



MALAYSIAN AIRLINE SYSTEM BERHAD
(COMPANY NO.: 10601-W)
(INCORPORATED IN MALAYSIA)
QUARTERLY REPORT ON THE SECOND QUARTER ENDED 30 SEPTEMBER 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 second quarter ended 30 September 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 30/9/2005 RM '000	Quarter ended 30/9/2004 RM '000	Period ended 30/9/2005 RM '000	Period ended 30/9/2004 RM '000
Operating revenue	2,982,239	2,718,010	5,756,262	5,117,830
Operating expenses	(3,408,041)	(2,627,967)	(6,541,929)	(5,059,776)
Other income	52,555	56,123	124,820	95,773
(Loss)/Profit from operations	(373,247)	146,166	(660,847)	153,827
Finance costs	(2,033)	(940)	(2,206)	(2,276)
Gain on sale of engineering spares	9,712	-	18,956	-
Share of profits/(loss) from associated companies	3,535	(4,631)	7,230	11,548
(Loss)/Profit before taxation	(362,033)	140,595	(636,867)	163,099
Taxation	(4,845)	(7,493)	(9,584)	(2,614)
(Loss)/Profit after tax	(366,878)	133,102	(646,451)	160,485
Minority interest	(822)	(401)	(1,909)	(1,195)
(Loss)/Profit after tax	(367,700)	132,701	(648,360)	159,290
(Loss)/Earnings per share				
Basic (sen)	(29.34)	10.59	(51.73)	12.71

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	As at 30/9/2005 RM '000	As at 31/03/2005 RM '000
Aircraft modifications/retrofits, property and equipment	2,259,021	2,054,455
Investment in associated companies	49,129	46,845
Long term investments	133,212	147,831
Amount owing by fellow subsidiary	378,672	395,819
Deferred tax assets	100,106	103,219
<u>Current assets</u>		
Inventories	461,734	446,038
Trade receivables	1,236,329	1,131,824
Other receivables	544,905	428,670
Amount owing by holding company	4,110	445,483
Cash and bank balances	1,421,439	2,194,578
	3,668,517	4,646,593
<u>Current liabilities</u>		
Trade payables	1,702,627	1,968,436
Other payables	806,425	585,138
Provision for taxation	23,301	23,042
Sales in advance of carriage	1,403,902	1,487,752
	3,936,255	4,064,368
Net current (liabilities)/assets	(267,738)	582,225
	2,652,402	3,330,394
Shareholders' funds	2,639,041	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	(2,416,897)	(1,737,206)
Minority interests	12,615	10,706
<u>Long term liabilities</u>		
Deferred tax liabilities	746	956
	2,652,402	3,330,394
Net tangible assets per share (RM)	2.11	2.65

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	Period ended 30/9/2005 RM '000	Period ended 30/9/2004 RM '000
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
(Loss)/Profit before taxation	(636,867)	163,099
Adjustments for :-		
Share of results in associated companies	(7,230)	(11,548)
Depreciation of property and equipment	156,653	117,955
Gain on sale of aircraft, property and equipment	(7,012)	(442)
Gain on disposal of associated company	-	(27)
Gain on sale of engineering spares	(18,956)	-
(Writeback)/provision for doubtful debts, net	5,835	1
Unrealised foreign exchange (gain)/loss	(18,585)	2,714
Aircraft spares, property and equipment written off	3,112	4,526
Writeback of unavailed credits on sales in advance of carriage	(24,518)	(57,154)
Dividend income	(16,239)	(533)
Interest income	(24,309)	(31,004)
Interest expense	2,206	2,276
	(585,910)	189,863
Operating (loss)/profit before working capital changes		
(Increase) in inventories	(15,696)	(32,512)
(Increase) in receivables	(198,704)	(67,538)
Decrease/(Increase) in amount owing by holding company	441,372	(17,401)
(Decrease) in payables	(54,576)	(103,268)
(Decrease)/Increase in sales in advance of carriage	(59,333)	203,090
	(472,847)	172,234
Cash (used in)/generated from operating activities		
Interest paid	(2,187)	(2,234)
Taxes paid	(5,544)	(3,976)
	(480,578)	166,024
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sale of other investments	14,618	14,173
Purchase of aircraft, property and equipment	(364,729)	(349,513)
Purchase of other investments	-	(321)
Proceeds on sale of aircraft, property and equipment	7,410	613
Proceeds from disposal of associated company	-	79
Interest received	29,834	25,839
Dividend received	20,306	2,686
	(292,561)	(306,444)
Net cash used in investing activities		
NET DECREASE IN CASH AND CASH EQUIVALENTS	(773,139)	(140,420)
CASH AND CASH EQUIVALENTS AS AT 1 APRIL	2,194,578	2,190,893
CASH AND CASH EQUIVALENTS AS AT 30 SEPTEMBER	1,421,439	2,050,473



