



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

	<b>INDIVIDUAL QUARTER</b>		<b>CUMULATIVE QUARTER</b>	
	Quarter ended 30/09/2004 RM '000	Quarter ended 30/09/2003 RM '000	Period ended 30/09/2004 RM '000	Period ended 30/09/2003 RM '000
Operating revenue	2,718,010	2,128,055	5,117,830	3,770,685
Operating expenses	(2,627,967)	(2,073,604)	(5,059,776)	(3,971,613)
Other income	56,123	48,520	95,773	78,427
Profit/(Loss) from operations	146,166	102,971	153,827	(122,501)
Finance costs	(940)	(1,752)	(2,276)	(4,955)
Gain on sale of aircraft and engines	-	-	-	65,710
Share of (loss)/profits from associated companies	(4,631)	2,468	11,548	3,108
Profit/(Loss) before taxation	140,595	103,687	163,099	(58,638)
Taxation	(7,493)	(1,545)	(2,614)	(3,460)
Profit/(Loss) after tax	133,102	102,142	160,485	(62,098)
Minority interest	(401)	(1,074)	(1,195)	(1,347)
<b>Net profit/(loss) after tax</b>	<b>132,701</b>	<b>101,068</b>	<b>159,290</b>	<b>(63,445)</b>
<b>Earnings/(Loss) per share</b>				
Basic (sen)	10.59	8.06	12.71	(5.06)

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	As at 30/09/2004 RM '000	As at 31/03/2004 RM '000
Fixed assets	1,888,833	1,661,974
Investment in associated companies	44,347	35,629
Long term investments	112,144	125,996
Deferred tax assets	126,550	126,232
<b><u>Current assets</u></b>		
Inventories	401,930	369,419
Trade receivables	1,069,592	999,827
Other receivables	838,022	837,669
Amount owing by holding company	285,438	268,037
Cash and bank balances	2,050,473	2,190,893
	<b>4,645,455</b>	<b>4,665,845</b>
<b><u>Current liabilities</u></b>		
Trade payables	1,778,460	1,481,120
Other payables	521,080	918,815
Provision for taxation	22,962	24,674
Sales in advance of carriage	1,299,659	1,153,723
	<b>3,622,161</b>	<b>3,578,332</b>
Net current assets	1,023,294	1,087,513
	<b>3,195,168</b>	<b>3,037,344</b>
Shareholders' funds	<b>3,183,274</b>	<b>3,023,984</b>
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	(1,872,664)	(2,031,954)
Minority interests	10,587	12,098
<b><u>Long term liabilities</u></b>		
Deferred tax liabilities	1,307	1,262
	<b>3,195,168</b>	<b>3,037,344</b>

**UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENTS**

	Period ended 30/09/2004 RM '000	Period ended 30/09/2003 RM '000
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
<b>Profit/(loss) before taxation</b>	<b>163,099</b>	<b>(58,638)</b>
Adjustments for :-		
Share of results in associated companies	(11,549)	(3,108)
Depreciation	117,955	82,448
Gain on sale of aircraft and spare engines	-	(65,710)
Gain on sale of properties and equipment	(442)	-
Gain on disposal of associated company	(27)	-
Provision for doubtful debts	1	18,056
Unrealised loss in foreign exchange	2,714	-
Aircraft spares, property and equipment written off	4,526	4,985
Writeback of unavailed credits on sales in advance of carriage	(57,154)	(36,273)
Dividend income	(533)	-
Interest income	(31,004)	(27,488)
Interest expense	2,276	4,955
<b>Operating profit/(loss) before working capital changes</b>	<b>189,862</b>	<b>(80,773)</b>
(Increase) in consumable spares and stores	(32,512)	(5,633)
(Increase)/Decrease in receivables	(84,939)	482,409
(Decrease) in payables	(103,267)	(117,954)
Increase in sales in advance of carriage	203,090	52,287
<b>Cash generated from operating activities</b>	<b>172,234</b>	<b>330,336</b>
Interest paid	(2,234)	(2,429)
Taxes paid	(3,976)	(8,229)
<b>Net cash generated from operating activities</b>	<b>166,024</b>	<b>319,678</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchase of aircraft, property and equipment	(349,513)	(96,689)
Purchase of other investments	(321)	-
Proceeds on sale of aircraft, property and equipment	613	157,888
Proceeds from sale of other investments	14,173	10,444
Proceeds from disposal of associated company	79	-
Interest received	25,839	12,922
Dividend received	2,686	-
<b>Net cash (used in)/generating from investing activities</b>	<b>(306,444)</b>	<b>84,565</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(140,420)</b>	<b>404,243</b>
<b>CASH AND CASH EQUIVALENTS AS AT 1 APRIL</b>	<b>2,190,893</b>	<b>932,186</b>
<b>CASH AND CASH EQUIVALENTS AS AT 30 SEPTEMBER</b>	<b>2,050,473</b>	<b>1,336,429</b>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 SEPTEMBER 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	-	-	-	159,290	159,290	159,290
<b>At 30 September 2004</b>	<b>1,253,244</b>	<b>3,301,164</b>	<b>501,530</b>	<b>(1,872,664)</b>	<b>1,930,030</b>	<b>3,183,274</b>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 SEPTEMBER 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	-	-	-	(63,445)	(63,445)	(63,445)
<b>At 30 September 2003</b>	<b>1,253,244</b>	<b>3,301,164</b>	<b>501,530</b>	<b>(2,556,542)</b>	<b>1,246,152</b>	<b>2,499,396</b>

