 2010

Extraordinary General Meeting

12 March 2010

Listing of Right Shares

8 April 2010

Payment of Tax-Exempt Non-cumulative Preferential Dividend

17 May 2010

Announcement of 2010 First Quarter Results

16 August 2010

Announcement of 2010 Second Quarter Results

25 November 2010

Announcement of 2010 Third Quarter Results

25 February 2011

Announcement of FY 2010 Quarter Results

27 June 2011

40th Annual General Meeting

Group Structure

MALAYSIAN AIRLINE SYSTEM BERHAD (10601-W)

80%	Abacus Distribution Systems (Malaysia) Sdn. Bhd. (180535-T)
51%	Aerokleen Services Sdn. Bhd. (277266-X)
100%	FlyFirefly Sdn. Bhd. (346606-K)* <i>* Flyfirefly Sdn. Bhd. owns 100% equity in Flyfirefly Holiday Sdn. Bhd. (780113-P)</i>
100%	Kelip-Kelip Labuan Limited (LL06736)
100%	Kelip-Kelip II Labuan Limited (LL07075)
100%	Kelip-Kelip II Cayman Limited (WK-225671)
100%	Kelip-Kelip III Labuan Limited (LL07638)
100%	Macnet CCN (M) Sdn. Bhd. (318626-W) under Members Voluntary Winding Up
100%	Malaysian Aerospace Engineering Sdn. Bhd. (775412-D) <i>* Malaysian Aerospace Engineering Sdn. Bhd. owns 100% equity in MAE Aero Services Pte. Ltd (201100826N)</i> <i>* Malaysian Aerospace Engineering Sdn. Bhd owns 50% equity in MAS GMR Aerospace Engineering Company Private Limited (U45201KA2008PTCO45463)</i>
100%	Malaysia Airlines Capital (L) Limited (LL01132)
100%	Malaysia Airlines Capital II (L) Limited (LL07894)
100%	Malaysia Airlines Capital III (L) Limited (LL07927)
100%	Malaysia Airlines Cargo Sdn. Bhd. (318815-M)
100%	MAS Academy Sdn. Bhd. (317184-W)
100%	MAS Aerotechnologies Sdn. Bhd. (317185-K)
60%	MAS Catering (Sarawak) Sdn. Bhd. (372384-D)
100%	MAS Golden Boutiques Sdn. Bhd. (317182-T)
100%	MAS Golden Holidays Sdn. Bhd. (317144-A)
100%	MASKargo Logistics Sdn. Bhd. (68121-P)
100%	MASwings Sdn. Bhd. (773841-A)
100%	Syarikat Pengangkutan Senai Sdn. Bhd. (39752-P)

INVESTMENT IN ASSOCIATES

30%	GE Engine Services Malaysia Sdn. Bhd. (423679-X)
49%	Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd. (301833-D)
30%	Honeywell Aerospace Services (M) Sdn. Bhd. (465037-M)
30%	LSG Sky Chefs-Brahim's Sdn. Bhd. (317281-X)
24%	Pan Asia Pacific Aviation Services Limited (470740)
20%	Taj Madras Flight Kitchen Limited (30706 State Code 18)

Board of Directors

Tan Sri Dr. Mohd Munir bin Abdul Majid

Chairman, Non-Independent Non-Executive Director

Dato' N. Sadasivan a/l N. N. Pillay

Deputy Chairman, Independent Non-Executive Director

Tengku Dato' Sri Azmil Zahrudin bin Raja Abdul Aziz

Managing Director/Chief Executive Officer, Non-Independent Executive Director

Keong Choon Keat

Independent Non-Executive Director

Datuk Mohamed Azman bin Yahya

Non-Independent Non-Executive Director

Martin Gilbert Barrow

Independent Non-Executive Director

Datuk Seri Panglima Mohd Annuar bin Zaini

Independent Non-Executive Director

Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah

Non-Independent Non-Executive Director

Datuk Amar Wilson Baya Dandot

Independent Non-Executive Director

Mohammed Rashdan bin Mohd Yusof

Non-Independent Non-Executive Director

Datuk Sukarti bin Wakiman

Independent Non-Executive Director

Dato' Puteh Rukiah binti Abd Majid

Alternate Director to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah

Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani

Alternate Director to Datuk Amar Wilson Baya Dandot

Datuk Pengiran Hassanel bin Datuk Pengiran Hj Mohd Tahir

Alternate Director to Datuk Sukarti bin Wakiman

Board of Directors

- 1 Tan Sri Dr. Mohd Munir bin Abdul Majid
- 2 Dato' N. Sadasivan a/ N.N. Pillay
- 3 Tengku Dato' Sri Azmil Zahrudin bin Raja Abdul Aziz
- 4 Keong Choon Keat
- 5 Datuk Mohamed Azman bin Yahya
- 6 Martin Gilbert Barrow
- 7 Datuk Seri Panglima Mohd Annuar bin Zaini
- 8 Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah
- 9 Datuk Amar Wilson Baya Dandot
- 10 Mohammed Rashdan bin Mohd Yusof
- 11 Datuk Sukarti bin Wakiman
- 12 Shahjanaz binti Kamaruddin





Board of Directors' Profile

TAN SRI DR. MOHD MUNIR BIN ABDUL MAJID

Chairman, Non-Independent Non-Executive Director

Tan Sri Dr. Mohd Munir, aged 63, a Malaysian, joined the Board of Directors of Malaysia Airlines on 1 June 2004. He was appointed Non-Independent Non-Executive Chairman on 1 August 2004. He serves as Chairman of the Nomination Committee. He is also Chairman of Malaysian Aerospace Engineering Sdn. Bhd.

He obtained a Bachelor of Science (Economics) degree from the London School of Economics and Political Science (LSE) in 1971 and went on to earn a Ph.D in International Relations in 1978. During his years in London, he taught at the Department of International Relations in LSE and worked as a research analyst at Daiwa Europe NV.

Upon his return to Malaysia in 1978, Tan Sri Dr. Mohd Munir joined the News Straits Time Press as leader writer, ending his service there as Group Editor in 1986. He took on the appointment of Chief Executive Officer of a merchant bank, Pertanian Baring Sanwa, (which he renamed Commerce International Merchant Bankers Berhad), later becoming its Executive Chairman. He was the first and founding Chairman of the Securities Commission where he served from 1993 to 1999.

He has served on various governmental boards and committees, such as the Malaysian Investment Development Authority (MIDA) (formerly known as Malaysian Industrial Development Authority), Bursa Malaysia Securities Berhad (formerly known as The Kuala Lumpur Stock Exchange), Foreign Investment Committee (FIC), as well as various private sector companies and organisations such as the Kuala Lumpur Options and Financial Futures Exchange (KLOFFE), Council of the Association of Merchants Malaysia and the Malaysian International Chamber of Commerce and Industry.

He was also the founding President of the Kuala Lumpur Business Club and was appointed by the Malaysian Institute of Management to be a member of its Court of Fellows in May 2004. In December 2005, he was made an Honorary Fellow of the London School of Economics and Political Science (LSE) and subsequently as a Visiting Senior Fellow at LSE IDEAS (Centre for the Study of International Affairs, Diplomacy and Strategy) in October 2008, where he set up and heads the Southeast Asia International Affairs Programme.

He was the Senior Independent Non-Executive Director of Telekom Malaysia Berhad (2000 – 2004), the Chairman of Celcom (Malaysia) Berhad and Technology Resources Industries Berhad (2002 – 2004).

He is currently the Chairman of Bank Muamalat Malaysia Berhad.

Tan Sri Dr. Mohd Munir has attended all 13 Board meetings of the Company held during the financial year. He has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

DATO' N. SADASIVAN A/L N. N. PILLAY

Deputy Chairman, Independent Non-Executive Director

Dato' N. Sadasivan, aged 71, a Malaysian, joined the Board of Directors of Malaysia Airlines on 1 December 2001. He was appointed Independent Non-Executive Deputy Chairman on 20 July 2004. He is the Chairman of the Board Tender Committee and member of the Board Audit Committee, Nomination Committee, Remuneration Committee and Board Hedging Committee. He is also the Chairman of Malaysia Airlines Cargo Sdn. Bhd. and board member of Malaysian Aerospace Engineering Sdn. Bhd.

He graduated with a Bachelor of Arts (Hons) in Economics from the University of Malaya in 1963. He began his career as an Economist with the Economic Development Board, Singapore in 1963 and was subsequently promoted to the position of Chief of the Industrial Facilities Division in 1965. In 1968, he joined MIDA and served as the Deputy Director General from 1976 to 1983. From 1984 until his retirement in 1995, he was the Director-General of MIDA. Upon his retirement, he set up a consultancy firm, SKA Management Consultants Sdn. Bhd. where he is the Executive Chairman.

He presently sits on the Board of several public listed companies namely Petronas Gas Berhad, APM Automotive Holdings Berhad, Leader Universal Holdings Berhad and Yeo Hiap Seng (Malaysia) Berhad. He is also a director of Bank Negara Malaysia.

Dato' N. Sadasivan has attended all 13 Board meetings of the Company held during the financial year. He has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

**TENGGU DATO' SRI AZMIL ZAHRUDDIN
BIN RAJA ABDUL AZIZ**

Managing Director/Chief Executive Officer
Non-Independent Executive Director

Tengku Dato' Sri Azmil, aged 40, a Malaysian, is currently the Managing Director/Chief Executive Officer of Malaysia Airlines, a position he held since 28 August 2009. He was first appointed to the Board of Malaysia Airlines on 23 August 2004, subsequently as Executive Director of Malaysia Airlines on 23 August 2005 and Chief Financial Officer of Malaysia Airlines on 1 February 2006. He is also a member of the Board Safety & Security Committee and ESOS Committee.

He holds a double first class degree in Economics from the University of Cambridge. He is a Chartered Accountant and an associate member of the Malaysian Institute of Accountants and the Institute of Chartered Accountants in England and Wales. He is also an Associate of the Association of Corporate Treasurers, United Kingdom. Upon graduating, he was attached to the Audit and Business Advisory Services Division in PricewaterhouseCoopers in London and Hong Kong, specialising in banking and capital markets. In 2002, he took up the position of Chief Financial Officer in Penerbangan Malaysia Berhad, and was subsequently appointed its Managing Director/Chief Executive Officer in 2004.

He does not hold any directorships in other public companies.

He is also a member of the Issues Committee of the Malaysian Accounting Standards Board.

Tengku Dato' Sri Azmil has attended 12 out of the 13 Board meetings of the Company held during the financial year. He has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

KEONG CHOON KEAT

Independent Non-Executive Director

Mr. Keong, aged 66, a Malaysian, was appointed as an Independent Non-Executive Director of Malaysia Airlines on 16 April 2001. He serves as Chairman of the Board Audit Committee and is a member of the Nomination Committee, Remuneration Committee, ESOS Committee and Board Hedging Committee. He is also Chairman of FlyFirefly Sdn. Bhd.

He is a member of the Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountants. He is also a Fellow Member of the Institute of Chartered Accountants in England and Wales. He was attached to Bristol Myers & Company Ltd in England as an Accountant in 1968. He then joined Malaysian Tobacco Company Berhad as an Accountant in 1969. From 1974 to 1999, he was attached to UMW Holdings Group, where he held various management positions from General Manager to Director Group Accounts before being promoted to the position of Executive Director in 1988. Upon retirement in 1999, he joined a consultancy firm providing out-placement and career management services in Malaysia.

He sits on the Boards of JT International Berhad, Chin Teck Plantations Berhad, Negri Sembilan Oil Palms Berhad and Crest Builder Holdings Berhad.

Mr. Keong has attended all 13 Board meetings of the Company held during the financial year. He has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

DATUK MOHAMED AZMAN BIN YAHYA

Non-Independent Non-Executive Director

Datuk Mohamed Azman, aged 47, was appointed as a Non-Independent Non-Executive Director of Malaysia Airlines on 1 December 2001. He serves as Chairman of the Remuneration Committee, ESOS Committee and Board Hedging Committee. He is also a member of the Nomination Committee.

He holds a first class honours degree in Economics from the London School of Economics and Political Science (LSE) and is a member of the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants and a Fellow of the Malaysian Institute of Banks.

His career appointments include auditing with KPMG in London, finance with Island & Peninsular Group and investment banking with Amanah Merchant Bank. In 1998, he was appointed by the Government of Malaysia to set up and head Danaharta Nasional Berhad and subsequently became its Chairman until 2003. He was also the Chairman of the Corporate Debt Restructuring Committee, which was set up by Bank Negara Malaysia until its closure in 2002.

He is currently the Group Chief Executive and a Board member of Symphony House Berhad, a listed outsourcing group and is the Executive Chairman of Bolton Berhad, a listed property group.

Outside his professional engagements, Datuk Mohamed Azman is active in public service. He sits on the Boards of a number of Government Linked Corporations namely Khazanah Nasional Berhad, the investment arm of the Malaysian Government, PLUS Expressways Berhad and Pharmaniaga Berhad. He also serves as a member of the National Council for Scientific Research & Development, the National Innovation Council, the Special Task Force to Facilitate Business (PEMUDAH) and the Financial Reporting Foundation. He is also a Director of Scomi Group Berhad and Ekuiti Nasional Berhad; and Chairman of the Motorsports Association of Malaysia.

Datuk Mohamed Azman has attended 12 out of the 13 Board meetings of the Company held during the financial year. He has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

MARTIN GILBERT BARROW

Independent Non-Executive Director

Mr. Barrow, aged 67, a British citizen, was appointed as an Independent Non-Executive Director of Malaysia Airlines on 29 August 2001. He serves as Chairman of the Board Safety & Security Committee.

Mr. Barrow obtained Oxford and Cambridge Examination "A" Levels in Science and Mathematics and subsequently attended courses in Finance and Marketing. He joined Jardine Matheson, Hong Kong in 1965. From 1975 to 1980, he was transferred to Japan as Managing Director of the Group's operations in Japan. He was promoted to the position of President of the Group's affiliate, Olayan Saudi Holding Company in Saudi Arabia in 1980. He returned to Hong Kong as Regional Managing Director of the Group's operation in Hong Kong and China in 1983 and was appointed Director of Jardine Matheson Limited at its Group Head Office in 1989. He was also active in public service and was appointed by the Governor of Hong Kong as Member of the Legislative Council from 1988 to 1995. Other public-related positions he had held included being a member of Hong Kong's Aviation Advisory Board, member of the New Airport's Steering Group, Chairman of the Hong Kong Tourist Association and Chairman of the Business Advisory Group Committee on Deregulation. He retired from Jardine Matheson in June, 2001.

He does not hold any directorship in other public companies in Malaysia.

Mr. Barrow has attended 11 out of the 13 Board meetings of the Company held during the financial year. He has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

DATUK SERI PANGLIMA MOHD ANNUAR BIN ZAINI

Independent Non-Executive Director

Datuk Seri Panglima Mohd Annuar, aged 59, a Malaysian, was appointed as an Independent Non-Executive Director of Malaysia Airlines on 2 February 2005. He is a member of the Board Tender Committee.

He holds a Master of Arts in Law & Diplomacy from The Fletcher School of Laws & Diplomacy, Tufts University, USA; and a Bachelor of Arts with honours in Economics from the University Kebangsaan Malaysia.

He began his career in the government service as an Administrative and Diplomatic Officer in 1977. He served the Malaysian Government at various ministries and departments and also the Perak State Government until he chose to take optional retirement from the government service in 1999.

He was Advisor and Chief Executive of the Northern Corridor Implementation Authority from 2007 to 2009. He was the Chairman of the Malaysian National News Agency (BERNAMA) from February 2004 to January 2010. In February 2004, HRH the Sultan of Perak consented his appointment as Member of the Council of Elders to HRH Sultan of Perak. He is a Member of the Perak Council of Islamic Religion and Malay Customs and the Perak State Islamic Economic Development Corporation. He is also a Distinguished Fellow to the Institute of Strategic and International Studies (ISIS) Malaysia and Adjunct Professor of the Northern Corridor Economic Region Research Centre, Universiti Utara Malaysia.

He sits on the Boards of Plus Expressways Berhad, Dijaya Corporation Berhad and a few private limited companies.

Datuk Seri Panglima Mohd Annuar has attended 11 out of the 13 Board meetings of the Company held during the financial year. He has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

TAN SRI DR. WAN ABDUL AZIZ BIN WAN ABDULLAH

Non-Independent Non-Executive Director

Tan Sri Dr. Wan Abdul Aziz, aged 59, a Malaysian, was appointed as a Non-Independent Non-Executive Director of Malaysia Airlines on 20 March 2007. He holds a Bachelor of Economics (Honours) degree in Applied Economics from University of Malaya and a Master of Philosophy in Development Studies from the Institute of Development Studies, University of Sussex, United Kingdom. He went on to earn a Ph.D in Economics from the School of Business and Economic Studies, University of Leeds, United Kingdom. In 2004, he attended the Advanced Management Programme at Harvard Business School, Harvard University.

He began his career in the Administrative and Diplomatic Service as Assistant Director of the Economic Planning Unit in the Prime Minister's Department in 1975. He was later promoted to the position of Senior Assistant Director, Macro-economics in 1984, Senior Assistant Director, Human Resource Section and Director, Energy Section in 1988. In the same year, he was seconded to the World Bank Group in Washington DC, USA as an Alternate Executive Director. He then served the Ministry of Finance as Deputy Secretary in the Economics and International Division in 2001. He later returned to the Economic Planning Unit in the Prime Minister's Department as Deputy Director General, Macro Planning Division in 2004. In 2005, he was appointed Deputy Secretary General of Treasury (Policy), Federal Treasury in the Ministry of Finance. He is currently the Secretary General of Treasury in the Ministry of Finance.

Tan Sri Dr. Wan Abdul Aziz is Chairman of the Inland Revenue Board, Kumpulan Wang Persaraan (Diperbadankan) (KWAP), Cyberview Sdn. Bhd., Pembinaan BLT Sdn. Bhd., Bintulu Port Holdings Berhad and Kuala Lumpur International Airport Berhad. He also sits on the Boards of Federal Land Development Authority (FELDA), Petroliam Nasional Berhad (PETRONAS), MISC Berhad, Syarikat Bekalan Air Selangor Sdn. Bhd. (SYABAS), Pelaburan Hartanah Bumiputera Berhad, Bank Negara Malaysia, and Malaysia Deposit Insurance Corporation (PIDM).

He also represents the Ministry of Finance as Member of the Economic Council, PEMUDAH, Iskandar Malaysia, Regional Corridor Development Authority (RECODA) Sarawak, Sabah Economic Development and Investment Authority (SEDIA) and the East Coast Economic Region (ECER).

Tan Sri Dr. Wan Abdul Aziz has attended 8 out of the 13 Board meetings of the Company held during the financial year. He has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

DATUK AMAR WILSON BAYA DANDOT

Independent Non-Executive Director

Datuk Amar Wilson, aged 59, a Malaysian, was appointed as an Independent Non-Executive Director of Malaysia Airlines on 11 January 2008. He is a member of the Board Safety & Security Committee and the Board Audit Committee.

He holds a Bachelor of Economics from University of Western Australia and a Master in Development Economics from University of Sussex, United Kingdom. He also attended a Senior Executive Fellows Programme at JFK School of Government, Harvard University. He first joined the Sarawak State Government Office as the Assistant Secretary of State Planning Unit in 1973. He was an Economist of the International Pepper Community, Jakarta in 1977 to 1983, and later became the Principal Assistant Secretary in the State Planning Unit in 1983. In 1990, he was appointed as Deputy Director, State Planning Unit, Sarawak. He later assumed the position of Director, State Planning Unit in 1995 and Deputy State Secretary (Planning & Development) in 2000. He was then appointed as Deputy State Secretary (Human Resource) and was subsequently appointed as Deputy State Secretary (Administration, Security & Protocol) at the Chief Minister's Department. In 2007, he was appointed the Sarawak State Secretary. He is currently the Chief Executive Officer, Sarawak Regional Corridor Development Authority (RECODA).

He sits on the Boards of Sarawak Economic Development Corporation Berhad and the Malaysian Institute of Research. He also sits on the Boards of other Sarawak State Government-Linked Companies.

Datuk Amar Wilson has attended 9 out of the 13 Board meetings of the Company held during the financial year. He has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

MOHAMMED RASHDAN BIN MOHD YUSOF

Non-Independent Non-Executive Director

Encik Mohammed Rashdan, aged 40, a Malaysian, was appointed as a Non-Independent Non-Executive Director of Malaysia Airlines on 15 October 2010. He is a member of the Board Hedging Committee.

He holds a double first class honours degree in Economics from the University of Cambridge. He is a Chartered Accountant and an associate member of the Institute of Chartered Accountants in England and Wales and the Association of Corporate Treasurers of the United Kingdom. Encik Mohammed Rashdan trained as an Accountant in PricewaterhouseCoopers and later was a financial consultant, specialising in financial services and structured finance. In 2002, he was one of the two co-founders of BinaFikir Sdn. Bhd., an investment advisory firm, and was its Managing Director from 2004 to 2008. He was subsequently appointed as Chief Executive Officer and Director of Maybank Investment Bank Berhad in 2008 to mid-May 2010. He is currently an Executive Director of Khazanah Nasional Berhad since May 2010.

He sits on the Board of Penerbangan Malaysia Berhad.

Encik Mohammed Rashdan has attended 2 out of the 2 Board meetings of the Company held during the financial year, since his appointment as the Board of Director of MAS. He has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

DATUK SUKARTI BIN WAKIMAN

Independent Non-Executive Director

Datuk Sukarti, aged 57, a Malaysian, was appointed as an Independent Non-Executive Director to the Board of Malaysia Airlines on 22 March 2011.

He graduated from the University of Malaya in 1977 with a Bachelor of Arts in Anthropology and Sociology (Honours). He began his career as a Manpower Officer in the Ministry of Manpower and Environmental Development, Sabah in 1977. In 1981, he was posted to the Protocol and Ceremonial Division, Chief Minister's Department, Sabah as a State Protocol and Ceremonial Officer. Subsequently, he assumed the post of Administrative Officer at the State Development Office, Sabah in 1984. In late 1984, he was posted to Istana Negeri as Private Secretary to Sabah Head of State. In 1994, he was promoted to the post of Permanent Secretary to the State Ministry of Agriculture and Fisheries. He became the Permanent Secretary to the Ministry of Rural Development, Sabah later in 1996. Then in 1998, he was transferred to the State Public Service Department, Sabah and assumed the post of Director. In 2000, he assumed the post of Permanent Secretary to the Ministry of Infrastructure Development for a short while before being transferred back to the State Public Service Department, Sabah to assume the same post later in the same year. He was appointed as the State Secretary of Sabah on 3 July 2007.

He is currently Chairman of Sabah Forest Industries (SFI). He sits on the Boards of Kumpulan Wang Simpanan Pekerja (KWSP), Borneo Housing Mortgage Finance Berhad, Universiti Malaysia Sabah, Warisan Harta Sabah Sdn. Bhd. and Sabah Foundation Board of Trustee.

Datuk Sukarti was appointed in March 2011 and therefore did not attend any Board meetings of the Company held during the financial year. He has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

DATO' PUTEH RUKIAH BINTI ABD MAJID

Alternate Director to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah

Dato' Puteh Rukiah, aged 58, a Malaysian, was appointed as Alternate Director to Tan Sri Dr. Wan Abdul Aziz on 16 August 2007.

She holds a Bachelor of Economics degree from the University of Malaya and a Master of Economics from the Western Michigan University, USA. She had held various posts in the Malaysian Government since 1976 and her various appointments included being the Deputy Under Secretary, Privatisation and Public Enterprise Division of the Ministry of Finance (Incorporated) in 2000, and subsequently, until 2006, served as Under Secretary, Investment and Privatisation Division, of the Ministry of Finance (Incorporated). Currently, she is the Deputy Secretary General (Systems and Controls), at the Ministry of Finance.

She sits on the Boards of Tenaga Nasional Berhad, Perbadanan Usahawan Nasional Berhad, Pengurusan Aset Air Berhad, Penerbangan Malaysia Berhad and Perbadanan Hartanah Berhad (formerly known as Pelaburan Hartanah Bumiputera Berhad).

Dato' Puteh Rukiah has attended 5 out of the 13 Board meetings of the Company during the financial year on behalf of Tan Sri Dr. Wan Abdul Aziz. She has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholder of the Company. She has no conviction for any offences within the past 10 years.

DATUK AMAR HAJI MOHAMAD MORSHIDI BIN ABDUL GHANI

Alternate Director to Datuk Amar Wilson Baya Dandot

Datuk Amar Haji Mohamad Morshidi, aged 54, a Malaysian, was appointed as Alternate Director to Datuk Amar Wilson on 11 January 2008.

He holds a Bachelor of Economics degree from the University Kebangsaan Malaysia and a Master of Science in Human Resource Administration from the University of Scranton, Pennsylvania, USA. He started his career as a Management Executive with PETRONAS in 1980. He was appointed Director of Kuching North City Hall from 1988 to 1998. He then went on to hold a number of senior positions in the Chief Minister's Department that included Director, Human Resource Management and Director, Human Resource Development and Quality from 1998 to 2001. He was later appointed as Permanent Secretary in the Ministry of Social Development and Urbanisation in 2001. He was the Director in the State Planning Unit in the Chief Minister's Department before assuming a position as Deputy State Secretary of Sarawak in 2006. On 2 August 2009, he was appointed as State Secretary of Sarawak.

He is Chairman of Sarawak Water Resources Council, Faradale Development Sdn. Bhd., Sarawak Development Institute and Deputy Chairman of Angkatan Zaman Mansang (AZAM).

He also sits on the Boards of the Sarawak Economic Development Corporation (SEDC) and Chairman of its Board Audit Committee, University Malaysia Sarawak (UNIMAS), Swinburne University of Technology Sarawak as well as its council member, ASSAR Asset Management Sdn. Bhd., Sarawak Information Systems Sdn. Bhd., Faradale Holdings, Regional Corridor Development Authority (RECODA), Governors International College of Advance Technology Sarawak (ICATS) and member of Sarawak Infotmation Technology & Resources Council. He is also involved in other social organisations such as Deputy President of Kelab Golf Sarawak, Council member of Sarawak Badminton Association and Patron of Sarawak Rugby Union.

Datuk Amar Haji Mohamad Morshidi has attended 1 out of the 13 Board meetings of the Company held during the financial year on behalf of Datuk Amar Wilson. He has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

**DATUK PENGIRAN HASSANEL BIN DATUK PENGIRAN
HJ MOHD TAHIR**

Alternate Director to Datuk Sukarti bin Wakiman

Datuk Pengiran Hassanel, aged 53, a Malaysian, was appointed as an Alternate Director to Datuk Sukarti on 22 March 2011.

He graduated with a Bachelor of Social Sciences/Economics (Honours) degree from the Hatfield Polytechnic (University of Hertfordshire), United Kingdom. He served the State Government of Sabah as Director in the State Economic Planning Unit in 1998. From 2003 to 2010, he held the post of Permanent Secretary in the Ministry of Infrastructure Development, Sabah. He is currently the Permanent Secretary at the Ministry of Finance, Sabah.

He also sits on the Board of Sabah Development Bank Berhad.

Datuk Pengiran Hassanel was appointed in March 2011 and therefore did not attend any Board meetings of the Company held during the financial year on behalf of Datuk Sukarti. He has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholder of the Company. He has no conviction for any offences within the past 10 years.

SHAHJANAZ KAMARUDDIN

Company Secretary

Cik Shahjanaz received her entire secondary school education at a public school in Malvern, Worcestershire, United Kingdom (UK) before graduating in 1985 with a BA Hons. (Law) degree from the University of Kent, Canterbury, UK. She studied the Bar Finals at the Council For Legal Education in London and was called to the English Bar, Lincoln's Inn, in 1987. She chambered with the eminent law firm, Messrs. Shook Lin & Bok, before being called to the Malayan Bar in 1988. She started her career as the Assistant Secretary at a renowned plantation-based company before joining Malaysia Airlines in June 1995 as the Corporate Secretary and Counsel. In 2003, she was appointed as the Group General Counsel to head the Group Legal Practice Department. In March 2009 she was transferred to Group Secretarial Practice and was subsequently appointed as the Company Secretary on 12 June 2009.

Senior Management

- 1 Tengku Dato' Sri Azmil Zahrudin bin Raja Abdul Aziz
- 2 Mohd. Azha bin Abdul Jalil
- 3 Captain Mohamed Azharuddin bin Osman
- 4 Dato' Mohd. Salleh bin Ahmad Tabrani
- 5 Sharifah Salwa Syed Kamaruddin
- 6 Muzzaffar bin Othman
- 7 Bryan Fong Chee Yeong
- 8 Captain Izhah Ismail
- 9 Raja Zamalia Raja Dato' Seri Mansur
- 10 Mohd Roslan bin Ismail
- 11 Dr. Wafi Nazrin Abdul Hamid
- 12 Dato' Captain Mohd Nawawi
- 13 Shahari bin Sulaiman
- 14 Hayati Dato' Ali
- 15 Raja Azura Raja Mahayuddin
- 16 Dr. Amin Khan
- 17 Dato' Eddy Leong Chin Tung
- 18 Esther Yap Siew Yen
- 19 Captain Dr Ooi Teong Siew
- 20 Dato' Bernard Francis





Senior Management Profile

TENGGU DATO' SRI AZMIL ZAHRUDDIN BIN RAJA ABDUL AZIZ

Managing Director/Chief Executive Officer

Tengku Dato' Azmil Zahrudin, 40, is the Managing Director of Malaysia Airlines. He was first appointed to the Board of Malaysia Airlines on 23 August 2004 and subsequently as Executive Director on 23 August 2005 and Chief Financial Officer on 1 February 2006.

He was part of the senior management team who successfully led the turnaround of Malaysia Airlines. The 3-year Business Turnaround Plan was completed in less than 2 years in 2008.

He is currently driving the Business Transformation Plan which aims to transform the national carrier into an entity that is consistently profitable and highly competitive against its peers.

Azmil is also a Board member of Tourism Malaysia.

Prior to Malaysia Airlines, Azmil was the Chief Financial Officer and then Managing Director/Chief Executive Officer of Penerbangan Malaysia Berhad, Malaysia Airlines' holding company. He was also with PricewaterhouseCoopers in their London and Hong Kong offices where he was in the Audit and Business Advisory Services division, specialising in financial services.

Azmil holds a double first class degree in Economics from the University of Cambridge. He is a Chartered Accountant and an associate member of the Malaysian Institute of Accountants and the Institute of Chartered Accountants in England and Wales. He is also an Associate of the Association of Corporate Treasurers, United Kingdom.

MOHD. AZHA ABDUL JALIL

Chief Financial Officer

Mohd Azha Abdul Jalil, aged 44, graduated with a Bachelor's Degree in Accounting (High Distinction) from Indiana University, Bloomington, USA. He joined Malaysia Airlines in July 2007.

Prior to joining Malaysia Airlines, he held eight different positions in the Shell group of companies within a span of 17 years. The assignments included as General Finance Manager of Shell MDS Malaysia, Senior Analyst (Business Performance & Strategy) at Shell International London, Finance Manager (Commercial) of Shell Malaysia Trading Berhad and several other finance positions at Sarawak Shell Berhad. He started his career with KPMG Peat Marwick.

CAPTAIN MOHAMED AZHARUDDIN OSMAN

Director of Operations

Captain Mohamed Azharuddin Osman joined Malaysia Airlines in 1973 after completing his flying training under the Qantas cadet pilot training programme in Sydney. He started his flying career as a co-pilot on the Fokker 27 and now flies the Boeing 747-400.

Throughout his years in Malaysia Airlines he has held various positions in training as well as inflight operations management. His last position was General Manager Flight Operations. He is currently the Director of Operations, responsible for the entire airline operations.

He is a member of the Chartered Institute of Transport and Logistics (CILT) UK, holds an MBA (IMC UK) as well as MSc (HRD) from Universiti Putra Malaysia (UPM).

Captain Azharuddin represents Malaysia Airlines as a Board member of Malaysia Airlines Aerotechnologies Sdn. Bhd., GE Engine Services Malaysia Sdn. Bhd., MAS Catering (Sarawak) Sdn. Bhd., Malaysian Aerospace Engineering Sdn. Bhd., Aerokleen Services Sdn. Bhd., and Hamilton Sunstrand CSC (Malaysia) Sdn. Bhd.

DATO' MOHD SALLEH BIN AHMAD TABRANI

Executive Vice President, Inflight Services

Dato' Mohd Salleh bin Ahmad Tabrani, graduated in 1985 with an Honors Bachelor Degree in Economics from University of Waterloo, Ontario, Canada.

He joined Malaysia Airlines in 1986 as a Management Trainee. Prior to his current position, he has held many strategic management positions at various locations within the domestic and international network of Malaysia Airlines, which include postings as Area Manager in Malaysia, Brunei, Germany, Holland, and as Regional Vice President for the Americas and Australia/New Zealand regions respectively. After serving abroad for more than 10 years, he returned to assume the role of Regional General Manager-Malaysia and ASEAN in 2006. In 2008, he assumed the dual role of Managing Director of MASwings Sdn. Bhd. and General Manager, Transition Management.

Over the last 25 years, given his wide international experience, he has progressively assumed higher management positions and responsibilities within Malaysia Airlines and its subsidiaries. His current management responsibilities include being on the Board of Directors of several Malaysia Airlines subsidiaries. He is also a distinguished faculty member of the Malaysia Airlines Leadership Development Programme, and lectures regularly at the Malaysia Airlines Academy.

SHARIFAH SALWA SYED KAMARUDDIN

Senior Vice President, Revenue Management

Sharifah Salwa Syed Kamaruddin, 48, joined Malaysia Airlines on 1 September 1993 as Executive, Fleet Planning. She has held various functions in the company including in Business Development, Turnaround Management, Vendor Development, Revenue Management, Talent Management and was appointed SVP Revenue Management on 17 May 2010.

Prior to Malaysia Airlines, Sharifah Salwa was an Executive with PETRONAS since 1987.

Sharifah Salwa holds an MBA, Finance from the University of Pittsburgh and a BSc Degree in Accountancy with minor in Decision Science from the George Mason University of Fairfax, Virginia.

MUZZAFFAR OTHMAN

Executive Vice President, Managing Director's Office

Muzzaffar is currently the Executive Vice President in the MD's Office. His portfolio includes Strategic Procurement, Group IT, Property Development & Maintenance, Revenue Assurance, Customer Experience and Aircraft Trading. His current focus is to spearhead the Re-branding strategy and implementation for Malaysia Airlines.

Prior to this, he headed Strategic Procurement where he strategised on and implemented cost savings initiatives on an annual spend of approximately RM 8-9 billion.

Muzzaffar came from Citibank where he ran Business Process Re-engineering work and prior to that from IBM Business Consulting Services where he practised in Six Sigma and Supply Chain Management. Muzzaffar started his consultancy career in Pricewaterhousecoopers in 1997. He holds a Chemistry degree from University of Wisconsin - Madison.

BRYAN FOONG CHEE YEONG

Vice President, Transformation Management

Bryan Foong, holds an MBA from the Cranfield School of Management, UK and has a Bachelor's Degree in Mechanical Engineering from Queen's University Belfast, UK. He currently heads the Transformation Management Office, that is responsible for supporting the Managing Director/CEO in corporate strategy and planning; and manages the planning, execution and monitoring of key business transformation initiatives throughout the company.

Since joining Malaysia Airlines in 2007, he has managed several of the key initiatives under the BTP1 and BTP2 journeys. Prior to joining Malaysia Airlines, he has served in a variety of roles with various local and international corporations, including Proton, Mitsubishi Motors Corporation, Hong Leong Bank and Ernst & Young Business Advisory Services.

CAPTAIN IZHAM ISMAIL

Senior Vice President, Operations and Development

Captain Izham Ismail received his pilot training from the Philippines Aviation School and has since been flying with Malaysia Airlines from 1980. He is experienced in operating all of Malaysia Airlines' aircraft from the F27 to the B747. In addition to this, he is also an Instructor Pilot and Authorised Examiner.

Having joined the Flight Operations Management Team in the 1990s, Capt Izham has a vast amount of experience in management. Some of his major accomplishments include leading the Y2K Air Operations for Flight Operations Division of Malaysia Airlines into the current millennium as well as leading the Division for the introduction of the A330 – 300 and the B777 – 200 into service.

His areas of expertise include managing projects related to flight operations, planning and managing fleet operations and its training requirements.

RAJA ZAMILIA RAJA DATO' SERI MANSUR

Executive Vice President, Communications

Raja Zamilia Raja Dato' Seri Mansur graduated with a BSc Hons (Law) degree from DeMontford University, Leicester in England. She joined Malaysia Airlines as the Executive Vice President of Communications on 1 November 2010. Her portfolio includes managing the Public Relations (Media Relations, Issues/Crisis Management, Internal Communications and Community Relations) as well as Branding, Advertising and Promotions for the company. She will focus on enhancing the prominence and branding of Malaysia Airlines, both locally and internationally.

With more than 18 years' experience in the Communications field, Raja Zamilia has acquired a diverse exposure in various industries which include banking, automotive, building materials and hospitality.

Prior to her appointment at Malaysia Airlines, Raja Zamilia was attached to the regional headquarters of Kuwait Finance House in Malaysia. She had set up the Communications Unit and played a major role in the positioning of the country's first foreign Islamic bank.

Her communications experience having launched Hilton KL and The Ritz-Carlton KL, as well as Pangkor Laut and Tanjong Jara Resort under YTL Hotels, have provided her an edge in understanding the travel and hospitality needs of international consumers.

MOHD ROSLAN BIN ISMAIL

Executive Vice President, Engineering & Maintenance
Managing Director, MAS Aerospace Engineering

Mohd Roslan bin Ismail is Managing Director, MAS Aerospace Engineering and Executive Vice President, Engineering & Maintenance. He graduated with a Master of Science (M.Sc), (Transport Planning) from Universiti Teknologi Malaysia (UTM), Skudai, Johor, and holds a Malaysian DCA Aircraft Maintenance Engineer's License. He started his career in Malaysia Airlines as a Licensed Aircraft Maintenance Engineer and has more than 30 years of working experience in the Engineering Division. He is currently a member of the Board of Directors of the Malaysian Institute of Aviation Technology (MIAT), Honeywell Aerospace Services (M) Sdn. Bhd, GE Engine Services Malaysia Sdn Bhd. (GEESM), Hamilton Sundstrand CSC (M) Sdn. Bhd, MAS GMR Aerospace Engineering Co Ltd, Hyderabad, India and Pan Asia Pacific Aviation Services Limited, Hong Kong.

DR WAFI NAZRIN ABDUL HAMID

Chief Risk Officer
Executive Vice President, External Relations

Dr Wafi Nazrin Abdul Hamid graduated with a first class degree in law from the International Islamic University. He later obtained British Chevening Scholarships for his Master of Laws from Cambridge University and Ph.D in Maritime Law from Southampton University. He subsequently completed his MBA in Finance and Investment from Universiti Kebangsaan Malaysia. Recently, he obtained a post-graduate qualification in European Union Competition Law from Kings College, London University.

In recognising his success and international experience in competition law, he has been appointed by the government as advisor to the new Malaysian Competition Commission. He is also a contributing author to the legal reference "ASEAN Competition Law" (2011).

Prior to joining Malaysia Airlines in 2003, he was a legal practitioner in Kuala Lumpur and in-house counsel with PETRONAS and MISC. He won the prestigious "Interlaw-Corporate Counsel of the Year" award in 2007.

DATO' CAPTAIN MOHD NAWAWI BIN AWANG

Managing Director, MASwings

Dato' Nawawi, an airline pilot by profession, is a member of the Chartered Institute of Logistics and Transport (CILT) and holds a Master of Business Administration from the University of Strathclyde, Scotland.

He joined Malaysia Airlines in 1975 after 5 years of service with the Royal Malaysian Air Force. Throughout the years, he has progressed through several senior positions in the airline, including the role of Executive Vice President, External Relations prior to being appointed to his current position. Dato' Nawawi has also represented Malaysia Airlines in a number of industry-level committees, including at the IATA Operations Committee from 2001 to 2004. He spearheaded the airline's efforts to 'Win Coalitions', proactively engaging with its stakeholders, namely government ministries and agencies, state governments, members of parliaments, suppliers and business partners.

SHAHARI SULAIMAN

Managing Director, MASKargo

Shahari Sulaiman, aged 48, graduated from the University of Southern California with a BSc in Aerospace Engineering in 1985. He subsequently joined Malaysia Airlines in the Engineering Division and served 15 years in Engineering covering Technical Services, Structural Engineering, Aircraft Evaluation, Reliability Analysis and freighter conversions.

In early 2001, he was brought into MASKargo as a Senior Management team member to turn around the company. The team managed to turnaround the company in one and a half years and has been profitable ever since. In MASKargo, he has accumulated experience in Freight Planning, Business Planning, Sales, Revenue Management and Operations by managing the respective departments at some point over the last 7 years. In September 2007, he was appointed to his current position.

He brings to the team a vision to provide enhanced value-added services to MASKargo's business partners as well as to maintain a consistently profitable and well-respected organisation.

HAYATI DATO' ALI

Executive Vice President, Airport Operations

Hayati Dato' Ali graduated with a BSc in Finance and a BA in Economics from the California State University, before proceeding with an MBA from the same university. Hayati started her career in Malaysia Airlines as a Market Planning Analyst in the Corporate Planning Division in 1986 after a brief stint at a local bank.

Throughout the years, Hayati has served in MASKargo, Corporate Planning and Corporate Sales, Ground Handling Management and Flight Operations. Prior to her current position, Hayati was the General Manager of Inflight Services. In her capacity as GM/ SVP Inflight Services, Hayati also sits on the Boards of Taj Madras Flight Kitchen Pvt. Ltd in Chennai, Evergreen Sky Catering Corp. in Taipei, Miascor Catering Services Corp. in Manila, MAS Catering (Sarawak) Sdn Bhd in Kuching, LSG Brahim and MAS Golden Boutique Sdn Bhd. in Kuala Lumpur.

Hayati assumed her current role beginning 1 January 2011.

RAJA AZURA RAJA MAHAYUDDIN

Executive Vice President, Human Capital

Raja Azura Raja Mahayuddin, aged 38, graduated with a Bachelor of Accounting (Hons) degree from Universiti Utara Malaysia. Before joining Malaysia Airlines, she had served Arthur Andersen & Co for 4 years. She is a Chartered Accountant (CA), Certified Internal Auditor (CIA) and has obtained her Certification in Control Self Assessment (CCSA).

Raja Azura joined Malaysia Airlines in February 2002. She was the Manager, Internal Audit Department upon joining Malaysia Airlines and was assigned to lead the Systemwide Station Internal Control Manual (SSICM) from September 2002 – May 2003. Subsequently, she was tasked to set up and head the Organisation & Methods Department. She was appointed as the Chief Internal Auditor (CIA) in March 2005 until June 2009 and led the transformation of the internal audit function and assisted the organisation in executing key governance related initiatives namely the Internal Control Enhancement (ICE) & Business Assessment & Control Assurance (BACA) programmes. Subsequently, she was seconded to Khazanah Nasional Berhad as the Senior Vice President in Strategic Human Capital Management Division for one year prior to taking on her current role on 1 July 2010. Azura is actively contributing in the internal audit profession and currently serves on the Board of Governor of the Institute of Internal Auditors Malaysia (IIAM).

DR AMIN KHAN

Executive Vice President, Commercial Strategy

Dr Amin Khan graduated from the Cranfield School of Management, UK, with an MBA and PhD in Management. He is a licensed aircraft engineer and a certified Six Sigma Black belt holder. He has held various key positions in the company, namely in Engineering, Internal Audit, Network Planning and Revenue Management, HR (Training and Development), Sales and Regional Manager of the China region. Prior to his appointment to his current position, he was double hatting as the Senior General Manager for Transition Management that led the development and implementation of the Passenger Services System including eCommerce and the Managing Director of MASwings, a subsidiary of Malaysia Airlines that provides rural air services in East Malaysia. He currently heads Commercial Strategy in Malaysia Airlines.

DATO' EDDY LEONG CHIN TUNG

Managing Director, Firefly

Dato' Eddy, aged 38, graduated with a Bachelor of Business with major in Accounting from the RMIT University, Melbourne, Australia and also a member of the Institute of Chartered Accountants in Australia as well as the Malaysian Institute of Accountants.

Prior to joining Malaysia Airlines in 2003, he was in the Audit & Business Advisory and Business & Risk Consulting units in Arthur Anderson (which merged with Ernst & Young in 2002) from 1997 to 2003. He has held various key positions within Malaysia Airlines including Project Director of MAS Hotels & Boutiques Sdn. Bhd., Head of Project Management Department, Assistant General Manager for Airport & Inflight Operations (Quality Assurance), and Assistant General Manager, Turnaround Management Office until 2007.

ESTHER YAP SIEW YEN

Chief Internal Auditor

Esther Yap, aged 38, graduated from University Malaya with an Honour Class II (Upper Division) Degree in Accountancy. Before joining Malaysia Airlines in 2002, she had served Arthur Andersen & Co for 4 years.

She is a Chartered Accountant (CA) of the Malaysian Institute of Accountants (MIA) and Malaysian Institute of Chartered Public Accountants (MICPA). She is also the Deputy Chairman of the International Association of Airline Internal Auditors (IAAIA) and the Chairman of the Whistleblower Independent Committee.

She was appointed to her current position in July 2009. During her tenure in Malaysia Airlines, Esther was actively involved in internal control process mapping and documentation projects namely the Systemwide Station Internal Control Manual (SSICM) and Systemwide Station Approving Authority Manual (SAAM). Esther set up the Financial Audit and Commercial Audit Teams in Malaysia Airlines and initiated the Internal Quality Assurance Collaboration Programme within the organisation.

CAPTAIN DR OOI TEONG SIEW

Senior Vice President, Corporate Safety Oversight

Captain Dr Ooi, aged 58, joined Malaysia Airlines as a cadet pilot in 1972. He has held various key management pilot positions for the last 30 years. He holds a Masters of Business Administration from the University of Bath and a Doctor of Business Administration from the University of Newcastle.

DATO' BERNARD FRANCIS

Executive Vice President, Sales & Marketing

Dato' Bernard Francis, aged 41, holds a Bachelor's degree from the National University of Malaysia and Master in Business Administration (International Business) from University of Malaya.

He assumed the new role of EVP Sales & Marketing in November 2008 and oversees the entire sales function systemwide.

Prior to the appointment to his current position, Bernard headed Network, Revenue Management and Distribution and played a pivotal role in the rationalisation of both the international and domestic networks and instituted many structural changes to Revenue Management Optimisation including Fare Class Realignment and Fare Distributions. Before joining Malaysia Airlines, he was the Regional Director, Route Revenue and Distribution at AirAsia with responsibilities covering AirAsia Malaysia, Thai AirAsia and Indonesia AirAsia. His past experience with the YTL Group includes Project Financing and Mergers and Acquisitions relating to energy, cement, property, hotels and information technology.

