



MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT ON THE FIRST QUARTER ENDED 30 JUNE 2005

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 first quarter ended 30 June 2005 and this announcement should be read in conjunction with the audited annual financial statements for the year ended 31 March 2005.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/6/2005 RM '000	Quarter ended 30/6/2004 RM '000	Period ended 30/6/2005 RM '000	Period ended 30/6/2004 RM '000
Operating revenue	2,774,023	2,399,820	2,774,023	2,399,820
Operating expenses	(3,133,888)	(2,431,809)	(3,133,888)	(2,431,809)
Other income	72,265	39,650	72,265	39,650
(Loss)/Profit from operations	(287,600)	7,661	(287,600)	7,661
Finance costs	(173)	(1,336)	(173)	(1,336)
Gain on sale of engineering spares	9,244	-	9,244	-
Share of profits from associated companies	3,695	16,179	3,695	16,179
(Loss)/Profit before taxation	(274,834)	22,504	(274,834)	22,504
Taxation	(4,739)	4,879	(4,739)	4,879
(Loss)/Profit after tax	(279,573)	27,383	(279,573)	27,383
Minority interest	(1,087)	(794)	(1,087)	(794)
(Loss)/Profit after tax	(280,660)	26,589	(280,660)	26,589
(Loss)/Earnings per share				
Basic (sen)	(22.39)	2.12	(22.39)	2.12

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	As at 30/6/2005 RM '000	As at 31/03/2005 RM '000
Aircraft modifications/retrofits, property and equipment	2,186,188	2,054,455
Investment in associated companies	49,917	46,845
Long term investments	136,492	147,831
Amount owing by fellow subsidiary	393,208	395,819
Deferred tax assets	102,226	103,219
<u>Current assets</u>		
Inventories	459,945	446,038
Trade receivables	1,363,917	1,131,824
Other receivables	355,388	428,670
Amount owing by holding company	482,611	445,483
Cash and bank balances	1,497,729	2,194,578
	4,159,590	4,646,593
<u>Current liabilities</u>		
Trade payables	1,875,756	1,968,436
Other payables	577,959	585,138
Provision for taxation	23,309	23,042
Sales in advance of carriage	1,499,860	1,487,752
	3,976,884	4,064,368
Net current assets	182,706	582,225
	3,050,737	3,330,394
Shareholders' funds	3,038,072	3,318,732
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	(2,017,866)	(1,737,206)
Minority interests	11,793	10,706
<u>Long term liabilities</u>		
Deferred tax liabilities	872	956
	3,050,737	3,330,394

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	Quarter ended 30/6/2005 RM '000	Quarter ended 30/6/2004 RM '000
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
(Loss)/Profit before taxation	(274,834)	22,504
Adjustments for :-		
Share of results in associated companies	(3,695)	(16,179)
Depreciation of property and equipment	74,066	57,952
Gain on sale of aircraft, property and equipment	(912)	(319)
Gain on sale of engineering spares	(9,244)	-
(Writeback)/provision for doubtful debts, net	422	(2)
Unrealised foreign exchange (gain)/loss	(22,482)	15,435
Aircraft spares, property and equipment written off	736	3,653
Writeback of unavailed credits on sales in advance of carriage	(14,222)	(38,093)
Dividend income	(1,901)	(308)
Interest income	(16,076)	(17,305)
Interest expense	173	1,336
Operating (loss)/profit before working capital changes	(267,969)	28,674
(Increase) in consumable spares and stores	(13,908)	(9,655)
(Increase)/Decrease in receivables	(132,659)	30,170
(Increase)/Decrease in amount owing by holding company	(37,128)	22,628
(Decrease) in payables	(88,282)	(129,903)
Increase in sales in advance of carriage	26,330	59,632
Cash (used in)/generated from operating activities	(513,616)	1,546
Interest paid	(169)	(664)
Taxes paid	(2,940)	(1,336)
Net cash used in operating activities	(516,725)	(454)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sale of other investments	11,339	11,709
Purchase of aircraft, property and equipment	(206,644)	(119,580)
Purchase of other investments	-	(354)
Proceeds on sale of aircraft, property and equipment	1,022	390
Interest received	12,258	17,305
Dividend received	1,901	308
Net cash used in investing activities	(180,124)	(90,222)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(696,849)	(90,676)
CASH AND CASH EQUIVALENTS AS AT 1 APRIL	2,194,578	2,190,893
CASH AND CASH EQUIVALENTS AS AT 30 JUNE	1,497,729	2,100,217

