



MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT ON THE THIRD QUARTER ENDED 30 SEPTEMBER 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 third quarter ended 30 September 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 30/9/2008 RM '000	Quarter ended 30/9/2007 RM '000 (Restated)	Period ended 30/9/2008 RM '000	Period ended 30/9/2007 RM '000 (Restated)
Continuing Operations				
Operating revenue	3,954,080	3,758,443	11,276,037	10,614,222
Operating expenses	(4,070,285)	(3,738,326)	(11,402,927)	(10,527,958)
Other operating income	160,482	83,986	363,697	195,612
Residual value sharing on sale of aircraft by Penerbangan Malaysia Berhad	-	220,557	-	228,849
Gains on sale of properties	-	51,729	2,397	103,738
Profit from operations	44,277	376,389	239,204	614,463
Finance costs	(30,282)	(9,605)	(40,711)	(35,782)
Share of results from associated companies	5,566	7,140	16,327	15,198
	19,561	373,924	214,820	593,879
Taxation	18,884	(9,105)	(15,867)	(24,811)
Profit for the period from continuing operations	38,445	364,819	198,953	569,068
Discontinued Operations				
Results for the period from discontinued operations (Refer Part A, Note 13)	122	(258)	122	41,422
Profit for the period	38,567	364,561	199,075	610,490
Attributable to:				
Equity holders of the Company	38,093	363,935	198,132	609,493
Minority Interest	474	626	943	997
Profit for the period	38,567	364,561	199,075	610,490
Earnings per share attributable to equity holders of the Company				
Basic (sen)				
Continuing operations	2.27	26.04	11.85	40.62
Discontinued operations	0.01	(0.02)	0.01	2.96
	2.28	26.02	11.86	43.58
Diluted (sen)				
Continuing operations	2.14	26.04	11.16	40.62
Discontinued operations	0.01	(0.02)	0.01	2.96
	2.15	26.02	11.17	43.58

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 30/9/2008 RM '000	As at 31/12/2007 RM '000 (Audited)
Aircraft, property, plant and equipment	2,360,220	2,060,879
Investment in associated companies	69,527	58,447
Other investments	64,946	66,325
Prepaid lease payments on land	17,478	17,613
Amount owing by a fellow subsidiary	210,406	243,377
Intangible assets	107,457	103,162
Other receivables	75,276	72,878
Deferred tax assets	3,771	4,007
	2,909,081	2,626,688
<u>Current assets</u>		
Inventories	401,781	365,266
Trade receivables	1,145,684	1,038,793
Other receivables	980,177	708,295
Amount owing by holding company	18,978	-
Tax recoverable	63,996	52,693
Cash and bank balances	4,825,069	5,259,338
	7,435,685	7,424,385
Non-current assets held for sale	1,076	2,740
	7,436,761	7,427,125
<u>Current liabilities</u>		
Trade payables	1,635,757	1,863,080
Other payables	1,003,425	1,063,283
Short term borrowings	360,000	-
Short term borrowing (finance lease liability)	3,342	-
Provision	742,150	681,828
Amount owing to holding company	-	71,860
Provision for taxation	13,412	4,432
Sales in advance of carriage	1,508,821	1,563,394
	5,266,907	5,247,877
Net current assets	2,169,854	2,179,248
	5,078,935	4,805,936
Equity attributable to equity holders of the Company	4,130,286	3,934,893
Share capital - ordinary shares	1,671,002	1,670,992
Redeemable Convertible Preference Shares (RCPS)	58,076	58,076
Reserves		
Share premium	4,007,446	4,007,510
Reserve	568,499	529,410
Accumulated losses	(2,174,737)	(2,331,095)
Minority interest	11,999	11,056
Total equity	4,142,285	3,945,949
<u>Long term liabilities</u>		
Long term borrowings	880,542	859,672
Long term borrowing (finance lease liability)	56,108	-
Deferred tax liabilities	-	315
	5,078,935	4,805,936
Net assets per share (RM)	2.47	2.35

