

**MALAYSIAN AIRLINE SYSTEM BERHAD**  
**(COMPANY NO.: 10601-W)**  
**(INCORPORATED IN MALAYSIA)**  
**QUARTERLY REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 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 second quarter ended 30 June 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**

|   | <b>INDIVIDUAL QUARTER</b>                       |   | <b>CUMULATIVE QUARTER</b>                      |  |
|---|---|---|--|--|
|   | <b>Quarter ended<br/>30/06/2014<br/>RM '000</b> | <b>Quarter ended<br/>30/06/2013<br/>RM '000</b> | <b>Period ended<br/>30/06/2014<br/>RM '000</b> | <b>Period ended<br/>30/06/2013<br/>RM '000</b> |
| Operating revenue   | 3,337,192                                       | 3,594,343                                       | 6,868,424                                      | 6,983,288                                      |
| Operating expenses  | (3,622,964)                                     | (3,553,132)                                     | (7,324,851)                                    | (7,060,182)                                    |
| Other income  | 252,890   | 186,613   | 322,338  | 334,925  |
| <b>Earnings Before Interest, Taxation,<br/>Depreciation &amp; Amortisation (EBITDA)</b> | <b>(32,882)</b>                                 | <b>227,824</b>                                  | <b>(134,089)</b>                               | <b>258,031</b>                                 |
| Depreciation, amortisation and<br>impairment  | (223,281)                                       | (219,893)                                       | (459,578)                                      | (415,429)                                      |
| Fair value change of derivatives  | 7,948   | 5,598   | 19,540   | 9,909  |
| Unrealised foreign exchange<br>gain/(loss)  | 51,946  | (68,343)  | 52,817   | (89,653)                                       |
| Finance costs   | (118,996)                                       | (111,031)                                       | (240,874)                                      | (210,315)                                      |
| Share of post-tax results from<br>investments accounted for<br>using the equity method  | 12,645  | (42)  | 20,417   | 3,113  |
| <b>Loss before taxation</b>   | <b>(302,620)</b>                                | <b>(165,887)</b>                                | <b>(741,767)</b>                               | <b>(444,344)</b>                               |
| Taxation  | (3,056)   | (9,289)   | (6,336)  | (9,433)  |
| <b>Loss for the period</b>  | <b>(305,676)</b>                                | <b>(175,176)</b>                                | <b>(748,103)</b>                               | <b>(453,777)</b>                               |
| Loss attributable to:   |   |   |  |  |
| Equity holders of the Company   | (307,040)                                       | (175,982)                                       | (750,431)                                      | (454,808)                                      |
| Non-controlling interest  | 1,364   | 806   | 2,328  | 1,031  |
| <b>Loss for the period</b>  | <b>(305,676)</b>                                | <b>(175,176)</b>                                | <b>(748,103)</b>                               | <b>(453,777)</b>                               |
| <b>Loss per share attributable to equity holders of the Company</b>                     |   |   |  |  |
| Basic (sen)   | (1.84)  | (1.30)  | (4.49)   | (4.41)   |
| Diluted (sen)   | (1.84)  | (1.30)  | (4.49)   | (4.41)   |

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**QUARTERLY REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2014**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

|   | INDIVIDUAL QUARTER                     |  | CUMULATIVE QUARTER                    |                                       |
|---|--|--|---------------------------------------|---------------------------------------|
|   | Quarter ended<br>30/06/2014<br>RM '000 | Quarter ended<br>30/06/2013<br>RM '000 | Period ended<br>30/06/2014<br>RM '000 | Period ended<br>30/06/2013<br>RM '000 |
| <b>Loss for the period</b>  | <b>(305,676)</b>                       | <b>(175,176)</b>                       | <b>(748,103)</b>                      | <b>(453,777)</b>                      |
| Other comprehensive income:   |  |  |                                       |                                       |
| Gain/(Loss) from cash flow hedges                                   | 31,613                                 | (3,035)                                | (44,913)                              | (4,542)                               |
| Share of other comprehensive (loss) /income of an associate company | (58)                                   | 76                                     | 554                                   | 15,368                                |
| <b>Total comprehensive loss for the period</b>                      | <b>(274,121)</b>                       | <b>(178,135)</b>                       | <b>(792,462)</b>                      | <b>(442,951)</b>                      |
| Total comprehensive loss attributable to:                           |  |  |                                       |                                       |
| Equity holders of the Company                                       | (275,485)                              | (178,941)                              | (794,790)                             | (443,982)                             |
| Non-controlling interest  | 1,364                                  | 806                                    | 2,328                                 | 1,031                                 |
| <b>Total comprehensive loss for the period</b>                      | <b>(274,121)</b>                       | <b>(178,135)</b>                       | <b>(792,462)</b>                      | <b>(442,951)</b>                      |