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 30 JUNE 2005**

	Share capital RM '000	Non-distributable share premium RM '000	General reserves RM '000	Accumulated losses RM '000	Total reserves RM '000	Total RM '000
At 01 April 2005	1,253,244	3,301,164	501,530	(1,737,206)	2,065,488	3,318,732
Loss for the period	-	-	-	(280,660)	(280,660)	(280,660)
At 30 June 2005	1,253,244	3,301,164	501,530	(2,017,866)	1,784,828	3,038,072

**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	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
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

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 2005.

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 2005.

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 2005.

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 quarter ended 30 June 2005.

5. MATERIAL CHANGES IN ESTIMATES OF AMOUNTS REPORTED

There were no changes in estimates of amounts reported in the prior interim period or prior financial year that have a material effect on the current quarter results.

6. SIGNIFICANT EVENT

There were no significant events for the quarter ended 30 June 2005.

**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 quarter ended 30 June 2005.

8. DIVIDEND PAID

There were no dividends paid in the quarter ended 30 June 2005.

9. SEGMENTAL INFORMATION

BY BUSINESS ACTIVITIES	Quarter ended 30/6/2005		Period ended 30/6/2005	
	Operating revenue RM '000	Operating profit/(loss) RM '000	Operating revenue RM '000	Operating profit/(loss) RM '000
Airline operation	2,320,473	(294,315)	2,320,473	(294,315)
Cargo services	668,358	3,543	668,358	3,543
Catering services	4,844	2,025	4,844	2,025
Others	28,321	1,147	28,321	1,147
	3,021,996	(287,600)	3,021,996	(287,600)
Eliminations	(247,973)	-	(247,973)	-
Total	2,774,023	(287,600)	2,774,023	(287,600)

10. VALUATION OF ASSETS

There were no valuation of property and equipment for the quarter ended 30 June 2005.

11. SUBSEQUENT EVENTS

There were no material events subsequent to 30 June 2005.

12. CHANGES IN THE COMPOSITION OF THE COMPANY/GROUP

There were no changes in the composition of the Group for the quarter ended 30 June 2005.

**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 Khazanah Nasional Berhad. As such, the outstanding balance of the borrowings assumed by PMB is included within the Group's contingent liabilities.

	16/8/05 RM '000
1. Secured / Unsecured	
Loan	
- Secured	687,060
- Unsecured	130,519
Finance leases (secured)	1,792,344
	2,609,923
2. Tenure	
Loans due within one year	807,962
Loans due after one year	1,801,961
	2,609,923
3. Loans by currencies in Ringgit Malaysia	
US Dollars	2,420,592
Euro	130,519
British Pounds	58,812
	2,609,923
(b) Others	
Corporate guarantee given to third party	5,521
Bank guarantee given to third party	115,881
Performance bonds given to third party	640
	122,042

(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 2005 is RM 747.50 million.

