CC/MR/PR1706
News Release

Malaysia Airlines reports end of year losses.

Business Turnaround Plan announced

Kuala Lumpur, 27 February 2006: Malaysia Airlines today reported a final quarter loss of RM616.4 million for October 2005 - December 2005 and a net loss of RM 1.3 billion for the financial period April 2005 - December 2005.

Revenue for the financial period was up by 10.3% or RM826.9 million, compared to same period for 2004, driven by 10.2% growth in passenger traffic. International passenger revenue increased by RM457.6 million or 8.4% to RM5.9 billion while cargo revenue decreased by RM64.1million or 4.2% to RM1.5 billion.

Costs increased by 28.8% or RM2.3 billion, amounting to a total of RM 10.3 billion, primarily due to escalating fuel prices. Other significant cost increases included staff costs, handling & landing fees, aircraft maintenance & overhaul charges, Widespread Assets Unbundling (WAU) charges & leases.

Fuel Costs

The most substantial factor for the losses was from fuel costs. For the period, the total fuel cost was RM3.5 billion representing a 40.4% increase compared to the same period in 2004. Total fuel cost increase comprised RM977.8 million due to higher fuel price and another RM157.6 million due to additional consumption.

In the third quarter, fuel costs amounted to RM1.26 billion compared to the RM1.01 billion in the corresponding period in 2004; resulting in 24.6% increase or RM249.3 million.

Other Operating Expenses

Staff costs for the financial year was RM1.2 billion, an increase of 20.6% compared to RM1 billion in 2004. Final quarter staff costs increased by 12.3%, compared to the same period last year. The increase for the financial year under review was attributable to the implementation of upward staff salary and allowance revisions.

The third largest cost item was aircraft maintenance & overhaul amounting to RM635 million which translates to a 23.1% increase compared to the year earlier. Third quarter maintenance & overhaul totalled to RM202.9 million, up 9.2% compared to the corresponding quarter. This increase, for the year, was due to some credits received from suppliers for year 2004, which lowered 2004 costs, and required redelivery maintenance checks in 2005.

For 2005, WAU and lease charges were RM372.2 million, reflecting a 78.4% increase against similar charges in 2004. The final quarter increase for these charges was 113.7% higher than the same quarter of 2004, totaling RM154.9 million due to revised lease rental rates and higher London Inter Bank Offer Rate (LIBOR) in 2005 compared to 2004.

Handling and landing fees rose 19.9% or RM202.4 million from 2004 to RM1.2 billion. Total handling & landing fees for the final quarter amounted to RM444.9 million, an increase of 25.8% or RM91.2 million. This increase was due to increase in number of stations and flights as well as under provisions from the financial year 2004.

In announcing details of the financial results, YM Tengku Azmil Zahruddin, Executive Director/Chief Financial Officer said, “When Mr Idris Jala came on board as Managing Director in December 2005, we were already examining various issues and factors that were leading us to the current financial situation. In the past three months, we have carefully conceptualized the initiatives required to turnaround the business. We are now ready to share the details of our plans and intensify the actions necessary to move forward positively.”

The MAS Way - Business Turnaround Plan

In announcing the Business Turnaround plan, Managing Director, Idris Jala, said: We are dedicated to the creation of a company that will be a source of pride and admiration for its employees and indeed all its stakeholders. The MAS of tomorrow will maintain its five-star product, have a competitive cost structure in the region, be renowned as being one of the best places to work in Malaysia, have closed much of the revenue performance gap to our peers and will return to profitability in 2007. We can do this, and we will.”

“A real business turnaround is an imperative for MAS. The management team, and our staff believes strongly in our ability to transform the business and, indeed, to go beyond expectations. MAS has done much to improve its performance over the last 5 years, and indeed last year. We have much to be proud of, and this work will form the foundation of our success,” he added.

Since early December 2005, the management team has dedicated itself to the development of a plan that builds off the actions taken by the Board in 2005 to begin the turnaround.

