



**MALAYSIAN AIRLINE SYSTEM BERHAD**  
**(COMPANY NO.: 10601-W)**  
**(INCORPORATED IN MALAYSIA)**  
**QUARTERLY REPORT ON THE FIRST QUARTER ENDED 31 MARCH 2006**

**ANNOUNCEMENT**

The Board of Directors of Malaysian Airline System Berhad ("MAS" or "the Company") would like to announce the following unaudited consolidated results for the first quarter ended 31 March 2006 and this announcement should be read in conjunction with the audited annual financial statements for the period ended 31 December 2005 and the accompanying explanatory notes attached to the quarterly condensed financial report.

In the previous financial period, the Group changed its financial year end from 31 March to 31 December so as to be coterminous with the year-end of that of its ultimate holding company. Accordingly, the income statements, cash flow statement, statement of changes in equity for the individual and cumulative quarter ended 31 March 2005 represent the fourth quarter results for the financial year ended 31 March 2005.

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS**

	<b>INDIVIDUAL QUARTER</b>		<b>CUMULATIVE QUARTER</b>	
	Quarter ended 31/3/2006 RM '000	Quarter ended 31/3/2005 RM '000 (Restated)	Period ended 31/3/2006 RM '000	Period ended 31/3/2005 RM '000 (Restated)
Operating revenue	2,970,959	2,964,009	2,970,959	2,964,009
Operating expenses	(3,342,542)	(3,059,158)	(3,342,542)	(3,059,158)
Other income	62,050	186,240	62,050	186,240
(Loss)/Profit from operations	<u>(309,533)</u>	<u>91,091</u>	<u>(309,533)</u>	<u>91,091</u>
Finance costs	(4,594)	(87)	(4,594)	(87)
Gain on sale of aircraft and engines	-	25,752	-	25,752
Share of profits from associated companies	5,009	7,441	5,009	7,441
(Loss)/Profit before taxation	<u>(309,118)</u>	<u>124,197</u>	<u>(309,118)</u>	<u>124,197</u>
Taxation	(10,842)	(12,180)	(10,842)	(12,180)
<b>(Loss)/Profit after tax</b>	<b><u>(319,960)</u></b>	<b><u>112,017</u></b>	<b><u>(319,960)</u></b>	<b><u>112,017</u></b>
Attributable to:				
Shareholders of the Company	(321,124)	111,274	(321,124)	111,274
Minority interest	1,164	743	1,164	743
<b>(Loss)/Profit after tax</b>	<b><u>(319,960)</u></b>	<b><u>112,017</u></b>	<b><u>(319,960)</u></b>	<b><u>112,017</u></b>

**(Loss)/Earnings per share attributable to shareholders of the Company**

Basic (sen)	(25.62)	8.88	(25.62)	8.88
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Note: The comparative figures have been reclassified to conform with current year's presentation as reflected in Notes 1,5 and 16 of Part A- Explanatory Notes Pursuant to FRS 134, Paragraph 16.

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	As at 31/3/2006 RM '000	As at 31/12/2005 RM '000 (Restated)
Property, plant and equipment	2,679,014	2,223,558
Investment in associated companies	51,863	46,853
Long term investments	116,043	119,568
Amount owing by fellow subsidiary	339,449	351,815
Intangible assets	25,314	25,314
Deferred tax assets	84,470	92,503
<b><u>Current assets</u></b>		
Inventories	412,315	454,720
Trade receivables	1,247,801	1,233,285
Other receivables	514,611	526,506
Tax recoverable	65,888	69,717
Amount owing by holding company	5,585	-
Cash and bank balances	1,081,929	1,179,409
	<b>3,328,129</b>	<b>3,463,637</b>
<b><u>Current liabilities</u></b>		
Trade payables	1,735,029	1,916,262
Other payables	1,132,415	817,371
Short term borrowings	600,000	-
Amount owing to holding company	-	81,475
Provision for taxation	21,644	22,033
Sales in advance of carriage	1,424,400	1,455,794
	<b>4,913,488</b>	<b>4,292,935</b>
Net current liabilities	(1,585,359)	(829,298)
	<b>1,710,794</b>	<b>2,030,313</b>
<b>Equity attributable to shareholders of the Company</b>	<b>1,695,210</b>	<b>2,016,334</b>
Share capital - ordinary shares	1,253,244	1,253,244
Reserves		
Share premium	3,301,164	3,301,164
General reserve	501,530	501,530
Accumulated losses	(3,360,728)	(3,039,604)
<b>Minority interests</b>	14,316	13,152
<b>Total equity</b>	<b>1,709,526</b>	<b>2,029,486</b>
<b><u>Long term liabilities</u></b>		
Deferred tax liabilities	1,268	827
	<b>1,710,794</b>	<b>2,030,313</b>
Net assets per share (RM)	1.36	1.62

