

MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT ON THE SECOND QUARTER ENDED 30 JUNE 2008

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 2008. This announcement should be read in conjunction with the audited annual financial statements for the year ended 31 December 2007 and the accompanying explanatory notes attached to the quarterly condensed financial report.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/6/2008 RM '000	Quarter ended 30/6/2007 RM '000 (Restated)	Period ended 30/6/2008 RM '000	Period ended 30/6/2007 RM '000 (Restated)
Continuing Operations				
Operating revenue	3,652,349	3,385,232	7,313,644	6,855,779
Operating expenses	(3,715,008)	(3,390,954)	(7,332,642)	(6,789,631)
Other operating income	124,235	54,379	211,528	111,626
Residual value sharing on sale of aircraft by Penerbangan Malaysia Berhad	-	8,292	-	8,292
Gains on sale of properties	453	34,282	2,397	52,008
Profit from operations	62,029	91,231	194,927	238,074
Finance costs	(6,864)	(13,144)	(10,429)	(26,176)
Share of results from associated companies	5,805	3,538	10,761	8,058
Profit before taxation	60,970	81,625	195,259	219,956
Taxation	(20,992)	(6,145)	(34,751)	(15,706)
Profit for the period from continuing operations	39,978	75,480	160,508	204,250
Discontinued Operations				
Results for the period from discontinued operations (Refer Part A, Note 13)	-	37,317	-	41,679
Profit for the period	39,978	112,797	160,508	245,929
Attributable to:				
Equity holders of the Company	39,978	112,848	160,039	245,558
Minority Interest	(0)	(51)	469	371
Profit for the period	39,978	112,797	160,508	245,929
Earnings per share attributable to equity holders of the Company				
Basic (sen)				
Continuing operations	2.39	5.40	9.58	14.58
Discontinued operations	-	2.67	-	2.98
	<u>2.39</u>	<u>8.07</u>	<u>9.58</u>	<u>17.56</u>
Diluted (sen)				
Continuing operations	2.25	5.40	9.02	14.58
Discontinued operations	-	2.67	-	2.98
	<u>2.25</u>	<u>8.07</u>	<u>9.02</u>	<u>17.56</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 30/6/2008 RM '000	As at 31/12/2007 RM '000 (Audited)
Aircraft, property, plant and equipment	2,179,390	2,060,879
Investment in associated companies	65,337	58,447
Other investments	66,325	66,325
Prepaid lease payments on land	17,519	17,613
Amount owing by a fellow subsidiary	226,973	243,377
Intangible assets	111,571	103,162
Other receivables	89,228	72,878
Deferred tax assets	3,771	4,007
	2,760,114	2,626,688
<u>Current assets</u>		
Inventories	405,815	365,266
Trade receivables	1,215,282	1,038,793
Other receivables	884,203	708,295
Tax recoverable	60,142	52,693
Cash and bank balances	5,079,876	5,259,338
	7,645,318	7,424,385
Non-current assets held for sale	1,112	2,740
	7,646,430	7,427,125
<u>Current liabilities</u>		
Trade payables	1,818,385	1,863,080
Other payables	1,059,186	1,063,283
Dividends payable	41,774	-
Provision	713,181	681,828
Amount owing to holding company	539	71,860
Provision for taxation	34,526	4,432
Sales in advance of carriage	1,787,123	1,563,394
	5,454,714	5,247,877
Net current assets	2,191,716	2,179,248
	4,951,830	4,805,936
Equity attributable to equity holders of the Company	4,080,633	3,934,893
Share capital - ordinary shares	1,670,992	1,670,992
Redeemable Convertible Preference Shares (RCPS)	58,076	58,076
Reserves		
Share premium	4,007,414	4,007,510
Reserve	556,981	529,410
Accumulated losses	(2,212,830)	(2,331,095)
Minority interest	11,525	11,056
Total equity	4,092,158	3,945,949
<u>Long term liabilities</u>		
Long term borrowings	859,672	859,672
Deferred tax liabilities	-	315
	4,951,830	4,805,936
Net assets per share (RM)	2.44	2.35

