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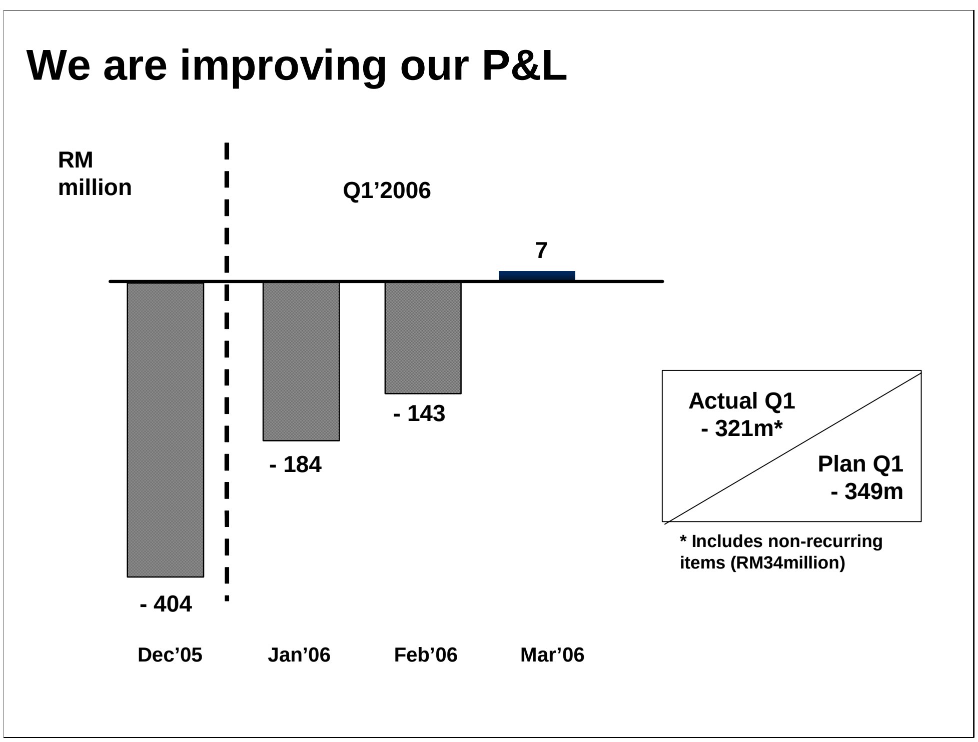
NEWS RELEASE

MALAYSIA AIRLINES ON THE ROAD TO RECOVERY

Kuala Lumpur, 29 May 2006 – Malaysia Airlines announced its Q1 2006 financial results which reflected encouraging progress in reducing monthly losses and delivering a small profit in March 2006.

Whilst its Q1 result highlights a loss of RM 321 million, there are 2 positive signs that Malaysia Airlines is on the road to recovery. Firstly, Malaysia Airlines beat its Q1 2006 target loss of RM 349 million. Its full year Business Turnaround target is to improve its business by RM 1.1 billion, thereby cutting its annual loss from RM 1.7 billion to RM 620 million. Secondly, considering that it made a loss of RM 404 million (which includes non recurring items) in the month of December 2005, by pursuing its Business Turnaround Plan, the airline is rapidly reducing its monthly losses of RM 184 million in January, RM 143 million in February and actually delivered a profit of RM 7 million in March 2006.



Whilst giving an update on the Business Turnaround Plan, Mr Idris Jala, Managing Director/Chief Executive Officer of Malaysia Airlines, said: "We are relentless in our pursuit of the Business Turnaround Plan - the MAS Way. We have a sound plan which we are committed to delivering and the monthly financials are beginning to reflect the results of the various initiatives."