## **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. 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 factors, health and security concerns.

### **4. UNUSUAL ITEMS**

There were no unusual items for the six months period ended 30 September 2004.

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

There were no material changes in estimates of amounts reported in the prior interim period or prior financial year.

### **6. SIGNIFICANT EVENT**

On 4 October 2004, the Company entered into a termination agreement with Asset Global Network Sdn. Bhd. (AGN) to terminate the conditional reimbursement agreement dated 26 March 2003. The deposit of RM1.0 million was refunded by the Company and AGN was also reimbursed RM580,000 for the cost incurred.

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

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

There were no issuance, cancellation, resale or repayment of debt or equity securities for the six months period ended 30 September 2004.

**8. DIVIDEND PAID**

No dividend was paid for the six months period ended 30 September 2004.

**9. SEGMENTAL INFORMATION**

BY BUSINESS ACTIVITIES	Quarter ended 30/09/2004		Period ended 30/09/2004	
	Operating revenue RM '000	Operating profit/(loss) RM '000	Operating revenue RM '000	Operating profit/(loss) RM '000
Airline operation	2,280,818	128,750	4,257,187	113,687
Cargo services	626,585	24,379	1,243,491	44,622
Catering services	4,076	1,351	7,919	2,292
Others	17,862	(615)	35,162	219
	2,929,341	153,865	5,543,759	160,820
Eliminations	(211,331)	(7,699)	(425,929)	(6,993)
<b>Total</b>	<b>2,718,010</b>	<b>146,166</b>	<b>5,117,830</b>	<b>153,827</b>

**10. VALUATION OF ASSETS**

There was no revaluation of aircraft, property and equipment for the six months period ended 30 September 2004.

**11. SUBSEQUENT EVENTS**

There were no material events subsequent to 30 September 2004.

**12. CHANGES IN THE COMPOSITION OF THE COMPANY/GROUP**

A wholly-owned subsidiary company, MAS Hotel & Boutiques Sdn Bhd, had on 11 August 2004 disposed its entire equity interest of 25% in Signforce Sdn Bhd for a cash consideration of RM79,000.

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

**13. 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.

	<u>22/11/2004</u> <u>RM '000</u>
1. Secured / Unsecured	
Loan	
- Secured	921,739
- Unsecured	142,831
Finance leases (secured)	<u>2,502,164</u>
	<u><u>3,566,734</u></u>
2. Tenure	
Loans due within one year	829,227
Loans due after one year	<u>2,737,507</u>
	<u><u>3,566,734</u></u>
3. Loans by currencies in Ringgit Malaysia	
US Dollars	3,347,192
Euro	142,831
British Pounds	76,711
	<u><u>3,566,734</u></u>
(b) Others	
Corporate guarantee given to third party	5,504
Bank guarantee given to third party	132,125
Performance bonds given to third party	640
	<u><u>138,269</u></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 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 September 2004 is RM761.2 million.