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Five-Year Statistical Review of the Group

		31-Dec 2010	31-Dec 2009 Restated	31-Dec 2008 Restated	31-Dec 2007	31-Dec 2006
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FINANCIAL

Total Revenue	(RM'000)	13,587,610	11,605,511	15,570,141	15,232,741	13,407,240
Total Expenditure	(RM'000)	13,462,139	12,288,452	15,299,234	14,404,400	13,641,880
Taxation	(RM'000)	(44,690)	31,116	(19,086)	(29,590)	(60,618)
Profit/(Loss) after Tax And Exceptional Item	(RM'000)	237,346	522,948	271,795	852,743	(133,737)
Shareholders' Funds	(RM'000)	3,524,166	699,693	4,119,822	3,934,893	1,873,425
Profit/(Loss) as a % of Revenue	(%)	1.7	4.5	1.7	5.6	(1.0)
Return on Shareholders' Funds	(%)	6.7	74.7	6.6	21.7	(7.1)
Earnings/(Loss) Per Share	(sen)	7.2	25.3	14.6	58.0	(10.9)

Network Size	(KM)	418,666	366,908	387,987	421,075	525,784
Time Flown	(Hours)	386,853	355,641	364,013	356,295	381,134
Distance Flown	(000 KM)	237,618	219,961	236,031	239,699	249,925
Available Capacity	(000 TKM)	7,893,689	7,366,845	8,503,203	9,579,101	9,525,623
Available Passenger Capacity	(000 Seat KM)	50,817,898	48,761,794	53,378,580	56,227,787	58,923,735

TRAFFIC

Passenger Carried	(000)	15,708	13,870	13,760	14,213	15,466
Passenger Carried	(000 Pax KM)	38,652,874	33,455,303	36,176,166	40,162,186	41,099,612
Passenger Load Factor	(%)	76.1	68.6	67.8	71.4	69.8
Cargo Carried	(000 TKM)	2,441,254	2,065,120	2,445,021	2,621,597	2,593,332
Mail Carried	(000 TKM)	8,406	7,674	8,965	4,721	4,309
Overall Load Carried	(000 TKM)	5,949,090	5,110,924	5,750,376	6,305,358	6,359,430
Overall Load Factor	(%)	75.4	69.4	67.6	65.8	66.8

STAFF

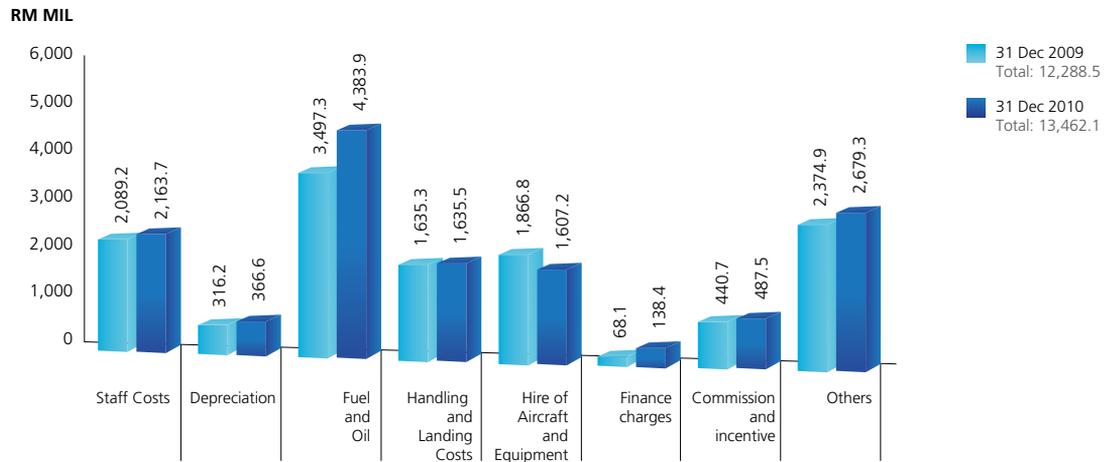
Employee Strength		20,000	19,147	19,094	19,423	19,596
Revenue Per Employee	(RM'000)	679	606	815	784	684
Available Capacity Per Employee	(TKM)	394,684	384,752	445,334	493,183	486,100
Load Carried Per Employee	(TKM)	297,455	266,931	301,161	324,634	324,527

Performance Highlights

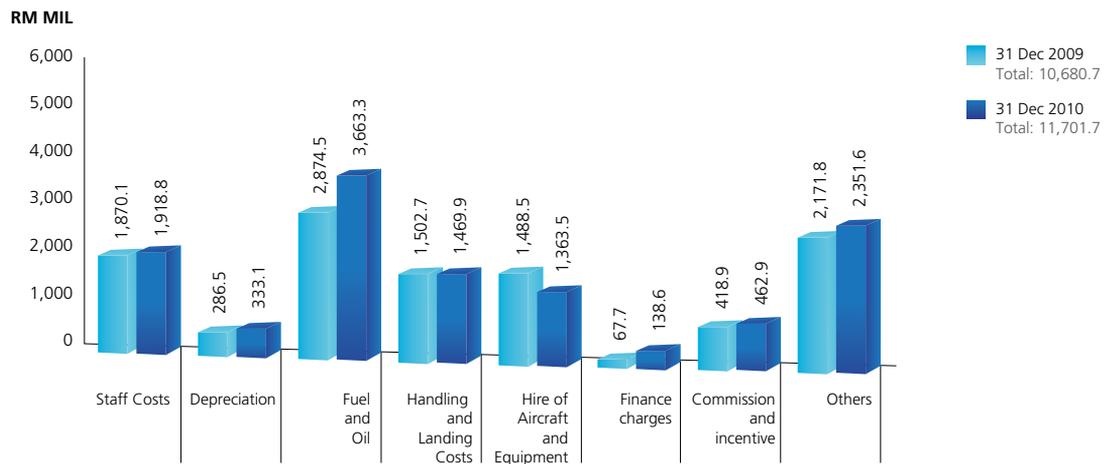
		31-Dec 2010	31-Dec 2009	Change %
GROUP				
Financial				
Total Revenue	RM Million	13,587.6	11,605.5	17.1
Total Expenditure	RM Million	(13,462.1)	(12,288.5)	9.6
Profit after Tax	RM Million	237.3	522.9	(54.6)
Shareholders' Funds	RM Million	3,524.2	699.7	403.7
Earnings Per Share	Sen	7.2	25.3	(71.5)
Dividend Per Share	Sen	-	-	-
Cash Flow Per Share	RM	0.0	(1.0)	(102.1)
Operating Statistics				
Available Tonne Kilometres	Million	7,893.7	7,366.8	7.2
Load Tonne Kilometres	Million	5,949.1	5,110.9	16.4
Overall Load Factor	%	75.4	69.4	8.6
Available Seat Kilometres	Million	50,817.9	48,761.8	4.2
Passenger Kilometres Flown	Million	38,652.9	33,455.3	15.5
Passenger Load Factor	%	76.1	68.6	10.9
Staff and Productivity				
Employee Strength		20,000	19,147	4.5
Available Tonne Kilometres Per Employee		394,684	384,750	2.6
Load Tonne Kilometres Per Employee		297,455	266,930	11.4
COMPANY				
Operating Statistics				
Available Tonne Kilometres	Million	6,278.6	6,110.7	2.7
Load Tonne Kilometres	Million	4,810.3	4,280.3	12.4
Overall Load Factor	%	76.6	70.0	9.4
Available Seat Kilometres	Million	49,613.1	47,838.3	3.7
Passenger Kilometres Flown	Million	37,837.6	32,894.2	15.0
Passenger Load Factor	%	76.3	68.8	10.9
Aircraft Utilisation (Average)	Hours Per Day	11.2	10.7	4.6
Staff and Productivity				
Employee Strength		17,072	16,454	3.8
Available Tonne Kilometres Per Employee		367,772	371,381	(1.0)
Load Tonne Kilometres Per Employee		281,765	260,137	8.3

Expenditure

Group

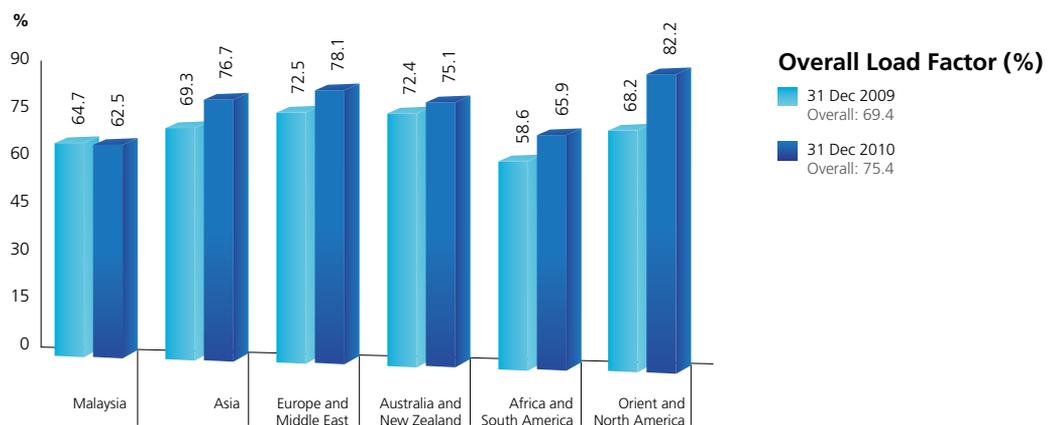
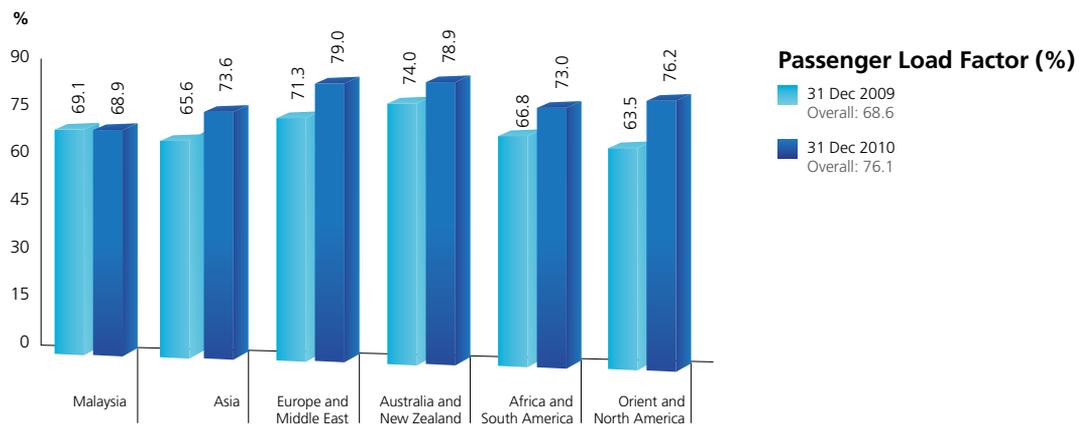
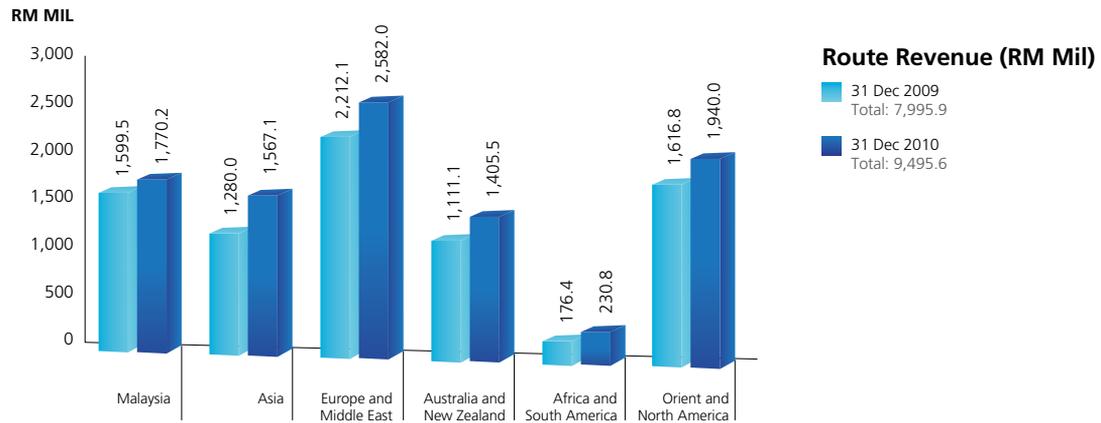


Company



Analysis of Airline Operations (including Freighter)

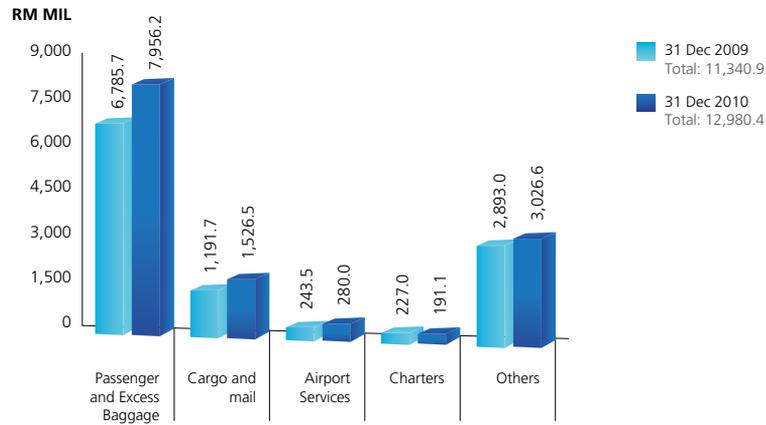
By Geographical Route Region



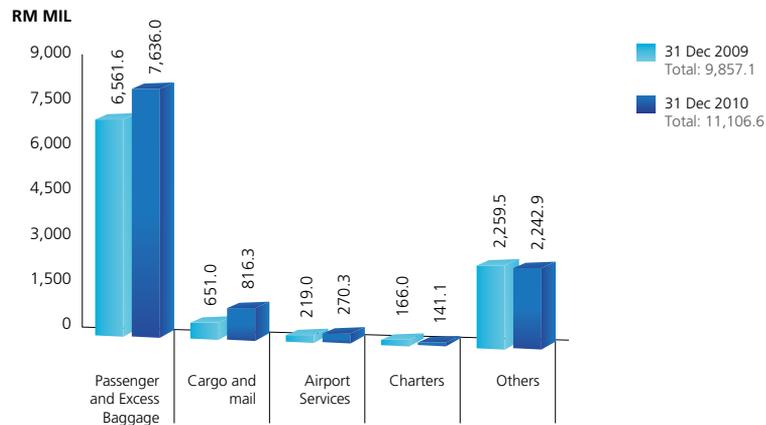
Revenue Composition

By Category

Group

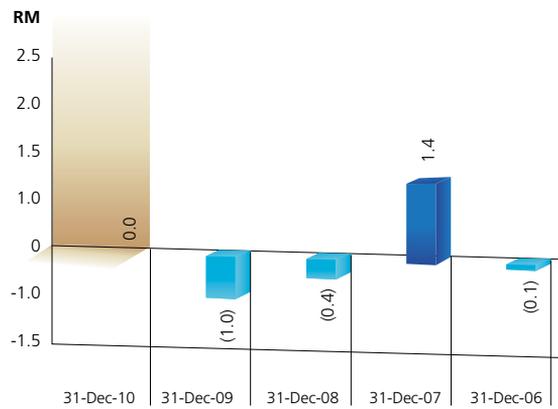


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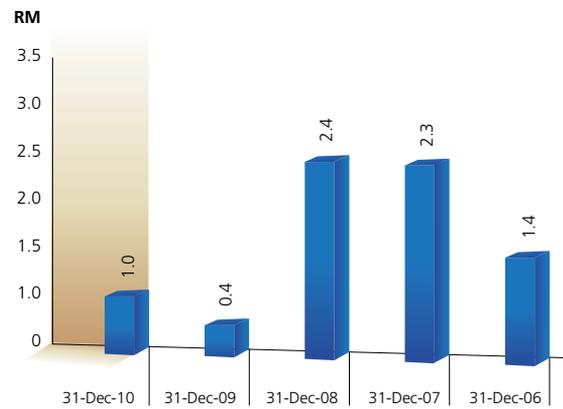


Group Financial Highlights

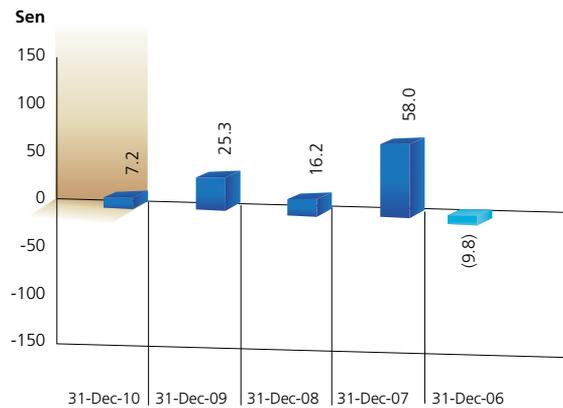
Cash Flow Per Share



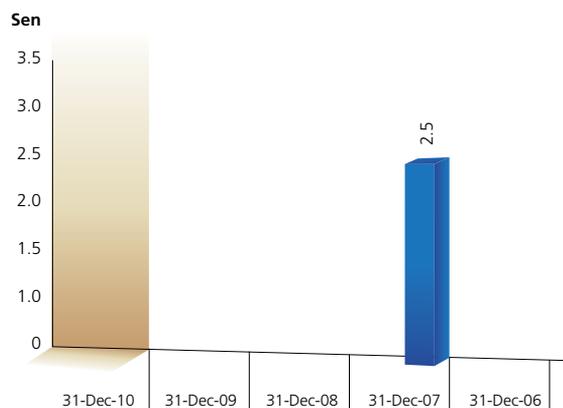
Net Tangible Assets Per Share



Earnings/(Loss) Per Share

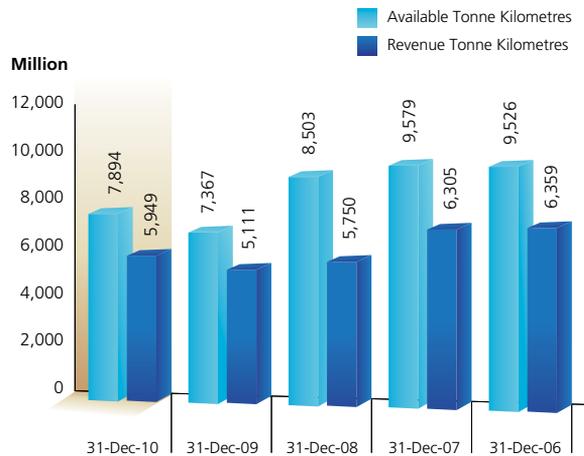


Dividends Per Share

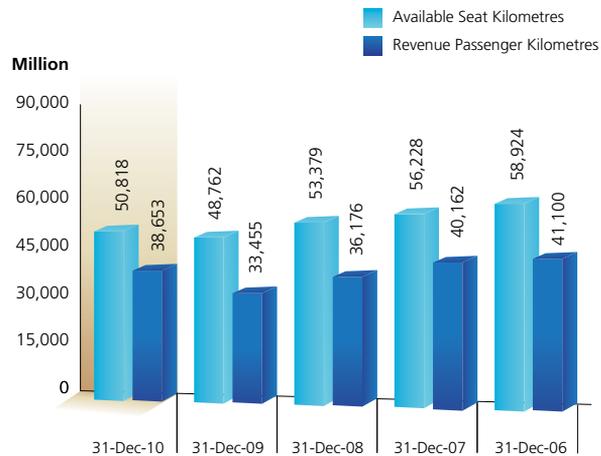


Corporate Charts

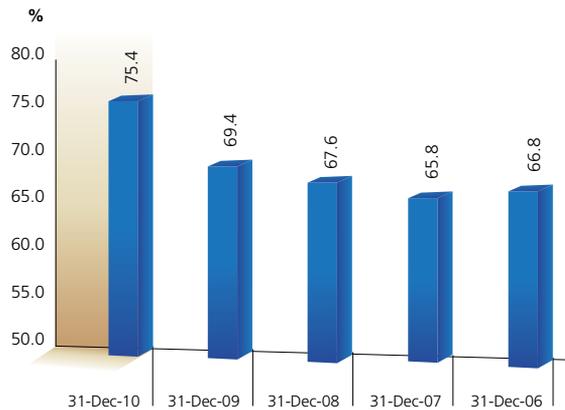
Overall Capacity and Demand



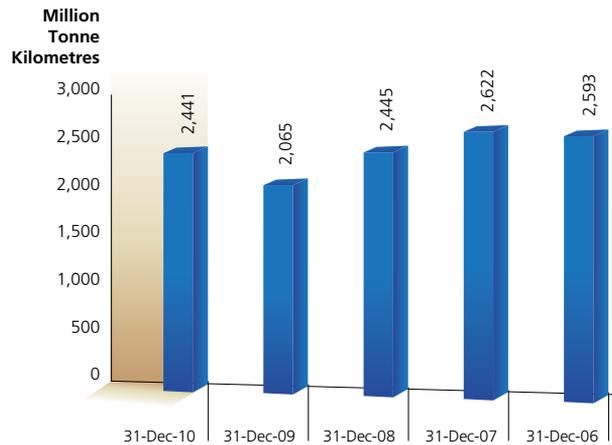
Passenger Capacity and Demand



Overall Load Factor



Cargo Carried

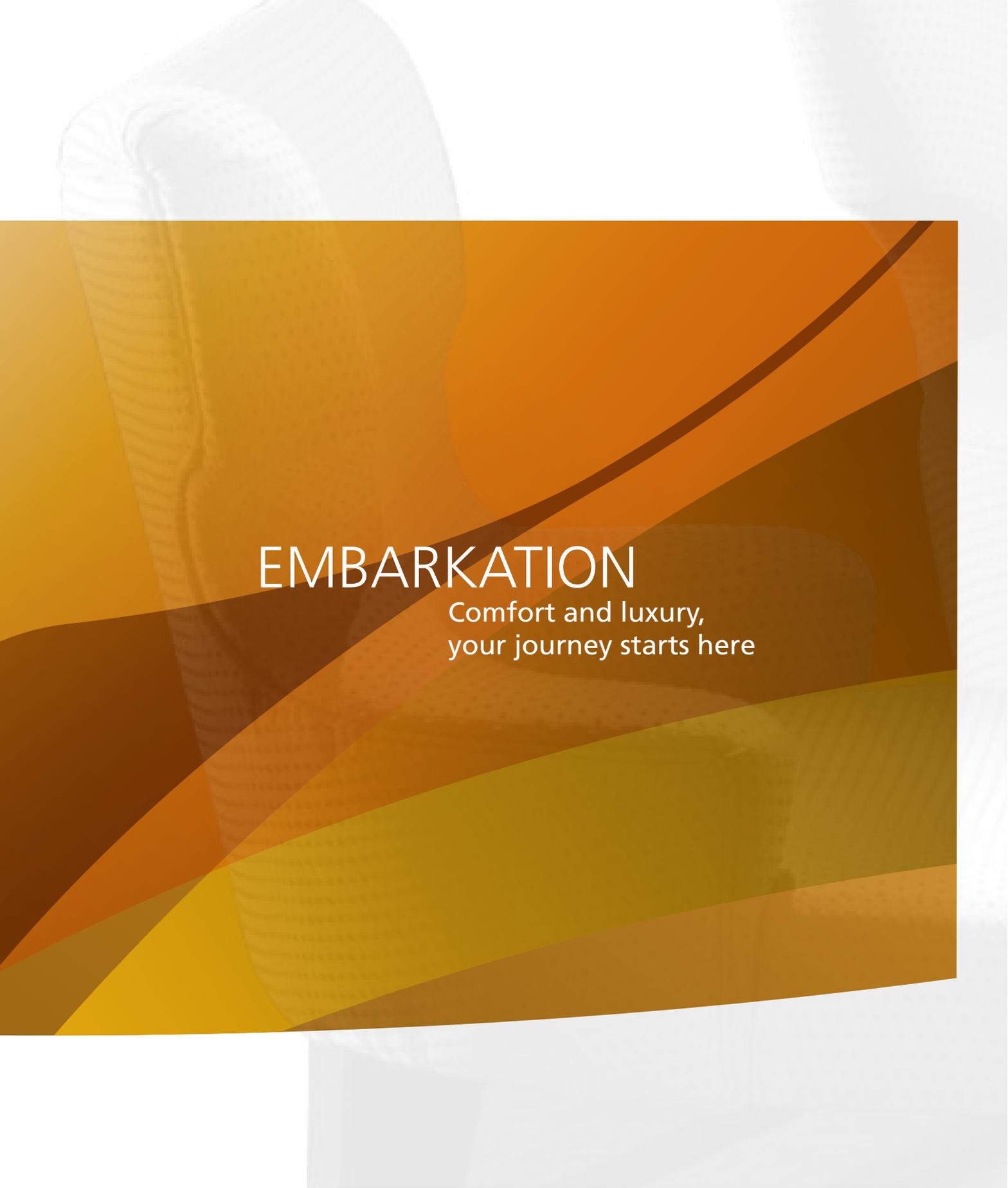


Fleet Status

	Number of aircraft in Malaysia Airlines' operations as at 31 December 2010	Number of aircraft in Malaysia Airlines' operations as at 31 December 2009
B747-400P	10	10
B747-400F	2	2
B747-200F	4	4
B777-200	17	17
A330-300	9	11
A330-200	3	3
B737-800	12	3
B737-400	37	37
ATR72-500	19	14
F50	0	7
DHC6	4	4
Total	117	112







EMBARKATION

Comfort and luxury,
your journey starts here

Chairman's Statement

Dear Shareholders,

Malaysia Airlines had a relatively good year in 2010 after having gone through the worst year for aviation in relation to demand according to the International Air Transport Association (IATA), the previous year.

The world economic performance was better than anticipated, which made for a very good operating environment for the industry. IATA reported an 8.2% increase in global passenger air traffic and a 20.6% increase in the freight business. The growth in demand outstripped capacity increases by 4.4% for passenger traffic and 8.9% for cargo. At the same time, we also made internal improvements in terms of our operational efficiencies and business expansion.

As a consequence, the airline emerged from the difficulties of 2009 and was able to record an operating profit of RM264 million based on operating revenues totalling RM12.98 billion.

In improving our operating performance, there were many stellar achievements in the past year, including increases in yield and load factors. In the third quarter of 2010, Malaysia Airlines achieved a seat factor of 78.6%, its highest quarterly seat factor in the last 15 years.

MASKargo reported a record performance due largely to the growth in business going in and out of China, our cargo stronghold. Other encouraging developments include Firefly embarking into the jet business, the establishment of Malaysia Airlines' second hub in Kota Kinabalu in October 2010, as well as the expanding third party revenues enjoyed by both Malaysian Aerospace Engineering (MAE) and MAS Academy.

The most significant and exciting development in 2010, though, was our ongoing fleet renewal programme. As a result of an improved balance sheet through the initiatives, prudence and hard work of everyone in the organisation, undertaken since 2005 and coupled with the rights issue that was completed in March last year, Malaysia Airlines is now in the position to expand and to re-fleet. We are now better placed to take on the challenges and ensuing competition.





It has been a long time since I saw greater excitement and anticipation among our employees, than when our Boeing B737-800 arrived in October, our first fully owned aircraft since 2005. To date, we have placed orders for several Boeing and Airbus aircraft to refresh both our passenger and cargo fleets. This re-fleeting exercise is aimed at having the youngest fleet in the region, if not the world, with about 5.2 years' average age of aircraft, by 2015.

These new aircraft will bring about greater operational efficiency with higher fuel efficiency, lower maintenance costs, as well as provide us with the ability to expand our network and to optimise the utilisation of our second hub in Kota Kinabalu.

Most of all, Malaysia Airlines will be able to offer new and top-of-the-line products in addition to the services of the best cabin crew in the world. Coupled with the great support from our front-end staff, this will bring us several steps closer to our goal of being the "Number One Airline in Asia" by 2015.

GLC TRANSFORMATION

Our achievements in the financial year ended 31 December 2010 accorded Malaysia Airlines an "on-target" rating for overall business performance on the Corporate Scorecard of the Government-Linked Companies Transformation Programme.

Going forward, we will continue to focus on the strategies as outlined in our Business Transformation Plan 2 (BTP2) by further improving the effectiveness and efficiency of our corporate performance in order to thrive in this highly competitive industry.

The strategies include the alignment of all financial and business decisions to our P&L, and the safeguarding of cash through cost conservation activities that do not impinge in any way on the quality of our products and services. In the year under review, we managed to save more than RM600 million through process improvements and increasing operational efficiencies, making us "on target" for our cost containment KPI.

The transformation plan also calls for the strengthening of our workforce by making them more accountable, as well as galvanising them towards the attainment of our corporate goals. This we have undertaken to do by fully implementing the Performance Management System (PMS) in 2009, involving the assignment of KPIs and training programmes to get the best out of our human capital.

As a GLC, Malaysia Airlines will also continue to leverage on our relationship with other GLCs and the government in order to manage our social obligations, explore new business opportunities and redefine domestic aviation policies.

Youngest fleet in the region,
if not the world, with about
5.2 years' average age of
aircraft, by 2015.



In terms of nation building for instance, we are pleased that Malaysia Airlines' aircraft maintenance, repair and overhaul (MRO) capability has been called into service as an area of economic growth under the country's Economic Transformation Programme. MAS Aerospace Engineering (MAE), the MRO division that we had grown ourselves, was heralded as the winner of the 2010 Sullivan award for being the best in Asia-Pacific. We have made a name for ourselves and have consequently gained the trust of more than 100 customers, including Delta Airlines in the United States. Engineering and Maintenance is central to Malaysia Airlines' wellbeing, and we will ensure that service levels will not be compromised, as MAE carries out more third party work.

Malaysia Airlines also forged an agreement with the Federal Land Development Authority (FELDA) last year for the latter to send the best of its SPM school leavers to the Malaysia Airlines Engineering Training Centre (METC) for training to be MRO technicians and engineers. FELDA will endow qualified students with scholarships, while Engineering and Maintenance and MAE will be able to do justice to its role in the government's Economic Transformation Plan by opening doors to a brighter future for children of FELDA settlers.

GIVING BACK TO THE COMMUNITY

Malaysia Airlines is a solid organisation that does a lot of giving back that many people are unaware of and that many of us take for granted.

Our cabin crew tirelessly run charity campaigns to benefit the less fortunate and victims of disasters in Malaysia, as well as overseas. As an airline, and the national carrier to boot, we are in the position to provide mercy flights and medical airlifts, as well as joy rides for orphans, who otherwise would never have flown, and regularly do so.

During the recent political upheaval in Cairo, we sent our best pilots and had the best connections in terms of ground servicing from our past relationship with

Egypt Air. As a result, we were able to evacuate the highest number of people totalling more than 5,000, which just goes to show that Malaysia Airlines is a professional outfit, with diverse experience.

We are involved in many environmental projects in this country as well. Some examples are the rehabilitation of peat swamps, heat-saving measures and jet fuel-saving projects, the latter carried out not just for reasons of cost cutting, but also out of genuine concern for the environment.

One of the most fulfilling experiences I have had in all my corporate life in terms of community service is the PINTAR Project, because it deals with children who are from backgrounds that may not be conducive to helping them achieve their best. Under this project, we provide opportunities for the opening of minds and activities for fun and learning that involve all our people including our pilots, crew, engineers and chefs.

The PINTAR Project has taken us to schools in rural areas such as Sanglang, Perlis, which I have not been to before and would never have gone to otherwise. The project, in other words, opens minds both ways, and we feel privileged to be part of it.

The **PINTAR** project opens minds both ways, and we feel privileged to be part of it.

INDUSTRY OUTLOOK

One always needs to operate with a note of caution in aviation because there are many external factors that can blow the industry off course. Already this year, we are seeing oil prices rising sharply as a result of political revolutions in some Arab states. Libya, for example, only produces 1.2% of the world daily supply of crude oil, but prices have gone up beyond logic.

The industry forecast is that aviation will see a consecutive year of profitability, but with a drop in total profit for the industry of 46% from that of the previous year, to US\$8.6 billion. However, this forecast was based on an oil price of US\$96 per barrel, while current prices are already beyond the US\$100 per barrel benchmark. According to some estimates, airlines will have to recover an additional US\$1.6 billion in costs for every US\$1 increase in the average price of oil over the year.

Fuel price is a critical aspect, but there are mitigating factors. Saudi Arabia has said that it will increase production to make up for the slack, and the general world economy – Asia Pacific in particular – is still strong. The earthquake in Japan might affect the country's production and demand, but India, China, Indonesia and ASEAN are pulling ahead. Commodity prices have also remained high, while the US economy

is improving, albeit slowly, resulting in a dip in its unemployment rate to 8.9% from 10%.

Another cloud on the horizon is the European Union's inclusion of aviation into the EU Emissions Trading Scheme for flights over its airspace that will come into force in 2012. This will require airlines that have exceeded the carbon limit imposed on them to buy extra permits in order to continue flying into and out of the EU.

In terms of the global economy, although within the Eurozone, Spain, Ireland, Greece and Portugal are a worry, trade in Europe overall remains in positive territory.

We were very upbeat as the year 2010 ended, and we are cautiously optimistic for this year and beyond.

OUTLOOK FOR MALAYSIA AIRLINES

The year 2010 ended in a flurry of activities as we carried out internal improvements to save costs and enhance our revenue that will place us in a better position to gain more net income and profit.

To mitigate the hike in oil prices, we have hedged a considerable portion of our fuel requirements for 2011, and will gradually increase our fuel surcharges in line with market practice.

The industry forecast is that aviation will see a consecutive year of profitability, but with a drop in total profit for the industry of **46%** from that of the previous year, to US\$8.6 billion.



In terms of operational efficiency, we will continue to focus on cost control, processes, but more importantly we will also explore ways to enhance our revenue. As such, we acquired the latest Revenue Management system that is based on origin and destination, to ensure the optimum mix of pricing and seat allocations for the highest yields will be obtained, consistently.

We also expect to be a lot stronger competitively as our new fleet of planes come in, giving us the ability to offer enhanced customer experience in the form of better comfort and products.

During the year under review, we won many awards such as the Best Airline in Asia, the Engineering and Maintenance Sullivan award for the being the best in Asia Pacific, the Five-Star Skytrax award for Service Excellence and two awards for our accounting practices.

At the same time, we do recognise the fact that there are areas for improvement. One particular area is to focus on our ground services. We are implementing a number of initiatives in this area to ensure that our ground services mirror the excellence of our award-winning inflight services. The improvement of ground services is now placed as one of our KPIs for 2011 to ensure seamless and excellent travel experience for our customers.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to extend my heartfelt thanks to Tengku Dato' Sri Azmil Zahrudin bin Raja Abdul Aziz, who completed his first year as Malaysia Airlines' Managing Director and Chief Executive Officer in August last year. His thorough understanding of the aviation industry gives us the sense of comfort that the expansion is going to be well grounded, and I urge our employees to continue giving him their full support as we move ahead.

My gratitude also goes to each and every employee of Malaysia Airlines for pulling together for the company and meeting all the challenges that came our way. The industry has changed so much. Most of the staff have been here for 20-30 years and I admire them for their stamina and relentless commitment in meeting the requirement for change.

My deepest appreciation also goes to my fellow Board members for their sage advice and guidance to the management and myself throughout the year.

Last but not least, we thank you, our shareholders, passengers and customers, for your invaluable support and loyalty. We hope that you will benefit in more ways than one in the year ahead from all the value that we have put into the company and its products and services during the past year.



Handwritten signature of Tan Sri Dr. Munir bin Abdul Majid.

Tan Sri Dr. Munir bin Abdul Majid

Chairman
Malaysia Airlines
April 2011

Managing Director's Statement

Dear Shareholders,

The financial year ended 31 December 2010 showed a significant improvement over 2009 as we were well positioned to take advantage of the global economic recovery that was taking place, particularly in the second half of the year.

Overall, the Asian region in which we are based led the way on the economic front, followed by the US and Europe, bringing the volume of both passenger and cargo traffic back to pre-crisis levels.

Operationally, the third year of our second Business Transformation Plan (BTP2) proved to be a very busy one as we geared ourselves for growth. Our five-year fleet renewal plan kicked off with the arrival of our first brand new Boeing 737-800 in November 2010, and we continued to gain new ground and businesses, as well as implemented new systems and infrastructure throughout 2010. We also continued our emphasis on improving efficiency, reducing wastage and enhancing our products and services. In addition, we also benefited from some of the BTP2 initiatives that were put in place in 2009 that had started to come on stream.

FLEET RENEWAL PROGRAMME

Malaysia Airlines achieved a major milestone in 2010 when we took delivery of the first Boeing 737-800 aircraft in November, followed by two more later in the year. In early 2011, we welcomed another B737-800 as well as our first new Airbus 330-300 aircraft into our fleet.

The deliveries are part of Malaysia Airlines' plan to progressively modernise its fleet by replacing the B737-400 and existing A330 aircraft currently in use, with the longer-ranged B737-800 and new wide-body Airbus A330-300. The plan involves the acquisition of 35 B737-800s with the option to buy 20 more, as well as the purchase of up to 25 A330-300s, on top of four A330 freighters slated for MASkargo.

Both the B737-800 and A330-300 offer superior products and on-board facilities that have already proven to be very well-received by passengers. The inflight entertainment facility on both types of aircraft, for instance, utilises the latest technology and there is one for every seat, including in Economy Class.





In addition, compared to the existing older aircraft that are in operation today, the B737-800 and A330-300 are equipped with newer technology, are more fuel-efficient and cheaper to maintain – factors that will contribute to the Company's cost reduction initiatives. The B737-800 is also slightly bigger with 160 seats, 16 more than the 144 seats in the existing B737-400. The new A330-300 seats 283 passengers, slightly less than the older A330-300 for enhanced passenger comfort.

Malaysia Airlines will continue to take delivery of more B737-800s and new A330-300s, as well as the first A380 expected in 2012, so that our customers will be able to enjoy better and more modern products. This fleet renewal exercise will culminate in the Company having one of the youngest and most fuel-efficient fleets in the region by 2015.

NETWORK EXPANSION

Malaysia Airlines carved out another important milestone in the third quarter of 2010 when we turned Kota Kinabalu into our second hub as part of our network expansion plan.

The move will enable us to capitalise on Kota Kinabalu's strategic location as a gateway to Borneo,

the eastern part of Indonesia, Australia, North Asia and China, as well as capitalise on its own growing appeal as a popular tourist destination. There is no significant hub in that part of South East Asia that Kota Kinabalu is poised to capitalise on.

To bolster Kota Kinabalu's new status as a hub, we added new routes from Kota Kinabalu to Perth and Haneda (Tokyo), as well as added frequencies to existing destinations like Osaka in Japan, Seoul in South Korea and Hong Kong in China. The Company will continue to develop the hub further by introducing more destinations in the future.

The Kota Kinabalu hub aspiration is also expected to benefit from the respective expansion of Malaysia Airlines' subsidiary airlines, Firefly and MASwings. The value-based airline, Firefly, commenced jet operations from Kuala Lumpur to Kota Kinabalu and Kuching in January 2011, while MASwings is currently exploring expansion in the BIMP-EAGA market.

In 2010, we introduced two new destinations, namely Bandung in Indonesia, and Dammam in Saudi Arabia. In addition, we increased the frequencies in a number of our existing routes. As a result, we increased our

15%
rise in passenger
numbers, or
traffic (RPKs).



capacity by about 4% in 2010, measured in Available Seat Kilometres (ASK), marking the first time we increased capacity since 2006.

We also registered a 15% rise in passenger traffic, measured in Revenue Passenger Kilometres (RPK), surpassing the Association of Asia Pacific Airlines industry average of 10%. Our seat factor also increased by more than 7 percentage points from the year before, with the third quarter of 2010 registering the highest quarterly seat factor in 15 years.

As part of our network expansion programme, we continued to seek opportunities to strengthen our code share network and in 2010, we inked a code share agreement with Oman Air.

We also signed an MoU with KLM for a joint-venture arrangement on the Kuala Lumpur-Amsterdam route. The terms of the agreement signify a relationship that goes beyond code sharing and will potentially bring in additional revenues and further streamline costs. The agreement is scheduled to be implemented in the latter part of 2011, subject to clearing regulatory and legal requirements.

PRODUCTS AND BRANDING

In 2010, we renewed our emphasis on providing world-class products and services to enhance customer experience.

From a technology standpoint, we completed phase two of our Passenger Service System (PSS) upgrade, which enhances the offerings that we have today. The system now includes the MHmobile service where passengers can book tickets, check-in, track their baggage, as well as check on their flight status and Enrich points via their phones.

In 2010, Malaysia Airlines became the first airline in the world to offer a comprehensive booking and checking-in application on the iPad. The first MHkiosk which utilises this iPad application was launched in June 2010 at Malaysia Airlines' Kuala Lumpur Ticketing Office at KL Sentral, followed by Kota Kinabalu and Kuching in July.

We also carried out a refresh of our internet website to further enhance its ease of use and to offer new products. We will continue to enhance our corporate website in order to provide better service as well as to respond to feedback from our customers.



FIRST

airline in the world to offer a comprehensive booking and checking-in application on the iPad.

Improvements installed on the ground include a Golden Lounge at Malaysia Airlines' Kota Kinabalu hub, as well as the enhanced services of our ground crew. Throughout the year, our ground crew were given training on better communication and hospitality skills using modules based on the ones designed for our award-winning cabin staff.

On board our flights, we introduced new products and an up-to-date inflight entertainment menu, as well as special meals during festive seasons and menu items prepared by renowned chefs that we invite. At the point of disembarkation, passengers would have also experienced improved ground and baggage services.

STIMULATING DEMAND

In tandem with its growth phase, Malaysia Airlines embarked on a more aggressive campaign to improve sales by introducing MHdeals last year. This is an application based on the augmented reality concept on the iPhone, with the dual purpose of enhancing customer experience and increasing demand. MHdeals enables the iPhone to display information about certain tourist attractions, as well as deals that are currently on offer by Malaysia Airlines to cities

situated in the general direction detected by the phone. The Company had collaborated with Sabah Tourism to implement the service in Kota Kinabalu, and will work to add more content and destinations to the application.

We have a key presence on both Twitter and Facebook, where we maintain separate "tweets" and pages for specific markets such as students, the expatriate community, and several foreign localities in their native languages. These channels complement Malaysia Airlines' existing consumer platforms, such as our sales offices and call centres, and allow the Company to interact with a different segment of the market and to engage them in a different way. We have also introduced MHbuddy to Malaysia Airlines' Facebook page in March 2011, an application that allows users to book and check-in for a flight, and share details of their trip with their Facebook friends. This application is the most comprehensive yet for an airline on the Facebook platform, and is yet another testament of Malaysia Airlines' innovation in social media.

Other campaigns that were carried out in 2010 to stimulate demand included a partnership with Australia Tourism called "Only in OZ Holidays" that was launched with its supporting website, MASTraveller.com, the "Saya Nak Cuti" reality television show to promote Malaysia Airlines as a national carrier, the three-day Merdeka sales, the MAS Everyday Value Fare promotion, as well as the appointment of the popular Chef Wan as a Travel Icon.

INCREASING OPERATIONAL EFFICIENCY AND REDUCING WASTAGE

Malaysia Airlines' concerted efforts in increasing efficiency while minimising wastage resulted in a savings of more than RM600 million in 2010. Our mission is to reduce our unit cost (excluding fuel) by 15% in five years' time. This aspiration will be made possible primarily by the major fleet renewal exercise, improvements and enhancements of our business



processes and systems, as well as continuous cost control measures throughout the Company.

SAFETY REMAINS PARAMOUNT

During the year under review, Malaysia Airlines implemented the Safety Management System (SMS) to deliver on the "Raise Safety Bar" (RSB) programme that was launched in 2009. The Company will focus on the execution of this programme to continue to manage and reduce safety risks in the current year.

New initiatives that were started in early 2011 such as the "Fatigue Risk Management System" (FRMS) and "Just Culture Policy and Practices", will ensure the manageability of our fleet renewal programmes in terms of safety.

The Company also continues to participate in the IATA Operational Safety Audits (IOSA) that are mandated by IATA, in addition to conducting its own in-house audits. In addition, we will be performing a Line Operations Safety Audit (LOSA), which is designed to provide feedback on how to improve our pilots skills' further.

Aircraft maintenance is a vital part of Malaysia Airlines. Aside from the quality and competence of our pilots and crew, people continue to fly with Malaysia Airlines

because they have confidence in the level of diligence and care that we take when maintaining our aircraft. A key contributor to Malaysia Airlines' safety record is our MAS Aerospace Engineering division (MAE), which carries out maintenance, repair and overhaul (MRO) work on all our aircraft.

In 2010, we took steps to bolster MAE's operations by training more Licensed Aircraft Engineers (LAE) in readiness for the incoming new aircraft. The Company currently employs about 3,000 highly skilled engineers and will need a few thousand more as we expand.

FINANCIAL REVIEW

In the financial year ended 31 December 2010, Malaysia Airlines made an operating profit of RM264 million, an increase of RM879 million over the losses of RM615 million registered in 2009. The net profit was RM234 million. Operating revenue rose 14.5% to RM12.98 billion for the period under review.

In terms of passenger movement in 2010, Malaysia Airlines also reported impressive growth over that of the previous year. Traffic rose by 15%, with 10% more passengers carried, while capacity increased by 4%.



an operating profit of
RM264
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RM879 million from
the previous year.

Demand was sustained by better economic conditions in 2010, which offered Malaysia Airlines the leverage to progressively increase yields. However, fuel remained the biggest component of expenditure for the year, which saw prices increase by 25% compared to 2009.

Revenue per available seat kilometre (RASK) increased by 9% to 18.2 sen, while passenger load factor was 76.2%, higher by 7.5 ppt. Improvements in efficiency saw Group non-fuel cost per available seat kilometre (CASK) drop 2% to 17.6 sen.

Malaysia Airlines cargo operations also reported a good year in 2010 when it registered record profits. There were big increases in terms of yield and load factors that helped the business achieve five consecutive quarters of profits. Cargo yield was higher by 13% to 81.9 sen, and overall load was up by 4.3 ppts to 74.6%.

MAE also had a good year, which saw not only its reputation growing but also an increase in third party maintenance revenues and profitability. Going forward, we will continue to build on our success in the MRO sector. We will seek to improve profitability instead of just revenue growth and we will be more selective in the type of work we do in this area.

CHALLENGES AHEAD AND MOVING FORWARD

The outlook in 2011 is primarily a tough one due to the continued increase in fuel prices and political instability in the Middle East. Global economic uncertainties, compounded by the crippling of the Japanese economy after the devastating spate of natural disasters, will continue to pose a risk to our business. Although the demand for air travel in general remains strong for now, the prolonged volatility in fuel prices and economic concerns may push the aviation industry into a repeat of the 2009 crisis. Additional capacity in the form of delivery of new and bigger aircraft in the Middle Eastern region, as well as the proliferation of low cost carriers, add to the challenges we face.

Nevertheless, I remain optimistic for the medium and longer term because of the developments that are coming through such as Malaysia Airlines' fleet renewal programme and the myriad of product enhancements and new businesses to help ease some of the negative pressures.

Our new B737-800s and A330-300s will enable us to increase efficiency because they are more fuel-efficient and incur lower maintenance costs. These



longer range new aircraft will enable us to increase our service to China, India, Australia and the rest of Asia.

Meanwhile, the advent of Firefly's jet business will put it in good stead to be a force to reckon with in the value segment, with Firefly planned to operate seven jet aircraft by the end of 2011, with plans to increase its fleet to 30 jets in five years' time. Apart from serving existing routes, the jet aircraft will also fly to Sibul and Sandakan in 2011.

I am also confident of MASkargo's ability to continue putting in a good performance in the future, as they begin to refresh their fleet this year as well. MASkargo currently operates two B747-400F freighters that are owned by Malaysia Airlines, and four B747-200F that are wet-leased. MASkargo will take delivery of two new A330-200F freighters in the current year, and will eventually receive four A330-200F freighters in total to replace their existing wet-leased freighters. The B747Fs will be used for long-haul cargo routes, while the A330 freighters will be utilised to tap the cargo markets in India, Australia and China.

MASwings is also a fairly stable operation that is seeking to put its fleet of 10 ATRs to commercial use as well. In the MRO area, MAE is pursuing joint venture opportunities and is currently in discussion with potential partners.

Another mitigating factor is the continued strong demand in Asia and Australia, where we have the edge over airlines that are based elsewhere. Malaysia Airlines is also known for its excellent service and good safety record, and we will continue to leverage on these advantages by enhancing them further.

Going forward, we will focus on maximising our yield by increasing our front-end seat factor and pricing competitiveness, and expand our network by forming more joint venture arrangements with other airlines. The strategy of having more cooperation with other airlines, in the form of joint ventures as well as code

sharing, will also prove to be useful in opening up new markets and enabling us to be more competitive.

Other key measures that are designed to give Malaysia Airlines a competitive edge include the Delta 2 Initiative, which is aimed at improving many aspects of our operations on the ground, such as the check-in process and the handling of flight delays.

All in all, the current year will require hard work and the discipline to persevere in the execution of our business plans. As we approach the second half of 2011 and enter 2012, we can expect to see a lot of the results from those efforts coming through.

The Company has also proven to be very resilient, one that had been through very tough times before. We will not likely allow these challenges to distract us from taking measures to lessen their impact in the short term, as well as from building the foundations to secure our future in the long run.



Tengku Dato' Sri Azmil Zahrudin bin Raja Abdul Aziz

Managing Director and Chief Executive Officer

Malaysia Airlines

April 2011

Operational Review

OPERATIONS

Operational Excellence was the focus for 2010 throughout all business units in the Operations Division. Project Delta 2 was launched in March 2010, its aim - to transform and change the mindset of the workforce. This would enable further simplification of processes, to be more cost effective and more connected in reducing the risk of disruptions for all areas in the division. The ultimate goal was to attain increased operational efficiency and customer satisfaction with zero compromise on the Company's stringent safety standards.

AIRPORT AND FLIGHT OPERATIONS

Airport Operations

A cost savings of 2% above target, as well as a collection of RM49 million in excess baggage charges, were among the immediate results of the various initiatives undertaken by Airport Operations (AO) in 2010, in the journey to reduce operational costs and improve service efficiency.

Initiatives were also taken during the year under review to further improve service delivery under the continuation of Project EDGE. The project was aimed specifically to improve the performance

of customer service agents and training the front line staff in service excellence, whilst developing professional habits and behaviours. Additionally, all front liners, supervisors and station managers underwent continuous training to better equip them with improved communication skills and better delay handling management techniques.

Incidences of mishandled baggage were reduced upon the introduction of several initiatives under the "Tagless Bag" project. Improved communication





processes on mishandled baggage incidences by the Mishandled Load Office (MLO) helped to further reduce the number of customer complaints.

The safety of our flight crew is also a major consideration when they are on ground. As such, AO had progressively enhanced the fleet of crew transport with new vans and also initiated the “defensive driving” programme for all its drivers. The result is a significant reduction in ground incidents and breakdowns.

AO also secured new ground handling contracts, namely from Royal Jordanian, as well as Oman Air.

AO reaped the benefit from all these efforts last year when it won the Skytrax Staff Service Excellence for Asia Award 2010. This award has been described as recognition of excellent services and is accorded to an airline whose ground staff acted beyond the call of duty when taking care of passengers.

Flight Operations

Rigorous execution of operational excellence and stabilising initiatives throughout 2010 resulted in a rewarding year for Flight Operations. A substantial savings of 8.8% below the year's budget was the outcome of adopting sound practices in process execution and resource monitoring.

