MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT ON THE SECOND QUARTER ENDED 30 JUNE 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 second quarter ended 30 June 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 statements, statement of changes in equity for the individual quarter ended 30 June 2005 represents the first quarter results for financial period ended 31 December 2005 and cumulative quarter ended 30 June 2005 represent the fourth and first quarter results for the financial year/ period ended 31 March 2005 and 31 December 2005 respectively.

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/6/2006 RM '000	Quarter ended 30/6/2005 RM '000 (Restated)	Period ended 30/6/2006 RM '000	Period ended 30/6/2005 RM '000 (Restated)
Operating revenue	2,945,833	2,804,539	5,916,792	5,768,548
Operating expenses	(3,205,802)	(3,164,404)	(6,548,343)	(6,223,562)
Other income	99,292	81,509	161,342	267,749
Loss from operations	(160,677)	(278,356)	(470,209)	(187,265)
Finance costs	(13,446)	(173)	(18,041)	(260)
Gain on sale of aircraft and engines	-	-	-	25,752
Share of profits from associated companies	10,382	6,278	15,391	13,719
Loss before taxation	(163,741)	(272,251)	(472,859)	(148,054)
Taxation	(12,755)	(4,115)	(23,597)	(16,295)
Loss after tax	**(176,496)**	**(276,366)**	**(496,456)**	**(164,349)**
Attributable to:				
Shareholders of the Company	(177,076)	(277,453)	(498,199)	(166,179)
Minority interest	580	1,087	1,743	1,830
Loss after tax	**(176,496)**	**(276,366)**	**(496,456)**	**(164,349)**

Loss per share attributable to shareholders of the Company

Basic (sen)	(14.13)	(22.14)	(39.75)	(13.26)

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 30/6/2006 RM '000	As at 31/12/2005 RM '000 (Restated)
Property, plant and equipment	2,436,571	2,223,558
Investment in associated companies	55,767	40,376
Long term investments	112,582	119,568
Amount owing by fellow subsidiary	323,835	351,815
Intangible assets	25,314	25,314
Deferred tax assets	73,862	92,503
Current assets		
Non-current assets held for sale	84,388	-
Inventories	383,287	454,720
Trade receivables	1,317,066	1,233,285
Other receivables	841,397	526,506
Tax recoverable	51,112	69,717
Cash and bank balances	1,372,183	1,179,409
	4,049,433	**3,463,637**
Current liabilities		
Trade payables	1,838,801	1,916,262
Other payables	1,104,765	817,371
Short term borrowings	1,000,000	-
Amount owing to holding company	144,066	81,475
Provision for taxation	20,483	22,033
Sales in advance of carriage	1,441,418	1,455,794
	5,549,533	**4,292,935**
Net current liabilities	(1,500,100)	(829,298)
	1,527,831	**2,023,836**
Equity attributable to shareholders of the Company	**1,511,658**	**2,009,857**
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	(3,544,280)	(3,046,081)
Minority interests	14,895	13,152
Total equity	1,526,553	2,023,009
Long term liabilities		
Deferred tax liabilities	1,278	827
	1,527,831	**2,023,836**
Net assets per share (RM)	1.22	1.61

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 30/6/2006 RM '000	Period ended 30/6/2005 RM '000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	**(472,859)**	**(148,054)**
Adjustments for :-		
Depreciation of property and equipment	155,082	141,026
Allowance/ (Writeback) for doubtful debts, net	39,822	(17,272)
Unrealised foreign exchange losses/(gains)	12,332	(38,546)
Interest expense	18,041	260
Aircraft spares, property and equipment written off	10,208	4,486
Writeback of unavailed credits on sales in advance of carriage	(65,601)	(72,904)
Interest income	(21,959)	(33,479)
Share of results in associated companies	(15,391)	(13,719)
Dividend income	(1,229)	(1,901)
Gain on sale of property, plant and equipment	(475)	(29,228)
Gain on sale of engineering spares	-	(9,244)
Writeback of provision for dimunition of an associated company	-	(47,652)
Operating loss before working capital changes	**(342,029)**	**(266,227)**
Decrease/ (increase) in inventories	71,433	(34,969)
(Increase)/ decrease in receivables	(394,772)	35,908
Increase/ (decrease) in amount owing to holding company	62,591	(426,213)
Increase in payables	197,614	227,542
Increase in sales in advance of carriage	51,225	73,055
Cash used in operating activities	**(353,938)**	**(390,904)**
Interest paid	(18,054)	(240)
Taxes paid	(6,055)	(8,243)
Net cash used in operating activities	**(378,047)**	**(399,387)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(462,730)	(420,188)
Proceeds from sale of other investments	6,986	15,054
Proceeds on sale of aircraft, property and equipment	514	32,791
Interest received	24,822	34,620
Purchase of other investments	-	(3,950)
Dividend received	1,229	1,964
Net cash used in investing activities	**(429,179)**	**(339,709)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid to shareholders of the Company	-	(1,058)
Short term borrowings drawndown	1,000,000	-
Net cash generated from/ (used in) financing activities	**1,000,000**	**(1,058)**
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	**192,774**	**(740,154)**
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	**1,179,409**	**2,237,883**
CASH AND CASH EQUIVALENTS AS AT 30 JUNE	**1,372,183**	**1,497,729**