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	Period ended 30/9/2008 RM '000	Period ended 30/9/2007 RM '000 (Restated)
<u>Cash Flows From Operating Activities</u>		
Profit before taxation from:		
Continuing operations	214,820	593,879
Discontinued operations	122	43,218
Adjustments for :-		
Provision for aircraft maintenance and overhaul costs	356,055	620,072
Depreciation of aircraft, property, plant and equipment	242,092	243,743
Grant of ESOS	39,094	20,919
Interest expenses	40,659	35,751
Aircraft, property, plant and equipment written off, net	19,763	19,139
Amortisation of intangible assets	14,770	8,260
Gain/(Loss) on disposal of aircraft, property, plant and equipment, net	1,456	(104,973)
Amortisation of prepaid lease payments on land	134	145
Discount on redeemed RPS	-	3,229
Writeback of unavailed credits on sales in advance of carriage	(267,924)	(164,723)
Interest income	(168,353)	(69,903)
(Writeback of)/Provision for doubtful debts, net	(73,521)	8,279
Unrealised foreign exchange gain	(33,446)	(5,706)
Writeback of impairment losses for aircraft, property, plant and equipment	(25,770)	(37,263)
Gain on disposal of other investment	(24,733)	-
Share of results of associated companies	(16,327)	(15,198)
(Writeback of)/Provision for inventories obsolescence, net	(10,698)	13,003
Gain on disposal of non-current assets held for sale	(2,397)	-
Gain on disposal of subsidiary	-	(36,145)
Dividend income	-	(20,387)
Operating profit before working capital changes	305,796	1,155,339
Increase in inventories	(25,337)	(11,782)
Increase in trade and other receivables	(226,849)	(319,263)
Decrease in amount owing to holding company	(90,838)	(17,082)
(Decrease)/Increase in trade and other payables	(283,077)	381,285
Decrease in provision	(295,733)	(232,036)
Increase in sales in advance of carriage	213,352	357,815
Cash (used in)/generated from operating activities	(402,686)	1,314,276
Interest paid	(23,892)	(34,849)
Taxes paid	(6,966)	(7,243)
Net cash (used in)/generated from operating activities	(433,544)	1,272,184
<u>Cash Flows From Investing Activities</u>		
Purchase of aircraft, property, plant and equipment	(570,438)	(265,275)
Purchase of intangible assets	(19,065)	(30,673)
Purchase of other investment	-	(36)
Proceeds from disposal of non current assets held for sale	3,786	-
Proceeds from disposal of aircraft, property, plant and equipment	33,348	221,557
Proceed from disposal of subsidiary	-	372,190
Proceeds from disposal of other investments	26,112	33,173
Interest received	142,669	58,468
Dividend received	5,247	38,048
Net cash (used in)/generated from investing activities	(378,341)	427,452
<u>Cash Flows From Financing Activities</u>		
Proceeds from long term borrowings	-	500,000
Proceeds from short term borrowings	360,000	-
Proceeds from finance lease	59,450	-
Repayment of short term borrowings	-	(550,000)
Issuance of shares pursuant to ESOS	38	-
Dividend paid	(41,775)	-
Dividend paid to minority interest in subsidiaries	-	(978)
Expenses incurred on issuance of Rights share exercise	(97)	(1,255)
Net cash generated from/(used in) financing activities	377,616	(52,233)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	(434,269)	1,647,403
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	5,259,338	1,584,699
CASH AND CASH EQUIVALENTS AS AT 30 SEPTEMBER	4,825,069	3,232,102

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 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	-	-	-	-	198,132	198,132	198,132	943	199,075
Rights shares' expenses	-	-	(97)	-	-	(97)	(97)	-	(97)
ESOS									
- Grant of ESOS	-	-	-	39,094	-	39,094	39,094	-	39,094
- Exercise of options*	10	-	28	-	-	28	38	-	38
- ESOS provision reversal	-	-	5	(5)	-	-	-	-	-
At 30 September 2008	1,671,002	58,076	4,007,446	568,499	(2,174,737)	2,401,208	4,130,286	11,999	4,142,285

* Share options comprising exercise of options representing 10,300 ordinary shares of RM1.00 each in MAS under the MAS Employee Share Options Scheme (ESOS).

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 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	-	-	-	-	609,493	609,493	609,493	997	610,490
Rights shares' expenses	-	-	(1,255)	-	-	(1,255)	(1,255)	-	(1,255)
Grant of ESOS	-	-	-	20,919	-	20,919	20,919	-	20,919
Dividends	-	-	-	-	-	-	-	(978)	(978)
At 30 September 2007	1,253,244	-	3,299,909	522,449	(2,573,020)	1,249,338	2,502,582	15,265	2,517,847

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

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 - 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 September 2008.