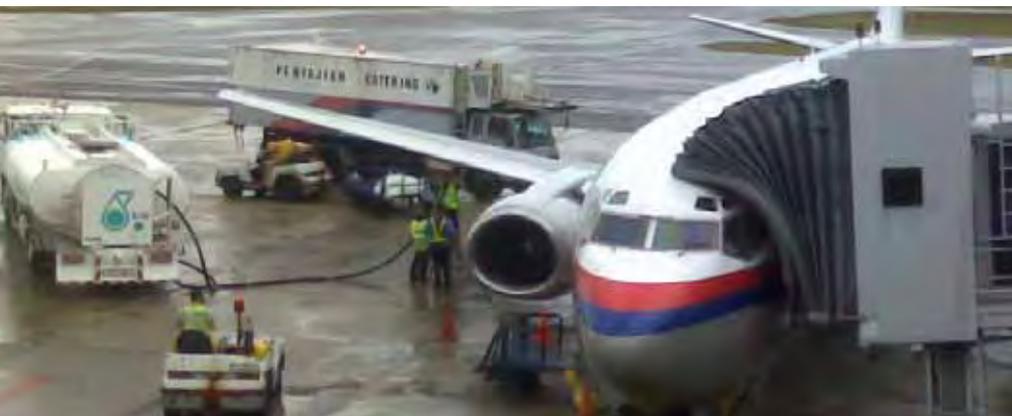
The core savings were derived from the reduction in fuel and oil costs, landing, parking and flight service charges, as well as staff costs. An aggressive fuel efficiency and optimisation programme, in fuel and oil costs, produced an optimisation index of 0.527%, which was higher than the initial target.

The “Raise the Safety Bar” project further improved flight safety with the completion of 18 action plan initiatives in 2010. The division continued to uphold the levels by continuous monitoring in the standards of aircraft operations and compliance with regulatory requirements, both locally and internationally, through regular

Department of Civil Aviation (DCA) audits, Safety Assessment of Foreign Aircrafts (SAFA), as well as its own Flight Operations audit.

Inflight Services (IFS)

In line with the growth phase of Malaysia Airlines in 2010, and in maintaining service excellence through winning the Skytrax ‘Best Cabin Crew’ award for a number of years, the Inflight Services department embarked on numerous initiatives to further improve the skills, knowledge and competencies of the cabin crew. In support of Malaysian Hospitality, the FEEL MH (Fun, Exciting, Enchanting, Living) programme was introduced in 2010. The aim is to enhance the onboard passenger experience during special occasions and festivities throughout the year. The project recreates the mood and excitement of each event on board the flight, including the serving of specially prepared foods associated with the festivities.



MAS won the Skytrax
**Staff Service
 Excellence for
 Asia award**
 in 2010, in recognition
 of its excellent services.

On-going efforts to improve our inflight services saw the continuation of the Cabin Crew Training and Standards (CCTS) training programme in 2010. CCTS promotes “learning and growth” in the areas of Food, Tea and Coffee, as well as the Wine Ambassador programmes, all aimed at developing and improving our cabin crew’s knowledge of the products served onboard.

To increase the number of local crew members who are able to communicate effectively with Arabic and French-speaking customers, Inflight Services also held Arabic and French language classes for cabin crew in 2010.

Finance

The Finance division saw a positive year in 2010, and succeeded in saving 10% in terms of total divisional expenditure.

A major undertaking that begun in 2010 was the implementation of an Enterprise Resource Planning (ERP) programme aimed at addressing all

business processes and procedures relating to finance procurement, engineering and maintenance activities. As part of our Business Transformation Plan (BTP 2), the programme will be developed and rolled out over a period of three years. ERP will equip the Group Finance division with a more meaningful, simplified and accurate management information system that will facilitate better decision-making across the board.

During the year under review, Group Finance had also signed financing agreements for Malaysia Airlines’ first delivery of the B737-800 (B738) aircraft, which took place on November 29. The aircraft was financed under a Japanese Operating Lease arrangement with Yamasa Co Ltd and BNP Paribas. This was followed by the delivery of another B738 in December 2010, while several other B738s will be delivered in 2011.

The year 2010 ended on an upbeat note when the Finance Division won two back-to-back awards in December. The first was the prestigious NafMA

Best Practice Award in the Public-Listed category for Malaysia Airlines’ utilisation of a fully implemented management accounting system that set new standards, or introduced innovations to the workplace. The second was the “Anugerah Emas Naib Canselor” award that was presented by the Centre for University-Industry Collaboration of Universiti Utara Malaysia. This award is in recognition of Malaysia Airlines’ Structured Practical Training Programme that offers full-time employment opportunities to graduates, based on their practical training performances. It was the first time Malaysia Airlines contended for the awards.

Malaysian Aerospace Engineering

Malaysian Aerospace Engineering (MAE) recorded substantial savings of more than RM100 million in the fiscal year 2010, through the successful implementation of structural cost reduction initiatives. The savings were mainly from cost management projects and the E2B Integrated Supply Chain.

MAS won the

NafMA award for its management accounting system

that set new standards, or introduced innovations at the workplace.





One example of the successful cost reduction programme that was undertaken is the 10-year component support agreement, signed in November 2010 with AFI/KLM engineering and maintenance unit. The contract provides for AFI/KLM-MAE to create a component spare parts pool at MAE's facilities, to exclusively support Malaysia Airlines' new B737-800 aircraft. It allows fast-track procurement of essential spare parts, while reducing inventory and repair costs for Malaysia Airlines.

MAE also generated revenue from third party work with about 10% increase in third party revenue, compared to RM385 million in 2009. The MAE business has seen a steady growth since 2005. The division's fleet technical management programme, which involves the management of fleets for other operators, contributed 59% of the revenue.

Besides work for Malaysia Airlines and its subsidiaries, MAE also carried out airframe-related maintenance and

modification jobs for 44 airlines in the year under review, out of which 17 were new customers.

Among the many new contracts that were signed in 2010, was SpiceJet's three-year maintenance support agreement for its fleet of new generation Boeing 737s, as well as with Air Mauritius, to service two Airbus A320-200s and six Airbus A340-200s.

In total, MAE successfully redelivered 326 aircraft to various customers in 2010, including 176 aircraft to Malaysia Airlines and its subsidiaries for airframe-related maintenance and modification work. Based on the number of aircraft delivered, 46% of MAE's operations now involve third party work.

Besides capacity expansion, MAE had also grown their skills in servicing a wider range and type of aircraft. In 2010, the division expanded their skills and capabilities to the maintenance of the B727, A320, A340, B757, B767 and ATR aircraft to its stable of services.

In line with the growth in capacity and service capabilities, MAE made a strategic expansion move by signing a memorandum of understanding with Sabena Technics SA in September 2010. This joint-venture set-up will see specialisation in aircraft component repair and overhaul services in Malaysia, to further support the business growth. The joint venture company will also offer work on avionics, hydraulics, electromechanical systems, fuel systems, engine and pneumatic component for the new generation Boeing B737, Airbus A320 and ATR aircraft types. It is expected to be fully operational in 2012.

As part of its expansion plans, MAE will also pursue joint venture opportunities in China and is looking forward to the opening of MAE GMR India in mid 2011.

MAE will continuously prioritise the management and maintenance of Malaysia Airlines' aircraft, whilst keeping third party work as a prime growth focus. It will also concentrate



MAE generated revenue from third party work with about **10%** increase compared to 2009

on developing an open safety culture in 2011. A programme related to this objective has already been put in place to address four areas of concern, namely, effectiveness and understanding of the Safety Management System (SMS); management operational focus; workforce issues; and, Quality Assurance activity and behaviour.

MASkargo

Malaysia Airlines Cargo Sdn Bhd (MASkargo), the cargo arm of Malaysia Airlines, had a sterling year for the period under review, registering a pre-tax profit of RM142 million, in a dramatic reversal of fortune after the losses of 2009. The 2010 performance represented the highest operational profit ever attained in the company's history.

In line with industry trend, total cargo revenue for the company for FY2010 increased by 29.2% compared to 2009. The revenue improvement was mainly driven by the increase in freighter capacity, combined with yield and load factor improvements. The year under

review also saw the re-introduction of MASkargo's freighter services into North America, with two weekly flights to New York City.

For the year under review, there was a recovery in the cargo market to the pre-global financial crisis level, in particular in the Asia Pacific region, and MASkargo was well placed to benefit from the surge in demand. This was reflected in the cargo throughput at KLIA, where 605,468 tonnes of cargo were handled in 2010, up by 12.7% over that of 2009.

MASkargo continues to grow and invest in technology to build its capacity, improve its efficiency and reduce its operational costs. As one of the top air cargo carriers in Asia, MASkargo prides itself in its capability of handling even the most complex and delicate cargo and remains a major player in the region. This is largely due to the Advanced Cargo Centre (ACC), which is the heart of MASkargo operations, at KLIA. The 43-hectare complex with 92,900 square metres of available processing area is equipped with a leading edge

cargo handling infrastructure and a sophisticated security system. The ACC also boasts the latest technology that helps streamline the cargo handling and communications process between all parties, for a seamless and hassle-free shipment operation.

MASkargo is committed to providing quality in every aspect of its operations. To date, it has achieved the ISO 9001, ISO14001 and OHSAS 18001 certifications, a testament to the international standards it measures itself to, especially in the areas of management, care for the environment, as well as occupational health and safety.

The year under review also saw MASkargo receiving several accolades, including the Carrier of The Year (Cargo) award from Malaysia Airports Berhad, and the Excellence in Occupational Safety and Health Gold Award 2010 from the Department of Occupational Safety and Health. These awards further underline MASkargo's commitment to quality, for both its customers and stakeholders.

Total cargo revenue
increased by

29%

compared to 2009.





The company also reported a cargo-mishandling rate of 0.053% for the year under review, which is at par with 2009's rate, despite a double-digit increase in the volume of cargo handled.

Firefly

In November 2010, Firefly announced its biggest expansion plan to date that will see it operate a base fleet of 30 Boeing B737-800 jet aircraft by 2015. Firefly's jet operations began on 15 January, 2011 with flights to domestic destinations, notably between Peninsular Malaysia, Sabah and Sarawak. It will introduce new routes to selected ASEAN cities from end 2012 to complement Malaysia Airlines' network.

The jet business adds a distinct competitive edge to Firefly's value service as it operates from the Main Terminal of Kuala Lumpur International Airport (KLIA). This provides for easy connection to Malaysia Airlines and other international carriers, as well as access to KLIA's aerobridge facilities for greater passenger safety, comfort and convenience.

Moreover, the use of the Boeing B737-800 aircraft will enable Firefly to offer even better value to customers as the aircraft carries the lowest cost per seat for the intended network. The jet operations leverages on Malaysia Airlines' existing infrastructure, especially in the areas of engineering, training and ground operations, as well as an efficient fixed cost sharing with its turboprop business for more cost savings that can be passed on to customers. It will also offer bundled services at a hefty 40% discount for inflight meals, extra baggage allowance and seat selection, which are available for purchase during flight bookings.

In the year under review, Firefly's turboprop operations continued to grow as well with the acquisition of two ATR72-500 aircraft in December, and another one in January 2011. With the three additions, Firefly currently operates a fleet of 10 ATR72-500s. This will allow the airline to supplement existing routes, as well as to reinstate domestic routes from Penang that were suspended in 2009 due to the global financial crisis.

Measures taken in 2010 to improve passenger travel and interactive experience with the airline include the launch of a mobile phone booking service in January, which now has a base of 10,000 active registered users. In May, Firefly installed the 3-D Secure, a security feature to guard against fraudulent online transactions, to improve on its already lowest-in-industry record for such transactions. An innovative method of gathering instant customer feedback using the Apple iPod device that was launched in June gave a consistent customer satisfaction index of more than 95%.

Marketing activities to boost sales and Firefly's corporate image were also carried out in the previous financial year. These took the form of a new monthly inflight magazine, Kunang2 that has been published since January 2010, as well as the sponsorship of several international class entertainment and sporting events. In May, the airline completed the production of a Malay drama programme in collaboration with satellite television company, Astro, which featured fictional characters



Firefly's biggest expansion plan to date will see it operate

**30 Boeing
737-800**
by 2015.

based on Firefly's flight crew. The series, *Awan Dania 2*, garnered the highest viewership ever for an Astro Ria Malay drama series, with 600,000 viewers per episode.

In addition, in May, Firefly launched the "Preferred Golf Card" service in partnership with Transview Golf, Advantage Golfing Solution and Mygolf.com.my. The card offers a variety of benefits targeted at golfers such as discounts on equipment and green fees, tour packages and Firefly flights.

Other revenue-generating events that took place in 2010 include the sale of aircraft advertising space to Bank Islam Malaysia and property developer SP Setia Berhad. Firefly aircraft has since carved a reputation as a sought-after medium of advertising, due to its passenger profile of the middle to upper-middle income group.

In February 2010, Firefly Holiday, the travel agency unit of Firefly, enhanced its online offering of holiday packages by including flights by Malaysia Airlines.

As a result, the Firefly Holiday portal is now uniquely positioned to boost inbound tourism and provide Malaysians with value-for-money holiday packages. In June 2010, Firefly Holiday introduced a "Book Now Pay Later" scheme to its online portal.

Firefly's consistent efforts in 2010 resulted in the company winning Frost & Sullivan's Asia Pacific Best Value Airline of the Year award, the Green Initiative of the Year award in the Airline Category, and the Leaders in Aviation Award that was presented during the Doha Aviation Summit in Qatar.

MASwings

In the year under review, MASwings undertook 13 major initiatives to improve productivity and customer service, as well as to reduce operational costs. These measures include the F50 Fleet Renewal Programme, consolidation of its operational hubs,

and the enhancement of the company's Customer Value Proposition (CVP).

In April 2010, MASwings added three new ATR72-500 aircraft to its fleet of seven, bringing the total to 10 and increasing its capacity by nearly 30% over that of 2009.

The establishment of Malaysia Airlines' Eastern Hub in Kota Kinabalu in the financial year under review augurs well for MASwings whose network presently covers 42 routes within 22 destinations in East Malaysia.

In 2010, MASwings consolidated its operations in Kota Kinabalu and Kuching to benefit from improved operational efficiency in terms of aircraft and crew productivity. Meanwhile, the set up of its operational headquarters in Kota Kinabalu will boost the plan of Malaysia Airlines to establish Kota Kinabalu International Airport, as the ideal gateway to the northern part of Asia, Indonesia and Australia. This unique business model will offer seamless connectivity for

MASwings passed the

1 million

passenger mark in
October 2010





passengers travelling on MASwings and connecting to Malaysia Airlines' domestic and international flights.

On the CVP front, MASwings introduced check-in kiosks in Kota Kinabalu and Kuching International Airport to enable customers to perform self check-in without having to wait in line. Approximately 39% of MASwings customers in these two airports now use the facility. It also offered newly improved refreshments pack to passengers, which contributed positively to customer satisfaction. MASwings' overall services registered an 87% Good/Excellent rating for 2010.

MASwings passed the one million-passenger mark in October 2010 and carried 1.27 million passengers during the whole year, a 36% increase over the number of passengers recorded in 2009. Its seat factor rose to 60% from 53% despite the increase in capacity.

The airline will continue to develop new products, as well as increase its utilisation of e-commerce and social media networks to gain more market share in the future.

Human Capital

The strategic objective of Group Human Resource for the year 2010 focused on Internal Customer Satisfaction. Group Human Resource has embarked on various improvement initiatives to mark its commitment towards service delivery improvement in various processes within Human Resource. The roll-out of the Employee Self Service (ESS) to all division marks an enhancement to the system based employee business processes that creates a more discipline, efficient and productive workforce. Consequent management, which is part of the performance-based culture, was also implemented to manage performance efficiently and effectively.

In line with enhancing the effectiveness of Performance Management, and to improve individual and organisation's

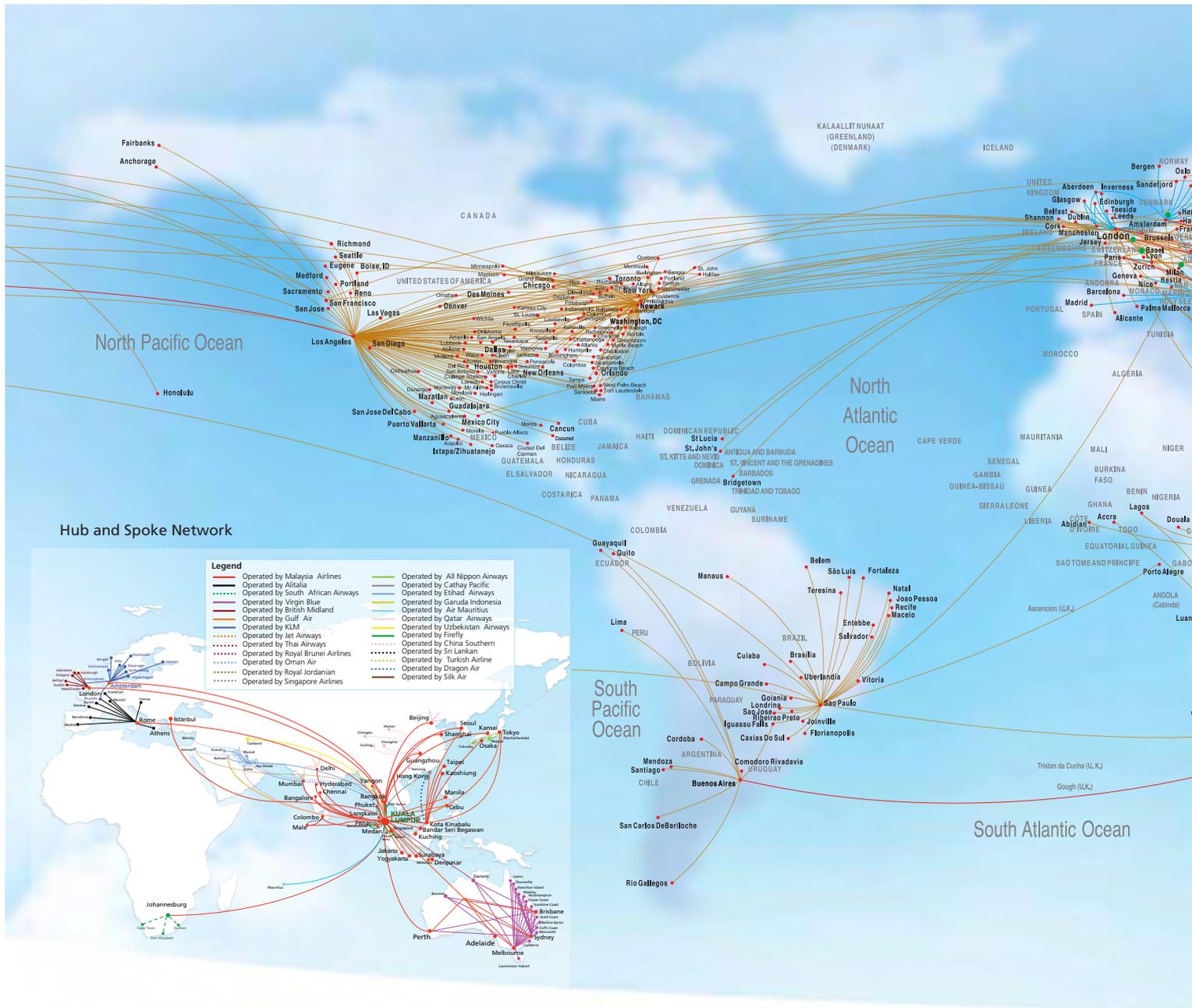
performance, Group Human Resource has also introduced the Performance Alignment approach, where the Divisional Scorecard is linked to the individual performance for staff in executive grade and above. The Divisional Scorecard shall contribute to a percentage towards individual performance plans and the individual performance plan shall contribute to the residual percentage.

The division ended 2010 with the development of a Human Capital Transformation Plan. This three-year plan includes a revamped business model, the restructuring of the division and alignment of people initiatives to the Company's business strategy.



Human Capital Transformation Plan

includes a revamped business model, the restructuring of the division and alignment of people initiatives to the Company's business strategy.



Hub and Spoke Network

- Legend**
- Operated by Malaysia Airlines
 - Operated by Alitalia
 - Operated by South African Airways
 - Operated by Virgin Blue
 - Operated by British Midland
 - Operated by Gulf Air
 - Operated by KLM
 - Operated by Jet Airways
 - Operated by Thai Airways
 - Operated by Royal Brunei Airlines
 - Operated by Oman Air
 - Operated by Royal Jordanian
 - Operated by Singapore Airlines
 - Operated by All Nippon Airways
 - Operated by Cathay Pacific
 - Operated by Etihad Airways
 - Operated by Garuda Indonesia
 - Operated by Air Mauritius
 - Operated by Qatar Airways
 - Operated by Uzbekistan Airways
 - Operated by Firefly
 - Operated by China Southern
 - Operated by Sri Lankan
 - Operated by Turkish Airline
 - Operated by Dragon Air
 - Operated by Silk Air

CODESHARE / JOINT SERVICE PARTNERS





MAIN INTERLINE / SPA PARTNERS



A hand is shown holding a glass of champagne, with a large red overlay covering the central part of the image. The background is white, and the hand and glass are in grayscale. The red overlay is a solid color that transitions into a gradient of red and blue at the bottom right.

INFLIGHT

On board with the world's finest
cabin crew, MH at its best



Details of Board of Directors' Meeting

DATE OF MEETING	TIME OF MEETING	NATURE OF MEETING	VENUE
12 January 2010	9.30 a.m.	Board of Directors' Meeting [No. 01-10]	Board Room, 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan
22 February 2010	9.30 a.m.	Board of Directors' Meeting [No. 02-10]	Board Room, 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan
15 March 2010	9.30 a.m.	Board of Directors' Meeting [No. 03-10]	Board Room, 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan
24 March 2010	2.30 p.m.	Special Board of Directors' Meeting [No. 04-10]	Board Room, 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan
31 March 2010	9.00 a.m.	Special Board of Directors' Meeting [No. 05-10]	Board Room, 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan
19 April 2010	9.30 a.m.	Board of Directors' Meeting [No. 06-10]	Board Room, 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan
17 May 2010	9.30 a.m.	Board of Directors' Meeting [No. 07-10]	Board Room, 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan
14 June 2010	9.30 a.m.	Special Board of Directors' Meeting [No. 08-10]	Board Room, 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan
23 July 2010	2.45 p.m.	Board of Directors' Meeting [No. 09-10]	Board Room, 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan
16 August 2010	9.30 a.m.	Board of Directors' Meeting [No. 10-10]	Board Room, 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan
21 September 2010	9.30 a.m.	Board of Directors' Meeting [No. 11-10]	Board Room, 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan
18 October 2010	9.30 a.m.	Board of Directors' Meeting [No. 12-10]	Board Room, 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan
24 November 2010	9.30 a.m.	Board of Directors' Meeting [No. 13-10]	Board Room, 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan

Audit Committee Report

The Board Audit Committee (BAC) of Malaysian Airline System Berhad (MAS or the Company) is pleased to present the Audit Committee Report for the financial year ended 31 December 2010.

A. ESTABLISHMENT AND COMPOSITION OF BOARD AUDIT COMMITTEE

In accordance to the Malaysian Code of Corporate Governance (MCCG) and Paragraph 15.09 of Main Market Listing Requirements (LR) of Bursa Malaysia Securities Berhad (BMSB), the BAC comprises the following directors listed below:-

Name of Directors	Directorship
Keong Choon Keat (Chairman)	Independent Non-Executive Director
Dato' N.Sadasivan a/l N.N.Pillay	Independent Non-Executive Director
Datuk Amar Wilson Baya Dandot	Independent Non-Executive Director

The BAC was appointed amongst MAS Board of Directors (Board) and fulfils the LR/MCCG as follows:-

- Comprise no fewer than three (3) members
- Majority are independent directors
- All members are non-executive directors
- At least one should be a member of an accounting association
- No alternate director appointed as a member of the audit committee.

Appointment to the BAC is referred to the Nomination Committee, prior to approval by the Board. The Board then ensures that the composition of the BAC meets the independence and experience requirements set out by LR/MCCG.

The term of office of a member of the BAC shall be three years, after which he or she may be re-nominated and appointed by the Board. The Board reviews the performance of the BAC and its members at least once every three years.

The Chairman of the BAC is elected by members of BAC and is a member of the Malaysian Institute of Accountants. The profiles of the Chairman and BAC members are set out on pages 14 to 21 in the Annual Report.

B. QUORUM OF BAC

Quorum shall comprise at least two (2) members, majority of whom are independent directors.

C. MEETINGS OF THE BAC

The BAC shall meet at least four (4) times annually, or more frequently as circumstances dictate. The Committee held nine (9) meetings during the financial year, and the attendance record of each member is as follows:-

Name of Directors	Attended
Keong Choon Keat	9/9
Dato' N.Sadasivan a/l N.N.Pillay	8/9
Datuk Amar Wilson Baya Dandot	7/9

Note: The first figure above denotes the number of meetings attended while the second figure denotes the total number held. The number of meetings held refers to the applicable meetings for each Director and varies based on their dates of appointment.

Representatives of Senior Management, Chief Internal Auditor and External Auditors' representatives attend the meetings as and when appropriate. Additionally, the BAC conducted 2 meetings with the external auditor without the presence of executive directors and Senior Management.

Minutes of each meeting are kept and distributed to each member of the BAC as well as to the other members of the Board. The Chairman of the BAC makes a report on each meeting to the Board.

D. OBJECTIVES

The principal objectives of the BAC are to assist the Board in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the holding company and each of its subsidiaries. In addition, the BAC shall:-

- evaluate the quality of the audits performed by the internal and external auditors;
- provide assurance that the financial information presented by management is relevant, reliable and timely;
- oversee compliance with relevant laws and regulations and observance of a proper code of conduct; and
- determine and review the quality, adequacy and effectiveness of the Group's system of internal control.

E. TERMS OF REFERENCE

The BAC was established in 1992 with written terms of reference approved by the Board which deals with BAC authority and duties. These terms of reference are periodically reviewed.

i. Authority

The BAC shall, in accordance with procedures determined by the Board and at the expense of the Company,

- Investigate any activity within its terms of reference;
- Have full and unlimited/unrestricted access to all information and documents/resources required to perform its duties;
- Obtain independent professional advice or other advice and to secure the attendance of external parties with relevant experience and expertise if it deems necessary;
- Convene meetings with external auditors, internal auditors or both, without the attendance of other directors and employees if deemed necessary. However, at least twice a year the BAC shall meet with the external auditors without any executive board member present; and
- Make relevant reports when necessary to the relevant authorities if a breach of the LR has occurred.

ii. Duties and Responsibilities

The Audit and Business Advisory Department (ABA) shall report directly to the BAC on all matters within its scope of activities. The duties and responsibilities of the BAC are to undertake the following and report accordingly to the Board:-

a) External Auditors

- Review the audit plan and audit reports, including the evaluation of the internal control system with external auditors;
- Review the quality of the external auditors and to make recommendations on their appointment, termination and remuneration. In any resignation/termination, any letter/representations by the external auditors would be reported to the Board and BMSB; and
- Review the liaison between the external auditors, Management and the Board, and the assistance given by Management to the external auditors.

b) Financial Reporting Review

- Review the quarterly reporting to BMSB and year-end annual financial statements before submission to the Board, focusing on:-
 - major accounting policy changes;
 - significant audit issues in relation to the estimates and judgmental areas;
 - significant and unusual events; and
 - compliance with accounting standards and other legal requirements.

c) Internal Audit

- Assess the adequacy of the scope, functions, competency and resources of the internal audit function and ensure that internal auditors have the necessary authority to carry out its work;
- Review the internal audit programme processes and results of the audit and assess whether appropriate actions have been taken on the recommendations of the internal auditors;
- Review any appraisal or assessment of the performance of the internal audit function; and
- Review the performance of senior staff members of internal audit functions and approve their appointment or termination.

d) Related Party Transactions

- Monitor any related party transactions that may arise within the Group and to report, if any, transactions that may arise within the Group and any related party outside the Group that are not based on arms-length terms and are disadvantageous to the Group;
- Review the process and allocation of options pursuant to the Employees Share Option Scheme (ESOS) at the end of each financial year as being in compliance with the terms and conditions under the ESOS scheme; and
- Review any related party transaction and conflict of interest situation that may arise within the Group including any transaction, procedure or cause of conduct that may raise questions of management integrity.

F. ACTIVITIES IN THE FINANCIAL YEAR

The activities of the BAC during the financial year 2010 were as follows:-

i. Risks and Controls

- Reviewed the progress of the risk management functions and its on-going activities for identifying, evaluating, monitoring and managing risks; and
- Reviewed the adequacy and effectiveness of the system of internal controls through the evaluation of results of work performed by internal and external auditors, committees as well as through discussion with Management and representation by Management.

ii. Internal Audit

- Approved the audit plan, scope and budget for the financial year;
- Reviewed the results of internal auditors' work and monitor the implementation of management action plans in addressing and resolving issues;
- Reviewed the adequacy of resources and the competencies of staff within the ABA to execute the plan; and
- Reviewed the performance of the ABA and recommended improvements.

iii. External Audit

- Approved the external auditors' terms of engagement, audit plan and scope for the financial year;
- Reviewed the results and issues arising from their audit of the financial year and the resolution of issues highlighted in their report to the BAC and Management response; and
- Made recommendations to the Board on the appointment and remuneration of the external auditors.

iv. Financial Reporting

- Reviewed and deliberated on the Quarterly Financial Announcements and Annual Financial Statements to BMSB and recommended them for approval by the Board.

v. Related Party Transactions

- Reviewed related party transactions for compliance with the LR of BMSB and the adequacy of the review procedures for related party transactions.

G. GROUP INTERNAL AUDIT FUNCTION

The internal audit function of MAS Group is performed by ABA that reports to the BAC. The Internal Audit function is governed by an approved MAS Internal Audit Charter that provides for its independence in evaluating and reporting on adequacy, integrity and effectiveness of the overall internal control system, risk management and corporate governance using a systematic and disciplined approach.

ABA adopts established auditing standards and performs periodic self-assessment against applicable guidelines to maintain its proficiency and ensure due professional care. ABA adopts COSO based audit methodology in aligning itself to the internal control framework and spearheaded an initiative called Business Assurance Control Assessment (BACA), a Control Self Assessment methodology which was rolled out to all stations system-wide and key departments in Corporate Headquarters. BACA aims to instill accountability on business owners to perform self assessment on their internal controls and report to Management on a periodic basis. The Chief Internal Auditor is a Chartered Accountant and MAS is a Corporate Member of the Institute of Internal Auditors.

The risk based audit plan approved by the BAC is developed to cover key commercial, operational and financial activities that are significant to the overall performance of the MAS Group. The prioritisation of audit assignments is based on the results from the risk management exercise, past audit results and discussions with Senior Management. Key processes in the MAS Group are clustered into audit universes that have been aligned to five key thrusts (the "MAS Way") against the following objectives:-

- Revenue enhancement and protection;
- Operational effectiveness and efficiency, including cost containment;
- Assets and services management, including effectiveness of management assurance functions;
- Human resource management;
- Financial Report Integrity; and
- Information system management.

Internal audit activities covering all the above objectives are undertaken for both passenger and cargo businesses at Corporate Headquarters, station systemwide and MAS subsidiaries. The ABA also conducts special audits on an ad-hoc basis based on specific requests either from the Board, BAC, Senior Management or arising from the Whistle Blower Programme.

The BAC receives regular reports from the Chief Internal Auditor on the results of activities performed. The ABA continuously monitors the execution of the audit recommendations, external and internal through periodic follow up. The Management Audit Action Committee headed by the Managing Director discussed and deliberated on audit issues every quarter to ensure effective implementation of recommendations and action items arising from the audit work performed. During the financial year, the ABA undertook 91 audit assignments and 16 advisory assignments.

The BAC reviews and approves the ABA's annual budget to ensure that the function is adequately resourced with competent and proficient internal auditors. As at 31 December 2010, the ABA had 36 internal auditors of various mix of expertise and experiences with approximately 47,500 available man-hours per annum. During the year, the ABA also outsourced certain types of work where ABA clearly benefits from their expertise and involvement. The total expenditure incurred by the ABA for the financial year 2010 is approximately RM6 million.



Statement of Internal Control

INTRODUCTION

The Malaysian Code of Corporate Governance (MCCG) requires the Board of Directors (Board) to maintain a sound system of internal controls to safeguard shareholders' investments and the Group's assets. Pursuant to Paragraph 15.27 (b) of Bursa Malaysia Listing Requirements and Statement on Internal Control: Guidance for Directors of Public Listed Companies, the Board is pleased to present the Statement on Internal Control which outlines the nature and scope of internal controls of the Group during the financial year under review.

BOARD RESPONSIBILITY

The Board asserts its overall responsibility on Malaysian Airline System Berhad's (MAS) or the Company group-wide systems of internal control and risk management as well as reviewing its effectiveness, adequacy and integrity. The Board acknowledges that the system of internal controls is designed to manage an acceptable and tolerable level of the Group's risk rather than eliminate the risk of failure to achieve business objectives. Therefore, the systems only provide reasonable but not absolute assurance against occurrence of any material misstatement or loss.

Concerted efforts from all business units are needed to ensure a sound system of internal controls. Management is responsible for implementing the Board's policies on risk management and internal controls. All employees have a responsibility towards maintaining a sound internal control system as part of their accountability in achieving the Group's overall objectives.

The system of internal control comprises the following key elements:-

- Control Environment
- Control Activities
- Information & Communication
- Monitoring
- Risk Assessment

The key elements in MAS' internal control systems are as follows:-

1. CONTROL ENVIRONMENT

The Board is committed to maintain a strong governance structure and environment for the proper conduct of the Group's business operations.

A. Governance Structure

- **Board of Directors (Board)**

The Board assumes responsibilities, which facilitate the discharge of the Board's stewardship through the adoption of strategic plans for the Group, oversees the conduct of the Groups business and reviews the adequacy and integrity of the internal control systems and compliance to applicable regulations. The Board also reviews the operations and financial performance of the Group. The scope of this review covers any significant internal control issues identified in the monthly performance reports.

- **Board Audit Committee (BAC)**

The independent non executive directors of the BAC, duly execute their duties as defined in the MCCG. The BAC regularly reviews, on behalf of the Board, internal control issues reported by the Audit and Business Advisory Department (ABA) and external auditors, including any significant internal control issues affecting the financial statements. The BAC also performs an annual review on the adequacy of scope, authority and resources of ABA and appraises the performance of ABA.

- **Audit & Business Advisory (ABA)**

The internal audit function is carried out by ABA which performs systematic reviews of key processes in high-risk areas and assesses the effectiveness of internal controls. An Internal Control Performance Scorecard is provided in every audit report to highlight the state of internal control for the areas audited. On a monthly basis, ABA submits audit reports to the BAC through the Monthly Audit Reporting Package. Additionally, ABA presents key audit findings to the BAC on a quarterly basis which are also deliberated at the Senior Management level. In 2010, follow-up reviews were conducted on a quarterly basis to monitor the status of all internal control issues raised and the overall closure rate of audit issues was reported to the BAC.

- **Quality Assurance (QA) Functions**

15 internal QA functions have been established under various divisions such as IT Governance, Financial Compliance, Service Quality Unit, Engineering & Maintenance QA, Airport Operations QA, and which are aimed to improve Group's services standards and meet regulatory requirements.

- **Strategic Governance Function**

Risk and Policy Advisory Services (RPAS) leads in implementing the Company's Enterprise Risk Management and Business Continuity Management Frameworks and focuses on aligning governance structures with key business objectives of the Company to enhance stakeholder value.

- **Operating structure that defines responsibility and authority**

A comprehensive organisation structure, which aligns to business and operational requirements and led by Divisional Heads with defined responsibility, accountability and delegation of authority, is in place.

B. Conduct

- Code of Ethics

MAS Corporate Code of Ethics provides statements of policies relating to our business conduct on ethical issues to recognise and properly resolve such matters of concern. The Code was designed to deter wrongdoing and promote honest and ethical conduct, compliance with applicable laws, rules and regulations and prompt internal reporting of code violations through appropriate mechanisms. More importantly, the Code itself requires accountability of all parties to adhere to its principle statements.

- Consequent Management

The Commend & Reprimand Programme (CaRP) serves as a consequent management tool to instil discipline in the organisation, reiterate the importance of complying with the Group's policies and procedures and to deal with unethical practices. It also serves to recognise areas where good corporate governance practices have been put in place and applied consistently.

C. Organisational Values

- The Internal Control Enhancement (ICE) Programme continues to be a group-wide effort put in place to increase awareness amongst business units on the importance of effective internal controls.

- Business Assurance & Control Assessment (BACA)

A key initiative under the ICE programme is the Control Self Assessment, an approach to instil accountability for business unit owners to conduct half yearly assessments on their internal controls and communicate the results to management. All system-wide stations and some key departments at the corporate office have started performing self assessment and the results were reported to the BAC in 2010. Further, in 2010, the scope of BACA was extended to wholly-owned subsidiaries.

- Whistle Blower Programme (WBP)

The WBP is in place to provide an internal mechanism for employees to raise their concerns about malpractices, irregularities and negligence affecting MAS without fear of adverse repercussions and with their confidentiality protected. The Whistle Blower Independent Committee (WIC) chaired by the Chief Internal Auditor is responsible to review and monitor concerns channelled through the WBP. Investigations and reviews are carried out by the Integrity Unit under ABA or any appointed action parties, tabled to the WIC and subsequently reported to the Managing Director on a periodic basis. Appropriate actions are taken based on the strengths and merits of the findings.

- Employee Performance Measurement & Competency

- The Performance Measurement System (PMS) is aligned to Strategies and Key Business Activities set forth in the Business Transformation Plan 2 (BTP2). Key Performance Indicators (KPI) are used to measure staff performance on a half yearly basis.

- The Leadership and Management Development Programmes are conducted as part of the Talent Management and Development Programme. Continuous education, development and training are provided to the staff through a wide variety of schemes and programme. In 2010, a talent management programme called the Guest Auditor Programme was implemented by ABA with the objective of building future leaders in MAS who appreciate cross-functional teamwork and possess strong corporate governance knowledge. The Guest Auditor programme provides the platform for on-the-job training with exposure on governance, risk and control.

2. CONTROL ACTIVITIES

A. Authority & Accountability

- Policy guidelines and authority limits are imposed in respect to day-to-day operations and strategic decision making through the Corporate Approving Authority Manual (CAAM) and Systemwide Station Internal Control Manual (SSICM) as part of the Corporate Policy Framework. Authority limits and accountability charters for subsidiaries are developed in the respective authority manuals, guided by the Subsidiary Governance Framework. These policies complement each other in defining the authority and accountability for key decision making areas. These policies are continuously reviewed to align with organisational and industry changes.

B. Policies & Procedures

- All corporate policies identified in the MAS Corporate Policy Framework have been consolidated and made available on the Company's Intranet. All other policies and operational manuals are also made available in the same location, hence promoting understanding and accessibility to relevant guidelines and standard operating procedures. RPAS maintains the inventory and availability of these manual records for all employees with the assistance of appointed policy managers or representatives from the business units and key subsidiaries.
- Key manuals at the corporate level were reviewed together with key policy representatives from respective business units. Updated versions of the key corporate policies are maintained and made available via the Group's Intranet which has gone through a series of enhancements to promote adherence to the MAS Corporate Policy Framework.
- Awareness programmes were carried out with specific target groups in order to promote the awareness and application of new policies developed.
- A series of briefings have been conducted by RPAS to various levels of employees at the regions system-wide on key policies and procedures and governance baseline to enhance understanding and promote accountability. The SSICM Education Programme was further enhanced with the development of the SSICM Qualification Assessment (SQA) to ensure our management teams throughout the regions were conversant with governance requirements when discharging their daily duties and responsibilities in foreign countries. The SQA was first launched in November 2009 on a trial basis but instituted its first assessment for Heads of Stations in January 2010.

3. INFORMATION & COMMUNICATION

A. Planning

- The Business Plan and Budget are reviewed and approved by the Board on an annual basis. An integrated business plan is produced that is driven by commercial objectives and translated into an operational budget. There is continuous enhancement of the planning and budgeting processes through a refined assignment of drivers that align with the profit and loss of the Group.

B. Information Dissemination

- Management Committee Meetings chaired by the Managing Director are conducted on a regular basis to monitor business performance and to discuss other related issues.
- Townhall sessions are conducted on a quarterly basis for staff as an avenue for sharing of operational results, performance and issues.

4. MONITORING

- Budgets are monitored by each business unit and forms part of the unit's key performance indicator. An Expenditure Variance Report (EVS) is generated on a monthly basis for each business unit's validation and monitoring control of actual cost incurred over budget.
- Other than regular reporting of internal control issues to the BAC, the effectiveness of the internal control system is consistently monitored and reviewed through the following:-
 - Management Audit Action Committee (MAAC)
 - MAAC chaired by the Managing Director meets every quarter to discuss concerns and issues arising from audit activities and ensures the implementation of actions highlighted in BAC meetings. It focuses on closure of audit action items and ensures appropriate actions are taken on the audit recommendations.
 - Business Assurance Control Assessment (BACA)
 - BACA through a questionnaire approach was assessed and rated by head office and stations system-wide on a half yearly basis. ABA performs validation on the self assessed results and reports the findings to the BAC on a periodic basis.

5. RISK ASSESSMENT

- The Malaysia Airlines Enterprise Risk Management (ERM) Framework is aligned to the Group's business planning activities, and incorporates various disciplines including safety and security management, revenue and financial management, network management, crisis and business continuity management. Risk and Policy Advisory Services (RPAS) is mandated by the Board to implement and sustain a consistent and integrated ERM Framework for the Group. Within this Framework, a standard process is applied to identify, evaluate, monitor, manage and report risks. Business units review their respective risk registers to ensure new and emerging risks are evaluated and any further actions identified.
- The risk management process provides opportunities for discussion and debate, and the outcome includes a risk map which plots each risk on an impact and likelihood scale in order for management to prioritise action plans. The corporate risk profile is reviewed by the Corporate Risk Forum, chaired by the Managing Director and consists of key Management Committee members and risk managers across the Group. The Risk Forum functions as a risk intelligent enterprise management oversight, primarily as a clearinghouse for risks, appetite-setting, and governance. The Risk Forum assesses and ensures effective risk management practices are in place for planning and execution of business strategies, and reviews the integrity and adequacy of the risk management process itself. Strategic and key non-strategic risks are surfaced to the BAC and the Board for their review of the risks and corresponding initiatives. Management escalates to the Board any matters pertaining to increasing likelihood and impact of risks that may significantly affect the Group's risk exposure. Effectiveness of mitigating actions are monitored and independently verified through risk-based audits by various assurance units.

- Risk management activities
 - Throughout the year, a series of risk reviews were led and facilitated by RPAS and was completed for all business units, including key subsidiaries and regional offices in ASEAN & Malaysia, South Asia, Australia & New Zealand and Europe. All business units and subsidiaries were made to challenge and review their respective risk positions to primarily reflect global economic changes and travel demands, safety, security and environmental requirements, as well as legal and antitrust exposures. The outcomes of the risk reviews were reported to relevant stakeholders including heads of business units and subsidiaries, management and relevant committees at the Board. Respective Heads, risk management representatives and RPAS also closely monitor key action plans and risk indicators and periodically report the status to relevant stakeholders. Management also focused on critical projects undertaken by the Group and ensured that a formal project risk management process is established to ensure project objectives are achieved.
 - Malaysia Airlines Business Continuity Management (BCM) Programme for the year continues to include setting the baseline and fundamental collaborative structures to enhance the resilience strategy of the Company. In mid 2010, as requested by the International Civil Aviation Organisation (ICAO) and International Air Transport Association (IATA), MAS collaborated with another leading full service carrier to develop the Business Continuity Plan Guidelines for member airlines for public health emergencies. MAS also organised a BCM and ERP Conference, led by our Emergency Management Centre (EMC) and RPAS which was attended by, amongst others, government representatives, regulatory and NGO bodies and airline representatives. The conference was aimed at promoting the importance of business continuity preparedness for an airline and the inter-dependencies for others in the same industry. Business Continuity Plans (BCP) for Operations and Engineering & Maintenance developed in 2009 were reviewed by RPAS and Business Continuity Plan Leaders (BCPL) who are representatives of their respective business units. Additionally, the business continuity planning initiatives were extended to other business areas located within Subang, namely, the Managing Director's Office, Finance, Human Capital and Insurance departments. Business continuity preparedness was also important on the part of our key third party service providers hence the establishment of a due diligence process imposed on vendors providing critical services to Malaysia Airlines. More plans are targeted for 2011 in order to develop workarounds in the event critical systems fail for extended periods. As Malaysia Airlines operations are highly dependent on the availability of airport infrastructure and support, priority was given to the alignment of business continuity planning with Malaysia Airports Berhad (MAB) in the country. The plans for the Penang station, a scale down of KLIA plans developed in the year before were also completed. Future plans would include rollout to other stations and key operating subsidiaries.
 - Management continues to ensure risk management is embedded within the Group, including key subsidiaries. Briefings and awareness programmes are targeted for focus groups. Governance, risk management and internal controls structures form a core of management development programmes for managers and above.

DESIGN OF INTERNAL CONTROL SYSTEM

Malaysia Airlines' internal control system does not apply to its associated companies and joint ventures which have not been dealt with as part of the Group. Nonetheless, the interests of Malaysia Airlines are served through its representatives on the Board of the respective associated companies and joint ventures as well as through the review of management accounts received. These provide Malaysia Airlines' Board of Directors with performance-related information to enable timely decisions with regards to the Group's investments in such companies.

The Board confirms that the system of internal control, with the key elements highlighted above, is in place during the financial year. The system is subject to regular reviews by the Board.

Statement of Corporate Governance

Malaysian Airline System Berhad (MAS or the Company) has, apart from adhering to the principles and best practices of the Malaysian Code on Corporate Governance (MCCG), also abided by the Guidelines to Enhance Board Effectiveness set by the Putrajaya Committee on GLC High Performance (PCG). The Board of Directors (the Board) of MAS strives to maintain a sound level of corporate governance in the Group. They have been unequivocal in their commitment to ensure that the highest standards of corporate culture are practised throughout the Group, both locally and worldwide in the interest of shareholders and stakeholders.

A Whistle Blowing Programme was established in February 2006 to provide an internal mechanism for employees to raise their concerns responsibly about malpractices, irregularities and negligence affecting MAS, without any fear of adverse repercussions. An appropriately managed whistle blowing system functions as an internal control mechanism allowing for effective action to be taken and to provide preventive measures in order to ensure that the integrity of the Company is maintained.

A re-compilation of the existing Corporate Approving Authority Manual (CAAM) for ease of reference and compliance was made. The CAAM is continuously being reviewed to keep up with organisational and industry changes. The Station Approving Authority Manual (SAAM) and the Systemwide Station Internal Control Manual (SSICM) complement the CAAM in defining the authority and the accountability for business activities at the stations. As a pivotal internal control mechanism, the CAAM will promote greater managerial discipline, accountability and transparency in the performance of the identified operational and management decision-making activities.

MAS continues to review the initiatives that were identified under the Government Linked Companies Transformation Programme throughout the year. The Board had adopted the Board Charter as recommended by the 'Green Book' to ensure that all the members of the Board are aware of their fiduciary duties and responsibilities as directors and the various legislations and regulations affecting their conduct and that the highest standards of corporate governance are applied in all their dealings in respect, and on behalf of the Company.

The Board is pleased to outline below the manner in which MAS has strengthened its application of the principles and the adoption of corporate governance best practices laid down in the MCCG. Best Practices over and above the recommendations contained in the MCCG adopted by the Group are those recommended by PCG and other global standards which the Board has considered to be suitable for the Group.

THE BOARD OF DIRECTORS (the Board)

Roles and Responsibilities of the Board

First and foremost, the Board is responsible for determining the Company's long-term direction, business objectives and strategy. The Board, in discharging its duties, ensures that the Company has adequate resources to meet its objectives and that it maintains an effective safety and risk management system. The Board is mindful in monitoring the Company's performance and ensuring that it acts ethically and meets its responsibilities to shareholders and other stakeholders.

Apart from the above responsibilities, the Board adopted a formal schedule to decide on matters requiring approval covering long-term strategy and objectives, capital and operating plans, major investments and disposals, funding and dividend, succession planning for senior management, and annual financial statements.

Board Balance, Structure and Composition

Board structure and composition is the foundation of board effectiveness. The Board is led by a Chairman with strong leadership and management skills to lead and manage discussions among Directors with differing backgrounds. As at 31 December 2010, the Board comprises the following 11 members which complied with the requirement on Independent Directors of the Main Market Listing Requirements (LR) of Bursa Malaysia Securities Berhad (BMSB):-

Category	Number
Non-Independent and Non-Executive Chairman	1
Executive Director	1
Non-Independent and Non-Executive Directors	3
Independent and Non-Executive Directors	6

The Board composition complied with the requirement on Independent Directors of the LR of BMSB.

A brief profile of each Director appears on pages 14 to 21 of this annual report.

There is a clear division of responsibilities between the Chairman of the Board and the Managing Director. The requirement of the MCGG for a balanced board is fulfilled with Independent Directors constituting more than one-third of the Board. The presence of Independent Directors ensures an additional element of balance to the Board as they provide unbiased and independent views, advice and judgement to all Board deliberations.

The Non-Executive Directors provide a mix of related industry-specific knowledge as well as broad government, business and commercial experience. All Non-Executive Directors do not participate in the day-to-day management of the Company and are free from any relationship that could interfere with their ability to exercise independent judgement and act in the best interests of the Company and its shareholders. In situations where it would be inappropriate for concerns to be dealt with by the Chairman or the Managing Director, such concerns would be conveyed to the Deputy Chairman who is also the Senior Independent Non-Executive Director.

The Board believes that its present structure and composition satisfactorily reflect the investments of its shareholders and is able to provide clear and effective leadership to the Group.