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 30 JUNE 2006

	Attributable to shareholders of the Company							
	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	Minority interests RM '000	Total Equity 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	-	-	-	(12,757)	(12,757)	(12,757)	-	(12,757)
At 1 January 2006, as restated	1,253,244	3,301,164	501,530	(3,046,081)	756,613	2,009,857	13,152	2,023,009
Loss for the period	-	-	-	(498,199)	(498,199)	(498,199)	1,743	(496,456)
At 30 June 2006	**1,253,244**	**3,301,164**	**501,530**	**(3,544,280)**	**258,414**	**1,511,658**	**14,895**	**1,526,553**

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2005

	Attributable to shareholders of the Company							
	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	Minority interests RM '000	Total Equity 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
Loss for the period	-	-	-	(166,179)	(166,179)	(166,179)	1,830	(164,349)
At 30 June 2005	**1,253,244**	**3,301,164**	**501,530**	**(2,037,000)**	**1,765,694**	**3,018,938**	**12,970**	**3,031,908**

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.

FRS 116: Property, Plant and Equipment

The revised FRS 116 requires major inspection costs to be capitalised. Accordingly, such major inspection 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 30/6/2005

	INDIVIDUAL QUARTER		
	Previously Stated RM000	**Adjustments RM000**	**Restated RM000**
Share of profits from associated companies	3,695	3,207	6,902
Loss attributable to shareholders of the Company	(280,660)	3,207	(277,453)
Loss per share	(22.39)	-	(22.14)
Share of profits from associated companies, net of tax	6,902	(624)	6,278
Taxation	(4,739)	624	(4,115)

	CUMULATIVE QUARTER		
	Previously Stated RM000	**Adjustments RM000**	**Restated RM000**
Share of profits from associated companies	9,540	5,307	14,847
Loss attributable to shareholders of the Company	(171,486)	5,307	(166,179)
Loss per share	(13.68)	-	(13.26)
Share of profits from associated companies, net of tax	14,847	(1,128)	13,719
Taxation	(17,423)	1,128	(16,295)

Effects on balance sheets items	**Previously Stated RM000**	**Adjustments RM000**	**Restated RM000**
Accumulated losses as at 30/6/2005	(2,017,866)	(19,134)	(2,037,000)
Accumulated losses as at 31/12/2005	(3,033,324)	(12,757)	(3,046,081)
Investment in associated companies as at 31/12/2005	53,133	(12,757)	40,376

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.

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

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 30 June 2006 except for the prior year adjustment as described in Note 1 above.

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 on depreciaton charges of these revisions are a reduction on charges of RM2.4 million for the quarter and an additional charges of RM7.9 million for the period 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 and period by RM2.9 million and RM15.3 million respectively.

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

As a result of this revision, the property, plant and equipment depreciation expense reduces for the quarter by RM5.3 million and for the period by RM7.5 million.

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

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 RM1 billion (refer Note 9 of Part B).

There were no other significant events for the period ended 30 June 2006.

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 30 June 2006.

8. DIVIDEND PAID

There were no dividends paid in the quarter ended 30 June 2006.

9. SEGMENTAL INFORMATION

BY BUSINESS ACTIVITIES	Quarter ended 30/6/2006		Period ended 30/6/2006	
	Operating revenue RM '000	Operating profit/(loss) RM '000	Operating revenue RM '000	Operating profit/(loss) RM '000
Airline operations	2,465,734	(122,469)	4,996,046	(469,010)
Cargo services	702,570	37,888	1,355,256	66,581
Catering services	3,544	1,052	7,437	2,118
Others	35,643	1,200	76,095	8,450
	3,207,491	(82,329)	6,434,834	(391,861)
Eliminations	(261,658)	(78,348)	(518,042)	(78,348)
Total	**2,945,833**	**(160,677)**	**5,916,792**	**(470,209)**

10. VALUATION OF ASSETS

There was no valuation of property and equipment for the period ended 30 June 2006.

