

MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT FOR THE FIRST QUARTER ENDED 31 MARCH 2014

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 2014. This announcement should be read in conjunction with the audited annual financial statements for the year ended 31 December 2013 and the accompanying explanatory notes attached to the quarterly condensed financial report.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/03/2014 RM '000	Quarter ended 31/03/2013 RM '000	Period ended 31/03/2014 RM '000	Period ended 31/03/2013 RM '000
Operating revenue	3,531,230	3,388,946	3,531,230	3,388,946
Operating expenses	(3,701,887)	(3,507,051)	(3,701,887)	(3,507,051)
Other operating income	69,448	148,312	69,448	148,312
Earnings Before Interest, Taxation, Depreciation & Amortisation (EBITDA)	(101,209)	30,207	(101,209)	30,207
Depreciation, amortisation and impairment	(236,297)	(195,537)	(236,297)	(195,537)
Fair value change of derivatives	11,592	4,312	11,592	4,312
Unrealised foreign exchange gain/(loss)	871	(21,310)	871	(21,310)
Finance costs	(121,878)	(99,284)	(121,878)	(99,284)
Share of post-tax results from investments accounted for using the equity method	7,772	3,155	7,772	3,155
Loss before taxation	(439,149)	(278,457)	(439,149)	(278,457)
Taxation	(3,280)	(145)	(3,280)	(145)
Loss for the period	(442,429)	(278,602)	(442,429)	(278,602)
Loss attributable to:				
Equity holders of the Company	(443,392)	(278,827)	(443,392)	(278,827)
Non-controlling interest	963	225	963	225
Loss for the period	(442,429)	(278,602)	(442,429)	(278,602)
Loss per share attributable to equity holders of the Company				
Basic (sen)	(2.65)	(3.93)	(2.65)	(3.93)
Diluted (sen)	(2.65)	(3.93)	(2.65)	(3.93)

MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT FOR THE FIRST QUARTER ENDED 31 MARCH 2014

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/03/2014 RM '000	Quarter ended 31/03/2013 RM '000	Period ended 31/03/2014 RM '000	Period ended 31/03/2013 RM '000
Loss for the period	(442,429)	(278,602)	(442,429)	(278,602)
Other comprehensive income:				
Loss from cash flow hedges	(76,526)	(1,507)	(76,526)	(1,507)
Share of other comprehensive income of an associate company	612	15,292	612	15,292
Total comprehensive loss for the period	(518,343)	(264,817)	(518,343)	(264,817)
Total comprehensive loss attributable to:				
Equity holders of the Company	(519,306)	(265,042)	(519,306)	(265,042)
Non-controlling interest	963	225	963	225
Total comprehensive loss for the period	(518,343)	(264,817)	(518,343)	(264,817)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31/03/2014 RM '000	As at 31/12/2013 RM '000 (Audited)
<u>Non-current assets</u>		
Aircraft, property, plant and equipment	14,483,733	14,615,157
Investment in associates	161,109	152,305
Other investments	63,437	63,437
Intangible assets	141,234	149,079
Other receivables	970,435	1,023,137
Derivative financial instruments	14,708	24,941
Deferred tax assets	1,021	1,145
	15,835,677	16,029,201
<u>Current assets</u>		
Inventories	245,451	253,765
Trade and other receivables	1,607,513	1,596,152
Tax recoverable	5,221	5,076
Derivative financial instruments	44,186	100,337
Cash and bank balances	3,376,423	3,870,622
	5,278,794	5,825,952
<u>Current liabilities</u>		
Sales in advance of carriage	1,943,722	2,200,304
Deferred revenue	385,084	347,670
Trade and other payables	2,664,023	2,668,700
Provisions	784,638	803,988
Borrowings	1,468,502	1,254,388
Derivative financial instruments	2,728	1,970
Taxation	3,292	2,078
	7,251,989	7,279,098
Net current liabilities	(1,973,195)	(1,453,146)
	13,862,482	14,576,055
Financed by:		
Equity attributable to equity holders of the Company:		
Share capital	1,671,078	1,671,078
Perpetual Sukuk	1,498,190	1,498,190
Reserves	328,241	864,655
	3,497,509	4,033,923
Non-controlling interest	19,171	18,208
Total equity	3,516,680	4,052,131
<u>Non-current liabilities</u>		
Borrowings	10,340,059	10,517,788
Derivative financial instruments	5,620	6,013
Deferred tax liabilities	123	123
	10,345,802	10,523,924
	13,862,482	14,576,055
Net assets per share (RM)	0.21	0.24