Board Meetings and Supply of Information to the Board

Board meetings for the ensuing financial year are scheduled in advance before the end of each financial year so as to enable Directors to plan ahead and fit the year's Board meetings into their respective schedules. Board meetings are conducted in accordance with a structured agenda. The agenda for each Board meeting and papers relating to the agenda items are forwarded to all Directors before the Board meeting. This is to facilitate the Board to peruse the board papers and review the issues to be deliberated at the Board meeting well ahead of the meeting date to enable directors to make informed decisions.

In the event that any of the Directors has an interest in proposals considered by the Board, the Director concerned will disclose to that effect at the Board meeting. The interested Director will thereupon abstain from deliberations and decisions of the Board on the proposal.

Minutes of each Board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes before the commencement of the following Board meeting. The Directors may request for clarification or raise comments on the minutes prior to the confirmation of the minutes.

The Board has full and unrestricted access to all information within the Group, individually or collectively, and has direct access to the advice and services of the Company Secretary. The Directors are regularly updated and advised by the Company Secretary on new statutory and regulatory requirements, and the impact and implication to the Company and Directors in carrying out their fiduciary duties and responsibilities. The Company Secretary organises and attends all Board meetings and ensures that accurate and proper records of the proceedings of Board meetings and resolutions passed are recorded and kept in the statutory register at the registered office of MAS.

The Directors are free, at the Company's expense, to seek independent professional advice should they consider it necessary, in furtherance of their duties. The Board has an established procedure for Directors to take independent professional advice.

A total of 13 Board meetings were held during year 2010 and the Board attendance record is as follows:-

Directors	Meeting Attendance
Tan Sri Dr. Mohd. Munir bin Abdul Majid <i>Chairman</i>	13/13
Dato' N. Sadasivan a/l N. N. Pillay <i>Deputy Chairman</i>	13/13
Tengku Dato' Sri Azmil Zahrudin bin Raja Abdul Aziz <i>Managing Director</i>	12/13
Mr. Keong Choon Keat	13/13
Mr. Martin Gilbert Barrow	11/13
Datuk Mohamed Azman bin Yahya	12/13
Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah	7/13
Dato' Puteh Rukiah binti Abdul Majid <i>[Alternate Director to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah]</i>	4/13
Datuk Seri Panglima Mohd. Annuar bin Zaini	11/13
Datuk Haji Yusoff bin Datuk Mohd Kassim	6/13
Dato' Abdul Rahman bin Abdul Ghani <i>[Alternate Director to Datuk Yusoff bin Mohamed Kassim]</i>	5/13
Datuk Amar Wilson Baya Dandot	9/13
Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani <i>[Alternate Director to Datuk Amar Wilson Baya Dandot]</i>	1/13
Encik Mohammed Rashdan bin Mohd Yusof <i>(Appointed on 15 October 2010)</i>	2/2

Note: The first figure above denotes the number of meetings attended while the second figure denotes the total number held. The number of meetings held refers to the applicable meetings for each Director and varies based on their dates of appointment. The attendance record of the Alternate Directors must be read in conjunction with the attendance record of the Principal Director.

APPOINTMENT OF BOARD MEMBERS

Nomination to the Board of MAS is made either by the Special Shareholder in accordance with Article 5(2) or by the Board pursuant to Article 136 of the Company's Articles of Association.

The Nomination and Remuneration Committees scrutinise the sourcing and nomination of suitable candidates for appointment as Director in MAS and its subsidiary companies. These Committees will ensure the selection of Board members with the right skill set, expertise and industry knowledge thus strengthening the composition of the Board and contributing significantly to the effectiveness of the Board.

DIRECTORS' TRAINING

All Directors have attended and successfully completed the Mandatory Accreditation Programme mandated by BMSB. During the financial year, the Company has arranged in-house training programmes on topics relevant to the Company, which were attended by both the members of the Board and Senior Management. Besides, the Directors have attended various conferences and seminars organised by external organisers which assisted them in the discharge of their duties.

Conferences, seminars and training programmes attended by Directors in 2010 are as follows:-

- Forum on FRS 139 Financial Instruments: Recognition and Measurement – The Challenges of Implementing FRS 139
- Khazanah Megatrends Forum – “Reclaiming the Commons: Collaborating and Competing in the New Economic Order”
- Singapore Airshow aviation leadership summit
- Competition Lay and Its Impact
- Asia Pacific Advancement Conference
- Malaysian Financial Reporting Standards – Recent Developments and Updates
- 7th Kuala Lumpur Islamic Finance Forum (KLIFF)

RE-ELECTION OF DIRECTORS

Pursuant to the LR of BMSB and the Company's Articles of Association, all Directors are subject to re-election by rotation once at least every three years and a re-election of Directors shall take place at each Annual General Meeting. The Executive Director is also ranked for re-election by rotation. The purpose of such re-election is to ensure that shareholders have a regular opportunity to reassess the composition of the Board. The Directors standing for re-election are set out in the Statement accompanying the Notice of Annual General Meeting.

DIRECTORS' REMUNERATION

The remuneration of the Executive and Non-Executive Directors is reviewed against market practices. The Executive Director's remuneration consists of basic salary, other emoluments and other customary benefits as appropriate to a senior management member. Salary reviews take into account market rates and the performance of the individual and the Group. The Executive Director is not paid the Directors' fees nor is he entitled to receive any meeting allowance for the Board and Board Committee meetings attended. The Non-Executive Directors' remuneration is based on standard fixed fees and allowances that reflect their number of meetings attended during the year.

Details of the total remuneration during the financial year disclosed by category are as follows:-

	Salaries & Other Emoluments	Benefits	Total
	RM'000	RM'000	RM'000
Executive Director	1,690	953	2,643
Non-Executive Directors	758	-	758
Total	2,448	953	3,401

The number of Directors of the Company whose total remuneration during the financial year fell within the following bands is as follows:-

	No. of Directors
Executive Director:	
RM2,500,001 to RM3,000,000	1
Non-Executive Directors:	
Below RM50,000	6
RM50,001 to RM100,000	5
RM150,001 to RM200,000	2

The Board has chosen not to disclose the remuneration of Directors on an individual basis, as suggested by the MCCG, as the Board believes that such information will not add significantly to the understanding and evaluation of the Group's standards of corporate governance.

BOARD COMMITTEES

The Board delegates certain responsibilities to Board committees with specified terms of reference and responsibilities. The Chairmen of various committees report the outcome of the committee meetings to the Board and the minutes of the committee meetings are circulated to the Board for their information. Where the committees have no authority to make decisions on matters reserved for the Board, recommendations would be highlighted in their respective reports for the Board's endorsement. These committees are the:-

1. Board Audit Committee
2. Nomination Committee
3. Remuneration Committee
4. Board Safety and Security Committee
5. Board Tender Committee
6. ESOS Committee
7. Board Hedging Committee

Board Audit Committee (BAC)

A full BAC report enumerating its membership, its terms of reference and its activities during the year appears on pages 69 to 73 of this Annual Report.

The Chairman of the BAC reports the outcome of its meetings to the Board and such reports are incorporated as part of the agenda of the Board meetings.

Nomination Committee (NC)

Membership as at 22 April 2011:-

Chairman: Tan Sri Dr. Mohd. Munir bin Abdul Majid
Members: Dato' N. Sadasivan a/ N. N. Pillay
Datuk Mohamed Azman bin Yahya
Mr. Keong Choon Keat

Objective:-

To assist the Board in their responsibilities in nominating new nominees to the Board. The NC shall also assess the performance of the Directors on an on-going basis.

Duties and Responsibilities:-

- To recommend to the Board, candidates for all directorships to be filled by the Shareholders or the Board.
- To consider, in making its recommendations, candidates for directorship proposed by the Managing Director/Chief Executive Officer and, within the bounds of practicability, by any other senior executive or any Director or Shareholder.
- To recommend to the Board the nominees to fill the seats on Board Committees.
- To assess the effectiveness of the Board as a whole and each individual Directors/committees of the Board.
- To act in line with the directions of the Board.
- To review and approve the appointment of senior management.
- To consider and examine such other matters as the NC considers appropriate.

Authority:-

- The NC, in accordance with a procedure or process to be determined by the Board and at the expense of the Company,
 - a) shall annually review the required mix of skills and experience and other qualities, including core competencies which non-executive and executive directors should have.
 - b) shall assess on annual basis, the effectiveness of the Board as a whole, the committees of the Board and the contribution of each individual Director.
 - c) shall be entitled to the services of a Company Secretary who must ensure that all appointments are properly made, that all necessary information is obtained from Directors, both for the Company's own records and for the purposes of meeting statutory obligations, as well as obligations arising from the LR of the BMSB or other regulatory requirements.

Remuneration Committee (RC)

Membership as at 22 April 2011:-

Chairman: Datuk Mohamed Azman bin Yahya
Members: Mr. Keong Choon Keat
Dato' N. Sadasivan a/l N. N. Pillay

Objective:-

- To assist the Board in their responsibilities in assessing the remuneration packages of the directors reflecting the responsibilities and commitment undertaken.

Duties and Responsibilities:-

- To review and assess the remuneration packages of the directors and senior management in all forms, with independent professional advice, if necessary.
- To ensure the levels of remuneration be sufficiently attractive and be able to retain directors needed to run the Company successfully.
- To structure the component parts of remuneration so as to link rewards to corporate and individual performance and to assess the needs of the Company for talent at Board level at a particular time.
- To recommend to the Board the remuneration packages of the directors.
- To act in line with the directions of the Board.
- To consider and examine such other matters as the RC considers appropriate.

Authority:-

- The RC shall, in accordance with a formal and transparent procedures, propose a policy on directors' remuneration packages to be ultimately determined and established by the Board and at the expense of the Company;
 - a) review, access and recommend to the Board the remuneration packages of the directors.
 - b) shall be entitled to the services of the Company Secretary who must ensure that all decisions made on the remuneration packages of the directors be properly recorded and minuted in the minutes book.

Board Safety and Security Committee (BSSC)

Membership as at 22 April 2011:-

Chairman: Mr. Martin Gilbert Barrow
Members: Datuk Amar Wilson Baya Dandot
Tengku Dato' Sri Azmil Zahrudin bin Raja Abdul Aziz
Mr. George Snyder, Senior Technical Consultant

Other Members of the BSSC consisted of relevant Senior Management, including Director of Operations, Captain Mohamed Azharuddin bin Osman and Senior Vice President, Corporate Safety Oversight, Captain Dr. Ooi Teong Siew.

Objective:-

- To provide assurance to the Board that the Company is complying fully with its safety responsibilities under the Air Operator's Certificate (AOC), and to provide the Board with an assessment of risk to the Company arising from its management of safety and security. This includes an assessment of the reputational exposure from associated operations such as code shares, sub-contractors under other AOCs, and subsidiaries holding their own regulatory approvals. Currently these comprise MASkargo, Firefly and MASwings but may in the future include other operating divisions.

The BSSC on behalf of the Board has endorsed the Safety Management System (SMS) of the Company, and agrees with its programme to safeguard the safety and security of its operations. It endorses the principles of openness and encourages continuous improvement.

Role and Scope:-

- Reviews the overall safety and security performance of operations under the MAS AOC, by considering significant operational incidents, and trends.
- Considers the effectiveness of controls by reviewing:-
 - (a) Results of audits, inspections and investigations
 - (b) Significant quality lapse
 - (c) Process conformance
 - (d) Status of corrective and preventive actions
 - (e) Follow up actions from previous management reviews
 - (f) Regulatory violations and concessions
- Reviews occurrence reports as well as trend analyses and ensures that corrective actions are taken in a timely manner.
- Regularly reviews the Safety and Security performance of MASKargo, Firefly and MASwings.
- Consider relevant incidents of other operators, paying particular attention to those with whom MAS has contractual relationships.
- Reviews recommendations for management system improvement.
- Regularly briefed on changes in regulatory policy or civil aviation legislation.
- Monitor safety management processes inflight operations, engineering, security, cargo and ground operations, and ensures that these are in line with the Group's quality standards.
- Encourages good communication between the various departments with regards to the above processes so that any problem areas are quickly highlighted and corrective actions taken.
- Ensures that contingency planning and crisis management procedures are in place.

The Chairman of BSSC and Senior Vice President, Corporate Safety Oversight report the outcome of its meetings to the Board and such reports are incorporated as part of the agendas of the Board meetings and the minutes of each BSSC meeting are distributed to all Board members.

Board Tender Committee (BTC)

Membership as at 22 April 2011:-

Chairman: Dato' N. Sadasivan a/l N. N. Pillay

Member: Datuk Seri Panglima Mohd. Annuar bin Zaini

Other members of the BTC consisted of Senior Management, including the Chief Financial Officer, Encik Mohd. Azha bin Abdul Jalil.

Objective:-

To assist the Board, in its capacity to approve tenders with contract value of RM5 million and above.

Duties, Responsibilities and Authority:-

- To deliberate on and approve tenders with contract value of RM5 million and above, which have been endorsed for submission by the Management Tender Committee prior to the deliberation of tenders at BTC.
- Make other decisions if required to effect any contract between MAS and the appointed contractors/suppliers.
- To act in line with the direction of the Board.
- To consider and examine such other matters as the BTC considers appropriate.

In the event a BTC meeting cannot be held to deliberate an urgent tender, approval of resolution by circulation can be done.

Such circularised resolution and approval would then be confirmed at the next available BTC meeting.

The BTC would designate an authorised personnel to execute the Letter of Award or/and contract Agreement upon such approval.

ESOS Committee

Membership as at 22 April 2011:-

Chairman: Datuk Mohamed Azman bin Yahya

Members: Mr. Keong Choon Keat
Tengku Dato' Sri Azmil Zahrudin bin Raja Abdul Aziz

Other members of the ESOS Committee consisted of Senior Management, including Director of Operations, Captain Mohamed Azharuddin bin Osman and Executive Vice President Human Capital, YM Raja Azura binti Raja Mahayuddin.

Objective:-

- To implement and administer the MAS ESOS in accordance with the By-Laws approved by the shareholders of the Company.
- To determine participation eligibility, option offers and share allocations.
- To attend to such other matters as may be required.

Duties and Responsibilities:-

- Responsible for the ESOS plan design and amendments.
- Assume responsibility for administrative oversight of the plan including reviewing ESOS procedures and ensuring they are adhered to properly.
- Deliberate and decide on areas such as:-
 - participation and eligibility
 - number of new shares granted
 - criteria and method of allocation
 - termination
- To decide on the tenure of plan.
- Administration of the Selling Flexibility Scheme.
- Responsible for all other areas of the ESOS, including, but not limited to, the areas specified under the ESOS By-Laws.

Authority:-

- The MAS ESOS shall be administered by the ESOS Committee.
- The ESOS Committee shall be vested with such powers and duties as are conferred upon it by the Board of MAS to administer the Scheme in such manner it shall in its discretion deem fit.

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- The ESOS Committee may, for the purpose of administering the Scheme, do all acts and things and enter into any transactions, agreements, deeds, documents or arrangements, and make rules, regulations or impose terms and conditions or delegate part of its power relating to the Scheme which the ESOS Committee may in its discretion consider to be necessary or desirable for giving full effect to the Scheme. For the avoidance of doubt, the ESOS Committee shall have the authority to administer the Selling Flexibility mechanism.
 - Any liberty or power which may be exercised or any determination which may be made hereunder by the ESOS Committee may be exercised at the ESOS Committee's discretion.
 - The decision of the ESOS Committee shall be final and binding.

Board Hedging Committee (BHC)

Membership as at 22 April 2011:-

Chairman: Datuk Mohamed Azman bin Yahya

Members: Dato' N. Sadasivan a/ N. N. Pillay
Mr. Keong Choon Keat
En. Mohammed Rashdan bin Mohd. Yusof

Objective:-

To assist the Board in fulfilling its oversight responsibilities in relation to risk management relative to exposures to fuel price, interest rates and foreign exchange fluctuations.

Duties and Responsibilities:-

- To design the hedging policy and review thereof and recommend to the Board.
- To oversee the implementation of the Company's hedging policy including determining hedging strategies and recommend any required strategies to the Board.
- To review the hedging policy as and when necessary.
- To monitor and ensure compliance by the Company with the hedging policy.
- To periodically review the Company's ongoing hedging position.
- To ensure adequate controls and maintain information systems for hedging transactions and outstanding hedge positions.
- To regularly report to the Board all significant matters it has addressed with respect to matters that are within its mandate.

Authority:-

- The BHC, in accordance with a procedure or process to be determined by the Board,
 - a) shall review the hedging policy and determine hedging mandate, hedging strategy and hedging position.
 - b) shall be entitled to the services of the Company Secretary who must ensure that all decisions made on hedging be properly recorded and minuted in the minutes book.

The Chairman of BHC shall report to the Board the outcomes of BHC meetings and any significant matters with respect to hedging that are within its mandate. Such reports are incorporated as part of the agenda of the Board meetings.

SHAREHOLDERS

The Company communicates regularly and proactively with shareholders and investors to ensure that they are kept appropriately informed of major developments within the Group on a timely basis.

Relationship and Communication with Shareholders and Investors

It is customary for the Group to brief the analysts and the media immediately after the Group's quarterly financial results are publicly announced. The Managing Director and Senior Management are present at these briefings to clarify issues raised by the analysts and members of the media. It is also the Group's practice to hold special briefings with analysts and the media with regard to any special development relating to the Group, after the necessary approvals have been obtained and, where applicable, the prescribed announcements to BMSB have been made.

In addition, the Managing Director and/or Chief Financial Officer hold briefings for institutional investors as and when required.

To develop a long-term relationship with shareholders and institutional investors, the Investor Relations Department, enables the maintenance of an open channel of communication between MAS and its shareholders and institutional investors. Towards this end, a dedicated e-mail address (investor@malaysiaairlines.com) has been set up, to which shareholders can direct their queries. Shareholders and investors may also access the Group's website (www.malaysiaairlines.com) for more information.

Annual General Meeting (AGM)

The AGM is an important forum for communication and dialogue with shareholders. Notice of the AGM and the Annual Report are sent out to shareholders at least 21 days before the date of the meeting. The Annual Report provides detailed and comprehensive information on the Group's business and activities to help shareholders make informed decisions on their investment in MAS. Shareholders may also access the Group's website (www.malaysiaairlines.com) for more information.

During the AGM, the Board takes the opportunity to present a comprehensive review of the progress and performance of the Group. This review is supported by visual and graphical presentation of key points and financial figures. The shareholders are given both the opportunity and the time to seek clarifications or raise questions on the agenda items of the general meetings, where the Board would respond with the appropriate answers. To enable shareholders to gain full understanding and evaluate the issues involved, explanatory statements are provided to them on items of special business that may be included in the Notice of Meeting.

At the AGM, shareholders have direct access to Board members who are on hand to answer their questions, either on a specific resolution or on the Company generally.

While the company endeavours to provide as much information as possible to its shareholders and stakeholders, it is aware of the legal and regulatory framework governing the release of material and sensitive information and accordingly works within such restrictions to attain a balance between providing timely and accurate information which is not misleading to its shareholders and stakeholders.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is mindful to provide and present a balanced and fair assessment of the Group's financial performance and prospects through its annual financial statements, quarterly results and Annual Report to both BMSB and shareholders. The BAC assists the Board to scrutinise information to ensure adequate disclosures are made in such reports and the overall quality of the Group financial reporting is maintained.

Statement of Directors' Responsibility in relation to the Financial Statements

In the preparation of the Financial Statements as set out on pages 121 to 268 of this Annual Report, the Directors are of the view that:-

- The Group has used appropriate accounting policies that were consistently applied;
- Reasonable and prudent judgements and estimates were made; and
- All applicable Financial Reporting approved accounting standards in Malaysia have been followed.

The Directors are responsible for ensuring that the Company maintains accounting records, which disclose with reasonable accuracy the financial position of the Company and the Group, and that the Financial Statements comply with the Companies Act 1965.

The Statement of Directors pursuant to Section 169 of the Companies Act 1965 is set out on page 126 of this Annual Report.

Internal Control

The Board acknowledges its overall responsibility for maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets. In compliance with the LR of BMSB under Paragraph 15.27(b) and guided by the Statement of Internal Control: Guidance for Directors of Public Listed Companies, the report on the Group's internal control is presented in the Statement on Internal Control on pages 74 to 79 of this Annual Report.

Relationship with Auditor

The Board has, through the BAC, established and maintained a formal, transparent and appropriate relationship with the Group's auditors. The authority, roles and responsibilities of the Committee are presented in the Audit Committee Report set out on pages 69 to 73 of this Annual Report.

The Group has always maintained a close and transparent relationship with its auditors in seeking professional advice and ensuring compliance with the relevant accounting standards.

This Statement is made in accordance with the resolution of the Board of Directors dated 19 April 2011.

Additional Compliance Statement

In compliance with the LR of BMSB under Paragraph 9.25, the Board is also pleased to provide disclosure on the following information:-

1. Imposition of Sanctions/Penalties:-

On 27 May 2010, Malaysia Airlines Cargo Sdn. Bhd. (MASkargo), a subsidiary of Malaysia Airlines was imposed a fine of KWR 1,200,000,000 (approximately MYR 3.243 million) by the Korean Fair Trade Commission (KFTC) in relation to the air freight investigation under the Fair Trade Act. The KFTC gave its written decision on 12 November 2010 and MASkargo submitted its appeal against the decision on 29 December 2010. MASkargo subsequently paid the fine on 28 January 2011.

2. Material Contracts:-

Save as disclosed below, there are no other material contracts entered into or subsisting by the Company or its subsidiaries, involving directors and major shareholders interests, either still subsisting at the end of the financial year or, if not then subsisting, entered into since the end of the previous financial year:-

- (i) Supplemental Agreement dated 28 May 2002 between the Company and Aircraft Business Malaysia Sdn. Bhd. (ABM), a wholly-owned subsidiary of Penerbangan Malaysia Berhad (PMB), to amend certain clauses stated in the Master Aircraft Purchase Agreement dated 5 February 2002 between the aforesaid parties.
- (ii) Eight (8) Operating Lease Agreements, one (1) of which is dated 6 June 2002 and seven (7) of which are dated 28 May 2002, between the Company and ABM, a wholly-owned subsidiary of PMB, in relation to the lease of the eight (8) aircraft for a lease period not exceeding 12 years.
- (iii) Eight (8) Supplemental Agreements dated 30 July 2002 between the Company and ABM, a wholly-owned subsidiary of PMB, to amend the terms of rental rate/formula stated in the Operating Lease Agreements between the aforesaid parties referred to in paragraph (ii) above.
- (iv) Several Agreements dated 30 July 2002 between the Company and PMB:-
 - (a) Widespread Asset Unbundling (WAU) Agreement which describes the general structure of the Agreement for Aircraft and Finance Agreements Unbundling, the Agreement for Domestic Business Unbundling, the Common Terms Agreement, the Governance Agreement and the Aircraft and Engines Purchase Agreement.
 - (b) Agreement for Aircraft and Finance Agreements Unbundling which sets out the terms and arrangements under which PMB and Malaysia Airlines must make payments to each other, in relation to the aircraft assets which are subject to finance leases, loan agreements or operating leases entered into by Malaysia Airlines. (Encumbered Aircraft Assets) and certain payments which Malaysia Airlines receives in respect of its aircraft assets, and in relation to specifically identified liabilities of Malaysia Airlines which are unbundled. This agreement provides PMB with an option to purchase the Encumbered Aircraft Assets becoming unencumbered to Malaysia Airlines, upon which such aircraft will be leased back to Malaysia Airlines on the same terms as the leaseback agreements for Unencumbered Aircraft Assets referred to under paragraph 2 (iv)(c).

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- (c) Aircraft and Engines Purchase Agreement which sets out the terms and arrangements under which Malaysia Airlines agrees to sell and transfer title to twenty four (24) aircraft and eight (8) spare engines owned by Malaysia Airlines (Unencumbered Aircraft Assets), to PMB, in consideration of PMB's obligation to pay Malaysia Airlines certain payments under the Agreement For Aircraft and Finance Agreements Unbundling. The signing of the leaseback agreements for the Unencumbered Aircraft Assets is a condition precedent to the Proposed WAU.
 - (d) Common Terms Agreement which sets out the common terms, conditions and provisions that are incorporated by reference into each of the Agreement for Aircraft and Finance Agreements Unbundling, the Agreement for Domestic Business Unbundling, the Governance Agreement and the WAU Agreement. Included in this agreement is a description of events of default which apply to the said agreements.
 - (e) Governance Agreement which constitutes an agreement between Malaysia Airlines, as the Asset Operator and PMB, ABM and Assets Global Network Sdn. Bhd. (Asset Owners) to comply with the corporate and contractual governance code in relation to the conduct between Malaysia Airlines and the Assets Owners on matter referred to in the Agreement for Aircraft and Finance Agreements Unbundling, the Agreement for Domestic Business Unbundling, the Governance Agreement, the Aircraft and Engines Purchase Agreement and the WAU Agreement.
 - (v) Supplemental Agreement dated 11 October 2002 between Malaysia Airlines and PMB, to amend certain provisions of the Agreement for Aircraft and Finance Agreements Unbundling and the Agreement for Domestic Business Unbundling.
 - (vi) Supplemental Agreement dated 11 October 2002 between Malaysia Airlines and PMB, to amend certain provisions of the Aircraft and Engines Purchase Agreement.
 - (vii) The Lease Agreement dated 6 November 2002 between Malaysia Airlines and PMB in relation to the lease of eight (8) spare engines sold by Malaysia Airlines to PMB under the Aircraft and Engines Purchase Agreement, for a period which expires on 30 September 2005 or such other later date agreed by the parties.
 - (viii) Sub-Lease Agreement (In respect of KLIA Buildings) dated 26 March 2003 between Malaysia Airlines and Assets Global Network Sdn. Bhd. ("AGN"), a wholly-owned subsidiary of the Minister of Finance, Incorporated in relation to the sub-lease of the land and the buildings and infrastructure as therein defined for fifty seven (57) years at a yearly rent payable by Malaysia Airlines to AGN in accordance with the Rent Schedule appended to the Sub-Lease Agreement.
 - (ix) Aircraft Operating Lease Agreement of One (1) Boeing B777-200ER Aircraft bearing Manufacturer's Serial Number 28421 Malaysian Registration Mark 9M-MRP, dated 29 November 2004 between PMB (Lessor) and Malaysia Airlines (Lessee).
 - (x) Aircraft Operating Lease Agreement of One (1) Boeing B777-200ER Aircraft bearing Manufacturer's Serial Number 28422 Malaysian Registration Mark 9M-MRQ, dated 13 December 2004 between PMB (Lessor) and Malaysia Airlines (Lessee).
 - (xi) Aircraft Sub-Lease Agreement of One (1) Boeing B747-4H6 Aircraft bearing Manufacturer's Serial Number 28434 Malaysian Registration Mark 9M-MPR, dated 20 March 2006 between PMB (Lessor) and Malaysia Airlines (Lessee).
 - (xii) General Terms Agreement dated 29 March 2006 together with Side Letter Agreement Number One, Side Letter Agreement Number Two and Side Letter Agreement Number Three between Rolls-Royce plc, Rolls-Royce Leasing Limited, PMB and Malaysia Airlines .
 - (xii) Aircraft Sub-Lease Agreement of One (1) Boeing B747-4H6 Aircraft bearing Manufacturer's Serial Number 29902 Malaysian Registration Mark 9M-MPS, dated 30 May 2006 between PMB (Lessor) and Malaysia Airlines (Lessee).

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- (xiv) Several Agreements dated 22 December 2009 between PMB and Malaysia Airlines such as:-
- (a) Aircraft Lease Agreement in relation to the lease of one (1) Boeing model aircraft B747-400 bearing Manufacturer's Serial Number 27043 and Malaysian Registration Mark 9M-MPF from PMB to the Company for a period which expires on 7 June 2012 or such other date as agreed between the parties.
 - (b) Aircraft Lease Agreement in relation to the lease of one (1) Boeing model aircraft B747-400 bearing Manufacturer's Serial Number 27044 and Malaysian Registration Mark 9M-MPH from PMB to the Company for a period which expires on 20 September 2011 or such other date as agreed between the parties.
 - (c) Aircraft Lease Agreement in relation to the lease of one (1) Boeing model aircraft B777-200 bearing Manufacturer's Serial Number 28408 and Malaysian Registration Mark 9M-MRA from PMB to the Company for a period which expires on 1 November 2015 or such other date as agreed between the parties.
 - (d) Aircraft Lease Agreement in relation to the lease of one (1) Airbus model aircraft A330-300 bearing Manufacturer's Serial Number 77 and Malaysian Registration Mark 9M-MKE from PMB to the Company for a period which expires on 29 April 2014 or such other date as agreed between the parties.
- (xv) Novation Agreement dated 22 December 2009 between PMB, Malaysia Airlines and Airbus S.A.S and letter agreement between PMB and Malaysia Airlines for the acquisition of six (6) undelivered Airbus aircraft under the terms and conditions of the purchase agreement dated 24 November 2003 between PMB and Airbus.
- (xvi) Supplemental Lease Agreement dated 22 December 2009 between PMB and Malaysia Airlines for the revision of the existing operating lease rentals for one (1) B777-200ER aircraft bearing Manufacturer's Serial Number 28421 and Malaysian Registration Mark 9M-MRP payable to PMB and the conditional sale and purchase agreement between PMB and Malaysia Airlines for the same aircraft.
- (xvii) Supplemental Lease Agreement dated 22 December 2009 between PMB and Malaysia Airlines for the revision of the existing operating lease rentals for one (1) B777-200ER aircraft bearing Manufacturer's Serial Number 28422 and Malaysian Registration Mark 9M-MRQ payable to PMB and the conditional sale and purchase agreement between PMB and Malaysia Airlines for the same aircraft.
- (xviii) Supplemental Lease Agreement dated 22 December 2009 between PMB and Malaysia Airlines for the revision of the existing operating lease rentals for one (1) B747-400F aircraft bearing Manufacturer's Serial Number 28434 and Malaysian Registration Mark 9M-MPR payable to PMB and the conditional sale and purchase agreement between PMB and Malaysia Airlines for the same aircraft.
- (xix) Supplemental Lease Agreement dated 22 December 2009 between PMB and Malaysia Airlines for the revision of the existing operating lease rentals for one (1) B747-400F aircraft bearing Manufacturer's Serial Number 29902 and Malaysian Registration Mark 9M-MPS payable to PMB and the conditional sale and purchase agreement between PMB and Malaysia Airlines for the same aircraft.
- (xx) Novation Agreement dated 28 May 2010 between Rolls-Royce plc, Rolls Royce Leasing Limited, PMB and Malaysia Airlines for the acquisition of spare engines under the terms and conditions of the General Terms Agreement dated 29 March 2006 between Rolls-Royce plc., Rolls-Royce Leasing Limited, PMB and Malaysia Airlines.

3. Utilisation of Proceeds from Corporate Proposals

During the financial year 2010, the Company has fully utilised the proceeds raised from the Company's rights issue of ordinary shares and redeemable convertible preference shares which was completed on 5 November 2007 totalling approximately RM1.55 billion according to the manner as set out in the Abridged Prospectus dated 2 October 2007, to finance the acquisition of new aircraft, passenger services system, new hangar facility, integrated maintenance and engineering system and upgrading of current facilities and infrastructure, for working capital purposes and to settle the expenses in relation to the rights issue exercise.

During the financial year 2010, the Company has also fully utilised the proceeds raised from the Company's rights issue of ordinary shares which was completed on 12 March 2010 totalling approximately RM2.67 billion according to the manner as set out in the Abridged Prospectus dated 10 February 2010, to finance the acquisition of wide-body aircraft, repayment of bank borrowings, for general working capital purposes and to settle the expenses in relation to the rights issue exercise.

4. Non-audit fees

The amount of non-audit fees paid and payable to the external auditors by the Group for the financial year ended 31 December 2010 is RM123,000/-.

5. Revaluation Policy on Landed Properties

Revaluation of landed properties will only be undertaken by the Company upon the approval of the Board of Directors of the Company or should there be an intended sale or the market values were materially changed.

6. Profit Guarantee

The Company did not give any profit guarantee during the financial year.

7. Share Buyback

There was no share buyback scheme undertaken by the Company.

8. Options, Warrants or Convertible Securities

The Company has not issued any options, warrants or convertible securities during the financial year 2010 other than the granting of options under the Malaysia Airlines Employees' Share Option Scheme as disclosed in Note 24 to the Financial Statements.

9. American Depository Receipt ("ADR") or Global Depository Receipt ("GDR") Programme (as at 31 December 2010)

The Company did not sponsor any ADR or GDR programme during the financial year.

10. Variation in Results

There was no variance of 10% or more between the unaudited result and the audited financial statement for the financial year ended 31 December 2010.



← KELUAR EXIT →

The B737-800 is equipped with newer technology, is more fuel-efficient and cheaper to maintain.

Statement of Corporate Social Responsibility

Malaysia Airlines as a responsible corporate citizen, diligently upholds the highest standards in its dealings with all external and internal stakeholders, namely, its shareholders, business partners, the community in which it operates, as well as the Company's own employees.

As in all aspects, we endeavour to adhere to the same stated values of ethics, integrity and transparency that underline our business decisions, when carrying out our corporate responsibility obligations, focused on the three main areas, which are:

1. The Workplace
2. Community Involvement; and
3. The Environment

1. THE WORKPLACE

The airline is proud of its track record in having long-serving employees within the organisation, who have great pride in being a Malaysia Airlines employee. As an employer of their choice, the airline will continue to build on this trust by continuously being vigilant about their safety as well as looking at various ways and means to heighten the well-being and care of its employees.

We truly value our 20,000 employees as our greatest asset. As such, significant efforts and resources have been placed towards identifying and meeting the needs of our employees for a safe and comfortable workplace, as well as for their personal and career development opportunities.

Employee Engagement

Malaysia Airlines has implemented various communications channels to disseminate policies and processes. These were put in place to ensure that employees are fully informed of business activities, events and enable them to practically monitor the pulse of the organisation. In this way, all employees would be aware of their roles in the Company and how they contribute to its success.



The Performance Management System (PMS) that was fully implemented in 2009 has shown a degree of effectiveness as a tool for the employees to gain a clear understanding of their jobs and how these tally with the Company's key goals. A quantifiable measure of performance is also part of the PMS, which enables employees to obtain job feedback, and forms the basis for Malaysia Airlines' equitable and merit-based reward system.

The Company also maintained its open and transparent policy by continuing to hold the annual Town Hall meeting, quarterly financial staff briefings and departmental meeting sessions in the year under review. In-house communication channels such as the MH Pulse Intranet and U-voice electronic memo were also retained to keep employees in the loop on the latest company news. An aggressive "turun padang" culture or "management by walking about" is being inculcated to improve staff and management interaction and communication.

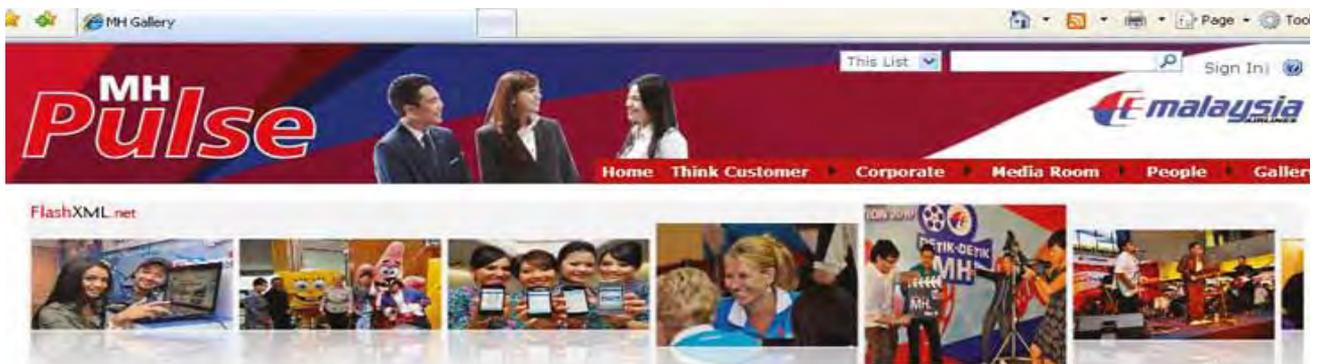
Safe Work Environment for Safe Operations

To showcase the organisation's seriousness in propagating safety across the board, the Raise Safety Bar (RSB) programme, a specific safety initiative for financial year 2010, was launched in October 2009 by the Managing Director. The programme was an additional deployment of the Safety Management System (SMS) across the group. Its implementation enabled the Company to identify and mitigate safety risks at key domains and our subsidiaries in Firefly, MASwings and MASKargo.

RSB ensured regular safety performance reviews were conducted by businesses and subsidiaries to identify gaps against safety targets. Safety actions and outcomes were reported through quarterly updates to the Managing Director and the Board Safety and Security Committee.

In 2011, the focus will be on outcome realisation and to ensure sustainable safety performance by embedding the SMS processes as part of the operational processes of the domains. To ensure a continued focus on human factors in tandem with the fleet refreshment programme, Fatigue Risk Management System (FRMS) and Just Culture Policy and Practices were introduced in February 2011. FRSM will provide competencies in minimising fatigue risks in the workplace whilst a Just Culture Policy is aimed at improving open safety reporting.

In April 2011, Malaysia Airlines renewed, for the fourth time, the International Air Transport Association (IATA) Operational Safety Audit (IOSA). This IOSA safety standard is mandatory for all IATA carriers. In addition, the Company will also conduct the second Line Operations Safety Audit (LOSA) for Flight Operations to identify improvements or any operational risk that may arise after the implementation of the change management process following the first IOSA audit.



2. COMMUNITY INVOLVEMENT

Project PINTAR

Project PINTAR is a Government-initiated human capital development programme aimed at highlighting the importance of education, as a means of improving one's socio-economic condition, for underprivileged children in rural schools.

The programme was designed as a corporate social responsibility (CSR) project to be run by Government-linked companies, on a voluntary basis. It started in 2007, and was to last for a period of two years.

Project PINTAR, as conducted by Malaysia Airlines, proved to be so rewarding to all parties involved, that the airline has extended it beyond the two years. The year 2010 was the fourth straight year that Malaysia Airlines ran the programme.

In 2010, three more schools in Perak were added to the 14 in Perlis, Pulau Pinang, Kedah, Kelantan, Terengganu, Pahang, Johor, Sabah and Sarawak that were already adopted by Malaysia Airlines under Project PINTAR.

All 17 schools had the benefit of having exciting activities organised, to expose the schoolchildren to a wider world than they were used to, as well as to career choices beyond those available within the vicinity of their rural communities.

During the school holidays last year, we flew a group of students from Penang for a stay at Malaysia Airlines' training academy in Kelana Jaya, where they were able to witness pilots being trained in our flight simulators, attend career talks, and visit Malaysia Airlines' other complexes in Kuala Lumpur and Putrajaya. A weekend camp was also organised, as well as a tour of the capital city, Kuala Lumpur. The students were then required to write essays about their experience upon their return to their schools, to reinforce the learning process.

Our pilots, cabin crew, engineers and chefs also visited and gave career talks at some of the schools during the year.

Another school holiday programme offered lessons on essential Information Technology skills that were specifically designed for children between the ages of 13 and 19 years. MAS Academy

also conducted grooming and image-building classes for the same age group during the school holidays to help the children develop self-confidence during this awkward phase of their lives.

Other programmes included workshops and seminars to help students prepare for the Ujian Pencapaian Sekolah Rendah, Penilaian Menengah Rendah and Sijil Pelajaran Malaysia examinations as part of the efforts in improving the academic performance of the Malaysia Airlines' Projek PINTAR schools.

In support of the government's 1Malaysia initiative, events such as Kem PINTAR 1Malaysia, PINTAR Futsal Competition and the MERDEKA Chess Tournament, were also created to provide opportunities for students of various socio-economic backgrounds to interact.

Community Engagements

Malaysia Airlines has rallied around causes that affect the local community whether it is on home ground or internationally. Supporting organisations such as Mercy Malaysia by contributing tickets and waiver of



excess baggage to provide aid for the Chile earthquake, supporting GAZA volunteers in the land convoy from London to Gaza, to simple contributions such as organising a jumble sale for charity, organising Bubur Lambuk for orphans and donations for flood victims, the airline realises its duty to the surrounding community and relishes the opportunities to contribute to the society at large.

HUMANITARIAN

Project SEJAHTERA

For the second year, the Group collaborated with other Government-linked companies to run Project Sejahtera, which is aimed at helping to eradicate hardcore poverty.

The project was launched in September 2009 by the Prime Minister, and Maran, Pahang, was the first district selected to benefit from it. Malaysia Airlines' community of choice for this project is the villagers of Kampung Sejahtera in Maran. Various workshops to help the villagers identify and initiate sustainable income-generating activities were organised under this programme.

In recognition of its efforts, Khazanah Nasional Berhad donated a fully-furnished house in Kampung Teluk Melati, Chenor, to Malaysia Airlines to run as a community service centre.

MAS-MERCY Change for Charity

The Group lent its support to the Malaysian Medical Relief Society, or MERCY Malaysia, by creating the MAS-Mercy Change for Charity project, which was launched in 2009, to assist the volunteer group in its disaster relief and humanitarian work.

This project involved collecting spare change and leftover foreign currency from passengers onboard our flights, as well as on-the-ground travellers. The proceeds are then channelled to various deserving domestic and regional recipients.

Malaysia Airlines received overwhelming support for this project from its customers and showcases the commitment of Malaysia Airlines' cabin crew, who are the project champions, in community service.

In addition, Malaysia Airline employees also worked with MERCY Malaysia last year to run two outreach projects - the first being for an Orang Asli settlement in Johor; the second, for the rehabilitation of a health centre in Kampung Speu, a remote area in Cambodia.

Bona Fide Medical Cases

Through several non-governmental organisations such as the Make-A-Wish Foundation, Children Wish Society of Malaysia, the National Heart Institute and individual requests, Malaysia Airlines continuously grants complimentary flights for required treatment or heartfelt wishes and aspirations of patients to travel to certain destinations.

Although these requests seem simple enough to grant, the many unique conditions of the patients at most times require a great deal of planning, collaboration with the different countries and medical fraternities to ensure their safe travel, the availability of the required medication and special care that is required to and from the destinations. These make the fulfilment



of each request a challenge on its own and fulfilling them all the more gratifying.

Social Initiatives

MASKargo is actively involved in building relationships with communities throughout the country. One of their many activities is sponsoring the upkeep of a tiger named Lobo, a member of an endangered species living at the Malacca Zoo. MASKargo has also sponsored a computer lab for Rumah Anak Yatim Sungai Buaya, Selangor, as well as prizes for orphans who did well in their school examinations. It also regularly assists in the logistical needs of many charities.

In November 2010, MASwings organised an educational trip to Kuala Lumpur on a special chartered flight for 20 selected students of various ethnic groups from the interiors of Sabah and Sarawak. The students were given a first-hand exposure and experience during their visit to Petrosains and the Planetarium as well as an insider's peek into the Malaysia Airlines Complex in Subang, where they had the opportunity to visit the Engineering Maintenance Building and Hangar as

well as the Flight Simulator Centre. The programme culminated with a special event attended by YABhg Datin Paduka Seri Rosmah Mansor, wife to the Prime Minister of Malaysia at the Prime Minister's official residence, Seri Perdana, in Putrajaya.

Malaysia Airlines' corporate responsibility programmes go far beyond those missions that are in the public eye. Other charitable acts that we carry out throughout every year include providing mercy flights for ailing patients in need of emergency as well as regular treatments in hospitals; organising monetary collections for worthy causes; playing host to orphans over the weekend; and many other ad hoc charitable efforts.

Malaysia Airlines would like to publicly acknowledge and thank our employees for their continued show of dedication and zeal for community service.

We, under the MAS family, feel very privileged to be able to carry out these humanitarian and community-building exercises together for the communities we serve.



3. THE ENVIRONMENT

Carbon and Noise Emissions

On 2 February 2009, the European Union decided to include the aviation industry into its existing EU Emissions Trading Scheme (EU ETS), to control the amount of carbon dioxide (CO₂) released into the atmosphere by virtually all airplanes flying over the continent. The EU ETS, which is presently imposed only upon the manufacturing and certain other industries, will apply to aviation starting from 2012. Airlines that exceed the limit of CO₂ emissions assigned to them will then be required to buy permits from other companies that has surplus allowances, in order to continue flying into Europe's airspace.

In preparation for Malaysia Airlines' inclusion in the EU ETS, the Company will kick-start a company-wide carbon footprinting project in 2011 and is now finalising our carbon emissions figure for 2010 flights going in, out and within the EU and other non-member states that have joined the scheme. The deadline for all airlines is 31 March 2011 for the reporting of tonne kilometre (TKM) of CO₂ emissions data. Submission of the TKM data will enable us to obtain free emission allowance, while the quantum will only be known by the third quarter of 2012.

Malaysia Airlines will report to the Environment Agency for England and Wales, a "Competent Authority" in the United Kingdom to where we fly most. Competent Authorities are the implementers and monitoring bodies that oversee the inclusion of aviation into the EU ETS.

In light of Malaysia Airlines' current growth phase, the airline is expecting to

incur the necessity of buying additional emission allowances from the market. However, the current fleet renewal programme will have a positive impact on our carbon footprint, as the newer aircraft are more fuel-efficient.

The Company will explore ways to mitigate the financial risk factor and manage the exposure to future carbon price volatility.

Malaysia Airlines also complied with all noise emissions requirements in 2010.

Voluntary Carbon Offset

As an environmentally responsible company, Malaysia Airlines had also implemented a Voluntary Carbon Offset Scheme (VCOS) to reduce greenhouse gasses by offsetting it through the rehabilitation of the South East Pahang Peat Swamp Forest Complex, or SEPPF.

SEPPF is the largest contiguous block of peat swamp forest in the world. It consists of four big blocks of permanent forest reserve that are separated by state forest, some of which had been degraded. The Pahang state government has agreed to convert the state land to permanent forest reserves,

and Malaysia Airlines using funds donated by its passengers through the VCOS, is helping to rehabilitate these degraded corridors to restore their connectivity to the four peat swamp blocks.

The VCOS program has a three-in-one effect of capturing carbon through tree-planting, increasing bio-diversity by restoring connectivity to fragmented forest blocks, and conserving the large carbon sequestering ability of peat swamps.

It also represents the first carbon reduction initiative involving the collaboration of Government agencies at the federal and state levels, and the private sector. The partnership is an important factor in ensuring that the project remains long-term.

Green Project

Malaysia Airlines is in agreement with IATA and its stated goal of carbon neutral growth by 2020. To achieve this goal, we will continuously look to adopt improvements in technology, effective operations, efficient infrastructure and positive economic measures, as well as

keep abreast of developments in Green Technology and alternative fuels.

We have already taken several steps in the right direction by introducing new aircraft that are more fuel-efficient and environmentally friendly. A good example is the B737-800 aircraft, which has vertical extensions called winglets built into its wing tips, to improve the aircraft's aerodynamic properties. Winglets can reduce an aircraft's fuel consumption by as much as 3%, thereby reducing its carbon emission by the same amount. Firefly's ATR aircraft are also amongst the most fuel-efficient in its class.

Other green measures include code-sharing flights at our international stations, clean and well-maintained aircraft to reduce wind resistance and consequently, fuel consumption, as well as monitoring the way we fly our aircraft.

Malaysia Airlines had also initiated a "Green Office Programme" on the ground to conserve natural resources through the recycling of office wastes.