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

|   | As at<br>30/06/2014<br>RM '000 | As at<br>31/12/2013<br>RM '000<br>(Audited) |
|---|--------------------------------|---|
| <b><u>Non-current assets</u></b>                      |                                |   |
| Aircraft, property, plant and equipment               | 14,667,942                     | 14,615,157                                  |
| Investment in associates                              | 173,697                        | 152,305                                     |
| Other investments                                     | 63,437                         | 63,437                                      |
| Intangible assets                                     | 131,786                        | 149,079                                     |
| Other receivables                                     | 978,793                        | 1,023,137                                   |
| Derivative financial instruments                      | 23,514                         | 24,941                                      |
| Deferred tax assets                                   | 1,101                          | 1,145                                       |
|   | <b>16,040,270</b>              | <b>16,029,201</b>                           |
| <b><u>Current assets</u></b>                          |                                |   |
| Inventories   | 246,525                        | 253,765                                     |
| Trade and other receivables                           | 1,634,946                      | 1,596,152                                   |
| Tax recoverable                                       | 5,182                          | 5,076                                       |
| Derivative financial instruments                      | 76,101                         | 100,337                                     |
| Cash and bank balances                                | 2,502,631                      | 3,870,622                                   |
|   | <b>4,465,385</b>               | <b>5,825,952</b>                            |
| <b><u>Current liabilities</u></b>                     |                                |   |
| Sales in advance of carriage                          | 2,137,661                      | 2,200,304                                   |
| Deferred revenue                                      | 415,825                        | 347,670                                     |
| Trade and other payables                              | 2,244,003                      | 2,668,700                                   |
| Provisions  | 777,018                        | 803,988                                     |
| Borrowings  | 1,635,741                      | 1,254,388                                   |
| Derivative financial instruments                      | 4,099                          | 1,970                                       |
| Taxation  | 3,307                          | 2,078                                       |
|   | <b>7,217,654</b>               | <b>7,279,098</b>                            |
| Net current liabilities                               | <b>(2,752,269)</b>             | <b>(1,453,146)</b>                          |
|   | <b>13,288,001</b>              | <b>14,576,055</b>                           |
| <b>Financed by:</b>                                   |                                |   |
| 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  | 18,351                         | 864,655                                     |
|   | <b>3,187,619</b>               | <b>4,033,923</b>                            |
| Non-controlling interest                              | 20,536                         | 18,208                                      |
| Total equity  | <b>3,208,155</b>               | <b>4,052,131</b>                            |
| <b><u>Non-current liabilities</u></b>                 |                                |   |
| Borrowings  | 10,074,123                     | 10,517,788                                  |
| Derivative financial instruments                      | 5,620                          | 6,013                                       |
| Deferred tax liabilities                              | 103                            | 123   |
|   | <b>10,079,846</b>              | <b>10,523,924</b>                           |
|   | <b>13,288,001</b>              | <b>14,576,055</b>                           |
| Net assets per share (RM)                             | 0.19                           | 0.24  |

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 JUNE 2014**

|   | Attributable to equity holders of the Company |                            |                                       |                                     |   |                             |                               |                    |               |                           | Non-controlling interests<br>RM '000 | Total Equity<br>RM '000 |
|---|---|----------------------------|---------------------------------------|-------------------------------------|---|-----------------------------|-------------------------------|--------------------|---------------|---------------------------|--------------------------------------|-------------------------|
|   | Share capital<br>RM '000                      | Perpetual Sukuk<br>RM '000 | Non-Distributable                     |                                     |   |                             |                               | Distributable      |               | Total reserves<br>RM '000 |                                      |                         |
| Share premium<br>RM '000                |   |                            | Capital redemption reserve<br>RM '000 | Cash flow hedge reserves<br>RM '000 | Foreign currency translation reserve<br>RM '000 | General reserves<br>RM '000 | Accumulated losses<br>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 period                     | -   | -                          | -                                     | -                                   | -   | -                           | -                             | (750,431)          | (750,431)     | (750,431)                 | 2,328                                | (748,103)               |
| Other comprehensive income              | -   | -                          | -                                     | -                                   | (44,913)  | 554                         | -                             | -                  | (44,359)      | (44,359)                  | -                                    | (44,359)                |
| Distribution to Perpetual Sukuk holders | -   | -                          | -                                     | -                                   | -   | -                           | -                             | (51,514)           | (51,514)      | (51,514)                  | -                                    | (51,514)                |
| <b>At 30 June 2014</b>                  | <b>1,671,078</b>                              | <b>1,498,190</b>           | <b>1,735,716</b>                      | <b>41,775</b>                       | <b>74,740</b>                                   | <b>17,695</b>               | <b>459,755</b>                | <b>(2,311,330)</b> | <b>18,351</b> | <b>3,187,619</b>          | <b>20,536</b>                        | <b>3,208,155</b>        |

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 JUNE 2013**

|   | Attributable to equity holders of the Company |                            |  |                                     |   |                             |                               |                  |                  |                           | Non-controlling interests<br>RM '000 | Total Equity<br>RM '000 |
|---|---|----------------------------|--|-------------------------------------|---|-----------------------------|-------------------------------|------------------|------------------|---------------------------|--------------------------------------|-------------------------|
|   | Share capital<br>RM '000                      | Perpetual Sukuk<br>RM '000 | Non-Distributable                      |                                     |   |                             |                               | Distributable    |                  | Total reserves<br>RM '000 |                                      |                         |
| Share premium<br>RM '000                |   |                            | Capital redemption reserves<br>RM '000 | Cash flow hedge reserves<br>RM '000 | Foreign currency translation reserve<br>RM '000 | General reserves<br>RM '000 | Accumulated losses<br>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 period                     | -   | -                          | -                                      | -                                   | -   | -                           | -                             | (454,808)        | (454,808)        | (454,808)                 | 1,031                                | (453,777)               |
| Other comprehensive income              | -   | -                          | -                                      | -                                   | (4,542)   | 15,368                      | -                             | -                | 10,826           | 10,826                    | -                                    | 10,826                  |
| 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)                |
| 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)                 |
| <b>At 30 June 2013</b>                  | <b>1,671,078</b>                              | <b>1,498,190</b>           | <b>1,735,841</b>                       | <b>41,775</b>                       | <b>16,864</b>                                   | <b>15,368</b>               | <b>459,755</b>                | <b>(738,520)</b> | <b>1,531,083</b> | <b>4,700,351</b>          | <b>15,878</b>                        | <b>4,716,229</b>        |