5. MATERIAL CHANGES IN ESTIMATES OF AMOUNTS REPORTED

During the financial period ended 30 June 2008, the Group reviewed its estimate of unavailed credits on sales in advance of carriage. This relates to tickets sold, fuel and insurance surcharges and administrative fees which are not utilised upon expiry of its validity which the Group recognises as income. The Group revised its estimate for the quarter using historical data and trends. 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 RM18 million for the quarter and RM102 million for the financial period ended 30 September 2008 to the Group's profit before tax.

6. SIGNIFICANT EVENTS

- (i) On 20 August 2008, the Company entered into a Memorandum of Understanding with GMR Hyderabad International Airport Limited, India (GHIAL) to set up a Maintenance, Repair and Overhaul facility to provide maintenance services on narrow and wide body aircraft at the Rajiv Gandhi International Airport in Hyderabad, India.
- (ii) 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.
- (iii) 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.
- (iv) 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.
- (v) 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.

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

(v) (Continued)

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.

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 September 2008.

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

On 6 August 2008 and 20 August 2008, the company issued 2,000 and 8,300 new ordinary shares of RM1 each respectively for cash pursuant to MAS Employee Share Options Scheme (ESOS) at exercise prices of between RM3.82 and RM3.94 per ordinary share.

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

8. DIVIDEND PAID

A first and final tax exempt dividend of 2.50 sen per ordinary on 1,670,991,820 number of shares amounting to RM41,774,796 in respect of the financial year ended 31 December 2007 was paid on 31 July 2008.

9. SEGMENTAL INFORMATION

BY BUSINESS ACTIVITIES	Individual Quarter ended 30/9/2008		Cumulative Quarter ended 30/9/2008	
	Operating revenue RM '000	Operating profit/(loss) RM '000	Operating revenue RM '000	Operating profit RM '000
Airline operations	3,636,846	119,327	10,126,386	201,901
Cargo services	668,407	(75,397)*	1,972,683	36,540
Catering services	2,601	585	7,535	1,389
Others	23,516	2,483	71,024	6,881
	4,331,371	46,998	12,177,629	246,711
Eliminations	(377,291)	(2,721)	(901,592)	(7,507)
Total	3,954,080	44,277	11,276,037	239,204

* Included in Cargo services' operating loss and operating profit for the quarter and financial period ended 30 September 2008 respectively is an adjustment amounting to RM80.5 million to reflect agreed sharing of higher fuel cost between Airline operations and Cargo services for the financial period ended 30 September 2008.

10. VALUATION OF ASSETS

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

11. SUBSEQUENT EVENT

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

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

13. DISCONTINUED OPERATIONS

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(v)). SPS ceased its operations since 15 August 2007 and as at 30 September 2008, SPS' assets disposal has been completed.

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.

	<u>21/11/2008</u> RM '000
1. Secured / Unsecured	
Loans	
- Secured	147,243
- Unsecured	84,037
Finance leases (secured)	<u>410,941</u>
	<u>642,221</u>
2. Tenure	
Loans and leases due within one year	170,170
Loans and leases due after one year	<u>472,051</u>
	<u>642,221</u>
3. Loans by currencies in Ringgit Malaysia	
US Dollar	558,184
French Franc	<u>84,037</u>
	<u>642,221</u>
(b) Others	
Corporate guarantees given to third parties	5,135
Bank guarantees given to third parties	544,521
Bank guarantees given to PMB on aircraft lease	20,799
Performance bonds given to third parties	<u>5,505</u>
	<u>575,960</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 30 September 2008 is RM860.68 million.