Winglets can reduce an aircraft's fuel consumption by as much as

3%



List of Company Properties As at 31 December 2010

Location	Description	Tenure	Approximate Area (sq feet)	Approximate Age (years)	Net Book Value as at 2010 (RM)
1. State of Selangor	32 office and workshop buildings forming MAS office complex at Sultan Abdul Aziz Shah Airport, 47200 Subang and 1 pedestrian bridge	Occupation of federal land pending formalisation of a lease	Land - 4,617,360 Built up - 2,284,309	12-39	233,761,771
	Industrial land at PT 44562 Mkm Sg Buloh, 47200 Subang	Leasehold 99 years expiring 2102	10.972 acres	7	15,329,331
	Hangar 6	Agreement with MAB on the land lease 29 years 9 months expiring 31/12/33	Built up- 41,058 sgm	4	280,056,000
2. State of Penang	13 units of shoplots A1.04-A1.07 & A1.11-A1.14 Level 1; A4.05-A4.08 & B114.03 Level 4, Kompleks KOMTAR, Jalan Penang, George Town, 10000 Pulau Pinang	Leasehold 99 years expiring 2075	Built up - 8,690	34	668,388
	8 buildings at Penang International Airport, 11900 Bayan Lepas, Penang	Monthly tenancy pending renewal of tenancy by MAB wef 1 August 2006	Built up - 331,154	41	25,425,592
3. State of Perak	4 shoplots Lot G-01 and 1-06, 1-07 & 1-08, Bangunan Sri Kinta, Jalan Sultan Idris Shah, 30000 Ipoh	Freehold	Built up - 4,102	30	121,636
4. State of Pahang	Vacant Land Lot 51, Taman Bukit Kayangan, 49000 Bukit Fraser	Leasehold 60 years expiring 2041	Land - 52,816	30	34,807
	2 units condominium at K67 & B16 Pine Resort 49000 Bukit Fraser	Leasehold 99 years expiring 2082	Built up - 5,226	25	226,748
5. State of Terengganu	1 engineering workshop at Sultan Mahmud Airport, 21300 Kuala Terengganu	Monthly tenancy pending renewal of tenancy by MAB wef 1 August 2006	Built up - 4,500	26	1

Location	Description	Tenure	Approximate Area (sq feet)	Approximate Age (years)	Net Book Value as at 2010 (RM)
6. State of Kedah	1 engineering building at Sultan Abdul Halim Airport, 06200 Alor Setar	Monthly tenancy pending renewal of tenancy by MAB wef 1 August 2006	Land – 2,065 Built up – 5,950	19	104,404
	1 cargo store at Langkawi International Airport, 07100 Padang Matsirat, Langkawi	Monthly tenancy pending renewal of tenancy by MAB wef 1 August 2006	Built up – 1,632	16	1
7. State of Johor	1 engineering workshop at Sultan Ismail Airport, Senai, 81250 Johor Bahru	Tenancy commencing 1 November 2005 and expiring 31 October 2008	Land – 16,000	19	363,493
	1 cargo building at Sultan Ismail Airport, Senai, 81250 Johor Bahru	Tenancy commencing 1 November 2005 and expiring 31 October 2008	Built up – 10,911	18	4
8. State of Negeri Sembilan	5 units condominium at A-6-10, 1-7-5, 1-5-3, A-5-5, A-4-2, Jalan Pantai, 71050, Port Dickson, Negeri Sembilan	Leasehold 99 years expiring 2086	Built up – 5,657	23	444,422
9. State of Sabah	Hangar & Cargo and Administration buildings at Kota Kinabalu International Airport, 88100 Kota Kinabalu	Engineering & Cargo: Leasehold expiring 2044	Engineering & Cargo: Land – 152,460 Built up – 118,207	21	4,953,977
		Administration Building: Monthly tenancy pending renewal of tenancy by MAB wef 1 October 2006	Administration Building: Land – 16,000 Built up – 31,104	30	1,218,008
	1 hangar/cargo building at Tawau Airport, 91000 Tawau	Monthly tenancy pending renewal of tenancy by MAB wef 30 November 2006	Built up – 16,625	9	2,171,977

Location	Description	Tenure	Approximate Area (sq feet)	Approximate Age (years) (RM)	Net Book Value as at 2010
10. State of Sarawak	Catering and workshop buildings at Kuching International Airport, 93250 Kuching	Monthly tenancy pending renewal of tenancy by MAB wef 1 August 2006	Land – 67,662 Built up – 25,171	21-29	569,470
	1 cargo warehouse / engineering building at Miri Airport, 98000 Miri	Monthly tenancy pending renewal of tenancy by MAB wef 1 August 2006	Land – 40,864 Built up – 19,588	25	607,480
	Cargo/engineering building at Bintulu Airport, Jalan Bintulu, 97000 Bintulu	Monthly tenancy pending renewal of tenancy by MAB wef 1 January 2007	Land – 52,474	7	2,105,905
	1 cargo / engineering building at Sibul Airport, 23km Sibul/Durin Road, 96000 Sibul	Monthly tenancy pending renewal of tenancy by MAB wef 1 August 2006	Land – 39,654 Built up – 10,926	17	843,896
11. Singapore	Office lots #2-01 to #02-11, Level 2, 190, Clemenceau Avenue No 0209-11, Singapore Shopping Centre, 239924 Singapore	Leasehold 99 years expiring 2047	Built up – 7,061	31	1,311,426
12. England	7 storey office building at No 247-249, Cromwell Road, London SW59GA	Freehold	Land – 29,977 Built up – 24,169	15	25,213,777

Analysis of Shareholdings

STATEMENT OF SHAREHOLDINGS AS AT 22 APRIL 2011

Share Capital

Our authorised, issued and fully paid-up share capital as at 22 April 2011 are as follows:

Type	No. of shares	Par value RM	Total RM
Authorised			
Ordinary Shares	9,000,000,000	1.00	9,000,000,000.00
Special Rights Redeemable Preference Share	1	1.00	1.00
Redeemable Convertible Preference Shares - Redeemed	100,000,000,000	0.01	1,000,000,000.00
Redeemable Preference Shares	1,000,000	0.10	100,000.00
Redeemable Convertible Preference Shares	418,000,000	0.10	41,800,000.00
Total			<u>10,041,900,001.00</u>
Issued and paid-up			
Ordinary Shares	3,342,156,240	1.00	3,342,156,240.00
Special Rights Redeemable Preference Share	1	1.00	1.00
Redeemable Preference Shares	500	0.10	50.00
Redeemable Convertible Preference Shares	415,127,155	0.10	41,512,715.50
Total			<u>3,383,669,006.50</u>

Voting Rights : One vote per Ordinary Share
The Special Share has no voting right other than those referred to in note 30(a) of the financial statements

STATEMENT OF SHAREHOLDINGS AS AT 22 APRIL 2011 (CONTINUED)**Changes in our Share Capital**

The changes in our issued and paid-up share capital since the date of incorporation up to 22 April 2011 are as follows:

Date of allotment	No. of shares allotted	Par value RM	Consideration/Type of issue	Total issued and paid-up share capital RM
Ordinary Share				
03.04.71	2	1.00	Subscribers' shares	2.00
02.08.71	5,000,000	1.00	Cash	5,000,002.00
13.09.71	12,500,000	1.00	Cash	17,500,002.00
08.11.71	8,500,000	1.00	Cash	26,000,002.00
18.02.72	14,000,000	1.00	Cash	40,000,002.00
18.10.72	2,167,982	1.00	Cash	42,167,984.00
22.11.72	21,999,998	1.00	Cash	64,167,982.00
28.12.76	2,416,009	1.00	Cash	66,583,991.00
29.07.77	2,416,009	1.00	Cash	69,000,000.00
09.04.79	1,000,000	1.00	Cash	70,000,000.00
12.09.85	210,000,000	1.00	Bonus issue on the basis of 3 new shares for every 1 share	280,000,000.00
21.11.85	70,000,000	1.00	Public issue at RM1.80 per share	350,000,000.00
13.11.92	350,000,000	1.00	Rights issue on the basis of 1 new share for every 1 share at RM5.00 per Share	700,000,000.00
22.05.96	70,000,000	1.00	Private placement at RM8.00 per share	770,000,000.00

STATEMENT OF SHAREHOLDINGS AS AT 22 APRIL 2011 (CONTINUED)**Changes in our Share Capital (Continued)**

Date of allotment	No. of shares allotted	Par value RM	Consideration/Type of issue	Total issued and paid-up share capital RM
15.01.03	483,243,865	1.00	In satisfaction of the surplus of the liabilities unbundled by Malaysia Airlines to Penerbangan Malaysia Berhad over the total aggregate value of the aircraft assets to be unbundled by Malaysia Airlines to PMB at RM3.85 per share	1,253,243,865.00
05.11.07	417,747,955	1.00	Rights issue on the basis of 1 new share for every 3 shares at RM2.70 per share	1,670,991,820.00
06.08.08	2,000	1.00	By way of MAS ESOS allotment	1,670,993,820.00
20.08.08	8,300	1.00	By way of MAS ESOS allotment	1,671,002,120.00
04.02.09	60,000	1.00	Allotment of shares by way of RCPS conversion	1,671,062,120.00
13.07.09	16,000	1.00	Allotment of shares by way of RCPS conversion	1,671,078,120.00
11.03.10	1,671,078,120	1.00	Rights Issue on the basis of 1 new share for every 1 share at RM1.60 per share	3,342,156,240.00
Special Rights Redeemable Preference Share				
12.09.85	1	1.00	Special Share-Issued to Ministry of Finance for cash	1.00

STATEMENT OF SHAREHOLDINGS AS AT 22 APRIL 2011 (CONTINUED)
Changes in our Share Capital (Continued)

Date of allotment	No. of shares allotted	Par value RM	Consideration/Type of issue	Total issued and paid-up share capital RM
Redeemable Convertible Preference Shares (RCPS)				
11.09.01	800,000,000	0.01	RCPS - Issued at RM1.00 each to Intelek Perkasa Berhad for cash	8,000,000.00
11.09.06	(800,000,000)	0.01	RCPS - Redeemed	-
05.11.07	417,747,955	0.10	RCPS - Rights issue on the basis of 1 RCPS share for every 3 ordinary shares at RM1.00 per RCPS	41,774,795.50
08.01.09	(680,400)	0.10	Redemption by way of cash settlement	41,706,755.50
15.01.09	(599,400)	0.10	Redemption by way of cash settlement	41,646,815.50
22.01.09	(97,200)	0.10	Redemption by way of cash settlement	41,637,095.50
04.02.09	(243,000)	0.10	Conversion by way of issuance of ordinary shares	41,612,795.50
13.07.09	(64,800)	0.10	Conversion by way of issuance of ordinary shares	41,606,315.50
06.08.09	(3,000)	0.10	Redemption by way of cash settlement	41,606,015.50
14.01.10	(933,000)	0.10	Redemption by way of cash settlement	41,512,715.50
Redeemable Preference Shares (RPS)				
31.01.07	500	0.10	RPS - Issued at RM1.00 each to CIMB Bank Berhad	50.00

LIST OF THIRTY LARGEST SHAREHOLDERS AS AT 22 APRIL 2011

In accordance with the Register of Depository, the list of thirty largest shareholders of the Company is as follows:-

No.	Name	No. of shares	%
Ordinary Share			
1	Penerbangan Malaysia Berhad	1,747,780,143	52.29
2	Khazanah Nasional Berhad	470,438,174	14.08
3	Citigroup Nominees (Tempatan) Sdn Bhd <Employees Provident Fund Board>	337,553,720	10.10
4	CIMSEC Nominees (Tempatan) Sdn Bhd <Khazanah Nasional Berhad (MAS ESOS Pool)>	100,259,510	3.00
5	Warisan Harta Sabah Sdn Bhd	50,302,884	1.51
6	State Financial Secretary Sarawak	45,833,333	1.37
7	Permodalan Nasional Berhad	44,786,667	1.34
8	Amanahraya Trustees Berhad <Skim Amanah Saham Bumiputera>	44,184,367	1.32
9	Chief Minister, State of Sabah	29,809,116	0.89
10	Citigroup Nominees (Tempatan) Sdn Bhd <Exempt An for American International Assurance Berhad>	28,877,200	0.86
11	Cartaban Nominees (Asing) Sdn Bhd <Exempt an for State Street Bank & Trust Company (West CLTOD67)>	22,313,348	0.67
12	HSBC Nominees (Asing) Sdn Bhd <BBH and Co Boston for Vanguard Emerging Markets Stock Index Fund>	14,441,000	0.43
13	Cartaban Nominees (Asing) Sdn Bhd <State Street London Fund MATF for Marathon New Global PLC>	11,710,168	0.35
14	HSBC Nominees (ASING) Sdn Bhd <BBH and Co Boston for Pension Fund Association (400035146 MTBC)>	10,741,600	0.32
15	Amanahraya Trustees Berhad <Public Sector Select Fund>	10,415,900	0.31

LIST OF THIRTY LARGEST SHAREHOLDERS AS AT 22 APRIL 2011 (CONTINUED)

No.	Name	No. of shares	%
Ordinary Share (Continued)			
16	Citigroup Nominees (Tempatan) Sdn Bhd <Employees Provident Fund Board (Nomura)>	10,000,000	0.30
17	ECML Nominees (Asing) Sdn. Bhd. <DMG & Partners Securities PTE Ltd for Keen Capital Investments Ltd (N2-60391)(009)>	8,000,000	0.24
18	Citigroup Nominees (Tempatan) Sdn Bhd <Employees Provident Fund Board (PHEIM)>	7,826,666	0.23
19	CIMSEC Nominees (Tempatan) Sdn Bhd <CIMB Bank Berhad (Etp)>	7,490,100	0.22
20	HSBC Nominees (Asing) Sdn Bhd <Exempt An for JPMorgan Chase Bank, National Association (U.A.E)>	6,917,338	0.21
21	Mega First Housing Development Sdn Bhd	6,369,800	0.19
22	Cartaban Nominees (Asing) Sdn Bhd <Government of Singapore Investment Corporation PTE LTD for Government of Singapore>	6,113,466	0.18
23	HSBC Nominees (Asing) Sdn Bhd <Exempt An for The Bank of New York Mellon (Mellon Acct)>	4,491,058	0.13
24	Cartaban Nominees (ASING) Sdn Bhd <SSBT Fund MGGF for the Malaysia Fund, Inc>	4,402,600	0.13
25	Citigroup Nominees (Tempatan) Sdn Bhd <Employees Provident Fund Board (AM INV)>	4,000,000	0.12
26	RCI Ventures Sdn Bhd	3,935,000	0.12
27	HSBC Nominees (Asing) Sdn Bhd <Exempt An for JPMorgan Chase Bank, National Association (U.S.A)>	3,897,564	0.12
28	Citigroup Nominees (Tempatan) Sdn Bhd <CBHK for National Pension Service (S9B0)>	3,813,700	0.11
29	HSBC Nominees (Asing) Sdn Bhd <TNTC for Marathon International Group Trust (LDP EMP BEN PLS)>	3,276,834	0.10
30	Tan Yu Wei	3,261,100	0.10

LIST OF THIRTY LARGEST SHAREHOLDERS AS AT 22 APRIL 2011 (CONTINUED)

No.	Name	No. Of Shares	%
Redeemable Convertible Preference Share			
1	Khazanah Nasional Berhad	289,652,500	69.77
2	Citigroup Nominees (Tempatan) Sdn Bhd <Employees Provident Fund Board>	48,117,298	11.59
3	Amanahraya Trustees Berhad <Skim Amanah Saham Bumiputera>	19,316,467	4.65
4	Warisan Harta Sabah Sdn Bhd	10,014,000	2.41
5	Ho Chu Chai	3,500,000	0.84
6	OSK Nominees (Asing) Sdn Bhd <Kim Eng Securities Pte.Ltd. for Cyl Investment Limited>	2,424,000	0.58
7	Mayban Nominees (Tempatan) Sdn Bhd <Ting Poi Ling>	2,055,000	0.50
8	Citigroup Nominees (Tempatan) Sdn Bhd <ING Insurance Berhad (Inv-II Par)>	1,364,200	0.33
9	Amanahraya Trustees Berhad <Sekim Amanah Saham Nasional>	1,196,667	0.29
10	CIMSEC Nominees (Tempatan) Sdn Bhd <CIMB for Chai Kim Sin (Pb)>	1,030,000	0.25
11	Mayban Nominees (Tempatan) Sdn Bhd <Mayban Trustees Berhad For Maakl Value Fund (950290)>	1,020,300	0.25
12	Lim Kuee Poh	910,000	0.22
13	Chai Kim Sin	850,000	0.20
14	Saw Sau Kin	800,000	0.19
15	Toh Ean Hai	700,000	0.17
16	AMSEC Nominees (TEMPATAN) Sdn Bhd Pledged Securities Account for Teng Swee Lan @ Fong Swee Lan	535,100	0.13

LIST OF THIRTY LARGEST SHAREHOLDERS AS AT 22 APRIL 2011 (CONTINUED)

No.	Name	No. Of Shares	%
Redeemable Convertible Preference Share (Continued)			
17	Ti Teow Choo	511,800	0.12
18	Leong Kam Chee	500,000	0.12
19	HSBC Nominees (Asing) Sdn Bhd <Exempt An for The Bank of New York Mellon (Mellon Acct)>	490,445	0.12
20	Public Invest Nominees (Asing) Sdn Bhd <Exempt An for Phillip Securities Pte Ltd (Clients)>	455,100	0.11
21	Teo Ah Seng	441,900	0.11
22	Lee Ah Beng	418,500	0.10
23	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Wong Toh Kwong (E-PDG)	410,000	0.10
24	HSBC Nominees (Tempatan) Sdn Bhd <HSBC (M) Trustee Bhd For Maakl Growth Fund (4074)>	405,000	0.10
25	Goh Swee Moi	400,000	0.10
26	Chu Yee San	400,000	0.10
27	Cheah Poh Keng	400,000	0.10
28	HLG Nominee (TEMPATAN) Sdn Bhd Pledged Securities Account for Toh Poey Gee (CCTS)	378,000	0.09
29	Lim Boon Cheng	330,000	0.08
30	Ho Choo Ing	315,800	0.08

ANALYSIS OF SHAREHOLDINGS AS AT 22 APRIL 2011**Ordinary Share**

Category	Shareholders	%	Shareholdings	%
Less than 100	149	0.84	2,924	0.00
100 to 1,000	2,930	16.58	2,668,813	0.08
1,001 to 10,000	11,480	64.94	49,768,515	1.49
10,001 to 100,000	2,750	15.56	78,583,068	2.35
100,001 to less than 5% of issued shares	364	2.06	655,360,883	19.61
5% and above of issued shares	3	0.02	2,555,772,037	76.47
TOTAL	17,676	100.00	3,342,156,240	100.00

Redeemable Convertible Preference Share

Category	Shareholders	%	Shareholdings	%
Less than 100	65	1.74	2,821	0.00
100 to 1,000	2,269	60.88	1,430,554	0.34
1,001 to 10,000	1,042	27.96	3,328,221	0.80
10,001 to 100,000	248	6.66	8,586,394	2.07
100,001 to less than 5% of issued shares	101	2.71	64,009,367	15.42
5% and above of issued shares	2	0.05	337,769,798	81.37
TOTAL	3,727	100.00	415,127,155	100.00

LIST OF SUBSTANTIAL SHAREHOLDERS (5% AND ABOVE) AS AT 22 APRIL 2011
Ordinary share

No.	Name	Share Held		Percentage %	
		Direct	Indirect	Direct	Indirect
1	Penerbangan Malaysia Berhad	1,747,780,143	-	52.29	-
2	Khazanah Nasional Berhad	570,697,684	1,747,780,143 *	17.08	52.29*
3	Employee Provident Fund Board	368,395,086		11.02	

Redeemable Convertible Preference Share

No.	Name	Share Held		Percentage %	
		Direct	Indirect	Direct	Indirect
1	Khazanah Nasional Berhad	289,652,500	-	69.77	-
2	Employees Provident Fund Board	48,119,498	-	11.59	-

* *Khazanah Nasional Berhad (Khazanah) is deemed interested by virtue of its shareholding in Penerbangan Malaysia Berhad under Section 6A of the Companies Act 1965.*

DIRECTORS' DIRECT AND DEEMED INTERESTS IN THE COMPANY AS AT 22 APRIL 2011

In accordance with the Register of Directors' Shareholdings, the directors' direct and deemed interests in shares in the Company are as follows:-

Ordinary Share

No	Names	No. of Shares		%
		Direct	Indirect	
1	Tan Sri Dr. Mohd. Munir Bin Abdul Majid	-	-	0.00
2	Dato' N. Sadasivan A/L N. N. Pillay	-	-	0.00
3	Tengku Dato' Sri Azmil Zahrudin Bin Raja Abdul Aziz	2,893,000*	-	0.08
4	Keong Choon Keat	-	-	0.00
5	Datuk Mohamed Azman Bin Yahya	-	-	0.00
6	Martin Gilbert Barrow	-	-	0.00
7	Datuk Seri Panglima Mohd. Annuar Bin Zaini	-	-	0.00
8	Tan Sri Dr. Wan Abdul Aziz Bin Wan Abdullah	-	-	0.00
9	Datuk Amar Wilson Baya Dandot	-	-	0.00
10	Mohammed Rashdan Bin Mohd Yusof	-	-	0.00
11	Datuk Sukarti Bin Wakiman	-	-	0.00
12	Dato' Puteh Rukiah Binti Abd Majid	-	-	0.00
13	Datuk Amar Mohamad Morshidi Bin Abdul Ghani	-	-	0.00
14	Datuk Pengiran Hassanel Bin Datuk Pengiran Hj Mohd Tahir	-	-	0.00

* Share options granted under MAS ESOS





DISEMBARKATION

Arrive as a visitor
leave as a guest



Malaysia Airlines will continue to take delivery of more B737-800s and new A330-300s, as well as the first A380 expected in 2012, so that our customers will be able to enjoy better and more modern products.



Airbus 330-300

Directors' Report

The directors present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the business of air transportation and the provision of related services. The principal activities of the subsidiaries are described in Note 13 to the financial statements.

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

RESULTS

	Group RM'000	Company RM'000
Profit for the financial year	237,346	107,241
Attributable to:		
Equity holders of the Company	234,469	107,241
Minority interests	2,877	-
	<u>237,346</u>	<u>107,241</u>

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

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than:

- (i) the effects arising from the changes in accounting policies with the adoption of IC Interpretation 13: Customer Loyalty Programme and FRS 123 (Revised): Borrowing Costs. The effects of the changes in accounting policies to the Group and Company's financial statements are disclosed in Note 2.2 to the financial statements; and
- (ii) the net writeback of provision for impairment losses amounting to RM121,000,000 in respect of the Company's investment in subsidiaries as disclosed in Note 13 to the financial statements.

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors do not recommend any dividend in respect of the financial year ended 31 December 2010.

DIRECTORS

The directors of the Company in office since the date of the last report and at the date of this report are:

Tan Sri Dr. Mohd. Munir bin Abdul Majid

Dato' N. Sadasivan a/l N.N. Pillay

Datuk Seri Panglima Mohd. Annuar bin Zaini

Datuk Mohamed Azman bin Yahya

Keong Choon Keat

Martin Gilbert Barrow

Tengku Dato' Sri Azmil Zahrudin bin Raja Abdul Aziz

Datuk Haji Yusoff @ Hunter bin Datuk Haji Mohamed Kassim

Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah

Datuk Amar Wilson Baya Dandot

Mohammed Rashdan bin Mohd. Yusof (appointed on 15 October 2010)

Dato' Haji Abdul Rahman bin Haji Abdul Ghani

(Alternate to Datuk Haji Yusoff @ Hunter bin Datuk Haji Mohamed Kassim)

Dato' Puteh Rukiah binti Abd Majid

(Alternate to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah)

Datuk Amar Haji Mohamad Morshidi bin Haji Abdul Ghani

(Alternate to Datuk Amar Wilson Baya Dandot)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than those arising from the share options granted under the Employee Share Option Scheme ("ESOS").

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Company as disclosed in Note 8 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interest of directors in office at the end of the financial year in options over shares in the Company during the financial year was as follows:

The Company	Number of Options over Ordinary Shares*				31.12.2010
	1.1.2010	Granted	Adjusted [#]	Cancelled	
Tengku Dato' Sri Azmil Zahrudin bin Raja Abdul Aziz	2,347,257	2,893,000	360,181	(2,707,438)	2,893,000

* Share options granted under ESOS

[#] Refer to Note 24(a)(x)

None of the other directors in office at the end of the financial year had any interest in shares in the Company or its related corporation during the financial year.

ISSUE OF SHARES

During the financial year, the Company increased its issued and paid-up capital from RM1,671,078,120 to RM3,342,156,240 by way of issuance of 1,671,078,120 ordinary shares of RM1.00 each ("Rights Shares") at an issue price of RM1.60 per ordinary share for:

- (a) partial financing for the acquisition of up to 25 wide body aircraft;
- (b) general working capital;
- (c) repayment of bank borrowings; and
- (d) expenses relating to the Rights Shares issue.

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

EMPLOYEE SHARE OPTION SCHEME

The Malaysian Airline System Berhad ("MAS") ESOS is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 23 April 2007. The ESOS was launched on 21 May 2007 and is to be in force for a period of 5 years from the effective date.

The salient features and other terms of the ESOS are disclosed in Note 24 to the financial statements.

EMPLOYEE SHARE OPTION SCHEME (CONTINUED)

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of the option holders, other than directors, who have been granted options to subscribe for less than 800,000 ordinary shares of RM1 each. The names of option holders granted options to subscribe for 800,000 or more ordinary shares of RM1 each during the financial year are as follows:

Name	Grant Date	Expiry Date	Exercise Price RM	Numbers of Share Options				
				1.1.2010	Granted	Adjusted (Note 24(a)(x))	Cancelled	31.12.2010
Tengku Dato' Sri Azmil	29.06.2007	25.08.2010	3.88/5.09	604,066	-	188,364	(792,430)	-
Zahrudin bin Raja	20.06.2008	25.08.2010	2.83/3.71	551,000	-	171,817	(722,817)	-
Abdul Aziz	04.12.2009	25.08.2010	2.44/3.20	1,192,191	-	-	(1,192,191)	-
	25.08.2010	14.05.2012	2.44	-	2,893,000	-	-	2,893,000
Dr. Mohd Amin Khan	29.06.2007	14.05.2012	3.88/5.09	323,567	-	100,897	-	424,464
	20.06.2008	14.05.2012	2.83/3.71	344,000	-	107,268	-	451,268
Mohd Roslan bin Ismail	29.06.2007	14.05.2012	3.88/5.09	323,567	-	100,897	-	424,464
	20.06.2008	14.05.2012	2.83/3.71	344,000	-	107,268	-	451,268
Angaepattae Indira a/p R Ponnai Nair	29.06.2007	31.08.2011	3.88/5.09	323,567	-	100,897	-	424,464
	20.06.2008	31.08.2011	2.83/3.71	344,000	-	107,268	-	451,268
Dato' Captain Mohd Nawawi bin Awang	29.06.2007	14.05.2012	3.88/5.09	323,567	-	100,897	-	424,464
	20.06.2008	14.05.2012	2.83/3.71	316,000	-	98,537	-	414,537
Dato' Bernard Francis a/l G Francis	29.06.2007	14.05.2012	3.88/5.09	323,567	-	100,897	-	424,464
	20.06.2008	14.05.2012	2.83/3.71	316,000	-	98,537	-	414,537
Effendi bin Abdul Rahman	29.06.2007	30.06.2011	3.88/5.09	323,567	-	100,897	-	424,464
	20.06.2008	30.06.2011	2.83/3.71	316,000	-	98,537	-	414,537
Dato' Captain Ahmad Zuraidi bin Dahalan	29.06.2007	14.05.2012	3.88/5.09	323,567	-	100,897	-	424,464
	20.06.2008	14.05.2012	2.83/3.71	287,000	-	89,494	-	376,494
Dato' Abdul Rashid Khan bin Abdul Rahim Khan	29.06.2007	30.09.2010	3.88/5.09	452,773	-	141,187	(593,960)	-
	20.06.2008	30.09.2010	2.83/3.71	379,000	-	118,182	(497,182)	-

OTHER STATUTORY INFORMATION

- (a) Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) At the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (i) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

SIGNIFICANT EVENTS

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

SUBSEQUENT EVENTS

There was no material subsequent event for the financial year ended 31 December 2010.

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 25 February 2011.



Tan Sri Dr. Mohd. Munir bin Abdul Majid



Tengku Dato' Sri Azmil Zahrudin bin Raja Abdul Aziz

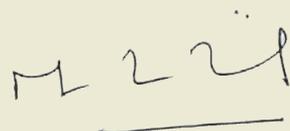
Statement by Directors

Pursuant to Section 169(15) of the Companies Act, 1965

We, Tan Sri Dr. Mohd. Munir bin Abdul Majid and Tengku Dato' Sri Azmil Zahrudin bin Raja Abdul Aziz being two of the directors of Malaysian Airline System Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 130 to 267 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2010 and of the financial performance and the cash flows of the Group and of the Company for the financial year then ended.

The supplementary information set out in Note 49 on page 268, is prepared in all material respects, in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad.

Signed on behalf of the Board in accordance with a resolution of the directors dated 25 February 2011.



Tan Sri Dr. Mohd. Munir bin Abdul Majid



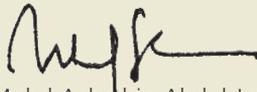
Tengku Dato' Sri Azmil Zahrudin bin Raja Abdul Aziz

Statutory Declaration

Pursuant to Section 169(16) of the Companies Act, 1965

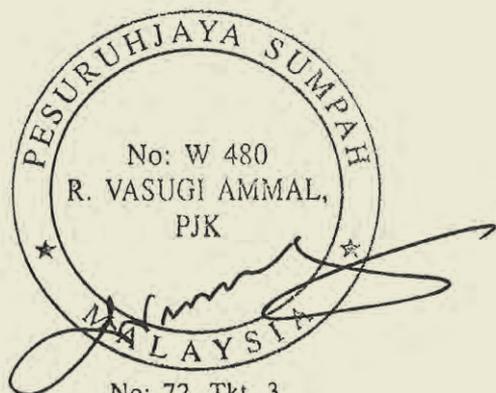
I, Mohd Azha bin Abdul Jalil, being the officer primarily responsible for the financial management of Malaysian Airline System Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 130 to 267 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Mohd Azha bin Abdul Jalil
at Kuala Lumpur in Wilayah Persekutuan
on 25 February 2011.



Mohd Azha bin Abdul Jalil

Before me,



No: 72, Tkt. 3,
Jalan Mega Mendung,
Bandar Kompleks,
58200 Kuala Lumpur.

Independent Auditors' Report

To the members of Malaysian Airline System Berhad (Incorporated in Malaysia)

Report on the financial statements

We have audited the financial statements of Malaysian Airline System Berhad, which comprise the statements of financial position as at 31 December 2010 of the Group and of the Company, the income statements and the statements of comprehensive income, statements of changes in equity and statements of the cash flow of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 130 to 267.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the 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.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2010 and of their financial performance and cash flows of the Group and of the Company for the year then ended.

Report on other legal and regulatory requirements

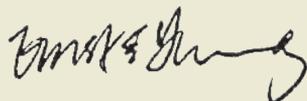
In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (c) The auditors' reports on the accounts of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

Other matters

The supplementary information set out in Note 49 on page 268 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

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.



Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
25 February 2011



Ong Chee Wai
No. 2857/07/12 (J)
Chartered Accountant

Income Statements

For the financial year ended 31 December 2010

	Note	Group		Company	
		2010 RM'000	2009 RM'000 Restated	2010 RM'000	2009 RM'000 Restated
Operating revenue	3	12,980,447	11,340,910	11,106,582	9,857,104
Operating expenditure		(13,323,737)	(12,220,304)	(11,563,110)	(10,613,048)
Other operating income		607,163	264,601	568,600	289,710
Profit/(Loss) from operations	4	263,873	(614,793)	112,072	(466,234)
Derivative gain	5	138,984	1,163,133	138,984	1,163,133
Finance costs	6	(138,402)	(68,148)	(138,584)	(67,672)
Share of results of associated companies		27,728	13,381	-	-
Share of results of jointly controlled entity		(10,147)	(1,741)	-	-
Profit before taxation		282,036	491,832	112,472	629,227
Taxation	9	(44,690)	31,116	(5,231)	(1,753)
Profit for the year		237,346	522,948	107,241	627,474
Profit attributable to:					
Equity holders of the Company		234,469	520,039	107,241	627,474
Minority interests		2,877	2,909	-	-
		237,346	522,948	107,241	627,474
Earnings per share attributable to equity holders of the Company (sen):					
Basic, for profit for the year	10	7.2	25.3		
Diluted, for profit for the year	10	7.2	24.9		

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

Statements of Comprehensive Income

For the financial year ended 31 December 2010

	Group		Company	
	2010 RM'000	2009 RM'000 Restated	2010 RM'000	2009 RM'000 Restated
Profit for the year	237,346	522,948	107,241	627,474
Other comprehensive income:				
Losses on cash flow hedges	(70,002)	-	(70,002)	-
Total comprehensive income for the year	167,344	522,948	37,239	627,474
Total comprehensive income attributable to:				
Equity holders of the Company	164,467	520,039	37,239	627,474
Minority interests	2,877	2,909	-	-
	167,344	522,948	37,239	627,474

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

Statements of Financial Position

As at 31 December 2010

		Group		
	Note	2010 RM'000	2009 RM'000 Restated	2008 RM'000 Restated
Non-current assets				
Aircraft, property, plant and equipment	11	7,663,357	3,149,827	2,490,242
Prepaid lease payments on land	12	-	-	-
Investments in associates	14	101,804	78,976	73,268
Investments in a jointly controlled entity	15	2,360	1,798	-
Other investments	16	54,604	53,952	64,946
Negotiable instruments of deposit		-	-	250,000
Intangible assets	17	137,732	110,041	106,253
Other receivables	19	442,575	386,537	485,925
Deferred tax assets	32	3,495	34,026	1,348
		8,405,927	3,815,157	3,471,982
Current assets				
Inventories	18	430,849	384,916	379,730
Trade and other receivables	19	1,351,207	1,383,831	1,853,136
Tax recoverable		19,436	15,645	7,993
Negotiable instruments of deposit	20	139,206	287,466	795,000
Cash and bank balances	21	2,085,451	2,664,859	3,571,743
		4,026,149	4,736,717	6,607,602
Current liabilities				
Sales in advance of carriage	22	1,677,346	1,451,401	1,222,410
Deferred revenue	23	232,823	225,135	276,087
Trade and other payables	25	2,219,065	2,081,639	2,206,602
Provisions	26	934,967	902,295	817,703
Borrowings	27	293,867	315,518	433,411
Derivative financial instruments	42	108,080	584,788	-
Taxation		3,614	3,696	5,001
		5,469,762	5,564,472	4,961,214
Net current (liabilities)/assets		(1,443,613)	(827,755)	1,646,388
		6,962,314	2,987,402	5,118,370

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2010

		Group		
	Note	2010 RM'000	2009 RM'000 Restated	2008 RM'000 Restated
Financed by:				
Equity attributable to equity holders of the Company:				
Share capital	30	3,342,156	1,671,078	1,671,002
Reserves	31	182,010	(971,385)	2,448,820
		3,524,166	699,693	4,119,822
Minority interests		13,078	11,869	11,278
Total equity		3,537,244	711,562	4,131,100
Non-current liabilities				
Borrowings	27	3,414,913	2,004,062	985,577
Derivative financial instruments	42	10,155	271,778	-
Deferred tax liabilities	32	2	-	1,693
		3,425,070	2,275,840	987,270
		6,962,314	2,987,402	5,118,370

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

Statements of Financial Position

As at 31 December 2010

	Note	Company		
		2010 RM'000	2009 RM'000 Restated	2008 RM'000 Restated
Non-current assets				
Aircraft, property, plant and equipment	11	7,113,341	2,692,446	2,159,915
Prepaid lease payments on land	12	-	-	-
Investments in subsidiaries	13	160,194	39,637	53,372
Investments in associates	14	81,274	81,274	81,274
Other investments	16	54,604	53,952	64,946
Negotiable instruments of deposit		-	-	250,000
Intangible assets	17	129,184	95,743	86,831
Other receivables	19	748,285	830,977	768,149
		8,286,882	3,794,029	3,464,487
Current assets				
Inventories	18	424,963	378,073	370,655
Trade and other receivables	19	1,433,197	1,345,264	1,824,080
Tax recoverable		4,726	14,550	11,312
Negotiable instruments of deposit	20	139,206	287,466	795,000
Cash and bank balances	21	2,012,667	2,612,204	3,529,222
		4,014,759	4,637,557	6,530,269
Current liabilities				
Sales in advance of carriage	22	1,677,346	1,451,401	1,222,410
Deferred revenue	23	232,823	225,135	276,087
Trade and other payables	25	2,252,614	1,997,384	2,258,497
Provisions	26	919,280	887,938	803,245
Borrowings	27	292,817	314,248	433,411
Derivative financial instruments	42	108,080	584,788	-
Taxation		2,555	2,683	4,814
		5,485,515	5,463,577	4,998,464
Net current (liabilities)/assets		(1,470,756)	(826,020)	1,531,805
		6,816,126	2,968,009	4,996,292

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2010

		Company		
	Note	2010	2009	2008
		RM'000	RM'000	RM'000
			Restated	Restated
Financed by:				
Share capital	30	3,342,156	1,671,078	1,671,002
Reserves	31	53,110	(973,057)	2,339,713
Total equity		<u>3,395,266</u>	<u>698,021</u>	<u>4,010,715</u>
Non-current liabilities				
Borrowings	27	3,410,705	1,998,210	985,577
Derivative financial instruments	42	10,155	271,778	-
		<u>3,420,860</u>	<u>2,269,988</u>	<u>985,577</u>
		<u>6,816,126</u>	<u>2,968,009</u>	<u>4,996,292</u>

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

Statements of Changes in Equity

For the financial year ended 31 December 2010

Group	Note	Attributable to equity holders of the Company		
		Share capital RM'000	Share premium RM'000	Equity component of RCPS RM'000
At 1 January 2009		1,671,002	4,007,446	58,076
Effects of adopting:				
IC 13	2.2 (h)	-	-	-
FRS 123	2.2 (h)	-	-	-
		-	-	-
		1,671,002	4,007,446	58,076
Effects of adopting FRS 139		-	-	-
At 1 January 2009 (restated)		1,671,002	4,007,446	58,076
Profit for the year		-	-	-
Transactions with owners				
Dividends		-	-	-
Conversion of RCPS	28	76	232	-
Grant of ESOS	24	-	-	-
Total transactions with owners		76	232	-
		1,671,078	4,007,678	58,076
At 31 December 2009		1,671,078	4,007,678	58,076
At 1 January 2010		1,671,078	4,007,678	58,076
Effects of adopting:				
IC 13	2.2 (h)	-	-	-
FRS 123	2.2 (h)	-	-	-
		-	-	-
		1,671,078	4,007,678	58,076
At 1 January 2010 (restated)		1,671,078	4,007,678	58,076
Profit for the year		-	-	-
Other comprehensive income		-	-	-
Transactions with owners				
Dividends		-	-	-
Rights issue		1,671,078	1,002,647	-
Net expenses recognised directly in equity		-	(14,355)	-
Grant of ESOS	24	-	-	-
Total transactions with owners		1,671,078	988,292	-
		3,342,156	4,995,970	58,076
At 31 December 2010		3,342,156	4,995,970	58,076

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

Employee share option reserve RM'000	Cash flow hedge reserves RM'000	Distributable			Total reserves RM'000	Total RM'000	Minority interests RM'000	Total equity RM'000
		General reserve RM'000	Accumulated losses RM'000					
76,202	-	501,530	(2,128,558)	2,514,696	4,185,698	11,278	4,196,976	
-	-	-	(73,864)	(73,864)	(73,864)	-	(73,864)	
-	-	-	7,988	7,988	7,988	-	7,988	
-	-	-	(65,876)	(65,876)	(65,876)	-	(65,876)	
76,202	-	501,530	(2,194,434)	2,448,820	4,119,822	11,278	4,131,100	
-	-	-	(3,952,026)	(3,952,026)	(3,952,026)	-	(3,952,026)	
76,202	-	501,530	(6,146,460)	(1,503,206)	167,796	11,278	179,074	
-	-	-	520,039	520,039	520,039	2,909	522,948	
-	-	-	-	-	-	(2,318)	(2,318)	
-	-	-	-	232	308	-	308	
11,550	-	-	-	11,550	11,550	-	11,550	
11,550	-	-	-	11,782	11,858	(2,318)	9,540	
87,752	-	501,530	(5,626,421)	(971,385)	699,693	11,869	711,562	
87,752	-	501,530	(5,590,387)	(935,351)	735,727	11,869	747,596	
-	-	-	(60,232)	(60,232)	(60,232)	-	(60,232)	
-	-	-	24,198	24,198	24,198	-	24,198	
-	-	-	(36,034)	(36,034)	(36,034)	-	(36,034)	
87,752	-	501,530	(5,626,421)	(971,385)	699,693	11,869	711,562	
-	-	-	234,469	234,469	234,469	2,877	237,346	
-	(70,002)	-	-	(70,002)	(70,002)	-	(70,002)	
-	-	-	-	-	-	(1,668)	(1,668)	
-	-	-	-	1,002,647	2,673,725	-	2,673,725	
-	-	-	-	(14,355)	(14,355)	-	(14,355)	
636	-	-	-	636	636	-	636	
636	-	-	-	988,928	2,660,006	(1,668)	2,658,338	
88,388	(70,002)	501,530	(5,391,952)	182,010	3,524,166	13,078	3,537,244	

Statements of Changes in Equity

For the financial year ended 31 December 2010

	Note	← Non-Distributable		
		Share capital RM'000	Share premium RM'000	Equity component of RCPS RM'000
Company				
At 1 January 2009		1,671,002	4,007,446	58,076
Effects of adopting:				
IC 13	2.2 (h)	-	-	-
FRS 123	2.2 (h)	-	-	-
		-	-	-
		1,671,002	4,007,446	58,076
Effects of adopting FRS 139		-	-	-
At 1 January 2009 (restated)		1,671,002	4,007,446	58,076
Profit for the year		-	-	-
Transactions with owners				
Conversion of RCPS	28	76	232	-
Grant of ESOS		-	-	-
Total transactions with owners		76	232	-
At 31 December 2009		1,671,078	4,007,678	58,076
At 1 January 2010		1,671,078	4,007,678	58,076
Effects of adopting:				
IC 13	2.2 (h)	-	-	-
FRS 123	2.2 (h)	-	-	-
		-	-	-
At 1 January 2010 (restated)		1,671,078	4,007,678	58,076
Profit for the year		-	-	-
Other comprehensive income		-	-	-
Transactions with owners				
Rights issue		1,671,078	1,002,647	-
Net expenses recognised directly in equity		-	(14,355)	-
Grant of ESOS		-	-	-
Total transactions with owners		1,671,078	988,292	-
At 31 December 2010		3,342,156	4,995,970	58,076

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

Employee share option reserve RM'000	Cash flow hedge reserves RM'000	Distributable		Total reserves RM'000	Total RM'000
		General reserve RM'000	Accumulated losses RM'000		
76,202	-	500,000	(2,234,051)	2,407,673	4,078,675
-	-	-	(73,864)	(73,864)	(73,864)
-	-	-	5,904	5,904	5,904
-	-	-	(67,960)	(67,960)	(67,960)
76,202	-	500,000	(2,302,011)	2,339,713	4,010,715
-	-	-	(3,952,026)	(3,952,026)	(3,952,026)
76,202	-	500,000	(6,254,037)	(1,612,313)	58,689
-	-	-	627,474	627,474	627,474
-	-	-	-	232	308
11,550	-	-	-	11,550	11,550
11,550	-	-	-	11,782	11,858
87,752	-	500,000	(5,626,563)	(973,057)	698,021
87,752	-	500,000	(5,587,394)	(933,888)	737,190
-	-	-	(60,232)	(60,232)	(60,232)
-	-	-	21,063	21,063	21,063
-	-	-	(39,169)	(39,169)	(39,169)
87,752	-	500,000	(5,626,563)	(973,057)	698,021
-	-	-	107,241	107,241	107,241
-	(70,002)	-	-	(70,002)	(70,002)
-	-	-	-	1,002,647	2,673,725
-	-	-	-	(14,355)	(14,355)
636	-	-	-	636	636
636	-	-	-	988,928	2,660,006
88,388	(70,002)	500,000	(5,519,322)	53,110	3,395,266

Statements of Cash Flows

For the financial year ended 31 December 2010

	Note	Group		Company	
		2010 RM'000	2009 RM'000 Restated	2010 RM'000	2009 RM'000 Restated
Cash flows from operating activities					
Profit before taxation		282,036	491,832	112,472	629,227
Adjustments for:					
Derivative gain	5	(138,984)	(1,163,133)	(138,984)	(1,163,133)
Aircraft, property, plant and equipment:					
- depreciation	4	366,602	316,241	333,116	286,463
- (gain)/loss on disposal, net	4	(510)	158	(470)	4,521
- (writeback of)/provision for impairment losses, net	4	(2,671)	8,685	(2,671)	8,263
- written off, net	4	9,402	10,069	9,402	9,004
Provision for/(Writeback of):					
- aircraft maintenance and overhaul costs	26	735,577	489,901	734,247	490,002
- short term accumulating compensated absences	7	15,399	13,040	15,399	13,040
- unavailed credit on sales in advance of carriage	3	(213,359)	(334,804)	(202,290)	(333,813)
- doubtful debts, net	4	4,826	(26,695)	8,444	(30,141)
- inventories obsolescence, net	4	11,250	2,029	11,250	2,029
- stock loss	4	(6,493)	(2,719)	(6,493)	(2,719)
- impairment losses for subsidiaries, net	4	-	-	(121,000)	-
Amortisation of intangible assets	4	33,316	26,657	27,287	20,895
Operating profit/(loss) before working capital changes carried forward		1,096,391	(168,739)	779,709	(66,362)

STATEMENTS OF CASH FLOWS (CONTINUED)

For the financial year ended 31 December 2010

	Note	Group		Company	
		2010 RM'000	2009 RM'000 Restated	2010 RM'000	2009 RM'000 Restated
Cash flows from operating activities (cont'd.)					
Operating profit/(loss) before working capital changes brought forward		1,096,391	(168,739)	779,709	(66,362)
ESOS expense	7	636	11,550	636	10,805
Share of results of:					
- associated companies		(27,728)	(13,381)	-	-
- jointly controlled entity		10,147	1,741	-	-
Unrealised foreign exchange gain	4	(62,174)	(4,290)	(22,079)	(4,290)
Interest income	4	(51,993)	(58,132)	(60,361)	(88,773)
Dividend income	4	(18,694)	(28,056)	(27,884)	(41,913)
Interest expense	6	137,244	67,038	138,584	67,501
Operating profit/(loss) before working capital changes		1,083,829	(192,269)	808,605	(123,032)
Increase in inventories		(50,690)	(4,497)	(51,647)	(6,727)
Decrease in trade and other receivables		58,652	630,563	49,094	593,405
(Decrease)/increase in amount owing to immediate holding company		(115,974)	115,282	(115,974)	115,282
Increase in sales in advance of carriage		439,304	563,795	428,235	562,804
Increase in deferred revenue		7,688	(50,952)	7,688	(50,952)
Increase/(decrease) in trade and other payables		192,125	(466,452)	313,069	(551,939)
Decrease in provisions	26	(702,905)	(405,309)	(702,905)	(405,309)
Cash generated from operating activities		912,029	190,161	736,165	133,532
Net cash settlement on derivatives		(623,121)	(1,150,516)	(623,121)	(1,150,516)
Premium paid on derivatives		(37,873)	(593,111)	(37,873)	(593,111)
Interest paid		(176,435)	(43,001)	(176,617)	(42,576)
Taxes paid		(8,606)	(4,560)	(4,086)	(3,884)
Net cash generated from/(used in) operating activities		65,994	(1,601,027)	(105,532)	(1,656,555)

STATEMENTS OF CASH FLOWS (CONTINUED)

For the financial year ended 31 December 2010

	Note	Group		Company	
		2010 RM'000	2009 RM'000 Restated	2010 RM'000	2009 RM'000 Restated
Cash flows from investing activities					
Purchase of:					
- aircraft, property, plant and equipment		(3,706,348)	(982,587)	(3,580,221)	(974,045)
- intangible assets	17	(61,007)	(30,445)	(60,728)	(29,807)
- investments in jointly controlled entity		(10,709)	(3,539)	-	-
- other investments		(652)	(2,284)	(652)	(2,284)
Withdrawal of :					
- negotiable instruments of deposits		150,000	760,000	150,000	760,000
- deposits pledged with banks		53,823	415,623	53,823	415,623
Proceeds from disposal of:					
- aircraft, property, plant and equipment		1,076	637	1,030	1,086
- other investments		-	13,278	-	13,278
Interest received		37,834	18,342	46,203	48,985
Dividend received		23,593	35,731	27,884	41,913
Net cash (used in)/generated from investing activities		(3,512,390)	224,756	(3,362,661)	274,749

STATEMENTS OF CASH FLOWS (CONTINUED)

For the financial year ended 31 December 2010

	Note	Group		Company	
		2010 RM'000	2009 RM'000 Restated	2010 RM'000	2009 RM'000 Restated
Cash flows from financing activities					
Proceeds from:					
- borrowings		50,000	964,211	50,000	700,000
- aircraft refinancing		694,530	419,982	694,530	677,276
- issuance of shares		2,673,725	-	2,673,725	-
Repayment of:					
- borrowings		(260,000)	(465,000)	(260,000)	(465,000)
- finance lease		(208,271)	(31,347)	(208,271)	(31,347)
Settlement of RCPS	28	(696)	(518)	(696)	(518)
Expenses incurred on issuance of Rights share exercise		(14,355)	-	(14,355)	-
Dividends paid to:					
- RCPS holders	28	(12,454)	-	(12,454)	-
- minority shareholders in subsidiaries		(1,668)	(2,318)	-	-
Net cash generated from financing activities		2,920,811	885,010	2,922,479	880,411
Net decrease in cash and cash equivalents		(525,585)	(491,261)	(545,714)	(501,395)
Cash and cash equivalents at beginning of year		2,449,362	2,940,623	2,396,707	2,898,102
Cash and cash equivalents at end of year	21	1,923,777	2,449,362	1,850,993	2,396,707

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

Notes to the Financial Statements

31 December 2010

1. CORPORATE INFORMATION

Malaysian Airline System Berhad (“the Company”) is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Board of Bursa Malaysia Securities Berhad. The registered office of the Company is located at 3rd Floor, Administration Building 1, MAS Complex A, Sultan Abdul Aziz Shah Airport, 47200 Subang, Selangor Darul Ehsan.

The immediate and ultimate holding companies are Penerbangan Malaysia Berhad (“PMB”) and Khazanah Nasional Berhad (“KNB”) respectively, both of which are incorporated and domiciled in Malaysia.

The Company is principally engaged in the business of air transportation and the provision of related services. The principal activities of the subsidiaries are described in Note 13. There were no significant changes in the nature of these activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 25 February 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below and comply with Financial Reporting Standards (“FRSs”) and the Companies Act, 1965 in Malaysia.

At the beginning of the current financial year, the Group and the Company adopted new and revised FRS which are mandatory for financial periods beginning on or after 1 January 2010 as described fully in Note 2.2.

