

MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT ON THE SECOND QUARTER ENDED 30 JUNE 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 second quarter ended 30 June 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 30/06/2013 RM '000	Quarter ended 30/06/2012 RM '000	Period ended 30/06/2013 RM '000	Period ended 30/06/2012 RM '000
Operating revenue	3,594,343	3,216,666	6,983,288	6,282,426
Operating expenses	(3,764,535)	(3,402,992)	(7,475,611)	(6,824,566)
Other operating income	178,123	84,408	334,925	133,337
Profit/(Loss) from operations	7,931	(101,918)	(157,398)	(408,803)
Fair value change of derivatives	5,598	(15,277)	9,909	(39,054)
Unrealised foreign exchange (loss)/gain	(68,343)	(172,974)	(89,653)	26,648
Finance costs	(111,031)	(62,772)	(210,315)	(107,374)
Share of post-tax results from investments accounted for using the equity method	(42)	5,206	3,113	11,518
Loss before taxation	(165,887)	(347,735)	(444,344)	(517,065)
Taxation	(9,289)	(943)	(9,433)	(2,989)
Loss for the period	(175,176)	(348,678)	(453,777)	(520,054)
Loss attributable to:				
Equity holders of the Company	(175,982)	(349,248)	(454,808)	(521,042)
Non-controlling interest	806	570	1,031	988
Loss for the period	(175,176)	(348,678)	(453,777)	(520,054)
Loss per share attributable to equity holders of the Company				
Basic (sen)	(1.30)	(4.92)	(4.41)	(7.34)
Diluted (sen)	N/A	(4.92)	N/A	(7.34)

MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT ON THE SECOND QUARTER ENDED 30 JUNE 2013

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/06/2013 RM '000	Quarter ended 30/06/2012 RM '000	Period ended 30/06/2013 RM '000	Period ended 30/06/2012 RM '000
Loss for the period	(175,176)	(348,678)	(453,777)	(520,054)
Other comprehensive income:				
Loss from cash flow hedges	(3,035)	(77,638)	(4,542)	(26,036)
Total comprehensive loss for the period	(178,211)	(426,316)	(458,319)	(546,090)
Total comprehensive loss attributable to:				
Equity holders of the Company	(179,017)	(426,886)	(459,350)	(547,078)
Non-controlling interest	806	570	1,031	988
Total comprehensive loss for the period	(178,211)	(426,316)	(458,319)	(546,090)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 30/06/2013 RM '000	As at 31/12/2012 RM '000 (Audited)
Non current assets		
Aircraft, property, plant and equipment	14,597,351	12,853,554
Investment in associates	152,803	125,044
Other investments	63,457	57,038
Intangible assets	166,113	153,912
Other receivables	326,102	313,473
Derivative financial instruments	5,557	-
Deferred tax assets	1,077	1,021
	15,312,460	13,504,042
Current assets		
Inventories	342,316	331,164
Trade and other receivables	1,411,483	1,258,872
Tax recoverable	3,884	6,057
Derivative financial instruments	3,070	42,505
Cash and bank balances	5,549,402	2,148,478
	7,310,155	3,787,076
Current liabilities		
Sales in advance of carriage	2,360,767	1,663,026
Deferred revenue	271,247	224,036
Trade and other payables	2,693,439	2,343,126
Provision	1,085,691	1,330,001
Borrowings	1,206,338	1,458,237
Derivative financial instruments	4,953	13,940
Taxation	1,222	533
	7,623,657	7,032,899
Net current liabilities	(313,502)	(3,245,823)
	14,998,958	10,258,219
Financed by:		
Equity attributable to equity holders of the Company:		
Share capital	1,671,078	3,342,156
Perpetual Sukuk	1,498,190	1,498,190
Reserves	1,531,083	(2,717,202)
	4,700,351	2,123,144
Non-controlling interest	15,878	14,847
Total equity	4,716,229	2,137,991
Non current liabilities		
Borrowings	10,282,534	8,090,293
Derivative financial instruments	-	29,716
Deferred tax liabilities	195	219
	10,282,729	8,120,228
	14,998,958	10,258,219
Net assets per share (RM)	0.28	0.64