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	Period ended 30/6/2008 RM '000	Period ended 30/6/2007 RM '000 (Restated)
<u>Cash Flows From Operating Activities</u>		
Profit before taxation from:		
Continuing operations	195,259	219,956
Discontinued operations	-	43,475
Adjustments for :-		
Provision for aircraft maintenance and overhaul costs	221,341	365,106
Depreciation of aircraft, property, plant and equipment	166,273	162,886
Grant of ESOS	27,571	-
Interest expenses	10,393	26,156
Amortisation of intangible assets	9,206	5,062
Aircraft, property, plant and equipment written off, net	4,426	21,539
Amortisation of prepaid lease payments on land	94	96
Discount on redeemed RPS	-	3,229
Writeback of unavailed credits on sales in advance of carriage	(190,291)	(125,213)
Interest income	(103,235)	(41,421)
Writeback of doubtful debts, net	(59,860)	(10,045)
Unrealised foreign exchange gain	(23,210)	(4,296)
Writeback of impairment losses for aircraft, property, plant and equipment	(11,341)	(28,288)
Share of results of associated companies	(10,761)	(8,058)
Writeback of inventories obsolescence, net	(6,844)	(14,350)
Gain on disposal of non-current assets held for sale	(2,397)	-
Gain on disposal of aircraft, property, plant and equipment, net	(601)	(52,105)
Gain on disposal of subsidiary	-	(36,145)
Dividend income	-	(1,495)
Operating profit before working capital changes	226,023	526,089
Increase in inventories	(33,225)	(10,738)
Increase in trade and other receivables	(268,082)	(339,210)
Decrease in amount owing to holding company	(71,321)	(25,613)
(Decrease)/Increase in trade and other payables	(47,845)	340,006
Decrease in provision	(189,987)	(154,372)
Increase in sales in advance of carriage	414,021	474,572
Cash generated from operating activities	29,584	810,734
Interest paid	(11,341)	(13,049)
Taxes paid	(4,736)	(5,810)
Net cash generated from operating activities	13,507	791,875
<u>Cash Flows From Investing Activities</u>		
Purchase of aircraft, property, plant and equipment	(278,139)	(156,059)
Purchase of intangible assets	(17,614)	(16,003)
Proceeds from disposal of non current assets held for sale	3,786	-
Proceeds from disposal of aircraft, property, plant and equipment	628	70,580
Proceed from disposal of subsidiary	-	372,190
Proceeds from disposal of other investments	-	33,173
Interest received	94,595	33,007
Dividend received	3,871	19,091
Net cash (used in)/generated from investing activities	(192,873)	355,979
<u>Cash Flows From Financing Activities</u>		
Proceeds from long term borrowings	-	500,000
Repayment of short term borrowings	-	(550,000)
Dividend paid to minority interest in subsidiaries	-	(800)
Expenses incurred on issuance of Rights share exercise	(96)	(453)
Net cash used in financing activities	(96)	(51,253)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	(179,462)	1,096,601
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	5,259,338	1,584,699
CASH AND CASH EQUIVALENTS AS AT 30 JUNE	5,079,876	2,681,300

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2008**

	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 2008	1,670,992	58,076	4,007,510	529,410	(2,331,095)	2,205,825	3,934,893	11,056	3,945,949
Final dividends for 2007	-	-	-	-	(41,774)	(41,774)	(41,774)	-	(41,774)
Profit for the period	-	-	-	-	160,039	160,039	160,039	469	160,508
Rights shares' expenses	-	-	(96)	-	-	(96)	(96)	-	(96)
Grant of ESOS	-	-	-	27,571	-	27,571	27,571	-	27,571
At 30 June 2008	1,670,992	58,076	4,007,414	556,981	(2,212,830)	2,351,565	4,080,633	11,525	4,092,158

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 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 period	-	-	-	-	245,558	245,558	245,558	371	245,929
Rights shares' expenses	-	-	(453)	-	-	(453)	(453)	-	(453)
Dividends	-	-	-	-	-	-	-	(800)	(800)
At 30 June 2007	1,253,244	-	3,300,711	501,530	(2,936,955)	865,286	2,118,530	14,817	2,133,347

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 2007. 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 2007.

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 2007.

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 2007.

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 period ended 30 June 2008.

