



MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT ON THE THIRD QUARTER ENDED 30 SEPTEMBER 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 third quarter ended 30 September 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 September 2005 represents the second quarter for financial period ended 31 December 2005 and cumulative quarter ended 30 September 2005 represents the period from 1 January 2005 to 30 September 2005.

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/9/2006 RM '000	Quarter ended 30/9/2005 RM '000 (Restated)	Period ended 30/9/2006 RM '000	Period ended 30/9/2005 RM '000 (Restated)
Operating revenue	3,501,792	3,014,203	9,418,584	8,782,751
Operating expenses	(3,558,346)	(3,440,004)	(10,106,689)	(9,663,566)
Other income	129,247	62,267	290,589	330,016
Profit/ (loss) from operations	72,693	(363,534)	(397,516)	(550,799)
Finance costs	(15,500)	(2,033)	(33,541)	(2,293)
Compensation for domestic rationalisation	650,000	-	650,000	-
Domestic rationalisation expenses and redundancy expenses	(517,803)	-	(517,803)	-
Gain on sale of properties	62,425	-	62,425	-
Gain on sale of aircraft and engines	-	-	-	25,752
Share of results from associated companies	4,861	4,534	20,252	18,253
Profit/(Loss) before taxation	256,676	(361,033)	(216,183)	(509,087)
Taxation	(15,995)	(4,589)	(39,592)	(20,884)
Profit/(Loss) after taxation	240,681	(365,622)	(255,775)	(529,971)
Attributable to:				
Shareholders of the Company	240,295	(366,443)	(257,904)	(532,622)
Minority interest	386	821	2,129	2,651
Profit/(Loss) after taxation	240,681	(365,622)	(255,775)	(529,971)

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

Basic (sen)	19.17	(29.24)	(20.58)	(42.50)
-------------	-------	---------	---------	---------

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 30/9/2006 RM '000	As at 31/12/2005 RM '000 (Restated)
Property, plant and equipment	2,449,300	2,223,558
Investment in associated companies	60,127	40,376
Long term investments	109,141	119,568
Amount owing by fellow subsidiary	309,740	351,815
Intangible assets	25,314	25,314
Deferred tax assets	60,549	92,503
	3,014,171	2,853,134
<u>Current assets</u>		
Non-current assets held for sale	6,677	-
Inventories	381,334	454,720
Trade receivables	1,200,202	1,266,285
Other receivables	969,159	526,506
Amount owing by holding company	33,933	-
Tax recoverable	46,664	69,717
Cash and bank balances	1,172,413	1,179,409
	3,810,382	3,496,637
<u>Current liabilities</u>		
Trade payables	1,956,698	1,916,262
Other payables	936,848	817,371
Short term borrowings	950,000	-
Amount owing to holding company	-	81,475
Provision for taxation	20,290	22,033
Sales in advance of carriage	1,192,277	1,488,794
	5,056,113	4,325,935
Net current liabilities	(1,245,731)	(829,298)
	1,768,440	2,023,836
Equity attributable to shareholders of the Company	1,751,953	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	(3,303,985)	(3,046,081)
Minority interest	15,209	13,152
Total equity	1,767,162	2,023,009
<u>Long term liabilities</u>		
Deferred tax liabilities	1,278	827
	1,768,440	2,023,836
Net assets per share (RM)	1.41	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 30/9/2006 RM '000	Period ended 30/9/2005 RM '000 (Restated)
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Loss before taxation	(216,183)	(509,322)
Adjustments for :-		
Depreciation of property and equipment	243,444	223,613
Allowance for/(Writeback) of doubtful debts, net	37,406	(11,859)
Interest expense	33,541	2,293
Aircraft spares, property and equipment written off	15,009	6,862
Unrealised foreign exchange losses/(gains)	10,614	(34,649)
Writeback of unavailed credits on sales in advance of carriage	(112,007)	(83,200)
Gain on sale of property, plant and equipment	(65,080)	(35,328)
Interest income	(33,925)	(41,712)
Dividend income	(30,708)	(16,239)
Share of results in associated companies	(20,252)	(18,019)
Gain on sale of engineering spares	-	(18,956)
Writeback of allowance for diminution in investment of an associated company	-	(47,652)
Operating loss before working capital changes	(138,141)	(584,168)
Decrease/ (increase) in inventories	73,387	(36,757)
Increase in receivables	(351,153)	(30,137)
(Decrease)/increase in amount owing to/(from) holding company	(115,408)	52,287
Increase in payables	149,769	261,248
Increase/(decrease) in sales in advance of carriage	(184,509)	(12,608)
Cash used in operating activities	(566,055)	(350,135)
Interest paid	(34,013)	(2,258)
Taxes paid	(8,930)	(10,847)
Net cash used in operating activities	(608,998)	(363,240)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds on sale of property, plant and equipment	148,814	39,179
Interest received	36,229	52,196
Dividend received	31,210	20,369
Proceeds from sale of other investments	10,427	18,333
Purchase of other investments	-	(3,950)
Purchase of property, plant and equipment	(574,606)	(578,273)
Net cash used in investing activities	(347,926)	(452,146)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Short term borrowings drawdown	1,150,000	-
Repayment of short term loan	(200,000)	-
Dividend paid to minority interest in a subsidiary	(72)	-
Dividend paid to shareholders of the Company	-	(1,058)
Net cash generated from/ (used in) financing activities	949,928	(1,058)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	(6,996)	(816,444)
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	1,179,409	2,237,883
CASH AND CASH EQUIVALENTS AS AT 30 SEPTEMBER	1,172,413	1,421,439