This turnaround plan will not only reverse the loss and return MAS to profitability, but also transform the company into a strong and vibrant institution—one that is capable of withstanding external shocks and aggressively tackling new opportunities.

The Business Turnaround Plan has been developed using the GLC Transformation Manual as a guide. It takes into account the recommendations in the manual and adapts these for implementation in MAS in the context of the business turnaround. The plan will enable MAS to realize a net income of RM500 million in 2008 – an all-time high profit for MAS – and to be well positioned to improve its net income even further.

It should be pointed out that when MAS announces its improvement turnaround amounting to RM1.1 billion in 2006, this does not necessarily mean that MAS will make a profit in 2006.

The headline KPIs in the scorecard are targets or aspirations set by the company as a transparent performance management practice. These headline KPIs should not be construed as either forecasts, projections or estimates of the company or representations of any future performance, occurrence or matter as the headline KPIs are merely a set of targets/aspirations of future performance aligned to the company’s strategy.

Any financial figures referred to as 'forecast' and 'estimates' in the Business Turnaround Plan for all intent and purposes are KPIs (as defined in point 1 above). Therefore they should also be treated as targets or aspirations set by the company as a transparent management practice.

The plan has five central thrusts, each symbolised by a tail of the venerable MAS symbol.

The MAS Way provides the framework for our Business Turnaround Plan:

1. Flying to win customers—MAS will reconfigure its network and product portfolio to ensure that it has the tools and capabilities to be a top-tier player.

2. Mastering operational excellence—MAS will build a unique operating capability. This capability will be reflected not only improved operational reliability, but also in higher productivity.

3. Financing and aligning the business on P&L—MAS will relentlessly increase profits with the support of a world-class finance function that ensures true financial accountability, transparency and performance orientation.

4. Unleashing talents and capabilities—MAS is committed to its people it has the passion and talent to achieve the goals.

5. Winning coalitions— MAS needs the resolute support of the Government, its employees, managers, customers, suppliers, agents and investors. It is only with the support of these stakeholders that MAS can have the mandate it needs to make the changes that will ensure long-term success.

The Business Turnaround plan has been carefully sequenced over the next 3 years to deliver cash, profitability and growth—in that order of intensity and focus. At the same time, we will continue to foster an environment that allows the talents of its people to be unleashed and to flourish.

In 2006, MAS is already undertaking a series of measures to raise RM4 billion in cash through internal and external sources to tide the airline through the current cash crisis. It is also tackling the biggest immediate profitability challenge: low yield. MAS has award-winning products and services, a competitive cost base, and a load factor that is only slightly below average.

In 2007, the plan will focus on improving efficiency and capabilities. In 2008, the focus will be on new growth opportunities.

- Review of FY2005 in Appendices A/B attached.
- Full details of *"The MAS Way: Business Turnaround Plan"* are available on the Malaysia Airlines website www.malaysiaairlines.com.

Issued by: Corporate Communications
Malaysia Airlines, Kuala Lumpur

For enquiries on this release:
Media Relations: Anbarasu Tel: (603) 2165 5034 HP: 0192224952
Investor Relations: Nova Ceceliana Nelson Tel: (603) 2165 5453 HP:0122777659

Appendix A

REVIEW OF FINANCIAL PERIOD ENDED 31 DECEMBER 2005 AGAINST 31 DECEMBER 2004.

Financials – A Closer Look

- Total revenue of RM8.9 billion, improved by 10.3% from RM8.0 billion for period ended 31 December 2004.
- Cargo revenue of RM1.5 billion, decreased by 4.2% or RM65.7 million compared to the corresponding period in 2004.
- Fuel cost of RM 3.5 billion, increased by 40.4% or RM1.0 billion, driven primarily by high fuel prices.
- Loss for the period RM1.3 billion, from a profit after tax of RM216.9 million, in 2004.
- As at 31 December 2005, cash balance reduced to RM1.2 billion from RM2.2 billion as at 31 March 2005.
- Shareholders funds decreased by 39.1% to RM2.0 billion
- Net assets per share decreased by 39.6% to RM 1.62 per share.