11. SUBSEQUENT EVENTS

i) On 28 June 2006, the Company entered into a conditional Sale and Purchase Agreement with Permodalan Nasional Berhad on the the proposed sale of a piece of leasehold land described as Pajakan Negeri No. Pendaftaran 4675, No. Lot 1194, Seksyen 57, Negeri Wilayah Persekutuan, Daerah Wilayah Persekutuan, Bandar Kuala Lumpur together with a 35 storey office building erected thereon and commonly known as Bangunan MAS, located along Jalan Sultan Ismail, 50150 Kuala Lumpur for a cash consideration of RM130 million.

The completion date is subject to the fulfilment of conditions precedent upon approval from regulatory authorities.

11. SUBSEQUENT EVENTS (CONTINUED)

ii) On 6 July 2006, the Company approved the Mutual Separation Scheme ("MSS"), a voluntary separation scheme for permanent staff. Based on the 2,622 number of applicants approved, MAS will pay approximately RM500 million to the applicants who will complete the MSS exit formalties over July and August 2006. This will fast track the intention to right size the workforce a year ahead of the schedule as originally outlined in the 3-year Business Turnaround Plan.

iii) On 11 July 2006, the Company entered into a Termination Agreement with Penerbangan Malaysia Berhad ("PMB") for the proposed early termination of the Agreement for Domestic Business Unbundling ("ADBU"). This is in line with the rationalisation of the domestic airline service sector announced by the Government.

As a result of early termination, the Company took over the profit and loss on the domestic airline sector with effect from 1 August 2006. From that date, all arrangements under ADBU will cease including all cashflow arrangements between MAS and PMB. The Termination Agreement provided MAS a shorter notice period (less than 12 months notice) and PMB subsequently paid MAS RM650 million as a full and final compensation as a result of the proposed termination of ADBU.

In addition, any losses incurred by MAS arising from disposal of MAS assets in relation to the Domestic Business, PMB will separately cover MAS for up to a limit of RM200 million. MAS intends to utilise the amount to pay for its expenses arising from the proposed termination which includes cost of rightsizing its Domestic Business workforce.

On 28 July 2006, at the Extraordinary General Meeting, the shareholders of the Company had approved the early termination of the ADBU.

iv) On 28 July 2006, at the Extraordinary General Meeting the shareholders' of the Company approved the proposed increase in authorised share capital to facilitate future issuance of the Redeemable Preference Shares ('RPS") which forms an integral part of credit facilities to be taken by the Company. Following the shareholders' approval, the authorised share capital of the Company will be increased from RM10,000,000,001 to RM10,000,100,001 comprising of 9,000,000,000 ordinary shares of RM1.00 each, 1 special share of RM1.00 each, 100,000,000,000 Redeemable Convertible Preference Shares of RM0.01 each and the creation of 1,000,000 new RPS of RM0.10 each.

12. CHANGES IN THE COMPOSITION OF THE COMPANY/GROUP

i) On 5 January 2006, 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 on the same date. As such, Sepang Berhad and Tiara Malaysia Airlines Sdn Bhd ceased to be the subsidiaries of the Company effective from the said date.

ii) On 26 July 2006, the following wholly-owned subsidiaries of the Company had been voluntarily wound up by the members:
a) Aircraft Engine Repair and Overhaul (M'sia) Sdn Bhd
b) MIR Technologies Sdn Bhd
c) MAS Properties Sdn Bhd
d) MAS Wings of Gold Sdn Bhd

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.

		23 / 8 / 2006 RM '000
1.	Secured / Unsecured	
	Loans	
	- Secured	478,086
	- Unsecured	119,640
	Finance leases (secured)	846,452
		1,444,178
2.	Tenure	
	Loans and leases due within one year	457,122
	Loans and leases due after one year	987,056
		1,444,178
3.	Loans by currencies in Ringgit Malaysia	
	US Dollar	1,294,068
	Euro	119,640
	Great Britain Pound	30,470
		1,444,178

(b) Others

Corporate guarantees given to third parties	5,343
Bank guarantees given to third parties	137,914
Performance bonds given to third parties	518
	143,775

(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 23 August 2006 is RM1,185 million.

