



MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT ON THE FIRST QUARTER ENDED 31 MARCH 2007

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 2007. This announcement should be read in conjunction with the audited annual financial statements for the year ended 31 December 2006 and the accompanying explanatory notes attached to the quarterly condensed financial report.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/3/2007 RM '000	Quarter ended 31/3/2006 RM '000 (Restated)	Period ended 31/3/2007 RM '000	Period ended 31/3/2006 RM '000 (Restated)
Continuing Operations				
Operating revenue	3,580,724	2,956,577	3,580,724	2,956,577
Operating expenses	(3,509,004)	(3,331,715)	(3,509,004)	(3,331,715)
Other operating income	57,247	58,476	57,247	58,476
Profit/(loss) from operations	128,967	(316,662)	128,967	(316,662)
Finance costs	(13,032)	(50)	(13,032)	(50)
Gain on sale of properties	17,726	-	17,726	-
Share of results from associated companies	4,520	5,009	4,520	5,009
Profit/(loss) before taxation	138,181	(311,703)	138,181	(311,703)
Taxation	(9,560)	(10,840)	(9,560)	(10,840)
Profit/(loss) for the period from continuing operations	128,621	(322,543)	128,621	(322,543)
Discontinued Operation				
Profit for the period from a discontinued operations	4,512	2,583	4,512	2,583
Profit/(loss) for the period	133,133	(319,960)	133,133	(319,960)
Attributable to:				
Equity holders of the Company	132,710	(321,124)	132,710	(321,124)
Minority interest	423	1,164	423	1,164
Profit/(loss) for the period	133,133	(319,960)	133,133	(319,960)
Earnings/(loss) per share attributable to equity holders of the Company				
Basic (sen)				
Continuing operations	10.23	(25.83)	10.23	(25.83)
Discontinued operations	0.36	0.21	0.36	0.21
	10.59	(25.62)	10.59	(25.62)

Notes:

- The comparative figures have been reclassified to conform with current year's presentation as reflected in Notes 17 of Part A - Explanatory Notes Pursuant to FRS 134, Paragraph 16.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	As at 31/3/2007 RM '000	As at 31/12/2006 RM '000 (Audited)
Property, plant and equipment	2,080,434	2,496,764
Investment in associated companies	68,306	67,461
Long term investments	103,850	105,233
Amount owing by a fellow subsidiary	288,687	295,860
Intangible assets	72,085	80,362
Deferred tax assets	34,155	41,828
	<u>2,647,517</u>	<u>3,087,508</u>
<u>Current assets</u>		
Inventories	388,710	385,769
Trade receivables	1,012,457	1,015,143
Other receivables	942,920	841,600
Tax recoverable	46,717	45,608
Cash and bank balances	1,830,536	1,584,699
	<u>4,221,340</u>	<u>3,872,819</u>
Assets of an entity classified as held for sale	379,229	-
Non-current assets held for sale	109,879	10,647
	<u>489,108</u>	<u>10,647</u>
	<u>4,710,448</u>	<u>3,883,466</u>
<u>Current liabilities</u>		
Trade payables	1,840,129	1,665,663
Other payables	1,227,524	1,070,815
Short term borrowings	500,000	1,050,000
Amount owing to holding company	29,601	72,031
Provision for taxation	20,593	20,457
Sales in advance of carriage	1,210,664	1,202,060
	<u>4,828,511</u>	<u>5,081,026</u>
Liabilities directly associated with the assets of an entity classified as held for sale	7,699	-
	<u>4,836,210</u>	<u>5,081,026</u>
Net current liabilities	(125,762)	(1,197,560)
	<u>2,521,755</u>	<u>1,889,948</u>
Equity attributable to equity holders of the Company	2,005,833	1,873,425
Share capital - ordinary shares	1,253,244	1,253,244
Reserves		
Share premium	3,300,862	3,301,164
General reserve	501,530	501,530
Accumulated losses	(3,049,803)	(3,182,513)
Minority interest	14,869	15,246
Total equity	<u>2,020,702</u>	<u>1,888,671</u>
<u>Long term liabilities</u>		
Long term borrowings	500,000	-
Deferred tax liabilities	1,053	1,277
	<u>2,521,755</u>	<u>1,889,948</u>
Net assets per share (RM)	<u>1.61</u>	<u>1.51</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	Period ended 31/3/2007 RM '000	Period ended 31/3/2006 RM '000
Cash Flows From Operating Activities		
Profit/(loss) before taxation from:		
Continuing operations	138,181	(311,703)
Discontinued operations	6,308	2,585
Adjustments for :-		
Depreciation of property, plant and equipment	87,633	90,845
Interest expense	13,022	-
Property, plant and equipment written off, net	6,862	5,956
Write off of intangible assets	3,127	-
Amortisation of intangible assets	1,096	-
Writeback of unavailed credits on sales in advance of carriage	(48,983)	(17,504)
Writeback of impairment losses for property, plant and equipment.	(32,220)	-
Interest income	(18,843)	(8,097)
Gain on sale of property, plant and equipment, net	(17,843)	(204)
Provision for doubtful debts, net of reversals	(17,604)	34,066
Share of results of associated companies	(4,520)	(5,009)
Unrealised foreign exchange (gain)/losses	(775)	38,957
Dividend income	(575)	-
Operating profit/(loss) before working capital changes	114,866	(170,108)
(Increase)/decrease in inventories	(6,649)	42,404
Increase in trade and other receivables	(70,548)	(23,697)
Decrease in amount owing to holding company	(42,430)	(87,061)
Increase in trade and other payables	325,864	94,853
Increase/(decrease) in sales in advance of carriage	57,587	(13,889)
Cash generated from/(used in) operating activities	378,690	(157,498)
Interest paid	(1,045)	-
Taxes paid	(1,966)	(2,756)
Net cash generated from/(used in) operating activities	375,679	(160,254)
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	(108,358)	(552,257)
Proceeds on sale of property, plant and equipment	23,090	204
Interest received	15,173	11,302
Purchase of other investments	(2,583)	-
Proceeds from sale of other investments	3,965	3,525
Dividend received	4,250	-
Net cash used in investing activities	(64,463)	(537,226)
Cash Flows From Financing Activities		
(Repayment)/drawdown of short term borrowings	(550,000)	600,000
Drawdown of long term borrowings	500,000	-
Dividend paid to minority interest in a subsidiary	(800)	-
Expenses incurred on issuance of Rights share exercise	(302)	-
Net cash (used in)/generated from financing activities	(51,102)	600,000
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	260,114	(97,480)
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	1,584,699	1,179,409
CASH AND CASH EQUIVALENTS AS AT 31 MARCH	1,844,813	1,081,929
Cash and cash equivalents comprise of:		
Cash and bank balances from:		
Continued operations	1,830,536	1,081,929
Discontinued operations	14,277	-
	1,844,813	1,081,929

