

MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT ON THE FIRST QUARTER ENDED 31 MARCH 2013

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 2013. This announcement should be read in conjunction with the audited annual financial statements for the year ended 31 December 2012 and the accompanying explanatory notes attached to the quarterly condensed financial report.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/03/2013	Quarter ended 31/03/2012	Period ended 31/03/2013	Period ended 31/03/2012
Note	RM '000	RM '000	RM '000	RM '000
Operating revenue	3,388,946	3,058,790	3,388,946	3,058,790
Operating expenses	(3,711,078)	(3,421,574)	(3,711,078)	(3,421,574)
Other operating income	156,802	55,899	156,802	55,899
Loss from operations	(165,330)	(306,885)	(165,330)	(306,885)
Fair value change of derivatives	4,312	(23,778)	4,312	(23,778)
Unrealised foreign exchange (loss)/gain	(21,310)	199,622	(21,310)	199,622
Finance costs	(99,284)	(44,602)	(99,284)	(44,602)
Share of results from associated companies	3,155	6,313	3,155	6,313
Loss before taxation	(278,457)	(169,330)	(278,457)	(169,330)
Taxation	(145)	(2,045)	(145)	(2,045)
Loss for the period	(278,602)	(171,375)	(278,602)	(171,375)
Loss attributable to:				
Equity holders of the Company	(278,827)	(171,793)	(278,827)	(171,793)
Non-controlling interest	225	418	225	418
Loss for the period	(278,602)	(171,375)	(278,602)	(171,375)
Loss per share attributable to equity holders of the Company				
Basic (sen)	(8.34)	(5.14)	(8.34)	(5.14)
Diluted (sen)	N/A	(5.14)	N/A	(5.14)

MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT ON THE FIRST QUARTER ENDED 31 MARCH 2013

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/03/2013	Quarter ended 31/03/2012	Period ended 31/03/2013	Period ended 31/03/2012
Note	RM '000	RM '000	RM '000	RM '000
Loss for the period	(278,602)	(171,375)	(278,602)	(171,375)
Other comprehensive income: Part B,4 (Loss)/Gain from cash flow hedges	(1,507)	51,601	(1,507)	51,601
Total comprehensive loss for the period	(280,109)	(119,774)	(280,109)	(119,774)
Total comprehensive loss attributable to:				
Equity holders of the Company	(280,334)	(120,192)	(280,334)	(120,192)
Non-controlling interest	225	418	225	418
Total comprehensive loss for the period	(280,109)	(119,774)	(280,109)	(119,774)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>Note</u>	As at 31/03/2013 RM '000	As at 31/12/2012 RM '000 (Audited)
<u>Non current assets</u>			
Aircraft, property, plant and equipment		14,432,415	12,853,554
Investment in associates		143,488	125,044
Other investments		63,456	57,038
Intangible assets		150,670	153,912
Other receivables		310,127	313,473
Deferred tax assets		1,099	1,021
		15,101,255	13,504,042
<u>Current assets</u>			
Inventories		340,649	331,164
Trade and other receivables		1,713,731	1,258,872
Tax recoverable		3,175	6,057
Derivative financial instruments	Part B,11	36,947	42,505
Cash and bank balances		2,418,099	2,148,478
		4,512,601	3,787,076
<u>Current liabilities</u>			
Sales in advance of carriage		2,117,176	1,663,026
Deferred revenue		244,017	224,036
Trade and other payables		2,598,549	2,331,634
Provision		1,348,106	1,330,001
Borrowings	Part B,10	1,326,204	1,458,237
Derivative financial instruments	Part B,11	13,747	13,940
Taxation		1,158	533
		7,648,957	7,021,407
Net current liabilities		(3,136,356)	(3,234,331)
		11,964,899	10,269,711
Financed by:			
Equity attributable to equity holders of the Company:			
Share capital		3,342,156	3,342,156
Perpetual Sukuk		1,498,190	1,498,190
Reserves		(2,999,352)	(2,705,710)
		1,840,994	2,134,636
Non-controlling interest		15,072	14,847
Total equity		1,856,066	2,149,483
<u>Non current liabilities</u>			
Borrowings	Part B,10	10,086,548	8,090,293
Derivative financial instruments	Part B,11	22,090	29,716
Deferred tax liabilities		195	219
		10,108,833	8,120,228
		11,964,899	10,269,711
Net assets per share (RM)		0.56	0.64