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 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 period	-	-	-	-	-	-	-	(454,808)	(454,808)	(454,808)	1,031	(453,777)	
Other comprehensive income	-	-	-	(4,542)	-	-	-	-	(4,542)	(4,542)	-	(4,542)	
Capital reduction	(3,007,940)	-	(4,995,970)	-	-	-	-	8,003,910	3,007,940	-	-	-	
Distribution to Perpetual Sukuk holders	-	-	-	-	-	-	-	(51,514)	(51,514)	(51,514)	-	(51,514)	
Share of forex translation reserve from associated company	-	-	-	-	-	15,368	-	-	15,368	15,368	-	15,368	
Rights Issue	1,336,862	-	1,737,921	-	-	-	-	-	1,737,921	3,074,783	-	3,074,783	
Rights Issue expenses	-	-	(2,080)	-	-	-	-	-	(2,080)	(2,080)	-	(2,080)	
At 30 June 2013	1,671,078	1,498,190	1,735,841	16,864	41,775	15,368	459,755	(738,520)	1,531,083	4,700,351	15,878	4,716,229	

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2012**

	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
			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	-	-	-	-	-	-	-	(521,042)	(521,042)	(521,042)	988	(520,054)	
Other comprehensive income	-	-	-	-	-	(26,036)	-	-	(26,036)	(26,036)	-	(26,036)	
Issue of Perpetual Junior Sukuk	-	998,190	-	-	-	-	-	-	-	998,190	-	998,190	
Expiry of ESOS	-	-	-	-	(88,938)	-	-	88,938	-	-	-	-	
At 30 June 2012	3,342,156	998,190	58,076	4,995,970	-	(54,258)	501,530	(8,348,044)	(2,846,726)	1,493,620	14,627	1,508,247	

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Period ended 30/06/2013 RM '000	Period ended 30/06/2012 RM '000
<u>Cash Flows From Operating Activities</u>		
Loss before taxation	(444,344)	(517,065)
Adjustments for:		
Provision for/(Writeback of):		
- aircraft maintenance and overhaul costs	106,166	273,803
- doubtful debts, net	5,686	5,406
- short term accumulating compensated absences, net	5,173	12,634
- inventories obsolescence, net	(19,025)	17,708
- stock loss	901	-
- unavailed credits on sales in advance of carriage	(215,875)	(124,123)
Aircraft, property, plant and equipment:		
- depreciation	406,328	259,565
- written off	14,142	-
- loss/(gain) on disposal, net	6,689	(9,156)
- (writeback)/provision of impairment losses, net	(9,820)	2,632
Amortisation of intangible assets	18,921	14,790
Share of post-tax results from investments accounted for using the equity method	(3,113)	(11,518)
Interest expenses	210,315	107,374
Fair value change of derivatives	(9,909)	39,054
Unrealised foreign exchange loss/(gain)	89,653	(26,648)
Interest income	(43,485)	(12,057)
Operating profit before working capital changes	118,403	32,399
Decrease/(Increase) in inventories	6,973	(13,773)
Increase in trade and other receivables	(198,176)	(21,231)
Increase/(Decrease) in trade and other payables	346,254	(131,816)
Decrease in provision	(350,477)	(314,762)
Increase in sales in advance of carriage	852,977	170,441
Increase in deferred revenue	47,211	28,919
Cash generated from/(used in) operating activities	823,165	(249,823)
Net cash settlement on derivatives	22,968	5,483
Interest paid	(211,611)	(116,199)
Taxes paid	(6,651)	(3,728)
Net cash generated from/(used in) operating activities	627,871	(364,267)
<u>Cash Flows From Investing Activities</u>		
Purchase of:		
- aircraft, property, plant and equipment	(2,954,778)	(2,276,110)
- intangible assets	(31,122)	(31,713)
- investment in a jointly controlled entity	(9,282)	-
- other investment	(9,273)	-
(Placement)/Withdrawal of:		
- deposits pledged with banks	(110,564)	(34,654)
- negotiable instruments of deposit	-	101,073
Proceeds from:		
- disposal of aircraft, property, plant and equipment	819,451	455,315
Interest received	43,485	12,057
Net cash used in investing activities	(2,252,083)	(1,774,032)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Period ended 30/06/2013 RM '000	Period ended 30/06/2012 RM '000
<u>Cash Flows From Financing Activities</u>		
Proceeds from:		
- rights issue	3,074,783	-
- aircraft refinancing	483,324	-
- borrowings	1,910,000	2,260,020
- issuance of Perpetual Sukuk	-	998,190
Repayment of:		
- borrowings	(76,001)	(52,851)
- finance lease	(423,939)	(136,381)
Profit distribution of perpetual sukuk	(51,514)	-
Expenses incurred on issuance of Rights share exercise	(2,080)	-
Net cash generated from financing activities	4,914,573	3,068,978
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	3,290,361	930,679
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	2,134,001	958,814
CASH AND CASH EQUIVALENTS AS AT 30 JUNE	5,424,362	1,889,493
Cash and cash equivalents comprise:		
Cash on hand and at banks	4,184,816	495,434
Short term deposits	1,364,586	1,484,363
Cash and bank balances	5,549,402	1,979,797
Less: Deposits pledged with banks	(125,040)	(90,304)
Cash and cash equivalents as at 30 June	5,424,362	1,889,493