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2007**

	Attributable to equity holders 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 2007	1,253,244	3,301,164	501,530	(3,182,513)	620,181	1,873,425	15,246	1,888,671
Profit for the period	-	-	-	132,710	132,710	132,710	423	133,133
Expenses incurred on issuance of Rights share exercise	-	(302)	-	-	(302)	(302)	-	(302)
Dividends	-	-	-	-	-	-	(800)	(800)
At 31 March 2007	1,253,244	3,300,862	501,530	(3,049,803)	752,589	2,005,833	14,869	2,020,702

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

	Attributable to equity holders 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)
At 31 March 2006	1,253,244	3,301,164	501,530	(3,360,728)	441,966	1,695,210	14,316	1,709,526

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 year ended 31 December 2006. 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 year ended 31 December 2006.

The significant accounting policies adopted for the quarterly condensed financial report are consistent with those of the audited financial statements for the financial year ended 31 December 2006 except for the adoption of all relevant new and revised Financial Reporting Standards ("FRS") that became effective for the Group for the financial period beginning 1 January 2007:

FRS 117	Leases
FRS 124	Related Party Disclosures

The adoption of the above FRS do not have any significant financial impact on the Group.

2. QUALIFICATION OF PRECEDING AUDITED ANNUAL FINANCIAL STATEMENTS

There was no qualification of the Group's Audited Annual Financial Statements for the year ended 31 December 2006.

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 2007.

5. MATERIAL CHANGES IN ESTIMATES OF AMOUNTS REPORTED

There was no material changes in estimates of amount reported for the period ended 31 March 2007.

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

6. SIGNIFICANT EVENTS

- i) On 15 January 2007, the Company proposed to implement a performance-based share option scheme for eligible employees including executive directors of the Group who meet the criteria of eligibility for participation in the Proposed Option Scheme. CIMB Investment Bank Berhad (formerly known as Commerce International Merchant Bankers Berhad) has been appointed as the adviser to the Company for the Proposed Option Scheme. The purpose for the Proposed Option Scheme is to reward and retain high performing employees and to encourage a high performance culture.

On 23 April 2007, at the Extraordinary General Meeting, the shareholder's of the Company approved the proposed performance-based share option scheme above. On 15 May 2007, the Proposed Option Scheme has been approved by Bursa Malaysia Securities Berhad.

