



MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT ON THE FIRST QUARTER ENDED 30 JUNE 2004

ANNOUNCEMENT

The Board of Directors of Malaysian Airline System Berhad ("MAS" or "the Company") is pleased to announce the following unaudited consolidated results for the first quarter ended 30 June 2004 and should be read in conjunction with the audited annual financial statements for the year ended 31 March 2004.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/06/2004 RM '000	Quarter ended 30/06/2003 RM '000	Period ended 30/06/2004 RM '000	Period ended 30/06/2003 RM '000
Operating revenue	2,399,820	1,642,630	2,399,820	1,642,630
Operating expenses	(2,431,809)	(1,898,009)	(2,431,809)	(1,898,009)
Other income	39,650	29,907	39,650	29,907
Profit/(Loss) from operations	7,661	(225,472)	7,661	(225,472)
Finance costs	(1,336)	(3,203)	(1,336)	(3,203)
Gain/(Loss) on sale of aircraft and engines	-	65,710	-	65,710
Share of profits from associated companies	16,179	641	16,179	641
Profit/(Loss) before taxation	22,504	(162,324)	22,504	(162,324)
Taxation	4,879	(1,915)	4,879	(1,915)
Profit/(Loss) after tax	27,383	(164,239)	27,383	(164,239)
Minority interest	(794)	(273)	(794)	(273)
Net profit/(Loss) after tax	26,589	(164,512)	26,589	(164,512)
Earnings/(Loss) per share				
Basic (sen)	2.12	(13.13)	2.12	(13.13)

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	As at 30/06/2004 RM '000	As at 31/03/2004 RM '000
Fixed assets	1,719,877	1,661,974
Investment in associated companies	51,513	35,629
Long term investments	114,642	125,996
Deferred tax assets	131,559	126,232
<u>Current assets</u>		
Stocks	379,073	369,419
Trade debtors	1,033,167	999,827
Other debtors	1,004,262	1,105,706
Cash and bank balances	2,100,217	2,190,893
	4,516,719	4,665,845
<u>Current liabilities</u>		
Trade creditors	1,590,676	1,481,120
Other creditors	680,186	918,815
Provision for taxation	24,165	24,674
Other liabilities	1,175,262	1,153,723
	3,470,289	3,578,332
Net current assets	1,046,430	1,087,513
	3,064,021	3,037,344
Shareholders' funds	3,050,573	3,023,984
Share capital - ordinary shares	1,253,244	1,253,244
Reserves		
Share premium	3,301,164	3,301,164
General reserve	501,530	501,530
Accumulated losses	(2,005,365)	(2,031,954)
Minority interests	12,186	12,098
<u>Long term liabilities</u>		
Deferred tax liabilities	1,262	1,262
	3,064,021	3,037,344

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	Quarter ended 30/06/2004 RM '000	Quarter ended 30/06/2003 RM '000
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Profit/(loss) before taxation	22,504	(162,324)
Adjustments for :-		
Share of results in associated companies	(16,179)	(641)
Depreciation	57,952	42,257
Gain on sale of aircraft and spare engines	-	(65,710)
Gain on sale of properties and equipment	(319)	-
Assets written off/reclassified	-	1,791
Provision for doubtful debts	(2)	4,481
Unrealised foreign exchange (gain)/losses	15,435	-
Aircraft spares, property and equipment written off	3,653	-
Writeback of unavailed credits on sales in advance of carriage	(38,093)	(4,501)
Dividend income	(308)	-
Interest income	(17,305)	(13,958)
Interest expense	1,336	3,203
Operating profit/(loss) before working capital changes	28,674	(195,402)
(Increase) in consumable spares and stores	(9,655)	(1,348)
Decrease in debtors	52,798	293,708
(Decrease) in creditors	(129,903)	(154,679)
Increase/(Decrease) in sales in advance of carriage	59,632	(109,564)
Cash generated from/(used in) operating activities	1,546	(167,285)
Interest paid	(664)	(1,538)
Taxes paid	(1,336)	(5,018)
Net cash used in operating activities	(454)	(173,841)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sale of other investments	11,709	10,410
Purchase of aircraft, property and equipment	(119,580)	(28,477)
Purchase of other investments	(354)	-
Proceeds on sale of aircraft, property and equipment	390	157,888
Interest received	17,305	5,638
Dividend received	308	-
Net cash (used in)/generating from investing activities	(90,222)	145,459
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Net receipts from PMB	-	10,000
Net cash generated from financing activities	-	10,000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(90,676)	(18,382)
CASH AND CASH EQUIVALENTS AS AT 1 APRIL	2,190,893	932,186
CASH AND CASH EQUIVALENTS AS AT 30 JUNE	2,100,217	913,804