**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2005**

	Share capital RM '000	Non-distributable			Total reserves RM '000	Total RM '000
		Share premium RM '000	General reserves RM '000	Accumulated losses 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	-	-	-	(648,360)	(648,360)	(648,360)
Dividends	-	-	-	(31,331)	(31,331)	(31,331)
At 30 September 2005	1,253,244	3,301,164	501,530	(2,416,897)	1,385,797	2,639,041

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2004**

	Share capital RM '000	Non-distributable			Total reserves RM '000	Total RM '000
		Share premium RM '000	General reserves RM '000	Accumulated losses 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	-	-	-	159,290	159,290	159,290
Dividends	-	-	-	(31,331)	(31,331)	(31,331)
At 30 September 2004	1,253,244	3,301,164	501,530	(1,903,995)	1,898,699	3,151,943

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 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 September 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 period results.

6. SIGNIFICANT EVENT

There were no significant events for the period ended 30 September 2005.

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

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

There was no issuance, cancellation, resale or repayment of debt or equity securities for the period ended 30 September 2005.

8. DIVIDEND PAID

There was no dividend paid in the period ended 30 September 2005.

9. SEGMENTAL INFORMATION

BY BUSINESS ACTIVITIES	Quarter ended 30/9/2005		Period ended 30/9/2005	
	Operating revenue RM '000	Operating profit/(loss) RM '000	Operating revenue RM '000	Operating profit/(loss) RM '000
Airline operations	2,565,508	(381,814)	4,885,981	(676,129)
Cargo services	638,923	7,571	1,307,281	11,114
Catering services	4,787	1,348	9,631	3,373
Others	33,833	(352)	62,154	795
	3,243,051	(373,247)	6,265,047	(660,847)
Eliminations	(260,812)	-	(508,785)	-
Total	2,982,239	(373,247)	5,756,262	(660,847)

10. VALUATION OF ASSETS

There was no valuation of property and equipment for the period ended 30 September 2005.

11. SUBSEQUENT EVENTS

There were no material events subsequent to 30 September 2005.

12. CHANGES IN THE COMPOSITION OF THE COMPANY/GROUP

There were no changes in the composition of the Group for the period ended 30 September 2005.

**PART A - EXPLANATORY NOTES PURSUANT TO FRS 134, 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.

	<u>23/11/05</u> <u>RM '000</u>
1. Secured / Unsecured	
Loans	
- Secured	621,037
- Unsecured	122,871
Finance leases (secured)	<u>1,615,812</u>
	<u><u>2,359,720</u></u>
2. Tenure	
Loans and leases due within one year	1,077,191
Loans and leases due after one year	<u>1,282,529</u>
	<u><u>2,359,720</u></u>
3. Loans by currencies in Ringgit Malaysia	
US Dollar	2,192,352
Euro	122,871
British Pound	<u>44,497</u>
	<u><u>2,359,720</u></u>
(b) Others	
Corporate guarantees given to third parties	5,533
Bank guarantees given to third parties	121,517
Performance bonds given to third parties	<u>640</u>
	<u><u>127,690</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 2005 is RM898.53 million.