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2013**

	Attributable to equity holders of the Company										Non-controlling interest RM '000	Total Equity RM '000	
	Share capital RM '000	Perpetual Sukuk RM '000	<----- Non-Distributable ----->					Distributable		Total reserves RM '000			Total RM '000
			Share premium RM '000	Cash Flow Hedge reserves RM '000	Capital redemption reserve RM '000	Foreign exchange translation reserve RM '000	General reserves RM '000	Accumulated losses RM '000					
At 1 January 2013	3,342,156	1,498,190	4,995,970	21,406	41,775	-	459,755	(8,236,108)	(2,717,202)	2,123,144	14,847	2,137,991	
Loss for the year	-	-	-	-	-	-	-	(278,827)	(278,827)	(278,827)	225	(278,602)	
Other comprehensive income	-	-	-	(1,507)	-	-	-	-	(1,507)	(1,507)	-	(1,507)	
Distribution to Perpetual Sukuk holders	-	-	-	-	-	-	-	(17,108)	(17,108)	(17,108)	-	(17,108)	
Share of forex translation reserve from associated company	-	-	-	-	-	15,292	-	-	15,292	15,292	-	15,292	
At 31 March 2013	3,342,156	1,498,190	4,995,970	19,899	41,775	15,292	459,755	(8,532,043)	(2,999,352)	1,840,994	15,072	1,856,066	

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2012**

	Attributable to equity holders of the Company									Non-controlling interest RM '000	Total Equity RM '000	
	Share capital RM '000	<----- Non-Distributable ----->				Distributable			Total reserves RM '000			Total RM '000
		Equity component of RCPS RM '000	Share premium RM '000	Employee share option reserves RM '000	Cash Flow Hedge reserves RM '000	General reserves RM '000	Accumulated losses RM '000					
At 1 January 2012	3,342,156	58,076	4,995,970	88,938	(28,222)	501,530	(7,915,940)	(2,299,648)	1,042,508	13,639	1,056,147	
Loss for the period	-	-	-	-	-	-	(171,793)	(171,793)	(171,793)	418	(171,375)	
Other comprehensive income	-	-	-	-	51,601	-	-	51,601	51,601	-	51,601	
At 31 March 2012	3,342,156	58,076	4,995,970	88,938	23,379	501,530	(8,087,733)	(2,419,840)	922,316	14,057	936,373	

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Period ended 31/03/2013 RM '000	Period ended 31/03/2012 RM '000
<u>Cash Flows From Operating Activities</u>		
Loss before taxation	(278,457)	(169,330)
Adjustments for:		
Provision for/(Writeback of):		
- aircraft maintenance and overhaul costs	124,685	126,384
- doubtful debts, net	138	1,844
- short term accumulating compensated absences, net	-	883
- inventories obsolescence, net	(20,392)	13,271
- stock loss	901	-
- unavailed credits on sales in advance of carriage	(92,657)	(63,578)
Aircraft, property, plant and equipment:		
- depreciation	187,633	135,196
- loss/(gain) on disposal, net	12,410	(9,773)
Amortisation of intangible assets	7,903	6,720
Share of results of:		
- associated companies	(3,155)	(6,313)
Interest expenses	99,284	44,602
Fair value change of derivatives	(4,312)	23,778
Unrealised foreign exchange loss/(gain)	21,310	(199,622)
Interest income	(12,479)	(6,345)
Operating profit/(loss) before working capital changes	42,812	(102,283)
Decrease/(Increase) in inventories	10,006	(21,985)
Increase in trade and other receivables	(536,981)	(67,589)
Increase in trade and other payables	223,965	268,302
Decrease in provision	(106,580)	(181,083)
Increase/(Decrease) in sales in advance of carriage	546,807	(84,892)
Increase in deferred revenue	19,981	15,193
Cash generated from/(used in) operating activities	200,010	(174,337)
Net cash settlement on derivatives	22,968	6,242
Interest paid	(78,958)	(34,030)
Taxes refund/(paid)	3,261	(321)
Net cash generated from/(used in) operating activities	147,281	(202,446)
<u>Cash Flows From Investing Activities</u>		
Purchase of:		
- aircraft, property, plant and equipment	(2,179,360)	(1,096,166)
- intangible assets	(5,320)	(26,217)
- other investment	(9,273)	-
Withdrawal of:		
- negotiable instruments of deposit	-	101,073
- deposits pledged with banks	(109,471)	(18,061)
Proceeds from:		
- disposal of aircraft, property, plant and equipment	416,739	455,315
Interest received	12,480	6,345
Net cash used in investing activities	(1,874,205)	(577,711)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Period ended 31/03/2013 RM '000	Period ended 31/03/2012 RM '000
Cash Flows From Financing Activities		
Proceeds from:		
- aircraft refinancing	222,123	-
- borrowings	1,910,000	1,262,035
Repayment of:		
- borrowings	(13,711)	(2,851)
- finance lease	(214,229)	(84,153)
Profit distribution of perpetual sukuk	(17,108)	-
Net cash generated from financing activities	1,887,075	1,175,031
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	160,151	394,874
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	2,134,001	958,814
CASH AND CASH EQUIVALENTS AS AT 31 MARCH	2,294,152	1,353,688
Cash and cash equivalents comprise:		
Cash on hand and at banks	773,075	1,364,990
Short term deposits	1,645,024	62,409
Cash and bank balances	2,418,099	1,427,399
Less: Deposits pledged with banks	(123,947)	(73,711)
Cash and cash equivalents as at 31 March	2,294,152	1,353,688

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 Malaysian Financial Reporting Standards ("MFRS") Standard 134: 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 audited financial statements for the financial year ended 31 December 2012 and the accompanying explanatory notes attached to the quarterly condensed financial report. 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 financial year ended 31 December 2012.