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134

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 MFRS 134 (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 30 June 2013.

6. MATERIAL CHANGES IN ESTIMATES OF AMOUNTS REPORTED

There was no material changes in estimates of amount reported for the financial period ended 30 June 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 30 June 2013.

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134 (CONTINUED)

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

On 5 June 2013, the Company issued 13,368,624,960 new ordinary shares of RM0.10 each at an issue price of RM0.23 per rights share on the basis of four (4) rights share for every one (1) existing ordinary share of RM0.10 each held in the Company. Please refer Part B, Note 9 for further details.

On 11 April 2013, the Capital Restructuring (comprising a reduction of RM0.90 of the par value of each existing ordinary share of RM1.00 each in MAS ("Par Value Reduction") and a reduction of the share premium account pursuant to Sections 64 and 60 of the Companies Act, 1965 ("the Act")) took effect 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.

There was no other issuance, cancellation, repurchase, resale or repayments of debts or equity securities for the financial period ended 30 June 2013.

9. DIVIDEND PAID

There was no dividend paid during the financial period ended 30 June 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
- (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 30 June 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 30 June 2013					
Revenue					
External revenue	6,031,227	922,335	29,726	-	6,983,288
Inter-segment revenue *	625,856	-	16,138	(641,994)	-
Total revenue	6,657,083	922,335	45,864	(641,994)	6,983,288
Results					
Segment (loss)/profit before tax	(369,259)	(73,063)	(5,135)	3,113	(444,344)

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134 (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 period ended 30 June 2012					
Revenue					
External revenue	5,340,206	897,452	44,768	-	6,282,426
Inter-segment revenue *	678,837	-	24,951	(703,788)	-
Total revenue	6,019,043	897,452	69,719	(703,788)	6,282,426
Results					
Segment (loss)/profit before tax	(435,903)	(64,567)	(28,113)	11,518	(517,065)
Segment assets **					
At 30 June 2013	24,865,734	1,569,351	1,566,220	(5,531,493)	22,469,812
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 (Jun'13 RM152.8 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 30 June 2013.

12. SUBSEQUENT EVENT

On 5 August 2013, the Company has incorporated an off-shore company, Malaysia Airlines B738 II Capital Labuan Limited with a paid-up capital of USD1.00 (equivalent to RM3.18). With effect from that date, Malaysia Airlines B738 II Capital Labuan Limited became a wholly-owned subsidiary of the Company.

There was no other material subsequent event for the financial period ended 30 June 2013.

13. CHANGES IN THE COMPOSITION OF THE GROUP

- (i) On 25 June 2013, the Company has incorporated an off-shore company, Malaysia Airlines B738 Capital Labuan Limited with a paid-up capital of USD1.00 (equivalent to RM3.18). With effect from that date, Malaysia Airlines B738 Capital Labuan Limited became a wholly-owned subsidiary of the Company.
- (ii) 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 30 June 2013.

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134 (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.

	14/08/2013 RM '000
1. Loan (unsecured)	17,342
2. Tenure	
Loan due within one year	10,707
Loan due later than one year and not later than five years	6,635
	17,342
3. Loan by currency denomination	
Euro	17,342
(b) Others	
Bank guarantees given to third parties	315,441
Performance bonds given to third parties	803
	316,244

(ii) Contingent assets

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 30/06/2013 RM '000	As at 31/12/2012 RM '000 (Audited)
Approved and contracted for	6,773,637	8,469,233
Approved but not contracted for	85,119	264,367
	6,858,756	8,733,600

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

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134 (CONTINUED)

