

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

**ANNOUNCEMENT**

The Board of Directors of Malaysian Airline System Berhad ("MAS" or "the Company") would like to announce the following unaudited consolidated results for the fourth quarter ended 31 December 2007. This announcement should be read in conjunction with the audited annual financial statements for the year ended 31 December 2006 and the accompanying explanatory notes attached to the quarterly condensed financial report.

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS**

	<b>INDIVIDUAL QUARTER</b>		<b>CUMULATIVE QUARTER</b>	
	Quarter ended 31/12/2007 RM '000	Quarter ended 31/12/2006 RM '000 (Restated)	Year ended 31/12/2007 RM '000	Year ended 31/12/2006 RM '000 (Restated)
<b>Continuing Operations</b>				
Operating revenue	4,009,642	3,650,936	14,686,130	13,067,175
Operating expenses	(3,811,281)	(3,623,648)	(14,413,413)	(13,698,112)
Other operating income	80,722	64,740	288,242	310,216
(Cost incurred)/residual value sharing on sale of aircraft by Penerbangan Malaysia Berhad	(19,517)	35,629	209,333	35,629
Gains on sale of properties	1,198	20,926	104,935	83,351
<b>Profit/(loss) from operations</b>	<b>260,764</b>	<b>148,583</b>	<b>875,227</b>	<b>(201,741)</b>
Finance costs	(11,105)	(12,077)	(46,886)	(32,899)
Compensation for domestic rationalisation	-	-	-	650,000
Domestic rationalisation expenses and redundancy expenses	-	-	-	(517,803)
Share of results from associated companies	(2,627)	7,537	12,570	27,789
<b>Profit/(loss) before taxation</b>	<b>247,032</b>	<b>144,043</b>	<b>840,911</b>	<b>(74,654)</b>
Taxation	(4,779)	(21,044)	(29,590)	(60,618)
<b>Profit/(loss) for the period from continuing operations</b>	<b>242,253</b>	<b>122,999</b>	<b>811,321</b>	<b>(135,272)</b>
<b>Discontinued Operations</b>				
Results for the period from discontinued operations (Refer Part A, Note 13)	-	(961)	41,422	1,535
<b>Profit/(loss) for the period</b>	<b>242,253</b>	<b>122,038</b>	<b>852,743</b>	<b>(133,737)</b>
Attributable to:				
Equity holders of the Company	241,925	121,472	851,418	(136,432)
Minority Interest	328	566	1,325	2,695
<b>Profit/(loss) for the period</b>	<b>242,253</b>	<b>122,038</b>	<b>852,743</b>	<b>(133,737)</b>
<b>Earnings/(loss) per share attributable to equity holders of the Company</b>				
Basic (sen)				
Continuing operations	16.49	8.75	55.23	(9.86)
Discontinued operations	-	(0.07)	2.82	0.11
	<u>16.49</u>	<u>8.69</u>	<u>58.05</u>	<u>(9.75)</u>
Diluted (sen)				
Continuing operations	15.41	-	51.60	-
Discontinued operations	-	-	2.64	-
	<u>15.41</u>	<u>-</u>	<u>54.24</u>	<u>-</u>

Note:

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

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	As at 31/12/2007 RM '000	As at 31/12/2006 RM '000 (Restated)
Aircraft, property, plant and equipment	2,060,879	2,411,537
Investment in associated companies	58,447	67,461
Other investments	66,325	102,701
Prepaid lease payments on land	17,613	91,824
Amount owing by a fellow subsidiary	243,377	295,860
Intangible assets	103,162	80,362
Other receivables	72,878	129,410
Deferred tax assets	4,007	41,828
	<u>2,626,688</u>	<u>3,220,983</u>
<b><u>Current assets</u></b>		
Inventories	365,266	385,769
Trade receivables	1,034,772	1,024,580
Other receivables	712,316	753,596
Tax recoverable	52,693	45,608
Cash and bank balances	5,259,338	1,584,699
	<u>7,424,385</u>	<u>3,794,252</u>
Non-current assets held for sale	2,740	10,647
	<u>7,427,125</u>	<u>3,804,899</u>
<b><u>Current liabilities</u></b>		
Trade payables	1,900,880	1,724,205
Other payables	1,025,484	719,466
Provision	681,828	347,714
Short term borrowings	-	1,050,000
Amount owing to holding company	71,860	72,031
Provision for taxation	4,431	20,458
Sales in advance of carriage	1,563,394	1,202,060
	<u>5,247,877</u>	<u>5,135,934</u>
Net current assets/(liabilities)	2,179,248	(1,331,035)
	<u><b>4,805,936</b></u>	<u><b>1,889,948</b></u>
<b>Equity attributable to equity holders of the Company</b>	3,934,893	1,873,425
Share capital - ordinary shares	1,670,992	1,253,244
Redeemable Convertible Preference Shares (RCPS)	58,076	-
Reserves		
Share premium	4,007,510	3,301,164
Reserve	529,410	501,530
Accumulated losses	(2,331,095)	(3,182,513)
<b>Minority interest</b>	11,056	15,246
<b>Total equity</b>	<u>3,945,949</u>	<u>1,888,671</u>
<b><u>Long term liabilities</u></b>		
Long term borrowings	859,672	-
Deferred tax liabilities	315	1,277
	<u><b>4,805,936</b></u>	<u><b>1,889,948</b></u>
Net assets per share (RM)	<u>2.35</u>	<u>1.49</u>

Note:

The comparative figures have been reclassified to conform with current year's presentation as reflected in Note 1 of Part A - Explanatory Notes Pursuant to FRS 134, Paragraph 16.

**UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENTS**

	Year ended 31/12/2007 RM '000	Year ended 31/12/2006 RM '000 (Restated)
<b>Cash Flows From Operating Activities</b>		
<b>Profit/(loss) before taxation from:</b>		
Continuing operations	<b>840,911</b>	<b>(74,654)</b>
Discontinued operations	<b>43,218</b>	<b>1,562</b>
Adjustments for :-		
Provision for aircraft maintenance and overhaul costs	633,754	570,974
Depreciation of aircraft, property, plant and equipment	344,610	315,913
Losses incurred due to delay in delivery of A380	58,385	-
Provision for doubtful debts, net	99,226	42,920
Interest expenses	46,841	32,847
Grant of ESOS	27,880	-
Provision for inventories obsolescence, net	26,672	21,501
Aircraft, property, plant and equipment written off, net	22,501	3,659
Amortisation of intangible assets	13,206	2,231
Discount on redemption of Redeemable Preference Shares in an associate	3,229	-
Amortisation of prepaid lease payments on land	582	1,467
Writeback of unavailed credits on sales in advance of carriage	(252,193)	(168,323)
Interest income	(106,050)	(47,323)
Gain on disposal of aircraft, property, plant and equipment, net	(53,917)	(84,357)
Gain on disposal of non-current assets held for sale	(52,840)	-
Gain on disposal of a subsidiary (Refer Part A, Note 13)	(36,145)	-
Dividend income	(21,691)	(32,364)
Share of results of associated companies	(12,570)	(27,789)
Unrealised foreign exchange (gain)/losses (Writeback of)/provision for impairment losses for aircraft, property, plant and equipment	(6,096) (2,106)	36,941 14,864
<b>Operating profit before working capital changes</b>	<b>1,617,407</b>	<b>610,069</b>
(Increase)/decrease in inventories	(5,180)	47,450
Decrease/(increase) in trade and other receivables	15,880	(88,996)
Decrease in amount owing to holding company	(171)	(9,444)
Increase/(decrease) in trade and other payables	477,342	(145,152)
Decrease in provision	(299,640)	(403,618)
Increase/(decrease) in sales in advance of carriage	613,526	(102,775)
<b>Cash generated from/(used in) operating activities</b>	<b>2,419,164</b>	<b>(92,466)</b>
Interest paid	(39,825)	(37,524)
Taxes paid	(8,753)	(11,095)
<b>Net cash generated from/(used in) operating activities</b>	<b>2,370,586</b>	<b>(141,085)</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of aircraft, property, plant and equipment	(411,303)	(717,873)
Purchase of intangible assets	(36,006)	(57,279)
Proceeds from disposal of a subsidiary (Refer Part A, Note 13)	372,190	-
Proceeds from disposal of non current assets held for sale	151,732	-
Proceeds from disposal of aircraft, property, plant and equipment	72,944	176,581
Proceeds from disposal of other investments	33,173	14,356
Interest received	91,720	48,123
Dividend received	43,276	33,068
<b>Net cash generated from/(used in) investing activities</b>	<b>317,726</b>	<b>(503,024)</b>
<b>Cash Flows From Financing Activities</b>		
Proceeds from Rights issue	1,127,920	-
Proceeds from issuance of RCPS	417,748	-
Proceeds from short term borrowings	-	1,600,000
Proceeds from long term borrowings	500,000	-
Repayment of short term borrowings	(1,050,000)	(550,000)
Dividend paid to minority interest in subsidiaries	(5,515)	(601)
Expenses incurred on issuance of Rights share exercise	(3,826)	-
<b>Net cash generated from financing activities</b>	<b>986,327</b>	<b>1,049,399</b>
<b>NET MOVEMENT IN CASH AND CASH EQUIVALENTS</b>	<b>3,674,639</b>	<b>405,290</b>
<b>CASH AND CASH EQUIVALENTS AS AT 1 JANUARY</b>	<b>1,584,699</b>	<b>1,179,409</b>
<b>CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER</b>	<b>5,259,338</b>	<b>1,584,699</b>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Attributable to equity holders of the Company					Total reserves RM '000	Total RM '000	Minority interests RM '000	Total Equity RM '000
	Share capital RM '000	Equity component of RCPS RM '000	Non-distributable Share premium RM '000	Distributable Reserves RM '000	Accumulated losses RM '000				
At 1 January 2007	1,253,244	-	3,301,164	501,530	(3,182,513)	620,181	1,873,425	15,246	1,888,671
Profit for the year	-	-	-	-	851,418	851,418	851,418	1,325	852,743
Rights Shares	-	-	(3,826)	-	-	(3,826)	(3,826)	-	(3,826)
- Rights expenses	-	-	-	-	-	-	-	-	-
- issue of ordinary shares	417,748	-	710,172	-	-	710,172	1,127,920	-	1,127,920
RCPS	-	58,076	-	-	-	-	58,076	-	58,076
Grant of ESOS	-	-	-	27,880	-	27,880	27,880	-	27,880
Dividends	-	-	-	-	-	-	-	(5,515)	(5,515)
<b>At 31 December 2007</b>	<b>1,670,992</b>	<b>58,076</b>	<b>4,007,510</b>	<b>529,410</b>	<b>(2,331,095)</b>	<b>2,205,825</b>	<b>3,934,893</b>	<b>11,056</b>	<b>3,945,949</b>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Attributable to equity holders of the Company					Total reserves RM '000	Total RM '000	Minority interests RM '000	Total Equity RM '000
	Share capital RM '000	Equity component of RCPS RM '000	Non-distributable Share premium RM '000	Distributable Reserves RM '000	Accumulated losses RM '000				
At 1 January 2006 as previously stated	1,253,244	-	3,301,164	501,530	(3,033,324)	769,370	2,022,614	13,152	2,035,766
Prior year adjustment -effects of adopting FRS128	-	-	-	-	(12,757)	(12,757)	(12,757)	-	(12,757)
At 1 January 2006, as restated	1,253,244	-	3,301,164	501,530	(3,046,081)	756,613	2,009,857	13,152	2,023,009
Loss for the year	-	-	-	-	(136,432)	(136,432)	(136,432)	2,695	(133,737)
Dividends	-	-	-	-	-	-	-	(601)	(601)
<b>At 31 December 2006</b>	<b>1,253,244</b>	<b>-</b>	<b>3,301,164</b>	<b>501,530</b>	<b>(3,182,513)</b>	<b>620,181</b>	<b>1,873,425</b>	<b>15,246</b>	<b>1,888,671</b>

## 1. ACCOUNTING POLICIES

The quarterly condensed financial report has been prepared in accordance with:

- (i) The requirement of the Financial Reporting Standards ("FRS") Standard 134 (previously MASB 26) - Interim Financial Reporting; and
- (ii) Paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad

and should be read in conjunction with the Group's financial statements for the financial year ended 31 December 2006. These explanatory notes attached to the quarterly condensed financial report provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2006.

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

FRS 117	Leases
FRS 124	Related Party Disclosures

The MASB has also issued FRS 6: Exploration for and Evaluation of Mineral Resources and Amendment to FRS 119<sup>2004</sup> Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures which will be effective for annual periods beginning on or after 1 January 2007. These FRSs are, however, not applicable to the Group or the Company.

At the date of authorisation of these financial statements, the following new and revised FRS, amendment to FRS and Interpretations were issued but not yet effective and have not been applied by the Group and Company:

<b>FRS, Amendment to FRS and Interpretations</b>		<b>Effective for financial periods beginning on or after</b>
FRS 139	Financial Instruments: Recognition and Measurement	Deferred
FRS 107	Cash Flow Statements*	1 July 2007
FRS 111	Construction Contracts*	1 July 2007
FRS 112	Income Taxes*	1 July 2007
FRS 118	Revenue*	1 July 2007
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance*	
FRS 134	Interim Financial Reporting*	1 July 2007
FRS 137	Provisions, Contingent Liabilities and Contingent Assets*	1 July 2007
Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation*	1 July 2007
IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities*	1 July 2007
IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments*	1 July 2007
IC Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	1 July 2007
IC Interpretation 6	Liabilities arising from Participating in a Specific Market- Waste Electrical and Electrical Electrical Equipment*	1 July 2007
IC Interpretation 7	Applying the Restatement Approach under FRS 129 <sup>2004</sup> - Financial Reporting in Hyperinflationary Economies*	1 July 2007
IC Interpretation 8	Scope of FRS 2*	1 July 2007

\* The above FRS, amendment to FRS and Interpretations are expected to have no significant impact on the financial statements of the Group and the Company upon their initial application.