- ii) On 1 March 2007, the Company entered into a conditional Share Purchase Agreement ("SPA") for the proposed disposal of 10,000,000 ordinary shares of RM1.00 each representing 100% of the entire allotted and issued share capital of the Company's wholly-owned subsidiary, MAS Hotel & Boutiques Sdn.Bhd. ("MHB") to Kingdom Langkawi B.V for cash consideration of RM435 million.

The completion date is subject to the fulfilment of conditions precedents under the SPA. As at 31 March 2007, the assets and liabilities of MHB are included in the Consolidated Balance Sheet as disposal entity classified as held for sale and the effect of the discontinued operation of MHB is disclosed in the income statement accordingly. Refer to Part A Note 13 for details.

- iii) On 9 March 2007, the Company entered into a conditional sale and purchase agreement and a lease agreement with Employees Provident Fund Board ("EPF") for the proposed disposal and leaseback of a piece of freehold land held under H.S.D 63481, P.T. No. 314 in the Mukim Of Damansara, District of Petaling, State of Selangor Darul Ehsan together with the building, known as MAS Academy of No.2, Jalan SS7/13, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan for a cash consideration of RM145 million. The leaseback period is 5 years from the completion of proposed disposal with the option to renew the duration of the leaseback for a further five years.

On 23 April 2007, at the Extraordinary General Meeting, the shareholders' of the Company approved the proposed disposal and leaseback.

During the period, the disposal is currently in progress and the carrying value of the property of RM96.1million has been classified in the Balance Sheet as non current asset held for sale.

- iv) On 14 March 2007, the Company announced that it will launch its new airline known as "Firefly". Firefly will be operated by the Company's wholly owned subsidiary, FlyFirefly Sdn.Bhd. (formerly known as Kelas Services Sdn.Bhd.) which has been issued the Air Services License and Air Operator's Certificate by the Department of Civil Aviation Malaysia effective 17 March 2007.

Firefly, managed as a separate entity, commenced operations with two (2) Fokker 50 aircraft in early April 2007 and operates twice daily services out of Penang International Airport to Kota Bahru, Langkawi, Kuantan and Kuala Terengganu; and daily services to Phuket and Koh Samui.

There were no other subsequent events for the period ended 31 March 2007 other than as disclosed in Note 8, Part B - Explanatory Notes Pursuant To Bursa Malaysia Securities Berhad Listing Requirements Under Part A of Appendix 9B.

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

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

On 30 January 2007, the Company issued 500 Redeemable Preference Shares at the issue price of RM1.00 per share as part of the integral part of the facility agreement with a financial institution to be taken by the Company for its working capital purposes.

There was no other issuance, cancellation, resale or repayment of debt or equity securities for the financial period ended 31 March 2007.

8. DIVIDEND PAID

There were no dividends paid in the financial period ended 31 March 2007.

9. SEGMENTAL INFORMATION

BY BUSINESS ACTIVITIES	Individual Quarter ended 31/3/2007		Cumulative Quarter ended 31/3/2007	
	Operating revenue RM '000	Operating profit/(loss RM '000	Operating revenue RM '000	Operating profit/(los RM '000
Airline operations	3,171,356	112,124	3,171,356	112,124
Cargo services	610,503	18,617	610,503	18,617
Catering services	2,506	(108)	2,506	(108)
Others	22,159	3,676	22,159	3,676
	3,806,524	134,309	3,806,524	134,309
Eliminations	(225,800)	(5,342)	(225,800)	(5,342)
Total	3,580,724	128,967	3,580,724	128,967

10. VALUATION OF ASSETS

There was no valuation of property and equipment for the financial period ended 31 March 2007.

11. SUBSEQUENT EVENTS

There was no subsequent events for the financial period ended 31 March 2007.

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

12. CHANGES IN THE COMPOSITION OF THE GROUP

On 12 March 2007, Kelas Services Sdn.Bhd. has changed its name to FlyFireFly Sdn.Bhd., which commenced its operation to operate the community airlines on 2 April 2007. Further details as per Note 6(iv), Part A.

There was no change in the composition of the Group for the financial period ended 31 March 2007.

13. DISCONTINUED OPERATION

Save as disclosed in Note 6(ii), the Company, on 1 March 2007 entered into a conditional Share Purchase Agreement ("SPA") for the disposal of 100% equity of the Company's wholly-owned subsidiary, MAS Hotel & Boutiques Sdn.Bhd., a company involved in the business providing hotel and boutique facilities, to Kingdom Langkawi B.V. This disposal forms part of MAS' strategic asset rationalisation exercise by the disposal of non-core assets as an initiative in the Company's Business Turnaround Plan.