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 SEPTEMBER 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	-	-	-	(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	-	-	-	(257,904)	(257,904)	(257,904)	2,129	(255,775)
Dividends	-	-	-	-	-	-	(72)	(72)
At 30 September 2006	1,253,244	3,301,164	501,530	(3,303,985)	498,709	1,751,953	15,209	1,767,162

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 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
Dividend paid for year ended 31 March 2005	-	-	-	(31,331)	(31,331)	(31,331)	-	(31,331)
Loss for the period	-	-	-	(532,622)	(532,622)	(532,622)	2,651	(529,971)
At 30 September 2005	1,253,244	3,301,164	501,530	(2,434,774)	1,367,920	2,621,164	13,791	2,634,955

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 Accounting 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 interests, 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, 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 : Investments 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 30/9/2005

	INDIVIDUAL QUARTER		
	Previously Stated	Adjustments	Restated
	RM'000	RM'000	RM'000
Share of results from associated companies	3,535	1,255	4,790
Loss attributable to shareholders of the Company	(367,698)	1,255	(366,443)
Loss per share	(22.39)	-	(29.24)
Share of results from associated companies, net of taxation	4,790	(256)	4,534
Taxation	(4,845)	256	(4,589)

	CUMULATIVE QUARTER		
	Previously Stated	Adjustments	Restated
	RM'000	RM'000	RM'000
Share of results from associated companies	13,074	6,563	19,637
Loss attributable to shareholders of the Company	(539,185)	6,563	(532,622)
Loss per share	(13.68)	-	(42.50)
Share of results from associated companies, net of taxation	19,637	(1,384)	18,253
Taxation	(22,268)	1,384	(20,884)

Effects on balance sheets items

	Previously Stated	Adjustments	Restated
	RM'000	RM'000	RM'000
	Accumulated losses as at 30/9/2005	(2,416,897)	(17,877)
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 September 2006 except for as mentioned in Note 1.

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 depreciation charges of these revisions are an additional charges of RM4.2 million for the quarter and an additional charges of RM12.1 million for the period to the Group's profit before tax. The revisions are as follows:

Changes in useful lives

Description	Previous Estimate Years	Revised Estimate Years
Motor vehicles	3	5
Computers	5	3
Hotel Property	-	50

The hotel properties were previously not depreciated but are now depreciated over a period of 50 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 expenses in the current financial quarter and period by RM5.9 million and RM21.2 million respectively.