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

14. SIGNIFICANT RELATED PARTY DISCLOSURES

	Quarter ended 30/6/2005 RM '000
	<hr/>
Catering services paid to Evergreen Sky Catering Corporation	2,444
Catering services paid to Miascor Catering Services Corporation	320
Catering services paid to associated company, Taj Madras Flight Kitchen Limited	494
Catering services paid to associated company, LSG Sky Chefs-Brahim's Sdn. Bhd.	49,834
Computer reservation system access fee paid to Abacus International Holding Ltd.	15,464
Engine maintenance services rendered by associated company, GE Engine Services (M) Sdn. Bhd.	136,670
Purchase of aircraft, property and equipment from GE Engine Services (M) Sdn. Bhd.	20,510
Line maintenance and aircraft interior cleaning services paid to associated company, Pan Asia Pacific Aviation Services Ltd.	1,518
Aircraft component repair services paid to associated company, Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd.	2,297
Aircraft power plant unit overhaul services paid to associated company, Honeywell Aerospace Services (M) Sdn. Bhd.	1,611
Hire of aircraft paid to holding company, Penerbangan Malaysia Bhd	113,011
Aircraft lease rental paid to Aircraft Business Malaysia Sdn. Bhd.	63,229
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.	(3,776)
Shared services billed to LSG Sky Chefs-Brahim's Sdn. Bhd.	<u>(11,878)</u>

15. SIGNIFICANT RELATED PARTY BALANCES

	As at 30/06/2005 RM '000
	<hr/>
Amount owing by related party	258,440
Amount owing by associated company	3,840
Amount owing by fellow subsidiary	
- due within one year	34,054
- due after one year	393,208
Amount owing to associated company	<u>98,780</u>

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

1. REVIEW OF PERFORMANCE

The Group made an operating loss of RM287.6 million for the first quarter ended 30 June 2005 compared to an operating profit of RM7.7 million for the same quarter last year was largely due to the higher fuel price.

2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

Operating revenue for the quarter dropped to RM2,774.0 million as this is the cyclical low season compared to RM2,927.1 million in the preceding quarter. The Group made a loss after tax of RM280.7 million compared to profit after tax of RM109.2 million in the preceding quarter. The loss was largely contributed by increases in fuel cost of RM248.1 million compared to the preceding quarter.

3. CURRENT YEAR PROSPECTS

Thus far, demand for travel has remained strong notwithstanding the introduction of fuel surcharges. Going forward, the next three months will be the peak demand period especially for the Middle East and Europe. However, the high fuel prices, higher interest rates and the recent London bombing may dampen the economic growth and travel in the developed countries such as Europe for the latter part of the calendar year. The recurrence of haze may also impact travel to Malaysia.

Competition continues to be intense especially in the Regional and Indian markets following the rapid liberalization in air access. We expect yields in selected markets to be under pressure due to additional capacity injected by new entrants in the short-medium haul routes.

For the airline operation, the July-September quarter is the peak travel period for its markets in Middle East and Europe and high loads are anticipated. The impact of the de-pegging of the Malaysian Ringgit is expected to have a favourable effect on outbound travel from Malaysia. The on-going front-end cabin upgrading programme and the "New Experience" to strengthen MAS competitive position is starting to show positive response in various markets.

The rising fuel and security costs as well as the global economic uncertainties will have a negative impact on the overall freight business globally. We anticipate marginal growth in cargo business.

Our effort to continue developing and expanding our transshipment business, enhancing our handling processes further and our relentless focus in driving costs down are some of the measures adopted in order for us to stay competitive.

4. PROFIT FORECAST OR PROFIT GUARANTEE

The Group has not provided any profit forecast or profit guarantee in a public document in respect of the quarter ended 30 June 2005.

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 30/6/2005 RM '000	Quarter ended 30/6/2004 RM '000	Period ended 30/6/2005 RM '000	Period ended 30/6/2004 RM '000
Current period				
- Malaysian	1,234	(494)	1,234	(494)
- Foreign	1,866	648	1,866	648
	3,100	154	3,100	154
(Over)/under provision in prior period	107	-	107	-
Deferred tax	908	(5,327)	908	(5,327)
Share of associated companies' taxation	624	294	624	294
Total	4,739	(4,879)	4,739	(4,879)

The Group provided Malaysian taxation for its subsidiaries. The application for extension of the tax exempt status for Malaysian taxation of the Company is still under consideration by the Ministry of Finance. In the current quarter, certain subsidiaries utilised its deferred tax asset or recognised its deferred tax liabilities amounting to net of RM0.9 million.