The subsidiary is involved in the business of providing hotel and lodging facilities and the business of emporium and boutique operators.

The disposal of the subsidiary will be completed upon satisfactory fulfillment of all conditions precedent under the SPA. As at 31 March 2007, assets and liabilities of the subsidiary have been classified as an entity held for sale.

The revenue, results and cash flows of the subsidiary were as follows:

	3 months ended	
	31.3.2007	31.3.2006
	RM'000	RM'000
Revenue	21,059	17,950
Profit before tax	6,308	2,585
Taxation	(1,796)	(2)
Profit for the period from a discontinued operation	4,512	2,583
Cash flow from operating activities	3,444	7,046
Cash flow from investing activities	(1,100)	(4,336)
Cash flow from financing activities	2,745	4,374
Total cash flows	5,089	7,084

The major classes of assets and liabilities of the subsidiary classified as an entity held for sale as at 31 March 2007 are as follows:

	RM'000
Assets:	
Property, plant and equipment	360,013
Inventories	1,631
Trade receivables	1,890
Other receivables	1,418
Cash and bank balances	14,277
Assets of an entity classified as held for sale	<u>379,229</u>
Liabilities:	
Trade payables	695
Other payables	5,198
Provision for tax	6
Deferred tax liabilities	1,800
Liabilities directly associated with the assets of an entity classified as held for sale	<u>7,699</u>
Net assets attributable to discontinued operations	<u>371,530</u>

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

14. 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.

	21/5/2007
	RM '000
1. Secured / Unsecured	
Loans	
- Secured	329,766
- Unsecured	104,982
Finance leases (secured)	593,726
	<u>1,028,474</u>
2. Tenure	
Loans and leases due within one year	320,404
Loans and leases due after one year	708,069
	<u>1,028,473</u>
3. Loans by currencies in Ringgit Malaysia	
US Dollar	923,492
Euro	104,982
	<u>1,028,474</u>
(b) Others	
Corporate guarantees given to third parties	4,960
Bank guarantees given to third parties	141,830
Performance bonds given to third parties	646
	<u>147,436</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 May 2007 is RM1.422 billion.

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

15. SIGNIFICANT RELATED PARTY DISCLOSURES

	Quarter ended 31/3/2007 RM '000	Quarter ended 31/3/2006 RM '000
LSG Sky Chefs-Brahim's Sdn. Bhd., an associate:		
- Catering and other services paid/ payable	52,368	60,972
- Rental income and others	(5,351)	(4,907)
- Shared services billed	(614)	(853)
GE Engine Services (M) Sdn. Bhd., an associate:		
- Engine maintenance services rendered and purchase of aircraft, property and equipment	109,389	99,789
- Rental income and others	(3,846)	(3,846)
- Shared services billed	(41)	(90)
Pan Asia Pacific Aviation Services Ltd., an associate:		
- Line maintenance and aircraft interior cleaning services paid/ payable	1,273	1,576
Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd., an associate:		
- Aircraft component repair services paid/ payable	2,158	2,512
Honeywell Aerospace Services (M) Sdn. Bhd., an associate:		
- Aircraft power plant unit overhaul services paid/ payable	1,868	603
Taj Madras Flight Kitchen Limited, an associate:		
- Catering services paid/ payable	653	496
Abacus International Holding Ltd., a company in which the Company has substantial shareholding:		
- Computer reservation system access fee paid/ payable	12,472	11,834
Evergreen Sky Catering Corporation, a company in which the Company has substantial shareholding:		
- Catering services paid/ payable	2,196	2,241
Miascor Catering Services Corporation, a company in which the Company has substantial shareholding:		
- Catering services paid/ payable	79	287
Penerbangan Malaysia Bhd, holding company:		
- Hire of aircraft paid/ payable	156,643	130,791
Aircraft Business Malaysia Sdn. Bhd., a fellow subsidiary:		
- Aircraft lease rental paid/ payable	71,058	68,646
Asset Global Network Sdn. Bhd., a fellow subsidiary:		
- Rental of premises paid/ payable	17,852	17,852

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

16. SIGNIFICANT RELATED PARTY BALANCES

	As at 31/3/2007 RM '000	As at 31/12/2006 RM '000 (Audited)
Amount owing to holding company	(29,601)	(72,031)
Amount owing by related parties	8,732	8,614
Amount owing by fellow subsidiary		
- due within one year	54,558	54,389
- due after one year	286,626	295,860
Amount owing by/(to) associated companies	28,895	(5,656)

17. CHANGES IN PREVIOUS QUARTER PRESENTATION

The following disclosure for the first quarter ended 31 March 2006 has been restated to conform with the current period's presentation:

Quarter ended 31 March 2006

	Previously stated RM'000	Reclassified RM'000	Restated RM'000
Operating revenue	2,970,959	(14,382)	2,956,577
Operating expenses	(3,342,542)	10,827	(3,331,715)
Other operating income	62,050	(3,574)	58,476
Finance costs	(4,594)	4,544	(50)
Loss from operations	(309,533)	(7,129)	(316,662)
Taxation	(10,842)	2	(10,840)
Profit for the period from a discontinued operations	-	2,583	2,583

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 RM128.9 million for the first quarter ended 31 March 2007 compared to an operating loss of RM316.7 million for the corresponding quarter last year due to the higher operating revenue and improved yields. In addition, the Group recorded gain on sale of properties, share of results from associated company and profit from discontinued operations which resulted in a profit after tax of RM133.1 million.

2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

Operating revenue for the quarter decreased to RM3,580.7 million from RM3,708.2 million in the preceding quarter. However, the Group made a profit after tax of RM133.1 million compared to RM122.0 million in the preceding quarter due to the favourable variance in operating expenses. Operating expenditure reduced from RM3,685.7 million to RM3,509.0 million this quarter following the cost control measures implemented under the business turnaround plan initiatives.

3. CURRENT YEAR PROSPECTS

Year 2007 will continue to be a challenging year for the aviation industry. According to IATA, the global passenger growth for the year is expected to slow down to 5.0% in comparison to 5.9% growth for 2006. The Asia Pacific region, on the other hand, is forecasted to grow by more than 6% for the next five years. In light of these trends, the Company will strengthen its presence in the region, particularly in ASEAN, China and India as well as in the Middle East. In the other regions, strategic alliances are being pursued with other airlines to complement the company's own efforts.

Competition will remain intense and yields are expected to be under tremendous pressure from price discounting and capacity injections as record aircraft deliveries are expected in 2007. Aggressive promotional efforts by our competitors in the domestic and ASEAN markets will impact the outbound travel from Malaysia. MAS will continue to intensify promotional activities through travel fairs like MAS Travel Fair and MATTA. On 14 March 2007, the Company launched Firefly, Malaysia's first community airline, tapping the potential customer base in Indonesia-Malaysia-Thailand Growth Triangle.

In line with the MAS Business Turnaround Plan (BTP), management will continue to intensify efforts to generate profits for 2007. Revenue and yields have shown improvement since 2006 following the introduction of a new fare structure, revenue management and distribution initiatives under the 'Omega' project. Complementing Omega project is the 'Alpha' project, a 2007 initiative to directly focus on sales and marketing strategies. Other initiatives for 2007 includes e-ticketing and reservation Passenger Services System (PSS), improved Customer Value Proposition and productive Engineering & Maintenance Breakthrough projects that are expected to enhance Company's profitability.

With the measures set out above, the Board of Directors are of the opinion that the targets announced in the Business Turnaround Plan (BTP) in early 2006 are achievable. The targets for 2007 include 'targets', 'exceeding' and 'outstanding' results of RM50 million - RM99 million, RM100 million - RM299 million and RM300 million onwards respectively. The Board of Directors is committed to achieving the best results possible.

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 2007.

5. TAXATION

Taxation charge for the Group comprised the following: -

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/3/2007 RM '000	Quarter ended 31/3/2006 RM '000	Period ended 31/3/2007 RM '000	Period ended 31/3/2006 RM '000
Continuing operations				
Current period				
- Malaysian	305	475	305	475
- Foreign	1,848	1,833	1,848	1,833
	2,153	2,308	2,153	2,308
Under/ (Over) provision in prior period				
- Malaysian	(40)	58	(40)	58
- Deferred taxation	7,447	8,474	7,447	8,474
Total	9,560	10,840	9,560	10,840

The Group provided Malaysian taxation for its subsidiaries. The Company was granted an extension of the tax exemption status by the Ministry of Finance on its chargeable income in respect of all sources of income up to year of assessment 2015.

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

(i) Profit on sale of unquoted investments

The Redeemable Preference Shares A ("RPS A") of LSG Sky Chefs-Brahim's Sdn. Bhd. were redeemed at cost for a total of RM3.9 million on the following dates:

Date	No. of RPS A	Amount Redeemed RM'000
31 March 2007	16,500	3,965

(ii) Profit on sale of properties

There were several local and overseas properties disposed during the quarter amounting to a gain on disposal of RM17.7 million.

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

7. PURCHASE OR DISPOSAL OF QUOTED SECURITIES

As at 31 March 2007, 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	-	24,825

There was no purchase or disposal of quoted securities during the financial period ended 31 March 2007.