The Group are exempted from disclosing the possible impact, if any, to the financial statements upon the initial application of FRS 139.

**PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16**

**1. ACCOUNTING POLICIES (CONTINUED)**

The Group and the Company are exempted from disclosing the possible impact, if any, to the financial statements upon the initial application of FRS 139.

The adoption of revised FRS 124 give rise to additional disclosures but did not result in significant changes in accounting policies of the Group. The principal changes in accounting polices and effects resulting from the adoption of FRS 117: Leases are discussed below.

**FRS 117 - Leases**

Prior to 1 January 2007, leasehold land and building was classified as aircraft, property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses. The adoption of the revised FRS 117 has resulted in a change in the accounting policy relating to the classification of leases of land and buildings.

Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification. Leasehold land held for own use is now classified as operating lease and where necessary, the minimum lease payments or the up-front payments made are allocated between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

The Group has applied the change in accounting policy in respect of leasehold land in accordance with the transitional provisions of FRS 117. The reclassification of leasehold land from aircraft, property, plant and equipment to prepaid land lease payments has been accounted for retrospectively in the balance sheets. As at 31 December 2006, the total unamortised amounts of leasehold land amounting to RM91.8 million are retained as the carrying amount of prepaid land lease payments and are amortised on a straight-line basis over their remaining lease terms. However, the adoption of the revised FRS 117 has no financial effect on the income statements.

The effects on the balance sheet as at 31 December 2007 and restatement of comparatives are as follows:

**Effects on balance sheets as at 31 December 2007:**

	<b>Increase/ (decrease) RM'000</b>
Aircraft, property, plant and equipment	(17,613)
Prepaid lease payments on land	<u>17,613</u>

**Effects on balance sheets as at 31 December 2006:**

	<b>Previously Stated RM'000</b>	<b>Adjustments RM'000</b>	<b>Restated RM'000</b>
Aircraft, property, plant and equipment *	2,496,764	(91,824)	2,404,940
Prepaid lease payments on land	-	91,824	<u>91,824</u>

\* The restated figure is prior to reclassification to conform with current year's presentation in Note 17 of Part A.

## PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, PARAGRAPH 16

### 2. QUALIFICATION OF PRECEDING AUDITED ANNUAL FINANCIAL STATEMENTS

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

### 3. SEASONALITY OR CYCLICAL NATURE OF OPERATIONS

The Group is principally engaged in the business of air transportation and provision of related services. The demand for the Group's services is generally influenced by the growth performance of the Malaysian economy and the economies of the countries in which the Group operates as well as seasonal, health and security factors.

### 4. UNUSUAL ITEMS

There were no unusual items for the financial year ended 31 December 2007.

### 5. MATERIAL CHANGES IN ESTIMATES OF AMOUNTS REPORTED

There was no material changes in estimates of amount reported for the financial year ended 31 December 2007.

### 6. SIGNIFICANT EVENTS

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

On 23 April 2007, at the Extraordinary General Meeting, the shareholders' of the Company approved the ESOS above. On 15 May 2007, the Proposed ESOS was approved by Bursa Malaysia.

On 14 June 2007, the Company launched the ESOS to eligible employees and the final acceptance (grant date) for this scheme was 29 June 2007.

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

As at 31 December 2007, the Company had partially disposed of MHB and the completion of the remaining disposal is pending fulfilment of a final condition precedent, i.e. settlement of certain land issue by March 2008. Refer to Part A, Note 13 for details.

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

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

During the year, the conditions precedents were fulfilled and included in the Group Income Statement as a gain on disposal of RM46.3 million.

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

**6. SIGNIFICANT EVENTS (CONTINUED)**

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

Firefly, managed as a separate entity, commenced operations with two (2) Fokker 50 aircraft in early April 2007 and operates twice daily services out of Penang International Airport to Kota Bahru, Langkawi, Kuantan and Kuala Terengganu; and daily services to Phuket and Koh Samui. On 29 September 2007, Firefly commenced twice daily flights between Sultan Abdul Aziz Shah Airport ("SAAS"), Subang and Penang. Firefly has also obtained approval from the Government to serve 6 domestic and 9 regional routes out of Penang International Airport, 12 domestic and 13 regional routes out of SAAS, Subang as well as 7 domestic and 14 regional destinations out of Senai International Airport.

On 24 October 2007, the Company entered into a sale and purchase agreement with Avions De Transport Regional to purchase 10 ATR72-500 aircraft plus an option to purchase another 10 of the same for the operations of Firefly. The catalogue price of the aircraft is USD18.3 mil for deliveries in 2007.

- v) On 19 December 2007, Malaysian Aerospace Engineering Sdn. Bhd., a wholly-owned subsidiary of the Company had signed a Memorandum of Understanding with Qantas to establish a joint venture company to provide airframe maintenance services from Malaysia.

There were no other significant events for the financial year ended 31 December 2007 other than as disclosed in Note 8, Part B - Explanatory Notes Pursuant to Bursa Malaysia Securities Berhad Listing Requirements Under Part A of Appendix 9B.

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

- i) On 31 January 2007, the Company issued 500 redeemable preference shares of RM0.10 each ("RPS") at an issue price of RM1.00 per share to CIMB Bank Berhad ("CIMB Bank") for its working capital purposes. These 500 RPS were issued in conjunction with and formed an integral part of the Term Loan facility of RM500 million obtained from CIMB Bank.
- ii) On 5 November 2007, the Company issued 417,747,955 new ordinary shares of RM1 each ("Rights Shares") at an issue price of RM2.70 per share, and 417,747,955 redeemable convertible preference shares of RM0.10 each ("RCPS") at an issue of RM1.00 per share in conjunction with the issuance of Rights shares. Refer Part B, Note 8, for details.

There was no other issuance, cancellation, repurchase, resale or repayments of debts or equity securities for the financial year ended 31 December 2007.

**8. DIVIDEND PAID**

There was no dividend paid in the financial year ended 31 December 2007.

**9. SEGMENTAL INFORMATION**

BY BUSINESS ACTIVITIES	Individual Quarter ended 31/12/2007		Cumulative Quarter ended 31/12/2007	
	Operating revenue RM '000	Operating profit/(loss) RM '000	Operating revenue RM '000	Operating profit/(loss) RM '000
Airline operations	3,557,159	225,459	12,939,015	897,459
Cargo services	727,070	64,771	2,687,052	126,182
Catering services	2,727	735	10,307	1,441
Others	15,383	8,894	90,616	9,207
	4,302,339	299,859	15,726,990	1,034,289
Eliminations	(292,697)	(39,095)	(1,040,860)	(159,062)
<b>Total</b>	<b>4,009,642</b>	<b>260,764</b>	<b>14,686,130</b>	<b>875,227</b>



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

### 10. VALUATION OF ASSETS

There was no valuation of property and equipment for the financial year ended 31 December 2007.