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs

On 1 January 2010, the Group and the Company adopted the following new and amended FRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2010:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (continued)

FRS 7:	Financial Instruments: Disclosures
FRS 8:	Operating Segments
FRS 101 (Revised):	Presentation of Financial Statements
FRS 123 (Revised):	Borrowing Costs
IC Interpretation 10:	Interim Financial Reporting and Impairment
IC Interpretation 11:	FRS 2: Group and Treasury Share Transactions
IC Interpretation 13:	Customer Loyalty Programmes
IC Interpretation 14:	FRS 119: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The amendments to the FRS:

FRS 1 and FRS 127:	First time adoption of Financial Reporting Standard, and Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
FRS 2:	Share-based Payment: Vesting Conditions and Cancellations
FRS 132:	Financial Instruments: Presentation
FRS 139, FRS 7 and IC 9:	Financial Instruments: Recognition and Measurement, Financial Instruments: Disclosures and Reassessment of Embedded Derivatives

Improvements to FRS issued in 2009

FRS 4 Insurance Contracts is effective for annual periods beginning on or after 1 January 2010. This FRS is, however, not applicable to the Group or the Company.

The adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group and the Company except for those discussed below:

(a) FRS 7: Financial Instruments: Disclosures

Prior to 1 January 2010, information about financial instruments was disclosed in accordance with the requirements of FRS 132 Financial Instruments: Disclosure and Presentation. FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (continued)

(a) FRS 7: Financial Instruments: Disclosures (continued)

The Group and the Company have applied FRS 7 prospectively in accordance with the transitional provisions. Hence, the new disclosures have not been applied to the comparatives. The new disclosures are included throughout the Group's and the Company's financial statements for the financial year ended 31 December 2010.

(b) FRS 8: Operating Segments

FRS 8, which replaces FRS 114 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The Standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers.

The Group concluded that the reportable operating segments determined in accordance with FRS 8 are the same as the business segments previously identified under FRS 114. The Group has adopted FRS 8 retrospectively. These revised disclosures, including the related revised comparative information, are shown in Note 34.

(c) FRS 101 (Revised): Presentation of Financial Statements

The revised FRS 101 introduces changes in the presentation and disclosures of financial statements. The revised Standard separates owner and non-owner changes in equity. The Standard also introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group and the Company have elected to present this statement as two linked statements.

Transactions with owners are presented in the statements of changes in equity and non-owner changes in equity are presented separately in the statements of comprehensive income.

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements.

The revised FRS 101 also requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital (see Note 43).

The revised FRS 101 was adopted retrospectively by the Group and the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (continued)

(d) FRS 123 (Revised): Borrowing Cost

FRS 123 has been revised to require capitalisation of borrowing costs on qualifying assets. The Group's previous policy was to expense borrowing costs as they were incurred. The Group has amended its accounting policy based on the revised FRS 123. The Group has designated 2 July 2007 as the effective date of adoption. Therefore, borrowing costs have been capitalised on qualifying assets with a commencement date on or after 2 July 2007. No changes have been made for borrowing costs incurred and expensed off prior to this date.

This change in accounting policy has been applied retrospectively, as disclosed in Note 2.2(h) where certain comparatives have been restated. The effects on the statements of financial position as at 31 December 2010 and profit or loss for the financial year ended 31 December 2010 are set out in Note 2.2(g).

(e) IC Interpretation 13: Customer Loyalty Programmes ("IC 13")

On 1 January 2010, the Group adopted IC 13, which is effective for annual periods beginning on or after 1 January 2010.

The Group operates a frequent flyer programme named "Enrich" which awards members points based on accumulated mileage travelled. The Group historically accrued for the liability under the programme and recognised in the profit or loss the amount equal to the mileage awards earned multiplied by the applicable rates. Upon redemption by members or expiration of the mileage awards, the accrual is reduced accordingly.

On adoption of IC 13, the Group changed its policy for revenue recognition such that consideration received from the sale of tickets is allocated to the tickets sold and the mileage awards issued that are expected to be redeemed. The consideration allocated to the mileage awards issued is measured at the fair value of the mileage awards. It is recognised as a deferred revenue in the statement of financial position and recognised as revenue when the mileage awards are redeemed, have expired or are no longer expected to be redeemed.

This change in accounting policy has been applied retrospectively, as disclosed in Note 2.2(h) where certain comparatives have been restated. The effects on the statements of financial position as at 31 December 2010 and profit or loss for the financial year ended 31 December 2010 are set out in Note 2.2(g).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (continued)

(f) FRS 117 (Amended): Leases

Prior to 1 January 2010, for all leases of land and buildings, if the title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership. Hence, all leasehold land held for own use was classified by the Group as operating lease.

FRS 117 (amended) clarifies the classification of lease of land and buildings. It also requires entities with existing leases of land and buildings to reassess the classification of land as finance or operating lease. Hence, the adoption of the amendments to FRS 117 has resulted in unexpired land leases to be reclassified as finance leases. Leasehold land which in substance is a finance lease will be reclassified to property, plant and equipment.

This change in accounting policy has been applied retrospectively, as disclosed in Note 2.2(h) where certain comparatives have been restated. The effects on the statements of financial position as at 31 December 2010 and profit or loss for the financial year ended 31 December 2010 are set out in Note 2.2(g).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (continued)

(g) Summary of effects of adopting new and revised FRSs on the current year's financial statements

The following are effects arising from the above changes in accounting policies in the current financial year:

Effects on statements of financial position as at 31 December 2010

	Increase/(Decrease)			Total RM'000
	FRS 123 Note 2.2(d) RM'000	IC 13 Note 2.2(e) RM'000	FRS 117 Note 2.2(f) RM'000	
Group				
Aircraft, property, plant and equipment	56,706	-	17,055	73,761
Prepaid lease payment on land	-	-	(17,055)	(17,055)
Trade and other receivables	3,587	-	-	3,587
Trade and other payables	-	(150,704)	-	(150,704)
Deferred revenue	-	232,823	-	232,823
Accumulated losses	(60,293)	82,119	-	21,826
Company				
Aircraft, property, plant and equipment	56,891	-	15,364	72,255
Prepaid lease payment on land	-	-	(15,364)	(15,364)
Trade and other receivables	3,587	-	-	3,587
Trade and other payables	-	(150,704)	-	(150,704)
Deferred revenue	-	232,823	-	232,823
Accumulated losses	(60,478)	82,119	-	21,641

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (continued)

(g) Summary of effects of adopting new and revised FRSs on the current year's financial statements (continued)

Effects on income statements for the financial year ended 31 December 2010

	Increase/(Decrease)		Total RM'000
	FRS 123 Note 2.2(d) RM'000	IC 13 Note 2.2(e) RM'000	
Group			
Operating revenue	-	(61,030)	(61,030)
Operating expenditure	192	(39,143)	(38,951)
Profit/(Loss) from operations	192	(21,887)	(21,695)
Finance costs	(36,287)	-	(36,287)
Profit before taxation	36,095	(21,887)	14,208
Profit attributable to equity holders of the Company	36,095	(21,887)	14,208
Company			
Operating revenue	-	(61,030)	(61,030)
Operating expenditure	15	(39,143)	(39,128)
Profit/(Loss) from operations	15	(21,887)	(21,872)
Finance costs	(36,287)	-	(36,287)
Profit before taxation	36,272	(21,887)	14,385
Profit attributable to equity holders of the Company	36,272	(21,887)	14,385
			Group Increase/(Decrease)
Earnings per share (sen):			
Basic, for profit for the year			0.4
Diluted, for profit for the year			0.4

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (continued)

(h) Restatement of comparatives

The following comparative amounts have been restated as a result of adopting the new and revised FRSs:

Effects on statements of financial position as at 31 December 2009

Group	Previously stated RM'000	FRS 123 Note 2.2(d) RM'000	IC 13 Note 2.2(e) RM'000	FRS 117 Note 2.2(f) RM'000	Restated RM'000
Aircraft, property, plant and equipment	3,111,973	20,611	-	17,243	3,149,827
Prepaid lease payment on land	17,243	-	-	(17,243)	-
Trade and other receivables	1,395,889	3,587	-	-	1,399,476
Trade and other payables	(2,246,542)	-	164,903	-	(2,081,639)
Deferred revenue	-	-	(225,135)	-	(225,135)
Accumulated losses	5,590,387	(24,198)	60,232	-	5,626,421
Company					
Aircraft, property, plant and equipment	2,659,439	17,476	-	15,531	2,692,446
Prepaid lease payment on land	15,531	-	-	(15,531)	-
Trade and other receivables	1,356,227	3,587	-	-	1,359,814
Trade and other payables	(2,162,287)	-	164,903	-	(1,997,384)
Deferred revenue	-	-	(225,135)	-	(225,135)
Accumulated losses	5,587,394	(21,063)	60,232	-	5,626,563

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (continued)

(h) Restatement of comparatives (continued)

Effects on statements of financial position as at 31 December 2008

	Previously stated RM'000	FRS 123 Note 2.2(d) RM'000	IC 13 Note 2.2(e) RM'000	FRS 117 Note 2.2(f) RM'000	Restated RM'000
Group					
Aircraft, property, plant and equipment	2,464,823	7,988	-	17,431	2,490,242
Prepaid lease payment on land	17,431	-	-	(17,431)	-
Trade and other payables	(2,408,825)	-	202,223	-	(2,206,602)
Deferred revenue	-	-	(276,087)	-	(276,087)
Accumulated losses	6,080,584	(7,988)	73,864	-	6,146,460
Company					
Aircraft, property, plant and equipment	2,138,312	5,904	-	15,699	2,159,915
Prepaid lease payment on land	15,699	-	-	(15,699)	-
Trade and other payables	(2,460,720)	-	202,223	-	(2,258,497)
Deferred revenue	-	-	(276,087)	-	(276,087)
Accumulated losses	6,186,077	(5,904)	73,864	-	6,254,037

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (continued)

(h) Restatement of comparatives (continued)

Effects on income statements for the financial year ended 31 December 2009

	Previously stated RM'000	FRS 123 Note 2.2(d) RM'000	IC 13 Note 2.2(e) RM'000	Restated RM'000
Group				
Operating revenue	11,309,855	-	31,055	11,340,910
Operating expenditure	(12,202,716)	(165)	(17,423)	(12,220,304)
Profit/(Loss) from operations	(628,260)	(165)	13,632	(614,793)
Finance costs	(84,523)	16,375	-	(68,148)
Profit before taxation	461,990	16,210	13,632	491,832
Profit attributable to equity holders of the Company	490,197	16,210	13,632	520,039
Earnings per share:				
Basic, for profit for the year	29.3			25.3
Diluted, for profit for the year	28.6			24.9
Company				
Operating revenue	9,826,049	-	31,055	9,857,104
Operating expenditure	(10,594,409)	(1,216)	(17,423)	(10,613,048)
Profit/(Loss) from operations	(478,650)	(1,216)	13,632	(466,234)
Finance costs	(84,047)	16,375	-	(67,672)
Profit before taxation	600,436	15,159	13,632	629,227
Profit attributable to equity holders of the Company	598,683	15,159	13,632	627,474

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Standards and Interpretations issued but not effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

		Effective for financial periods beginning on or after
FRS 1 (Revised):	First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3 (Revised):	Business Combinations	1 July 2010
FRS 124 (Revised):	Related Party Disclosures	1 January 2012
FRS 127 (Revised):	Consolidated and Separate Financial Statements	1 July 2010
IC Interpretation 4:	Determining Whether An Arrangement Contains a Lease	1 January 2011
IC Interpretation 12:	Service Concession Arrangements	1 July 2010
IC Interpretation 15:	Agreements for the Construction of Real Estate	1 January 2012
IC Interpretation 16:	Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17:	Distributions of Non-cash Assets to Owners	1 July 2010
IC Interpretation 18:	Transfer of Assets from Customers	1 January 2011
IC Interpretation 19:	Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
The amendments to the FRS:		
FRS 1:	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters	1 January 2011
FRS 2:	Share-based Payment	1 July 2010
FRS 5:	Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
FRS 7:	Improving Disclosures about Financial Instruments	1 January 2011
FRS 132:	Classification of Rights Issues	1 March 2010
FRS 138:	Intangible Assets	1 July 2010
IC Interpretation 9:	Reassessment of Embedded Derivatives	1 July 2010
IC Interpretation 14:	Prepayments of a Minimum Funding Requirement	1 July 2011

Improvements to FRS issued in 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Standards and Interpretations issued but not effective (continued)

The new FRS and Interpretations above are expected to have no significant impact on the financial statements of the Group and the Company upon initial application except for the following:

FRS 3 (Revised): Business Combination and FRS 127 (Amended): Consolidated and Separate Financial Statements

FRS 3 (Revised) introduces a number of changes to the accounting for business combinations occurring on or after 1 July 2010. These include changes that affect the valuation of non-controlling interest, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

FRS 127 (Amended) requires that a change in ownership interest of a subsidiary (without loss of control) is accounted for as transaction with owners in their capacity as owners to be recognised in equity. Therefore, such transaction will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended Standard changes the accounting for losses incurred by the subsidiary as well as loss of control of subsidiary.

The changes by FRS 3 (Revised) and FRS 127 (Amended) will be applied prospectively and only affect future acquisition or loss of control of subsidiaries and transactions with non-controlling interests.

2.4 Significant accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

(a) Critical judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(i) Contingent liabilities - litigations

As disclosed in Note 37, the Group has several pending litigations with various parties as at the current financial year end. The Board of Directors, after due consultation with the Group's solicitors, assess the merits of each case, and make the necessary provision for liabilities in the financial statements if their crystallisation are deemed as probable.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Significant accounting estimates and judgements (continued)

(a) Critical judgements made in applying accounting policies (continued)

(ii) Operating lease commitments

The Group entered into commercial lease arrangements with its immediate holding company and other third parties with regards to passenger aircraft and freighters. Based on the terms of these lease arrangements, those aircraft and freighters that the Group does not retain all the significant risks and rewards of ownership are treated as operating lease and do not form part of the aircraft, property, plant and equipment of the Group.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of intangible assets - landing slots

The Group determines whether the landing slots which have indefinite useful lives, are tested for impairment either annually or on a more frequent interval, depending on events or changes in circumstances that indicate the carrying value may be impaired. This requires an estimation of the "value in use" of the cash generating units ("CGU") to which the landing slots belong.

In assessing value in use, the management is required to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The details are as disclosed in Note 17.

(ii) Provisions for aircraft related direct operating expenses

The operation of air transportation services inevitably involves the making of various provisions on direct expenses, such as fuel, ground handling charges, landing and parking charges, inflight meals, computer reservation systems booking fees and information technology related expenses. The estimates and associated assumptions used are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making provisions for carrying values of liabilities as at the financial year end.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Significant accounting estimates and judgements (continued)

(b) Key sources of estimation uncertainty (continued)

(iii) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The details are as disclosed in Note 32.

(iv) Depreciation of aircraft, property, plant and equipment

The cost of aircraft, aircraft modifications/retrofits, spare engines, property and equipment are depreciated on a straight line basis over the assets' useful lives up to its residual value. Management reviews the residual values, useful lives and depreciation method at the end of each financial year and ensures consistency with previous estimates and patterns of consumptions of the economic benefits that embodies the items in these assets. Changes in useful lives and residual values of these assets may result in revision of future depreciation charges.

(v) Provision for aircraft maintenance and overhaul costs

The Company is obligated to carry out heavy duty maintenance check on the airframe, engines, landing gears and auxiliary power units, being part of the return conditions of its leased aircraft under contract. Provision for heavy maintenance cost is made progressively in the financial statements based on the number of flight hours or cycles. In arriving at the provision, assumptions are made on the estimated condition of the asset at the time of check, the material and overhead costs to be incurred, and the timing of when the check is to be carried out. These assumptions are formed based on past experience, and are regularly reviewed to ensure they approximate to the actual. Any revision in assumptions and estimations that causes a material effect to the provision would be adjusted prospectively in the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Significant accounting estimates and judgements (continued)

(b) Key sources of estimation uncertainty (continued)

(vi) Unutilised tickets

Unutilised tickets are subsequently recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the tickets and historical trends. Changes in travel patterns, economic environment, variables and estimations used have an impact on the financial statements of the Group and the Company. The details are disclosed in Note 22.

(vii) Frequent flyer programme

The consideration allocated to the mileage awards issued is measured at their fair value. Fair value is determined by considering the fair value of tickets for which they could be redeemed.

(viii) Fair value of financial instruments

Where the fair value of the financial assets and financial liabilities recorded in the statements of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing the fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

2.5 Summary of significant accounting policies

(a) Revenue recognition

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(a) Revenue recognition (continued)

(i) Revenue from services

Passenger ticket and cargo airway bill sales including the related administration fees and various surcharges are recognised as revenue, net of discount, in the profit or loss when the transportation services are rendered. The value of unutilised tickets is included in current liabilities as sales in advance of carriage.

Tickets, other service fees and surcharges that remain unutilised after 12 months subsequent to their respective date of issue are recognised in the profit or loss as unavailed credits on sales in advance of carriage.

Revenue from other services such as airport handling and engineering services, are recognised in the profit or loss when services are rendered.

(ii) Catering, charter and other revenue

Catering, charter and other revenue are recognised, net of discount, upon completion of services rendered.

(iii) Dividend income

Dividend income is recognised when the Group's rights to receive payment are established.

(iv) Rental income

Rental income is recognised on an accrual basis over the term of lease.

(v) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(b) Subsidiaries and basis of consolidation

(i) Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in the profit or loss.

(ii) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the financial statements for like transactions and events in similar circumstances.

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(b) Subsidiaries and basis of consolidation (continued)

(ii) Basis of consolidation (continued)

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, commonly known as negative goodwill, is recognised immediately in the profit or loss.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

(c) Associates

Associates are entities in which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

Investments in associates are accounted for in the financial statements using the equity method of accounting. Under the equity method, the investment in associate is carried in the statements of financial position at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in the profit or loss. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes. In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(c) Associates (continued)

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available management financial statements of the associates are used by the Group in applying the equity method. Where the dates of the financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting period. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

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

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in the profit or loss.

(d) Jointly controlled entity

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual agreement that establishes joint control over the economic activities of the entity.

Investments in jointly controlled entity is accounted for in the consolidated financial statements using the equity method of accounting as described in Note 2.5(c).

In the Company's separate financial statements, investment in jointly controlled entity is stated at cost less impairment losses. On disposal of such investment, the difference between net disposal proceeds and its carrying amounts is included in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(e) Aircraft, property, plant and equipment and depreciation

All aircraft, property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The cost of property, plant and equipment comprises its purchase price and any incidental costs directly attributable to bringing the asset to working condition for its intended use. The cost of aircraft owned is stated after taking into account the manufacturers' credit. The cost of spare engines acquired on an exchange basis are stated at amount paid and the fair value of the item traded-in. Heavy maintenance expenditure for aircraft and engine overhauls are capitalised at cost. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Subsequent to recognition, aircraft, property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of aircraft, aircraft modifications/retrofits, spare engines, property and equipment is provided for on a straight line basis to write off the cost of each asset up to its residual value over the estimated useful life at the following annual rates:

- (i) Narrow-body aircraft are depreciated over a period of 10 to 18 years.
- (ii) Aircraft modifications/retrofits are depreciated over 7 years or the remaining lease period of the aircraft to which they relate, whichever is the shorter.
- (iii) Spare engines are depreciated over their estimated useful commercial lives, which range from 7 to 20 years, having regard to their planned withdrawal from services.
- (iv) Maintenance and overhaul costs incurred on aircraft and spare engines owned by the Group are depreciated over the average expected life between major overhauls.
- (v) Repairable and rotatable aircraft spares are depreciated over 7 to 20 years or the remaining lease period of the aircraft to which they relate, whichever is the shorter.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(e) Aircraft, property, plant and equipment and depreciation (continued)

- (vi) Freehold land is not depreciated. Buildings are depreciated over periods ranging from 5 to 40 years.

Certain buildings of the Company were revalued by the directors in 1985 based on a valuation report dated 15 November 1984 prepared by the Government Valuers using the "Open Market Value" basis. The directors have not adopted a policy of regular revaluations of these assets and no later valuation has been recorded. As permitted under the transitional provisions of International Accounting Standard 16 (Revised): Property, Plant and Equipment adopted by the Malaysian Accounting Standards Board then, these assets continue to be stated at their 1985 valuation less accumulated depreciation and accumulated impairment losses.

- (vii) Operating equipment, office equipment and motor vehicles are depreciated over periods ranging from 2 to 10 years.

- (viii) Progress payments represent aircraft, property, plant and equipment under construction. They are stated at cost and are not depreciated until the respective assets are ready for their intended use.

The residual values, useful lives and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of aircraft, property, plant and equipment.

An asset is derecognised upon disposal, replacement or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(f) Intangible assets

Intangible assets comprise software costs and aircraft landing slots at airports.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives such as software costs, are amortised on a straight-line basis over the estimated economic useful lives of not more than 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date.

Intangible assets with indefinite useful lives such as aircraft landing slots, are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the CGU level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable. The useful life of aircraft landing slots is estimated to be indefinite because based on the current landing slots arrangements, management believes there is no foreseeable limit to the period over which the aircraft landing slots are expected to generate net cash flows to the Group. Aircraft landing slots are stated at cost less any impairment loss.

(g) Impairment of Non-Financial Assets

The carrying amounts of non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date or more frequently when indicators of impairment are identified.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(g) Impairment of Non-Financial Assets (continued)

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An impairment loss is recognised in the profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for asset in prior years. A reversal of impairment loss for an asset is recognised in the profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

(h) Foreign currencies

(i) Functional and presentation currency

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(h) Foreign currencies (continued)

(ii) Foreign currency transactions

Transactions in foreign currencies are initially recorded in RM at exchange rates ruling at the transaction dates. At each reporting date, monetary items denominated in foreign currencies are translated into RM at exchange rates ruling at that date unless hedged by forward foreign exchange derivatives, in which case the rates specified in such derivatives are used. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the fair value was determined. All exchange differences are taken to the profit or loss.

(iii) Foreign operations

The assets and liabilities of foreign operations are translated into RM at the rate of exchange ruling at the reporting date and income and expenses are translated at exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income and accumulated in equity under foreign currency translation reserve relating to that particular foreign operation is recognised in the profit or loss.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the reporting date.

(i) Inventories

Inventories comprising consumable aircraft spares, catering and general stores are stated at the lower of cost and net realisable value.

Cost is determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(j) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases.

(ii) Finance leases - As lessee

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the statement of financial position as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the company's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with depreciable aircraft, property, plant and equipment as described in Note 2.5(e).

(iii) Finance leases - As lessor

When assets are leased out under finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method so as to reflect a constant periodic rate of interest on the balance outstanding.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(j) Leases (continued)

(iv) Operating Leases - As lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

(v) Operating Leases - As lessor

Assets leased out under operating leases are presented on the statement of financial position according to the nature of the assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(k) Income tax

Income tax for the year comprises current and deferred tax.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which these can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(k) Income tax (continued)

Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised as income or expenses and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(l) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(l) Employee benefits (continued)

(ii) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Malaysian companies in the Group make contributions to the Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

(iii) Share-based compensation

The MAS ESOS, an equity-settled, share-based compensation plan, allows the Group's employees to acquire ordinary shares of the Company. The total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the employee share option reserve within equity over the vesting period and taking into account the probability that the options will vest. The fair value of share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on the vesting date.

At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable on the vesting date. It recognises the impact of the revision of original estimates, if any, in the profit or loss, and a corresponding adjustment to equity over the remaining vesting period.

The equity amount is recognised in the share option reserve until the option is exercised, upon which it will be transferred to share capital and share premium, or until the option expires, upon which it will be transferred directly to retained earnings. The proceeds received net of any directly attributable transaction costs are credited to equity when the options are exercised.

(m) Provisions for liabilities

Provisions for liabilities are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to passage of time is recognised as finance cost.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(n) Aircraft maintenance and overhaul costs

Where the Group is required to return the aircraft held under operating lease with adherence to certain maintenance conditions contained in the lease agreements, provision is made during the lease term. This provision is based on the present value of the expected future costs of maintenance of airframes, engines, landing gears, auxiliary power units and life-limiting parts, calculated by reference to the number of hours flown or cycles in accordance with the contractual terms.

Other maintenance costs are recognised on an incurred basis, except for engine maintenance costs covered by "power-by-the-hour" third party maintenance agreements, whereby expenses are accrued on the basis of hours flown in accordance with the contractual terms as there is a transfer of risk and legal obligation to the third party maintenance provider.

(o) Frequent flyer programme

The Company operates a frequent flyer programme named "Enrich" which awards members points based on accumulated mileage travelled. A portion of passenger revenue attributable to the award of frequent flyer benefits is deferred until they are utilised.

The consideration allocated to the mileage awards issued is measured at the fair value of the mileage awards. It is recognised as deferred revenue in the statement of financial position and recognised as revenue when the mileage awards are redeemed, have expired or are no longer expected to be redeemed.

(p) Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(q) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, deposits at call and short term highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(r) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(s) Redeemable convertible preference shares ("RCPS")

The RCPS are regarded as compound instruments, consisting of a liability component and an equity component. The component of RCPS that exhibits characteristics of a liability is recognised as a financial liability in the statements of financial position, net of transaction costs. The dividends on those shares are recognised as interest expense in profit or loss using the effective interest rate method. On issuance of the RCPS, the fair value of the liability component is determined using a market rate for an equivalent non-convertible debt and this amount is carried as a financial liability in accordance with the accounting policy for other financial liabilities set out in Note 2.5(u)(ii).

The residual amount, after deducting the fair value of the liability component, is recognised and included in shareholder's equity, net of transaction costs.

Transaction costs are apportioned between the liability and equity components of the RCPS based on the allocation of proceeds to the liability and equity components when the instruments were first recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(t) Financial Assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Company determine the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

(i) Financial Assets at Fair Value Through Profit or Loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss in the statement of financial position are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

Financial assets at fair value through profit or loss could be presented as current or non-current.

The Group and Company has designated derivatives that do not qualify for hedge accounting as at fair value through profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(t) Financial Assets (continued)

(ii) Loans and Receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

(iii) Held-to-Maturity Financial Assets

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(t) Financial Assets (continued)

(iv) Available-for-Sale Financial Assets

Available-for-sale are financial assets that are designated as available for sale or are not classified in any of the three preceding categories.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Group and the Company's right to receive payment is established.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within 12 months after the reporting date.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group and the Company commit to purchase or sell the asset.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(u) Financial Liabilities

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

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

(i) Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities held for trading include derivatives entered into by the Group and the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

The Group and Company has designated derivatives that do not qualify for hedge accounting as at fair value through profit or loss.

(ii) Other financial liabilities

The Group's and the Company's other financial liabilities include trade payables, other payables and loans and borrowings.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(u) Financial Liabilities (continued)

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(v) Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

(i) Financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(v) Impairment of Financial Assets (continued)

(i) Financial assets carried at amortised cost (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(ii) Financial assets carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(iii) Available-for-Sale Financial Assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on available-for-sale equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(w) Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(x) Fair Value of Financial Instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

(y) Amortised Cost of Financial Instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees are an integral part of the effective interest rate.

(z) Derivative of Financial Instruments and Hedge Accounting

The Group uses derivative financial instrument such as fuel hedging contracts, foreign currency hedging contracts and interest rate hedging contracts to hedge its fuel price risks, foreign exchange risks and interest rate risks respectively. The Group applies hedge accounting for certain hedging relationships which qualify for hedge accounting.

The fair value of fuel hedging contracts is the difference between the fuel forward curve price and the contract price. The fuel forward curve price is referenced to fuel price at reporting date for contracts with similar maturity profiles. The fair value of foreign currency hedging contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to forward exchange rates at reporting date for contracts with similar maturity profiles. The fair value of interest rate hedging contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as cash flow hedges i.e when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(z) Derivative of Financial Instruments and Hedge Accounting (continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value of cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

(i) Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income into cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss as other operating expenses.

Amounts recognised in other comprehensive income previously are reclassified from equity to profit or loss when the hedged transaction affects profit or loss, such as when the hedged income or expense is recognised or when a forecast sale occurs.

The Group has elected to apply basis adjustments to hedges of forecast transactions that result in the recognition of a non-financial asset or a non-financial liability, where the amounts recognised previously in other comprehensive income are removed and included in the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remain in equity until the forecast transaction or firm commitment affects profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(z) Derivative of Financial Instruments and Hedge Accounting (continued)

(ii) Derivatives that are not designated or do not qualify for hedge accounting

Any gains or losses arising from changes in fair value on derivatives during the financial year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the profit or loss.

The Group did not enter into any fair value hedge or net investment hedge as at the financial year end.

(aa) Segment reporting

For management purposes, the Group is organised into operating segments based on their nature of the services provided which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 34, including the factors used to identify the reportable segments and the measurement basis of segment information.

3. OPERATING REVENUE

	Group		Company	
	2010 RM'000	2009 RM'000 Restated	2010 RM'000	2009 RM'000 Restated
Traffic revenue:				
Scheduled services				
- passenger and baggage	7,956,245	6,785,685	7,636,033	6,561,589
- cargo and mail	1,526,522	1,191,744	816,287	650,981
	9,482,767	7,977,429	8,452,320	7,212,570
Non-scheduled services	12,779	18,458	12,779	18,458
	9,495,546	7,995,887	8,465,099	7,231,028
Fuel surcharge	1,749,368	1,617,128	1,217,979	1,265,387
Insurance surcharge	213,248	181,515	195,929	164,861
Security surcharge	111,981	94,104	-	-
Administration fees	212,275	255,756	159,324	220,893
Unavailed credits	213,359	334,804	202,290	333,813
	11,995,777	10,479,194	10,240,621	9,215,982
Other revenue:				
Lease of aircraft and engines	74,126	33,810	158,370	26,460
Airport handling and engineering services	273,680	234,083	263,974	209,623
Catering and cleaning services	6,291	9,385	6,291	9,385
Intercompany engineering services	-	-	160,656	137,539
Charter services	191,142	227,008	141,053	165,979
Others*	439,431	357,430	135,617	92,136
	12,980,447	11,340,910	11,106,582	9,857,104

* Included herein are revenues from the provision of computerised reservation services, trucking and warehousing services, retailing of goods, terminal charges, tour and travel related activities.

4. PROFIT/(LOSS) FROM OPERATIONS

The following amounts have been (credited)/debited in arriving at profit/(loss) from operations:

	Group		Company	
	2010 RM'000	2009 RM'000 Restated	2010 RM'000	2009 RM'000 Restated
Fuel and oil	4,383,906	3,497,308	3,663,320	2,874,457
Employee benefits expenses (Note 7)	2,163,731	2,089,213	1,918,802	1,870,145
Handling, enroute charges, catering and other related costs	1,389,279	1,388,754	1,261,939	1,290,718
Hire of aircraft, operating plant and equipment	1,607,243	1,866,771	1,363,477	1,488,515
Aircraft maintenance and overhaul	1,466,611	1,484,039	1,466,611	1,484,039
Landing, parking and other related costs	246,267	246,595	207,977	211,953
Aircraft, property, plant and equipment:				
- depreciation (Note 11)	366,602	316,241	333,116	286,463
- (gain)/loss on disposal, net	(510)	158	(470)	4,521
- (writeback of)/provision for impairment losses, net	(2,671)	8,685	(2,671)	8,263
- written off, net	9,402	10,069	9,402	9,004
Sales commission and incentives	487,471	440,727	462,890	418,907
Foreign exchange (gain)/losses:				
- realised	(4,868)	(22,330)	(4,694)	(22,561)
- unrealised	(62,174)	(4,290)	(22,079)	(4,290)
Advertising and promotions	92,786	93,795	80,883	84,798
Computerised reservation system booking fees	183,577	171,652	177,514	170,714
Rental of land and buildings	180,619	163,651	174,783	158,521
Provision for/(Writeback of):				
- doubtful debts, net	4,826	(26,695)	8,444	(30,141)
- inventories obsolescence, net	11,250	2,029	11,250	2,029
- stock loss	(6,493)	(2,719)	(6,493)	(2,719)
- impairment losses for subsidiaries, net	-	-	(121,000)	-

4. PROFIT/(LOSS) FROM OPERATIONS (CONTINUED)

The following amounts have been (credited)/debited in arriving at profit/(loss) from operations: (continued)

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Amortisation of intangible assets	33,316	26,657	27,287	20,895
Other engineering expenses	71,369	44,935	62,659	44,738
Hull and legal liability insurance	59,593	63,552	53,171	59,193
Directors' remuneration (Note 8)	3,371	3,204	3,371	3,204
Auditors' remuneration:				
- audit fees	915	875	555	535
- other professional fees	123	679	95	671
Interest income:				
- third parties	(51,993)	(58,132)	(51,720)	(57,628)
- subsidiary	-	-	(8,641)	(31,145)
Rental income	(81,802)	(69,549)	(41,648)	(39,317)
Dividend income:				
- subsidiaries	-	-	(3,477)	(4,075)
- associated companies	-	-	(5,713)	(9,782)
- unquoted shares	(18,694)	(28,056)	(18,694)	(28,056)

Included in profit/(loss) from operations of the Group and of the Company are the operating inventories used of RM276,717,000 and RM258,019,000 (2009: RM242,565,000 and RM240,372,000) respectively.

5. DERIVATIVE GAIN

	Group and Company	
	2010 RM'000	2009 RM'000
Gain from fuel hedging contracts	194,603	1,150,502
(Loss)/Gain from foreign currency hedging contracts	(25,606)	576
(Loss)/Gain from interest rate hedging contracts	(30,013)	12,055
	138,984	1,163,133

Derivative gain consists of realised gain/(loss) on settlement of hedging contracts during the year and fair value changes due to movement in mark-to-market ("MTM") position on outstanding non-designated hedging contracts and ineffective portion of cash flow hedges.

6. FINANCE COSTS

	Group		Company	
	2010 RM'000	2009 RM'000 Restated	2010 RM'000	2009 RM'000 Restated
Interest expense on:				
- Revolving credit	1,975	14,155	1,975	14,155
- Term loans	39,190	26,444	32,062	25,208
- RCPS (Note 28)	24,226	23,530	24,226	23,530
- Finance leases				
- third party	108,140	19,284	4,555	-
- subsidiary	-	-	37,207	20,983
- immediate holding company	-	-	74,846	-
	173,531	83,413	174,871	83,876
Interest expense capitalised	(36,287)	(16,375)	(36,287)	(16,375)
	137,244	67,038	138,584	67,501
Other finance costs	1,158	1,110	-	171
	138,402	68,148	138,584	67,672

7. EMPLOYEE BENEFITS EXPENSES

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Salaries and wages	1,390,201	1,326,835	1,225,276	1,182,650
Contribution to defined contribution plan	172,721	166,596	153,669	150,868
Social security contributions	9,845	9,409	8,244	7,908
Share options granted under ESOS (Note 24)	636	11,550	636	10,805
Provision for short term accumulating compensated absences	15,399	13,040	15,399	13,040
Subsistence allowance	283,859	300,480	259,533	275,678
Other staff related expenses	291,070	261,303	256,045	229,196
Total (Note 4)	2,163,731	2,089,213	1,918,802	1,870,145

Included in employee benefits expense of the Group and of the Company is executive director's remuneration of RM2,613,000 (2009: RM2,434,000) as further disclosed in Note 8.

8. DIRECTORS' REMUNERATION

	Group and Company	
	2010	2009
	RM'000	RM'000
Executive directors' remuneration:		
Salaries and other emoluments	1,690	1,819
Bonus	-	80
Defined contribution plan	287	323
Share options granted under ESOS	636	212
	2,613	2,434
Non-executive directors' remuneration:		
Fees	497	497
Other allowances	261	273
	758	770
Total directors' remuneration (Note 4)	3,371	3,204
Estimated money value of benefits-in-kind	30	51
Total directors' remuneration including benefits-in-kind	3,401	3,255

The number of directors of the Company whose total remuneration during the financial year fell within the following bands is as follows:

	Number of directors	
	2010	2009
Executive directors:		
RM500,000 to RM1,000,000	-	1
RM1,000,001 to RM1,500,000	-	1
RM2,500,001 to RM3,000,000	1	-
Non-executive directors:		
Below RM50,000	6	7
RM50,001 to RM100,000	5	2
RM150,001 to RM200,000	2	3

9. TAXATION

The following amounts have been debited/(credited) in arriving at total tax expense/(reversal):

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Current income tax:				
Malaysian income tax	8,945	2,020	-	-
Foreign tax	5,610	4,880	5,610	4,880
	14,555	6,900	5,610	4,880
Over provision in prior years:				
Malaysian income tax	(19)	(518)	-	-
Foreign tax	(379)	(3,127)	(379)	(3,127)
	14,157	3,255	5,231	1,753
Deferred taxation (Note 32) :				
Relating to origination and reversal of temporary differences	32,627	(35,255)	-	-
Relating to changes in tax rates	-	9	-	-
(Over)/Under provision in prior years	(2,094)	875	-	-
	30,533	(34,371)	-	-
Total income tax expense/(reversal)	44,690	(31,116)	5,231	1,753

There is no provision for Malaysian taxation for the Company in the current financial year as the Company has been granted an extension of the tax exemption status by the Ministry of Finance on its chargeable income in respect of all sources of income. The extension is valid for a period of ten years from year of assessment 2006 up to year of assessment 2015.

As at 31 December 2010, the Company has tax exempt income account of approximately RM12,342,629,000 (2009: RM12,235,757,000) available for payments of tax exempt dividends subject to agreement with the Inland Revenue Board.

Domestic current income tax is calculated at the Malaysian statutory tax rate of 25% (2009: 25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rate prevailing in the respective jurisdictions.

9. TAXATION (CONTINUED)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	2010	2009
	RM'000	RM'000
Group		
Profit before taxation	282,036	491,832
Taxation at Malaysian statutory tax rate of 25% (2009: 25%)	70,509	122,958
Effect of changes in tax rates	-	9
Effects of share of profits of associates	(6,932)	(3,346)
Effects of share of loss of jointly controlled entity	2,537	435
Foreign income tax	5,610	4,880
Effect of tax exemption status	(106,872)	(244,609)
Income not subject to tax	(33,945)	(22,315)
Expenses not deductible for tax purposes	101,180	84,023
Deferred tax assets not recognised on:		
- other deductible temporary differences	20,035	29,631
- current year's tax losses not recognised	-	15
- current year's tax capital allowance not recognised	-	(27)
Utilisation of previously unabsorbed tax losses	(4,941)	-
(Over)/Under provision of deferred tax in prior years	(2,094)	875
Overprovision of tax expense in prior years	(397)	(3,645)
Tax expense/(reversal) for the year	44,690	(31,116)
Company		
Profit before taxation	112,472	629,227
Taxation at Malaysian statutory tax rate of 25% (2009: 25%)	28,118	157,307
Foreign income tax	5,610	4,880
Effect of tax exemption status	(106,872)	(244,609)
Income not subject to tax	(36,942)	(13,953)
Expenses not deductible for tax purposes	95,661	71,624
Deferred tax assets not recognised on other deductible temporary difference	20,035	29,631
Overprovision of tax expense in prior years	(379)	(3,127)
Tax expense for the year	5,231	1,753

10. EARNING PER SHARE

(a) Basic

The basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2010	2009 Restated
Profit attributable to equity holders of the Company (RM'000)	234,469	520,039
Weighted average number of ordinary shares in issue* ('000)	3,234,778	2,053,598
Basic earnings per share for (sen):	7.2	25.3

(b) Diluted

For the purpose of calculating diluted earnings per share, the profit for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the financial year have been adjusted for the dilutive effects of all potential ordinary shares, i.e. RCPS and share options granted to employees.

	Group	
	2010	2009 Restated
Profit attributable to equity holders of the Company (RM'000)	234,469	520,039
Effect of interest saving from RCPS (RM'000)	-	17,676
Diluted profit attributable to equity holders of the Company (RM'000)	234,469	537,715
Weighted average number of ordinary shares in issue* ('000)	3,234,778	2,053,598
Effects of dilution resulting from RCPS ('000)	-	102,531
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	3,234,778	2,156,129
Diluted earnings per share for (sen):	7.2	24.9

* adjusted for the effect of Rights issue, as disclosed in Note 30(b).

10. EARNING PER SHARE (CONTINUED)**(b) Diluted** (continued)

The share options granted under ESOS have not been included in the calculation of diluted earnings per share because they are anti-dilutive for the current and previous financial years.

As at 31 December 2010, the RCPS have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

11. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT

Group Cost/Valuation	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000
At 1 January 2008	-	1,006,041	15,531	249,461
Effects of adopting:				
- FRS 123 (revised)	-	-	-	-
- FRS 117 (amended)	18,543	-	-	-
At 1 January 2008 (restated)	18,543	1,006,041	15,531	249,461
Additions	-	1,244	2,594	-
Disposals	-	-	(8,801)	(37,296)
Transfer from non-current assets held for sale	-	-	-	-
Write-offs	-	(119)	-	-
Reclassifications	-	46,820	357,871	-
At 31 December 2008 (restated)	18,543	1,053,986	367,195	212,165
At 1 January 2009	-	1,053,986	364,734	212,165
Effects of adopting:				
- FRS 123 (revised)	-	-	2,461	-
- FRS 117 (amended)	18,543	-	-	-
At 1 January 2009 (restated)	18,543	1,053,986	367,195	212,165
Additions	-	1,120	1,893	123,535
Disposals	-	-	-	-
Write-offs	-	-	-	-
Reclassifications	-	1,669	494,370	-
At 31 December 2009 (restated)	18,543	1,056,775	863,458	335,700
At 1 January 2010	-	1,056,775	859,104	335,700
Effects of adopting:				
- FRS 123 (revised)	-	-	4,354	-
- FRS 117 (amended)	18,543	-	-	-
At 1 January 2010 (restated)	18,543	1,056,775	863,458	335,700
Additions	-	64	1,353,784	-
Disposals	-	(1,100)	-	-
Write-offs	-	-	-	-
Reclassifications	-	15,016	560,469	-
At 31 December 2010	18,543	1,070,755	2,777,711	335,700

Aircraft related spares RM'000	Operating plant and equipment RM'000	Office furniture and equipment RM'000	Motor vehicles RM'000	Progress payments RM'000	Total RM'000
1,921,107	1,106,144	478,454	62,097	172,738	5,011,573
-	-	-	-	335	335
-	-	-	-	-	18,543
1,921,107	1,106,144	478,454	62,097	173,073	5,030,451
155,995	18,519	14,812	1,179	577,146	771,489
-	(16,459)	(7,731)	(5,574)	-	(75,861)
-	-	-	624	-	624
(89,088)	(242,875)	(126,557)	(22,392)	(2,579)	(483,610)
35	(34,240)	3,328	118	(373,932)	-
1,988,049	831,089	362,306	36,052	373,708	5,243,093
1,988,049	831,089	362,306	36,052	368,158	5,216,539
-	-	-	-	5,550	8,011
-	-	-	-	-	18,543
1,988,049	831,089	362,306	36,052	373,708	5,243,093
104,666	8,058	9,175	672	746,256	995,375
-	(25,927)	(6,080)	(2,158)	-	(34,165)
(25,189)	(972)	(93)	-	-	(26,254)
-	905	9,747	51	(506,742)	-
2,067,526	813,153	375,055	34,617	613,222	6,178,049
2,067,526	813,001	375,055	34,617	596,929	6,138,707
-	152	-	-	16,293	20,799
-	-	-	-	-	18,543
2,067,526	813,153	375,055	34,617	613,222	6,178,049
95,657	7,355	4,701	2,208	3,423,660	4,887,429
-	(2,198)	(5,766)	(820)	-	(9,884)
(22,058)	-	-	-	(369)	(22,427)
-	6,972	1,901	123	(584,481)	-
2,141,125	825,282	375,891	36,128	3,452,032	11,033,167

11. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000
Accumulated depreciation and impairment losses				
At 1 January 2008	-	374,678	935	72,125
Effects of adopting:				
- FRS 123 (revised)	-	-	-	-
- FRS 117 (amended)	930	-	-	-
At 1 January 2008 (restated)	930	374,678	935	72,125
Charge for the year	182	30,575	6,590	8,918
Disposals	-	-	(1,329)	(5,091)
Writeback of impairment losses	-	-	-	(3,600)
Transfer from non-current assets held for sale	-	-	-	-
Write-offs	-	(90)	-	-
Reclassifications	-	17,206	-	-
At 31 December 2008 (restated)	1,112	422,369	6,196	72,352
At 1 January 2009	-	422,369	6,173	72,352
Effects of adopting:				
- FRS 123 (revised)	-	-	23	-
- FRS 117 (amended)	1,112	-	-	-
At 1 January 2009 (restated)	1,112	422,369	6,196	72,352
Charge for the year	188	27,807	33,394	14,355
Impairment losses	-	51	-	-
Disposals	-	-	-	-
Write-offs	-	-	-	-
At 31 December 2009 (restated)	1,300	450,227	39,590	86,707

Aircraft related spares RM'000	Operating plant and equipment RM'000	Office furniture and equipment RM'000	Motor vehicles RM'000	Progress payments RM'000	Total RM'000
1,055,185	959,055	430,124	58,353	-	2,950,455
-	-	-	-	-	-
-	-	-	-	-	930
1,055,185	959,055	430,124	58,353	-	2,951,385
192,643	59,278	28,392	1,485	-	328,063
-	(14,774)	(7,141)	(5,274)	-	(33,609)
(14,662)	(17,456)	(8,746)	(790)	-	(45,254)
-	-	-	589	-	589
(65,074)	(237,815)	(123,251)	(22,093)	-	(448,323)
-	(25,359)	8,870	(717)	-	-
1,168,092	722,929	328,248	31,553	-	2,752,851
1,168,092	722,929	328,248	31,553	-	2,751,716
-	-	-	-	-	23
-	-	-	-	-	1,112
1,168,092	722,929	328,248	31,553	-	2,752,851
186,921	29,778	22,063	1,735	-	316,241
8,212	239	183	-	-	8,685
-	(25,408)	(5,900)	(2,062)	-	(33,370)
(16,185)	-	-	-	-	(16,185)
1,347,040	727,538	344,594	31,226	-	3,028,222

11. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group Accumulated depreciation and impairment losses	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000
At 1 January 2010	-	450,227	39,411	86,707
Effects of adopting:				
- FRS 123 (revised)	-	-	179	-
- FRS 117 (amended)	1,300	-	-	-
At 1 January 2010 (restated)	1,300	450,227	39,590	86,707
Charge for the year	188	27,635	128,120	10,200
Writeback of impairment losses	-	(179)	-	-
Disposals	-	(562)	-	-
Write-offs	-	-	-	-
At 31 December 2010	1,488	477,121	167,710	96,907
Net book value				
At 31 December 2008 (restated)	17,431	631,617	360,999	139,813
At 31 December 2009 (restated)	17,243	606,548	823,868	248,993
At 31 December 2010	17,055	593,634	2,610,001	238,793

Aircraft related spares RM'000	Operating plant and equipment RM'000	Office furniture and equipment RM'000	Motor vehicles RM'000	Progress payments RM'000	Total RM'000
1,347,040	727,529	344,594	31,226	-	3,026,734
-	9	-	-	-	188
-	-	-	-	-	1,300
1,347,040	727,538	344,594	31,226	-	3,028,222
158,529	24,054	16,351	1,525	-	366,602
(2,492)	-	-	-	-	(2,671)
-	(2,221)	(5,715)	(820)	-	(9,318)
(13,025)	-	-	-	-	(13,025)
1,490,052	749,371	355,230	31,931	-	3,369,810
819,957	108,160	34,058	4,499	373,708	2,490,242
720,486	85,615	30,461	3,391	613,222	3,149,827
651,073	75,911	20,661	4,197	3,452,032	7,663,357

11. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company Cost/Valuation	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000
At 1 January 2008	-	990,978	15,531	249,461
Effects of adopting:				
- FRS 123 (revised)	-	-	-	-
- FRS 117 (amended)	16,503	-	-	-
At 1 January 2008 (restated)	16,503	990,978	15,531	249,461
Additions	-	1,104	2,594	-
Disposals	-	-	(10,909)	(37,296)
Transfer to a subsidiary	-	-	-	-
Write-offs	-	(119)	-	-
Reclassifications	-	46,820	58,935	-
At 31 December 2008 (restated)	16,503	1,038,783	66,151	212,165
At 1 January 2009	-	1,038,783	65,798	212,165
Effects of adopting:				
- FRS 123 (revised)	-	-	353	-
- FRS 117 (amended)	16,503	-	-	-
At 1 January 2009 (restated)	16,503	1,038,783	66,151	212,165
Additions	-	390	4,442	123,535
Disposals	-	-	(4,795)	-
Transfer to a subsidiary	-	-	-	-
Write-offs	-	-	-	-
Reclassifications	-	1,669	331,161	-
At 31 December 2009 (restated)	16,503	1,040,842	396,959	335,700
At 1 January 2010	-	1,040,842	396,959	335,700
Effects of adopting:				
- FRS 123 (revised)	-	-	-	-
- FRS 117 (amended)	16,503	-	-	-
At 1 January 2010 (restated)	16,503	1,040,842	396,959	335,700
Additions	-	64	1,234,071	-
Disposals	-	(1,100)	-	-
Write-offs	-	-	-	-
Reclassifications	-	15,016	560,469	-
At 31 December 2010	16,503	1,054,822	2,191,499	335,700

Aircraft related spares RM'000	Operating plant and equipment RM'000	Office furniture and equipment RM'000	Motor vehicles RM'000	Progress payments RM'000	Total RM'000
1,921,107	754,420	403,495	55,362	172,736	4,563,090
-	-	-	-	335	335
-	-	-	-	-	16,503
1,921,107	754,420	403,495	55,362	173,071	4,579,928
155,995	16,698	14,139	798	577,146	768,474
-	(16,133)	(6,839)	(4,793)	-	(75,970)
-	-	-	-	(298,935)	(298,935)
(89,088)	(242,875)	(126,556)	(22,390)	(2,579)	(483,607)
35	(34,240)	3,328	118	(74,996)	-
1,988,049	477,870	287,567	29,095	373,707	4,489,890
1,988,049	477,870	287,567	29,095	368,156	4,467,483
-	-	-	-	5,551	5,904
-	-	-	-	-	16,503
1,988,049	477,870	287,567	29,095	373,707	4,489,890
104,666	8,009	5,050	348	739,186	985,626
-	(25,576)	(6,045)	(1,280)	-	(37,696)
-	-	-	-	(143,758)	(143,758)
(25,189)	-	-	-	-	(25,189)
-	330	10,272	102	(343,534)	-
2,067,526	460,633	296,844	28,265	625,601	5,268,873
2,067,526	460,481	296,844	28,265	608,268	5,234,885
-	152	-	-	17,333	17,485
-	-	-	-	-	16,503
2,067,526	460,633	296,844	28,265	625,601	5,268,873
95,657	5,527	2,142	181	3,423,660	4,761,302
-	(1,242)	(4,673)	(547)	-	(7,562)
(22,058)	-	-	-	(369)	(22,427)
-	6,972	1,901	123	(584,481)	-
2,141,125	471,890	296,214	28,022	3,464,411	10,000,186

11. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company Accumulated depreciation and impairment losses	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000
At 1 January 2008	-	371,389	935	72,125
Effects of adopting: - FRS 117 (amended)	642	-	-	-
At 1 January 2008 (restated)	642	371,389	935	72,125
Charge for the year	162	30,508	2,395	8,918
Writeback of impairment losses	-	-	-	(3,600)
Disposals	-	-	(1,329)	(5,091)
Write-offs	-	(90)	-	-
Reclassifications	-	17,206	-	-
At 31 December 2008 (restated)	804	419,013	2,001	72,352
At 1 January 2009	-	419,013	2,001	72,352
Effects of adopting: - FRS 117 (amended)	804	-	-	-
At 1 January 2009 (restated)	804	419,013	2,001	72,352
Charge for the year	168	27,651	13,316	14,355
Impairment losses	-	51	-	-
Disposals	-	-	-	-
Write-offs	-	-	-	-
At 31 December 2009 (restated)	972	446,715	15,317	86,707

Aircraft related spares RM'000	Operating plant and equipment RM'000	Office furniture and equipment RM'000	Motor vehicles RM'000	Progress payments RM'000	Total RM'000
1,055,185	645,129	362,557	53,280	-	2,560,600
-	-	-	-	-	642
1,055,185	645,129	362,557	53,280	-	2,561,242
192,643	34,095	24,456	1,071	-	294,248
(14,662)	(17,456)	(8,746)	(790)	-	(45,254)
-	(14,449)	(6,339)	(4,729)	-	(31,937)
(65,074)	(237,815)	(123,250)	(22,095)	-	(448,324)
-	(25,359)	8,871	(718)	-	-
1,168,092	384,145	257,549	26,019	-	2,329,975
1,168,092	384,145	257,549	26,019	-	2,329,171
-	-	-	-	-	804
1,168,092	384,145	257,549	26,019	-	2,329,975
186,921	22,996	19,748	1,308	-	286,463
8,212	-	-	-	-	8,263
-	(25,066)	(5,806)	(1,217)	-	(32,089)
(16,185)	-	-	-	-	(16,185)
1,347,040	382,075	271,491	26,110	-	2,576,427

11. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company Accumulated depreciation and impairment losses	Leasehold land RM'000	Buildings RM'000	Aircraft RM'000	Aircraft spare engines RM'000
At 1 January 2010	-	446,715	15,317	86,707
Effects of adopting:				
- FRS 123 (revised)	-	-	-	-
- FRS 117 (amended)	972	-	-	-
At 1 January 2010 (restated)	972	446,715	15,317	86,707
Charge for the year	168	27,422	101,142	10,200
Writeback of impairment losses	-	(179)	-	-
Disposals	-	(562)	-	-
Write-offs	-	-	-	-
At 31 December 2010	1,140	473,396	116,459	96,907
Net book value				
At 31 December 2008 (restated)	15,699	619,770	64,150	139,813
At 31 December 2009 (restated)	15,531	594,127	381,642	248,993
At 31 December 2010	15,363	581,426	2,075,040	238,793

Aircraft related spares RM'000	Operating plant and equipment RM'000	Office furniture and equipment RM'000	Motor vehicles RM'000	Progress payments RM'000	Total RM'000
1,347,040	382,066	271,491	26,110	-	2,575,446
-	9	-	-	-	9
-	-	-	-	-	972
1,347,040	382,075	271,491	26,110	-	2,576,427
158,529	20,816	13,818	1,021	-	333,116
(2,492)	-	-	-	-	(2,671)
-	(1,237)	(4,656)	(547)	-	(7,002)
(13,025)	-	-	-	-	(13,025)
1,490,052	401,654	280,653	26,584	-	2,886,845
819,957	93,725	30,018	3,076	373,707	2,159,915
720,486	78,558	25,353	2,155	625,601	2,692,446
651,073	70,236	15,561	1,438	3,464,411	7,113,341

11. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the financial year, the Group and Company acquired aircraft, property, plant and equipment at aggregate costs of RM4,887,429,000 (2009: RM995,375,000) and RM4,761,302,000 (2009: RM985,626,000) of which RM1,144,794,000 (2009: RM Nil) were finance lease liabilities assumed from its immediate holding company, as approved by the shareholders in the Company's Extraordinary General Meeting on 25 January 2010 and RM682,426,000 (2009: RM517,609,000) acquired by means of finance lease arrangements.