2. CHANGES IN ACCOUNTING POLICIES

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 2012 except for the adoption of the following Malaysian Financial Reporting Standards ("MFRSs") and amendments to MFRSs during the current financial period:

(i) Effective for annual periods beginning on or after 1 July 2012

Amendments to MFRS 101:	Presentation of Items of Other Comprehensive Income
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(ii) Effective for annual periods beginning on or after 1 January 2013

MFRS 3:	Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)
MFRS 10:	Consolidated Financial Statements
MFRS 11:	Joint Arrangements
MFRS 12:	Disclosure of Interests in Other Entities
MFRS 13:	Fair Value Measurement
MFRS 119:	Employee Benefits
MFRS 127:	Separate Financial Statements
MFRS 128:	Investment in Associate and Joint Ventures
MFRS 127:	Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)
Amendments to MFRS 1:	First-time Adoption of Malaysian Financial Reporting Standards – Government Loans
Amendments to MFRS 10, MFRS 11 and MFRS 12:	Consolidated Financial Statements, Joint Arrangement and Disclosure at Interest in Other Entities: Transition Guidance
Annual Improvements 2009-2011 Cycle	

The adoption of Amendments to MFRS 10, MFRS 12 and MFRS 127 is not expected to have any financial impact to the Group as the Company is not an investment entity as defined in MFRS 10.

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

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

At the date of authorisation of this quarterly condensed financial report, the MASB had issued several MFRSs and amendments but not yet effective and have not been adopted by the Group:

(i) Effective for annual periods beginning on or after 1 January 2014

Amendments to MFRS 132:	Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 10, MFRS 12 and MFRS 127:	Investment Entities

(ii) Effective for annual periods beginning on or after 1 January 2015

MFRS 9	Financial instruments
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The above MFRSs and amendments are expected to have no significant impact on the financial statements of the Group upon their initial application.

3. QUALIFICATION OF PRECEDING AUDITED ANNUAL FINANCIAL STATEMENTS

There was no qualification of the Group's Audited Financial Statements for the financial year ended 31 December 2012.

4. 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.

5. UNUSUAL ITEMS

There were no unusual items for the financial period ended 31 March 2013.

6. MATERIAL CHANGES IN ESTIMATES OF AMOUNTS REPORTED

There was no material changes in estimates of amount reported for the financial period ended 31 March 2013.

7. SIGNIFICANT EVENTS

- (i) On 19 February 2013, in relation to the Memorandum of Understanding signed between MAS and ATR on 18 December 2012, the Company has entered into a Sale and Purchase Agreement with ATR for the purchase of twenty (20) firm and sixteen (16) option ATR72-600 aircraft.
- (ii) On 8 February 2013, the Company has entered into a Sale and Purchase Agreement with Viking Air Limited to purchase six (6) DHC6-400 aircraft worth approximately RM128 million. The aircraft which will be operated by MASwings for the Rural Air Services operations in Sabah & Sarawak, will replace the existing old aircraft.
- (iii) On 1 February 2013, the Company joined the premier oneworld airline alliance, offering a wider global network and a host of rewards for Enrich frequent flyers.

There was no other significant event for the financial period ended 31 March 2013.

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

8. ISSUANCE, CANCELLATION, REPURCHASE, RESALE AND REPAYMENTS OF DEBTS AND EQUITY

There was no issuance, cancellation, repurchase, resale or repayments of debts or equity securities for the financial period ended 31 March 2013.

9. DIVIDEND PAID

There was no dividend paid during the financial period ended 31 March 2013.

10. SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on their services, and has three reportable segments as follows:

- (i) Airlines operations segment engages in the business of air transportation and the provision of related services.
- (ii) Cargo services segment engages in the business of air cargo operations, charter freighter and all warehousing activities relating to air cargo operations.
- (iii) Others segment engages in the provision of computerised reservations services, retailing of goods, catering and cleaning related services.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

The following tables present revenue and profit information regarding the Group's operating segments for the financial period ended 31 March 2013 and 2012, respectively.

	Airlines Operations RM'000	Cargo Services RM'000	Others RM'000	Adjustments and eliminations RM'000	Total RM'000
For the quarter ended 31 March 2013					
Revenue					
External revenue	2,922,015	449,116	17,815	-	3,388,946
Inter-segment revenue *	319,768	-	5,775	(325,543)	-
Total revenue	3,241,783	449,116	23,590	(325,543)	3,388,946
Results					
Segment (loss)/profit before tax	(232,544)	(49,838)	770	3,155	(278,457)

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

10. SEGMENTAL INFORMATION (CONTINUED)

	Airlines Operations RM'000	Cargo Services RM'000	Others RM'000	Adjustments and eliminations RM'000	Total RM'000
For the quarter ended 31 March 2012					
Revenue					
External revenue	2,620,415	431,253	7,122	-	3,058,790
Inter-segment revenue *	332,546	-	8,918	(341,464)	-
Total revenue	2,952,961	431,253	16,040	(341,464)	3,058,790
Results					
Segment (loss)/profit before tax	(172,916)	(4,239)	1,512	6,313	(169,330)
Segment assets **					
At 31 March 2013	20,313,360	7,122,874	1,279,992	(9,245,858)	19,470,368
At 31 December 2012	17,919,052	6,070,644	1,323,712	(8,147,334)	17,166,074

* Inter-segment revenues are eliminated on consolidation.