5. MATERIAL CHANGES IN ESTIMATES OF AMOUNTS REPORTED

During the quarter ended 30 June 2008, the Group reviewed its estimate of unavailed credits on sales in advance of carriage. This relates to tickets sold which are not utilised upon expiry of its validity which the Group recognises as income. The Group is revising its estimates for the quarter based on more accurate historical data and trend obtained from its upgraded new revenue accounting system. The revision was accounted for prospectively as a change in accounting estimates and as a result of this, the Group has recognised an additional income of RM84 million for the current financial period.

6. SIGNIFICANT EVENTS

- (i) On 31 March 2008, the Company announced its narrowbody fleet acquisition plan in ordering up to 55 B737-800 aircraft, of which a firm order was placed for 35 B737-800 aircraft with an option for another 20 aircraft. The total cost of the 55 aircraft is USD4.2 billion at list prices. The Company also has the option to swap the B737-800 to the larger B737-900. The delivery of the first aircraft is expected from September 2010 onwards. The Company also announced that it would take delivery of all six (6) A380-800 in 2011 with the first aircraft to be delivered in January and the sixth in August. The Company is now looking into the widebody aircraft replacement and will intensify its discussion with the manufacturers. The fleet acquisition plan is to support the Company's Business Transformation Plan in its network expansion.
- (ii) On 28 February 2008, the Company entered into a sale and purchase agreement with Avions De Transport Regional, GIE (ATR) to purchase five (5) ATR72-500 aircraft plus an option to purchase another five (5) of the same for the operations of its subsidiary, MASwings Sdn. Bhd. (formerly known as Absolute Competence Sdn.Bhd.). The catalogue price of the aircraft is USD17.9 million, beginning with the first delivery in 2008.
- (iii) 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. On 4 April 2008, the Company announced that both parties are in the midst of detailed discussions with a view to complete a joint venture agreement. On 15 July 2008, the Company announced that both parties are still working through the details with a view of completing a joint venture agreement.
- (iv) On 1 March 2007, the Company entered into a conditional Share Purchase Agreement ("SPA") for the disposal of 100% equity of the Company's wholly-owned subsidiary, MAS Hotel & Boutiques Sdn. Bhd. ("MHB"), a company involved in the business of providing hotel and boutique facilities, to Kingdom Langkawi B.V.

On 5 April 2007, the SPA was partially completed and MHB was disposed with a gain of RM36.1 million. Full completion of the SPA was subject to the fulfilment of a final condition precedent in relation to the transfer of a Mangrove Land by March 2008. The consideration for the said land of RM35 million and its related gain was deferred subject to the fulfilment of the condition precedent.

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

6. SIGNIFICANT EVENTS (CONTINUED)

(iv) (Continued)

On 31 March 2008, the condition precedent in relation to the transfer of the Mangrove Land was not fulfilled and no extension of time was agreed between both parties. Accordingly:

- (a) The transfer of the Mangrove Land by the Company to the purchaser will not take place;
- (b) The deferred consideration of RM35 million will not be paid by the purchaser to the Company, as consideration for the transfer of the Mangrove Land; and
- (c) The purchaser or MHB (whose sole shareholder is the purchaser after the partial completion) is not required to purchase the Mangrove Land from the Company.

There were no other significant events for the financial period ended 30 June 2008 .

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

There was no issuance, cancellation, repurchase, resale or repayments of debts or equity securities for the financial period ended 30 June 2008.

8. DIVIDEND PAID

There was no dividend paid in the financial period ended 30 June 2008.

9. SEGMENTAL INFORMATION

BY BUSINESS ACTIVITIES	Individual Quarter ended 30/6/2008		Cumulative Quarter ended 30/6/2008	
	Operating revenue RM '000	Operating profit RM '000	Operating revenue RM '000	Operating profit RM '000
Airline operations	3,222,053	17,775	6,481,227	82,574
Cargo services	678,940	48,403	1,304,276	111,936
Catering services	2,529	603	4,934	804
Others	24,724	34	47,508	4,399
	3,928,246	66,815	7,837,945	199,713
Eliminations	(275,897)	(4,786)	(524,301)	(4,786)
Total	3,652,349	62,029	7,313,644	194,927

10. VALUATION OF ASSETS

There was no valuation of aircraft, property, plant and equipment for the financial period ended 30 June 2008.