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2014**

	Attributable to equity holders of the Company										Non-controlling interests 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	Capital redemption reserve RM '000	Cash flow hedge reserves RM '000	Foreign currency translation reserve RM '000	General reserves RM '000	Accumulated losses RM '000				
At 1 January 2014	1,671,078	1,498,190	1,735,716	41,775	119,653	17,141	459,755	(1,509,385)	864,655	4,033,923	18,208	4,052,131
Loss for the year	-	-	-	-	-	-	-	(443,392)	(443,392)	(443,392)	963	(442,429)
Other comprehensive income	-	-	-	-	(76,526)	612	-	-	(75,914)	(75,914)	-	(75,914)
Distribution to Perpetual Sukuk holders	-	-	-	-	-	-	-	(17,108)	(17,108)	(17,108)	-	(17,108)
At 31 March 2014	1,671,078	1,498,190	1,735,716	41,775	43,127	17,753	459,755	(1,969,885)	328,241	3,497,509	19,171	3,516,680

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

	Attributable to equity holders of the Company										Non-controlling interests 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	Capital redemption reserves RM '000	Cash flow hedge reserves RM '000	Foreign currency 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	41,775	21,406	-	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)	15,292	-	-	13,785	13,785	-	13,785
Distribution to Perpetual Sukuk holders	-	-	-	-	-	-	-	(17,108)	(17,108)	(17,108)	-	(17,108)
At 31 March 2013	3,342,156	1,498,190	4,995,970	41,775	19,899	15,292	459,755	(8,532,043)	(2,999,352)	1,840,994	15,072	1,856,066

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Period ended 31/03/2014 RM '000	Period ended 31/03/2013 RM '000
<u>Cash Flows From Operating Activities</u>		
Loss before taxation	(439,149)	(278,457)
Adjustments for:		
Provision for/(Writeback of):		
- aircraft maintenance and overhaul costs	123,253	124,685
- doubtful debts, net	5,697	138
- inventories obsolescence, net	1,522	(20,392)
- short term accumulating compensated absences, net	4,642	1,720
- stock loss	-	901
- unavailed credits on sales in advance of carriage	(88,503)	(92,657)
Aircraft, property, plant and equipment:		
- depreciation	223,698	187,633
- provision for impairment losses, net	1,968	-
- written off	1,264	-
- loss on disposal, net	16,549	12,410
Finance costs	121,878	99,284
Unrealised foreign exchange (gain)/loss	(871)	21,310
Amortisation of intangible assets	10,631	7,903
Interest income	(26,181)	(12,479)
Share of post-tax results from investments accounted for using the equity method	(7,772)	(3,155)
Fair value change of derivatives	(11,592)	(4,312)
Operating (loss)/profit before working capital changes	(62,966)	44,532
Decrease in inventories	6,792	10,006
Decrease/(Increase) in trade and other receivables	85,814	(536,981)
(Decrease)/Increase in sales in advance of carriage	(168,078)	546,807
Increase in deferred revenue	37,414	19,981
Increase in trade and other payables	5,213	222,245
Decrease in provision	(142,604)	(106,580)
Cash (used in)/generated from operating activities	(238,415)	200,010
Net cash settlement on derivatives	13,634	22,968
Finance costs paid	(143,760)	(78,958)
Taxes (paid)/refund	(2,087)	3,261
Net cash (used in)/generated from operating activities	(370,628)	147,281
<u>Cash Flows From Investing Activities</u>		
Purchase of:		
- aircraft, property, plant and equipment	(783,905)	(2,179,360)
- intangible assets	(2,787)	(5,320)
- other investment	-	(9,273)
(Placement)/Withdrawal of:		
- deposits pledged with banks	(186)	(109,471)
Proceed from disposal of:		
- aircraft, property, plant and equipment	599,523	416,739
Interest received	26,181	12,480
Net cash used in investing activities	(161,174)	(1,874,205)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Period ended 31/03/2014 RM '000	Period ended 31/03/2013 RM '000
<u>Cash Flows From Financing Activities</u>		
Proceeds from:		
- aircraft refinancing	-	222,123
- borrowings	250,000	1,910,000
Repayment of:		
- borrowings	(96,691)	(13,711)
- finance lease	(98,784)	(214,229)
Distribution to Perpetual Sukuk holders	(17,108)	(17,108)
Net cash generated from financing activities	<u>37,417</u>	<u>1,887,075</u>
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	(494,385)	160,151
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	<u>3,745,941</u>	<u>2,134,001</u>
CASH AND CASH EQUIVALENTS AS AT 31 MARCH	<u>3,251,556</u>	<u>2,294,152</u>
Cash and cash equivalents comprise:		
Cash on hand and at banks	1,407,622	773,075
Short term deposits	1,968,801	1,645,024
Cash and bank balances	<u>3,376,423</u>	<u>2,418,099</u>
Less: Deposits pledged with banks	(124,867)	(123,947)
Cash and cash equivalents as at 31 March	<u>3,251,556</u>	<u>2,294,152</u>