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Period ended<br>30/06/2014<br>RM '000 | Period ended<br>30/06/2013<br>RM '000 |
|--|---------------------------------------|---------------------------------------|
| <b>Cash Flows From Operating Activities</b>                                      |                                       |                                       |
| <b>Loss before taxation</b>  | <b>(741,767)</b>                      | <b>(444,344)</b>                      |
| Adjustments for:   |                                       |                                       |
| Provision for/(Writeback of):  |                                       |                                       |
| - aircraft maintenance and overhaul costs  | 250,857                               | 106,166                               |
| - short term accumulating compensated absences, net                              | 13,790                                | 5,173                                 |
| - inventories obsolescence, net  | 12,137                                | (19,025)                              |
| - doubtful debts, net  | 9,940                                 | 5,686                                 |
| - unavailed credits on sales in advance of carriage                              | (152,055)                             | (215,875)                             |
| - stock loss   | (224)                                 | 901                                   |
| Aircraft, property, plant and equipment:   |                                       |                                       |
| - depreciation   | 432,451                               | 406,328                               |
| - loss on disposal, net  | 20,191                                | 6,689                                 |
| - provision for/(writeback of) impairment losses, net                            | 5,929                                 | (9,820)                               |
| - written off  | 4,511                                 | 14,142                                |
| Finance costs  | 240,874                               | 210,315                               |
| Amortisation of intangible assets  | 21,198                                | 18,921                                |
| Unrealised foreign exchange (gain)/loss  | (52,817)                              | 89,653                                |
| Interest income  | (46,537)                              | (43,485)                              |
| Share of post-tax results from investments accounted for using the equity method | (20,417)                              | (3,113)                               |
| Fair value change of derivatives   | (19,540)                              | (9,909)                               |
| <b>Operating (loss)/profit before working capital changes</b>                    | <b>(21,479)</b>                       | <b>118,403</b>                        |
| Decrease/(Increase) in trade and other receivables                               | 20,499                                | (198,176)                             |
| (Increase)/Decrease in inventories   | (4,673)                               | 6,973                                 |
| Increase in sales in advance of carriage   | 89,412                                | 852,977                               |
| Increase in deferred revenue   | 68,155                                | 47,211                                |
| (Decrease)/Increase in trade and other payables                                  | (438,392)                             | 346,254                               |
| Decrease in provision  | (277,828)                             | (350,477)                             |
| <b>Cash (used in)/generated from operating activities</b>                        | <b>(564,306)</b>                      | <b>823,165</b>                        |
| Net cash settlement on derivatives   | 20,042                                | 22,968                                |
| Finance costs paid   | (269,243)                             | (211,611)                             |
| Taxes paid   | (5,188)                               | (6,651)                               |
| <b>Net cash (used in)/generated from operating activities</b>                    | <b>(818,695)</b>                      | <b>627,871</b>                        |
| <b>Cash Flows From Investing Activities</b>                                      |                                       |                                       |
| Purchase of:   |                                       |                                       |
| - aircraft, property, plant and equipment  | (1,178,507)                           | (2,954,778)                           |
| - intangible assets  | (3,906)                               | (31,122)                              |
| - investment in a jointly controlled entity                                      | -                                     | (9,282)                               |
| - other investment   | -                                     | (9,273)                               |
| Proceed from disposal of aircraft, property, plant and equipment                 | 599,523                               | 819,451                               |
| Interest received  | 46,537                                | 43,485                                |
| Placement of deposits pledged with banks   | (991)                                 | (110,564)                             |
| <b>Net cash used in investing activities</b>                                     | <b>(537,344)</b>                      | <b>(2,252,083)</b>                    |

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | <b>Period ended<br/>30/06/2014<br/>RM '000</b> | <b>Period ended<br/>30/06/2013<br/>RM '000</b> |
|---|--|--|
| <b><u>Cash Flows From Financing Activities</u></b>            |  |  |
| Proceeds from:  |  |  |
| - rights issue  | -  | 3,074,783                                      |
| - borrowings  | 300,000  | 1,910,000                                      |
| - aircraft refinancing  | 63,833   | 483,324  |
| Repayment of:   |  |  |
| - finance lease   | (165,884)                                      | (423,939)                                      |
| - borrowings  | (159,378)                                      | (76,001)                                       |
| Distribution to Perpetual Sukuk holders                       | (51,514)                                       | (51,514)                                       |
| Rights issue expenses   | -  | (2,080)  |
| <b>Net cash (used in)/generated from financing activities</b> | <b><u>(12,943)</u></b>                         | <b><u>4,914,573</u></b>                        |
| <b>NET MOVEMENT IN CASH AND CASH EQUIVALENTS</b>              | <b>(1,368,982)</b>                             | <b>3,290,361</b>                               |
| <b>CASH AND CASH EQUIVALENTS AS AT 1 JANUARY</b>              | <b>3,745,941</b>                               | <b>2,134,001</b>                               |
| <b>CASH AND CASH EQUIVALENTS AS AT 30 JUNE</b>                | <b><u>2,376,959</u></b>                        | <b><u>5,424,362</u></b>                        |
| <b>Cash and cash equivalents comprise:</b>                    |  |  |
| Cash on hand and at banks                                     | 1,453,041                                      | 4,184,816                                      |
| Short term deposits   | 1,049,590                                      | 1,364,586                                      |
| Cash and bank balances  | <u>2,502,631</u>                               | <u>5,549,402</u>                               |
| Less: Deposits pledged with banks                             | (125,672)                                      | (125,040)                                      |
| <b>Cash and cash equivalents as at 30 June</b>                | <b><u>2,376,959</u></b>                        | <b><u>5,424,362</u></b>                        |

## 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

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

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

|  |  |
|--|--|
| Amendments to MFRS 119                       | Defined Benefit Plans - Employee Contributions |
| Annual Improvements to MFRSs 2010–2012 Cycle |  |
| Annual Improvements to MFRSs 2011–2013 Cycle |  |

#### Effective for annual periods to be announced by MASB

|        |   |
|--------|---|
| MFRS 9 | Financial Instruments (2009)  |
| MFRS 9 | Financial Instruments (2010)  |
| MFRS 9 | Financial Instruments - Hedge Accounting and<br>Amendments to MFRS 9, MFRS 7 and MFRS 139 |

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 30 June 2014.