Note: The comparative figures have been reclassified to conform with current year's presentation as reflected in Notes 1,5 and 16 of Part A- Explanatory Notes Pursuant to FRS 134, Paragraph 16.

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	Period ended 31/3/2006 RM '000	Period ended 31/3/2005 RM '000 (Restated)
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
<b>(Loss)/Profit before taxation</b>	<b>(309,118)</b>	<b>124,197</b>
Adjustments for :-		
Depreciation of property and equipment	90,845	66,960
Allowance/ (Writeback) for doubtful debts, net	34,066	(17,694)
Unrealised foreign exchange losses/(gains)	38,957	(16,064)
Aircraft spares, property and equipment written off	5,956	3,750
Interest expense	-	87
Inventories written down	284	-
Writeback of unavailed credits on sales in advance of carriage	(17,504)	(58,682)
Interest income	(8,097)	(17,403)
Share of results in associated companies	(5,009)	(7,441)
Gain on sale of property, plant and equipment	(204)	(28,316)
Writeback of provision for dimunition	-	(47,652)
	<b>(169,824)</b>	<b>1,742</b>
<b>Operating (loss)/ profit before working capital changes</b>		
Decrease/ (Increase) in inventories	42,120	(21,061)
(Increase)/ Decrease in receivables	(23,697)	168,567
Increase in amount owing by holding company	(87,061)	(389,085)
Increase in payables	94,853	315,824
(Decrease)/ Increase in sales in advance of carriage	(13,889)	46,725
	<b>(157,498)</b>	<b>122,712</b>
<b>Cash (used in)/ generated from operating activities</b>		
Interest paid	-	(71)
Taxes paid	(2,756)	(5,303)
	<b>(160,254)</b>	<b>117,338</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchase of property, plant and equipment	(552,257)	(213,544)
Proceeds from sale of other investments	3,525	3,715
Proceeds on sale of aircraft, property and equipment	204	31,769
Interest received	11,302	22,362
Purchase of other investments	-	(3,950)
Dividend received	-	63
	<b>(537,226)</b>	<b>(159,585)</b>
<b>Net cash used in investing activities</b>		
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Dividend paid to shareholders of the Company	-	(1,058)
Short term borrowings drawdown	600,000	-
	<b>600,000</b>	<b>(1,058)</b>
<b>Net cash generated from/ (used in) financing activities</b>		
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(97,480)</b>	<b>(43,305)</b>
<b>CASH AND CASH EQUIVALENTS AS AT 1 JANUARY</b>	<b>1,179,409</b>	<b>2,237,883</b>
<b>CASH AND CASH EQUIVALENTS AS AT 31 MARCH</b>	<b>1,081,929</b>	<b>2,194,578</b>

Note: The comparative figures have been reclassified to conform with current year's presentation as reflected in Notes 1,5 and 16 of Part A- Explanatory Notes Pursuant to FRS 134, Paragraph 16.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 31 MARCH 2006**

	Attributable to shareholders of the Company						Minority interests RM '000	Total Equity RM '000
	Share capital RM '000	Non-distributable Share premium RM '000	Distributable General reserves RM '000	Accumulated losses RM '000	Total reserves RM '000	Total RM '000		
At 1 January 2006, as previously stated	1,253,244	3,301,164	501,530	(3,033,324)	769,370	2,022,614	13,152	2,035,766
Prior year adjustment -effects of adopting FRS128	-	-	-	(6,280)	(6,280)	(6,280)	-	(6,280)
At 1 January 2006, as restated	1,253,244	3,301,164	501,530	(3,039,604)	763,090	2,016,334	13,152	2,029,486
Loss for the period	-	-	-	(321,124)	(321,124)	(321,124)	1,164	(319,960)
<b>At 31 March 2006</b>	<b>1,253,244</b>	<b>3,301,164</b>	<b>501,530</b>	<b>(3,360,728)</b>	<b>441,966</b>	<b>1,695,210</b>	<b>14,316</b>	<b>1,709,526</b>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 31 MARCH 2005**