Net carrying amounts of aircraft, property, plant and equipment held under finance lease arrangements are as follows:

	Group		Company		
	2009	2008	2010	2009	2008
	RM'000	RM'000	RM'000	RM'000	RM'000
	Restated	Restated	Restated	Restated	Restated
	2,390,068	476,150	1,963,536	476,150	113,222

The net carrying amounts of aircraft, property, plant and equipment pledged as securities for term loan (Note 27) are as follows:

	Group		
	2010	2009	2008
	RM'000	RM'000	RM'000
	Restated	Restated	Restated
Aircraft	290,380	293,234	-

(a) Buildings

Certain buildings of the Group and Company have been constructed on Federal and State Government land for which the lease arrangements are being formalised.

Certain buildings at a carrying value of RM2,102,000 (2009: RM2,356,000) were revalued by directors in 1985, as disclosed in Note 2.5(e)(vi). Had the revalued buildings been carried at historical cost less accumulated depreciation, the net book value of those buildings would have been as follows:

	Group and Company	
	2010	2009
	RM'000	RM'000
Leasehold buildings	1,820	1,834

11. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Land

Certain land at carrying value of RM35,000 (2009: RM36,000) were revalued by directors in 1985, as disclosed in Note 2.5(e)(vi). Had the revalued leasehold land been carried at historical cost less accumulated depreciation, the net book value of those leasehold land would have been as follows:

	Group and Company		
	2010	2009	2008
	RM'000	RM'000	RM'000
Leasehold land	40	42	44

The carrying amounts of land at 1 January 2009 and 31 December 2009 have been restated following the adoption of the amendments to FRS 117, where leasehold land in substance is a finance lease, has been reclassified from prepaid lease payments to aircraft, property, plant and equipment.

(c) Capitalisation of borrowing costs

The Group's aircraft, property, plant and equipment include borrowing costs arising from term loans borrowed specifically for the purpose of the construction of the aircraft. The capitalisation rate used to determine the amount of finance costs capitalised during the year was 3.8% (2009: 4.8%).

During the financial year, effects of borrowing costs capitalised to aircraft, property, plant and equipment is as follows:

	Group		
	2010	2009	2008
	RM'000	RM'000	RM'000
Cost	36,287	12,788	7,676
Depreciation	192	165	23

	Company		
	2010	2009	2008
	RM'000	RM'000	RM'000
Cost	36,287	11,581	5,569
Depreciation	15	9	-

12. PREPAID LEASE PAYMENTS ON LAND

	Group		
	2010 RM'000	2009 RM'000 Restated	2008 RM'000 Restated
Net book value			
At 1 January	17,243	17,431	17,613
Effects of adopting FRS 117 (amended)	(17,243)	(17,431)	(17,613)
At 31 December	-	-	-
	Company		
At 1 January	15,531	15,699	15,861
Effects of adopting FRS 117 (amended)	(15,531)	(15,699)	(15,861)
At 31 December	-	-	-

13. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010 RM'000	2009 RM'000
Unquoted shares, at cost	177,345	177,788
Less: Accumulated impairment losses	(17,151)	(138,151)
	160,194	39,637

During the financial year, the Company increased its investment in the following wholly -owned subsidiary by subscribing to additional ordinary shares as follows:

	No. of additional shares acquired '000	Additional Cost of Investment RM'000
MASwings Sdn. Bhd.	250	250

The above increase in investment was funded through the conversion of existing loan from the Company to the subsidiary.

13. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows:

Name of Company	Country of incorporation	Effective interest		Principal activities
		2010	2009	
		%	%	
Held by the Company:				
Abacus Distribution Systems (Malaysia) Sdn. Bhd.	Malaysia	80	80	Promotion, development, operation and marketing of computerised reservations system and related services
Aerokleen Services Sdn. Bhd.	Malaysia	51	51	Provision of laundry and cleaning related services
FlyFirefly Sdn. Bhd. ("Firefly")	Malaysia	100	100	Air transportation and the provision of related services
Malaysia Airlines Cargo Sdn. Bhd.	Malaysia	100	100	Air cargo operations, charter freighter and all warehousing activities relating to air cargo operations
MAS Catering (Sarawak) Sdn. Bhd.	Malaysia	60	60	Provision of catering and cabin handling services
MAS Golden Boutiques Sdn. Bhd.	Malaysia	100	100	Retailing of inflight goods and boutique operations
MASkargo Logistics Sdn. Bhd.	Malaysia	100	100	Provision of trucking, clearance and warehousing services
Malaysia Airlines Capital (L) Limited	Malaysia	100	100	Labuan leasing business
Malaysia Airlines Capital II (L) Limited	Malaysia	100	-	Labuan leasing business
Malaysia Airlines Capital III (L) Limited	Malaysia	100	-	Labuan leasing business
MASwings Sdn. Bhd.	Malaysia	100	100	Air transportation and the provision of related services
Kelip-Kelip Labuan Limited	Malaysia	100	100	Labuan leasing business
Kelip-Kelip II Labuan Limited	Malaysia	100	100	Labuan leasing business
Kelip-Kelip III Labuan Limited	Malaysia	100	-	Labuan leasing business
Kelip-Kelip II Cayman Limited	Cayman Islands	100	100	Leasing business
MAS Golden Holidays Sdn. Bhd.	Malaysia	100	100	Dormant
MAS Aerotechnologies Sdn. Bhd.	Malaysia	100	100	Dormant

13. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Country of incorporation	Effective interest		Principal activities
		2010 %	2009 %	
Held by the Company:				
Syarikat Pengangkutan Senai Sdn. Bhd.	Malaysia	100	100	Dormant
Malaysian Aerospace Engineering Sdn. Bhd.	Malaysia	100	100	Dormant
Macnet CCN (M) Sdn. Bhd.	Malaysia	100	100	Under Members' Voluntary Winding Up
MAS Academy Sdn. Bhd.	Malaysia	100	100	Dormant
Held through a subsidiary:				
FlyFirefly Holiday Sdn. Bhd.*	Malaysia	100	100	Tour and travel related operations

* Firefly owns 100% equity in FlyFirefly Holiday Sdn. Bhd.

Subscription of shares in subsidiaries

- (i) On 8 November 2010, the Company has incorporated an off-shore company, Malaysia Airlines Capital III (L) Limited with a paid-up capital of USD1.00 (equivalent to RM3.12). With effect from that date, Malaysia Airlines Capital III (L) Limited became a wholly-owned subsidiary of the Company.
- (ii) On 20 October 2010, the Company has incorporated an off-shore company, Malaysia Airlines Capital II (L) Limited with a paid-up capital of USD1.00 (equivalent to RM3.12). With effect from that date, Malaysia Airlines Capital II (L) Limited became a wholly-owned subsidiary of the Company.
- (iii) On 22 September 2010, the Company subscribed for an additional 249,998 ordinary shares of RM1 each in the capital of MASwings Sdn. Bhd., a wholly-owned subsidiary by way of loan capitalisation.
- (iv) On 11 May 2010, the Company has incorporated an off-shore company, Kelip-Kelip III Labuan Limited with a paid-up capital of USD1.00 (equivalent to RM3.21). With effect from that date, Kelip-kelip III Labuan Limited became a wholly-owned subsidiary of the Company.

14. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Unquoted shares, at cost	124,919	124,919	124,919	124,919
Less: Accumulated impairment losses	-	-	(43,645)	(43,645)
	124,919	124,919	81,274	81,274
Share of post acquisition losses	(23,115)	(45,943)	-	-
	101,804	78,976	81,274	81,274

Details of the associated companies are:

Name of Companies [Financial Year End]	Country of incorporation	Effective interest		Principal activities
		2010 %	2009 %	
Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd. [31 December]	Malaysia	49	49	Repair and overhaul of selected aircraft environmental control systems, aircraft pneumatic components and propeller system
LSG Sky Chefs-Brahim's Sdn. Bhd. [31 December]	Malaysia	30	30	Catering related services, cabin handling and cleaning services
GE Engine Services Malaysia Sdn. Bhd. [31 December]	Malaysia	30	30	Repair and overhaul of aircraft engine
Honeywell Aerospace Services (M) Sdn. Bhd. [31 December]	Malaysia	30	30	Repairing services, overhauling and testing of aircraft auxiliary power
Pan Asia Pacific Aviation Services Limited [31 March]	Hong Kong	24	24	Provision of aircraft maintenance services
Taj Madras Flight Kitchen Limited [31 March]	India	20	20	Inflight catering of food and beverages

The financial statements of Pan Asia Pacific Aviation Services Limited and Taj Madras Flight Kitchen Limited are made up to 31 March, each year. For the purpose of applying the equity method of accounting, the last audited financial statements available and management financial statements to the end of the accounting period of these companies for the financial period ended 31 December 2010 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 December 2010.

14. INVESTMENTS IN ASSOCIATES (CONTINUED)

The summarised financial information of the associates, not adjusted for the proportion of ownership interest held by the Group, is as follows:

	2010	2009
	RM'000	RM'000
Assets and liabilities		
Current assets	404,672	534,491
Non-current assets	208,967	282,946
Total assets	613,639	817,437
Current liabilities	293,063	489,241
Non-current liabilities	1,444	88,461
Total liabilities	294,507	577,702
Results		
Revenue	1,252,195	1,407,150
Profit for the year	67,674	36,588

15. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group	
	2010	2009
	RM'000	RM'000
Unquoted shares, at cost	14,248	3,539
Less: Share of post acquisition losses	(11,888)	(1,741)
	2,360	1,798

Details of the jointly controlled entity is as follows:

Name of Company	Country of incorporation	Effective interest		Principal activities
		2010	2009	
		%	%	
Held through a subsidiary:				
MAS GMR Aerospace Engineering Pte.Ltd.*	India	50	50	Aircraft maintenance, repair and overhaul

* Malaysian Aerospace Engineering Sdn Bhd ("MAE") owns 50% in MAS GMR Aerospace Engineering Pte. Ltd.

15. INVESTMENTS IN A JOINTLY CONTROLLED ENTITY (CONTINUED)

The financial statements of the above jointly controlled entity are made up to 31 March, each year. For the purpose of applying the equity method of accounting, the last audited financial statements available and management financial statements to the end of accounting period of the jointly controlled entity for the financial period ended 31 December 2010 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 December 2010.

The Group's aggregate share of the current assets, non-current assets, current liabilities, non-current liabilities, income and expenses of the jointly controlled entity is as follows:

	2010	2009
	RM'000	RM'000
Assets and liabilities		
Current assets	1,900	3,428
Non-current assets	20,700	865
Total assets	22,600	4,293
Current liabilities	6,204	5,584
Non-current liabilities	17,125	-
Total liabilities	23,329	5,584
Results		
Revenue	111	-
Loss for the year	(10,147)	(1,741)

16. OTHER INVESTMENTS

	Group and Company	
	2010	2009
	RM'000	RM'000
Unquoted shares, at cost:		
- in Malaysia	10,825	10,825
- outside Malaysia	43,779	43,127
Total	54,604	53,952

The Group and the Company has designated its unquoted equity investments as available-for-sale financial assets. Investments in unquoted equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

17. INTANGIBLE ASSETS

Group	Software and related costs RM'000	Landing slots RM'000	Total RM'000
At 31 December 2010			
Costs			
At 1 January 2010	151,180	25,314	176,494
Additions	61,007	-	61,007
At 31 December 2010	212,187	25,314	237,501
Accumulated amortisation			
At 1 January 2010	66,453	-	66,453
Charge for the year (Note 4)	33,316	-	33,316
At 31 December 2010	99,769	-	99,769
Net book value	112,418	25,314	137,732
Group			
At 31 December 2009			
Costs			
At 1 January 2009	120,735	25,314	146,049
Additions	30,445	-	30,445
At 31 December 2009	151,180	25,314	176,494
Accumulated amortisation			
At 1 January 2009	39,796	-	39,796
Charge for the year (Note 4)	26,657	-	26,657
At 31 December 2009	66,453	-	66,453
Net book value	84,727	25,314	110,041

17. INTANGIBLE ASSETS (CONTINUED)

Company At 31 December 2010	Software and related costs RM'000	Landing slots RM'000	Total RM'000
Costs			
At 1 January 2010	119,694	25,314	145,008
Additions	60,728	-	60,728
At 31 December 2010	180,422	25,314	205,736
Accumulated amortisation			
At 1 January 2010	49,265	-	49,265
Charge for the year (Note 4)	27,287	-	27,287
At 31 December 2010	76,552	-	76,552
Net book value	103,870	25,314	129,184
Company At 31 December 2009			
Costs			
At 1 January 2009	89,887	25,314	115,201
Additions	29,807	-	29,807
At 31 December 2009	119,694	25,314	145,008
Accumulated amortisation			
At 1 January 2009	28,370	-	28,370
Charge for the year (Note 4)	20,895	-	20,895
At 31 December 2009	49,265	-	49,265
Net book value	70,429	25,314	95,743

Impairment test for assets with indefinite useful life

The recoverable amount of the landing slots is based on value in use calculations, using information on current year and preceding year route results. Value in use for Year 2010 is derived from present value of future cash flows expected to be derived from the landing slots or budgeted route results which have been extrapolated using certain estimates and reasonable approximations.

18. INVENTORIES

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
At cost:				
Catering and general stores	1,273	3,052	1,039	2,861
Consumable aircraft spares	9,643	8,931	9,643	8,931
	10,916	11,983	10,682	11,792
At net realisable value:				
Catering and general stores	53,496	54,756	47,844	48,104
Consumable aircraft spares	366,437	318,177	366,437	318,177
	419,933	372,933	414,281	366,281
	430,849	384,916	424,963	378,073

19. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Current				
Trade				
Trade receivables (Note a)	1,366,078	1,511,110	1,212,035	1,313,538
Less: Provision for doubtful debts	(379,814)	(415,111)	(354,455)	(382,831)
	986,264	1,095,999	857,580	930,707

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Group		Company	
	2010 RM'000	2009 RM'000 Restated	2010 RM'000	2009 RM'000 Restated
Non-trade				
Prepayments to:				
- a fellow subsidiary (Note b)	40,931	41,147	40,931	41,147
- immediate holding company (Note c)	27,133	-	27,133	-
Lease receivables (Note d)	-	-	23,060	19,464
Deferred maintenance costs (Note e)	47,562	67,498	47,562	67,498
Staff loans (Note f)	9,204	15,214	9,204	15,214
Security deposits				
- refundable (Note g)	37,221	11,227	37,221	11,227
- others	7,304	5,696	6,892	5,300
Prepayments	62,202	55,185	44,093	54,788
Due from:				
- immediate holding company	19,680	-	19,680	-
- subsidiaries	-	-	266,239	123,257
- associates	1,484	3,106	1,484	3,106
Sundry receivables	129,145	107,594	67,651	90,725
Less: Provision for doubtful debts	(16,923)	(18,835)	(15,533)	(17,169)
	364,943	287,832	575,617	414,557
	1,351,207	1,383,831	1,433,197	1,345,264

Non Current**Non-trade**

Prepayments to:				
- a fellow subsidiary (Note b)	122,378	162,740	122,378	162,740
- immediate holding company (Note c)	135,733	-	135,733	-
Lease receivables (Note d)	-	-	305,710	444,440
Deferred maintenance costs (Note e)	35,490	60,195	35,490	60,195
Staff loans (Note f)	100,744	95,608	100,744	95,608
Refundable security deposits (Note g)	48,230	67,994	48,230	67,994
	442,575	386,537	748,285	830,977

19. TRADE AND OTHER RECEIVABLES (CONTINUED)**(a) Trade receivables**

Trade receivables are non-interest bearing and are generally on 14 to 30 (2009: 14 to 30) day's terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

The carrying amount of debtors is impaired by credit losses and is reduced through the use of a provision account unless the Group and Company write off the amount ascertained to be uncollectible. In subsequent period when a debtor is ascertained to be uncollectible, it is written-off against the provision account. Individual debtor is written-off when management has ascertained that the amount is not collectible.

(i) Ageing analysis of trade receivables

The ageing analysis of the Group's and Company's trade receivables is as follows:

	2010	
	Group RM'000	Company RM'000
Neither past due nor impaired	564,287	568,814
1 to 30 days past due not impaired	155,708	144,772
31 to 60 days past due not impaired	44,405	34,620
61 to 90 days past due not impaired	34,889	7,027
91 to 120 days past due not impaired	96,327	14,837
More than 121 days past due not impaired	90,648	87,510
	421,977	288,766
	986,264	857,580
Impaired trade receivables - collectively assessed	863	-
Less: Accumulated impairment loss	(863)	-
	-	-
Impaired trade receivables - individually assessed	378,951	354,455
Less: Accumulated impairment loss	(378,951)	(354,455)
	-	-
	986,264	857,580

19. TRADE AND OTHER RECEIVABLES (CONTINUED)**(a) Trade receivables** (continued)

(ii) Receivables that are impaired

Movements on the provision for doubtful debts are as follows:

	2010	
	Group RM'000	Company RM'000
At 1 January	415,111	382,831
Charge for the year	105,736	109,395
Write-offs	(40,123)	(36,820)
Reversal	(100,910)	(100,951)
At 31 December	379,814	354,455

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and have defaulted on payments.

Collaterals from debtors include bank guarantees and letter of credit.

(b) Prepayment to a fellow subsidiary

	Group and Company	
	2010 RM'000	2009 RM'000
Current		
Due not later than one year	40,931	41,147
Non Current		
Due later than one year and not later than five years	122,378	162,740
	163,309	203,887

The prepayment to a fellow subsidiary represents prepaid lease rentals. It is unsecured, interest free and will expire on 28 May 2014.

19. TRADE AND OTHER RECEIVABLES (CONTINUED)**(c) Prepayment to immediate holding company**

	Group and Company	
	2010	2009
	RM'000	RM'000
Current		
Due not later than one year	27,133	-
Non Current		
Due later than one year and not later than five years	135,733	-
	162,866	-

The prepayment to immediate holding company represents prepaid operating lease rentals and is amortised over the lease term.

(d) Lease receivables

	Group and Company	
	2010	2009
	RM'000	RM'000
Current		
Due not later than one year	23,060	19,464
Non Current		
Due later than one year and not later than five years	169,983	20,474
Due later than five years	135,727	423,966
	305,710	444,440
	328,770	463,904

The lease receivables of the Company is in respect of amount due from a certain subsidiary for aircraft lease rental. It is secured, subject to interest ranging from 3.2% to 5.8% per annum (2009: 4.7% to 4.8% per annum) and will expire between 31 Dec 2017 to 18 June 2019.

19. TRADE AND OTHER RECEIVABLES (CONTINUED)**(e) Deferred maintenance costs**

	Group and Company	
	2010	2009
	RM'000	RM'000
Current		
Due not later than one year	47,562	67,498
Non Current		
Due later than one year and not later than five years	22,231	49,770
Due later than five years	13,259	10,425
	35,490	60,195
	83,052	127,693

Deferred maintenance costs relates to maintenance costs incurred for aircraft, engines, auxiliary power units or landing gears prior to the return obligation stated in the lease agreements. Deferred maintenance costs is capitalised and amortised over the actual flying hours as the aircraft is flown up to its return condition.

Upon the expiry of the lease or disposal of the aircraft, the net carrying amount is recognised in the profit or loss.

(f) Staff loans

	Group and Company	
	2010	2009
	RM'000	RM'000
Current		
Due not later than one year	9,204	15,214
Non Current		
Due later than one year and not later than five years	26,777	27,767
Due later than five years	73,967	67,841
	100,744	95,608
	109,948	110,822

Staff loans represent amount due from employees for cadet pilot training. The loans are repayable by the employees within 15 years.

19. TRADE AND OTHER RECEIVABLES (CONTINUED)**(g) Refundable Security Deposits**

	Group and Company	
	2010	2009
	RM'000	RM'000
Current		
Due not later than one year	37,221	11,227
Non Current		
Due later than one year and not later than five years	38,043	67,334
Due later than five years	10,187	660
	48,230	67,994
	85,451	79,221

Refundable Security Deposits relate to deposits paid to lessors for the lease of aircraft and are refundable at the end of lease period.

(h) Due from intercompany

The amount due from immediate holding company is unsecured, interest free and repayable upon demand.

The amount due from subsidiaries and associates are unsecured, interest free and repayable upon demand.

20. NEGOTIABLE INSTRUMENTS OF DEPOSIT

	Group and Company	
	2010	2009
	RM'000	RM'000
Negotiable instruments of deposit	139,206	287,466

Negotiable instruments of deposit ("NIDs") are deposits placed for its yield and are held to maturity. The principal of the instrument is protected if held to maturity. The above NIDs will mature within one year. If the NIDs are redeemed or sold prior to maturity, certain amount from the initial deposits may be forfeited.

21. CASH AND BANK BALANCES

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash on hand and at banks	676,107	845,724	625,536	819,542
Term deposits with:				
- Licensed banks	1,035,151	1,125,353	1,012,938	1,098,880
- Other financial institutions	374,193	693,782	374,193	693,782
Cash and bank balances	2,085,451	2,664,859	2,012,667	2,612,204
Less: Deposits pledged with banks	(161,674)	(215,497)	(161,674)	(215,497)
	1,923,777	2,449,362	1,850,993	2,396,707

Included in cash and bank balances as at 31 December 2010 is RM161,674,000 (2009: RM215,497,000) deposits pledged for banking facilities, held within the Group's and the Company's cash and bank balances, which are not immediately available for use in the business.

The range of interest rates of the term deposits as at 31 December 2010 is disclosed in Note 39(b).

The range of remaining maturities of the term deposits as at 31 December 2010 for the Group and Company is 1 to 316 (2009: 1 to 316) days.

Other financial institutions are investment banks in Malaysia and other foreign banks.

22. SALES IN ADVANCE OF CARRIAGE

Sales in advance of carriage represents the value of unutilised tickets up to 12 months.

23. DEFERRED REVENUE

Deferred revenue represents the fair value allocated to the mileage awards as at 31 December 2010.

24. EMPLOYEE BENEFITS

Employee share options scheme (“ESOS”)

The MAS ESOS is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 23 April 2007. The ESOS was launched on 21 May 2007 and is to be in force for a period of 5 years from the effective date.

(a) The salient details of the ESOS are as follows:

(i) Offer

The offer is made to any eligible employee selected based on the criteria of allocation at the discretion of the ESOS Committee. Each offer shall be made in writing and is personal to the eligible employee and is non-assignable and non-transferable.

(ii) Maximum number of shares available under the ESOS

The total number of the new ordinary shares in MAS which has a par value of RM1.00 each (“MAS Shares”) which may be made available under the ESOS shall not exceed 10% of the total issued and paid-up share capital comprising ordinary shares of the Company at the time of offer.

In the event that the number of new MAS Shares granted under the ESOS exceeds the aggregate of 10% of the issued and paid-up share capital of the Company, no further option shall be offered until the number of new MAS Shares to be issued under the ESOS falls below 10% of the Company’s issued and paid-up share capital.

(iii) Eligibility

The selection of any director or employee for the participation of the ESOS shall be at the discretion of the ESOS Committee based on the eligibility criteria stipulated in the By-Laws.

Any allocation of option under the ESOS to any person who is a Director of the Company or persons connected to such director, major shareholder or chief executive officer or the holding company shall require the prior approval of the shareholders of the Company in a general meeting.

Any eligible employee who has accepted the offer under the ESOS shall not be entitled to participate in any other share option scheme which may be implemented by any other company in the Group during the duration of the ESOS.

(iv) Termination of option

In the event the grantee ceased to be in the employment of the Group such option shall cease to be valid without any claims against the Company, unless approved otherwise by the ESOS Committee.

24. EMPLOYEE BENEFITS (CONTINUED)

Employee share options scheme (Continued)

(a) The salient details of the ESOS are as follows: (continued)

(v) Duration and termination of the ESOS

The ESOS shall be in force for a period of 5 years from the effective date of the scheme. The ESOS Committee shall have the discretion, to extend the tenure of the ESOS for another 3 years or shorter immediately from the expiry of the first 5 years. The ESOS may be terminated by the Company upon recommendation of the ESOS Committee at any time during the continuance of ESOS. Upon such termination, the unexercised or partially exercised options shall be deemed terminated and be null and void.

(vi) Maximum allowable allotment

The number of MAS Shares allocated, in aggregate to the directors and senior management of the Group shall not exceed 50% of the total MAS Shares available under the ESOS. The number of MAS Shares allocated to any eligible employee who, either singly or collectively through persons connected with the eligible employee, holds 20% or more in the issued and paid-up share capital of the Company, shall not exceed 10% of the total MAS Shares available under the ESOS.

(vii) Subscription price

The subscription price upon the exercise of the option under the ESOS shall be the weighted average market price of the MAS Shares for the 5 Market Days immediately preceding the offer date, or the par value of the MAS Shares, whichever is higher.

(viii) Exercise of option

An option granted to an eligible employee is exercisable in the following manner:

- Offer in Year 1 of the option period

Percentage of option exercisable with each year from the date of the Offer				
Year 1	Year 2	Year 3	Year 4	Year 5
40%	30%	30%	-	-

- Offer in Year 2 of the option period

Percentage of option exercisable with each year from the date of the Offer				
Year 1	Year 2	Year 3	Year 4	Year 5
-	40%	30%	30%	-

- Offer in Year 3 of the option period

Percentage of option exercisable with each year from the date of the Offer				
Year 1	Year 2	Year 3	Year 4	Year 5
-	-	40%	30%	30%

24. EMPLOYEE BENEFITS (CONTINUED)**Employee share options scheme (Continued)****(a) The salient details of the ESOS are as follows: (continued)****(ix) Rights attaching to the new MAS shares**

The new MAS Shares to be allotted upon the exercise of an option shall, upon allotment and issue, rank pari passu in all respects with the existing ordinary shares of the Company, save and except that the new MAS Shares will not be entitled to any dividends, rights and allotments and/or other distributions which entitlement date precedes the date of allotment of the said shares.

(x) Alteration of share capital

In the event of any alteration in the capital structure of the Company during the option period, whether by way of a rights issue*, bonus issue or other capitalisation issue, consolidation or subdivision of MAS Shares or reduction of capital or any other variation of capital, the Company shall adjust the number of MAS Shares which a grantee is entitled to subscribe for upon the exercise of each option and/or the subscription price.

The above shall not be applicable where an alteration in the capital structure of the Company arises from any of the following:

- (a) an issue of new MAS Shares or other securities convertible into MAS Shares or rights to acquire or subscribe for MAS Shares in consideration or part consideration for an acquisition of any other securities, assets or business;
- (b) a special issue of new MAS Shares to Bumiputera investors nominated by Ministry of International Trade and Industry, Malaysia and/or other government authority to comply with the Government policy on Bumiputera capital participation;
- (c) a private placement/restricted issue of new MAS Shares by the Company;
- (d) an issue of new MAS Shares arising from the exercise of any conversion rights attached to securities convertible to MAS Shares or upon exercise of any rights including warrants (if any) issued by the Company;
- (e) an issue of new MAS Shares upon exercise of options pursuant to the ESOS; and
- (f) a share buy-back arrangement by the Company, pursuant to Section 67A of the Act.

24. EMPLOYEE BENEFITS (CONTINUED)**Employee share options scheme (Continued)****(a) The salient details of the ESOS are as follows: (continued)****(x) Alteration of share capital (continued)**

- * Subsequent to the commencement of the ESOS, MAS had implemented a Rights Issue in November 2007 and February 2010. Pursuant to Paragraphs 13.1 and 13.9(e) in the by-laws, MAS has made the relevant adjustments to both the exercise price of the options and the number of the options allocated to maintain the value of the options in light of the alteration of its capital structure by way of a Rights Issue.

(xi) Utilisation of proceeds

The proceeds arising from the subscription of the options by the eligible employee shall be utilised as working capital of the Group.

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the financial year:

	Number of share options ('000)							
	WAEP RM	At 1 January	Granted	Exercised	Adjusted[#]	Cancelled	At 31 December	Exercisable at 31 December
2010								
2007 Options	3.88/5.09	26,829	-	-	8,365	(2,684)	32,510	32,510
2008 Options	2.83/3.71	104,921	-	-	32,705	(5,190)	132,436	132,436
2009 Options	2.44/3.20	1,192	-	-	-	(1,192)	-	-
2010 Options	2.44	-	2,893	-	-	-	2,893	2,893
		132,942	2,893	-	41,070	(9,066)	167,839	167,839
2009								
2007 Options	5.09	28,651	-	-	-	(1,822)	26,829	26,829
2008 Options	3.71	108,805	-	-	-	(3,884)	104,921	104,921
2009 Options	3.20	-	1,192	-	-	-	1,192	1,192
		137,456	1,192	-	-	(5,706)	132,942	132,942

[#] Refer to Note 24 (a)(x).

24. EMPLOYEE BENEFITS (CONTINUED)**Employee share options scheme (Continued)****(a) The salient details of the ESOS are as follows: (continued)**

Movements in share option reserve on share options granted under ESOS during the financial year were as follows:

	Group and Company
	RM'000
2010	
At 1 January	87,752
Grant during the year	636
At 31 December	<u>88,388</u>
2009	
At 1 January	76,202
Grant during the year	
- Company	10,805
- Subsidiaries	745
At 31 December	<u>87,752</u>

(b) Details of share options outstanding at the end of the financial year:

	Exercise price RM	Exercise period
2010		
2007 Options	3.88	05.11.2007 - 14.05.2012
2008 Options	2.83	30.06.2009 - 14.05.2012
2009 Options	2.44	22.02.2010 - 14.05.2012
2009		
2007 Options	5.09	05.11.2007 - 14.05.2012
2008 Options	3.71	30.06.2009 - 14.05.2012
2009 Options	3.20	22.02.2010 - 14.05.2012

24. EMPLOYEE BENEFITS (CONTINUED)**Employee share options scheme (Continued)****(c) Fair value of share options granted**

The fair value of share options granted during the financial year was estimated by an external valuer using a binomial model, taking into account the terms and conditions upon which the options were granted. The fair value of share options measured at grant date and the assumptions are as follows:

	2010	2009
Fair value of share options granted on		
- 25 August 2010 (RM/share option)	0.19	-
- 4 December 2009 (RM/share option)	-	0.53
Share price (RM)	2.03	3.07
Exercise price (RM)	2.44	3.20
Expected volatility (%)	33.23	34.99
Expected life (years)	2.20	2.00
Attrition rate (%)	4.55	4.55
Exercise multipliers (times)	1.50	1.50
Risk free rate (%)	3.80	3.80
Expected dividend yield (%)	0.46	0.46

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the option grant were incorporated into the measurement of fair value.

25. TRADE AND OTHER PAYABLES

	Group			Company		
	2010 RM'000	2009 RM'000 Restated	2008 RM'000 Restated	2010 RM'000	2009 RM'000 Restated	2008 RM'000 Restated
Current						
Trade						
Trade payables	1,596,540	1,470,132	1,596,536	1,453,434	1,340,090	1,390,543
Due to immediate holding company	-	96,294	-	-	96,294	-
Due to subsidiaries	-	-	-	256,080	85,409	320,415
Due to associates	58,048	52,669	22,432	58,048	52,669	25,686
	1,654,588	1,619,095	1,618,968	1,767,562	1,574,462	1,736,644
Non-trade						
Other payables	276,759	207,223	297,528	232,669	185,826	263,166
Accruals	287,718	255,321	290,106	252,383	237,096	258,687
	564,477	462,544	587,634	485,052	422,922	521,853
	2,219,065	2,081,639	2,206,602	2,252,614	1,997,384	2,258,497

The normal trade credit terms granted to the Group and Company ranges from 7 to 90 (2009: 14 to 90) days.

The amounts due to immediate holding company was unsecured, interest free and was repayable upon demand.

The amounts due to subsidiaries and associates are unsecured, interest free and under normal trade credit terms.

Included in other payables is Redeemable Preference Shares of RM500 (2009: RM500)

26. PROVISIONS

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
At 1 January	902,295	817,703	887,938	803,245
Additional provisions	735,577	489,901	734,247	490,002
Utilisation of provisions	(702,905)	(405,309)	(702,905)	(405,309)
At 31 December	934,967	902,295	919,280	887,938

26. PROVISIONS (CONTINUED)

Provisions of the Group and Company are mainly in respect of aircraft maintenance and overhaul costs of RM919,280,000 (2009: RM887,938,000). The Company leases a majority of its aircraft and engines whereby under the terms of the leases, these aircraft and engines are to be returned substantially in the original state when they were leased. Provisions are made based on the estimated hours flown and estimated costs of maintenance required. These estimates are based on past experiences and are regularly reviewed to ensure they approximate actual costs.

27. BORROWINGS

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Current				
Unsecured				
Revolving credit	50,000	160,000	50,000	160,000
Term loans	118,613	100,252	118,613	100,252
Secured				
Term loan	22,356	24,148	-	-
Finance leases (Note 29)	102,898	31,118	124,204	53,996
	293,867	315,518	292,817	314,248
Non-current				
Unsecured				
Term loans	802,598	911,882	802,598	911,882
RCPS Liability Component (Note 28)	407,116	396,040	407,116	396,040
Secured				
Term loan	193,720	240,509	-	-
Finance leases (Note 29)	2,011,479	455,631	2,200,991	690,288
	3,414,913	2,004,062	3,410,705	1,998,210
	3,708,780	2,319,580	3,703,522	2,312,458

The range of interest rates as at the reporting date and the maturity profile of the above interest-bearing loans and borrowings are disclosed in Note 39(b).

The secured term loan and finance leases of the Group and the Company are secured by certain aircraft of the Group and the Company as disclosed in Note 11.

28. REDEEMABLE CONVERTIBLE PREFERENCE SHARES ("RCPS")

On 31 October 2007, the Company issued 417,747,955 RCPS of RM0.10 each at an issue price of RM1.00 each. The total proceeds received from the issuance of the RCPS is split between a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated by discounting the future estimated cash flows at the prevailing market interest rate available to the Group then. The difference between the total proceeds received from the issuance of the RCPS and the fair value assigned to the liability component, representing the conversion option is accounted for in shareholders' equity.

The liability component of the RCPS is thereafter measured and accounted for under the effective interest rate method, whereby an annual interest is accrued at the same rate as the discount rate used in estimating the fair value of the liability component mentioned above. The accrued interest is recognised in the profit or loss.

The RCPS are accounted for in the statements of financial position of the Group and of the Company as follows:

	Group and Company	
	2010	2009
	RM'000	RM'000
RCPS - liability component		
At 1 January	396,040	373,336
Interest accrued - Recognised in the profit or loss (Note 6)	24,226	23,530
Cash settlement	(696)	(518)
Dividend paid	(12,454)	-
RCPS surrendered for conversion by RCPS holders	-	(308)
At 31 December	407,116	396,040
RCPS - equity component		
At 1 January/31 December	58,076	58,076

The following are the salient terms of the RCPS:

- (a) Conversion Period - four years commencing from the first anniversary after the date of issuance on 31 October 2007.
- (b) Conversion Price - fixed at RM3.09 per MAS share, which is the adjusted conversion price as a result of the Rights Issue, as disclosed in Note 30(b) or such adjusted price as may be applicable from time to time.
- (c) Conversion Right - each RCPS carries the entitlement to convert into new MAS Shares at the Conversion Price through the surrender of the RCPS.

28. REDEEMABLE CONVERTIBLE PREFERENCE SHARES ("RCPS") (CONTINUED)

The following are the salient terms of the RCPS: (continued)

- (d) Dividend - a non-cumulative preference dividend rate of 30% per annum on the par value of RCPS, shall be payable out of post taxation profits.
- (e) Ranking of the RCPS - The RCPS shall rank pari passu amongst themselves. On a winding-up or upon a reduction of capital or other return of capital (other than on redemption or on the exercise of the Cash Settlement Option):
 - (i) the RCPS shall confer on the holder thereof the right to receive, in priority to the holders of any other class of shares (except for the Special Rights Redeemable Preference Share ("Special Share") and Redeemable Preference Shares ("RPS") of RM0.10 each) in the Company, cash repayment in full of the nominal amount (and the premium payable and the amount of any dividend that have been declared and remaining in arrears) of that RCPS; and
 - (ii) the RCPS shall not confer on the holders thereof the right to participate in any surplus capital or surplus profits.
- (f) Ranking new MAS Shares to be issued pursuant to the conversion of the RCPS, shall, upon allotment and issue, rank pari passu in all respects with the existing MAS Shares, save and except that they shall not be entitled to participate in any right, allotment and/or any other distributions, the entitlement date of which is prior to the date of allotment of the new MAS Shares. In addition, the new MAS Shares to be issued pursuant to the conversion of the RCPS shall not be entitled to participate in any dividend which may be declared in respect of the financial year immediately preceding the exercise of the RCPS notwithstanding the entitlement date thereof may fall on a date after the exercise of the RCPS.
- (g) Any fraction of a new MAS Share resulting from a conversion shall be forfeited and be applied for the benefit of the Company and the Company shall not be under any obligation to make cash payment of the value of such fraction or cause the RCPS holder's securities account to be credited for such fraction.
- (h) Redemption Date - any RCPS, which has not been converted during the Conversion Period will be automatically redeemed by the Company at the issue price of RM1.00 each within thirty (30) days after the Conversion Period ends.
- (i) Cash Settlement Option - The Company has the right to provide RCPS holders who elect to convert their RCPS into MAS Shares, payment in cash equal to the value of their new MAS Shares entitlements, based on the weighted average market price of MAS Shares for the ten (10) market day period ending on and inclusive of the date of the receipt of the relevant conversion notice by the Company.

29. FINANCE LEASE LIABILITIES

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Future minimum lease payments:				
Not later than one year	244,341	47,035	272,922	78,854
Later than one year and not later than five years	1,286,967	196,383	1,401,315	323,657
Later than five years	1,360,037	374,150	1,462,981	520,550
Total minimum future lease payments	2,891,345	617,568	3,137,218	923,061
Less: Future finance charges	(776,968)	(130,819)	(812,023)	(178,777)
Present value of finance lease liabilities	2,114,377	486,749	2,325,195	744,284
Analysis of present value of finance lease liabilities:				
Not later than one year	102,898	31,118	124,204	53,996
Later than one year and not later than five years	863,745	137,855	957,034	238,033
Later than five years	1,147,734	317,776	1,243,957	452,255
	2,114,377	486,749	2,325,195	744,284
Less: Amount due within twelve months	(102,898)	(31,118)	(124,204)	(53,996)
Amount due after twelve months	2,011,479	455,631	2,200,991	690,288

The finance lease liabilities are in respect of leasing of aircraft. Under the terms of the finance lease, the Group has the option to buy the aircraft from the lessor at a predetermined price.

In the event the Lessee exercises the option to buy the aircraft at the purchase option date, the purchase price comprises total sum of the purchase option price and rent of the aircraft due and payable on the purchase option date.

The finance lease of the Group and the Company has tenure ranging between 5 to 10 years (2009: 8 to 10 years). Details of the range of interest rate as at the reporting date and the maturity profile of the finance lease are disclosed in Note 39(b).

The finance lease of the Company in respect of amount due to certain subsidiaries is RM1,136,983,000 (2009: RM744,284,000) and to its immediate holding company is RM998,212,000 (2009: RM Nil).

30. SHARE CAPITAL

Group and Company	Number of shares		Amount	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Authorised:				
Ordinary shares of RM1.00 each	9,000,000	9,000,000	9,000,000	9,000,000
One Special Rights Redeemable Preference Share of RM1.00 each (Note a)	1 Share	1 Share	RM1	RM1
At 1 January/31 December Redeemable Convertible Preference Shares of RM0.01 each	100,000,000	100,000,000	1,000,000	1,000,000
Redeemable Convertible Preference Shares of RM0.10 each	418,000	418,000	41,800	41,800
Redeemable preference shares of RM0.10 each	1,000	1,000	100	100
	109,419,000	109,419,000	10,041,900	10,041,900
Issued and fully paid:				
Ordinary shares of RM1.00 each				
At 1 January	1,671,078	1,671,002	1,671,078	1,671,002
Issued during the year:				
Rights issue (Note b)	1,671,078	-	1,671,078	-
Conversion of RCPS	-	76	-	76
At 31 December	3,342,156	1,671,078	3,342,156	1,671,078
One Special Rights Redeemable Preference Share of RM1.00 each (Note a)	1 Share	1 Share	RM1	RM1
	3,342,156	1,671,078	3,342,156	1,671,078

(a) Special rights redeemable preference share ("Special Share")

The Special Share would enable the Government through the Minister of Finance Incorporated ("MoF") to ensure that certain major decisions affecting the operations of the Company are consistent with the Government's policy. The Special Share, which may only be held by the MoF or its successors or any Minister, representative, or any person acting on behalf of the Government of Malaysia, carries certain special rights as provided by Article 5 of the Company's Articles of Association (as amended at the Extraordinary General Meeting held on 19 April 1995). These special rights include:

- (i) the right to appoint not more than three persons at any time as directors of the Company;

30. SHARE CAPITAL (CONTINUED)**(a) Special rights redeemable preference share (“Special Share”)** (continued)

- (ii) the right to repayment of the capital paid up on the Special Share in priority to any other member in the event of a winding-up of the Company; and
- (iii) the right to require the Company to redeem the Special Share at par at any time.

Certain matters, in particular the alterations of specified Articles of Association of the Company, require the prior approval of the holder of the Special Share. The Special Share does not carry any right to vote at General Meetings but the holder is entitled to attend and speak at such meetings.

(b) Rights issue

During the financial year, the Company increased its issued and paid-up capital from RM1,671,078,120 to RM3,342,156,240 by way of issuance of 1,671,078,120 ordinary shares of RM1.00 each (“Rights Shares”) at an issue price of RM1.60 per ordinary share for:

- (a) partial financing for the acquisition of up to 25 wide body aircraft;
- (b) general working capital;
- (c) repayment of bank borrowings; and
- (d) expenses relating to the Rights Shares issue.

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

31. RESERVES

The nature and purpose of each category of reserves are as follows:

(a) Share premium reserve

The share premium reserve relates to the amount paid by shareholders for shares in excess of the nominal value.

(b) Equity component of RCPS

This reserve represents the fair value of the equity component of RCPS, as determined on the date of issue.

(c) Employee share option reserve

The employee share option reserve represents the equity-settled share options granted to employees. This reserve is made up of the cumulative value of services received from employees recorded on grant of share options.

(d) Cash flow hedge reserves

The cash flow hedge reserves contain the effective portion of the gain or loss on hedging instruments in cash flow hedges.

(e) General reserve

The general reserve relates to transfers made from retained profits in prior years.

32. DEFERRED TAXATION

	Group	
	2010	2009
	RM'000	RM'000
At 1 January	(34,026)	345
Recognised in the profit or loss (Note 9)	30,533	(34,371)
At 31 December	(3,493)	(34,026)
Presented after appropriate offsetting as follows:		
Deferred tax assets	(3,495)	(34,026)
Deferred tax liabilities	2	-
	(3,493)	(34,026)

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

Deferred tax liabilities of the Group:

	Accelerated capital allowances RM'000
At 1 January 2010	4,276
Recognised in the profit or loss	(1,342)
At 31 December 2010	2,934
At 1 January 2009	3,853
Recognised in the profit or loss	423
At 31 December 2009	4,276

Deferred tax assets of the Group:

	Unused tax losses and unabsorbed capital allowances RM'000	Provisions RM'000	Total RM'000
At 1 January 2010	(35,852)	(2,450)	(38,302)
Recognised in the profit or loss	34,810	(2,935)	31,875
At 31 December 2010	(1,042)	(5,385)	(6,427)
At 1 January 2009	(775)	(2,733)	(3,508)
Recognised in the profit or loss	(35,077)	283	(34,794)
At 31 December 2009	(35,852)	(2,450)	(38,302)

32. DEFERRED TAXATION (CONTINUED)

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Unused tax losses	773,811	773,811	773,811	773,811
Unabsorbed capital allowances	936,309	936,309	936,309	936,309
Other deductible temporary differences	1,221,381	1,262,239	1,221,381	1,262,239
	2,931,501	2,972,359	2,931,501	2,972,359

The unused tax losses and unabsorbed capital allowances are available indefinitely for offsetting against future taxable profits of the respective companies in which those items arose, subject to no substantial changes in shareholdings on those subsidiaries under the Income Tax Act, 1967 and guidelines issued by the tax authority.