International Operations

Passenger

- Passenger uplift increased by 10.2% or 0.66 million for the year to 7.1 million.
- International passenger revenue of RM5.91 billion, improved by 8.4% from RM5.45 billion.
- Revenue passenger km (RPK) growth of 10.2% exceeded the available seat km (ASK) growth of 3.9%.
- There were improvements in seat factor, which increased by 4.1 percentage points or 6.1%.
- Yield (excluding fuel surcharge) decreased by 1.6% to 18.6 sen per RPK from 18.9 sen per RPK the previous corresponding year. Yield (inclusive fuel surcharge) increased by 3.1% to 19.8 sen from 19.2 sen in the previous corresponding period.

Cargo

- Cargo tonnage carried decreased by 0.1% to 405.5 million kg from 405.2 million kg.
- Load Tonnage Kilometers (LTKM) decreased by 5.5% to 1.95 billion TKM from 2.06 billion TKM
- Cargo load factor increased by 0.8 percentage points to 62.0%.
- Cargo yield (excluding fuel surcharge) increased to 74.8 sen per TKM from 73.8 sen per TKM which is an increase of 1.35%. Yield (inclusive fuel surcharge) increased to 90.2 sen from 81.8 sen which is a 10.3% increase.

Appendix B

DETAILS OF REVENUE & EXPENDITURE FOR FINANCIAL PERIOD ENDED 31 DECEMBER 2005 AGAINST 31 DECEMBER 2004.

Malaysian Airline System Berhad FY05 Results for the Period April 2005 – December 2005

	Period ended 31/12/05 RM'Mil	Period ended 31/12/04 RM'Mil	Variance RM'Mil	%
Revenue	**8,850.8**	**8,023.9**	**826.9**	**10.3**
Expenditure	**(10,329.4)**	**(8,024.4)**	**(2,305.0)**	**28.7**
Other income	231.1	227.1	4.0	1.8
Operating (loss)/profit	(1,247.5)	226.6	(1,474.1)	(650.5)
Finance cost	(5.8)	(0.1)	(5.7)	5,700
	(1,253.3)	226.5	(1,479.8)	(653.3)
Share of result of associated companies	12.1	15.3	(3.2)	(20.9)
(Loss)/profit before taxation	(1,241.2)	241.8	(1,483.0)	(613.3)
Taxation	(20)	(23.0)	3.0	(13.0)
(Loss)/profit after taxation before Minority Interest	(1,261.2)	218.8	(1,480.0)	(676.4)
Minority interests	(3.6)	(1.9)	(1.7)	(89.5)
(Loss)/profit for the period	**(1,264.8)**	**216.9**	**(1,481.7)**	**(683.1)**

Malaysian Airline System Berhad FY05 Expenditure for the Period April 2005 – December 2005.

	Period ended 31/12/05 Achieved RM'Mil	Period ended 31/12/04 Achieved RM'Mil	Variance RM'Mil	%
Fuel cost	**3,535.1**	**2,517.8**	**1,017.3**	**40.4**
Staff cost	**1,216.5**	**1,008.5**	**208.0**	**20.6**
Hire of aircraft & engines	1,085.1	1,024.8	60.3	5.9
Handling & landing fees	**1,217.7**	**1,015.3**	**202.4**	**19.9**
Commission & sales incentives	496.8	427.1	69.7	16.3
Aircraft maintenance & overhaul	**635.0**	**515.8**	**119.2**	**23.1**
Meal and other inflight expenses	389.8	342.7	47.1	13.7
Foreign exchange (gain)/loss	(17.9)	(20.0)	2.1	(10.5)
Advertising & promotions	130.7	119.3	11.4	9.6
Depreciation	173.8	149.6	24.2	16.2
WAU charges & leases	**372.2**	**208.6**	**163.6**	**78.4**
Rentals	84.3	78.8	5.5	7.0
Others	1,010.3	636.1	374.2	58.8
		-		
Total Expenditure	**10,329.4**	**8,024.4**	**2,305.0**	**28.7**