	Attributable to shareholders of the Company						Minority interests RM '000	Total Equity RM '000
	Share capital RM '000	Non-distributable Share premium RM '000	Distributable General reserves RM '000	Accumulated losses RM '000	Total reserves RM '000	Total RM '000		
At 1 January 2005, as previously stated	1,253,244	3,301,164	501,530	(1,846,379)	1,956,315	3,209,559	11,140	3,220,699
Prior year adjustment -effects of adopting FRS128	-	-	-	(24,442)	(24,442)	(24,442)	-	(24,442)
At 1 January 2005, as restated	1,253,244	3,301,164	501,530	(1,870,821)	1,931,873	3,185,117	11,140	3,196,257
Profit for the period	-	-	-	111,274	111,274	111,274	743	112,017
<b>At 31 March 2005</b>	<b>1,253,244</b>	<b>3,301,164</b>	<b>501,530</b>	<b>(1,759,547)</b>	<b>2,043,147</b>	<b>3,296,391</b>	<b>11,883</b>	<b>3,308,274</b>

Note: The comparative figures have been reclassified to conform with current year's presentation as reflected in Notes 1,5 and 16 of Part A- Explanatory Notes Pursuant to FRS 134, Paragraph 16.

## PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16

### 1. ACCOUNTING POLICIES

The quarterly condensed financial report has been prepared in accordance with:

- (i) The requirement of the Financial Reporting Standards ("FRS") Standard 134 (previously MASB 26) - Interim Financial Reporting; and
- (ii) Paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad

and should be read in conjunction with the Group's financial statements for the financial period ended 31 December 2005. These explanatory notes attached to the quarterly condensed financial report provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the period ended 31 December 2005.

The significant accounting policies adopted for the quarterly condensed financial report are consistent with those of the audited financial statements for the financial period ended 31 December 2005 except for the adoption of all the relevant new and revised Financial Reporting Standards ("FRS") that became effective for the Group for the financial period beginning 1 January 2006:

FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

The adoption of new/ revised FRS do not have any significant financial impact on the Group except for the following:

#### **FRS 101 : Presentation of Financial Statements**

The adoption of the FRS 101 has affected the presentation of minority interest, share of results of associates and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the Company and to minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform with the current period's presentation.

**PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16**

**FRS 116: Property, Plant and Equipment**

The revised FRS 116 requires major inspection costs to be capitalised. Accordingly, the maintenance and overhaul costs incurred on the spare engines owned by the Group is capitalised and depreciated over a period of 4 years. The maintenance and overhaul costs relating to the spare engines owned by the Group were previously expensed as incurred. This change in accounting policy does not have a material impact on the Group.

**FRS 128 : Investment in Associates**

FRS 128 requires an investor to equity account for the losses in an associate until the share of losses equals or exceeds its interest in the associate. FRS 128 defines 'interest in an associate' to include any long-term interests that, in substance, form part of the investor's net investment in the associate.

Previously, the shares of losses equity accounted for by the Group were limited to the Group's investment in the ordinary share capital of the associates. The Group now equity account for additional share of losses in the associates if there are other long term interest in the associates. This change in accounting policy has been applied retrospectively and the comparatives have been restated as follows:

**Effects on income statements for the period ended 31/3/2005**

	Previously Stated RM000	Adjustments RM000	Restated RM000
Share of profits from associated companies, (refer note 16, on reclassification)	5,844	2,101	7,945
Profit attributable to shareholders of the Company	109,173	2,101	111,274
Earnings per share	8.71	-	8.88

**Effects on balance sheets items**

	Previously Stated RM000	Adjustments RM000	Restated RM000
Accumulated losses as at 31/3/2005	(1,737,206)	(22,341)	(1,759,547)
Accumulated losses as at 31/12/2005	(3,033,324)	(6,280)	(3,039,604)
Investment in associated companies as at 31/12/2005	53,133	(6,280)	46,853

**2. QUALIFICATION OF PRECEDING AUDITED ANNUAL FINANCIAL STATEMENTS**

There was no qualification of the Group's Audited Annual Financial Statements for the period ended 31 December 2005.