### **6. MATERIAL CHANGES IN ESTIMATES OF AMOUNTS REPORTED**

There were no material changes in estimates of amount reported for the financial period ended 30 June 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 multinational search and rescue effort, the largest in history, there is still no trace of the aircraft to-date. Search operations continue in the southern Indian Ocean where the aircraft is suspected to have last flown.

There was no other material significant event for the financial period ended 30 June 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 30 June 2014.

### **9. DIVIDEND PAID**

There was no dividend paid during the financial period ended 30 June 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 30 June 2014 and 2013, respectively.

|  | <b>Airlines<br/>Operations<br/>RM'000</b> | <b>Cargo<br/>Services<br/>RM'000</b> | <b>Others<br/>RM'000</b> | <b>Adjustments<br/>and<br/>eliminations<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|---|--------------------------------------|--------------------------|--|-------------------------|
| <b>For the period ended 30 June 2014</b> |   |                                      |                          |  |                         |
| <b>Revenue</b>                           |   |                                      |                          |  |                         |
| External revenue                         | 5,912,775                                 | 915,705                              | 39,944                   | -  | 6,868,424               |
| Inter-segment revenue *                  | 721,740                                   | -                                    | 31,976                   | (753,716)  | -                       |
| <b>Total revenue</b>                     | <b>6,634,515</b>                          | <b>915,705</b>                       | <b>71,920</b>            | <b>(753,716)</b>                                       | <b>6,868,424</b>        |
| <b>Results</b>                           |   |                                      |                          |  |                         |
| Segment (loss)/profit before tax         | (682,191)                                 | (87,936)                             | 7,943                    | 20,417   | (741,767)               |
| <b>For the period ended 30 June 2013</b> |   |                                      |                          |  |                         |
| <b>Revenue</b>                           |   |                                      |                          |  |                         |
| External revenue                         | 6,031,227                                 | 922,335                              | 29,726                   | -  | 6,983,288               |
| Inter-segment revenue *                  | 625,856                                   | -                                    | 16,138                   | (641,994)  | -                       |
| <b>Total revenue</b>                     | <b>6,657,083</b>                          | <b>922,335</b>                       | <b>45,864</b>            | <b>(641,994)</b>                                       | <b>6,983,288</b>        |
| <b>Results</b>                           |   |                                      |                          |  |                         |
| Segment (loss)/profit before tax         | (369,259)                                 | (73,063)                             | (5,135)                  | 3,113  | (444,344)               |
| <b>Segment assets **</b>                 |   |                                      |                          |  |                         |
| At 30 June 2014                          | 21,410,028                                | 2,895,344                            | 2,453,547                | (6,426,961)  | 20,331,958              |
| 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 (June'14: RM173.7 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 30 June 2014.

**12. SUBSEQUENT EVENT**

- (i) On 17 July 2014, flight MH17 operated on a B777 aircraft which departed Amsterdam bound for Kuala Lumpur, carrying 283 passengers and 15 crews on board, went down in eastern Ukraine, killing all on board.
- (ii) On 8 August 2014, the Board of Directors of the Company ("Board"), announced that it had on same date received a letter from Khazanah Nasional Berhad ("Khazanah"), proposing the privatisation of the Company by way of a selective capital reduction and repayment exercise. Details are further disclosed in Note 9, Part B of this announcement.

There was no other material subsequent event for the financial period ended 30 June 2014.

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

**13. CHANGES IN THE COMPOSITION OF THE GROUP**

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 were no other changes in the composition of the Group for the financial period ended 30 June 2014.

**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.

|  | <b>22/8/2014</b> |
|--|------------------|
|  | <b>RM '000</b>   |
| 1. Loan (unsecured)  | <u>6,436</u>     |
| 2. Tenure  |                  |
| Loan due within one year                                   | 5,162            |
| Loan due later than one year and not later than five years | <u>1,274</u>     |
|  | <u>6,436</u>     |
| 3. Loan by currency denomination                           |                  |
| Euro   | <u>6,436</u>     |
| (b) Others   |                  |
| Bank guarantees given to third parties                     | 335,897          |
| Performance bonds given to third parties                   | <u>1,434</u>     |
|  | <u>337,331</u>   |

(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.

(iii) Flight MH370

Following the disappearance of flight MH370, next-of-kin of the passengers are entitled to receive compensation for the losses they suffered upon the announcement of a declaration of loss. The compensation amounts payable to the next-of-kin of the passengers will be covered by the Company's aviation liability insurance policy and will be determinable upon submission and verification of the losses suffered by the respective next-of-kin.

These compensation amounts payable are expected to have no significant impact to the Company's financial statements.

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

**14. CONTINGENT LIABILITIES AND CONTINGENT ASSETS (CONTINUED)**

(iv) Flight MH17

Following the catastrophic loss of flight MH17, next-of-kin of the passengers are entitled to receive compensation for the losses they suffered. The compensation amounts payable to the next-of-kin of the passengers will be covered by the Company's aviation liability insurance policy and will be determinable upon submission and verification of the losses suffered by the respective next-of-kin.

These compensation amounts payable are expected to have no significant impact to the Company's financial statements.