** Segment assets do not include investment in associates (Mar '13 RM143.5 million, Dec'12: RM125.0 million) as these assets are managed on a group basis.

11. VALUATION OF ASSETS

There was no valuation of aircraft, property, plant and equipment for the financial period ended 31 March 2013.

12. SUBSEQUENT EVENT

There was no material subsequent event for the financial period ended 31 March 2013 other than as disclosed in Note 9, Part B of this announcement.

13. CHANGES IN THE COMPOSITION OF THE GROUP

On 22 February 2013, the Company has acquired 250 ordinary shares of USD1.00 each in Malaysia Airlines Capital V Cayman Limited, an off-shore company for a consideration of USD250 (equivalent of RM775) for cash. With effect from that date, Malaysia Airlines Capital V Cayman Limited became a wholly-owned subsidiary of the Company.

There were no other changes in the composition of the Group for the financial period ended 31 March 2013.

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 borrower of 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.

	23/05/2013
	RM '000
1. Loan (unsecured)	<u>15,619</u>
2. Tenure	
Loan due within one year	9,643
Loan due later than one year and not later than five years	<u>5,976</u>
	<u>15,619</u>
3. Loan by currency denomination	
Euro	<u>15,619</u>
(b) Others	
Bank guarantees given to third parties	297,937
Performance bonds given to third parties	<u>439</u>
	<u>298,376</u>

The Company has the right to receive from PMB 80% of the profit arising from the eventual realisation of aircraft unbundled to PMB under the widespread asset unbundling agreement ("WAU Agreement"). The profit will be computed based on the excess of the value realised over the decayed net book value of the aircraft and maintenance costs required in accordance with the contractual redelivery terms. The decayed net book value for each aircraft at future dates is stipulated in the WAU Agreement.

15. CAPITAL COMMITMENT

	As at	As at
	31/03/2013	31/12/2012
	RM '000	RM '000
		(Audited)
Approved and contracted for	7,045,366	8,469,233
Approved but not contracted for	<u>97,556</u>	<u>264,367</u>
	<u>7,142,922</u>	<u>8,733,600</u>

The outstanding capital commitments relate to purchase of aircraft and other projects.

PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16 (CONTINUED)
16. SIGNIFICANT RELATED PARTY DISCLOSURES

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended	Quarter ended	Period ended	Period ended
	31/03/2013	31/03/2012	31/03/2013	31/03/2012
	RM '000	RM '000	RM '000	RM '000
LSG Sky Chefs-Brahim's Sdn. Bhd., an associate:				
- Catering and other services paid/payable	68,782	45,156	68,782	45,156
- Rental income and others	(4,888)	(4,808)	(4,888)	(4,808)
GE Engine Services (M) Sdn. Bhd., an associate:				
- Engine maintenance services rendered	71,765	99,229	71,765	99,229
- Rental income and others	(1,034)	(3,114)	(1,034)	(3,114)
Pan Asia Pacific Aviation Services Ltd., an associate:				
- Line maintenance and aircraft interior cleaning services paid/payable	966	1,101	966	1,101
Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd., an associate:				
- Aircraft component repair services paid/payable	684	1,230	684	1,230
Honeywell Aerospace Services (M) Sdn. Bhd., an associate:				
- Aircraft power plant unit overhaul services paid/payable	-	819	-	819
Taj Madras Flight Kitchen Limited, an associate:				
-Catering services paid/payable	735	436	735	436
Abacus International Holding Ltd., a company in which the Company has equity interest:				
- Computer reservation system access fee paid/payable	9,886	7,642	9,886	7,642
Evergreen Sky Catering Corporation, a company in which the Company has equity interest:				
- Catering services paid/ payable	721	1,193	721	1,193
Miascor Catering Services Corporation, a company in which the Company has equity interest:				
- Catering services paid/ payable	324	370	324	370
PMB, a related party:				
- Hire of aircraft paid/payable	40,301	58,187	40,301	58,187
Aircraft Business Malaysia Sdn. Bhd., a related party:				
- Aircraft lease rental paid/payable	50,480	60,360	50,480	60,360

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

17. SIGNIFICANT RELATED PARTY BALANCES

	As at 31/03/2013 RM '000	As at 31/12/2012 RM '000 (Audited)
Amount owing to fellow subsidiary	(33,966)	(34,208)
Amount owing by related party		
- due within one year	53,238	52,024
- due after one year	24,322	35,918
Amount owing by associated companies	25,218	25,685
Amount owing to associated companies	<u>(59,021)</u>	<u>(60,374)</u>

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

1. REVIEW OF PERFORMANCE

For the first quarter ended 31 March 2013, the Group recorded a 46% lower operating loss of RM165.3 million as compared to RM306.9 million operating loss for the same quarter in previous year.