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

15. SIGNIFICANT RELATED PARTY DISCLOSURES

	Quarter ended 30/9/2008 RM '000	Quarter ended 30/9/2007 RM '000	Period ended 30/9/2008 RM '000	Period ended 30/9/2007 RM '000
LSG Sky Chefs-Brahim's Sdn. Bhd., an associate:				
- Catering and other services paid/ payable	50,155	54,898	154,906	161,397
- Rental income and others	(4,862)	(4,872)	(15,160)	(15,125)
- Shared services billed	-	(560)	(113)	(2,392)
GE Engine Services (M) Sdn. Bhd., an associate:				
- Engine maintenance services rendered and purchase of aircraft, property and equipment	64,427	113,970	271,684	321,982
- Rental income and others	(661)	(3,823)	(8,207)	(11,515)
- Shared services billed	(32)	(113)	(104)	(227)
Pan Asia Pacific Aviation Services Ltd., an associate:				
- Line maintenance and aircraft interior cleaning services paid/ payable	1,375	1,371	4,087	3,880
Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd., an associate:				
- Aircraft component repair services paid/ payable	2,181	1,539	7,322	5,728
Honeywell Aerospace Services (M) Sdn. Bhd., an associate:				
- Aircraft power plant unit overhaul services paid/ payable	1,467	1,634	4,426	4,756
Taj Madras Flight Kitchen Limited, an associate:				
- Catering services paid/ payable	441	578	1,527	1,626
Abacus International Holding Ltd., a company in which the Company has substantial shareholding:				
- Computer reservation system access fee paid/ payable	8,842	9,905	27,666	34,112
Evergreen Sky Catering Corporation, a company in which the Company has substantial shareholding:				
- Catering services paid/ payable	2,460	2,756	6,485	7,093
Miascor Catering Services Corporation, a company in which the Company has substantial shareholding:				
- Catering services paid/ payable	374	154	1,096	303
Penerbangan Malaysia Bhd, holding company:				
- Hire of aircraft paid/ payable	130,273	162,026	402,474	491,513
Aircraft Business Malaysia Sdn. Bhd., a fellow subsidiary:				
- Aircraft lease rental paid/ payable	64,187	71,088	201,781	213,214

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

16. SIGNIFICANT RELATED PARTY BALANCES

	As at 30/9/2008 RM '000	As at 31/12/2007 RM '000 (Audited)
Amount owing from/(to) holding company	18,978	(71,860)
Amount owing by a related party	3,918	9,346
Amount owing by a fellow subsidiary		
- due within one year	48,181	52,591
- due after one year	210,406	243,377
Amount owing to associated companies	20,273	48,822

17. CHANGES IN PREVIOUS QUARTER PRESENTATION

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

Quarter ended 30 September 2007

	Previously stated RM'000	Reclassified RM'000	Restated RM'000
Operating revenue	3,870,742	(112,299)	3,758,443
Operating expenses	(3,850,625)	112,299	(3,738,326)

Period ended 30 September 2007

	Previously stated RM'000	Reclassified RM'000	Restated RM'000
Operating revenue	10,947,889	(333,667)	10,614,222
Operating expenses	(10,861,625)	333,667	(10,527,958)

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 an operating profit of RM44.3 million for the third quarter ended 30 September 2008 as against the profit of RM376.4 million in September 2007 due to higher operating expenses, mainly from high fuel price during the period (average jet fuel price of USD160 per barrel in quarter ended 30 September 2008 as compared to USD91 per barrel in quarter ended 30 September 2007).

2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

Operating profit for the quarter decreased from RM62.0 million to RM44.3 million and profit after tax for the quarter is also lower from RM40.0 million to RM38.1 million mainly due to increase in fuel price compared to preceding quarter (average jet fuel price of USD160 per barrel in quarter ended 30 September 2008 as compared to USD150 per barrel in quarter ended 30 June 2008).

3. CURRENT YEAR PROSPECTS

In October 2008, the International Air Transport Association (IATA), has revised downwards its industry financial forecast for 2008 and project a loss of more than USD5.2 billion due to the expected decline in global passenger and cargo traffic resulting from the global financial crisis. Whilst the oil price has recently declined to USD51 per barrel from its peak of USD147 per barrel in July 2008, it is unlikely to overcome the concerns over slower global economic growth, the credit crunch and unemployment which will directly influence travel demand.

For the coming quarter, demand and seat factors are projected to be weaker after the summer season especially for the long haul services to Europe and United States. However, the loads to China, Australia and India are expected to improve post the Beijing Olympics and northern winter peak. Meanwhile, intense competition will continue with increased flights to southern China and India as well as on KUL-SIN following the ASEAN 'Open Skies' in December 2008. To meet its latest challenges, the Group has focused its efforts on lowering cost, improving its loads and yields through its 'Everyday Low Fares' and 'All Inclusive Low Fares'.