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

14. SIGNIFICANT RELATED PARTY DISCLOSURES

	Quarter ended 30/6/2006 RM '000	Quarter ended 30/6/2005 RM '000	Period ended 30/6/2006 RM '000	Period ended 30/6/2005 RM '000
LSG Sky Chefs-Brahim's Sdn. Bhd., an associated company:				
- Catering and other services paid	55,176	65,920	116,148	136,577
- Rental income and others	(4,962)	(5,285)	(9,869)	(10,566)
- Shared services billed	(778)	(880)	(1,632)	(880)
GE Engine Services (M) Sdn. Bhd., an associated company:				
-Engine maintenance services rendered and purchase of aircraft, property and equipment	156,278	157,180	256,067	270,580
- Rental income and others	(3,773)	(3,776)	(7,546)	(7,549)
- Shared services billed	(123)	(94)	(213)	(94)
Pan Asia Pacific Aviation Services Ltd., an associated company:				
- Line maintenance and aircraft interior cleaning services	1,471	1,518	3,047	2,750
Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd., an associated company:				
- Aircraft component repair services paid	1,877	2,297	4,389	7,504
Honeywell Aerospace Services (M) Sdn. Bhd., an associated company:				
- Aircraft power plant unit overhaul services paid	1,509	1,611	2,652	3,038
Taj Madras Flight Kitchen Limited, an associated company:				
- Catering services paid	272	494	768	1,397
Abacus International Holding Ltd., a company in which the Company has substantial shareholding:				
- Computer reservation system access fee paid	9,297	15,464	21,131	32,605
Evergreen Sky Catering Corporation, a company in which the Company has substantial shareholding:				
- Catering services paid	2,007	2,444	4,248	4,607
Miascor Catering Services Corporation, a company in which the Company has substantial shareholding:				
- Catering services paid	242	320	529	623
Penerbangan Malaysia Bhd, holding company:				
- Hire of aircraft paid	119,539	113,011	245,516	225,787
Aircraft Business Malaysia Sdn. Bhd., a fellow subsidiary:				
- Aircraft lease rental paid	69,408	63,229	138,054	125,433
Asset Global Network Sdn. Bhd., a fellow subsidiary:				
- Rental of premises paid	17,852	17,852	35,704	35,706

15. SIGNIFICANT RELATED PARTY BALANCES

	As at 30/6/2006 RM '000	As at 31/12/2005 RM '000
Amount owing to holding company	(144,066)	(81,475)
Amount owing by related parties	8,184	5,903
Amount owing by associated companies	24,987	19,145
Amount owing by fellow subsidiary		
- due within one year	54,237	51,611
- due after one year	323,835	351,815
Amount owing to associated companies	(75,768)	(44,982)

16. CHANGES IN PREVIOUS QUARTER PRESENTATION

The following disclosure for the first quarter and period ended 30 June 2005 have been restated to conform with the current period's presentation:

Period ended 30 June 2005

INDIVIDUAL QUARTER

	Previously stated RM'000	Reclassed RM'000	Restated RM'000
Operating Revenue	2,774,023	30,516	2,804,539
Operating Expense	(3,133,888)	(30,516)	(3,164,404)

CUMULATIVE QUARTER

	Previously stated RM'000	Reclassed RM'000	Restated RM'000
Operating Revenue	5,701,081	67,467	5,768,548
Operating Expense	(6,156,095)	(67,467)	(6,223,562)

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 RM160.7 million for the second quarter ended 30 June 2006 compared to an operating loss of RM278.3 million for the corresponding quarter last year primarily due to the higher operating revenue, improved yields and savings arising from costs-cutting measures which limits the overall increase in expenses implemented under the business turnaround plan initiatives.

2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

Operating revenue for the quarter reduced to RM2,945.8 million from RM2,971.0 million in the preceding quarter. The Group made a loss after tax of RM177.1 million compared to a loss after tax of RM321.1 million in the preceding quarter. The reduced loss was primarily contributed by improved yields implemented under the business turnaround plan initiatives and the savings arising from costs-cutting measures.

3. CURRENT YEAR PROSPECTS

The first six months showed strong traffic performance and this is expected to continue for the airline industry for 2006. However, competition remains intense with no sign of a slowing down of new capacity injection on Asian routes.

In addition, a weakening economic scenario in US caused by higher interest rate and fuel price could impact global growth and air travel. This is particularly so given the recent security concerns in the United Kingdom, which has affected flights into and out of London Heathrow. The continuing uncertainty has meant that the risk of a slowdown in traffic is still high. With oil prices remaining high due to uncertainties following the Lebanon conflict and tensions in the Middle East, the continued imposition of high fuel surcharges by airlines could dampen discretionary travel demand.