11. SUBSEQUENT EVENT

There was no material subsequent event for the financial period ended 30 June 2008.

12. CHANGES IN THE COMPOSITION OF THE GROUP

On 18 March 2008, the Company subscribed for an additional 14,999,998 ordinary shares of RM1.00 each in the capital of FlyFirefly Sdn. Bhd, a wholly owned subsidiary by way of loan capitalisation.

There were no other changes in the composition of the Group for the financial period ended 30 June 2008.

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

As at 31 December 2007, MHB and Syarikat Pengangkutan Senai Sdn.Bhd. ("SPS") were classified as discontinued operations. As at 31 March 2008, MHB disposal has been completed (refer Part A, Note 6(iv)). SPS ceased its operations since 15 August 2007. However, its assets disposal are still in progress.

As at 30 June 2008, property, plant and equipment of SPS classified as non current assets held for sale is carried at RM0.035 million.

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.

		11/8/2008
		RM '000
1.	Secured / Unsecured	<u> </u>
	Loans	
	- Secured	154,546
	- Unsecured	99,709
	Finance leases (secured)	<u>394,638</u>
		<u>648,893</u>
2.	Tenure	
	Loans and leases due within one year	185,160
	Loans and leases due after one year	<u>463,733</u>
		<u>648,893</u>
3.	Loans by currencies in Ringgit Malaysia	
	US Dollar	549,184
	French Franc	<u>99,709</u>
		<u>648,893</u>
(b)	Others	
	Corporate guarantees given to third parties	4,965
	Bank guarantees given to third parties	138,277
	Performance bonds given to third parties	<u>5,505</u>
		<u>148,747</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 11 August 2008 is RM 885.8 million.

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

15. SIGNIFICANT RELATED PARTY DISCLOSURES

	Quarter ended 30/6/2008 RM '000	Quarter ended 30/6/2007 RM '000	Period ended 30/6/2008 RM '000	Period ended 30/6/2007 RM '000
LSG Sky Chefs-Brahim's Sdn. Bhd., an associate:				
- Catering and other services paid/ payable	49,558	54,131	104,752	106,499
- Rental income and others	(5,435)	(4,902)	(10,298)	(10,253)
- Shared services billed	-	(1,218)	(113)	(1,832)
GE Engine Services (M) Sdn. Bhd., an associate:				
- Engine maintenance services rendered and purchase of aircraft, property and equipment	116,583	98,623	207,257	208,012
- Rental income and others	(3,773)	(3,846)	(7,545)	(7,692)
- Shared services billed	(36)	(73)	(72)	(114)
Pan Asia Pacific Aviation Services Ltd., an associate:				
- Line maintenance and aircraft interior cleaning services paid/ payable	1,287	1,236	2,712	2,509
Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd., an associate:				
- Aircraft component repair services paid/ payable	2,990	2,031	5,141	4,189
Honeywell Aerospace Services (M) Sdn. Bhd., an associate:				
- Aircraft power plant unit overhaul services paid/ payable	1,353	1,254	2,958	3,122
Taj Madras Flight Kitchen Limited, an associate:				
- Catering services paid/ payable	348	395	1,090	1,048
Abacus International Holding Ltd., a company in which the Company has substantial shareholding:				
- Computer reservation system access fee paid/ payable	11,335	11,735	18,824	24,207
Evergreen Sky Catering Corporation, a company in which the Company has substantial shareholding:				
- Catering services paid/ payable	2,004	2,141	4,024	4,337
Miascor Catering Services Corporation, a company in which the Company has substantial shareholding:				
- Catering services paid/ payable	354	70	722	149
Penerbangan Malaysia Bhd, holding company:				
- Hire of aircraft paid/ payable	130,159	172,844	272,201	329,487
Aircraft Business Malaysia Sdn. Bhd., a fellow subsidiary:				
- Aircraft lease rental paid/ payable	67,875	71,068	137,594	142,126

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

16. SIGNIFICANT RELATED PARTY BALANCES

	As at 30/6/2008 RM '000	As at 31/12/2007 RM '000 (Audited)
Amount owing to holding company	539	71,860
Amount owing by related parties	9,346	9,346
Amount owing by a fellow subsidiary		
- due within one year	43,206	52,591
- due after one year	226,973	243,377
Amount owing to associated companies	50,119	48,822