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 RM150 - RM399 million (threshold), RM400 - RM550 million (target), RM551 - RM650 million (exceeding) and RM651 - RM1,000+ million (outstanding) based on assumption of fuel price at USD100 per barrel (jet fuel into plane).

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 September 2008.

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

5. TAXATION

Taxation charge for the Group comprised the following: -

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/9/2008 RM '000	Quarter ended 30/9/2007 RM '000	Period ended 30/9/2008 RM '000	Period ended 30/9/2007 RM '000
Continuing operations				
Current period				
- Malaysian taxation	(19,465)	288	9,505	894
- Foreign taxation	884	1,848	4,580	5,544
	(18,581)	2,136	14,085	6,438
Under/(Over) provision in prior period	(303)	(514)	1,862	(625)
Deferred taxation	-	7,483	(80)	18,998
Total	(18,884)	9,105	15,867	24,811

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 September 2008.

7. PURCHASE OR DISPOSAL OF QUOTED SECURITIES

There were disposals of quoted securities outside Malaysia resulting in a gain of RM24.7 million for the financial period ended 30 September 2008.

As at 30 September 2008, the Group does not hold any other quoted securities.

8. CORPORATE PROPOSALS

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

9. GROUP BORROWINGS, DEBT AND EQUITY SECURITIES

- (i) The Group as at 30 September 2008 has lease obligations amounting to RM216.7 million (31 December 2007: RM219.0 million) which are covered by interest bearing funds amounting to RM208.3 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 30/9/2008 RM '000	As at 31/12/2007 RM '000
(ii) Short term borrowings			
Unsecured	(a)	360,000	-
Secured - Finance Lease liability	(b)	3,342	-
		<u>363,342</u>	<u>-</u>
(iii) Long term borrowings:			
Unsecured	(c)	500,000	500,000
Secured - Finance Lease liability	(b)	56,108	-
Redeemable Cumulative Preference Shares ("RCPS") (included in the RCPS is interest on RCPS amounting to RM20.87 million)	(d)	380,542	359,672
		<u>936,650</u>	<u>859,672</u>

- (a) As at 30 September 2008, the Group has drawdown net amount of RM360.0 million under its revolving credit facilities. The facilities are unsecured with an effective weighted interest rate at 4.45% per annum.

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

9. GROUP BORROWINGS, DEBT AND EQUITY SECURITIES (CONTINUED)

- (b) The Group has a finance lease contract for one of its ATR aircraft.
- (c) 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.

- (d) 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.

On 28 November 2008, the Board approved the payment of a tax-exempt non-cumulative preferential dividend of 3.00 sen per RCPS on 417,747,955 RCPS amounting to RM12,532,439, being the dividend for the first anniversary of the RCPS from the issuance date.

- (e) On 6 August 2008 and 20 August 2008, the Company issued 2,000 and 8,300 ordinary shares of RM1.00 each in MAS respectively as a result of exercise of options representing 10,300 ordinary shares of RM1.00 each under the MAS Employee Share Options Scheme (ESOS).

Except for the above, there were no other issuance, cancellation, repurchases, resales and repayment of debt and equity securities during the period under review.

10. FINANCIAL INSTRUMENTS

- (a) As at 21 November 2008, the Group has entered into various fuel hedging transactions for periods up to 31 December 2011 in lots totalling 15,400,000 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 21 November 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 RM2,128.0 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 21 November 2008 vary from 3.12% to 5.00% per annum.

- (c) As at 21 November 2008, the Group has entered into foreign currency forward contracts and options amounting to RM3,912.3 million for periods up to 14 November 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.

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

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 which has since concluded and is pending decision of the Arbitral Tribunal. ACL has since in its statement of claim on quantum, revised its claim to EURO 34.1 million (approximately RM168 million).

(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.

(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.

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

11. MATERIAL LITIGATION (CONTINUED)

(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.

12. DIVIDENDS

The directors do not recommend any dividend for the financial period ended 30 September 2008.