The Company has been granted an extension of the tax exemption status by the Ministry of Finance on its chargeable income in respect of all sources of income. As such, deferred tax assets have not been recognised in respect of the unused tax losses, unabsorbed capital allowances and other deductible temporary differences.

33. OPERATING LEASE ARRANGEMENTS

(a) The Company as lessor

The Company has entered into non-cancellable operating lease agreements on lease of aircraft and building. These leases have remaining non-cancellable lease terms of between 1 to 10 years.

The future minimum lease payments receivable under non-cancellable operating leases contracted as at reporting date but not recognised as receivables, are as follows:

	Company	
	2010 RM'000	2009 RM'000
Due not later than one year	185,395	138,835
Due later than one year and not later than five years	251,206	450,784
Due later than five years	230,795	2,330
	667,396	591,949

33. OPERATING LEASE ARRANGEMENTS (CONTINUED)**(b) The Group and Company as lessee**

The Group and Company has entered into non-cancellable operating lease agreements on lease of aircraft and for the use of land and office buildings. Leases of aircraft have remaining non-cancellable lease terms of between 5 to 8 years while leases for the use of land and office buildings have an average life between 3 to 50 years with no purchase option included in the agreements.

The future minimum lease payments payables under non-cancellable operating leases contracted as at reporting date but not recognised as liabilities, are as follows:

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Due not later than one year	1,981,291	1,782,517	1,730,547	1,483,803
Due later than one year and not later than five years	4,970,752	4,121,216	4,294,509	3,843,872
Due later than five years	5,604,595	5,435,217	5,145,745	5,034,021
	12,556,638	11,338,950	11,170,801	10,361,696

34. SEGMENTAL INFORMATION

(a) Business segments

The Group operates predominantly in two business segments, being airline operations and cargo services:

- (i) Airline operations - operation of aircraft for passenger
- (ii) Cargo services - operation of aircraft for cargo and mail services

Other business segments include, catering, engineering, computerised reservation services, trucking and warehousing services, retailing of goods, terminal charges and tour and travel related activities, none of which are of a sufficient size to be reported separately.

The Directors are of the opinion that all inter-segment transactions have been entered into in the normal course of business. Belly space charges from Airline to Cargo are based on an internal pricing policy which is supported and reviewed by external studies prepared by an industry expert. All other inter-segment transactions have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties. These transactions are eliminated on consolidation.

34. SEGMENTAL INFORMATION (CONTINUED)**(a) Business segments** (continued)

31 December 2010	Airline operations RM'000	Cargo services RM'000	Others RM'000	Elimination RM'000	Total RM'000
Revenue					
External sales	10,560,906	2,356,730	62,811	-	12,980,447
Inter-segment sales	1,088,462	-	45,349	(1,133,811)	-
Total revenue	<u>11,649,368</u>	<u>2,356,730</u>	<u>108,160</u>	<u>(1,133,811)</u>	<u>12,980,447</u>
Results					
Segment results	174,176	142,736	26,097	59,848	402,857
Finance costs					(138,402)
Share of results of associates					27,728
Share of results of jointly controlled entity					(10,147)
Profit before taxation					<u>282,036</u>
Taxation					(44,690)
Net profit for the year					<u>237,346</u>
Assets					
Segment assets	12,456,096	277,550	881,520	(1,290,749)	12,324,417
Investments in associates	101,804	-	-	-	101,804
Investment in jointly controlled entity					2,360
Unallocated assets					3,495
Consolidated total assets					<u>12,432,076</u>

34. SEGMENTAL INFORMATION (CONTINUED)**(a) Business segments** (continued)

31 December 2009	Airline operations RM'000	Cargo services RM'000	Others RM'000	Elimination RM'000	Total RM'000
Revenue					
External sales	9,444,579	1,824,522	71,809	-	11,340,910
Inter-segment sales	809,551	-	66,106	(875,657)	-
Total revenue	10,254,130	1,824,522	137,915	(875,657)	11,340,910
Results					
Segment results	708,242	(147,962)	(12,967)	1,027	548,340
Finance costs					(68,148)
Share of results of associates					13,381
Share of results of jointly controlled entity					(1,741)
Profit before taxation					491,832
Taxation					31,116
Net profit for the year					522,948
Assets					
Segment assets	8,815,571	118,420	956,559	(1,453,476)	8,437,074
Investments in associates	78,976	-	-	-	78,976
Investment in jointly controlled entity					1,798
Unallocated assets					34,026
Consolidated total assets					8,551,874

34. SEGMENTAL INFORMATION (CONTINUED)**(b) Geographical segments**

The following table provides an analysis of the Group's revenue by geographical segments:

	2010	2009
	RM'000	RM'000
Revenue		
Orient and North America	1,939,951	1,616,756
Europe and Middle East	2,582,030	2,212,061
Australia and New Zealand	1,405,521	1,111,149
Malaysia	1,770,159	1,599,494
Asia	1,567,082	1,279,980
Africa and South America	230,803	176,448
	9,495,546	7,995,888
Other revenue	3,484,901	3,345,022
	12,980,447	11,340,910

The Group's revenue by geographical segment is based on route flown revenue.

Assets, which consist principally of flight and ground equipment that support the entire worldwide transportation system, are mainly located in Malaysia. An analysis of assets and capital expenditure of the Group by geographical distribution is therefore not included.

35. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) In addition to transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year.

Expenses	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Expenses charged by subsidiaries:				
- Trucking, clearance and warehousing services	-	-	42,964	37,946
- Other inflight services	-	-	11,883	11,225
- Hire of aircraft	-	-	74,518	85,958
- Payment on behalf	-	-	23,002	6,216
- Inflight meals	-	-	8,774	8,681
- Rental of premises	-	-	3,043	2,560
- Handling and cleaning services	-	-	2,292	2,408
GEESM, an associate				
- Engine maintenance services rendered and purchase of aircraft spares and equipment	331,703	324,054	331,703	324,054
LSG, an associate				
- Purchase of meals and beverages	229,284	200,365	229,284	200,365
Abacus International Holding Limited, a company in which the Company has equity interest				
- Computer reservation system access fee	35,353	38,403	35,353	38,403
Hamilton, an associate				
- Aircraft maintenance services	12,035	11,688	12,035	11,688
Evergreen Sky Catering Corporation, a company in which the Company has equity interest				
- Catering services	4,884	4,618	4,884	4,618
Honeywell, an associate				
- Aircraft maintenance services	4,721	5,897	4,721	5,897
Pan Asia Pacific Aviation Services Limited, an associate				
- Transit and cabin services	4,432	4,898	4,432	4,898
Taj Madras Flight Kitchen Limited, an associate				
- Catering services	1,355	1,206	1,355	1,206
Miascor Catering Services, a company in which the Company has equity interest				
- Catering services	1,269	879	1,269	879

35. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) In addition to transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year. (continued)

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Income				
Dividend received from:				
- associated companies	-	-	5,713	9,781
- subsidiaries	-	-	3,477	4,075
Income received from subsidiaries:				
- hire of belly space	-	-	677,951	655,552
- aircraft maintenance and overhaul	-	-	155,894	122,329
- hire of aircraft	-	-	96,244	132,403
- fuel and oil	-	-	44,959	37,002
- rental of premises	-	-	41,545	41,481
- administrative charges	-	-	25,746	21,955
- interest income on finance lease	-	-	17,001	17,779
- handling and cleaning services	-	-	5,935	5,203
- information technology support	-	-	13,378	-
- aircraft insurance	-	-	3,296	2,684
LSG				
- Rental and shared services income received	19,593	18,070	19,593	18,070
GEESM				
- Rental and shared services income received	13,224	15,048	13,028	15,048

Transactions with holding company and its fellow subsidiaries

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
With PMB:				
- Purchase of aircraft	1,544,798	-	1,544,798	-
- Lease rental paid/payable	238,785	618,687	238,785	618,687
- Prepaid lease	190,000	-	190,000	-
Lease rental paid/payable to Aircraft Business Malaysia Sdn. Bhd.	236,877	246,032	236,877	246,032

The above transactions and transactions detailed elsewhere were undertaken at mutually agreed terms between the parties in the normal course of business and the terms and conditions are established under negotiated terms.

35. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Compensation of key management personnel ("KMP")

Total KMPs' remuneration (including Board of Directors)

	Group and Company	
	2010	2009
	RM'000	RM'000
Total	5,236	5,795

KMPs' remuneration (excluding Board of Directors)

	Group and Company	
	2010	2009
	RM'000	RM'000
Salaries and other emoluments	1,504	1,967
Bonus	1	45
Defined contribution plan	224	302
Share options granted under ESOS	-	152
	1,729	2,466

For the details of Board of Directors' remuneration, please refer to Note 8.

The share options were granted on the same terms and conditions as those offered to the other employees of the Group (Note 24).

Significant related party transactions with KMPs (including Board of Directors)

There were no significant related party transactions with KMPs (including Board of Directors) during the financial year.

36. COMMITMENTS

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Due not later than one year				
- approved and contracted for	4,387,043	758,259	4,360,086	756,901
- approved but not contracted for	16,541	5,000	-	-
	4,403,584	763,259	4,360,086	756,901

36. COMMITMENTS (CONTINUED)

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Due later than one year				
- approved and contracted for	6,780,963	4,135,367	6,702,972	4,059,929
- approved but not contracted for	152,457	4,663,470	117,524	4,663,470
	6,933,420	8,798,837	6,820,496	8,723,399
Total capital commitments				
- approved and contracted for	11,168,006	4,893,626	11,063,058	4,816,830
- approved but not contracted for	168,998	4,668,470	117,524	4,663,470
	11,337,004	9,562,096	11,180,582	9,480,300

The outstanding capital commitments of the Group and the Company are as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Purchase of aircraft	10,837,331	9,181,922	10,837,331	9,181,922
Others	499,673	380,174	343,251	298,378
	11,337,004	9,562,096	11,180,582	9,480,300

37. CONTINGENT LIABILITIES

(a) Guarantees (unsecured)

	Group and Company	
	2010 RM'000	2009 RM'000
Bank guarantee given to third parties in respect of services provided, and derivatives contracts acquired	353,048	419,828
Bank guarantee given to PMB on aircraft lease	18,854	20,727
Performance bonds given in respect of services provided to third party	1,896	1,896
	373,798	442,451

37. CONTINGENT LIABILITIES (CONTINUED)

(b) Liabilities assumed by the immediate holding company

	Group and Company	
	2010	2009
	RM'000	RM'000
Term loan		
- secured	-	11,422
- unsecured	47,790	73,130
	47,790	84,552

In connection with the Widespread Asset Unbundling ("WAU") exercise undertaken by the Company in 2002, the Company continues to be the named borrower of term loan which have been taken over by the immediate holding company and is still contractually bound to meet the liability in the event the immediate holding company defaults on the payments. As such, the outstanding balance of the term loan assumed by the immediate holding company is included within the Group's and the Company's contingent liabilities.

The above term loan matures as follows:

	2010	2009
	RM'000	RM'000
Due not later than one year	12,595	26,675
Due later than one year and not later than five years	35,195	45,761
Due later than five years	-	12,116
	47,790	84,552

- (c) On 11 February 2004, the Company filed a suit at the High Court of Malaya against Air Maldives Limited ("AML") to claim for the sum of USD35.5 million being unpaid fees and charges payable by AML to the Company for airline related services rendered by MAS pursuant to numerous agreements. The writ of summons was served by the Company against AML on 25 July 2007. AML entered appearance on 22 October 2007. AML had on 19 March 2009 served their defence together with a counterclaim of USD43.6 million on the Company.

On 15 May 2007, the Company received Notice from the Secretariat of the ICC International Court of Arbitration in Paris, France that Air Maldives Ltd. ("AML") had commenced arbitration proceedings against the Company for alleged continuous breaches of the Company's duties under a Management Agreement between the Company and AML dated 16 January 1996 ("Arbitration").

MAS has entered into a Settlement Agreement dated 14 February 2010 with the Government of the Republic of Maldives (on its own behalf, and as agent for and on behalf of AML) to discontinue and terminate all legal proceedings in respect of Kuala Lumpur High Court Civil Suit No. D7-22-13-2004 ("the Malaysian Suit") and International Chambers of Commerce Arbitration No. 14966/JEM ("the Singapore Arbitration"). The Tribunal in the Singapore Arbitration has been informed of the settlement to discontinue that arbitration on 1 March 2010.

37. CONTINGENT LIABILITIES (CONTINUED)

- (d) On 16 June 2005, Securiforce Sdn. Bhd. and Securiforce Hi-Tech Cargo Sdn. Bhd. (collectively, the "Plaintiffs") served a writ of summons and statement of claim on the Company and its wholly-owned subsidiary, MASKargo. The Plaintiffs' claim is for special damages of RM4.9 million and general damages of RM250 million as well as unspecified exemplary damages as a consequence of what is alleged by the Plaintiffs to be a termination by the Company, in breach of a purported contract consisting of various documents involving services rendered by the Plaintiffs to the Company and MASKargo.

MAS and MASKargo had on 27 April 2010 entered into a Settlement Agreement with the Plaintiffs for the full and final settlement of the disputes. With this Settlement Agreement, the Civil Suit was discontinued and withdrawn on 6 May 2010.

- (e) On 5 April 2006, the Company and MASKargo filed a civil suit in Malaysia against its former Executive Chairman, Tan Sri Tajudin bin Ramli and three other Defendants, Ralph Manfred Gotz, Uwe Juergen Beck and Wan Aishah binti Wan Hamid. The claim against the Defendants is for losses amounting to RM174.6 million for, amongst others, breach of fiduciary duties committed by the Defendants and conspiracy to defraud the Company. The First, Second and Fourth Defendants have filed applications to strike out the suit, whilst the third Defendant has applied to set aside the Service of the Amended Writ of Notice to be Served Out of Jurisdiction on him.

On 23 August 2010, the Court dismissed the First and Fourth Defendants' interlocutory applications to strike out the Plaintiff's claim. On 3 September 2010, the First Defendant served a Counterclaim seeking among others, damages of RM500 million for alleged defamation.

- (f) On 26 May 2006, the Company, MAS Golden Holidays Sdn Bhd and MAS Hotels and Boutiques Sdn Bhd (collectively, the "Plantiffs") filed a civil suit ("Original Suit") in the High Court at Kuala Lumpur against its former Executive Chairman, Tan Sri Tajudin bin Ramli and four other Defendants for damages of approximately RM90 million together with further damages to be assessed, resulting from inter alia breach of fiduciary duties and/or knowingly assisting or benefiting from such breach of fiduciary duties.

In response to the Original Suit, Tan Sri Tajudin bin Ramli, Promet (Langkawi) Resorts Sdn Bhd and Kauthar Venture Capital Sdn Bhd had on 9 October 2006 jointly filed and served a defence and counterclaim ("Counter Claim") on the Plaintiffs, the Company directors and the Government alleging that the Defendants in the Counter Claim (except for the Government) had conspired to injure them or had caused injury to them through malicious prosecution of the Original Suit.

- (g) On 27 December 2007, the Company and MASKargo were served with "Statement of Objections" from the European Commission ("EC") in relation to its freight investigation under Article 81 of the European Community Treaty, the general prohibition against anti-competitive behaviour. The Statement of Objections is a routine stage in the European Commission's investigations under the said Article 81 and is not a final determination of an infringement, nor does the Statement of Objections indicate any quantum of fines that might be ultimately imposed.

37. CONTINGENT LIABILITIES (CONTINUED)

(g) (continued)

On 9 November 2010, the EC terminated proceedings against MAS and MASkargo. Neither MAS or MASkargo has been found to have infringed European competition laws. As a result, neither MAS or MASkargo have been fined by the EC.

- (h) (i) Meor Adlin against MAS;
- (ii) Stephen Gaffigan against MAS;
- (iii) Micah Abrams against MAS;
- (iv) Donald Wortman against MAS;
- (v) Bruce Hut against MAS; and
- (vi) Dickson Leung against MAS;

Between 18 January and 26 March 2008, the Company had been served with various complaints filed in the United States District Court for the Northern District of California (San Francisco) and the United States District Court for the Central District of California (Los Angeles) filed on behalf of various Plaintiffs against the Company and a number of other airlines. The cases involve allegation of price fixing on transpacific passenger fares and related surcharges.

At this juncture, no infringement has been established. The served complaint does not make any mention of the quantum of damages sought against the Company. The Company has obtained legal advice in relation to the complaint and has entered into a joint defence agreement with the other defendants. The case is pending several legal issues including the outcome of Japan Airlines Co., Ltd.'s bankruptcy.

- (i) On 15 December 2008, the Company was served with a "Statement of Claim" from the Commerce Commission of New Zealand in relation to its air freight investigation under Section 27 of the Commerce Act. The Statement of Claim does not indicate any quantum of fines that might be ultimately imposed.

The Company and its lawyers had reviewed the Statement of Claim and filed its defence on 11 December 2009. The case is ongoing and will be expected to have its full hearing in August 2012.

- (j) On 16 February 2010, the Company at its offices in the United States, was served with a complaint filed in the United States District Court for the Eastern District of New York on behalf of Benchmark Export Services and six other plaintiffs against the Company and eleven other defendants. The case involves allegations of price fixing on airfreight shipping services and related surcharges.

At this juncture, no infringement has been established. The complaint does not mention the quantum of damages sought against the Company. The Company has obtained legal advice in relation to the complaint and is pursuing defence of the case accordingly.

37. CONTINGENT LIABILITIES (CONTINUED)

(k) On 9 April 2010, the Company was served with an "Application and Statement of Claim" from the Australian Competition and Consumer Commission ("ACCC") in relation to its air freight investigation on fuel and security surcharges under the Trade Practices Act, 1974. The Statement of Claim does not indicate any quantum of fines that might be ultimately imposed.

The Company is taking legal advice in relation to the Statement of Claim and has replied accordingly to ACCC. Our lawyers have indicated that the full hearing will be conducted in late 2011.

38. CONTINGENT ASSETS

The Company has the right to receive from PMB, 80% of the profit arising from the eventual realisation of aircraft unbundled to PMB under the widespread asset unbundling agreement ("WAU Agreement"). The profit will be computed based on the excess of the value realised over the decayed net book value of the aircraft and maintenance costs required in accordance with the contractual redelivery terms. The decayed net book value for each aircraft at future dates is stipulated in the WAU Agreement. Based on the published airline industry price data, the Company's share of profits on disposal if the respective aircraft were to be disposed as at 31 December 2010 is approximately RM159,652,000 (2009: RM250,325,000).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group operates globally and generates revenue in various currencies. The Group's airline operations carry certain financial and commodity risks, including the effects of changes in fuel prices, foreign currency exchange rates and interest rates. The Group's overall risk management approach is to mitigate the effects of such volatility on its financial performance and reflect an inclination towards risk averse policies. The Board periodically reviews and agrees on policies in managing each of these risks.

The Group's policy is not to trade in derivatives but to use these instruments to hedge against anticipated exposures.

(a) Fuel price risk

Fuel price risk is the risk that the future cash flows of the Group will fluctuate because of changes in market prices of fuel.

The Group's earnings are affected by changes in the price of jet fuel as its operating activities in the air transportation business require a continuous supply of fuel for its flights. The Group manages this risk by using instruments such as swaps, options and swaptions. The Group's risk management strategy is to maintain a competitive hedge with regards to its competitors. The Group's risk management policy is to hedge up to 36 months forward with specified maximum and minimum hedge coverage. The percentage hedge is guided by both competitive hedge policy and management judgement.

As at 31 December 2010, the Company has entered into various fuel hedging transactions for periods up to 31 March 2012 in lots totalling 4,485,000 barrels (2009: 16,444,000 barrels).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**(a) Fuel price risk** (continued)**Sensitivity analysis for fuel price risk**

The following table demonstrates the sensitivity of the Group's profit net of tax and equity to a reasonably possible change of USD10 per barrel in fuel price with all other variables held constant. The fuel price sensitivity analysis is based on fuel hedging contracts that are still outstanding as at the end of the financial year, as disclosed in Note 42. At the reporting date, if fuel price increases or decreases by USD10 per barrel, the effects are as follows:

Group and Company	Increase/(Decrease) 2010	
	Equity RM'000	Profit net of tax RM'000
Increase in USD10 per barrel	3,145	68,512
Decrease in USD10 per barrel	(2,803)	(96,082)

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group will fluctuate because of changes in market interest rates.

The Group's earnings are affected by changes in interest rates due to the changes in interest bearing financial assets and liabilities, and operating lease arrangements. The Group's policy in managing its interest rate risk is by maintaining a prudent mix of fixed and floating rate investments and borrowings. To manage this mix in a cost-effective manner, the Group enters into interest rate caps and swaps.

The following tables sets out the carrying amounts of assets/(liabilities), the range of interest rates per annum as at the reporting date and the remaining maturities of the Group's and of the Company's financial instruments that are exposed to interest rate risk.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Interest rate risk (continued)

2010 Group	Note	Effective interest rates %	Within 1 Year RM'000	1-2 Years RM'000	2-3 Years RM'000	3-4 Years RM'000	4-5 Years RM'000	More than 5 years RM'000	Total RM'000
Fixed rate:									
Term deposits	21	0.03-4.82	1,409,344	-	-	-	-	-	1,409,344
Term loans	27	2.98-3.02	22,356	23,036	23,737	24,460	25,205	97,282	216,076
Finance leases	29	2.32-9.91	49,842	70,088	74,996	80,268	150,249	1,057,734	1,483,177
Floating rate:									
Negotiable instruments of deposit	20	4.50-4.90	139,206	-	-	-	-	-	139,206
Revolving credit	27	3.68	50,000	-	-	-	-	-	50,000
Term loans	27	3.38-4.96	118,613	100,936	250,939	275,723	175,000	-	921,211
Finance leases	29	4.83-6.63	53,057	55,248	57,401	355,494	20,000	90,000	631,200
Company									
Fixed rate:									
Lease rental from a subsidiary	19	3.90-5.27	23,060	24,132	25,254	26,430	94,167	135,727	328,770
Term deposits	21	0.03-4.82	1,387,131	-	-	-	-	-	1,387,131
Finance leases	29	2.32-9.91	71,147	92,171	97,886	103,993	174,841	1,153,957	1,693,995
Floating rate:									
Negotiable instruments of deposit	20	4.50-4.90	139,206	-	-	-	-	-	139,206
Revolving credit	27	3.68	50,000	-	-	-	-	-	50,000
Term loans	27	3.38-4.96	118,613	100,936	250,939	275,723	175,000	-	921,211
Finance leases	29	4.83-6.63	53,057	55,248	57,401	355,494	20,000	90,000	631,200

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Interest rate risk (continued)

2009 Group	Note	Effective interest rates%	Within 1 Year RM'000	1-2 Years RM'000	2-3 Years RM'000	3-4 Years RM'000	4-5 Years RM'000	More than 5 years RM'000	Total RM'000
Fixed rate:									
Term deposits	21	0.05-5.25	1,819,135	-	-	-	-	-	1,819,135
Term loans	27	3.00	24,148	24,883	25,640	26,421	27,225	136,340	264,657
Finance leases	29	4.64-5.80	31,118	30,312	32,192	34,206	41,145	317,776	486,749
Floating rate:									
Negotiable instruments of deposits	20	4.20-6.35	287,466	-	-	-	-	-	287,466
Revolving credit	27	4.35-4.60	160,000	-	-	-	-	-	160,000
Term loans	27	2.98-4.96	100,252	100,974	100,936	176,713	355,155	178,104	1,012,134
Company									
Fixed rate:									
Lease rental from a subsidiary	19	4.70-4.80	19,464	-	-	-	20,474	423,966	463,904
Term deposits	21	0.05-5.25	1,792,662	-	-	-	-	-	1,792,662
Finance leases	29	3.60-5.80	53,996	55,224	57,697	61,158	63,954	452,255	744,284
Floating rate:									
Negotiable instruments of deposit	20	4.20-6.35	287,466	-	-	-	-	-	287,466
Revolving credit	27	4.35-4.60	160,000	-	-	-	-	-	160,000
Term loans	27	2.98-4.96	100,252	100,974	100,936	176,713	355,155	178,104	1,012,134

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**(b) Interest rate risk** (continued)**Sensitivity analysis for interest rate risk**

The following table demonstrates the sensitivity of the Group's profit net of tax and equity to a reasonably possible change of 25 basis point increase in interest rates with all other variables held constant. The sensitivity analysis includes interest bearing financial liabilities which are at floating rates and interest rate hedging contracts that are still outstanding as at the end of the financial year, as disclosed in Note 42. If the interest rate decreases by 25 basis point, the profit net of tax and equity would change by the same amount in an inversed manner.

Group and Company	Increase/(Decrease)	
	2010	
	Equity	Profit net
	RM'000	of tax
		RM'000
Increase in 25 basis points in market interest rates	(270)	(6,113)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of the Group will fluctuate because of changes in foreign exchange rates.

The Group is exposed to the effects of foreign exchange rate fluctuations because of its foreign currency denominated operating revenues and expenses. The Group's largest exposures are from United States Dollar ("USD"), Euro ("EUR"), Great Britain Pound ("GBP"), Japanese Yen ("JPY") and Australian Dollar ("AUD").

Approximately 58% of the Group's sales and almost 64% of the Group's costs are denominated in foreign currencies. The Group's trade receivables and trade payable balances at the reporting date have similar exposures.

In managing the foreign rate fluctuations, the Group's foreign exchange hedging policy is to hedge up to 12 months forward with specific maximum and minimum percentage of hedge coverage. This approach may mitigate some of the Company's exposure to transaction and translation foreign exchange gain and loss, but the policy is not designed to fully eliminate foreign exchange risk.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group and Company's profit net of tax and equity to a reasonably possible change of 1% strengthening of respective foreign currencies against the functional currency, with all other variables held constant. The sensitivity analysis includes significant outstanding foreign currency denominated monetary items with their translation at period end adjusted for a 1% change in foreign exchange rates and foreign currency hedging contracts that are still outstanding as at the end of the financial year, as disclosed in Note 42. If the relevant foreign currency weakens by 1% against the functional currency, the equity and profit before taxation would change by the same amounts in an inversed manner.

	Increase/(Decrease)			
	Group		Company	
	Equity RM'000	Profit net of tax RM'000	Equity RM'000	Profit net of tax RM'000
2010				
USD	18,997	(14,075)	18,997	(10,510)
EUR	(1,695)	2,299	(1,695)	2,409
GBP	(1,100)	(69)	(1,100)	(69)
JPY	(794)	356	(794)	356
AUD	(2,893)	199	(2,893)	199

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds.

The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group manages its liquidity risk by maintaining sufficient levels of cash or cash convertible investments and available credit facilities to meet its working capital requirements.

Surplus funds are mainly placed in high quality short term liquid instrument, usually term deposits. Some surpluses are placed in NIDs, which are principal protected deposits.

The table below analyses the Group's and Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

Group	Note	On						Total Contractual Cash Flow RM'000	Carrying amount RM'000
		demand or within 1 year RM'000	Between 1 and 2 years RM'000	Between 2 and 3 years RM'000	Between 3 and 4 years RM'000	Between 4 and 5 years RM'000	Over 5 years RM'000		
31 December 2010									
Non-derivative financial liabilities									
Trade and other payables	25	2,219,065	-	-	-	-	-	2,219,065	2,219,065
Term Loan	27	162,155	158,422	230,249	397,037	207,336	102,945	1,258,144	1,137,287
Finance Lease	29	244,341	247,078	246,280	540,485	253,124	1,360,037	2,891,345	2,114,377
Revolving credit	27	50,459	-	-	-	-	-	50,459	50,000
RCPS Liability Component	27	12,454	427,581	-	-	-	-	440,035	407,116
		<u>2,688,474</u>	<u>833,081</u>	<u>476,529</u>	<u>937,522</u>	<u>460,460</u>	<u>1,462,982</u>	<u>6,859,048</u>	<u>5,927,845</u>
Derivative financial liabilities									
Fuel hedging contracts	42	(26,772)	5,163	-	-	-	-	(21,609)	(21,609)
Interest rate hedging contracts	42	(10,679)	(10,365)	(6,764)	1,092	820	(101)	(25,997)	(25,997)
Foreign currency hedging contracts	42	(70,629)	-	-	-	-	-	(70,629)	(70,629)
		<u>(108,080)</u>	<u>(5,202)</u>	<u>(6,764)</u>	<u>1,092</u>	<u>820</u>	<u>(101)</u>	<u>(118,235)</u>	<u>(118,235)</u>

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk (continued)

Company		On demand or within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Over 5 years	Total Contractual Cash Flow	Carrying amount
31 December 2010	Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Non-derivative financial liabilities									
Trade and other payables	25	2,252,614	-	-	-	-	-	2,252,614	2,252,614
Term Loan	27	133,568	129,835	201,662	368,450	178,749	-	1,012,264	921,211
Finance Lease	29	272,922	275,665	274,867	569,072	281,711	1,462,981	3,137,218	2,325,195
Revolving credit	27	50,459	-	-	-	-	-	50,459	50,000
RCPS Liability Component	27	12,454	427,581	-	-	-	-	440,035	407,116
		<u>2,722,017</u>	<u>833,081</u>	<u>476,529</u>	<u>937,522</u>	<u>460,460</u>	<u>1,462,981</u>	<u>6,892,590</u>	<u>5,956,136</u>
Derivative financial liabilities									
Fuel hedging contracts	42	(26,772)	5,163	-	-	-	-	(21,609)	(21,609)
Interest rate hedging contracts	42	(10,679)	(10,365)	(6,764)	1,092	820	(101)	(25,997)	(25,997)
Foreign currency hedging contracts	42	(70,629)	-	-	-	-	-	(70,629)	(70,629)
		<u>(108,080)</u>	<u>(5,202)</u>	<u>(6,764)</u>	<u>1,092</u>	<u>820</u>	<u>(101)</u>	<u>(118,235)</u>	<u>(118,235)</u>

The amounts included in the table are the contractual undiscounted cash flows, except for derivative financial instruments, which are included at their fair value. As a result, these amount will not reconcile to the amounts disclosed at the reporting date except for trade and other payables where discounting is not applied.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Credit risk

Credit risk is the potential loss from a transaction in the event of default by the counterparty during the term of the transaction or on settlement of the transaction.

Credit exposure is measured as the cost to replace existing transactions should the counterparty default. The Group has credit risk associated with travel agents, industry settlement organisations and credit provided to direct customers.

The Group's objective is to maximise profitability and minimise write-offs by maintaining credit risk exposure within acceptable parameters. The Group minimises its exposure to credit risk through the application of stringent credit policies and accreditation of travel agents through industry programmes. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, active customer credit and accounts are monitored on an ongoing basis with the results that no credit limits were exceeded during the financial year and the Group's exposure to bad debts is not significant.

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position, including derivatives with positive fair values.

Trade receivables mainly consist of passenger and freight sales due from agencies and other airlines (for interline services provided).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Credit risk (continued)

Most of the agencies are accredited by the International Air Transport Association (“IATA”) and connected to the IATA settlement systems. IATA checks the creditworthiness of such agencies and collects collateral according to local industry practices, when required. As a result of the broad diversification worldwide also, the credit risk for these agencies are relatively low.

Receivables and payables between airlines are generally settled bilaterally or through the IATA Clearing House, unless expressly specified otherwise in the contract. The weekly settlement of these balances leads to a significant reduction in default risk.

For all other service contracts, depending on the type and volume of the contracts involved, collateral is required subject to credit verification procedures to avoid default in payment.

Deposits with banks and other financial institutions and derivatives are placed with or entered with reputable financial institutions with no history of default.

40. FINANCIAL INSTRUMENTS

The accounting policies in Note 2.5(t) and Note 2.5(u) describe how the categories of financial instruments are measured, and how income and expenses, including changes in fair value, are recognised.

The table below reflects the financial assets and liabilities in the statement of financial position by the categories of financial instrument to which they are assigned:

40. FINANCIAL INSTRUMENTS (CONTINUED)

	Note	Loans and receivables RM'000	Available for-sale financial assets RM'000	Other financial liabilities RM'000	Derivatives used for hedging RM'000	Total RM'000
2010 Group						
Assets						
Investments in associates	14	-	101,804	-	-	101,804
Investments in a jointly controlled entity	15	-	2,360	-	-	2,360
Other investments	16	-	54,604	-	-	54,604
Trade and other receivables	19	1,793,782	-	-	-	1,793,782
Negotiable instruments of deposit	20	139,206	-	-	-	139,206
Cash and bank balances	21	2,085,451	-	-	-	2,085,451
Total financial assets		4,018,439	158,768	-	-	4,177,207
Total non-financial assets						8,254,869
Total assets						12,432,076
Liabilities						
Trade and other payables	25	-	-	2,219,065	-	2,219,065
Borrowings	27	-	-	3,708,780	-	3,708,780
Derivative financial instruments	42	-	-	-	118,235	118,235
Total financial liabilities		-	-	5,927,845	118,235	6,046,080
Total non-financial liabilities						2,848,752
Total liabilities						8,894,832

40. FINANCIAL INSTRUMENTS (CONTINUED)

	Note	Loans and receivables RM'000	Available for-sale financial assets RM'000	Other financial liabilities RM'000	Derivatives used for hedging RM'000	Total RM'000
2010 Company						
Assets						
Investments in subsidiaries	13	-	160,194	-	-	160,194
Investments in associates	14	-	81,274	-	-	81,274
Other investments	16	-	54,604	-	-	54,604
Trade and other receivables	19	2,181,482	-	-	-	2,181,482
Negotiable instruments of deposit	20	139,206	-	-	-	139,206
Cash and bank balances	21	2,012,667	-	-	-	2,012,667
Total financial assets		4,333,355	296,027	-	-	4,629,427
Total non-financial assets						7,672,214
Total assets						12,301,641
Liabilities						
Trade and other payables	25	-	-	2,252,614	-	2,252,614
Borrowings	27	-	-	3,703,522	-	3,703,522
Derivative financial instruments	42	-	-	-	118,235	118,235
Total financial liabilities		-	-	5,956,136	118,235	6,074,371
Total non-financial liabilities						2,832,004
Total liabilities						8,906,375

41. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Financial instruments carried at amount other than fair value

Set out below is a comparison by category of carrying amounts and fair values of all of the Group and Company's financial instruments that are carried in the financial statements at amounts other than fair values as at 31 December 2010.

	Group		Company	
	Carrying amount 2010 RM'000	Fair value 2010 RM'000	Carrying amount 2010 RM'000	Fair value 2010 RM'000
Financial assets:				
- Staff loans	109,948	64,260	109,948	64,260
- Refundable deposits	85,451	80,575	85,451	80,575
Financial liabilities:				
- Term loans	1,137,287	1,161,135	921,211	921,211
- RCPS	407,116	404,648	407,116	404,648

The methods and assumptions used by management to determine fair values of financial instruments other than those whose carrying amounts reasonably approximate their fair values as mentioned earlier, are as follows:

Financial assets and liabilities	Methods and assumptions
- Other receivables - Term loans - RCPS	Fair value has been determined using discounted estimated cash flows. Where repayment terms are not fixed, future cash flows are projected based on management's best estimates. The discount rates used are the current market incremental lending rates for similar types of lending, borrowing and leasing arrangements.

42. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Group and Company	2010		2009	
	Notional Value	Fair value Liabilities RM'000	Notional Value	Fair value Liabilities RM'000
Cash flow hedges				
Fuel hedging contracts (Barrels'000)	4,485	(21,609)	16,444	(835,524)
Interest rate hedging contracts (RM'000)	1,355,485	(25,997)	1,950,515	(12,758)
Foreign currency hedging contracts (RM'000)	2,603,528	(70,629)	838,321	(8,284)
		(118,235)		(856,566)
Analysed as:				
Current		(108,080)		(584,788)
Non-Current		(10,155)		(271,778)
		(118,235)		(856,566)

The fair value of the hedging contract above are based on forward curve/prices as at 31 December 2010 and 31 December 2009 respectively, as disclosed in Note 2.5(z).

(a) Fuel hedging contracts

The Group and Company held swaps, options and swaptions designated as hedge of highly probable forecast fuel purchases to reduce the volatility of cash flows. The contracts are intended to hedge the volatility of the purchase price of fuel for a period up to 36 months forward.

The amounts retained in other comprehensive income at 31 December 2010 are expected to mature and affect the profit or loss by a gain of RM2,720,000 in 2012.

There were no highly probable transactions for which hedge accounting had previously been used, which is no longer expected to occur.

The cash flow hedges of the highly probable forecast fuel purchases were assessed to be highly effective and as at 31 December 2010, a net unrealised gain of RM2,720,000 was included in other comprehensive income in respect of these contracts.

The ineffectiveness recognised in the profit or loss during the financial year was as disclosed in Note 5.

42. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)**(b) Interest rate hedging contracts**

As at 31 December 2010, the Group and Company has interest rate caps and swaps at contracted interest rates varying from 2.4% to 5.0% (2009: 2.2% to 5.0%) per annum. The contracts are intended to hedge the volatility of interest rates for up to maximum 80% of the floating interest rate risk exposure of any financial year.

The amounts retained in other comprehensive income at 31 December 2010 are expected to mature and affect the profit or loss by a loss of RM3,240,000 in 2018.

There were no highly probable transactions for which hedge accounting had previously been used, which is no longer expected to occur.

The cash flow hedges of some of the interest rate contracts were assessed to be highly effective and as at 31 December 2010, a net unrealised loss of RM3,240,000 was included in other comprehensive income in respect of these contracts.

The ineffectiveness recognised in the profit or loss during the financial year was as disclosed in Note 5.

(c) Foreign currency hedging contracts

The Group has forward currency contracts outstanding at 31 December 2010 designated as hedges of firm commitment, highly probable future payments and net revenue denominated in foreign currencies.

The amounts retained in other comprehensive income at 31 December 2010 are expected to mature and affect the profit or loss by a loss of RM57,880,000 and carrying amount by RM11,605,000 in 2011.

The terms of the forward currency contracts have been negotiated to match the terms of the commitments. There were no highly probable transactions for which hedge accounting had previously been used, which is no longer expected to occur.

The cash flow hedges of the firm commitment, highly probable future payments and net revenue denominated in foreign currencies were assessed to be highly effective and a net unrealised loss of RM69,485,000 relating to the hedging instruments is included in other comprehensive income.

The amount removed from other comprehensive income during the financial year and included in profit or loss or the carrying amount of the hedging items as a basis adjustment is as follows:

	Group and Company
	2010
	RM'000
Profit or loss	25,270
Carrying amount of hedging items	<u>6,800</u>

The ineffectiveness recognised in the profit or loss during the financial year was as disclosed in Note 5.

43. CAPITAL MANAGEMENT

The Group's primary objective in managing its capital is to maximise the Group's value by optimising its capital structure and enhancing capital efficiency while maintaining a sufficient level of liquidity.

The Group targets a capital structure of an optimal mix of debt and equity in order to achieve an efficient cost of capital vis-a-vis maintaining financial flexibility for its business requirement and investing for future growth. The Group regularly reviews and manages its capital structure in accordance to the changes in economic conditions, its business plans and future commitments.

The Group uses the gearing ratio, which is total debt divided by total equity attributable to equity holders of the Company, as the key measurement for its capital structure management.

The gearing ratio as at 31 December 2010 and 2009 were as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Total Debt	3,708,780	2,319,580	3,703,522	2,312,458
Total Equity	3,537,244	711,562	3,395,266	698,021
Gearing ratio (times)	1.0	3.3	1.1	3.3

The Group did not breach any gearing requirements during the financial years ended 31 December 2010 and 31 December 2009.

No changes were made in the objectives, policies or processes in regards to the Group's management of its capital structure during the financial years ended 31 December 2010 and 31 December 2009.

44. SIGNIFICANT EVENTS

- (a) On 22 December 2010, the Company signed a Memorandum of Understanding ("MoU") with KLM Royal Dutch Airlines for potential closer co-operation between the airlines where customers can benefit with greater connectivity, better schedules and enhanced products.
- (b) On 10 November 2010, Malaysian Aerospace Engineering Sdn. Bhd. ("MAE"), a wholly-owned subsidiary of MAS entered into a 10-year component support contract with Air France Industries and KLM Engineering and Maintenance ("AFI KLM E&M") for 35 of the carrier's fleet of B737-800, with an option for a further 20 aircraft.
- (c) On 28 September 2010, MAE entered into a MoU with Sabena technics SA to set up a joint venture company, specialising in aircraft component repair and overhaul services in Malaysia.

44. SIGNIFICANT EVENTS (CONTINUED)

- (d) On 2 September 2010, MAE sealed a one-year agreement with Air Mauritius for the maintenance of eight (8) aircraft - six (6) Airbus 340-200s and two (2) Airbus 330-200s.
- (e) On 13 July 2010, the Company announced that it will spend approximately RM320 million in capital and operating expenditure over 5 years in a company-wide Enterprise Resource Planning solution to streamline operations and maximise business efficiencies. The Company has selected HCL AXON and SAP as partners to integrate its finance, procurement and human resource functions as well as Engineering & Maintenance operations.
- (f) On 4 June 2010, the Company announced the proposed grant of additional options under the MAS ESOS to Tengku Dato' Sri Azmil Zahrudin bin Raja Abdul Aziz, the Managing Director and Chief Executive Officer of the Company. The said proposal relates to additional options to subscribe for up to 11,889,000 new shares under the MAS ESOS, subject to the terms and conditions of and/or any adjustment that may be made in accordance with the provisions of the By-Laws. The said proposal was approved by the shareholders at the Extraordinary General Meeting held on 21 June 2010.
- (g) On 31 March 2010, in relation to the MoU that was signed between the Company and Airbus S.A.S ("Airbus") on 22 December 2009, the Company has ordered up to 25 A330-300 widebody aircraft covering the firm order of fifteen (15) with options for another ten (10). The Company has also ordered two (2) A330-200F and acquired purchase options for another two (2). The aircraft will be delivered from 2011 to 2016 and will serve the growing markets of South Asia, China, North Asia, Australia and Middle East. On 20 July 2010, the Company announced that it has selected Pratt & Whitney to supply 34 engines worth RM2.2 billion (USD680 million) for the abovementioned aircraft.

There was no other significant event for the financial year ended 31 December 2010.

45. SUBSEQUENT EVENTS

There was no material subsequent event for the financial year ended 31 December 2010.

46. DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors do not recommend any dividend in respect of the financial year ended 31 December 2010.

47. COMPARATIVES

The following balance sheet comparative figures have been reclassified to conform with current year's presentation:

	As previously stated/As stated in Note 2.2(h) RM'000	Re-classification RM'000	As restated RM'000
2009			
Trade and other receivables	1,399,476	(15,645)	1,383,831
Tax recoverable	-	15,645	15,645
<hr/>			
2008			
Trade and other receivables	1,861,129	(7,993)	1,853,136
Tax recoverable	-	7,993	7,993
<hr/>			

48. CURRENCY

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

49. SUPPLEMENTARY INFORMATION - DISCLOSURE ON REALISED AND UNREALISED PROFITS OR LOSSES

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued guidance on the disclosure and the format required.

The breakdown of accumulated losses of the Group as at 31 December 2010, into realised and unrealised losses, pursuant to the directives, is as follows:

31 December 2010	Company and Subsidiaries RM '000	Associated Companies RM '000	Jointly Controlled Entity RM '000	Consolidation Adjustments RM '000	Group Accumulated Losses RM '000
Realised Profits/(Losses)	(5,724,005)	(21,092)	(11,524)	256,438	(5,500,183)
Unrealised Profits/(Losses)	110,618	(2,023)	(364)	-	108,231
	<u>(5,613,387)</u>	<u>(23,115)</u>	<u>(11,888)</u>	<u>256,438</u>	<u>(5,391,952)</u>

Comparative information is not presented in the first financial year of application pursuant to the directive issued by Bursa Malaysia on 25 March 2010.

The determination of realised and unrealised profits or losses is based on the Guidance of 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, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits or losses above has been made solely for complying with the disclosure requirements as stipulated in the directives of Bursa Malaysia and should not be applied for any other purposes.

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Form of Proxy

Shareholder's CDS Account No.	
No. of ordinary shares held	

I/We, (Full Name as per NRIC in capital letters)
 Company No./NRIC No of (Full address)
 being a member(s) of **MALAYSIAN AIRLINE SYSTEM BERHAD** ("the Company"), hereby appoint:-

..... NRIC No. (new) (old) or failing him/her
 NRIC No. (new) (old) or failing him/her

the CHAIRMAN OF THE MEETING as my/our proxy to vote for me/us on my/our behalf at the Fortieth Annual General Meeting of the Company to be held at the Auditorium, 1st Floor, South Wing, MAS Academy, No. 2, Jalan SS7/13, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan on Monday, 27 June 2011 at 10.00 a.m. and at any adjournment thereof, on the following resolutions referred to in the Notice of the Fortieth Annual General Meeting. My/our proxy is to vote as indicated below:-

Please indicate with an "X" in the space below how you wish your votes to be cast. If no specific direction as to voting is given, the proxy will vote or abstain at his/her discretion.

Resolutions		For	Against
Resolution 1	To receive the Audited Financial Statements for the financial year 31 December 2010 and the Reports of the Directors and Auditors		
Resolution 2	Re-election of Keong Choon Keat as Director		
Resolution 3	Re-election of Datuk Amar Wilson Baya Dandot as Director		
Resolution 4	Re-election of Martin Gilbert Barrow as Director		
Resolution 5	Re-election of Mohammed Rashdan bin Mohd Yusof as Director		
Resolution 6	Re-election of Datuk Sukarti bin Wakiman as Director		
Resolution 7	Re-appointment of Dato' N.Sadasivan a/l N.N. Pillay as Director		
Resolution 8	Approval of Directors' fees		
Resolution 9	Re-appointment of Messrs. Ernst & Young as Auditors and to authorise the Directors to fix the Auditor's remuneration		
Resolution 10	Authority under Section 132D of the Companies Act, 1965 for Directors to issue shares		

For appointment of two proxies, percentage of shareholdings to be represented by the proxies:-

	No. of shares	Percentage (%)
Proxy 1	_____	_____
Proxy 2	_____	_____
TOTAL	_____	100

As witness my/our hands this day of, 2011

.....
 Signature of Member / Common Seal

- NOTES:
1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy/proxies and the provisions of Section 149(1)(b) of the Companies Act 1965 shall not apply to the Company.
 2. In the case of a corporate member, the instrument appointing a proxy shall be under its Common Seal or under the hand of its officers or attorney, duly authorised in that behalf.
 3. A holder may appoint more than two proxies to attend the Meeting. Where a member appoints two or more proxies, he shall specify the proportions of his shareholding to be represented by each proxy.
 4. The right of Foreigners to vote in respect of their deposited securities is subject to Section 41 (1) (e) and Section 41 (2) of the Securities Industry (Central Depositories) Act 1991 and the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996. The position of such Depositors in this regard will be determined based on the General Meeting Record of Depositors. Such Depositors whose shares exceed the Company's foreign shareholding limit of 45% as at the date of the General Meeting Record of Depositors may attend the above Meeting but are not entitled to vote. Consequently, a proxy appointed by such Depositor who is not entitled to vote will also not be entitled to vote at the above Meeting.
 5. The instrument appointing a proxy must be deposited at **Symphony Share Registrars Sdn. Bhd., Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia**, not less than 48 hours before the time for holding the Meeting or at any adjournment thereof.
 6. Shareholders' attention is hereby drawn to the Listing Requirements of the Bursa Malaysia Securities Berhad, which allow a member of the Company who is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, to appoint at least one (1) proxy in respect of each securities account he holds with ordinary shares of the Company standing to the credit of the said securities account.

fold here for sealing

Affix
stamp
here

Symphony Share Registrars Sdn. Bhd.

Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301, Petaling Jaya
Selangor Darul Ehsan
Malaysia



fold here

Awards and Recognition

Asia's Leading Airline

- World Travel Award

Asia's Leading Business Class Airline

- World Travel Award

Staff Service Excellence for Asia Award 2010

- Skytrax, UK

World's Best Economy Class Award 2010

- Skytrax, UK

Travel Merchant of The Year

- MasterCard Hall of Fame Marketing Awards 2010

Anugerah Emas Naib Cancellor

(Deputy Chancellor Gold Award)

- Centre for University-Industry
Collaboration (CIUC), Universiti Utara Malaysia

NAfMA (National Award for Management Accounting) Best Practice Award 2010

- Public Listed Category
- MIA & CIMA Malaysia

Excellence in Occupational Safety and Health Award 2010 (MASkargo)

- Department of Occupational Safety and Health
(DOSH) Ministry of Human Resources

Gold Award for Best Cover in the Special Interest/Niche (English Category)

- Going Places, November 2009 Issue
- 2010 Malaysian Publishers
Associations (MPA) Awards

World's Leading Airline to Asia

- World Travel Awards (WTA) 2010

Green Initiative of the Year Award

(Airline category - Firefly)

- 2010 Leaders in Aviation Award, Doha

The Deputy Minister Award

- Malaysia Cyber Security Award 2010

Information Security Project of the Year 2010 Award

- Malaysia Cyber Security Awards 2010

The CIO of the Year Award

- Malaysia Cyber Security Award 2010

Best Airline in Southeast Asia

- 2009 GT Tested Awards, Global Traveller Magazine

Best Value Airline of The Year Award

(Commercial Air Transportation Category - Firefly)

- 2010 Frost & Sullivan Asia Pacific
Aerospace & Defence Awards





MALAYSIAN AIRLINE SYSTEM BERHAD (10601-W)

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