17. CHANGES IN PREVIOUS QUARTER PRESENTATION

The following disclosure for the quarter/period ended 30 June 2007 has been restated to conform with the current period's presentation:

Quarter ended 30 June 2007

	Previously stated RM'000	Reclassified RM'000	Restated RM'000
Operating revenue	3,496,508	(111,276)	3,385,232
Operating expenses	(3,502,389)	111,435	(3,390,954)
Result for the period from discontinued operations	37,476	(159)	37,317

Period ended 30 June 2007

	Previously stated RM'000	Reclassified RM'000	Restated RM'000
Operating revenue	7,077,232	(221,453)	6,855,779
Operating expenses	(7,011,392)	221,761	(6,789,631)
Result for the period from discontinued operations	41,988	(309)	41,679

As at 31 December 2007

	Previously stated RM'000	Reclassified RM'000	Restated RM'000
Trade receivables	1,034,772	4,021	1,038,793
Other receivables	712,316	(4,021)	708,295

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 lower operating profit of RM62.0 million for the second quarter ended 30 June 2008 (Quarter ended 30 June 2007: RM91.2 million profit) due to higher operating expenses mainly resulting from the increase in fuel prices.

2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

Operating profit for the quarter decreased from RM132.9 million to RM62.0 million due to lower operating revenue for the quarter from RM3,661.3 million to RM3,652.3 million and higher operating expenses from RM3,617.6 million to RM3,715.0 million. Profit after tax for the quarter is also lower from RM120.5 million to RM40.0 million. This is mainly due to increase in fuel cost compared to preceding quarter. The second quarter of the year is typically weaker than the first quarter.

3. CURRENT YEAR PROSPECTS

The outlook for the aviation industry in 2008 is extremely challenging as fuel prices continue to be volatile. Growing signs of global economic slowdown, further liberalisation of the industry and increasingly excess capacity further compound the tough business environment. The International Air Transport Association (IATA), has revised its industry financial forecast for 2008 downwards significantly, to a loss of USD2.3 billion from the previously forecasted industry profit of USD4.5 billion announced in March 2008 mainly due to the escalating fuel price.

For the next quarter, the business environment is expected to remain challenging as fuel prices remain volatile, while passenger demand falls in line with global economic downturn. Competition in the domestic market continue to intensify as airlines compete for local passengers who have seen their disposable income significantly eroded by the recent 41% petrol price increase and rising inflation.

To meet these challenges and mitigate the impact of escalating fuel price, the Company has introduced Everyday Low Fares in domestic, ASEAN and selected international routes, revised its fares and fuel surcharges as well as cut capacity by 6% besides instituting various stringent cost control measures. MAS is also looking at increasing its ancillary revenues with travel insurance, hotel and car bookings.

There is also significant potential in the Maintenance, Repair and Overhaul (MRO) business, with global demand for 3rd party MRO growing by 2.5% annually. There is a potential USD3.8 billion MRO market in this region alone, and USD60 billion worldwide by 2015. With over 35 years of MRO experience and a creditable track record in maintenance, MAS is in a good position to capitalise on this growth.

The Business Transformation Plan ("BTP 2") lays out the strategies in becoming a Five Star Value Carrier. The Management is intensifying efforts to generate additional revenue and to reduce costs to sustain profitability in this challenging business environment.

For 2008, the Group's aspiration in BTP 2 is to achieve a net income after tax of RM400 -RM500 million (target), RM511- RM650 million (exceeding) and RM651 - RM1,000+ million (outstanding) based on an into-plane jet fuel price of USD100 per barrel.

4. 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 2008.

5. TAXATION

Taxation charge for the Group comprised the following: -

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/6/2008 RM '000	Quarter ended 30/6/2007 RM '000	Period ended 30/6/2008 RM '000	Period ended 30/6/2007 RM '000
Continuing operations				
Current period				
- Malaysian taxation	19,234	300	28,970	606
- Foreign taxation	1,848	1,848	3,696	3,696
	21,082	2,148	32,666	4,302
Under/(Over) provision in prior period	404	(71)	2,165	(111)
Deferred taxation	(494)	4,068	(80)	11,515
Total	20,992	6,145	34,751	15,706

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

5. TAXATION (CONTINUED)

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.