8. CORPORATE PROPOSALS

On 15 January 2007, the Company announced the proposed renounceable rights issues of up to 418 million new ordinary shares of RM1.00 each in the Company ("Rights Shares") at an issue price to be determined later by the Board and up to 418 million Redeemable Convertible Preference Shares of RM0.10 each in the Company ("RCPS") at an issue price of RM1.00 each on the basis of one (1) rights share and one (1) RCPS for every three (3) existing ordinary shares of RM1.00 each in the company ("MAS Shares") held ("Proposed Rights Issue").

Under the Proposed Rights Issue, the Board will provisionally allot up to 418 million Rights Shares and up to 418 million RCPS to the shareholders whose names appear on the Record of Depositors ("Entitled Shareholders") at the close of business of the Company, on a date to be determined and announced later by the Board, on the basis of one (1) Rights Share and one (1) RCPS for every three (3) existing MAS Shares held. The Board will deal with the fractional entitlements of the Rights Shares and RCPS in such manner as they may in their absolute discretion and expedient in the interest of the Company. The Entitled Shareholders can elect to subscribe for their respective Rights Shares entitlements and/or RCPS entitlements.

CIMB Investment Bank Berhad (formerly known as Commerce International Merchant Bankers Berhad) has been appointed as the adviser to the Company for the Proposed Rights Issue.

On 18 April 2007, Bank Negara Malaysia has approved the issuance of the RCPS to non-resident shareholders pursuant to the Proposed Rights Issue.

On 23 April 2007, at the Extraordinary General Meeting, the shareholders of the Company approved the proposed renounceable rights issue including increase in authorised share capital and amendments to the memorandum and articles of associations of the company which forms part of the Proposed Rights Issue to facilitate the issuance of RCPS and to be consistent with the recent amendment/enhancement to the Listing Requirement of Bursa Securities.

The shareholders' of the Company approved the proposed increase in authorised share capital to facilitate the issuance of the RCPS pursuant to the Proposed Rights Issue. The authorised share capital of the Company has been increased from RM10,000,100,001 to RM10,041,900,001 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, 1,000,000 new Redeemable Preference Share of RM0.10 each and 418,000,000 RCPS by the creation of 418,000,000 RCPS.

The completion of Proposed Rights Issue is pending upon the following:

- (i) issuance of abridged prospectus to shareholders; and
- (ii) the approval-in-principle of Bursa Malaysia Securities Berhad for the listing of and quotation for the new Rights Shares and new RCPS to be issued pursuant to the Proposed Rights Issue and the new MAS Shares to be issued pursuant to the conversion of the RCPS.

There were no other proposals made during and subsequent to the financial period ended 31 March 2007 other than disclosed in Note 6, Part A, Explanatory Notes Pursuant To FRS 134, Paragraph 16.

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

9. GROUP BORROWINGS AND DEBT SECURITIES

(a) The Group as at 31 March 2007 has lease obligations amounting to RM641.0 million (31 March 2006: RM1,064.7 million) which are covered by interest bearing funds amounting to RM613.3 million (31 March 2006: RM741.4 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) Borrowings:

	As at 31/3/2007 RM 'mil	As at 31/12/2006 RM 'mil
Long term borrowing:		
Unsecured	<u>500</u>	<u>-</u>
Short term borrowing:		
Unsecured	<u>500</u>	<u>1,050</u>

i) On 27 March 2006, the Group entered into a bridging loan facility arrangement of up to a maximum principal amount of RM1 billion 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 4.49% per annum, unsecured and is repayable on 31 January 2007. As at 31 January 2007, the Group has fully redeemed the Bridging Loan Facility of RM1 billion with the final repayment of RM450 million.

ii) On 22 August and 22 September 2006 respectively, the Group has entered into revolving credit facilities with certain financial institutions. It is unsecured with effective weighted interest rate at 4.49% per annum. On 22 February and 22 March 2007, the Group has redeemed of RM50 million respectively for Revolving Credit Facilities with certain financial institutions. As at 31 March 2007, the net drawdown amount is RM500 million.

iii) On 31 January 2007, the Group has entered into Term Loan Facility of up to RM500 million with a financial institution with tenure of three (3) years from the drawdown date. The Term Loan Facility shall be used for the redemption of existing Bridging Loan Facility and for the working capital requirements. The long term borrowing bears interest rate of 5.58% per annum, unsecured and interest repayable on half yearly basis.

10. FINANCIAL INSTRUMENTS

(a) As at 21 May 2007, the Group has entered into various fuel hedging transactions for periods up to 31 December 2008 in lots totalling 8,733,000 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 May 2007, the Group has entered into various interest rate hedging contract transactions for periods up to 13 December 2016 for a total notional amount of RM4,243.8 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 May 2007 vary from 4.0% to 5.5% per annum.