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 2013 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 2013.

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 2013 except for the adoption of the following Malaysian Financial Reporting Standards ("MFRSs") and amendments to MFRSs during the current financial period:

Effective for annual periods beginning on or after 1 January 2014

<p>Amendments to MFRS 132</p> <p>Amendments to MFRS 10, MFRS 12 and MFRS 127</p> <p>Amendments to MFRS 136</p> <p>Amendments to MFRS 139</p>	<p>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</p> <p>Investment Entities</p> <p>Recoverable Amount Disclosures for Non-Financial Assets</p> <p>Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting</p>
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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:

Effective for annual periods beginning on or after 1 July 2014

<p>Amendments to MFRS 119</p> <p>Annual Improvements to MFRSs 2010–2012 Cycle</p> <p>Annual Improvements to MFRSs 2011–2013 Cycle</p>	<p>Defined Benefit Plans - Employee Contributions</p>
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Effective for annual periods to be announced by MASB

<p>MFRS 9</p> <p>MFRS 9</p> <p>MFRS 9</p>	<p>Financial Instruments (2009)</p> <p>Financial Instruments (2010)</p> <p>Financial Instruments - Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139</p>
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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, except as discussed below:

The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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

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 2013.

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 2014.

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 2014.

7. SIGNIFICANT EVENTS

On 8 March 2014, flight MH370 operated on a B777 aircraft which departed Kuala Lumpur bound for Beijing, carrying 227 passengers and 12 crew on board, disappeared from radar just one hour after take off. Despite a multi-nation search and rescue effort, the largest in history, there has still been no trace of the aircraft. Currently search operations continue in the southern Indian Ocean.

There was no other material significant event for the financial period ended 31 March 2014.

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 2014.

9. DIVIDEND PAID

There was no dividend paid during the financial period ended 31 March 2014.

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.

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

10. SEGMENTAL INFORMATION (CONTINUED)

The following tables present revenue and profit information regarding the Group's operating segments for the financial period ended 31 March 2014 and 2013, respectively.

	Airlines Operations RM'000	Cargo Services RM'000	Others RM'000	Adjustments and eliminations RM'000	Total RM'000
For the period ended 31 March 2014					
Revenue					
External revenue	3,075,516	435,063	20,651	-	3,531,230
Inter-segment revenue *	344,285	-	15,767	(360,052)	-
Total revenue	3,419,801	435,063	36,418	(360,052)	3,531,230
Results					
Segment (loss)/profit before tax	(402,419)	(48,081)	3,579	7,772	(439,149)
For the period 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)
Segment assets **					
At 31 March 2014	21,965,196	1,710,203	2,522,112	(5,244,149)	20,953,362
At 31 December 2013	22,935,715	1,315,933	2,477,202	(5,026,002)	21,702,848

* Inter-segment revenues are eliminated on consolidation.

** Segment assets do not include investment in associates (Mar'14: RM161.1 million, Dec'13: RM152.3 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 2014.