### 11. SUBSEQUENT EVENT

There was no subsequent event for the financial year ended 31 December 2007.

### 12. CHANGES IN THE COMPOSITION OF THE GROUP

- i) On 12 March 2007, a wholly owned subsidiary, Kelas Services Sdn.Bhd. which changed its name to FlyFireFly Sdn. Bhd.("Firefly") commenced its operation as a community airlines on 2 April 2007. Refer Note 6(iv), Part A for details.
- ii) On 30 May 2007, the Company acquired a total of two (2) ordinary share in Absolute Competence Sdn. Bhd.("ACSB"), a shelf company, for a purchase consideration of RM2. With effect from that date, ACSB became a wholly owned subsidiary of the Company. On 13 June 2007, ACSB's name was changed to MASWings Sdn. Bhd. ("MASWings"). MASWings' principal activity is to provide air transportation services to rural areas of Sabah and Sarawak.
- iii) On 30 May 2007, a wholly owned subsidiary, Malaysian Aerospace Engineering Sdn. Bhd. ("MAESB") was incorporated with two (2) ordinary shares of RM1 each.
- iv) On 31 July 2007, a wholly owned subsidiary, Firefly acquired 100% equity of Khidmat Stabil Sdn. Bhd. ("Khidmat Stabil"), a shelf company consists of a total of two (2) ordinary shares for a purchase consideration of RM2. On 6 August 2007, Khidmat Stabil increased its shareholding to RM200,000 with the allotment of additional 199,998 ordinary shares of RM1 each. On 14 August 2007, Khidmat Stabil changed its name to Flyfirefly Holiday Sdn.Bhd.
- v) On 24 August 2007, Macnet CCN (M) Sdn. Bhd., a wholly-owned dormant subsidiary of the Company was voluntarily wound up.
- vi) On 10 December 2007, the Company subscribed for an additional 1,000,000 ordinary shares of RM1 each in MASkargo Logistics Sdn. Bhd. by way of loan conversion.

There was no other change in the composition of the Group for the financial year ended 31 December 2007.

### 13. DISCONTINUED OPERATIONS AND DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE

In line with MAS' strategic asset rationalisation exercise, the Company has disposed/ceased the operation of the following subsidiaries:

#### (i) Disposal of MAS Hotel & Boutiques Sdn. Bhd ("MHB")

Save as disclosed in Note 6(ii), the Company, on 1 March 2007 entered into a conditional Share Purchase Agreement ("SPA") for the disposal of 100% equity of the Company's wholly-owned subsidiary, MHB, a company involved in the business of providing hotel and boutique facilities, to Kingdom Langkawi B.V.

The disposal of the subsidiary was partially completed on 5 April 2007 and a gain on disposal of RM36.1 million was recognised in the income statements for the financial year ended 31 December 2007. Full completion is pending fulfillment of a final condition precedent, i.e. settlement of certain land issue by March 2008. The remaining deferred consideration of RM35 million and the related gain will be recognised upon the fulfillment of the final condition precedent.

The financial results of MHB is presented separately on the consolidated income statements as a discontinued operation.

#### (ii) Ceased operation of Syarikat Pengangkutan Senai ("SPS")

On 15 August 2007, the Company ceased operations of SPS, a wholly-owned subsidiary company involved in providing coach transportation services. All related expenses incurred have been accrued in the financial statements for the financial year ended 31 December 2007.

The financial results of SPS is presented separately on the consolidated income statements as a discontinued operation.

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

**13. DISCONTINUED OPERATIONS AND DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE (CONTINUED)**

The results of the discontinued operations is as follows:

	Quarter ended 31/12/07		Cumulative Quarter ended 31/12/07	
	MHB RM'000	SPS RM'000	MHB RM'000	SPS RM'000
Revenue	-	-	21,059	101
Expenses	-	-	(13,420)	(667)
Profit/(loss) before tax	-	-	7,639	(566)
Taxation	-	-	(1,796)	-
Profit/(loss) for the period from discontinued operations	-	-	5,843	(566)
Gain on disposal of discontinued operations	-	-	36,145	-
Profit/(loss) for the period from discontinued operations	-	-	41,988	(566)

The cash flows of the discontinued operations are as follows:

	MHB RM'000	SPS RM'000
Cash used in operating activities	(1,875)	(138)
Cash used in investing activities	(81)	-
Cash generated from financing activities	6,841	-
Net movement in cash and cash equivalents	4,885	(138)

As at 31 December 2007, property, plant and equipment of SPS classified as non current assets held for sale is RM0.035 million.

The assets and liabilities of MHB disposed off at the effective date are as follows:

	RM'000
Property, plant and equipment	338,719
Inventories	1,631
Receivables	2,837
Cash and bank balances	14,073
Payables	(7,142)
Net assets disposed	350,118
Defrayed costs	13,737
Proceeds from disposal of a subsidiary company	(400,000)
Gain on disposal of a subsidiary company	(36,145)
<b>Disposal proceeds settled by:</b>	
Cash proceeds	400,000
Deferred payment	35,000
Total consideration	435,000
<b>Cash inflow arising on disposal:</b>	
Cash consideration	400,000
Defrayed cost	(13,737)
Cash and cash equivalents of subsidiary disposed	(14,073)
Net cash inflow of the Group	372,190

The deferred payment is expected to be settled in cash by the purchaser, subject to the fulfillment of final condition precedent by March 2008. There was no tax charge or credit arising from the gain or loss on disposal.

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

**14. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

(i) Contingent liabilities

(a) Related to Penerbangan Malaysia Berhad ("PMB")

MAS continues to be the named lessee or borrower of finance leases and term loans which have been unbundled to PMB, a company wholly owned by Khazanah Nasional Berhad. As such, the outstanding balance of the borrowings assumed by PMB is included within the Group's contingent liabilities.

		18/2/2008 RM '000
		<u>                    </u>
1.	Secured / Unsecured	
	Loans	
	- Secured	212,961
	- Unsecured	100,570
	Finance leases (secured)	<u>414,543</u>
		<u>728,074</u>
2.	Tenure	
	Loans and leases due within one year	156,552
	Loans and leases due after one year	<u>571,522</u>
		<u>728,074</u>
3.	Loans by currencies in Ringgit Malaysia	
	US Dollar	627,504
	French Franc	<u>100,570</u>
		<u>728,074</u>
(b)	Others	
	Corporate guarantees given to third parties	4,752
	Bank guarantees given to third parties	177,408
	Performance bonds given to third parties	<u>107</u>
		<u>182,267</u>

(ii) Contingent assets

The Company has the right to receive from PMB 80% of the profit arising from the eventual realisation of certain aircraft assets unbundled to PMB under the Agreement for Aircraft and Finance Agreements Unbundling. The profit will be computed based on the excess of the value realised over the decayed cost of the aircraft. The decayed cost for each aircraft at future dates is stipulated by the WAU Agreement. Based on the published industry price data, MAS share of the profit on disposal if the applicable aircraft were to be disposed as at 18 February 2008 is RM 764.9 million.