**15. CAPITAL COMMITMENT**

|                                 | <b>As at<br/>30/06/2014<br/>RM '000</b> | <b>As at<br/>31/12/2013<br/>RM '000<br/>(Audited)</b> |
|---------------------------------|---|---|
| Approved and contracted for     | 4,524,565                               | 5,656,714   |
| Approved but not contracted for | 235,433                                 | 84,919  |
|                                 | <u>4,759,998</u>                        | <u>5,741,633</u>                                      |

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

**16. SIGNIFICANT RELATED PARTY DISCLOSURES**

|   | <b>INDIVIDUAL QUARTER</b>                           |   | <b>CUMULATIVE QUARTER</b>                          |  |
|---|---|---|--|--|
|   | <b>Quarter<br/>ended<br/>30/06/2014<br/>RM '000</b> | <b>Quarter<br/>ended<br/>30/06/2013<br/>RM '000</b> | <b>Period<br/>ended<br/>30/06/2014<br/>RM '000</b> | <b>Period<br/>ended<br/>30/06/2013<br/>RM '000</b> |
| Brahim's Airline Catering Sdn. Bhd.,<br>an associate:                                     |   |   |  |  |
| - Catering and other services cost  | 41,834  | 66,694  | 90,231   | 135,476  |
| - Rental income and others  | (8,744)   | (4,888)   | (14,119)   | (9,776)  |
| GE Engine Services (M) Sdn. Bhd.,<br>an associate:  |   |   |  |  |
| - Engine maintenance services cost  | 52,472  | 116,484   | 102,317  | 188,249  |
| - Rental income and others  | (2,024)   | -   | (3,542)  | (1,034)  |
| Pan Asia Pacific Aviation Services Ltd.,<br>an associate:                                 |   |   |  |  |
| - Transit and cabin services costs  | 1,454   | 1,016   | 2,857  | 1,982  |
| Hamilton Sundstrand Customer Support<br>Centre (M) Sdn. Bhd., an associate:               |   |   |  |  |
| - Aircraft maintenance services costs   | 1,747   | 2,126   | 3,161  | 2,810  |
| Abacus International Holding Ltd., a company<br>in which the Company has equity interest: |   |   |  |  |
| - Computer reservation system access<br>fee cost  | 13,314  | 5,654   | 16,668   | 15,540   |

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

**16. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**

|   | INDIVIDUAL QUARTER    |                       | CUMULATIVE QUARTER    |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | Quarter ended         | Quarter ended         | Period ended          | Period ended          |
|   | 30/06/2014<br>RM '000 | 30/06/2013<br>RM '000 | 30/06/2014<br>RM '000 | 30/06/2013<br>RM '000 |
| Evergreen Sky Catering Corporation,<br>a company in which the Company<br>has equity interest: |                       |                       |                       |                       |
| - Catering services cost  | 828                   | 896                   | 1,735                 | 1,617                 |
| PMB, a fellow subsidiary:   |                       |                       |                       |                       |
| - Aircraft lease rental cost  | 14,550                | 16,789                | 30,118                | 57,090                |
| - Residual value sharing on sale of aircraft  | -                     | (96,149)              | -                     | (96,149)              |
| Aircraft Business Malaysia Sdn. Bhd.,<br>a related party:                                     |                       |                       |                       |                       |
| - Aircraft lease rental cost  | 7,722                 | 23,607                | 22,140                | 74,087                |
| Turus Pesawat Sdn. Bhd., a related party:   |                       |                       |                       |                       |
| - Finance cost  | 55,337                | 55,723                | 109,702               | 99,810                |

**17. SIGNIFICANT RELATED PARTY BALANCES**

|   | As at                 | As at                              |
|---|-----------------------|------------------------------------|
|   | 30/06/2014<br>RM '000 | 31/12/2013<br>RM '000<br>(Audited) |
| Amount owing by PMB, a fellow subsidiary: |                       |                                    |
| - due within one year                     | 32,411                | 37,783                             |
| - due later than one year                 | 432,430               | 527,100                            |
| Amount owing by related parties           | 1,619                 | 19,271                             |
| Amount owing by associated companies      | 3,011                 | 4,652                              |
| Amount owing to associated companies      | (96,003)              | (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**

For the current quarter ended 30 June 2014, despite a 9% capacity increase, the Group's operating revenue decreased by 7% to RM3,337.2 million as compared to the same quarter last year. The impact of MH370 incident and intensified competition resulted in lower seat factor by 6.7 percentage points to 74%. Passenger yield declined by 4% to 21.7 sen. The Group's operating expenditure for the quarter also increased by 2% primarily due to increase in fuel cost.

After accounting for depreciation, amortisation and impairment of RM223.3 million (2013: RM219.9 million), unrealised foreign exchange gain of RM51.9 million (2013: RM68.3 million loss), finance costs of RM119.0 million (2013: RM111.0 million) and fair value change of derivative of RM7.9 million gain (2013: RM5.6 million gain), the Group registered a loss after tax of RM307.0 million for the second quarter ended 30 June 2014 as compared to a loss of RM176.0 million previously.

For the six-month ended 30 June 2014, the Group's operating revenue decreased by 2% to RM6,868.4 million as compared to previous financial period. Seat factor and yield declined by 3.5 percentage points and 6% respectively mainly due to poor market sentiment as a result from the disappearance of flight MH370 and intense competition both domestically and internationally.

The Group's operating expenses for the financial period was higher by 4%. Fuel cost increased by 12% was in line with capacity increase and weakening of Ringgit against US Dollar. However, non fuel cost decreased by 2%.

After accounting for depreciation, amortisation and impairment of RM459.6 million (2013: RM415.4 million), unrealised foreign exchange gain of RM52.8 million (2013: RM89.7 million loss), finance costs of RM240.9 million (2013: RM210.3 million) and fair value change of derivatives of RM19.5 million (2013: RM9.9 million), the Group registered a loss after tax of RM750.4 million in period ended 30 June 2014 as compared to RM454.8 million previously.

The Group's EBITDA for the 6 months to 30 June 2014 was negative RM134.1 million compared to a positive RM258.0 million for the same period last year.