**3. SEASONALITY OR CYCLICAL NATURE OF OPERATIONS**

The Group is principally engaged in the business of air transportation and provision of related services. The demand for the Group's services is generally influenced by the growth performance of the Malaysian economy and the economies of the countries in which the Group operates as well as seasonal, health and security factors.

**4. UNUSUAL ITEMS**

There were no unusual items for the period ended 31 March 2006 except for the prior year adjustment as described in Note 1 above.

**PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16**

**5. MATERIAL CHANGES IN ESTIMATES OF AMOUNTS REPORTED**

**FRS 116: Property, Plant and Equipment**

The revised FRS 116 requires an entity to measure the residual value of an item of property, plant and equipment as the amount it estimates it would receive currently for the assets if the assets were already of age and in the condition expected at the end of its useful life. In addition, the standard also requires an entity to determine the depreciation charge separately for each significant part of an item of property, plant and equipment. The revisions were accounted for as change in accounting estimates.

Consequently, the Group revised the useful lives and residual values of property, plant and equipment. The net effect of these revisions is an additional depreciation charges of RM10.23 million to the Group's profit before tax. The revisions are as follows:

**Changes in useful life**

Description	Previous Estimate Years	Revised Estimate Years
Motor vehicles	3	5
Computers	5	3
Hotel Properties	-	40

The hotel properties were previously not depreciated but are now depreciated over a period of 40 years. The significant parts of the hotel properties have been identified and depreciated separately over their estimated useful lives of between 3 to 10 years.

This change in accounting estimate is applied prospectively and has the effect of increasing the Group depreciation expense in the current financial quarter/ period by RM12.38 million.

Changes in residual values	Previous Estimate %	Revised Estimate %
Spare engines and repairable and rotatable aircraft spares	-	10

As a result of this revision, the property, plant and equipment depreciation expense reduces for the current financial quarter/period by RM2.15 million.

**6. SIGNIFICANT EVENTS**

- i) On 27 February 2006, the Company announced its Business Turnaround Plan - The MAS Way.
- ii) On 27 March 2006, the Company has entered into a facility agreement with Bumiputra Commerce Bank Berhad to make available to the Company, a bridging loan facility of up to a maximum principal amount of RM 1 billion (refer Note 9 of Part B).

There were no other significant events for the period ended 31 March 2006.

**PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16 (CONTINUED)**

**7. ISSUANCE, CANCELLATION, REPURCHASE, RESALE AND REPAYMENTS OF DEBTS AND EQUITY SECURITIES**

There was no issuance, cancellation, resale or repayment of debt or equity securities for the period ended 31 March 2006.

**8. DIVIDEND PAID**

There were no dividends paid in the quarter ended 31 March 2006.

**9. SEGMENTAL INFORMATION**

BY BUSINESS ACTIVITIES	Quarter ended 31/3/2006		Period ended 31/3/2006	
	Operating revenue RM '000	Operating profit/(loss) RM '000	Operating revenue RM '000	Operating profit/(loss) RM '000
Airline operations	2,530,313	(346,541)	2,530,313	(346,541)
Cargo services	652,686	28,693	652,686	28,693
Catering services	3,893	1,066	3,893	1,066
Others	40,451	7,249	40,451	7,249
	3,227,343	(309,533)	3,227,343	(309,533)
Eliminations	(256,384)	-	(256,384)	-
<b>Total</b>	<b>2,970,959</b>	<b>(309,533)</b>	<b>2,970,959</b>	<b>(309,533)</b>

**10. VALUATION OF ASSETS**

There was no valuation of property and equipment for the period ended 31 March 2006.



**PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16 (CONTINUED)**

**11. SUBSEQUENT EVENTS**

The Company announced the details of its Mutual Separation Scheme (MSS) on 22 May 2006. This will fast track the intention to right size the workforce a year ahead of the schedule as outlined in the 3 year Business Turnaround Plan.