MAS has been revamping its network in phases targeted to increase yields and improve network efficiency. In shifting from a 'point-to-point' to a 'hub-and-spoke' strategy, MAS has withdrawn from certain unprofitable routes and reconfigured its network and retimed its schedules to increase direct connectivity between Kuala Lumpur and international destinations. Phase 1 and Phase 2 of the international network rationalisation have been completed and now reviewing the routes under Phase 3. To ensure that MAS' loyal passengers can continue to travel to destinations that have been withdrawn, MAS plan to enter into new code share agreements with other airlines.

The domestic route rationalisation took effect on 1 August 2006 with MAS now operating 23 trunk routes within Malaysia offering premium services. As MAS is now responsible for the Profit and Loss of these routes, MAS will now has full flexibility in determining the flight frequency, capacity, type of aircraft and airfare for the domestic services.

In the cargo division, MAS has received delivery of the second of two new Boeing 747-400F freighters on 3 June 2006. These two freighters are expected to elevate cargo's business to its full potential come 2008, and provide additional capacity to key markets.

With the changes that are currently being implemented, we are cautiously optimistic that our yields and load factors will continue to improve. As at 30 June 2006, we are on track to meet our internal targets as outlined in the Business Turnaround Plan.

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 30 June 2006.

5. TAXATION

Taxation charge for the Group comprised the following: -

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/6/2006 RM '000	Quarter ended 30/6/2005 (Restated) RM '000	Period ended 30/6/2006 RM '000	Period ended 30/6/2005 (Restated) RM '000
Current period				
- Malaysian	473	1,234	950	1,724
- Foreign	1,848	1,866	3,681	7,220
	2,321	3,100	4,631	8,944
(Over)/ Under provision in prior period	(184)	107	(126)	(862)
Deferred tax	10,618	908	19,092	8,213
Total	**12,755**	**4,115**	**23,597**	**16,295**

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 RM3.5 million on the following dates:

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

7. PURCHASE OR DISPOSAL OF QUOTED SECURITIES

As at 30 June 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	-	21,407

There were no purchase or disposal of quoted securities during the period ended 30 June 2006.

8. CORPORATE PROPOSALS

There were no proposals made during the period ended 30 June 2006.

9. GROUP BORROWINGS AND DEBT SECURITIES

(a) The Group as at 30 June 2006 has lease obligations amounting to RM847.3 million (31 December 2005: RM1,190.6 million) which are covered by interest bearing funds amounting to RM794.7 million (31 December 2005: RM905.9 million) 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 requirements. The short term borrowing bears effective weighted interest rate of 4.73% per annum, unsecured and is repayable on 27 December 2006. As at 30 June 2006, the total drawndown was RM1 billion.

10. FINANCIAL INSTRUMENTS

(a) As at 23 August 2006, the Group has entered into various fuel hedging transactions for periods up to 31 December 2008 in lots totalling 14,145,000 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 such as geopolitical events, economic situation and weather conditions.

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 23 August 2006, the Group has entered into various interest rate hedging contract transactions for periods up to 15 December 2015 for a total notional amount of RM4,886.4 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 23 August 2006 vary from 4.50% to 5.45% per annum.

(c) As at 23 August 2006, the Group has entered into foreign currency forward contracts and options amounting to RM623.4 million for periods up to 30 June 2007.

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.

11. MATERIAL LITIGATION

(a) Vantage Aviation Services Ltd. vs Malaysian Airline System Berhad ("MAS")

MAS had filed a suit in Dhaka, Bangladesh against Vantage Aviation Services & Anor ("Vantage") in Suit 62/2000 for outstanding dues on passenger and cargo airway bills including interest thereon. Vantage had counter claimed MAS in Suit 4/2001 and 259/2000 for, inter alia, a declaration that the termination of Vantage as the General Sales Agency for MAS was void and for the recovery of commissions due to Vantage on passenger ticket sales, and airway bills as well as general damages.

A judgement had been entered in favour of MAS for Suit 62/2000 and in favour of Vantage for Suits 4/2001 and 259/2000 on 24 May 2006.

The judgment in favour of the MAS is for the sum of TK40,500,668.55 (RM2,268,037.44) whilst the judgment against MAS is for a sum of TK208,731,629.37 (RM11,688,971.24). Both judgments were decreed with interest thereon at the rate of 15% per annum.