The Group's cash balance as at 30 June 2014 was RM2.5 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:

|   | <b>INDIVIDUAL QUARTER</b> |                      | <b>CUMULATIVE QUARTER</b> |                     |
|---|---------------------------|----------------------|---------------------------|---------------------|
|   | <b>Quarter ended</b>      | <b>Quarter ended</b> | <b>Period ended</b>       | <b>Period ended</b> |
|   | <b>30/06/2014</b>         | <b>30/06/2013</b>    | <b>30/06/2014</b>         | <b>30/06/2013</b>   |
|   | <b>RM '000</b>            | <b>RM '000</b>       | <b>RM '000</b>            | <b>RM '000</b>      |
| Provision for/(Writeback of):                         |                           |                      |                           |                     |
| - doubtful debts, net                                 | 4,243                     | 5,548                | 9,940                     | 5,686               |
| - inventories obsolescence, net                       | 10,615                    | 1,367                | 12,137                    | (19,025)            |
| Aircraft, property, plant and equipment:              |                           |                      |                           |                     |
| - depreciation  | 208,753                   | 218,695              | 432,451                   | 406,328             |
| - provision for/(writeback of) impairment losses, net | 3,961                     | (9,820)              | 5,929                     | (9,820)             |
| - loss/(gain) on disposal, net                        | 3,642                     | (5,721)              | 20,191                    | 6,689               |
| Amortisation of intangible assets                     | 10,567                    | 11,018               | 21,198                    | 18,921              |
| Finance costs   | 118,996                   | 111,031              | 240,874                   | 210,315             |
| Interest income                                       | (20,356)                  | (31,006)             | (46,537)                  | (43,485)            |

Other than the items highlighted above, there were no disposal of unquoted investment and properties during the quarter and financial period ended 30 June 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 30 June 2014 as compared to 1 January 2014 which comprised the following:

|   | INDIVIDUAL QUARTER                     |  | CUMULATIVE QUARTER                    |                                       |
|---|--|--|---------------------------------------|---------------------------------------|
|   | Quarter ended<br>30/06/2014<br>RM '000 | Quarter ended<br>30/06/2013<br>RM '000 | Period ended<br>30/06/2014<br>RM '000 | Period ended<br>30/06/2013<br>RM '000 |
| (i) Gain/(Loss) from fuel hedging contracts       | 2,573                                  | (1,630)                                | 12,367                                | 1,241                                 |
| (ii) Gain from foreign currency hedging contracts | 958                                    | -                                      | 2,436                                 | -                                     |
| (iii) Gain from interest rate hedging contracts   | 4,417                                  | 7,228                                  | 4,737                                 | 8,668                                 |
|   | <b>7,948</b>                           | <b>5,598</b>                           | <b>19,540</b>                         | <b>9,909</b>                          |

**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 30 June 2014 as compared to 1 January 2014 which comprised the following:

|  | INDIVIDUAL QUARTER                     |  | CUMULATIVE QUARTER                    |                                       |
|--|--|--|---------------------------------------|---------------------------------------|
|  | Quarter ended<br>30/06/2014<br>RM '000 | Quarter ended<br>30/06/2013<br>RM '000 | Period ended<br>30/06/2014<br>RM '000 | Period ended<br>30/06/2013<br>RM '000 |
| (i) Gain/(Loss) from fuel hedging                      | 55,896                                 | (31,592)                               | (5,169)                               | (40,301)                              |
| (ii) Loss from foreign currency hedging contracts      | (11,595)                               | -                                      | (18,860)                              | -                                     |
| (iii) (Loss)/Gain from interest rate hedging contracts | (12,688)                               | 28,557                                 | (20,884)                              | 35,759                                |
|  | <b>31,613</b>                          | <b>(3,035)</b>                         | <b>(44,913)</b>                       | <b>(4,542)</b>                        |

**5. COMPARISON WITH PRECEDING QUARTER'S RESULTS**

Operating revenue has decreased by 5% mainly due to lower seat factor of 2.7ppts to 74% and lower yield by 4% due to MH370 incident and intense competition domestically and regionally.

Operating expenses had reduced by 2% contributed by lower fuel cost by 3% and non-fuel cost by 1% as compared to the preceding quarter.

The Group's EBITDA is negative RM32.9 million compared to the preceding quarter of negative RM101.2 million.

The Group's loss after tax for the current quarter was RM307.0 million (Quarter Ended 31 March 2014: RM443.4 million loss). Included in the quarter loss was depreciation, amortisation and impairment of RM223.3 million (Quarter ended 31 March 2014: RM236.3 million), unrealised foreign exchange gain of RM51.9 million (Quarter Ended 31 March 2014: RM0.9 million gain) and finance cost of RM119.0 million (Quarter Ended 31 March 2014: RM121.9 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 loss of flight MH17 has compounded the tremendous stress on Malaysia Airlines which has been struggling to overcome poor market sentiment following the disappearance of flight MH370 as well as the intensely competitive operating environment.

Just as sales were showing signs of recovery subsequent to MH370, the tragedy of MH17 has derailed all the hard work and effort of our teams in regaining market confidence and sales. The Group is doubling its effort to proactively engage with various quarters and working hard to regain the confidence of the public in Malaysia Airlines.

The full financial impact of the double tragedies of MH370 and MH17 is expected to hit Malaysia Airlines in the second half of the year where we saw a sharp decline in average weekly bookings by 33% immediately after the MH17 incident with numerous flights cancelled.

After six consecutive quarters of losses since end 2012, Malaysia Airlines was acutely aware of the need to restructure the Group's operations even prior to the double tragedies of MH370 and MH17. The fact that both incidents have occurred within such a short span of time had exacerbated the situation and severely damaged the airline's brand and business reputation accelerating the need to restructure the Company.