16. SIGNIFICANT RELATED PARTY DISCLOSURES

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended	Quarter ended	Period ended	Period ended
	30/06/2013 RM '000	30/06/2012 RM '000	30/06/2013 RM '000	30/06/2012 RM '000
LSG Sky Chefs-Brahim's Sdn. Bhd., an associate:				
- Catering and other services cost	66,694	67,828	135,476	112,984
- Rental income and others	(4,888)	(4,888)	(9,776)	(9,696)
GE Engine Services (M) Sdn. Bhd., an associate:				
- Engine maintenance services cost	116,484	116,307	188,249	215,536
- Rental income and others	-	(1,035)	(1,034)	(4,149)
Pan Asia Pacific Aviation Services Ltd., an associate:				
- Line maintenance and aircraft interior cleaning services cost	1,016	1,405	1,982	2,506
Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd., an associate:				
- Aircraft component repair services cost	2,126	1,039	2,810	2,269
Honeywell Aerospace Services (M) Sdn. Bhd., an associate:				
- Aircraft power plant unit overhaul services cost	-	753	-	1,572
Abacus International Holding Ltd., a company in which the Company has equity interest:				
- Computer reservation system access fee cost	5,654	9,580	15,540	17,222
Evergreen Sky Catering Corporation, a company in which the Company has equity interest:				
- Catering services cost	896	797	1,617	1,990
PMB, a fellow subsidiary:				
- Aircraft lease rental cost	16,789	57,594	57,090	115,781
- Residual value sharing on sale of aircraft	(96,149)	-	(96,149)	-
Aircraft Business Malaysia Sdn. Bhd., a related party:				
- Aircraft lease rental cost	23,607	60,457	74,087	120,817

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134 (CONTINUED)

17. SIGNIFICANT RELATED PARTY BALANCES

	As at 30/06/2013 RM '000	As at 31/12/2012 RM '000 (Audited)
Amount owing to fellow subsidiary	(33,976)	(34,208)
Amount owing by related party		
- due within one year	62,149	52,024
- due after one year	-	35,918
Amount owing by associated companies	11,159	25,685
Amount owing to associated companies	<u>(63,434)</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 quarter ended 30 June 2013, the Group recorded an operating profit of RM7.9 million as compared to RM101.9 million operating loss for the same quarter in previous year.

Operating revenue increased by 12% to RM3,594.3 million for the current quarter compared to the same quarter last year due to increase in Airline revenue by 12% to RM3,415.3 million and Cargo revenue by 2% to RM473.2 million. Passenger traffic increased by 29% against a 19% increase in capacity and seat factor increased by 6.6 percentage points to 80.4%. However, passenger yield declined by 14% as it continues to be under pressure due to intense competition. Cargo Revenue increased in line with 7% higher load tonnage carried and 5% increase in capacity.

Total operating expenditure has increased to RM3,764.5 million compared to the same quarter last year which consists of 11% and 7% increase in Airline Operations and Cargo Services respectively. With the increase in capacity, both Airline Operations and Cargo Services recorded higher fuel costs resulting in additional 10% and 6% increase in fuel costs incurred during the quarter respectively. This also resulted in the increase in non-fuel costs for Airline Operations and Cargo Services by 12% and 8% respectively mainly attributed to ground handling and landing charges.

The Group recorded loss after tax of RM176.0 million for the quarter ended 30 June 2013, as compared to RM349.2 million in the same quarter last year. The loss after tax is inclusive of unrealised foreign exchange loss of RM68.3 million (Quarter ended 30 June 2012: RM173.0 million loss), finance costs of RM111.0 million (Quarter ended 30 June 2012: RM62.8 million) and fair value change of derivative of RM5.6 million gain (Quarter ended 30 June 2012: RM15.3 million loss).

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 30/06/2013 RM '000	Quarter ended 30/06/2012 RM '000	Period ended 30/06/2013 RM '000	Period ended 30/06/2012 RM '000
Provision for/(Writeback of):				
- doubtful debts, net	5,548	3,562	5,686	5,406
- inventories obsolescence, net	1,367	4,437	(19,025)	17,708
Aircraft, property, plant and equipment:				
- depreciation	218,695	124,369	406,328	259,565
- (gain)/loss on disposal, net	(5,721)	617	6,689	(9,156)
Amortisation of intangible assets	11,018	8,070	18,921	14,790
Interest expense	111,031	62,772	210,315	107,374
Interest income	(31,006)	(5,712)	(43,485)	(12,057)