**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 30 JUNE 2004**

	Share capital RM '000	Non-distributable share premium RM '000	General reserves RM '000	Distributable retained profits/ (accumulated losses) RM '000	Total reserves RM '000	Total RM '000
At 01 April 2004	1,253,244	3,301,164	501,530	(2,031,954)	1,770,740	3,023,984
Net profit for the period	-	-	-	26,589	26,589	26,589
At 30 June 2004	1,253,244	3,301,164	501,530	(2,005,365)	1,797,329	3,050,573

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 30 JUNE 2003**

	Share capital RM '000	Non-distributable share premium RM '000	General reserves RM '000	Distributable retained profits/ (accumulated losses) RM '000	Total reserves RM '000	Total RM '000
At 01 April 2003	1,253,244	3,301,164	501,530	(2,493,097)	1,309,597	2,562,841
Net loss for the period	-	-	-	(164,512)	(164,512)	(164,512)
At 30 June 2003	1,253,244	3,301,164	501,530	(2,657,609)	1,145,085	2,398,329

PART A - EXPLANATORY NOTES PURSUANT TO MASB 26, PARAGRAPH 16

1. ACCOUNTING POLICIES

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

- (i) The requirement of the Malaysian Accounting Standards Board ("MASB") Standard 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 March 2004.

The accounting policies and presentation adopted for the quarterly condensed financial report are consistent with those adopted for the annual financial statements for the financial year ended 31 March 2004.

2. QUALIFICATION OF PRECEDING AUDITED ANNUAL FINANCIAL STATEMENTS

There was no qualification of the Group's Audited Annual Financial Statements for the year ended 31 March 2004.

3. UNUSUAL ITEMS

There was no unusual item for the quarter ended 30 June 2004.

4. SIGNIFICANT EVENT

There was no significant event for the quarter ended 30 June 2004.

5. SEASONALITY OR CYCLICAL 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.

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

There was no issuance, cancellation, resale or repayment of debt or equity securities in the quarter ended 30 June 2004.

7. DIVIDEND PAID

No dividends were paid in the quarter ended 30 June 2004.

**PART A - EXPLANATORY NOTES PURSUANT TO MASB 26, PARAGRAPH 16
(CONTINUED)**

8. SEGMENTAL INFORMATION

BY BUSINESS ACTIVITIES	Quarter ended 30/06/2004		Period ended 30/06/2004	
	Operating revenue RM '000	Operating profit/(loss) RM '000	Operating revenue RM '000	Operating profit/(loss) RM '000
Airline operation	1,976,369	(15,063)	1,976,369	(15,063)
Cargo services	616,906	20,243	616,906	20,243
Catering services	3,843	941	3,843	941
Others	17,300	834	17,300	834
	2,614,418	6,955	2,614,418	6,955
Eliminations	(214,598)	706	(214,598)	706
Total	2,399,820	7,661	2,399,820	7,661

9. VALUATION OF ASSETS

There was no revaluation of aircraft, property and equipment for the quarter ended 30 June 2004.

10. MATERIAL EVENTS SUBSEQUENT

There was no material event subsequent to 30 June 2004.

11. CHANGES IN THE COMPOSITION OF THE COMPANY/GROUP

There was no change in the composition of the Group for the quarter ended 30 June 2004.

**PART A - EXPLANATORY NOTES PURSUANT TO MASB 26, PARAGRAPH 16
(CONTINUED)**

12. 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 the Government of Malaysia. As such, the outstanding balance of the borrowings assumed by PMB is included within the Group's contingent liabilities.

	16/08/2004 RM '000
1. Secured / Unsecured	
Loan	
- Secured	964,339
- Unsecured	147,436
Finance leases (secured)	2,637,774
	3,749,549
2. Tenure	
Loans due within one year	1,045,698
Loans due after one year	2,703,851
	3,749,549
3. Loans by currencies in Ringgit Malaysia	
US Dollars	3,509,532
EURO	147,436
British Pounds	92,581
	3,749,549
(b) Others	
Corporate guarantee given to third party	5,503
Bank guarantee given to third party	132,013
Performance bonds given to third party	640
	138,156

(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 rate of decay for each aircraft at future dates is stipulated by the WAU Agreement. Based on the published industry price data, MAS's share of the profit on disposal if the applicable aircraft were to be disposed as at 30 June 2004 is RM855.46 million.