The principal shareholder, Khazanah Nasional Berhad have also take cognizance of the need to transform Malaysia Airlines and on 8 August 2014, had registered its intention to take full ownership of the Company and delist it from Bursa Malaysia, as a first step to put into action a plan to restructure the Company.

**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 2014.

**8. TAXATION**

Taxation charge for the Group comprised the following: -

|                                       | INDIVIDUAL QUARTER                     |  | CUMULATIVE QUARTER                    |                                       |
|---------------------------------------|--|--|---------------------------------------|---------------------------------------|
|                                       | Quarter ended<br>30/06/2014<br>RM '000 | Quarter ended<br>30/06/2013<br>RM '000 | Period ended<br>30/06/2014<br>RM '000 | Period ended<br>30/06/2013<br>RM '000 |
| Current period                        |  |  |                                       |                                       |
| - Malaysian taxation                  | 1,089                                  | 865                                    | 2,078                                 | 1,150                                 |
| - Foreign taxation                    | 2,982                                  | 1,476                                  | 5,019                                 | 2,313                                 |
|                                       | 4,071                                  | 2,341                                  | 7,097                                 | 3,463                                 |
| Under/(Over) provision in prior year: |  |  |                                       |                                       |
| - Malaysian taxation                  | 79                                     | (734)                                  | 934                                   | (1,712)                               |
| - Foreign taxation                    | (1,094)                                | 7,682                                  | (1,695)                               | 7,682                                 |
| <b>Total</b>                          | <b>3,056</b>                           | <b>9,289</b>                           | <b>6,336</b>                          | <b>9,433</b>                          |

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 8 August 2014, the Board of Directors of the Company ("Board"), announced that it had on same date received a letter from Khazanah Nasional Berhad ("Khazanah"), proposing the privatisation of the Company by way of a selective capital reduction and repayment exercise at the cash repayment sum of RM0.27 per ordinary share of RM0.10 each in the Company pursuant to Section 60 and 64 of the Companies Act, 1965 ("Act") ("Proposed SCR").

The Proposed SCR will enable all ordinary shareholders appearing on the Register of Depositors of the Company at the close of business on a date to be announced later, other than Khazanah ("Entitled Shareholders"), to receive a total repayment amount of RM1,382.0 million which represents a cash amount of RM0.27 for each ordinary share of RM0.10 in the Company ("MAS Share") ("SCR Offer Price") held by the Entitled Shareholders.

The Proposed SCR will be effected via the following:

- (a) the reduction of the issue and paid-up share capital of the Company from RM1,671.1 million comprising 16,710,781,200 MAS Shares to RM1,159.2 million comprising 11,592,389,200 MAS Shares by way of cancelling all MAS Shares held by the Entitled Shareholders. As at 7 August 2014, the Entitled Shareholders hold 5,118,392,000 MAS Shares; and
- (b) the reduction of the share premium account of the Company by RM870.1 million from RM1,735.7 million to RM865.6 million.

Upon successful completion of the Proposed SCR, Khazanah will become the sole ordinary shareholder of the Company.

The Proposed SCR is subject to and conditional upon the following being obtained:

- (a) approval of the Securities Commission Malaysia ("SC") for an exemption under Practice Note 44 of the Malaysian Code on Take-Overs and Mergers, 2010 and its consent to the circular, explanatory statement and independent advice letter to be issued to the shareholders of the Company;
- (b) approval of the shareholders of the Company via a special resolution at an extraordinary general meeting ("EGM") to be convened. The Proposed SCR must be approved by at least 50% in number and 75% in value of the disinterested shares that are cast either in person or by proxy at the EGM and the value of the votes cast against the Proposed SCR must not be more than 10% of the votes attaching to all disinterested shares;
- (c) the grant of an order from the High Court of Malaya approving the reduction of the issued and paid-up share capital and share premium of the Company pursuant to Sections 60 and 64 of the Act;
- (d) consent of the relevant creditors/lenders of MAS, if required; and
- (e) approvals/consents of any other relevant authorities, if required.

The target completion of the delisting is by the end of the year.



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

**10. GROUP BORROWINGS**

|                              | <b>As at<br/>30/06/2014<br/>RM '000</b> | <b>As at<br/>31/12/2013<br/>RM '000<br/>(Audited)</b> |
|------------------------------|---|---|
| (i) Short term borrowings    |   |   |
| Unsecured                    |   |   |
| - Revolving Credit           | 369,118                                 | 66,565  |
| - Term Loan                  | 406,360                                 | 356,998   |
| Secured                      |   |   |
| - Term Loan                  | 166,834                                 | 185,117   |
| - Finance Lease              | 693,429                                 | 645,708   |
|                              | <u>1,635,741</u>                        | <u>1,254,388</u>                                      |
| (ii) Long term borrowings    |   |   |
| Unsecured                    |   |   |
| - Term Loan                  | -                                       | 178,107   |
| Secured                      |   |   |
| - Term Loan                  | 5,903,418                               | 6,409,017   |
| - Finance Lease              | 4,170,705                               | 3,930,664   |
|                              | <u>10,074,123</u>                       | <u>10,517,788</u>                                     |
| Total                        | <u>11,709,864</u>                       | <u>11,772,176</u>                                     |
| (iii) Currency denominations |   |   |
| Ringgit Malaysia             | 6,184,854                               | 6,019,833   |
| US Dollars                   | 4,724,600                               | 4,955,210   |
| Japanese Yen                 | 800,410                                 | 797,133   |
|                              | <u>11,709,864</u>                       | <u>11,772,176</u>                                     |