12. SUBSEQUENT EVENT

On 11 April 2014, the Company incorporated an off-shore Company, MAS B738 EXIM (L) Limited with a paid-up capital of USD1.00 (equivalent to RM3.24) in cash. With effect from that date, MAS B738 EXIM (L) Limited became a wholly-owned subsidiary of the Company.

There was no other material subsequent event for the financial period ended 31 March 2014.

13. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group for the financial period ended 31 March 2014.

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.

	9/5/2014 RM '000
1. Loan (unsecured)	6,820
2. Tenure	
Loan due within one year	5,470
Loan due later than one year and not later than five years	1,350
	6,820
3. Loan by currency denomination	
Euro	6,820
(b) Others	
Bank guarantees given to third parties	363,281
Performance bonds given to third parties	1,713
	364,994

(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 31/03/2014 RM '000	As at 31/12/2013 RM '000 (Audited)
Approved and contracted for	4,819,939	5,656,714
Approved but not contracted for	219,415	84,919
	5,039,354	5,741,633

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
	31/03/2014 RM '000	31/03/2013 RM '000	31/03/2014 RM '000	31/03/2013 RM '000
Brahim's Airline Catering Sdn. Bhd. (formerly known as LSG Chefs-Brahim's Sdn. Bhd.), an associate:				
- Catering and other services cost	48,397	68,782	48,397	68,782
- Rental income and others	(5,375)	(4,888)	(5,375)	(4,888)
GE Engine Services (M) Sdn. Bhd., an associate:				
- Engine maintenance services cost	49,844	71,765	49,844	71,765
- Rental income and others	(1,518)	(1,034)	(1,518)	(1,034)
Pan Asia Pacific Aviation Services Ltd., an associate:				
- Transit and cabin services costs	1,403	966	1,403	966
Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd., an associate:				
- Aircraft maintenance services costs	1,414	684	1,414	684
Abacus International Holding Ltd., a company in which the Company has equity interest:				
- Computer reservation system access fee cost	3,354	9,886	3,354	9,886
Evergreen Sky Catering Corporation, a company in which the Company has equity interest:				
- Catering services cost	907	721	907	721
PMB, a fellow subsidiary:				
- Aircraft lease rental cost	15,568	40,301	15,568	40,301
Aircraft Business Malaysia Sdn. Bhd., a related party:				
- Aircraft lease rental cost	14,418	50,480	14,418	50,480
Turus Pesawat Sdn. Bhd., a related party:				
- finance cost	54,365	44,087	54,365	44,087

17. SIGNIFICANT RELATED PARTY BALANCES

	As at 31/03/2014 RM '000	As at 31/12/2013 RM '000 (Audited)
Amount owing by a fellow subsidiary:		
- due within one year	35,088	37,783
- due after one year	403,686	527,100
Amount owing by related parties	8,324	19,271
Amount owing by associated companies	3,464	4,652
Amount owing to associated companies	(9,028)	(61,644)
Loan from a related party	(5,310,000)	(5,310,000)

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

1. REVIEW OF PERFORMANCE

The tragic MH370 incident on 8 March 2014 had a dramatic impact on the traditionally weak first quarter performance. The incident, involving the disappearance of the B777 Beijing-bound flight, triggered a major short-term reaction in consumer behavior, with the airline observing high cancellation of existing bookings and reduction in long haul bookings in favour of short haul bookings.

The timing of MH370 also coincided with the start of the March MATTA sales fair which severely impacted the volume of forward sales that are typically made at this time.

Consequently, despite the increase in capacity by 19% compared to the same quarter last year, operating revenue increased by only 4%. Seat Factor remained at a respectable 76% even though the competitive environment both domestically and internationally continued to intensify.

Yield in the quarter continued to be under pressure as a result of competition and the weakened consumer demand. Yield decreased by 9% compared to the same quarter last year.

Operating expenditure increased by 6% mainly due to an increase in fuel cost by 14%, contributed by the increase in capacity and the weakening of the Ringgit against US Dollar. However, there was significant savings in leasing costs generated from the fleet renewal programme and on maintenance costs.