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

**15. SIGNIFICANT RELATED PARTY DISCLOSURES**

	Quarter ended 31/12/2007 RM '000	Quarter ended 31/12/2006 RM '000 (restated)	Year ended 31/12/2007 RM '000	Year ended 31/12/2006 RM '000 (restated)
LSG Sky Chefs-Brahim's Sdn. Bhd., an associate:				
- Catering and other services paid/ payable	73,281	65,145	234,678	235,167
- Rental income and others	(4,963)	(5,171)	(20,088)	(20,104)
- Shared services billed	(409)	(1,012)	(2,801)	(3,179)
GE Engine Services (M) Sdn. Bhd., an associate:				
- Engine maintenance services rendered and purchase of aircraft, property and equipment	106,503	72,882	428,485	427,362
- Rental income and others	(3,846)	(3,872)	(15,361)	(15,388)
- Shared services billed	(61)	(306)	(288)	(576)
Pan Asia Pacific Aviation Services Ltd., an associate:				
- Line maintenance and aircraft interior cleaning services paid/ payable	1,988	1,518	5,868	6,093
Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd., an associate:				
- Aircraft component repair services paid/ payable	2,136	1,657	7,864	7,014
Honeywell Aerospace Services (M) Sdn. Bhd., an associate:				
- Aircraft power plant unit overhaul services paid/ payable	1,217	1,342	5,973	5,954
Taj Madras Flight Kitchen Limited, an associate:				
- Catering services paid/ payable	232	309	1,858	1,444
Abacus International Holding Ltd., a company in which the Company has substantial shareholding:				
- Computer reservation system access fee paid/ payable	5,810	4,084	39,922	34,366
Evergreen Sky Catering Corporation, a company in which the Company has substantial shareholding:				
- Catering services paid/ payable	2,039	1,797	9,132	8,284
Miascor Catering Services Corporation, a company in which the Company has substantial shareholding:				
- Catering services paid/ payable	330	158	633	875
Penerbangan Malaysia Bhd, holding company:				
- Hire of aircraft paid/ payable	148,079	163,207	639,592	565,770
- Cost incurred/(residual value sharing) on sale of aircraft	19,517	(35,629)	(209,333)	(35,629)
Aircraft Business Malaysia Sdn. Bhd., a fellow subsidiary:				
- Aircraft lease rental paid/ payable	70,632	70,974	283,846	279,961
Asset Global Network Sdn. Bhd., a fellow subsidiary:				
- Rental of premises paid/ payable	17,852	17,853	71,408	71,409

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

**16. SIGNIFICANT RELATED PARTY BALANCES**

	As at 31/12/2007 RM '000	As at 31/12/2006 RM '000 (Audited)
Amount owing to holding company	71,860	72,031
Amount owing by related parties	9,346	8,614
Amount owing by a fellow subsidiary		
- due within one year	52,591	54,389
- due after one year	243,377	295,860
Amount owing to associated companies	49,347	5,656

**17. CHANGES IN PREVIOUS QUARTER PRESENTATION**

The following disclosure for the quarter and financial year ended 31 December 2006 has been restated to conform with the current period's presentation:

**Quarter ended 31 December 2006**

	Previously stated RM'000	Reclassified RM'000	Restated RM'000
Operating revenue	3,708,178	(57,242)	3,650,936
Operating expenses	(3,685,703)	62,055	(3,623,648)
Other operating income	72,198	(7,458)	64,740
Finance costs	(15,674)	3,597	(12,077)
Taxation	(21,053)	9	(21,044)
Result for the period from discontinued operations	-	(961)	(961)

**Year ended 31 December 2006**

	Previously stated RM'000	Reclassified RM'000	Restated RM'000
Operating revenue	13,171,838	(104,663)	13,067,175
Operating expenses	(13,792,392)	94,280	(13,698,112)
Other operating income	317,711	(7,495)	310,216
Finance costs	(49,215)	16,316	(32,899)
Taxation	(60,645)	27	(60,618)
Result for the period from discontinued operations	-	1,535	1,535

**As at 31 December 2006**

	Previously stated RM'000	Reclassified RM'000	Restated RM'000
Aircraft, property, plant and equipment *	2,404,940	6,597	2,411,537
Other investments	105,233	(2,532)	102,701
Other receivables (non-current assets)	-	129,410	129,410
Trade receivables	1,015,143	9,437	1,024,580
Current assets- Other receivables	841,600	(88,004)	753,596
Trade payables	(1,665,663)	(58,542)	(1,724,205)
Other payables	(1,070,814)	351,348	(719,466)
Provision	-	(347,714)	(347,714)

\* The previously stated figure is after taking into account the effect of FRS 117 in Note 1 of Part A.

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

**1. REVIEW OF PERFORMANCE**

The Group recorded a higher operating profit of RM260.8 million for the fourth quarter ended 31 December 2007 (Quarter ended 2006: RM148.6 million) due to higher operating revenue and improved yields. Cost incurred/residual value sharing on sale of aircraft by Penerbangan Malaysia Berhad and gains on sale of properties are reclassified under profit from operations since the quarter ended 30 September 2007. The previous quarter's presentation has been restated to conform with the current quarter's presentation.

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

Operating revenue for the quarter increased to RM4,009.6 million from RM3,780.7 million in the preceding quarter. Operating profit for the quarter decreased from RM376.4 million to RM260.8 million and profit after tax for the quarter decreased from RM364.6 million to RM242.3 million, against preceding quarter. In addition, preceding quarter results recorded RM220.6 million residual value sharing on sale of aircraft by Penerbangan Malaysia Berhad and RM51.7 million gains on sale of properties.

**3. CURRENT YEAR PROSPECTS**

The outlook for the aviation industry in 2008 will be more difficult than 2007 in view of the high and volatile of oil price, slower global economic growth, possible US recession, environmental concerns, greater liberalisation as well as excess capacity. Thus, IATA has forecasted a slow down in international passenger growth in 2008 to 5.4% whereas freight will be slightly higher at 5% compared to last year.

For the next quarter, demand is projected to be weaker due to the low season in Europe, US, North Asia and Middle East except for the Chinese markets during the Lunar New Year. Competition in Malaysian markets is keener with increased frequencies and capacity being offered by our competitors on both domestic and Asean routes. In addition, key long haul trunk routes will also face intense competition with additional A380s being delivered during the year.