(c) As at 21 May 2007, the Group has entered into foreign currency forward contracts and options amounting to RM1,221.2 million for periods up to 4 March 2008.

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) Shahjalal Aviation Systems Ltd. ("Shahjalal") vs MAS

Shahjalal was a general sales agent and had filed a claim in Dhaka, Bangladesh against MAS for a sum of BDT2,670,000,000 (RM175.7 million) purportedly due to them on account of commission charges, loss of business and goodwill under the general sales agency. MAS had earlier filed a claim against Shahjalal for a sum of TK152,044,364 (RM10.0 million) (which was subsequently reduced to BDT87,835,547.92 (approximately RM4.6 million) after adjustments of the bank guarantee and other amounts, together with interest, on account of unremitted passenger and cargo sales.

The matter is now fixed for hearing on 21 May 2007. MAS, in consultation with its solicitors, is of the opinion that the above case filed against MAS is without merit and is continuing to pursue the claim and contest Shahjalal's claim.

(b) Advent Group Management Sdn Bhd ("Advent") vs MAS

A writ of summons and statement of claim was served by Advent on 2 July 2004 on MAS as the fourth defendant. According to the writ summons and statement of claim, Advent is claiming for, inter alia special damages of RM225,599,350.25 and general damages of an unspecified amount against MAS for purported breach of the Memorandum of Understanding dated 27th July 2001 between Advent, the first defendant and second defendant relating to the acquisition of shares of MAS Catering (Sarawak) Sdn Bhd.

On 4 August 2006, MAS obtained an order from the Court ("Order") that the claim against MAS be struck out unless security for costs of RM75,000 be paid by Advent within 7 days. As Advent failed to comply with the terms of the Order, the claim against MAS was struck out on 12 August 2006. Advent filed an Appeal against striking out of the claim against MAS, and on 26 March 2007 this Appeal was dismissed with costs. Advent has 30 days within which to file a further Appeal. The 30 day period for further appeal has since lapsed on the 26th of April 2007.

(c) 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 International Court of Arbitration in Paris, France. The claim against MAS allegedly for breach of a ground handling contract is damages in the sum of EURO 62,651,714 (approximately RM300,000,000.00).

On 23 April 2007, MAS received a partial award from Arbitral Tribunal dated 4 April 2007 declaring that MAS has breached the ACL agreement but made no ruling on MAS's liability to compensate ACL for the damages suffered as a result of the breach. The Tribunal has not fixed any date to decide on the quantum of damages and costs.

The partial award makes no monetary award and, at this time, has no ascertainable financial and operational effect on the Company and the Group. The legal effect is still being analysed by MAS's Malaysian and Swiss Counsel.

(d) Securiforce Sdn Bhd and Securiforce Hi-Tech Cargo Sdn Bhd (collectively, the "Plaintiffs") vs MAS and Malaysia Airlines Cargo Sdn Bhd ("MASKargo")

The Plaintiffs served a writ of summons and statement of claim on MAS and its wholly-owned subsidiary, MASKargo, on 16 June 2005. The Plaintiffs' claim is for special damages of RM4,944,358.56 and general damages of RM250 million as well as unspecified exemplary damages as a consequence of what is alleged by the Plaintiffs to be a termination by MAS, in breach of a purported contract consisting of various documents involving services rendered by the Plaintiffs to MAS and MASKargo. MAS and MASKargo are challenging the claim and the matter is now fixed for trial on 21 and 22 May 2008.

MAS, in consultation with its solicitors is of the opinion that MAS has merits to contest the claim.

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

(e) MAS vs Tan Sri Tajudin bin Ramli, Ralph Manfred Gotz, Uwe Juergen Beck and Wan Aishah binti Wan Hamid (collectively, the "Defendants")

On 5 April 2006, MAS filed a civil suit in Malaysia against its former Executive Chairman, Tan Sri Tajudin bin Ramli and three (3) other defendants. The claim against the Defendants is for losses amounting to RM174,620,695 for, amongst others, breach of fiduciary duties committed by the Defendants and conspiracy to defraud MAS. The First and Fourth Defendants have filed applications to strike out the suit. The Court has yet to fix the matter for hearing.

MAS, in consultation with its solicitors is of the opinion that MAS has a fair chance of success in the suit.