Other than the items highlighted above, there were no disposal of unquoted investment and properties during the quarter and financial period ended 30 June 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 30 June 2013 as compared to 1 January 2013 which comprised the following:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/06/2013 RM '000	Quarter ended 30/06/2012 RM '000	Period ended 30/06/2013 RM '000	Period ended 30/06/2012 RM '000
(i) (Loss)/Gain from fuel hedging contracts	(1,631)	(16,271)	1,240	(24,998)
(ii) Gain from foreign currency hedging contracts	-	4,405	-	4,073
(iii) Gain/(Loss) from interest rate hedging contracts	7,229	(3,411)	8,669	(18,129)
	5,598	(15,277)	9,909	(39,054)

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 30 June 2013 as compared to 1 January 2013 which comprised the following:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/06/2013 RM '000	Quarter ended 30/06/2012 RM '000	Period ended 30/06/2013 RM '000	Period ended 30/06/2012 RM '000
(i) Loss from fuel hedging contracts	(31,591)	(49,716)	(40,300)	(17,905)
(ii) (Loss)/Gain from foreign currency hedging contracts	-	(3,108)	-	227
(iii) Gain/(Loss) from interest rate hedging contracts	28,556	(24,814)	35,758	(8,358)
	(3,035)	(77,638)	(4,542)	(26,036)

5. COMPARISON WITH PRECEDING QUARTER'S RESULTS

The Group's operating profit for the current quarter was RM7.9 million (Quarter ended 31 March 2013: RM165.3 million loss).

Total operating revenue increased by 6% to RM3,594.3 million when compared to the previous quarter mainly due to higher load factor.

Total operating expenditure increased by 1% to RM3,764.5 million mainly due to higher non-fuel cost by 3% to RM2,400.8 million over the preceding quarter.

The Group's loss after tax for the current quarter was RM176.0 million (Quarter Ended 31 March 2013: RM278.8 million loss). Included in the quarter loss was unrealised foreign exchange loss of RM68.3 million (Quarter Ended 31 March 2013: RM21.3 million) and finance cost of RM111.0 million (Quarter Ended 31 March: RM99.3 million).

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

6. CURRENT YEAR PROSPECTS

In the month of June, the International Air Transport Association (IATA) and Association of Asia Pacific Airlines (AAPA) reported that overall passenger demand had risen 6% compared to one year ago. Cargo demand recorded a small increase in the same period. The primary driver for increase in air travel is connectivity to emerging markets. Still, the business environment remains challenging. With Asia-Pacific airlines contributing to half of the increase in capacity from May to June, there will be continued pressure on yield.

For the Group, the trend going forward will be to sustain its strong growth in passenger traffic, seat loads, and improve yield. The arrival of aircraft (6 B738, 2 A333, 3 ATR72-600) until the end of 2013 will further improve its average fleet age and product offering.

The Group remains focused on driving revenue through the introduction of new destinations and increased frequencies, aggressive marketing and promotions and better capacity management. Optimizing asset utilisation, further aligning costs to improve yields, and driving productivity for better efficiencies system-wide will continue. The Group will also closely monitor the impact of the weakening of the Malaysian Ringgit against the US Dollar.

7. PROFIT FORECAST OR PROFIT GUARANTEE

The Group has not provided any profit forecast or profit guarantee in respect of the financial period ended 30 June 2013.

8. TAXATION

Taxation charge for the Group comprised the following: -

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/06/2013 RM '000	Quarter ended 30/06/2012 RM '000	Period ended 30/06/2013 RM '000	Period ended 30/06/2012 RM '000
Current period				
- Malaysian taxation	865	892	1,150	1,954
- Foreign taxation	1,476	1,147	2,313	2,131
	<u>2,341</u>	<u>2,039</u>	<u>3,463</u>	<u>4,085</u>
(Over)/Under provision in prior year:				
- Malaysian taxation	(734)	(907)	(1,712)	(907)
- Foreign taxation	7,682	-	7,682	-
Deferred taxation	-	(189)	-	(189)
Total	<u>9,289</u>	<u>943</u>	<u>9,433</u>	<u>2,989</u>

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 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.

On 5 June 2013, the Rights Issue was completed following the listing and quotation for 13,368,624,960 Rights Shares.

There were no other corporate proposals made during the financial period ended 30 June 2013.