In order to meet the new challenges this year and beyond, MAS has introduced the new Business Transformation Plan ("BTP 2") which serves as a continuation to the Business Turnaround Plan ("BTP 1") implemented in 2006 and lays out the strategies it will take and is currently taking in becoming a Five Star Value Carrier ("FSVC"), an airline that provides 5-star products and services at affordable prices.

In line with the MAS BTP 2, management will continue to intensify efforts to generate and sustain its profitability. Project Delta has been introduced to radically cut costs in the Operations and Engineering & Maintenance areas without in anyway compromising on safety and security standards. In addition, further structural cost savings are expected through initiatives in the procurement, distribution and electronic-ticketing areas. With these initiatives, MAS will be in a better position to offer competitive fares, reinforce improvements in revenue and yield management to sustain the improvements seen in 2006 and 2007. More importantly, MAS will strive to maintain its highest quality of products and services to retain its 5-Star airline ranking and continue to be the airline of choice for its customers.

The Board of Directors is of the opinion that MAS' result for the year 2007 has exceeded the scorecard for 2007 (Definition: 'targets', 'exceeding' and 'outstanding' set at 'RM50 million - RM99 million', 'RM100 million - RM299 million' and 'RM300+ million' respectively).

For 2008, the company's aspiration in BTP 2 is to achieve RM400 - RM550 million (target), RM551 - RM650 million (exceeding) and RM651 - RM1000+ million (outstanding) .

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

**4. PROFIT FORECAST OR PROFIT GUARANTEE**

The Group has not provided any profit forecast or profit guarantee in respect of the financial year ended 31 December 2007.

**5. TAXATION**

Taxation charge for the Group comprised the following: -

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/12/2007	Quarter ended 31/12/2006	Year ended 31/12/2007	Year ended 31/12/2006
	RM '000	RM '000	RM '000	RM '000
<b>Continuing operations</b>				
Current period				
- Malaysian	413	696	1,376	2,066
- Foreign	1,848	1,847	7,392	7,758
	2,261	2,543	8,768	9,824
(Over)/ Under provision in prior period	(16,077)	(219)	(16,771)	(331)
Deferred taxation	18,595	18,720	37,593	51,125
<b>Total</b>	<b>4,779</b>	<b>21,044</b>	<b>29,590</b>	<b>60,618</b>

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

**6. PROFIT/(LOSS) ON SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES**

(i) Loss on sale of unquoted investments

Redeemable Preference Shares A and B ("RPS A" and "RPS B") of LSG Sky Chefs-Brahim's Sdn. Bhd. were fully redeemed during the financial year ended 31 December 2007.

Date	No. of RPS A	No. of RPS B	Amount Redeemed RM'000	At Cost RM'000	Total Loss RM'000
31 March 2007	16,500*	-	3,965	3,965	-
31 May 2007	16,500*	-	3,965	3,965	-
30 June 2007	88,470**	30,000**	25,242	28,471	(3,229)
					<u>(3,229)</u>

\* - RPS redeemed at cost

\*\* - RPS redeemed at cost less discount rate of 11.34%

(ii) Profit on sale of properties

Several local and overseas properties were disposed off during the financial year ended 31 December 2007 resulting in a gain on disposal of RM104.9 million.

**7. PURCHASE OR DISPOSAL OF QUOTED SECURITIES**

As at 31 December 2007, the Group has the following quoted securities: -

	In Malaysia RM '000	Outside Malaysia RM '000
At cost	-	1,377
At carrying value	-	1,377
At market value	-	32,303

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

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

**8. CORPORATE PROPOSALS**

On 15 January 2007, the Company announced the proposed renounceable rights issues of up to 418 million new ordinary shares of RM1.00 each in the Company ("Rights Shares") at an issue price as defined below and up to 418 million redeemable convertible preference shares of RM0.10 each in the Company ("RCPS") at an issue price of RM1.00 each on the basis of one (1) Rights Share and one (1) RCPS for every three (3) existing ordinary shares of RM1.00 each in the company ("MAS Shares") held ("Proposed Rights Issue").

On 15 February 2007, the Company further announced the proposed amendments to the Memorandum and Articles of Association of the Company ("Proposed M&A Amendments") to facilitate the issuance of the RCPS, which forms part of the Proposed Rights Issue.

Under the Proposed Rights Issue, the Board would provisionally allot up to 418 million Rights Shares and up to 418 million RCPS to the shareholders whose names appear on the Record of Depositors ("Entitled Shareholders") at the close of business of the Company, on a date as defined below, on the basis of one (1) Rights Share and one (1) RCPS for every three (3) existing MAS Shares held. The Board would deal with the fractional entitlements of the Rights Shares and RCPS in such manner as it may in its absolute discretion deem fit and expedient in the interest of the Company.

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

On 28 February 2007, The Securities Commission ("SC") approved the Proposed Rights Issue subject to compliance of certain conditions.

On 18 April 2007, Bank Negara Malaysia ("BNM") approved the issuance of 58.0 million RCPS to non-residents of Malaysia and on 31 May 2007, further approval was obtained for the issuance of an additional 70.1 million RCPS to non-residents of Malaysia.

On 23 April 2007, at the Company's Extraordinary General Meeting, the shareholders of the Company approved, inter-alia, the Proposed Rights Issue and the Proposed M&A Amendments.

The shareholders of the Company also approved the proposed increase in the Company's authorised share capital to facilitate the issuance of the RCPS pursuant to the Proposed Rights Issue. The authorised share capital of the Company has been increased from RM10,000,100,001 to RM10,041,900,001 comprising 9,000,000,000 MAS Shares, one (1) special rights redeemable preference share of RM1.00, 100,000,000,000 redeemable convertible preference shares of RM0.01 each, 1,000,000 redeemable preference shares of RM0.10 each and 418,000,000 RCPS by the creation of 418,000,000 RCPS.

On 15 May 2007, Bursa Malaysia Securities Berhad ("Bursa Securities") approved in-principle the admission of the RCPS to the Official List of Bursa Securities and for the listing and quotation of the Rights Shares, RCPS and the new MAS Shares to be issued pursuant to the conversion of the RCPS on the Main Board of Bursa Securities.

On 16 August 2007, SC approved the Company's application for an extension of time until 27 February 2008 to implement the Proposed Rights Issue.

On 10 September 2007, the Company announced that the issue price for the Rights Shares was fixed at RM2.70 each, the conversion price for the RCPS was fixed at RM4.05 and it had entered into an Underwriting Agreement with CIMB.

On 17 September 2007, the Company announced that the Entitlement Date had been fixed on 1 October 2007 and the closing date for acceptance and payment of subscriptions was fixed on 22 October 2007.