(f) MAS, MAS Golden Holidays Sdn Bhd and MAS Hotels and Boutiques Sdn Bhd (collectively, the "Plaintiffs"), vs Tan Sri Tajudin bin Ramli, Naluri Corporation Berhad, Promet (Langkawi) Resorts Sdn Bhd ("Promet"), Kauthar Venture Capital Sdn Bhd ("Kauthar") and Pakatan Permai Sdn Bhd

On 26 May 2006, the Plaintiffs filed a civil suit ("Original Suit") in the High Court at Kuala Lumpur against its former Executive Chairman, Tan Sri Tajudin bin Ramli and four (4) other defendants for damages of approximately RM90 million together with further damages to be assessed, resulting from inter alia breach of fiduciary duties and/or knowingly assisting or benefiting from such breach of fiduciary duties.

In response to the Original Suit, Tan Sri Tajudin bin Ramli, Promet and Kauthar had on 9 October 2006 jointly filed and served a defence and counterclaim ("Counter Claim") on MAS, MAS Golden Holidays Sdn Bhd, MAS Hotels and Boutiques Sdn Bhd, MAS' directors and the Government alleging that the defendants in the Counter Claim (except for the Government) had conspired to injure them or had caused injury to them through malicious prosecution of the Original Suit.

The pleadings to the Original Suit have not closed. In the mean time, the Defendants' application to strike out the Original Suit is fixed for hearing on 10 July 2007.

The Plaintiffs to the Original Suit had filed an application to strike out the Counter Claim. This application has not been fixed for hearing yet.

In relation to the Original Suit, MAS, in consultation with its solicitors is of the opinion that it has a fair possibility of success against the Defendants and is continuing to pursue its claim. In relation to the Counter Claim, MAS in consultation with its solicitors is of the view that since the Original Suit has not been disposed off, the Counter Claim is premature.

(g) Arbitration Proceedings by Air Maldives Limited ("AML") vs MAS

On 15 May 2007, MAS received Notice from the Secretariat of the ICC International Court of Arbitration in Paris, France that AML had commenced arbitration proceedings against MAS for alleged continuous breaches of MAS's duties under a Management Agreement between MAS and AML dated 16 January 1996.

MAS has taken legal advice to challenge the claim.

The Notice did not specify the amount of damages claimed by AML and did not provide sufficient information to enable MAS and its solicitors to meaningfully assess the quantum of AML's claim. Accordingly, it is not possible, at this date, to state the effect this claim would have on the financial position of MAS.

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

12. DIVIDENDS

The directors do not recommend any dividend for the financial period ended 31 March 2007.

13. EARNINGS/ (LOSS) PER SHARE

(a) Basic

The basic earnings per share for the current quarter is calculated by dividing the profit attributable to shareholders of the Company by number of ordinary shares.

	Quarter ended 31/3/2007 RM '000	Quarter ended 31/3/2006 RM '000
Profit/(loss) attributable to ordinary equity holders of the Company for:		
Continuing operation	128,198	(323,707)
Discontinuing operation	4,512	2,583
	<u>132,710</u>	<u>(321,124)</u>
Ordinary shares in issue ('000)	1,253,244	1,253,244
Basic earnings per share for:		
Continuing operation	10.23	(25.83)
Discontinuing operation	0.36	0.21
Profit for the period	<u>10.59</u>	<u>(25.62)</u>

(b) Diluted

Diluted earnings per share is not presented in the financial statements as there are no dilutive potential ordinary shares outstanding as at 31 March 2007.

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 May 2007.

By Order of the Board

Rizani bin Hassan (LS 05125)
Company Secretary
Selangor Darul Ehsan
28 May 2007

SUMMARY OF KEY FINANCIAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/3/2007	Quarter ended 31/3/2006 (Restated)	Period ended 31/3/2007	Period ended 31/3/2006 (Restated)
	RM '000	RM '000	RM '000	RM '000
1. Total Revenue	3,637,971	3,015,053	3,637,971	3,015,053
2. Profit/(loss) before tax	144,489	(309,118)	144,489	(309,118)
3. Profit/(loss) for the period	133,133	(319,960)	133,133	(319,960)
4. Profit/(loss) for the period attributable to equity holders of the Company	132,710	(321,124)	132,710	(321,124)
5. Basic earnings/(loss) per share (sen)	10.59	(25.62)	10.59	(25.62)

	AS AT 31/3/2007	AS AT 31/12/2006 (Audited)
Net assets per share attributable to ordinary equity holders of the Company	1.61	1.51

ADDITIONAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/3/2007	Quarter ended 31/3/2006	Period ended 31/3/2007	Period ended 31/3/2006
	RM '000	RM '000	RM '000	RM '000
1. Gross interest income	18,843	8,097	18,843	8,097
2. Gross interest expense	(13,022)	-	(13,022)	-