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

14. SIGNIFICANT RELATED PARTY DISCLOSURES

	Quarter ended 30/9/2005 RM '000	Period ended 30/9/2005 RM '000
Catering services paid to Evergreen Sky Catering Corporation	2,729	5,173
Catering services paid to Miascor Catering Services Corporation	317	637
Catering services paid to associated company, Taj Madras Flight Kitchen Limited	552	1,046
Catering services paid to associated company, LSG Sky Chefs-Brahim's Sdn. Bhd.	51,871	101,705
Computer reservation system access fee paid to Abacus International Holding Ltd.	49,486	64,950
Engine maintenance services rendered by associated company, GE Engine Services (M) Sdn. Bhd.	138,444	275,114
Purchase of aircraft, property and equipment from GE Engine Services (M) Sdn. Bhd.	24,249	44,759
Line maintenance and aircraft interior cleaning services paid to associated company, Pan Asia Pacific Aviation Services Ltd.	1,560	3,078
Aircraft component repair services paid to associated company, Hamilton Sundstrand Customer Support Centre (M) Sdn. Bhd.	1,451	3,748
Aircraft power plant unit overhaul services paid to associated company, Honeywell Aerospace Services (M) Sdn. Bhd.	1,568	3,179
Hire of aircraft paid to holding company, Penerbangan Malaysia Bhd	134,630	247,641
Aircraft lease rental paid to Aircraft Business Malaysia Sdn. Bhd.	65,283	128,512
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)	(7,549)
Shared services billed to LSG Sky Chefs-Brahim's Sdn. Bhd.	(7,460)	(19,338)

15. SIGNIFICANT RELATED PARTY BALANCES

	As at 30/09/2005 RM '000	As at 31/03/2005 RM '000
Amount owing by related party	6,338	6,393
Amount owing by associated company	3,957	2,644
Amount owing by fellow subsidiary		
- due within one year	37,044	43,168
- due after one year	378,672	395,819
Amount owing to associated company	35,179	31,096

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 RM373.2 million for the second quarter ended 30 September 2005 compared to an operating profit of RM146.2 million for the same quarter last year primarily due to the higher operating costs including fuel costs.

2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

Operating revenue for the quarter rose to RM2,982.2 million from RM2,774.0 million in the preceding quarter. The Group made a loss after tax of RM367.7 million compared to a loss after tax of RM280.7 million in the preceding quarter. The loss was primarily contributed by increases in operating costs as compared to the preceding quarter.

3. CURRENT YEAR PROSPECTS

The industry's passenger growth rate has shown some signs of slowing down. The increased level of fuel surcharge and the impact of high fuel price on global economic growth may have a dampening effect on travel demand in the near future.

Competition remains intense with new capacity injected by Middle East carriers to Australia, Asia and from US airlines across the Pacific as well as more direct flights mounted between Europe and India/China.

As for cargo, subdued growth especially in Europe, North America and to a lesser extent Asia is expected to continue. With increased freighter capacity, fuel surcharge and greater competition, the outlook for the cargo business is challenging.

The continued security and health concerns (risk of the spread of avian flu), high fuel prices and a lower global economic growth are the main external challenges facing MAS.

To meet the challenges ahead, MAS has embarked on various initiatives such as network optimisation and rationalisation, revenue enhancement, operating efficiency through fuel conservation, strategic procurement and improving organisational productivity.

4. PROFIT FORECAST OR PROFIT GUARANTEE

The Group has not provided any profit forecast or profit guarantee in respect of the period ended 30 September 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 30/9/2005 RM '000	Quarter ended 30/9/2004 RM '000	Period ended 30/9/2005 RM '000	Period ended 30/9/2004 RM '000
Current period				
- Malaysian	686	692	1,920	198
- Foreign	2,116	1,417	3,982	2,065
	2,802	2,109	5,902	2,263
Over provision in prior period	(207)	-	(100)	-
Deferred tax	1,994	5,053	2,902	(274)
Share of associated companies' taxation	256	331	880	625
Total	4,845	7,493	9,584	2,614

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.