Operating revenue increased by 11% to RM3,388.9 million for the current quarter compared to the same quarter last year due to increase in Airline revenue by 10% to RM3,241.8 million and Cargo revenue by 4% to RM449.1 million. Amid the tough business environment, MAS has launched aggressive promotions and marketing campaigns during the current quarter, which yielded positive results. Passenger traffic increased by 17% against a 11% increase in capacity and seat factor increased by 3.6 percentage points to 76.6%. However, passenger yield declined by 5% as it continues to be under pressure due to intense competition. Cargo Revenue increased in line with 10% higher load tonnage carried and 6% increase in capacity while cargo yield continues to be under pressure due to poor demand as Eurozone and US economies continue to be weak.

Total operating expenditure has increased to RM3,711.1 million compared to the same quarter last year which consists of 9% and 5% increase in Airline Operations and Cargo Services respectively. For both, Airline Operations and Cargo Services, high fuel costs of average RM135 per barrel resulted in additional 6% and 12% increase in fuel costs incurred during the quarter, respectively. In tandem with capacity increase and new aircraft delivered during the quarter, non fuel costs have also increased by 11% and 4% respectively mainly attributed to handling and landing, depreciation and leasing.

The Group recorded loss after tax of RM278.8 million for the first quarter ended 31 March 2013, as compared to RM171.8 million in the same quarter last year. The loss after tax is inclusive of unrealised foreign exchange loss of RM21.3 million (Quarter ended 31 March 2012 : RM199.6 million gain), finance costs of RM99.3 million (Quarter ended 31 March 2012 : RM44.6 million) and fair value change of derivative of RM4.3 million gain (Quarter ended 31 March 2012 : RM23.8 million loss). The unrealised foreign exchange loss of RM21.3 million was mainly due to translation of foreign denominated borrowing while finance costs incurred in the current quarter was higher due to new financing obtained for new aircraft fleet of A380s, A333s and B738s .

2. LOSS FROM OPERATIONS

On 22 September 2011, Bursa Malaysia Securities Berhad ("Bursa Malaysia") has amended the Main Market Listing Requirements ("Main LR") in various key areas. In accordance to the amendments of the Main LR, the following amounts have been (credited)/debited in arriving at loss from operations:

	Quarter ended 31/03/2013 RM '000	Quarter ended 31/03/2012 RM '000	Period ended 31/03/2013 RM '000	Period ended 31/03/2012 RM '000
Provision for/(Writeback of):				
- doubtful debts, net	138	1,844	138	1,844
- inventories obsolescence, net	(20,392)	13,271	(20,392)	13,271
Aircraft, property, plant and equipment:				
- depreciation	187,633	135,196	187,633	135,196
- loss/(gain) on disposal, net	12,410	(9,773)	12,410	(9,773)
Amortisation of intangible assets	7,903	6,720	7,903	6,720
Interest expense	99,284	44,602	99,284	44,602
Interest income	(12,479)	(6,345)	(12,479)	(6,345)

Other than the items highlighted above, there were no disposal of unquoted investment and properties during the quarter and financial period ended 31 March 2013.

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

3. FAIR VALUE CHANGE OF DERIVATIVES

This represents the movement of mark-to-market (MTM) of the ineffective portion of cash flow hedges for the remaining hedging contracts as at 31 March 2013 as compared to 1 January 2013 which comprised the following:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/03/2013 RM '000	Quarter ended 31/03/2012 RM '000	Period ended 31/03/2013 RM '000	Period ended 31/03/2012 RM '000
(i) Gain/(Loss) from fuel hedging contracts	2,871	(8,728)	2,871	(8,728)
(ii) Loss from foreign currency hedging contracts	-	(332)	-	(332)
(iii) Gain/(Loss) from interest rate hedging contracts	1,441	(14,718)	1,441	(14,718)
	4,312	(23,778)	4,312	(23,778)

4. OTHER COMPREHENSIVE INCOME

This represents the movement of mark-to-market (MTM) of the effective portion of cash flow hedges for the remaining contracts as at 31 March 2013 as compared to 1 January 2013 which comprised the following:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/03/2013 RM '000	Quarter ended 31/03/2012 RM '000	Period ended 31/03/2013 RM '000	Period ended 31/03/2012 RM '000
(i) (Loss)/Gain from fuel hedging contracts	(8,709)	31,811	(8,709)	31,811
(ii) Gain from foreign currency hedging contracts	-	3,335	-	3,335
(iii) Gain from interest rate hedging contracts	7,202	16,455	7,202	16,455
	(1,507)	51,601	(1,507)	51,601

5. COMPARISON WITH PRECEDING QUARTER'S RESULTS

For the first quarter ended 31 March 2013, operating loss for the Group was RM165.3 million (Quarter ended 31 December 2012: RM43.8 million profit).