The Group registered a negative EBITDA of RM101.2 million this quarter compared to a positive EBITDA of RM30.2m in the same quarter last year.

After accounting for depreciation, amortisation and impairment of RM236.3 million (2013: RM195.5 million), unrealised foreign exchange gain of RM0.9 million (2013: RM21.3 million loss), finance costs of RM121.9 million (2013: RM99.3 million) and fair value change of derivative of RM11.6 million gain (2013: RM4.3 million gain), the Group registered a loss after tax of RM443.4 million for the first quarter ended 31 March 2014 compared to a loss of RM278.8 million in the same quarter last year.

The Group cash balance as at the end of the quarter was RM3.4 billion.

2. LOSS FOR THE PERIOD

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 profit/loss for the period:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/03/2014	Quarter ended 31/03/2013	Period ended 31/03/2014	Period ended 31/03/2013
	RM '000	RM '000	RM '000	RM '000
Provision for/(Writeback of):				
- doubtful debts, net	5,697	138	5,697	138
- inventories obsolescence, net	1,522	(20,392)	1,522	(20,392)
Aircraft, property, plant and equipment:				
- depreciation	223,698	187,633	223,698	187,633
- provision for impairment losses, net	1,968	-	1,968	-
- loss on disposal, net	16,549	12,410	16,549	12,410
Amortisation of intangible assets	10,631	7,903	10,631	7,903
Finance costs	121,878	99,284	121,878	99,284
Interest income	(26,181)	(12,479)	(26,181)	(12,479)

Other than the items highlighted above, there were no disposal of unquoted investment and properties during the quarter and financial period ended 31 March 2014.

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 2014 as compared to 1 January 2014 which comprised the following:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/03/2014 RM '000	Quarter ended 31/03/2013 RM '000	Period ended 31/03/2014 RM '000	Period ended 31/03/2013 RM '000
(i) Gain from fuel hedging contracts	9,794	2,871	9,794	2,871
(ii) Gain from foreign currency hedging contracts	1,478	-	1,478	-
(iii) Gain from interest rate hedging contracts	320	1,441	320	1,441
	11,592	4,312	11,592	4,312

4. OTHER COMPREHENSIVE INCOME

Included in other comprehensive income is gain/(loss) from cash flow hedges. 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 2014 as compared to 1 January 2014 which comprised the following:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/03/2014 RM '000	Quarter ended 31/03/2013 RM '000	Period ended 31/03/2014 RM '000	Period ended 31/03/2013 RM '000
(i) Loss from fuel hedging contracts	(61,065)	(8,709)	(61,065)	(8,709)
(ii) Loss from foreign currency hedging contracts	(7,265)	-	(7,265)	-
(iii) (Loss)/Gain from interest rate hedging contracts	(8,195)	7,202	(8,195)	7,202
	(76,526)	(1,507)	(76,526)	(1,507)

5. COMPARISON WITH PRECEDING QUARTER'S RESULTS

Operating revenue has decreased by 7% mainly due to lower seat factor of 5.2ppts to 76% due to intense competition domestically and regionally. In addition, the disappearance of MH370 since 8 March has impacted its forward sales with the slowing down of air travel demand. However, yield remained constant as compared to preceding quarter.

Operating Expenditure has reduced by 6% despite a 2% increase in fuel cost mainly contributed to lower non-fuel cost by 11% as compared to the preceding quarter. Non-fuel costs of preceding quarter included maintenance and inventories obsolescence provision for phased out aircraft.

The Group's EBITDA is negative RM101.2 million compared to the preceding quarter of negative RM56.3 million.

The Group's loss after tax for the current quarter was RM443.4 million (Quarter ended 31 December 2013: RM343.4 million loss). Included in the quarter loss was depreciation, amortisation and impairment of RM236.3 million (Quarter ended 31 December 2013: RM172.7 million), unrealised foreign exchange gain of RM0.9 million (Quarter ended 31 December 2013: RM18.7 million loss) and finance cost of RM121.9 million (Quarter ended 31 December 2013: RM105.1 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 disappearance of flight MH370 has put additional stress on the Group which had already prepared itself for a challenging year 2014 with continued high fuel and operational costs and an unfavourable foreign exchange rate environment.