**11. DERIVATIVE FINANCIAL INSTRUMENTS**

| <b>Type of derivatives</b>            | <b>Notional Value<br/>as at 30/06/2014<br/>Barrels 'Mil</b> | <b>Fair Value<br/>as at 30/06/2014<br/>Assets/<br/>(Liabilities)<br/>RM 'Mil</b> |
|---------------------------------------|---|--|
| (i) Fuel Hedging Contracts            |   |  |
| Less than 1 year                      | 3.4   | 88.8   |
| 1 year to 3 years                     | 2.2   | 9.3  |
|                                       | <u>5.6</u>  | <u>98.1</u>  |
| (ii) Forex Hedging Contracts          | <b>RM 'Mil</b>  |  |
| Less than 1 year                      | 1,047.6   | (8.3)  |
| (iii) Interest Rate Hedging Contracts | <b>RM 'Mil</b>  |  |
| Less than 1 year                      | 81.4  | (1.2)  |
| 1 year to 3 years                     | 212.2   | (1.9)  |
| More than 3 years                     | 799.0   | 3.2  |
|                                       | <u>1,092.6</u>  | <u>0.1</u>   |
| Total                                 |   | <u>89.9</u>  |

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<br>Subsidiaries<br>RM'000 | Associated<br>Companies<br>RM'000 | Jointly<br>Controlled<br>Entity<br>RM'000 | Consolidation<br>Adjustments<br>RM'000 | Group<br>Accumulated<br>Losses<br>RM'000 |
|-------------------------------|---------------------------------------|-----------------------------------|---|--|--|
| <b>As at 30 June 2014</b>     |                                       |                                   |   |  |  |
| Realised (losses)/profit      | (2,657,924)                           | 57,184                            | (59,342)                                  | 280,322                                | (2,379,760)                              |
| Unrealised profit/(losses)    | 70,088                                | (1,366)                           | (292)                                     | -                                      | 68,430                                   |
|                               | <u>(2,587,836)</u>                    | <u>55,818</u>                     | <u>(59,634)</u>                           | <u>280,322</u>                         | <u>(2,311,330)</u>                       |
| <b>As at 31 December 2013</b> |                                       |                                   |   |  |  |
| Realised (losses)/profit      | (1,779,859)                           | 35,861                            | (118,836)                                 | 355,395                                | (1,507,439)                              |
| Unrealised losses             | (218)                                 | (1,435)                           | (293)                                     | -                                      | (1,946)                                  |
|                               | <u>(1,780,077)</u>                    | <u>34,426</u>                     | <u>(119,129)</u>                          | <u>355,395</u>                         | <u>(1,509,385)</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. The final instalment of NZD750,000 is payable by MASkargo to the Commerce Commission in 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's solicitors have lodged an appeal on 29 April 2014 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 30 June 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<br>30/06/2014 | Quarter ended<br>30/06/2013 | Period ended<br>30/06/2014 | Period ended<br>30/06/2013 |
| <b>(a) Basic loss per share</b>                             |                             |                             |                            |                            |
| Loss attributable to equity holders of the Company (RM'000) | (307,040)                   | (175,982)                   | (750,431)                  | (454,808)                  |
| Weighted average number of ordinary shares in issue ('000)  | 16,710,781                  | 13,507,881                  | 16,710,781                 | 10,304,982                 |
| Loss per share (sen)  | <u>(1.84)</u>               | <u>(1.30)</u>               | <u>(4.49)</u>              | <u>(4.41)</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 2014.

**(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 28 August 2014.

By Order of the Board

Rizani bin Hassan (LS 0009520)  
Company Secretary  
Selangor Darul Ehsan  
28 August 2014.

**PART C - ADDITIONAL INFORMATION**

**1. SUMMARY OF KEY FINANCIAL INFORMATION**

|  | INDIVIDUAL QUARTER                     |  | CUMULATIVE QUARTER                    |                                       |
|--|--|--|---------------------------------------|---------------------------------------|
|  | Quarter ended<br>30/06/2014<br>RM '000 | Quarter ended<br>30/06/2013<br>RM '000 | Period ended<br>30/06/2014<br>RM '000 | Period ended<br>30/06/2013<br>RM '000 |
| (a) Revenue  | 3,590,082                              | 3,780,956                              | 7,190,762                             | 7,318,213                             |
| (b) Earnings Before Interest, Taxation,<br>Depreciation & Amortisation | (32,882)                               | 227,824                                | (134,089)                             | 258,031                               |
| (c) Loss before taxation   | (302,620)                              | (165,887)                              | (741,767)                             | (444,344)                             |
| (d) Loss for the period  | (305,676)                              | (175,176)                              | (748,103)                             | (453,777)                             |
| (e) Loss attributable to ordinary<br>equity holders of the Company     | (307,040)                              | (175,982)                              | (750,431)                             | (454,808)                             |
| (f) Basic loss per share (sen)   | (1.84)                                 | (1.30)                                 | (4.49)                                | (4.41)                                |
| Diluted loss per share (sen)   | (1.84)                                 | (1.30)                                 | (4.49)                                | (4.41)                                |

|  | AS AT 30/06/2014 | AS AT 31/12/2013<br>(Audited) |
|--|------------------|-------------------------------|
| (a) Net assets per share attributable<br>to ordinary equity holders of the<br>Company (RM) | 0.19             | 0.24                          |

|                     | INDIVIDUAL QUARTER                     |  | CUMULATIVE QUARTER                    |                                       |
|---------------------|--|--|---------------------------------------|---------------------------------------|
|                     | Quarter ended<br>30/06/2014<br>RM '000 | Quarter ended<br>30/06/2013<br>RM '000 | Period ended<br>30/06/2014<br>RM '000 | Period ended<br>30/06/2013<br>RM '000 |
| (a) Interest income | 20,356                                 | 31,006                                 | 46,537                                | 43,485                                |
| (b) Finance costs   | (118,996)                              | (111,031)                              | (240,874)                             | (210,315)                             |