In line with the intention to right size staff strength by 3,000 to 5,000, MAS extended the MSS to all permanent and confirmed employees in Malaysia and locally recruited Malaysian staff posted overseas. The cost of the MSS will be mitigated by the compensation to be received from Penerbangan Malaysia Berhad (PMB) for the termination of the Agreement for Domestic Business Unbundling. Under this agreement MAS is required to be given a 12 months' notice, or be given compensation in the event of a termination.

MAS targets to complete the MSS by 31 July 2006.

There were no other material events subsequent to 31 March 2006.

**12. CHANGES IN THE COMPOSITION OF THE COMPANY/GROUP**

Sepang Berhad and Tiara Malaysia Airlines Sdn Bhd, wholly owned subsidiaries of the Company have been deregistered from the Register of Companies Commission of Malaysia under Section 308 of the Companies Act, 1965. Notices to that effect have been published in the Gazette dated 5 January 2006. As such, Sepang Berhad and Tiara Malaysia Airlines Sdn Bhd ceased to be the subsidiaries of the Company effective from the said date.

There were no other changes in the composition of the Group for the period ended 31 March 2006.

**PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16 (CONTINUED)**

**13. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

(i) Contingent liabilities

(a) Related to Penerbangan Malaysia Berhad ("PMB")

MAS continues to be the named lessee or borrower of finance leases and term loans which have been unbundled to PMB, a company wholly owned by Khazanah Nasional Berhad. As such, the outstanding balance of the borrowings assumed by PMB is included within the Group's contingent liabilities.

	<b>22/5/2006</b>
	<b>RM '000</b>
1. Secured / Unsecured	
Loans	
- Secured	529,145
- Unsecured	115,759
Finance leases (secured)	890,461
	<u>1,535,365</u>
2. Tenure	
Loans and leases due within one year	446,861
Loans and leases due after one year	1,088,504
	<u>1,535,365</u>
3. Loans by currencies in Ringgit Malaysia	
US Dollar	1,390,481
Euro	115,759
Great Britain Pound	29,125
	<u>1,535,365</u>
(b) Others	
Corporate guarantees given to third parties	5,360
Bank guarantees given to third parties	120,624
Performance bonds given to third parties	518
	<u>126,502</u>

(ii) Contingent assets

The Company has the right to receive from PMB 80% of the profit arising from the eventual realisation of certain aircraft assets unbundled to PMB under the Agreement for Aircraft and Finance Agreements Unbundling. The profit will be computed based on the excess of the value realised over the decayed cost of the aircraft. The rate of decay for each aircraft at future dates is stipulated by the Widespread Asset Unbundling ("WAU") Agreement. Based on the published industry price data, MAS's share of the profit on disposal if the applicable aircraft were to be disposed as at 31 March 2006 is RM1,223.11 million.

**PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16 (CONTINUED)**

**14. SIGNIFICANT RELATED PARTY DISCLOSURES**

	Quarter ended 31/3/2006 RM '000	Quarter ended 31/3/2005 RM '000
LSG Sky Chefs-Brahim's Sdn. Bhd., an associated company:		
- Catering services paid	56,030	78,180
- Shared services billed	(5,673)	(12,887)
GE Engine Services (M) Sdn. Bhd., an associated company:		
- Engine maintenance services rendered and purchase of aircraft, property and equipment	99,789	113,400
- Rental of premises and services	(3,773)	(3,773)
- Shared services billed	(90)	-
Pan Asia Pacific Aviation Services Ltd., an associated company:		
- Line maintenance and aircraft interior cleaning services	1,576	1,232
Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd., an associated company:		
- Aircraft component repair services paid	2,512	5,207
Honeywell Aerospace Services (M) Sdn. Bhd., an associated company:		
- Aircraft power plant unit overhaul services paid	1,143	1,427
Taj Madras Flight Kitchen Limited, an associated company:		
- Catering services paid	496	903
Abacus International Holding Ltd., a company in which the Company has substantial shareholding:		
- Computer reservation system access fee paid	11,834	17,141
Evergreen Sky Catering Corporation, a company in which the Company has substantial shareholding:		
- Catering services paid	2,136	2,163
Miascor Catering Services Corporation, a company in which the Company has substantial shareholding:		
- Catering services paid	287	303
Penerbangan Malaysia Bhd, holding company:		
- Hire of aircraft paid	125,977	112,776
Aircraft Business Malaysia Sdn. Bhd., a fellow subsidiary:		
- Aircraft lease rental paid	68,646	62,204
Asset Global Network Sdn. Bhd., a fellow subsidiary:		
- Rental of premises paid	17,852	17,854

**PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16 (CONTINUED)**

**15. SIGNIFICANT RELATED PARTY BALANCES**

	As at 31/3/2006 RM '000	As at 31/12/2005 RM '000
Amount owing by/ (to) holding company	5,585	(81,475)
Amount owing by related parties	8,680	5,903
Amount owing by associated companies	8,192	6,586
Amount owing by fellow subsidiary		
- due within one year	51,637	51,611
- due after one year	339,449	351,815
Amount owing to associated companies	(41,083)	(30,397)

**16. CHANGES IN PREVIOUS QUARTER PRESENTATION**

The following disclosure for the fourth quarter ended 31 March 2005 have been restated to conform with the current period's presentation:

	Previously stated RM'000	Reclassification RM'000	Restated RM'000
<b>Quarter ended 31 March 2005</b>			
Operating Revenue	2,927,058	36,951	2,964,009
Operating Expense	(3,022,207)	(36,951)	(3,059,158)
Share of profits from associated companies, net of tax (restated from note 1)	7,945	(504)	7,441
Taxation	(12,684)	504	(12,180)

## **PART B - EXPLANATORY NOTES PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS UNDER PART A OF APPENDIX 9B**

### **1. REVIEW OF PERFORMANCE**

The Group made an operating loss of RM309.53 million for the first quarter ended 31 March 2006 compared to an operating profit of RM91.09 million for the corresponding quarter last year primarily due to the higher operating costs including fuel costs.

### **2. COMPARISON WITH PRECEDING QUARTER'S RESULTS**

Operating revenue for the quarter reduced to RM2,970.96 million from RM3,090.17 million in the preceding quarter. The Group made a loss after tax of RM321.12 million compared to a loss after tax of RM616.43 million in the preceding quarter. The reduced loss was primarily contributed by the decrease in operating costs charged to the income statements as compared to the preceding quarter.

### **3. CURRENT YEAR PROSPECTS**

The first two months of traffic performance has indicated that the airline industry is expected to experience continued growth for 2006 in line with anticipated improvement of economic prospects especially in US and Japan. The weakening US Dollar and more buoyant economic outlook should have a positive impact on outbound travel from the Asian nations.

Oil prices have, however, remained high and could exert a negative impact on travel demand due to imposition of fuel surcharges by airlines. Competition remains intense with new capacity being injected on Asian routes and yields will be under pressure for the coming quarters.

For MAS, the demand for next quarter is likely to be affected by the recent increase in fuel surcharges and air fares, as well as 'Travel Fair' held in February. India and Australia/New Zealand markets will be entering their off peak season, while on the ASEAN routes, competition and capacity growth by Low Cost Carriers have diverted some traffic away from full service airlines.

Yield improvement efforts will continue and we have seen initial improvements through initiatives such as our Revenue Enhancement Programme and Network Rationalisation Exercise. The challenge will be to ensure minimal compromise on load factors.

MAS will revamp its network in phases targeted to increase yields and improve network efficiency. To build up the strategy to move from a 'point-to-point' to a 'hub-and-spoke' network, MAS will withdraw from unprofitable routes and will also reconfigure its network through retiming of frequencies to increase direct connectivity between KL International Airport (KLIA) and international destinations.

Phase 1 of the international network rationalisation saw MAS reroute international flights via secondary Malaysian hubs such as Langkawi, Penang and Kuching to operate direct between KLIA and the cities of London, Sydney and Perth. Phase 2 will see flights between Kuala Lumpur and six destinations, namely Ahmedabad, Kolkata, Xian, Padang Manchester and Vienna terminated between May and June 2006.

In addition to the above, several initiatives in 2006 will be targeted to overcome the challenges of high operating cost. Among such initiatives include cutting expenses by 20% across the board, station costs reduction, the launch of e-ticketing and a significantly lower corporate sponsorship and advertising program.