Total operating revenue decreased by 7% to RM3,388.9 million when compared to the previous quarter mainly due to pressure on yield resulted from intense competition.

However, total operating expenditure improved by 3% to RM3,711.1 million mainly due to lower non-fuel cost by 3% to RM2,324.2 million over the preceding quarter.

The Group's loss after tax for the quarter was RM278.8 million (Quarter Ended 31 December 2012: RM51.4 million profit). Included in the preceding quarter profit was unrealised foreign exchange gain of RM69.5 million and finance cost of RM78.0 million.

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

6. CURRENT YEAR PROSPECTS

The external aviation environment saw strong growth in the first quarter of 2013. Both the International Air Transport Association (IATA) and Association of Asia Pacific Airlines (AAPA) reported improvements in its monthly passenger traffic in tandem with better business conditions. IATA's most recent report shows that March international passenger demand rose 6% compared to one year ago. Traffic by Asia-Pacific carriers also rose 5.4% compared to the same month last year. Nearer to home, AAPA noted that passenger traffic rose 5.7% in the first quarter. However, cargo demand recorded a decline of 4% compared to the same period last year.

The Group remains cautiously optimistic of its performance for the rest of the year. Whilst the carrier's operating statistics for the first quarter showed strong growth, the business environment is getting tougher. Added capacity in the market, increased competition and continued high jet fuel prices are putting pressure on yields.

To address these challenges, the Group remains focused on implementing its business plan to drive revenue and align costs to increase yields. Aggressive marketing and promotions, better capacity management, improved cost management and driving productivity for better efficiencies system-wide will be the key initiatives going forward.

7. PROFIT FORECAST OR PROFIT GUARANTEE

The Group has not provided any profit forecast or profit guarantee in respect of the financial period ended 31 March 2013.

8. TAXATION

Taxation charge for the Group comprised the following: -

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended	Quarter ended	Period ended	Period ended
	31/03/2013	31/03/2012	31/03/2013	31/03/2012
	RM '000	RM '000	RM '000	RM '000
Current period				
- Malaysian taxation	(882)	1,061	(882)	1,061
- Foreign taxation	1,027	984	1,027	984
Total	145	2,045	145	2,045

The Group provided foreign taxation for the Company's overseas operations and 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.

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

9. CORPORATE PROPOSALS

On 27 November 2012, the Company announced that it proposes to undertake the following Proposals:

- (a) Proposed Capital Restructuring comprising:
 - 1. Proposed reduction of RM0.90 of the par value of each existing ordinary share of RM1.00 each in MAS pursuant to Section 64 of the Companies Act 1965 ("Act")("Proposed Par Value Reduction"); and
 - 2. Proposed reduction of the share premium account of MAS pursuant to Sections 64 and 60 of the Act;
 - (b) Proposed Renounceable Rights Issue of new ordinary shares of RM0.10 each in MAS to raise gross proceeds of up to RM3,100 million after the Proposed Capital Restructuring; and
 - (c) Proposed amendment to the Memorandum and Articles of Association of MAS ("M&A") to facilitate the implementation of the Proposed Par Value Reduction.
- (Collectively Referred to as "Proposals")

The Proposals' application has been submitted to Bursa Malaysia Securities Berhad ("Bursa") on 5 December 2012. On 18 December 2012, Bursa has approved the listing and quotation subject to the following conditions:

- (a) MAS and its adviser must fully comply with the relevant provisions under the Main Market Listing Requirements of Bursa pertaining to the implementation of the Proposals;
- (b) MAS and its adviser to inform Bursa upon the completion of the Proposals;
- (c) MAS to furnish Bursa with a written confirmation of its compliance with the terms and conditions of Bursa's approval once the Proposals are completed;
- (d) MAS to furnish Bursa with a certified true copy of the resolution passed by shareholders at extraordinary general meeting for the Proposals;
- (e) Payment of the balance of the processing fees together with a detailed computation of processing fees payable; and
- (f) Confirmation from the principal adviser that the Company complies with the public shareholding spread requirement pursuant to Paragraph 8.02(1) of the Listing Requirements and a certificate of distribution of the shares in the format contained in Part B(1)(d) of Annexure Practice Note 21-A of the Listing Requirements.

On 7 January 2013, the Company made application for an extension until 14 February 2013 to issue circular in relation to the Proposals to shareholders. On 15 January 2013, approval has been received for the extension. On 6 February 2013, the circular was issued.

On 5 March 2013, an Extraordinary General Meeting ("EGM") was held in Kelana Jaya to announce that the holder of the ordinary shares present and voting have passed all resolutions to approve the above Proposals.

On 21 March 2013, the Company had presented to the High Court of Malaya at Kuala Lumpur ("High Court") a petition filed to obtain sanction of the High Court for the Proposed Capital Restructuring approved by the shareholders of MAS at its EGM held on 5 March 2013.