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 expenses reduces for the current financial quarter and period by RM1.6 million and RM9.1 million respectively.

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 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).
- iii) 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.

During the quarter, the conditions precedents were fulfilled and included in the Group Income Statement as a gain on disposal of RM47.8 million.

- iv) 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 has paid RM497.2 million to the applicants who have completed the MSS exit formalities over July and September 2006. This has fast tracked the intention to right size the workforce a year ahead of the schedule originally outlined in the 3-year Business Turnaround Plan.
- v) 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") and on 28 July 2006, at the Extraordinary General Meeting, the shareholders of the Company approved the early termination of the ADBU. This is in line with the rationalisation of the domestic airline sector announced by the Government.

Hence, with effect from 1 August 2006, the Company has taken over the profit and loss on the domestic airline sector. All arrangements under ADBU have ceased including cashflow arrangements between MAS and PMB. As the Termination Agreement provided MAS a shorter notice period (less than 12 months notice), PMB paid MAS RM650 million as a full and final compensation as a result of the early termination of the ADBU.

- vi) 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 has been 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.
- vii) On 19 September 2006, PMB has redeemed, for and behalf of the Company, 800,000,000 Redeemable Convertible Preference Shares ("RCPS"), which was part of the Widespread Asset Unbundling ("WAU") approved by the shareholders on 5 November 2002) from Inteltek Perkasa Berhad .
- viii) On 29 September 2006, MAS entered into a contract with SITA N.V. ("SITA") to provide to MAS a Passenger Services System (PSS) solution that will support the Company's business turnaround initiative and as part of its plan to stay competitive in the airline industry and its commitment to manage customers and passengers effectively. The contract value is approximately USD100 million for the 10 year period, comprising fixed and variable charges.

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

8. DIVIDEND PAID

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

9. SEGMENTAL INFORMATION

BY BUSINESS ACTIVITIES	Quarter ended 30/9/2006		Period ended 30/9/2006	
	Operating revenue RM '000	Operating profit/(loss) RM '000	Operating revenue RM '000	Operating profit/(loss) RM '000
Airline operations	3,005,557	22,347	8,001,603	(446,663)
Cargo services	709,297	47,547	2,064,553	114,128
Catering services	2,912	712	10,349	2,830
Others	37,503	2,989	113,598	11,439
	3,755,269	73,595	10,190,103	(318,266)
Eliminations	(253,477)	(902)	(771,519)	(79,250)
Total	3,501,792	72,693	9,418,584	(397,516)

10. VALUATION OF ASSETS

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

11. SUBSEQUENT EVENTS

There were no other subsequent events for the period ended 30 September 2006.

12. CHANGES IN THE COMPOSITION OF THE 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 dormant subsidiaries of the Company had been voluntarily wound up by the members:
 - a) Aircraft Engine Repair and Overhaul (Malaysia) Sdn Bhd
 - b) MIR Technologies Sdn Bhd
 - c) MAS Properties Sdn Bhd
 - d) MAS Wings of Gold Sdn Bhd
- (iii) On 26 July 2006, the Company purchased a total of 2,166,666 ordinary share of RM1.00 each of Macnet CCN (M) Sdn ("Macnet"), a dormant company, for a purchase consideration of RM2.00. With effect from that date, Macnet has become a wholly owned subsidiary of the Company.

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.

	21/11/2006 RM '000
1. Secured / Unsecured	
Loans	
- Secured	440,475
- Unsecured	112,235
Finance leases (secured)	743,009
	<u>1,295,719</u>
2. Tenure	
Loans and leases due within one year	448,718
Loans and leases due after one year	847,001
	<u>1,295,719</u>
3. Loans by currencies in Ringgit Malaysia	
US Dollar	1,167,945
Euro	112,235
Great Britain Pound	15,539
	<u>1,295,719</u>
(b) Others	
Corporate guarantees given to third parties	5,309
Bank guarantees given to third parties	142,052
Performance bonds given to third parties	518
	<u>147,879</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 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 21 November 2006 is RM1,213 million.