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

(a) The Redeemable Preference Shares (RPS) A of LSG Sky Chefs-Brahim's Sdn. Bhd. were redeemed at cost for a total of RM3.24 million on the following date:

Date	No. of RPS	Amount Redeemed RM'000
30 June 2005	13,500	3,244

(b) On 15 June 2005, the Company sold US Government Treasury Strip amounting to USD2.1 million under a defeasance arrangement for its fixed rate debt payment.

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

7. PURCHASE OR DISPOSAL OF QUOTED SECURITIES

(a) As at 30 June 2005, 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	-	30,225

There were no purchase or disposal of quoted securities during the quarter ended 30 June 2005.

8. CORPORATE PROPOSALS

There were no new proposals made during the quarter ended 30 June 2005.

9. GROUP BORROWINGS AND DEBT SECURITIES

The Group as at 30 June 2005 has lease obligation amounting to RM 1,461.4 million (31 March 2005: RM1,514.9 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.

10. FINANCIAL INSTRUMENTS

(a) As at 16 August 2005, the Group has entered into various fuel hedging transactions to cover from 1 July 2005 to 30 September 2007 in lots totalling 12,940,000 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.

(b) As at 16 August 2005, the Group has entered into various interest rate hedging contract transactions to cover from 1 April 2005 to 30 May 2014 amounting to RM2,865 million.

The accounting policy adopted is to charged related expenses as lease rental payment in the financial statements.

The fixed interest rates relating to interest rate hedging contracts at 16 August 2005 vary from 4.5% to 5% per annum.

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

11. 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 contesting the claim.

Securiforce Sdn. Bhd. and Securiforce Hi-Tech Cargo Sdn. Bhd. vs Malaysian Airline System Bhd. and Malaysia Airlines Cargo Sdn. Bhd. (MASKargo)

A writ of summons and statement of claim was served on MAS and its wholly-owned subsidiary, MASKargo, on 16 June 2005 by Securiforce Sdn. Bhd. and Securiforce Hi-Tech Cargo Sdn. Bhd.. MAS and MASKargo are challenging the claim.

12. DIVIDENDS

The directors do not recommend any dividend for the quarter ended 30 June 2005.

13. (LOSS)/EARNINGS PER SHARE

- (a) The basic loss per share for the current quarter is calculated by dividing the loss of RM280.7 million (2004: profit of RM26.6 million) by 1,253,243,866 ordinary shares (2004: 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 2005.

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 22 August 2005.

By Order of the Board

Rizani bin Hassan (LS 05125)
Company Secretary

Kuala Lumpur
22 August 2005

SUMMARY OF KEY FINANCIAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/6/2005 RM '000	Quarter ended 30/6/2004 RM '000	Period ended 30/6/2005 RM '000	Period ended 30/6/2004 RM '000
1. Total Revenue	2,846,288	2,439,470	2,846,288	2,439,470
2. (Loss)/Profit before tax	(274,834)	22,504	(274,834)	22,504
3. (Loss)/Profit after tax & minority interest	(280,660)	26,589	(280,660)	26,589
4. (Loss)/Profit for the period	(280,660)	26,589	(280,660)	26,589
5. Basic (loss)/earnings per share (sen)	(22.39)	2.12	(22.39)	2.12
6. Dividend per share (sen)	-	-	-	-
7. Net tangible assets per share (RM)	2.43	2.43	2.43	2.43

ADDITIONAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/6/2005 RM '000	Quarter ended 30/6/2004 RM '000	Year ended 30/6/2005 RM '000	Year ended 30/6/2004 RM '000
1. (Loss)/Profit from operations	(287,600)	7,661	(287,600)	7,661
2. Gross interest income	16,076	17,305	16,076	17,305
3. Gross interest expense	173	1,336	173	1,336