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

There were disposals of local properties resulting in a gain of RM2.4 million for the financial period ended 30 June 2008.

7. PURCHASE OR DISPOSAL OF QUOTED SECURITIES

As at 30 June 2008, 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	-	26,186

There was no purchase or disposal of quoted securities during the financial period ended 30 June 2008.

8. CORPORATE PROPOSALS

There were no proposals made during and subsequent to the financial period ended 30 June 2008.

9. GROUP BORROWINGS AND DEBT SECURITIES

(i) The Group as at 30 June 2008 has lease obligations amounting to RM216.9 million (31 December 2007: RM219.0 million) which are covered by interest bearing funds amounting to RM204.4 million (31 December 2007: RM202.3 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.

		As at 30/6/2008 RM '000	As at 31/12/2007 RM '000
(ii) Long term borrowings:			
Unsecured	(a)	500,000	500,000
Redeemable Cumulative Preference Shares	(b)	359,672	359,672
		<u>859,672</u>	<u>859,672</u>

(a) 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 the Company 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 the Company 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, the Company 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 the Company 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 interest for Year 1 (2007) is fixed at 5.58% per annum, Year 2 (2008) and final year (2009) is KLIBOR plus 1.53% per annum. The loan is 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.

(b) On 5 November 2007, the Company issued 417,747,955 RCPS of RM0.10 each at an issue of RM1.00 per share in conjunction with the issuance of Rights shares. The total proceeds received from the issuance of the RCPS is split between liability component and equity component. At the date of issue the fair value of the liability component is estimated by discounting the future contractual cash flows at the prevailing market interest rate available to the Group. The difference between the total issue price of the RCPS and the fair value assigned to the liability component, representing the conversion option is accounted in shareholder equity.

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 11 August 2008, the Group has entered into various fuel hedging transactions for periods up to 31 December 2010 in lots totalling 13,950,000 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 11 August 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 RM3,202.6 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 11 August 2008 vary from 4.0% to 5.5% per annum.

- (c) As at 11 August 2008, the Group has entered into foreign currency forward contracts and options amounting to RM2,334.9 million for periods up to 24 July 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.

- (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.

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

- (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. AML had on 19 March 2008 served their defence together with a counterclaim of USD 43.6 million on MAS.

MAS is seeking legal advice in relation to the counterclaim and has filed an application to stay the counterclaim.

- (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 has sought legal advice and replied to the Statement of Objections from the European Commission.

- (i) **Meor Adlin vs MAS**
- (j) **Stephen Gaffigan vs MAS**
- (k) **Micah Abrams vs MAS**
- (l) **Donald Wortman vs MAS**
- (m) **Bruce Hut vs MAS**
- (n) **Dickson Leung vs MAS**

Between 18 January and 26 March 2008, MAS 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 MAS and a number of other airlines. The cases involved allegations of price fixing for transpacific fares and related surcharges.

At this juncture, no infringement has been established. The 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.

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

12. DIVIDENDS

The Shareholders have approved the payment of a first and final tax-exempt dividend of 2.50 sen for the financial year ended 31 December 2007 during the Annual General Meeting held on 23 June 2008.

13. EARNINGS/ (LOSS) PER SHARE

	Quarter ended 30/6/2008 RM '000	Quarter ended 30/6/2007 RM '000 (restated)	Period ended 30/6/2008 RM '000	Period ended 30/6/2007 RM '000 (restated)
(a) Basic earnings per share				
Profit attributable to equity holders of the Company for:				
Continuing operations	39,978	75,531	160,039	203,879
Discontinued operations	-	37,317	-	41,679
	<u>39,978</u>	<u>112,848</u>	<u>160,039</u>	<u>245,558</u>
Weighted average number of ordinary shares in issue ('000)	1,670,992	1,398,620	1,670,992	1,398,620
Basic earnings per share for (sen):				
Continuing operations	2.39	5.40	9.58	14.58
Discontinued operations	-	2.67	-	2.98
	<u>2.39</u>	<u>8.07</u>	<u>9.58</u>	<u>17.56</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 ended 30 June 2008. For the comparative quarter ended 30 June 2007, 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)	1,670,992	1,398,620	1,670,992	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>1,774,140</u>	<u>1,398,620</u>	<u>1,774,140</u>	<u>1,398,620</u>
Diluted earnings per share for (sen):				
Continuing operations	2.25	5.40	9.02	14.58
Discontinued operations	-	2.67	-	2.98
	<u>2.25</u>	<u>8.07</u>	<u>9.02</u>	<u>17.56</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 financial period ended 30 June 2008, 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 18 August 2008.