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

14. SIGNIFICANT RELATED PARTY DISCLOSURES

	Quarter ended 30/9/2006 RM '000	Quarter ended 30/9/2005 RM '000	Period ended 30/9/2006 RM '000	Period ended 30/9/2005 RM '000
LSG Sky Chefs-Brahim's Sdn. Bhd., an associated company:				
- Catering and other services paid/ payable	58,816	62,706	170,022	199,282
- Rental income and others	(5,064)	(5,288)	(14,933)	(15,854)
- Shared services billed	(623)	(784)	(2,167)	(1,664)
GE Engine Services (M) Sdn. Bhd., an associated company:				
- Engine maintenance services rendered and purchase of aircraft, property and equipment	119,138	162,693	375,205	433,273
- Rental income and others	(3,970)	(3,773)	(11,516)	(11,322)
- Shared services billed	(57)	(280)	(270)	(374)
Pan Asia Pacific Aviation Services Ltd., an associated company:				
- Line maintenance and aircraft interior cleaning services paid/ payable	1,528	1,540	4,575	4,290
Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd., an associated company:				
- Aircraft component repair services paid/ payable	968	1,451	5,357	8,955
Honeywell Aerospace Services (M) Sdn. Bhd., an associated company:				
- Aircraft power plant unit overhaul services paid/ payable	1,960	1,568	4,612	4,606
Taj Madras Flight Kitchen Limited, an associated company:				
- Catering services paid/ payable	367	555	1,135	1,952
Abacus International Holding Ltd., a company in which the Company has substantial shareholding:				
- Computer reservation system access fee paid/ payable	9,151	11,751	30,282	42,252
Evergreen Sky Catering Corporation, a company in which the Company has substantial shareholding:				
- Catering services paid/ payable	2,344	2,715	6,487	7,326
Miascor Catering Services Corporation, a company in which the Company has substantial shareholding:				
- Catering services paid/ payable	188	317	717	940
Penerbangan Malaysia Bhd, holding company:				
- Hire of aircraft paid/ payable	157,050	116,473	402,566	342,260
Aircraft Business Malaysia Sdn. Bhd., a fellow subsidiary:				
- Aircraft lease rental paid/ payable	70,933	65,283	208,987	190,716
Asset Global Network Sdn. Bhd., a fellow subsidiary:				
- Rental of premises paid/ payable	17,852	17,852	53,556	53,558

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

15. SIGNIFICANT RELATED PARTY BALANCES

	As at 30/9/2006 RM '000	As at 31/12/2005 RM '000
Amount owing by/ (to) holding company	33,933	(81,475)
Amount owing by related parties	8,361	5,903
Amount owing by associated companies	29,721	19,145
Amount owing by fellow subsidiary		
- due within one year	54,230	51,611
- due after one year	309,740	351,815
Amount owing to associated companies	<u>(13,356)</u>	<u>(44,982)</u>

16. CHANGES IN PREVIOUS QUARTER PRESENTATION

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

Period ended 30 September 2005

INDIVIDUAL QUARTER

	Previously stated RM'000	Reclassified RM'000	Restated RM'000
Operating Revenue	2,982,239	31,964	3,014,203
Operating Expenses	<u>(3,408,040)</u>	<u>(31,964)</u>	<u>(3,440,004)</u>

CUMULATIVE QUARTER

	Previously stated RM'000	Reclassified RM'000	Restated RM'000
Operating Revenue	8,683,320	99,431	8,782,751
Operating Expenses	<u>(9,564,135)</u>	<u>(99,431)</u>	<u>(9,663,566)</u>

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 profit of RM72.7 million for the third quarter ended 30 September 2006 compared to an operating loss of RM363.5 million for the corresponding quarter last year due to the higher operating revenue and improved yields implemented under the business turnaround plan initiatives. In addition, the Group recorded gain on sale of properties and compensation for early termination of ADBU offset by the domestic rationalisation expenses which resulted in a profit after tax of RM240.3 million. The Profit and Loss of domestic operations was incorporated into the results with effect from 1 August 2006.