On 9 April 2013, MAS obtained the sanction through Court Order from the High Court . The Proposed Capital Restructuring took effect on 11 April 2013 with the lodgment of the Court Order with the Companies Commission of Malaysia. Pursuant to the Par Value Reduction, the par value of each existing ordinary share in MAS has been reduced from RM1.00 to RM0.10 each.

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

9. CORPORATE PROPOSALS (CONTINUED)

On 11 April 2013, the Board of Directors of the Company had fixed the Issue Price and Entitlement Basis for the Proposed Renounceable Rights Issue of new ordinary shares of RM0.10 each (Rights Share) as follows:

- (a) the issue price is RM0.23 per Rights Share; and
- (b) the Entitlement Basis is 4 Rights Shares for every 1 existing Share held by MAS' shareholders whose names appear on MAS' Record of Depositors as at 5.00pm on 6 May 2013.

The Rights Issue will result in the issuance of up to 13,368,624,960 Rights Shares and will raise gross proceeds of up to RM3,074.8 million.

On 6 May 2013, the Abridged Prospectus was registered with the Securities Commission and lodged with the Companies Commission of Malaysia.

On 27 May 2013, the Company announced, as at close of acceptance for the Rights Issue at 5.00 p.m. on 21 May 2013, the Company had received valid acceptance and excess application for a total of 18,918,342,071 Rights Shares. This represents an over-subscription of 41.15% over the total number of Rights Shares available under the Rights Issue. Accordingly, 85,437,020 excess Rights Shares will be allotted pursuant to excess applications in accordance with the basis as stated in the Abridged Prospectus. The Rights Shares are expected to be listed on the Main Market of BURSA Malaysia Securities Berhad on 5 June 2013.

10. GROUP BORROWINGS

	As at 31/03/2013 RM '000	As at 31/12/2012 RM '000 (Audited)
(i) Short term borrowings		
Unsecured		
- Revolving Credit	635,275	628,902
- Term Loan	175,000	175,000
Secured		
- Term Loan	89,287	104,500
- Finance Lease	426,642	549,835
	<u>1,326,204</u>	<u>1,458,237</u>
(ii) Long term borrowings		
Unsecured		
- Term Loan	518,166	510,057
Secured		
- Term Loan	6,017,335	4,133,246
- Finance Lease	3,551,048	3,446,990
	<u>10,086,549</u>	<u>8,090,293</u>
Total	<u>11,412,753</u>	<u>9,548,530</u>
(iii) Currency denominations		
Ringgit Malaysia	6,942,522	5,046,369
US Dollars	3,812,397	3,779,999
Japanese Yen	657,834	722,162
	<u>11,412,753</u>	<u>9,548,530</u>

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

11. DERIVATIVE FINANCIAL INSTRUMENTS

Type of derivatives	Notional Value as at 31/03/2013 Barrels 'Mil	Fair Value as at 31/03/2013 Assets/ (Liabilities) RM 'Mil
(i) Fuel Hedging Contracts		
Less than 1 year	1.7	36.9
(ii) Interest Rate Hedging Contracts	RM 'Mil	
Less than 1 year	498.1	(13.7)
1 year to 3 years	502.1	(7.6)
More than 3 years	926.8	(14.5)
	1,927.0	(35.8)
Total		1.1

There is no change to the related accounting policies, cash requirements of the derivatives, risks associated with the derivatives and policies to mitigate those risks since the previous financial year.

12. DISCLOSURE ON REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of unappropriated profits/(accumulated losses) of the Group as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows:

	Company and Subsidiaries RM'000	Associated Companies RM'000	Jointly Controlled Entity RM'000	Consolidation Adjustments RM'000	Group Accumulated Losses RM'000
As at 31 March 2013					
Realised (losses)/profit	(8,847,520)	(4,110)	(90,607)	186,798	(8,755,439)
Unrealised profit/(losses)	196,047	27,364	(15)	-	223,396
	<u>(8,651,473)</u>	<u>23,254</u>	<u>(90,622)</u>	<u>186,798</u>	<u>(8,532,043)</u>
As at 31 December 2012					
Realised (losses)/profit	(8,557,191)	6,952	(76,082)	200,574	(8,425,747)
Unrealised profit/(losses)	191,822	(2,143)	(40)	-	189,639
	<u>(8,365,369)</u>	<u>4,809</u>	<u>(76,122)</u>	<u>200,574</u>	<u>(8,236,108)</u>

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements as stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

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

13. MATERIAL LITIGATION

- (a) (i) **Meor Adlin vs MAS**
- (ii) **Stephen Gaffigan vs MAS**
- (iii) **Micah Abrams vs MAS**
- (iv) **Donald Wortman vs MAS**
- (v) **Bruce Hut vs MAS**
- (vi) **Dickson Leung vs MAS**

Between 18 January and 26 March 2008, the Company had been served with various complaints filed in the United States District Court for the Northern District of California (San Francisco) and the United States District Court for the Central District of California (Los Angeles) filed on behalf of various Plaintiffs against the Company and a number of other airlines. The cases involved allegations of price fixing for transpacific fares and related surcharges.