On 1 November 2007, the Company announced that the final subscription result and basis of allotment of the excess under the Rights Issue was 417,747,955 new ordinary shares of RM1.00 each ("Rights Shares") and 417,747,955 redeemable convertible preference shares of RM0.10 each (RCPS) on the basis of 1 Rights Share and 1 RCPS for every 3 existing shares held ("Rights Issue"). The Right Shares issued would be granted listing and quotation with effect from 5 November 2007 and RCPS issued would be admitted to the Official List of the Securities Exchange and the listing and quotation of these RCPS on the Main Board under the "Trading Services" sector, would be granted with effect from 5 November 2007, on a "Ready" basis pursuant to the Rules of the Securities Exchange.

On 5 November 2007, the Rights Issue was completed following the listing and quotation of the above.

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



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

**9. GROUP BORROWINGS AND DEBT SECURITIES**

(a) The Group as at 31 December 2007 has lease obligations amounting to RM219.0 million (31 December 2006: RM651.7 million) which are covered by interest bearing funds amounting to RM202.3 million (31 December 2006: RM614.4 million) placed with financial institutions at the inception date of the respective lease arrangements under defeasance arrangements. The defeased lease obligations, together with the related funds placements and payments, are therefore not included in these financial statements.

(b) Borrowings:

	As at 31/12/2007 RM '000	As at 31/12/2006 RM '000
Long term borrowings:		
Unsecured	500,000	-
RCPS (Refer Part B, Note 8)	359,672	-
	<u>859,672</u>	<u>-</u>
Short term borrowings:		
Unsecured	<u>-</u>	<u>1,050,000</u>

- (i) On 27 March 2006, the Group entered into a bridging loan facility arrangement of up to a maximum principal amount of RM1 billion with a financial institution. The bridging loan facility was used for working capital requirements. The short term borrowing bore effective weighted interest rate of 4.49% per annum, unsecured and was fully redeemed on 31 January 2007.
- (ii) On 22 August and 22 September 2006 respectively, the Group entered into revolving credit facilities with certain financial institutions. The facilities were unsecured with an effective weighted interest rate of 4.32% per annum. On 23 November and 30 November 2007, the Group had fully redeemed RM500 million in total for the Revolving Credit Facilities with certain financial institutions.
- (iii) On 30 January 2007, the Company and CIMB Bank Berhad ("CIMB Bank") entered into a Facility Agreement whereby CIMB Bank agreed to make available to MAS a term loan facility of up to the maximum principal amount of RM500 million ("Term Loan"), and a Subscription Agreement in relation to the issuance by MAS of an aggregate of 500 redeemable preference shares of RM0.10 each ("RPS") at an issue price of RM1.00 per share to CIMB Bank.

Pursuant to these agreements, MAS had on 31 January 2007 drawdown the Term Loan of RM500 million with CIMB Bank and issued 500 RPS to CIMB Bank.

The issuance of RPS to CIMB Bank provides MAS with an option to service the Term Loan through payment of non-cumulative tax-exempt dividend on the RPS or through payment of interest subject to prevailing laws and regulations.

The Term Loan bears an interest rate of 5.58% per annum, unsecured and repayable in one (1) bullet repayment at the end of three (3) years from the drawdown date with interest payable for every six (6)-month period.

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

**10. FINANCIAL INSTRUMENTS**

- (a) As at 18 February 2008, the Group has entered into various fuel hedging transactions for periods up to 31 December 2009 in lots totalling 7,775,000 barrels.

The fuel hedging programme is closely monitored and is subject to the vagaries of the market such as geopolitical events, the economic situation and weather conditions.

The accounting policy adopted is to charge related expenses as fuel cost in the financial statements upon the expiry of fuel hedging contracts.

- (b) As at 18 February 2008, the Group has entered into various interest rate hedging contract transactions for periods up to 13 December 2016 for a total notional amount of RM3,704.0 million.

The accounting policy adopted is to charge the related expenses against the underlying expenses being hedged.

The fixed interest rates relating to interest rate hedging contracts as at 18 February 2008 vary from 4.2% to 5.4% per annum.

- (c) As at 18 February 2008, the Group has entered into foreign currency forward contracts and options amounting to RM1,173.8 million for periods up to 15 January 2009.

The accounting policy adopted is to recognise exchange gains and losses relating to these foreign currency forward contracts and options in the income statement in the same period as the underlying hedged item.

**11. MATERIAL LITIGATION**

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

Shahjalal was a general sales agent and had filed a claim in Dhaka, Bangladesh against MAS for a sum of BDT2,670.0 million (RM175.7 million) purportedly due to them on account of commission charges, loss of business and goodwill under the general sales agency. MAS had earlier filed a claim against Shahjalal for a sum of BDT152.0 million (RM10.0 million) which was subsequently reduced to BDT87.8 million (approximately RM4.6 million) after adjustments of the bank guarantee and other amounts, together with interest, on account of unremitted passenger and cargo sales.

**(b) Arbitration Proceedings by ACL Advanced Cargo Logistic GmbH ("ACL") vs MAS**

On 16 September 2004, MAS received notice that ACL had initiated proceedings against MAS at the International Court of Arbitration in Paris, France. The claim against MAS for alleged breach of a ground handling contract ("ACL Agreement") is damages in the sum of EURO 62.7 million (approximately RM300 million).

On 23 April 2007, MAS received a partial award from the Arbitral Tribunal dated 4 April 2007 declaring that MAS has breached the ACL agreement but made no ruling on MAS' liability to compensate ACL for the damages suffered as a result of the breach. The Arbitral Tribunal has fixed the hearing on the quantum of damages and costs from 3 until 6 November 2008. ACL has since in its statement of claim on quantum, revised its claim to EURO 51.6 million (approximately RM243 million).

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

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

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

The Plaintiffs served a writ of summons and statement of claim on MAS and its wholly-owned subsidiary, MASKargo, on 16 June 2005. The Plaintiffs' claim is for special damages of RM4.9 million and general damages of RM250 million as well as unspecified exemplary damages as a consequence of what is alleged by the Plaintiffs to be a termination by MAS, in breach of a purported contract consisting of various documents involving services rendered by the Plaintiffs to MAS and MASKargo. MAS and MASKargo are challenging the claim.

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

On 5 April 2006, MAS and MASKargo filed a civil suit in Malaysia against its former Executive Chairman, Tan Sri Tajudin bin Ramli and three (3) other Defendants. The claim against the Defendants is for losses amounting to RM174.6 million for, amongst others, breach of fiduciary duties committed by the Defendants and conspiracy to defraud MAS. The First, Second and Fourth Defendants have filed applications to strike out the suit, whilst the third Defendant has applied to set aside the Service of the Amended Writ of Notice to be Served Out of Jurisdiction on him. The matter is fixed for mention on 23 April 2008.

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

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

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

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

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

Pending further particulars of AML's claim in the Arbitration, the effects of the claim on the financial position of MAS cannot be ascertained. MAS is currently seeking legal advice to challenge the claim.