As anticipated, the MH370 incident has impacted sales, more so in the China market where two-thirds of the passengers onboard the flight originated. Sales from China fell some 60% in March, soon after the disappearance of the aircraft. The timing of the incident also coincided with a major travel sales event in Malaysia, MATTA Fair, resulting in the loss of some planned revenue for the year. Short-term travel demand suffered, not just for Malaysia Airlines. Even today, consumers remain cautious to travel in the mid- to long-term.

Out of respect for the families of the 239 persons onboard MH370 who continue to hope for positive news on their loved ones, Malaysia Airlines reduced all marketing activities for nearly 2 months as intense search operations were underway in the southern Indian Ocean. Marketing activities and corporate branding awareness have slowly resumed from the beginning of May towards business continuity and recovery programmes for all markets. We expect to see positive impact on sales later in the year, although lower than the earlier performance targets.

The reality of our situation following the MH370 incident and the challenging business environment has made it even more imperative and urgent that the Group re-look at its business model and plans going forward to ensure sustainability of the business. A thorough review of operational processes and plans is ongoing to ensure a stronger Malaysia Airlines emerges following the MH370 crisis, to deal with the harsh business environment that we operate in.

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 2014.

8. TAXATION

Taxation charge for the Group comprised the following: -

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended	Quarter ended	Period ended	Period ended
	31/03/2014	31/03/2013	31/03/2014	31/03/2013
	RM '000	RM '000	RM '000	RM '000
Current period				
- Malaysian taxation	988	(882)	988	(882)
- Foreign taxation	1,684	1,027	1,684	1,027
	<u>2,672</u>	<u>145</u>	<u>2,672</u>	<u>145</u>
Under provision in prior year:				
- Malaysian taxation	255	-	255	-
- Foreign taxation	353	-	353	-
Total	<u><u>3,280</u></u>	<u><u>145</u></u>	<u><u>3,280</u></u>	<u><u>145</u></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.

9. CORPORATE PROPOSALS

There was no corporate proposals made during the financial period ended 31 March 2014.

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

10. GROUP BORROWINGS

	As at 31/03/2014 RM '000	As at 31/12/2013 RM '000 (Audited)
(i) Short term borrowings		
Unsecured		
- Revolving Credit	316,982	66,565
- Term Loan	274,913	356,998
Secured		
- Term Loan	184,130	185,117
- Finance Lease	692,477	645,708
	<u>1,468,502</u>	<u>1,254,388</u>
(ii) Long term borrowings		
Unsecured		
- Term Loan	178,107	178,107
Secured		
- Term Loan	5,938,975	6,409,017
- Finance Lease	4,222,977	3,930,664
	<u>10,340,059</u>	<u>10,517,788</u>
Total	<u><u>11,808,561</u></u>	<u><u>11,772,176</u></u>
(iii) Currency denominations		
Ringgit Malaysia	6,198,697	6,019,833
US Dollars	4,811,042	4,955,210
Japanese Yen	798,822	797,133
	<u>11,808,561</u>	<u>11,772,176</u>

11. DERIVATIVE FINANCIAL INSTRUMENTS

Type of derivatives

	Notional Value as at 31/03/2014 Barrels 'Mil	Fair Value as at 31/03/2014 Assets/ (Liabilities) RM 'Mil
(i) Fuel Hedging Contracts		
Less than 1 year	3.0	39.2
1 year to 3 years	2.1	0.5
	<u>5.1</u>	<u>39.7</u>
(ii) Forex Hedging Contracts	RM 'Mil	
Less than 1 year	241.2	2.5
(iii) Interest Rate Hedging Contracts	RM 'Mil	
Less than 1 year	326.2	(0.2)
1 year to 3 years	278.7	*
More than 3 years	846.0	8.5
	<u>1,450.9</u>	<u>8.3</u>
Total		<u><u>50.5</u></u>

* amount less than RM1 million

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.

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

12. DISCLOSURE ON REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of 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 2014					
Realised (losses)/profit	(1,980,189)	43,920	(127,457)	84,514	(1,979,212)
Unrealised profit/(losses)	10,305	(690)	(288)	-	9,327
	<u>(1,969,884)</u>	<u>43,230</u>	<u>(127,745)</u>	<u>84,514</u>	<u>(1,969,885)</u>
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>

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.