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

**14. SIGNIFICANT RELATED PARTY DISCLOSURES**

	Quarter ended 30/09/2004 RM '000	Period ended 30/09/2004 RM '000
Catering services paid to Evergreen Sky Catering Corporation	2,488	4,867
Catering services paid to Miascor Catering Services Corporation	323	649
Catering services paid to associated company, Taj Madras Flight Kitchen Private Limited	396	764
Catering services paid to associated company, LSG Sky Chefs-Brahim's Sdn. Bhd.	65,487	117,433
Computer reservation system access fee paid to Abacus International Holding Ltd.	14,497	27,661
Engine maintenance services rendered by associated company, GE Engine Services (M) Sdn. Bhd.	118,385	272,351
Line maintenance and aircraft interior cleaning services paid to associated company, Pan Asia Pacific Aviation Services Ltd.	1,612	2,680
Aircraft component repair services paid to associated company, Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd.	2,593	5,874
Aircraft power plant unit overhaul services paid to associated company, Honeywell Aerospace Services (M) Sdn. Bhd.	1,460	3,611
Hire of aircraft paid to holding company, Penerbangan Malaysia Bhd	80,920	161,065
Aircraft lease rental paid to Aircraft Business Malaysia Sdn. Bhd.	58,596	116,176
Rental of premises paid to Asset Global Network Sdn. Bhd.	17,852	35,704
Rental of premises and services rendered to associated company, GE Engine Services (M) Sdn. Bhd.	(3,773)	(7,546)
Shared services billed to LSG Sky Chefs-Brahim's Sdn. Bhd.	(9,038)	(17,465)

**15. SIGNIFICANT RELATED PARTY BALANCES**

Included in other receivables are the following related party balances :-

	As at 30/09/2004 RM '000	As at 31/03/2004 RM '000
Amount owing by related party	3,564	3,642
Amount owing by associated companies	2,430	42,326
Amount owing by fellow subsidiary	460,439	479,974



**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 RM146.2 million for the second quarter ended 30 September 2004 compared to an operating profit of RM103.0 million for the same quarter last year. The net profit after tax of RM132.7 million is a 31.3% improvement from the net profit after tax of RM101.1 million in the same quarter last year.

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

Operating revenue for the quarter rose to RM2,718.0 million from RM2,399.8 million in the preceding quarter. The Group achieved a net profit after tax of RM132.7 million compared to RM26.6 million in the preceding quarter. Included in the operating profit for the quarter is RM49.6 million related to credits received from an aircraft manufacturer, compared to RM45.6 million spare parts credit received from an engine manufacturer and recognised in the preceding quarter.

**3. CURRENT YEAR PROSPECTS**

The global economy is expected to enjoy one of its strongest years of growth and traffic demand is expected to remain buoyant with the industry continuing its growth albeit at a more moderate pace due to the impact of fuel surcharge particularly for the shorter haul travel.

In line with the better economic climate, long haul business travel has picked up but selective regional routes are under pressure from existing and new low cost carriers' expansion into Asia. The added competition and capacity could act as a restraint to future increase in yields.

Notwithstanding the above, the prospects for the forthcoming months remain reasonably good with the peak travel period in Australia/NZ and South Africa, extra demand for India coinciding with the start of the holiday season in November and December out of Malaysia. The recently launched MAS Internet Booking Facility has generated good response on internet sales. The trend is expected to continue with increase penetration over time and greater awareness of the facility.

Our current strategy of focusing on growing the markets in China, India as well as key cities in Australia continues to be in place. In this regard, MAS is implementing these strategies and operations to Ahmedabad, Kunming, Xian and Calcutta are expected to be launched in the Northern Winter 2004 season.

The prospects for Cargo remain favourable in line with the improved world economy, upturn in industrial production and global trade. Freighter operations into China has been intensified during the peak season to take advantage of the increase in air freight demand. The additional belly space capacity to China and India will have a positive impact for cargo revenue.

The airline industry and Malaysia Airlines will continue to be affected by fluctuations in interest and exchange rates as well as concerns over high fuel prices on global growth.