At this juncture, no infringement has been established. The complaint does not make any mention of the quantum of damages sought against the Company. The Company has obtained legal advice in relation to the complaint and has entered into a joint defence agreement with the other defendants. The court allowed the Company's motion to strike out the part of the claims relating to the alleged price-fixing conspiracy prior to 6 November 2003 on the basis that those claims were time-barred. The court also dismissed portions of the claims relating to flights originating in Asia on the basis of lack of jurisdiction. These two rulings have, according to the Company's US lawyers, significantly reduced the potential amount of claims. The case is proceeding.

(b) Statement of Claim from Commerce Commission of New Zealand

On 15 December 2008, the Company was served with a "Statement of Claim" from the Commerce Commission of New Zealand ("Commerce Commission") in relation to its air freight investigation under Section 27 of the New Zealand Commerce Act.

On 31 January 2013, the Company and MASkargo entered into a confidential settlement agreement ("Settlement Agreement") with the Commerce Commission in relation to the proceedings. Following entry into the Settlement Agreement, the proceedings were discontinued against the Company on 19 February 2013 and the Company has made no admission of liability in relation to the proceedings and the Company's wholly owned cargo subsidiary Malaysia Airlines Cargo Sdn. Bhd. ("MASkargo") was added as a second defendant to the proceedings on 15 February 2013 and made certain limited admissions in relation to the proceedings.

A hearing was held in the New Zealand High Court ("Court") in relation to the penalty to be imposed against MASkargo in relation to the proceedings on 19 February 2013, and a judgement was issued on 22 April 2013. The Court has ordered in the judgement that MASkargo pays a penalty of NZD2.6 million plus contribution towards Commerce Commission's costs of NZD0.7 million, payable in four instalments over 18 months. This represents a settlement of approximately RM8.4 million [applying the exchange rate of NZD1=RM2.564] in total, with payment guaranteed by MAS.

(c) Application and Statement of Claim from Australian Competition and Consumer Commission

On 9 April 2010, the Company was served with an "Application and Statement of Claim" from the Australian Competition and Consumer Commission ("ACCC") in relation to its air freight investigation on fuel and security surcharges under the Trade Practices Act 1974. The Statement of Claim does not indicate any quantum of fines that might be ultimately imposed.

The case has been settled with ACCC on 14 June 2012. Under the settlement, MASkargo will pay a penalty of AUD6.0 million plus contribution towards ACCC's costs of AUD0.5 million over a period of 24 months.

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

14. DIVIDENDS

The directors do not recommend any dividend for the financial period ended 31 March 2013.

15. LOSS PER SHARE

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended	Quarter ended	Period ended	Period ended
	31/03/2013	31/03/2012	31/03/2013	31/03/2012

(a) Basic earnings loss per share

Loss attributable to equity holders of the Company (RM'000)	(278,827)	(171,793)	(278,827)	(171,793)
Number of ordinary shares in issue ('000)	3,342,156	3,342,156	3,342,156	3,342,156
Loss per share (sen)	<u>(8.34)</u>	<u>(5.14)</u>	<u>(8.34)</u>	<u>(5.14)</u>

Loss per share is calculated by dividing the loss attributable to equity holders of the Company by the number of ordinary shares in issue during the financial period ended 31 March 2013.

(b) Diluted loss per share

The Company does not have any potential dilutive ordinary shares as at reporting date.

16. AUTHORISATION FOR ISSUE

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Board on 29 May 2013.

By Order of the Board

Rizani bin Hassan (LS 0009520)
 Company Secretary
 Selangor Darul Ehsan
 29 May 2013

PART C - ADDITIONAL INFORMATION

1. SUMMARY OF KEY FINANCIAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/03/2013 RM '000	Quarter ended 31/03/2012 RM '000	Period ended 31/03/2013 RM '000	Period ended 31/03/2012 RM '000
(a) Revenue	3,545,748	3,114,689	3,545,748	3,114,689
(b) Loss from operations	(165,330)	(306,885)	(165,330)	(306,885)
(c) Loss before tax	(278,457)	(169,330)	(278,457)	(169,330)
(d) Loss for the period	(278,602)	(171,375)	(278,602)	(171,375)
(e) Loss for the period attributable to ordinary equity holders of the Company	(278,827)	(171,793)	(278,827)	(171,793)
(f) Basic loss per share (sen)	(8.34)	(5.14)	(8.34)	(5.14)
Diluted loss per share (sen)	N/A	(5.14)	N/A	(5.14)

	AS AT 31/03/2013	AS AT 31/12/2012 (Audited)
(a) Net assets per share attributable to ordinary equity holders of the Company (RM)	0.56	0.64

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/03/2013 RM '000	Quarter ended 31/03/2012 RM '000	Period ended 31/03/2013 RM '000	Period ended 31/03/2012 RM '000
(a) Gross interest income	12,479	6,345	12,479	6,345
(b) Gross interest expense	(99,284)	(44,602)	(99,284)	(44,602)