2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

Operating revenue for the quarter increased to RM3,501.8 million from RM2,945.8 million in the preceding quarter. The Group made a profit after tax of RM240.3 million compared to a loss after tax of RM177.1 million in the preceding quarter. The Group's turnaround to profitability was contributed by higher operating revenue and improved yields implemented under the business turnaround plan initiatives, sale of its properties, compensation for early termination of ADBU offset by the domestic rationalisation expenses. The Profit and Loss of domestic operations was incorporated into the results with effect from 1 August 2006.

3. CURRENT YEAR PROSPECTS

The first nine months' traffic performance remained strong but the rate of growth has slowed due to the weakening economic scenario in US caused by higher interest rates.

Whilst oil prices have recently eased, they are still high by historical standards as fundamental oil demand has not changed. Competition remains intense as further new capacity comes on stream on Asian and Middle Eastern routes. Yields will remain under pressure for the coming quarter with increased activity by low cost carriers and additional capacity exceeding demand.

The rationalisation of the domestic services has been implemented from 1 August 2006 with MAS operating on the 26 trunk routes.

As mentioned in previous quarters, Phase 1 and Phase 2 of the international network rationalisation have been completed. The third and final phase of the international network rationalisation has resulted in discontinuation of Fukuoka services with effect from 1 September 2006 and Cairo and Chengdu services beginning 29 October 2006 onwards. Further route reviews are expected to be implemented under Phase 3 as part of MAS Business Turnaround Plan to build the "hub and spoke" network in Europe as well as increasing ASEAN services in Northern Winter 2006. In this regard, Paris and Los Angeles frequencies will also be increased from 5 times to 7 times weekly. After further review, Kuala Lumpur- Stockholm-Newark 3 times weekly route is now maintained in support of promoting inbound traffic into Malaysia from the USA and the Scandinavian region for Visit Malaysia Year 2007.

To ensure that MAS' passengers are able to travel to their desired destinations, MAS has entered into code-share agreements with Gulf Air and Virgin Blue. MAS is currently engaged in negotiation with other airlines to extend its global reach through code share agreements and bilaterals.

In the cargo division, for the first nine months, international freight traffic grew by 5.2% over the same period in 2005, but is still below the long term average growth of 6%. Efficiencies will be critical to survival as a result of oil price volatility. Our ability to improve yields and load factor have helped enhance our earnings.

As we move towards the end of the financial year, we are on track to meet our internal targets as outlined in the Business Turnaround Plan. We are cautiously optimistic that our yields and load factors will continue to improve.

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 September 2006.

5. TAXATION

Taxation charge for the Group comprised the following: -

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/9/2006	Quarter ended 30/9/2005 (Restated)	Period ended 30/9/2006	Period ended 30/9/2005 (Restated)
	RM '000	RM '000	RM '000	RM '000
Current period				
- Malaysian	438	686	1,388	2,410
- Foreign	2,230	2,116	5,911	9,336
	2,668	2,802	7,299	11,746
Under/ (Over) provision in prior period	14	(207)	(112)	(1,069)
Deferred taxation	13,313	1,994	32,405	10,207
Total	15,995	4,589	39,592	20,884

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

(i) Profit on sale of unquoted investments

The Redeemable Preference Shares (RPS) A of LSG Sky Chefs-Brahim's Sdn. Bhd. were redeemed at cost for a total of RM10.4 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
31 August 2006	13,535	3,461

(ii) Profit on sale of properties

There were several local and overseas properties disposed during the quarter amounting to a gain on disposal of RM62.4 million.