MAS has since filed an appeal to the High Court against the said judgment. MAS has been advised by its solicitors in Dhaka that MAS has a meritorious appeal.

(b) Shahjalal Aviation Systems Ltd. vs MAS

Shahjalal Aviation Systems Ltd. ("Shahjalal") filed a claim in Dhaka, Bangladesh against MAS for a sum of TK2,670,000,000 (RM175.7 million) purportedly due to them on account of commission charges, loss of business and goodwill. MAS had earlier filed a claim against Shahjalal for a sum of TK152,044,364 (RM10.0 million) on account of unremitted passenger and cargo sales. MAS in consultation with its solicitors in Dhaka are continuing to pursue the claim and contest Shahjalal's claim.

(c) Advent Group Management Sdn Bhd vs MAS

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.. On 4 August 2006, MAS obtained an order from the Court that the claim against MAS be struck off unless the amount of RM75,000 was paid by the Plaintiff into a special account as security for costs within 7 days. The Plaintiff failed to comply but served a Notice of Appeal against the decision granting MAS the 4 August Order.

(d) Arbitration Proceedings by ACL Advanced Cargo Logistic GmBH ("ACL") vs MAS

On 16 September 2004, MAS received notice that ACL had initiated proceedings against MAS at the ICC International Court of Arbitration in Paris, France seeking a claim for breach of cargo handling services agreement. The matter was heard between 26 June 2006 and 30 June 2006. The decision on award on liability is expected in the first quarter of 2007.

(e) Securiforce Sdn. Bhd. and Securiforce Hi-Tech Cargo Sdn. Bhd. vs MAS 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.

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

11. MATERIAL LITIGATION (CONTINUED)

(f) MAS vs Tan Sri Dato' Tajudin bin Ramli, Ralph Manfred Gotz, Uwe Juergen Beck and Wan Aishah binti Wan Hamid

On 5 April 2006, MAS filed a civil claim in Malaysia against its former Executive Chairman, Tan Sri Dato' Tajudin Ramli and three (3) other defendants. The claim against the Defendants is for losses in relation to cargo operations in Hahn Airport. MAS in consultation with its solicitors are continuing to pursue the claim.

(g) MAS vs Tan Sri Dato' Tajudin bin Ramli, Naluri Corporation Bhd., Promet (Langkawi) Resorts Sdn. Bhd., Kauthar Venture Capital Sdn. Bhd. and Pakatan Permai Sdn. Bhd.

On 26 May 2006, MAS filed a civil claim in the High Court at Kuala Lumpur against its former Executive Chairman, Tan Sri Dato' Tajudin Ramli and four (4) other Defendants for substantial damages resulting from inter alia breach of fiduciary duties and/or knowingly assisting or benefiting from such breach of fiduciary duties. MAS in consultation with its solicitors are continuing to pursue the claim.

12. DIVIDENDS

The directors do not recommend any dividend for the quarter ended 30 June 2006.

13. LOSS 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 RM177.1 million (2005: RM277.4 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 30 June 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 30 August 2006.

By Order of the Board

Rizani bin Hassan (LS 05125)
Company Secretary
Kuala Lumpur
30 August 2006

SUMMARY OF KEY FINANCIAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/6/2006 RM '000	Quarter ended 30/6/2005 (Restated) RM '000	Period ended 30/6/2006 RM '000	Period ended 30/6/2005 (Restated) RM '000
1. Total Revenue	3,045,125	2,886,048	6,078,134	6,036,297
2. Loss before tax	(163,741)	(272,251)	(472,859)	(148,054)
3. Loss for the period	(177,076)	(277,453)	(498,199)	(166,179)
4. Loss for the period attributable to shareholders of the Company	(177,076)	(277,453)	(498,199)	(166,179)
5. Basic loss per share (sen)	(14.13)	(22.14)	(39.75)	(13.26)
6. Dividend per share (sen)	-	-	-	-

	AS AT 30/6/2006 (RM'000)	AS AT 31/12/2005 (RM'000)
7. Net assets per share attributable to ordinary equity holders of the parent (RM)	1.22	1.61

ADDITIONAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/6/06 RM '000	Quarter ended 30/6/05 RM '000	Period ended 30/6/06 RM '000	Period ended 30/6/05 RM '000
1. Gross interest income	13,862	16,076	21,959	33,479
2. Gross interest expense	(10,680)	(173)	(10,680)	(260)