By Order of the Board

Rizani bin Hassan (LS 05125)
Company Secretary
Selangor Darul Ehsan
18 August 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 is a reflection of how much return a business has generated after operating expenses and capital costs.
- (b) The EP of the Group for the quarter and period ended 30 June 2008 is a RM51.5 million loss (2007: RM26.4 million profit) and RM7.7 million loss (30 June 2007: RM124.8 million profit) respectively. The drop in EP is more significant than the Group results as it does not take into account of certain non-operational items such as higher interest income and savings in finance costs. The rights issue in October 2007 has also increased the capital charge and hence reduced the EP.

Although the EP may have some usefulness in terms of providing 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 purely on their own may often give misleading results or trends.

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/6/2008 RM '000	Quarter ended 30/6/2007 RM '000	Period ended 30/6/2008 RM '000	Period ended 30/6/2007 RM '000
(Loss)/Earnings Before Interest and Tax	(17.9)	40.4	47.6	163.1
Adjusted Tax	(20.9)	(2.1)	(34.8)	(4.2)
NOPLAT	(38.8)	38.3	12.8	158.9
Economic Charge				
Average Invested Capital	656.7	710.0	529.6	1,012.4
WACC (%)	7.73%	6.73%	7.73%	6.73%
Economic Charge	12.7	11.9	20.5	34.1
Economic (Loss)/Profit	(51.5)	26.4	(7.7)	124.8

Average Invested Capital for every quarter is calculated by using the Invested Capital t=0 as the base capital

2. HEADLINE KEY PERFORMANCE INDICATOR (KPI) FOR FIRST HALF FY 2008

- (a) The Headline KPI has been set and agreed by the Board and management of the Group as part of the broader KPI framework that the Group has in place, as prescribed under the GLC Transformation programme, and is disclosed on a voluntary basis.

HEADLINE KPI	Target	Achievement as at to date	Variance	Explanation
Net Income (RM'Mil)	400-550	160.0	(40.0)	Threshold. Lower Net Income registered than the half year target is mainly due to the escalating fuel price

The Headline KPI is a target or aspiration set by the Group as a transparent performance management practice. The Headline KPI shall not be construed as either forecast, projection or estimate of the Group or representations of any future performance, occurrence or matter as the Headline KPI is merely a set of target/ aspiration of future performance aligned to the Group's strategy.

PART C - ADDITIONAL INFORMATION (CONTD)

3. SUMMARY OF KEY FINANCIAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/6/2008 RM '000	Quarter ended 30/6/2007 RM '000 (Restated)	Year ended 30/6/2008 RM '000	Year ended 30/6/2007 RM '000 (Restated)
(a) Total Revenue	3,777,037	3,482,185	7,527,569	7,027,705
(b) Profit before tax	60,970	118,942	195,259	263,431
(c) Profit for the period	39,978	112,797	160,508	245,929
(d) Profit for the period attributable to equity holders of the Company	39,978	112,848	160,039	245,558
(e) Basic earnings per share (sen)	2.39	8.07	9.58	17.56
Diluted earnings per share (sen)	2.25	8.07	9.02	17.56

	AS AT 30/6/2008	AS AT 31/12/2007 (Audited)
(a) Net assets per share attributable to ordinary equity holders of the Company (RM)	2.44	2.35

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/6/2008 RM '000	Quarter ended 30/6/2007 RM '000	Period ended 30/6/2008 RM '000	Period ended 30/6/2007 RM '000
(a) Gross interest income	52,786	22,578	103,235	41,421
(b) Gross interest expense	(6,840)	(13,134)	(10,393)	(26,156)