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.

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 entered into a settlement agreement amounting to USD950,000 which is subject to Court approval.

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

13. MATERIAL LITIGATION (CONTINUED)

(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. Two remaining penalty instalments of NZ\$750,000 are payable by MASkargo to the Commerce Commission in April and October 2014.

(c) Notice of Proposed Decision by the Competition Commission of Malaysia

The Company has on 6 September 2013 been served with a Notice of Proposed Decision by the Competition Commission of Malaysia ("MyCC") pursuant to Section 36 of the Competition Act 2010.

The decision is premised on an alleged breach by the Company of Section 4(2)(b) of the Competition Act 2010 in entering into the Comprehensive Collaboration Framework of 9 August 2011, an agreement that allegedly has as its object the sharing of markets in air transport services sector within Malaysia. The particular routes under scrutiny were the Kuala Lumpur-Kuching, Kuala Lumpur-Kota Kinabalu, Kuala Lumpur-Sandakan and Kuala Lumpur-Sibu routes.

As further provided under the Competition Act, a proposed financial penalty of RM10 million has been imposed on the Company on the alleged infringement.

The Company submitted its written representation to the MyCC on 17 October 2013 and the oral representation took place on 15 January 2014.

The Company has on 10 April 2014 received from the MyCC its Notice of Finding of Infringement (the "Notice") dated 10 April 2014 and its decision dated 31 March 2014 (the "Decision"). The said Notice and Decision maintains its findings of infringement and the penalty of RM10 million as provided under the Notice and Proposed Decision dated 6 September 2013. The Company has instructed its solicitors to lodge an appeal to the Competition Appeal Tribunal against that decision. The Company and its subsidiaries are committed to comply with all applicable laws, including competition laws, in the countries of operation.

14. DIVIDENDS

The directors do not recommend any dividend for the financial period ended 31 March 2014.

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 31/03/2014	Quarter ended 31/03/2013	Period ended 31/03/2014	Period ended 31/03/2013
(a) Basic loss per share				
Loss attributable to equity holders of the Company (RM'000)	(443,392)	(278,827)	(443,392)	(278,827)
Weighted average number of ordinary shares in issue ('000)	16,710,781	7,102,082	16,710,781	7,102,082
Loss per share (sen)	<u>(2.65)</u>	<u>(3.93)</u>	<u>(2.65)</u>	<u>(3.93)</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 31 March 2014. For the comparative quarter and period ended 31 March 2013, the basic loss 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 15 May 2014.

By Order of the Board

Rizani bin Hassan (LS 0009520)
Company Secretary
Selangor Darul Ehsan
15 May 2014

PART C - ADDITIONAL INFORMATION

1. SUMMARY OF KEY FINANCIAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/03/2014 RM '000	Quarter ended 31/03/2013 RM '000	Period ended 31/03/2014 RM '000	Period ended 31/03/2013 RM '000
(a) Revenue	3,600,678	3,537,258	3,600,678	3,537,258
(b) Earnings Before Interest, Taxation, Depreciation & Amortisation	(101,209)	30,207	(101,209)	30,207
(c) Loss before taxation	(439,149)	(278,457)	(439,149)	(278,457)
(d) Loss for the period	(442,429)	(278,602)	(442,429)	(278,602)
(e) Loss attributable to ordinary equity holders of the Company	(443,392)	(278,827)	(443,392)	(278,827)
(f) Basic loss per share (sen)	(2.65)	(3.93)	(2.65)	(3.93)
Diluted loss per share (sen)	(2.65)	(3.93)	(2.65)	(3.93)

	AS AT 31/03/2014	AS AT 31/12/2013 (Audited)
(a) Net assets per share attributable to ordinary equity holders of the Company (RM)	0.21	0.24

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/03/2014 RM '000	Quarter ended 31/03/2013 RM '000	Period ended 31/03/2014 RM '000	Period ended 31/03/2013 RM '000
(a) Interest income	26,181	12,479	26,181	12,479
(b) Finance costs	(121,878)	(99,284)	(121,878)	(99,284)