10. GROUP BORROWINGS

	As at 30/06/2013 RM '000	As at 31/12/2012 RM '000 (Audited)
(i) Short term borrowings		
Unsecured		
- Revolving Credit	631,078	628,902
- Term Loan	125,000	175,000
Secured		
- Term Loan	118,731	104,500
- Finance Lease	331,529	549,835
	<u>1,206,338</u>	<u>1,458,237</u>
(ii) Long term borrowings		
Unsecured		
- Term Loan	522,838	510,057
Secured		
- Term Loan	6,257,349	4,133,246
- Finance Lease	3,502,347	3,446,990
	<u>10,282,534</u>	<u>8,090,293</u>
Total	<u>11,488,872</u>	<u>9,548,530</u>
(iii) Currency denominations		
Ringgit Malaysia	6,923,124	5,046,369
US Dollars	3,870,613	3,779,999
Japanese Yen	695,135	722,162
	<u>11,488,872</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 30/06/2013 Barrels 'Mil	Fair Value as at 30/06/2013 Assets/ (Liabilities) RM 'Mil
(i) Fuel Hedging Contracts		
Less than 1 year	3.1	3.1
(ii) Interest Rate Hedging Contracts	RM 'Mil	
Less than 1 year	611.3	(5.0)
1 year to 3 years	195.0	(0.9)
More than 3 years	948.1	6.5
	1,754.5	0.6
Total		3.7

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 and Subsidiaries RM'000	Associated Companies RM'000	Jointly Controlled Entity RM'000	Consolidation Adjustments RM'000	Group Accumulated Losses RM'000
As at 30 June 2013					
Realised (losses)/profit	(959,313)	5,508	(98,039)	192,969	(858,875)
Unrealised profit/(losses)	93,582	26,986	(213)	-	120,355
	(865,731)	32,494	(98,252)	192,969	(738,520)
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
	(8,365,369)	4,809	(76,122)	200,574	(8,236,108)

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 defense agreement with the other defendants. The court also dismissed portions of the claims relating to flights originating in Asia on the basis of lack of jurisdiction. These rulings have, according to the Company's US lawyers, significantly reduced the potential amount of claims. The Company is settling the claim for the amount of USD950,000. This is subject to Court approval and the first payment of USD475,000 was due on 13 August 2013. However, the Company has been advised to withhold payment until all matters regarding the escrow account have been finalised.

(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.

14. DIVIDENDS

The directors do not recommend any dividend for the financial period ended 30 June 2013.

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

15. LOSS PER SHARE

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended	Quarter ended	Period ended	Period ended
	30/06/2013	30/06/2012	30/06/2013	30/06/2012
(a) Basic earnings loss per share				
Loss attributable to equity holders of the Company (RM'000)	(175,982)	(349,248)	(454,808)	(521,042)
Weighted average number of ordinary shares in issue ('000)	13,507,881	7,102,082	10,304,982	7,102,082
Loss per share (sen)	<u>(1.30)</u>	<u>(4.92)</u>	<u>(4.41)</u>	<u>(7.34)</u>

Loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the financial period ended 30 June 2013. For the comparative quarter and period ended 30 June 2012, the basic earnings per share is restated in accordance with MFRS 133 - Earnings Per Share.

(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 20 August 2013.

By Order of the Board

Rizani bin Hassan (LS 0009520)
 Company Secretary
 Selangor Darul Ehsan
 20 August 2013

PART C - ADDITIONAL INFORMATION

1. SUMMARY OF KEY FINANCIAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/06/2013 RM '000	Quarter ended 30/06/2012 RM '000	Period ended 30/06/2013 RM '000	Period ended 30/06/2012 RM '000
(a) Revenue	3,772,466	3,301,074	7,318,213	6,415,763
(b) Profit/(Loss) from operations	7,931	(101,918)	(157,398)	(408,803)
(c) Loss before tax	(165,887)	(347,735)	(444,344)	(517,065)
(d) Loss for the period	(175,176)	(348,678)	(453,777)	(520,054)
(e) Loss for the period attributable to ordinary equity holders of the Company	(175,982)	(349,248)	(454,808)	(521,042)
(f) Basic loss per share (sen)	(1.30)	(4.92)	(4.41)	(7.34)
Diluted loss per share (sen)	N/A	(4.92)	N/A	(7.34)

	AS AT 30/06/2013	AS AT 31/12/2012 (Audited)
(a) Net assets per share attributable to ordinary equity holders of the Company (RM)	0.28	0.64

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/06/2013 RM '000	Quarter ended 30/06/2012 RM '000	Period ended 30/06/2013 RM '000	Period ended 30/06/2012 RM '000
(a) Gross interest income	31,006	5,712	43,485	12,057
(b) Gross interest expense	(111,031)	(62,772)	(210,315)	(107,374)