**(g) MAS vs Air Maldives Limited**

On 11 February 2004, MAS filed a suit at the High Court of Malaya against AML to claim for the sum of USD35.5 million being unpaid fees and charges payable by AML to MAS for airline related services rendered by MAS pursuant to numerous agreements. The writ of summons was served by MAS on AML on 25 July 2007. AML has entered appearance on 22 October 2007 but has not served its statement of defence on MAS.

MAS is advised by its solicitors that the outcome of the suit can only be assessed after AML has served its statement of defence on MAS and the nature of the defence is known.

**(h) Statement of Objections from the European Commission**

On 27 December 2007, MAS and MASKargo were served with "Statement of Objections" from the European Commission in relation to its air freight investigation under Article 81 of the European Community Treaty, the general prohibition against anti-competitive behaviour. The Statement of Objections is a routine stage in the European Commission's investigations under the said Article 81 and is not a final determination of an infringement, nor does the Statement of Objections indicate any quantum of fines that might be ultimately imposed.

The MAS Group is seeking legal advice in relation to the European Commission investigation.

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

**11. MATERIAL LITIGATION (CONTINUED)**

**(i) Meor Adlin vs MAS**

On 18 January 2008, MAS has been served with a complaint filed in the United States District Court for the Northern District of California (San Francisco) filed on behalf of Meor Adlin against MAS and eleven other airlines. The cases involves allegation of price fixing on transpacific passenger fares and related surcharges.

At this juncture, no infringement has been established. The recently served complaint does not make any mention of the quantum of damages sought against MAS. MAS is currently seeking legal advice in relation to the complaint.

**(j) Stephen Gaffigan vs MAS**

On 25 January 2008, MAS has been served with a complaint filed in the United States District Court for the Central District of California (Los Angeles) filed on behalf of Stephen Gaffigan against MAS and eleven other airlines. The cases involves allegation of price fixing on fuel surcharges on transpacific passenger fares.

At this juncture, no infringement has been established. The recently served complaint does not make any mention of the quantum of damages sought against MAS. MAS is currently seeking legal advice in relation to the complaint.

**(k) Micah Abrams vs MAS**

On 28 January 2008, MAS has been served with a complaint filed in the United States District Court for the Northern District of California (San Francisco) on behalf of Micah Abrams against MAS and nine other airlines. The cases involves allegation of price fixing on transpacific passenger fares and related surcharges.

At this juncture, no infringement has been established. The recently served complaint does not make any mention of the quantum of damages sought against MAS. MAS is currently seeking legal advice in relation to the complaint.

**12. DIVIDENDS**

The Board of Directors recommend a first and final tax exempt dividend of 2.50 sen for the financial year ended 31 December 2007 (2006:Nil) for shareholders' approval at the forthcoming Annual General Meeting.

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

**13. EARNINGS/ (LOSS) PER SHARE**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended	Quarter ended	Year ended	Year ended
	31/12/2007	31/12/2006	31/12/2007	31/12/2006
	RM '000	RM '000	RM '000	RM '000
<b>(a) Basic earnings per share</b>				
Profit/(loss) attributable to equity holders of the Company for:				
Continuing operations	241,925	122,433	809,996	(137,967)
Discontinued operations	-	(961)	41,422	1,535
	<u>241,925</u>	<u>121,472</u>	<u>851,418</u>	<u>(136,432)</u>
Weighted average number of ordinary shares in issue ('000)	1,466,713	1,398,620	1,466,713	1,398,620
Basic earnings/(loss) per share for (sen):				
Continuing operations	16.49	8.75	55.23	(9.86)
Discontinued operations	-	(0.07)	2.82	0.11
	<u>16.49</u>	<u>8.69</u>	<u>58.05</u>	<u>(9.75)</u>

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average of ordinary shares in issue during the quarter and year ended 31 December 2007. For the comparative quarter and year ended 31 December 2006, the basic earnings per share is restated in accordance with FRS 133 - Earnings Per Share.

**(b) Diluted earnings per share**

Weighted average number of ordinary shares in issue ('000)	1,466,713	1,398,620	1,466,713	1,398,620
Effects of dilution resulting from RCPS ('000)	103,148	-	103,148	-
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	<u>1,569,861</u>	<u>1,398,620</u>	<u>1,569,861</u>	<u>1,398,620</u>
Diluted earnings/(loss) per share for (sen):				
Continuing operations	15.41	-	51.60	-
Discontinued operations	-	-	2.64	-
	<u>15.41</u>	<u>-</u>	<u>54.24</u>	<u>-</u>

Diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average of ordinary shares in issue during the quarter and year ended 31 December 2007, adjusted to assume the conversion of dilutive potential ordinary shares.

**14. AUTHORISATION FOR ISSUE**

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Board on 25 February 2008.

By Order of the Board

Rizani bin Hassan (LS 05125)  
Company Secretary  
Selangor Darul Ehsan  
25 February 2008

**PART C - ADDITIONAL INFORMATION**

**1. ECONOMIC PROFIT**

- (a) As prescribed by the GLC Transformation Programme, the reporting of economic profit ("EP") is made every quarter. EP is an indicative measure of value creation by the business in a specific period. It reflects how much return a business has generated after operating expenses and capital costs.
- (b) The EP of the Group for the quarter and year ended 31 December 2007 is RM268.6 million (2006: RM91.4 million) and RM453.8 million (2006: Economic Loss of RM394.7 million) respectively. The improvement in the EP is consistent with the improvement in the Group's results as a result of the BTP initiatives undertaken since 2006.

Although the EP may have some usefulness in terms of giving an indication of the return after deducting the cost of the resources it employs, it should not be used in isolation as an indicator of a company's performance nor is it a predictor of future performance. The EP results on their own may also give misleading results or trends.

**2. SUMMARY OF KEY FINANCIAL INFORMATION**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/12/2007 RM '000	Quarter ended 31/12/2006 RM '000 (Restated)	Year ended 31/12/2007 RM '000	Year ended 31/12/2006 RM '000 (Restated)
(a) Total Revenue	4,072,045	3,772,231	15,288,640	13,496,371
(b) Profit/(loss) before tax	247,032	143,091	884,129	(73,092)
(c) Profit/(loss) for the period	242,253	122,038	852,743	(133,737)
(d) Profit/(loss) for the period attributable to equity holders of the Company	241,925	121,472	851,418	(136,432)
(e) Basic earnings/(loss) per share (sen)	16.49	8.69	58.05	(9.75)
Diluted earnings/(loss) per share (sen)	15.41	-	54.24	-

	AS AT 31/12/2007	AS AT 31/12/2006 (Audited)
(a) Net assets per share attributable to ordinary equity holders of the Company (RM)	2.35	1.49

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 31/12/2007 RM '000	Quarter ended 31/12/2006 RM '000 (Restated)	Year ended 31/12/2007 RM '000	Year ended 31/12/2006 RM '000
(a) Gross interest income	45,762	13,398	106,050	47,323
(b) Gross interest expense	(11,090)	(12,065)	(46,841)	(32,847)