7. PURCHASE OR DISPOSAL OF QUOTED SECURITIES

As at 30 September 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	-	23,007

There was no purchase or disposal of quoted securities during the period ended 30 September 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 30 September 2006.

9. GROUP BORROWINGS AND DEBT SECURITIES

(a) The Group as at 30 September 2006 has lease obligations amounting to RM685.7 million (31 December 2005: RM1,190.6 million) which are covered by interest bearing funds amounting to RM645.1 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) Short term borrowings:

	As at 30/9/2006 RM '000	As at 31/12/2005 RM '000
Unsecured	<u>950,000</u>	<u>-</u>

i) 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 4.82% per annum, unsecured and is repayable on 27 December 2006. As at 30 September 2006, the net drawdown was RM800 million.

ii) On 22 August and 22 September 2006 respectively, the Group has entered into revolving credit facilities with certain financial institutions. As at 30 September 2006, the net drawdown amount is RM150 million. It is unsecured with effective weighted interest rate at 4.54% per annum.

10. FINANCIAL INSTRUMENTS

(a) As at 21 November 2006, the Group has entered into various fuel hedging transactions for periods up to 31 December 2008 in lots totalling 14,400,000 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 21 November 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 RM4,696.9 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 21 November 2006 vary from 4.50% to 5.45% per annum.

(c) As at 21 November 2006, the Group has entered into foreign currency forward contracts and options amounting to RM996.3 million for periods up to 14 November 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.

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

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.

(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 is continuing to pursue 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)

(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 (" the claim") for substantial damages resulting from inter alia breach of fiduciary duties and/or knowingly assisting or benefiting from such breach of fiduciary duties.

On 9 October 2006, Tan Sri Dato' Tajudin bin Ramli, Promet (Langkawi) Resorts Sdn. Bhd. and Kauthar Venture Capital Sdn. Bhd. have, in response to the Claim, jointly filed and served a defence and counterclaim on the solicitors for MAS claiming inter-alia damages against MAS, its directors, two of its subsidiaries, and one other party. MAS in consultation with its solicitors are continuing to pursue the claim and to challenge the counterclaim.

12. DIVIDENDS

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

13. EARNINGS/ (LOSS) PER SHARE

(a) The basic earnings per share for the current quarter is calculated by dividing the profit attributable to shareholders of the Company of RM240.3 million (2005: loss RM366.4 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 September 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 28 November 2006.

By Order of the Board

Rizani bin Hassan (LS 05125)
Company Secretary
Kuala Lumpur
28 November 2006

SUMMARY OF KEY FINANCIAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/9/2006	Quarter ended 30/9/2005 (Restated)	Period ended 30/9/2006	Period ended 30/9/2005 (Restated)
	RM '000	RM '000	RM '000	RM '000
1. Total Revenue	3,631,039	3,076,470	9,709,173	9,112,767
2. Profit/(loss) before tax	256,676	(361,033)	(216,183)	(509,087)
3. Profit/(loss) for the period	240,295	(366,443)	(257,904)	(532,622)
4. Profit/(loss) for the period attributable to shareholders of the Company	240,295	(366,443)	(257,904)	(532,622)
5. Basic earnings/(loss) per share (sen)	19.17	(29.24)	(20.58)	(42.50)
6. Dividend per share (sen)	-	2.49	-	2.49

	AS AT 30/9/2006	AS AT 31/12/2005
Net assets per share attributable to ordinary equity holders of the parent (RM)	1.41	1.61

ADDITIONAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/9/2006	Quarter ended 30/9/2005	Period ended 30/9/2006	Period ended 30/9/2005
	RM '000	RM '000	RM '000	RM '000
1. Gross interest income	11,966	8,233	33,925	41,712
2. Gross interest expense	(12,102)	(2,033)	(22,782)	(2,293)