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 RM6.488 million on the following dates:

Date	No. of RPS	Amount Redeemed RM'000
30 June 2005	13,500	3,244
21 August 2005	13,500	3,244
		6,488

(b) On 15 June 2005, the Company sold US Government Treasury Strip amounting to USD2.1 million (RM8,094,000) under a defeasance arrangement for its fixed rate debt payment.

(c) On 15 September 2005, the Company sold Aeronautical Radio of Thailand Ltd Class B shares amounting to RM34,000.

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

As at 30 September 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	-	29,437

There were no purchase or disposal of quoted securities during the period ended 30 September 2005.

8. CORPORATE PROPOSALS

There were no new proposals made during the period ended 30 September 2005.

9. GROUP BORROWINGS AND DEBT SECURITIES

The Group as at 30 September 2005 has lease obligations amounting to RM1,444.8 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 23 November 2005, the Group has entered into various fuel hedging transactions for periods up to 31 December 2007 in lots totalling 15,420,000 barrels.

The fuel hedging programme 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.

- (b) As at 23 November 2005, the Group has entered into various interest rate hedging contract transactions for periods up to 15 December 2015 for notional amount of RM5,008 million.

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

The fixed interest rates relating to interest rate hedging contracts as at 23 November 2005 vary from 4.5% to 5% per annum.

- (c) As at 23 November 2005, the Group has entered into foreign currency forward contracts and options amounting to RM346 million for periods up to 31 January 2006.

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 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.

Malaysian Airline System Berhad vs Tan Sri Dato' Tajudin bin Ramli, Ralph Manfred Gotz and Uwe Juergen Beck

On 19 October 2005, the Company filed a civil claim in Malaysia against its former Executive Chairman, Tan Sri Dato' Tajudin Ramli and two (2) other defendants. The claim against the defendants is for losses in relation to Cargo operations in Hahn airport.

12. 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 2005 was approved by the shareholders at the Annual General Meeting held on 19 September 2005. The entitlement date for the dividend payment was 7 October 2005 and was paid on 18 October 2005.

(b) The directors do not recommend any dividend for the quarter ended 30 September 2005.

13. (LOSS)/EARNINGS PER SHARE

(a) The basic loss per share for the current quarter is calculated by dividing the loss of RM367.7 million (2004: profit of RM132.7 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 September 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 30 November 2005.

By Order of the Board

Rizani bin Hassan (LS 05125)
Company Secretary

Kuala Lumpur
30 November 2005

SUMMARY OF KEY FINANCIAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/9/2005 RM '000	Quarter ended 30/9/2004 RM '000	Period ended 30/9/2005 RM '000	Period ended 30/9/2004 RM '000
1. Total Revenue	3,034,794	2,774,133	5,881,082	5,213,603
2. (Loss)/Profit before tax	(362,033)	140,595	(636,867)	163,099
3. (Loss)/Profit after tax & minority interest	(367,700)	132,701	(648,360)	159,290
4. (Loss)/Profit for the period	(367,700)	132,701	(648,360)	159,290
5. Basic (loss)/earnings per share (sen)	(29.34)	10.59	(51.73)	12.71
6. Dividend per share (sen)	-	-	-	-

ADDITIONAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Quarter ended 30/9/2005 RM '000	Quarter ended 30/9/2004 RM '000	Period ended 30/9/2005 RM '000	Period ended 30/9/2004 RM '000
1. (Loss)/Profit from operations	(373,247)	146,166	(660,847)	153,827
2. Gross interest income	8,233	13,699	24,309	31,004
3. Gross interest expense	2,033	940	2,206	2,276