**PART A - EXPLANATORY NOTES PURSUANT TO MASB 26, PARAGRAPH 16
(CONTINUED)**

13. SIGNIFICANT RELATED PARTY DISCLOSURES

	Quarter ended 30/06/2004 RM '000
Catering services paid to Evergreen Sky Catering Corporation	2,379
Catering services paid to Miascor Catering Services Corporation	326
Catering services paid to associated company, Taj Madras Flight Kitchen Private Limited	368
Catering services paid to associated company, LSG Sky Chefs-Brahim's Sdn. Bhd.	51,946
Computer reservation system access fee paid to Abacus International Holding Ltd.	13,164
Engine maintenance services rendered by associated company, GE Engine Services (M) Sdn. Bhd.	153,966
Line maintenance and aircraft interior cleaning services paid to associated company, Pan Asia Pacific Aviation Services Ltd.	1,068
Aircraft component repair services paid to associated company, Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd.	3,281
Aircraft power plant unit overhaul services paid to associated company, Honeywell Aerospace Services (M) Sdn. Bhd.	2,151
Hire of aircraft paid to holding company, Penerbangan Malaysia Berhad	80,145
Aircraft lease rental paid to Aircraft Business Malaysia Sdn. Bhd.	57,580
Rental of premises paid to Asset Global Network Sdn. Bhd.	17,852
Rental of premises and services rendered to associated company, GE Engine Services (M) Sdn. Bhd.	(3,773)
Shared services billed to LSG Sky Chefs-Brahim's Sdn. Bhd.	(8,427)

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

1. REVIEW OF PERFORMANCE

The Group achieved an operating profit of RM7.7 million for the first quarter ended 30 June 2004 compared to an operating loss of RM225.5 million for the same quarter last year. The net profit after tax of RM26.6 million is an improvement from the net loss after tax of RM164.5 million, in the same quarter last year, which bore the full brunt of the Severe Acute Respiratory Syndrome (SARS) and the Iraq war.

2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

Operating revenue for the quarter fell marginally to RM2,399.8 million from RM2,426.9 million in the preceding quarter. The Group achieved a net profit after tax of RM26.6 million compared to RM294.5 million in the preceding quarter. The reduction in net profit was mainly contributed by higher fuel cost of RM127.5 million compared to the preceding quarter.

3. CURRENT YEAR PROSPECTS

Travel was dampened in the first quarter after the rapid recovery in travel in the last two quarters. This was largely caused by the avian flu in several South East Asian countries as well as adverse travel advisories on travel to this region following the unrest in southern Thailand.

With increased capacity being injected by European carriers into Asia particularly China and Middle East operators into Australia, competition will remain stiff. Similarly yields will be under downward pressure especially for regional markets with the new low cost carriers spreading their network from Kuala Lumpur, Singapore and Bangkok.

Travel demand from the second quarter is expected to be better as the industry enters into the summer peak. Our network strategy is still focused on capitalising on the growing markets in China and India. In this regard, Malaysia Airlines plans to commence operations to Chengdu in September and to Wuhan, Kunming, Cochin and Ahmedabad towards the last quarter of this financial year.

The upgrading of our seats in the First and Business class and inflight entertainment systems on the B747-400 and B777-200 aircraft are in progress and the first of which is expected to roll out by the 3rd quarter of this financial year.

The prospects for cargo remain favourable in line with the improved world economy particularly in Japan and China. The additional belly space capacity injection to China and India will be a positive factor for Malaysia Airlines' cargo operations.

The airline industry and Malaysia Airlines will continue to be impacted by a change in the short-term global business cycle, interest rates and exchange rates.

The escalating fuel price remains a concern and will continue to have adverse impact on the subsequent quarters' results.

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

4. TAXATION

Taxation for the quarter comprised the following: -

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/06/2004 RM '000	Quarter ended 30/06/2003 RM '000	Period ended 30/06/2004 RM '000	Period ended 30/06/2003 RM '000
Current period				
- Malaysian	(494)	388	(494)	388
- Foreign	648	935	648	935
	154	1,323	154	1,323
Deferred tax assets	(5,327)	-	(5,327)	-
Share of associated companies' taxation	294	592	294	592
Total	(4,879)	1,915	(4,879)	1,915

The Group provided Malaysian taxation for its subsidiaries. There is no provision for Malaysian taxation for the Company as the Company has been granted an extension of the tax exemption status up to financial year ending 31 March 2005 by the Ministry of Finance on its chargeable income in respect of all sources of income vide the Income Tax (Exemption) (No. 25) Order 2001. Deferred tax asset recognised for the quarter ended 30 June 2004 is RM5.3 million arising from previously unrecognised deductible temporary differences of a subsidiary.