13. EARNINGS PER SHARE

	Quarter ended 30/9/2008 RM '000	Quarter ended 30/9/2007 RM '000 (restated)	Period ended 30/9/2008 RM '000	Period ended 30/9/2007 RM '000 (restated)
(a) Basic earnings per share				
Profit attributable to equity holders of the Company for:				
Continuing operations	37,971	364,193	198,010	568,071
Discontinued operations	122	(258)	122	41,422
	<u>38,093</u>	<u>363,935</u>	<u>198,132</u>	<u>609,493</u>
Weighted average number of ordinary shares in issue ('000)	1,670,999	1,398,620	1,670,994	1,398,620
Basic earnings per share for (sen):				
Continuing operations	2.27	26.04	11.85	40.62
Discontinued operations	0.01	(0.02)	0.01	2.96
	<u>2.28</u>	<u>26.02</u>	<u>11.86</u>	<u>43.58</u>

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

13. EARNINGS PER SHARE (CONTINUED)

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 September 2008. For the comparative quarter ended 30 September 2007, the basic earnings per share is restated in accordance with FRS 133 - Earnings Per Share.

(b) Diluted earnings per share

	Quarter ended 30/9/2008 RM '000	Quarter ended 30/9/2007 RM '000 (restated)	Period ended 30/9/2008 RM '000	Period ended 30/9/2007 RM '000 (restated)
Weighted average number of ordinary shares in issue ('000)	1,670,999	1,398,620	1,670,994	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)	1,774,147	1,398,620	1,774,142	1,398,620
Diluted earnings per share for (sen):				
Continuing operations	2.14	26.04	11.16	40.62
Discontinued operations	0.01	(0.02)	0.01	2.96
	<u>2.15</u>	<u>26.02</u>	<u>11.17</u>	<u>43.58</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 September 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 28 November 2008.

By Order of the Board

Rizani bin Hassan (LS 05125)
Company Secretary
Selangor Darul Ehsan
28 November 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 financial period ended 30 September 2008 is a profit of RM11.0 million (2007: RM71.9 million) and a loss of RM11.3 million (30 September 2007: RM186.5 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 residual value sharing on sale of aircraft by PMB, gains on sale of properties, gain on sale of other investment and interest income. 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 30/9/2008 RM 'Mii	Quarter ended 30/9/2007 RM 'Mii	Period ended 30/9/2008 RM 'Mii	Period ended 30/9/2007 RM 'Mii
Earnings Before Interest and Tax	7.9	82.9	55.0	245.9
Adjusted Tax	18.9	(1.6)	(15.9)	(5.8)
NOPLAT	26.8	81.3	39.1	240.1
Economic Charge				
Average Invested Capital	862.1	601.1	917.3	1,145.0
WACC (%)	7.33%	6.24%	7.33%	6.24%
Economic Charge	15.8	9.4	50.4	53.6
Economic Profit/(Loss)	11.0	71.9	(11.3)	186.5

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 THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 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	Full Year Target	Achievement as at to date	Variance	Explanation
Net Income	RM400 million - RM550 million	RM198.1 million	RM101.9 million	Meet threshold target level of RM150 million - RM399 million

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 30/9/2008 RM '000	Quarter ended 30/9/2007 RM '000 (Restated)	Year ended 30/9/2008 RM '000	Year ended 30/9/2007 RM '000 (Restated)
(a) Total Revenue	4,114,562	4,114,715	11,642,131	11,142,421
(b) Profit before tax	19,683	373,666	214,942	637,097
(c) Profit for the period	38,567	364,561	199,075	610,490
(d) Profit for the period attributable to equity holders of the Company	38,093	363,935	198,132	609,493
(e) Basic earnings per share (sen)	2.28	26.02	11.86	43.58
Diluted earnings per share (sen)	2.15	26.02	11.17	43.58

	AS AT 30/9/2008	AS AT 31/12/2007 (Audited)
(a) Net assets per share attributable to ordinary equity holders of the Company (RM)	2.47	2.35

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/9/2008 RM '000	Quarter ended 30/9/2007 RM '000	Period ended 30/9/2008 RM '000	Period ended 30/9/2007 RM '000
(a) Gross interest income	65,003	28,482	168,353	69,903
(b) Gross interest expense	(30,266)	(9,595)	(40,659)	(35,751)