For the cargo division, freight growth rate in 2006 is expected to return to normal levels in the 6% range as the business sectors driving airfreight recover. The delivery of 2 Boeing 747-400 freighters in 2006 will increase MAS Kargo's capacity and the route rationalisation exercise is aimed at improving our competitive edge in the market place we operate.

The key impact of the Domestic Restructuring announced by the Government in March is the reduction in the MAS domestic network from 118 routes to 19 routes. This exercise will also see aircraft requirement for MAS domestic operations reduced from 40 to 21 and a right sizing of stations from 32 to 16. The new domestic network will be effective 1 August 2006.

**PART B - EXPLANATORY NOTES PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS UNDER PART A OF APPENDIX 9B (CONTINUED)**

**4. PROFIT FORECAST OR PROFIT GUARANTEE**

The Group has not provided any profit forecast or profit guarantee in respect of the period ended 31 March 2006.

**5. TAXATION**

Taxation charge for the Group comprised the following: -

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/3/2006	Quarter ended 31/3/2005 (Restated)	Period ended 31/3/2006	Period ended 31/3/2005 (Restated)
	RM '000	RM '000	RM '000	RM '000
Current period				
- Malaysian	477	490	477	490
- Foreign	1,833	5,354	1,833	5,354
	2,310	5,844	2,310	5,844
Under/ (Over) provision in prior period	58	(969)	58	(969)
Deferred tax	8,474	7,305	8,474	7,305
<b>Total</b>	<b>10,842</b>	<b>12,180</b>	<b>10,842</b>	<b>12,180</b>

The Group provided Malaysian taxation for its subsidiaries. The application for extension of the tax exempt status for Malaysian taxation of the Company is still under consideration by the Ministry of Finance.

**6. PROFIT ON SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES**

The Redeemable Preference Shares (RPS) A of LSG Sky Chefs-Brahim's Sdn. Bhd. were redeemed at cost for a total of RM3.461 million on the following dates:

Date	No. of RPS	Amount Redeemed RM'000
28 February 2006	13,535	3,461

**7. PURCHASE OR DISPOSAL OF QUOTED SECURITIES**

As at 31 March 2006, the Group has the following quoted securities: -

	In Malaysia RM '000	Outside Malaysia RM '000
At cost	-	1,377
At carrying value	-	1,377
At market value	-	22,523

There were no purchase or disposal of quoted securities during the period ended 31 March 2006.

**PART B - EXPLANATORY NOTES PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS UNDER PART A OF APPENDIX 9B (CONTINUED)**

**8. CORPORATE PROPOSALS**

There were no proposals made during the period ended 31 March 2006.

**9. GROUP BORROWINGS AND DEBT SECURITIES**

a) The Group as at 31 March 2006 has lease obligations amounting to RM827.22 million (31 December 2005: RM1,190.6million) which are covered by funds placed with and payments made to financial institutions at the inception date of the respective lease arrangements under defeasance arrangements. The defeased lease obligations, together with the related funds placements and payments, are therefore not included in these financial statements.

b) On 27 March 2006, the Group entered into a bridging loan facility arrangement of up to a maximum principal amount of RM1billion with a financial institution. The bridging loan facility shall be used for working capital requirement. The short term borrowing bears interest rate of 4.4% per annum, unsecured and is repayable on 28 April 2007. As at 31 March 2006, total drawdown was RM600 million.

**10. FINANCIAL INSTRUMENTS**

(a) As at 22 May 2006, the Group has entered into various fuel hedging transactions for periods up to 31 December 2007 in lots totalling 12,098,000 barrels.

The fuel hedging programme is closely monitored and various hedging instruments are strategically applied to mitigate any price volatility or spike as Jet Kerosene is an international commodity and is subject to the vagaries of the market due to geopolitical events, economic situation, weather conditions, etc.

The accounting policy adopted is to charge related expenses as fuel cost in the financial statements upon the expiry of fuel hedging contracts.

(b) As at 22 May 2006, the Group has entered into various interest rate hedging contract transactions for periods up to 15 December 2015 for notional amount of RM5,166 million.

The accounting policy adopted is to charge the related expenses against the underlying expenses being hedged.