5. PROFIT ON SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There were no sale of unquoted investments and/or properties during the quarter.

6. PURCHASE OR DISPOSAL OF QUOTED SECURITIES

(a) On 15 June 2004, the Company sold one US Government Treasury Strip amounting to USD2,436,124 under a defeasance arrangement for its fixed rate debts repayment.

(b) As at 30 June 2004, the Group has the following quoted securities: -

	In Malaysia RM '000	Outside Malaysia RM '000
At cost	32	1,377
At carrying value	32	1,377
At market value	97	27,174

7. CORPORATE PROPOSALS

There were no new proposals made during the quarter ended 30 June 2004.

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

8. GROUP BORROWINGS AND DEBT SECURITIES

The Group as at 30 June 2004 has lease obligation amounting to RM1,647.57 million (31 March 2004: RM1,723.0 million) which are covered by funds placed with and payments made to finance 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.

9. FINANCIAL INSTRUMENTS

As at 16 August 2004, the Group has entered into various fuels hedging transactions to cover from 1 July 2004 to 31 March 2006, in several lots totalling 7,920,000 barrels.

The fuel hedging exercise is closely monitored and various hedging instruments are strategically applied to mitigate any price volatility or spike as Jet Kerosene is an international commodity and is subject to the vagaries of the market due to geographical events, economic situation, weather conditions, etc.

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

The estimated impact from the fuel hedging contracts when marked to market is favourable.

10. MATERIAL LITIGATIONS

**Vintage Aviation Services Ltd. vs Malaysian Airline System Berhad
Shahjalal Aviation Systems Ltd. vs Malaysian Airline System Berhad**

These cases are still pending. The Directors are of the view that the above cases filed against the Company are without merit.

JP Anandan vs Malaysian Airline System Berhad

The Company announced that the Kuala Lumpur High Court had, on 16 June 2004, allowed the Company's application to strike out with cost the winding up petition of MAS by JP Anandan.

Advent Group Management Sdn Bhd vs Malaysian Airline System Berhad

A writ of summons and statement of claim was served on MAS on 2 July 2004 as the fourth defendant in the Kuala Lumpur High Court by the plaintiff, Advent Group Management Sdn. Bhd. The Directors are of the view that the above case filed against the Company is without merit.



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

11. DIVIDENDS

The directors do not recommend any dividend for the quarter ended 30 June 2004.

12. EARNINGS PER SHARE

- (a) The basic earnings per share for the current quarter is calculated by dividing the net profit of RM26.6 Million (2003: loss RM164.5 million) by 1,253,243,866 (2003: 1,253,243,866)
- (b) Diluted earnings per share is not presented in the financial statements as there are no dilutive potential ordinary shares outstanding as at 30 June 2004.

13. 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 23 August 2004.

By Order of the Board

Rizani bin Hassan (LS 05125)
Company Secretary

Kuala Lumpur
23 August 2004

SUMMARY OF KEY FINANCIAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/06/2004 RM '000	Quarter ended 30/06/2003 RM '000	Period ended 30/06/2004 RM '000	Period ended 30/06/2003 RM '000
1. Total Revenue	2,439,470	1,672,537	2,439,470	1,672,537
2. Profit/(Loss) before tax	22,504	(162,324)	22,504	(162,324)
3. Profit/(Loss) after tax & minority interest	26,589	(164,512)	26,589	(164,512)
4. Net profit/(loss) for the period	26,589	(164,512)	26,589	(164,512)
5. Basic earnings/(loss) per share (sen)	2.12	(13.13)	2.12	(13.13)
6. Dividend per share (sen)	-	-	-	-
7. Net tangible assets per share (RM)	2.43	1.96	2.43	1.96

ADDITIONAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/06/2004 RM '000	Quarter ended 30/06/2003 RM '000	Period ended 30/06/2004 RM '000	Period ended 30/06/2003 RM '000
1. Profit/(Loss) from operations	7,661	(225,472)	7,661	(225,472)
2. Gross interest income	17,305	13,958	17,305	13,958
3. Gross interest expense	1,336	3,203	1,336	3,203