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## **MEDIA RELEASE**

### **Malaysia Airlines reports second quarter loss**

*Business transformation under way.*

*Kuala Lumpur, 30 November 2005* – Malaysia Airlines today released its second quarter results for the period ending September 2005, reporting a net loss of RM367.7 million. With the loss of RM280.7 million reported for the first quarter, the net loss for the six months is RM648.4 million.

The second quarter loss was primarily attributable to continuing high fuel prices. Fuel costs rose by 45% to RM1.2 billion, a significant rise from RM799 million for the second quarter of 2004. Other contributing factors included staff cost, handling and landing fees, aircraft and maintenance and overhaul charges and WAU charges and leases.

Compared to the corresponding period total revenue increased by 9.4% to RM3.0 billion in the second quarter driven by the 11.7% increase in international passenger traffic. International passenger revenues increased by RM238.7 million or 12% to RM2.2 billion while MASKargo revenues increased by RM11.6 million or 2% to RM581.2 million. However yields (excluding fuel surcharge) decreased by 1.5% to 18.8 sen compared 19.1 sen in the corresponding quarter.

### **On-Going Turnaround Initiatives**

In September Malaysia Airlines embarked on an operational and financial improvement programme, which focuses on intensifying efforts to grow revenue, increase yield and further enhance cost efficiency.

When announcing the results on behalf of the company, Chairman Dato' Dr. Mohamed Munir Abdul Majid said:

*“Systematic transformation initiatives are under way. However, while the company is already realizing several Quick Wins in areas such as revenue enhancement, procurement, fuel efficiency and automation of business services, it must be appreciated some issues of many years standing will take time to be resolved.”*

Following the establishment of the executive committee announced on 22<sup>nd</sup> August, management reporting along Lines of Business was instituted. A series of initiatives has been developed in each line of business. These include:

#### **Commercial:**

- Revenue Enhancement Program covering increased international fuel surcharge levels, deferment of new routes, aligning aircraft capacity to demand.
- Further initiatives include route development initiatives such as managing and aligning prices to competitive position and inventory management to maximise revenue.

Operations:

- The Fuel Efficiency Task Force strategically coordinated and monitored a series of 57 weight reduction and flight management initiatives.
- The Flight Planning Flight Following system to be implemented from May next year is aimed at optimising flight planning, conserving fuel and improving flight operations. Malaysia Airlines targets RM150 million saving per annum from this exercise alone.
- The Strategic Sourcing project is focusing on cost reduction in key areas of maintenance and engineering supplies and airline catering.

Business Services:

- The new revenue accounting system (RAPID) and integrated Human Resource Management System (iHRMS) will be implemented in Q1 FY 06 and Q2 FY 06 respectively. Both systems will support the process of transformation and improve service delivery.
- New Support Services line of business has been defined and established, driving systematic change to areas such as Finance Operations, HR Operations and IT Operations.
- Delivered immediate cost savings of RM28 million with further RM10 million savings planned to be delivered in the next 6 to 12 months.

Tengku Azmil Zahrudin, Executive Director who has been driving the change programme across the organization emphasized that the outcomes from these initiatives will only be visible to the bottom line in Phase 2 of the change program beginning 2006.

*“As the change program was initiated in September 2005 the results of our initiatives will only materialize in the coming months. We continue to focus on areas such as enhancing revenue, operational efficiency and corporate wide cost containment.”*

### **New Managing Director Comes On Board**

Malaysia Airlines' new Managing Director Mr. Idris Jala comes on board 1<sup>st</sup> December 2005 and will drive the Business Turnaround Road Map.

Idris, who has been with Shell since 1982, is presently Vice President of Shell Malaysia Gas & Power and Managing Director of Shell Middle Distillates Synthesis (SMDS) Malaysia Sdn. Bhd. Two years ago, Idris successfully led the business turnaround of SMDS. He also has substantial experience overseas which includes his appointment as Vice President, Business Development Consultancy, Shell International London in 2000 and Country Chairman and Managing Director Shell, Sri Lanka in 1998.

He will present the milestones of this Business Turnaround Road Map to the board tomorrow and will actively engage with all levels of staff.

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Malaysia Airlines, Kuala Lumpur.

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*For enquiries on this release:*

1) *Media: Anbarasu Tel: (603) 2165 5034 HP: 019 222 4952*

2) *Investor/Analyst: Nova Ceceliana Nelson Tel: (603) 2165 5453*

## **Appendix A**

### **HIGHLIGHTS OF SECOND QUARTER ENDED 30 SEPTEMBER 2005 AS AGAINST CORRESPONDING PERIOD.**

#### **Financials – A Closer Look**

- Total revenue of RM3.0 billion, improved by 9.4% from RM2.7 billion previously.
- Cargo revenue of RM581.2 million, improved by 2.0% from RM 569.6 million.
- Fuel cost of RM 1.2 billion, increased by 45% or RM360.6 million, driven primarily by high fuel prices.
- Loss after tax of RM367.7 million, from a profit after tax of RM132.7 million.
- As at 30 September 2005, cash balance reduced to RM1.4 billion from RM2.1billion the previous year.
- The primary use for the funds was to finance operations and the on-going investments to improve product and service standards, including airline retrofit exercises and various operational and support services systems.
- Shareholders funds decreased by 17.1% to RM2.6 billion
- Net tangible assets per share decreased by 17% to RM2.11 per share.

#### **International Operations**

- Passenger uplift increased by 0.25 million to 2.4 million when compared to the corresponding period in the previous financial year.
- International passenger revenue of RM2.2 billion, improved by 12% from RM1.98 billion.
- Revenue passenger km (RPK) growth of 11.1% exceeded the available seat km (ASK) growth of 4.4%.
- There were improvements in both seat factors, which increased by 4.4 points.
- Yield decreased by 1.5% to 18.8 sen from 19.1 sen the corresponding quarter.
- Cargo load tonnage flown decreased marginally by 2.2% to 130.9 million kg.
- Load factor improved by 0.3 pts to 62.2%