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

**4. TAXATION**

Taxation charge for the group comprised the following: -

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/09/2004 RM '000	Quarter ended 30/09/2003 RM '000	Period ended 30/09/2004 RM '000	Period ended 30/09/2003 RM '000
Current period				
- Malaysian	692	542	198	930
- Foreign	1,417	905	2,065	1,840
	2,109	1,447	2,263	2,770
Deferred tax	5,053	-	(274)	-
Share of associated companies' taxation	331	98	625	690
<b>Total</b>	<b>7,493</b>	<b>1,545</b>	<b>2,614</b>	<b>3,460</b>

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. In the current quarter, a subsidiary company utilised its deferred tax asset totalling RM5.1 million. For the cumulative period, the deferred tax asset arose mainly from previously unrecognised deductible temporary differences of a subsidiary company.

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

On 1 June 2004 and 1 September 2004, two lots of 10,203 Redeemable Preference Shares A of LSG Sky Chefs-Brahim's Sdn. Bhd. were redeemed at cost of RM 4.9 million.

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

(a) Total purchases and disposals of quoted securities are as follows:-

	Quarter ended 30/09/2004 RM '000	Period ended 30/09/2004 RM '000
Total purchases	-	-
Total disposals	-	9,257
Profit/(Loss) on disposal	-	-

(b) As at 30 September 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	104	25,756

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

**7. CORPORATE PROPOSALS**

On 4 October 2004, the Company entered into a termination agreement with Asset Global Network Sdn. Bhd. to terminate the conditional reimbursement agreement for the reimbursement of Subang Complex A buildings.

**8. GROUP BORROWINGS AND DEBT SECURITIES**

The Group as at 30 September 2004 has lease obligation amounting to RM1,597.8 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 22 November 2004, the Group has entered into various fuels hedging transactions to cover from 1 July 2004 to 31 March 2008, in several lots totalling 12,435,000 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**

**Vantage 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.

**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.

**Arbitration Proceedings by ACL Advanced Cargo Logistic GmbH (ACL) vs Malaysian Airline System Berhad**

On 16 September 2004, the Company received notice that ACL had initiated proceedings against the Company at the ICC International Court of Arbitration in Paris, France seeking a claim for breach of cargo handling services agreement. The Company is taking legal advice.

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

**11. DIVIDENDS**

(a) Final dividend

A final tax-exempt dividend of 2.5 sen per share, amounting to RM31.3 million, in respect of the financial year ended 31 March 2004 was approved by the shareholders at the Annual General Meeting held on 13 September 2004. The entitlement date for the dividend payment was 30 September 2004 and was paid on 12 October 2004.

(b) The directors do not recommend any dividend for the quarter ended 30 September 2004.

**12. EARNINGS PER SHARE**

(a) The basic earnings per share for the current quarter is calculated by dividing the net profit of RM132.7 million (2003: RM101.1 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 September 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 29 November 2004.

By Order of the Board

Rizani bin Hassan (LS 05125)  
Company Secretary

Kuala Lumpur  
29 November 2004.

**SUMMARY OF KEY FINANCIAL INFORMATION**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/09/2004 RM '000	Quarter ended 30/09/2003 RM '000	Period ended 30/09/2004 RM '000	Period ended 30/09/2003 RM '000
1. Total Revenue	2,774,133	2,176,575	5,213,603	3,849,112
2. Profit/(Loss) before tax	140,595	103,687	163,099	(58,638)
3. Profit/(Loss) after tax & minority interest	132,701	101,068	159,290	(63,445)
4. Net profit/(loss) for the period	132,701	101,068	159,290	(63,445)
5. Basic earnings/(loss) per share (sen)	10.59	8.06	12.71	(5.06)
6. Dividend per share (sen)	-	-	-	-
7. Net tangible assets per share (RM)	2.55	2.00	2.55	2.00

**ADDITIONAL INFORMATION**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/09/2004 RM '000	Quarter ended 30/09/2003 RM '000	Period ended 30/09/2004 RM '000	Period ended 30/09/2003 RM '000
1. Profit/(Loss) from operations	146,166	102,971	153,827	(122,501)
2. Gross interest income	13,699	13,339	31,004	27,299
3. Gross interest expense	(940)	(1,752)	(2,276)	(4,955)