The fixed interest rates relating to interest rate hedging contracts as at 22 May 2006 vary from 4.5% to 5% per annum.

(c) As at 22 May 2006, the Group has entered into foreign currency forward contracts and options amounting to RM428.0 million for periods up to 31 Dec 2006.

The accounting policy adopted is to recognise exchange gains and losses relating to these foreign currency forward contracts and options in the income statement in the same period as the underlying hedged item.

**PART B - EXPLANATORY NOTES PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS UNDER PART A OF APPENDIX 9B (CONTINUED)**

**11. MATERIAL LITIGATION**

**Vantage Aviation Services Ltd. vs Malaysian Airline System Berhad  
Shahjalal Aviation Systems Ltd. vs Malaysian Airline System Berhad**

These cases are still pending. The Directors are of the view that the above cases filed against the Company are without merit.

**Advent Group Management Sdn Bhd vs Malaysian Airline System Berhad**

A writ of summons and statement of claim was served on MAS on 2 July 2004 as the fourth defendant in the Kuala Lumpur High Court by the plaintiff, Advent Group Management Sdn. Bhd. The Directors are of the view that the above case filed against the Company is without merit.

**Arbitration Proceedings by ACL Advanced Cargo Logistic GmbH (ACL) vs Malaysian Airline System Berhad**

On 16 September 2004, the Company received notice that ACL had initiated proceedings against the Company at the ICC International Court of Arbitration in Paris, France seeking a claim for breach of cargo handling services agreement. The Company is contesting the claim.

**Securiforce Sdn. Bhd. and Securiforce Hi-Tech Cargo Sdn. Bhd. vs Malaysian Airline System Bhd. and Malaysia Airlines Cargo Sdn. Bhd. (MASKargo)**

A writ of summons and statement of claim was served on MAS and its wholly-owned subsidiary, MASKargo, on 16 June 2005 by Securiforce Sdn. Bhd. and Securiforce Hi-Tech Cargo Sdn. Bhd.. MAS and MASKargo are challenging the claim.

**Malaysian Airline System Berhad vs Tan Sri Dato' Tajudin bin Ramli, Ralph Manfred Gotz and Uwe Juergen Beck**

On 19 October 2005, the Company filed a civil claim in Malaysia against its former Executive Chairman, Tan Sri Dato' Tajudin Ramli and two (2) other defendants. The claim against the defendants is for losses in relation to Cargo operations in Hahn airport.

**12. DIVIDENDS**

The directors do not recommend any dividend for the quarter ended 31 March 2006.

**13. (LOSS)/EARNINGS PER SHARE**

- (a) The basic loss per share for the current quarter is calculated by dividing the loss attributable to shareholders of the Company of RM 321.12 million (2005: profit of RM111.27 million, restated) by 1,253,243,866 ordinary shares (2005: 1,253,243,866).
- (b) Diluted earnings per share is not presented in the financial statements as there are no dilutive potential ordinary shares outstanding as at 31 March 2006.

**14. AUTHORISATION FOR ISSUE**

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Board on 29 May 2006.

By Order of the Board

Rizani bin Hassan (LS 05125)  
Company Secretary  
Kuala Lumpur  
29 May 2006



**SUMMARY OF KEY FINANCIAL INFORMATION**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/3/2006	Quarter ended 31/3/2005 (Restated)	Period ended 31/3/2006	Period ended 31/3/2005 (Restated)
	RM '000	RM '000	RM '000	RM '000
1. Total Revenue	3,033,009	3,150,249	3,033,009	3,150,249
2. (Loss)/Profit before tax	(309,118)	124,197	(309,118)	124,197
3. (Loss)/Profit attributable to shareholders of the Company	(321,124)	111,274	(321,124)	111,274
4. Basic (loss)/earnings per share (sen)	(25.62)	8.88	(25.62)	8.88
5. Dividend per share (sen)	-	-	-	-

**ADDITIONAL INFORMATION**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/3/06	Quarter ended 31/3/05	Period ended 31/3/06	Period ended 31/3/05
	RM '000	RM '000	RM '000	RM '000
1. (Loss)/Profit from operations	(309,533)	91,091	(309,533)	91,091
2. Gross interest income	8,097	17,403	8,097	17,403
3. Gross interest expense	-	(87)	-	(87)