In announcing the Q1 financial results, YM Tengku Azmil Zahruddin, Executive Director and Chief Financial Officer said: “Over the past few months, we have introduced a number of turnaround initiatives. Under our revenue enhancement program, measures implemented include tighter control of ticket inventory, excess baggage charge collection, increased fuel surcharge and collection of administration fees. At the same time, we have also reduced our expenditure in a number of areas – from staff costs and advertising & promotions to maintenance and inflight costs. All of these initiatives are now beginning to hit the bottom-line, which explains the uptrend in the revenue and the downtrend in the expenditure.”

Malaysia Airlines unveiled its Business Turnaround Plan in February 2006 which highlighted a prognosis of low yield, inefficient network and low productivity (overstaffing). To address this prognosis, Malaysia Airlines has to immediately focus on improving yield, restructuring its network and increasing productivity through manpower right-sizing.

Revenue/Yield Improvement

Passenger revenue (including fuel surcharge, admin fees and excess baggage charge) increased from RM 2,096 million in Q1 2005 to RM 2,151 million in Q1 2006, despite a capacity reduction of 5 per cent. This passenger revenue increase is due to 14 per cent yield improvement from 19.8 sen/RPK in Q1 2005 to 22.6 sen/RPK in Q1 2006. Since load was reduced by 10 per cent, it is important to identify if Malaysia Airlines has made the right trade-off between yield improvement and load factor.

The right measure to answer this question is Revenue per Available Seat Kilometer (RASK). This industry measure takes revenue (fuel surcharge and administration fee) for every available seat, regardless of whether the seat is filled with a revenue paying passenger. Using this industry measure, RASK has improved by 7 per cent from 14.5 sen/ASK in Q1 2005 to 15.5 sen/ASK in Q1 2006. This is reflective that the right balance is being achieved between yield and load factor.

In its attempt to improve the profitability of its cargo business, Malaysia Airlines has improved its cargo yield by 12 per cent sen/Load Ton Kilometre and load factor increased by 1 percentage point to 60.2 per cent. Cargo revenue (including fuel surcharge) increased by 4 per cent. However capacity dropped by 9 per cent as 2 freighters were removed from its fleet between Q1 2005 and Q1 2006. For Q2, Malaysia Airlines is taking delivery of 2 new 747-400F Boeing freighters which are the right aircraft for their cargo operations. This will improve its profitability in terms of fuel efficiency and load.

Said YM Tengku Azmil: "From the Q1 2006 results, it is clear that Malaysia Airlines is finally taking all the right actions to resolve its perennial problem of low yield. We are definitely closing the yield gap with our competitors. This is good news for Malaysia Airlines, going forward."

Network Restructuring

The network restructuring plan is based on the hub-and-spoke approach and the new domestic rationalisation policy announced by the Government. This will result in Malaysia Airlines' domestic routes being restructured from 118 to 19 routes, and international routes from 114 to 90. The domestic restructuring will be effective 1 August whilst the restructuring of the international sector is being implemented in phases. Phase 1 which includes rerouting via KLIA as the primary hub is complete. Phase 2 which required routes to be cut after exhaustive route profitability actions is 70% complete and the rest of Phase 2 will be implemented on 1 June. Phase 3 will be implemented over the next 6 months.

Malaysia Airlines is not just reducing its flights but is also improving connectivity and frequency on targeted routes. From 1 August, it will launch new flight schedules which will ensure that passengers enjoy better connectivity at KLIA. Currently, Malaysia Airlines operates only 2 daily waves of flight arrivals and departures but after 1 August, the airline will shift to 4 waves per day. This means Malaysia Airlines is improving its customer value proposition from a scheduling point of view. Flight scheduling is a critical criteria in the decision making process on customers' choice of airline.

Added Mr Idris Jala: "The network changes will reduce our losses significantly and directly add to our bottom-line by about RM 300 million next year. It will have only a small impact this year due to the phased implementation. In addition, the hub and spoke model and the improved scheduling will help to increase sales and load factors. Directionally, we are taking all the steps to put in place a robust and resilient network."

Manpower Rightsizing

On 22 May 2006, Malaysia Airlines announced the details of its Mutual Separation Scheme which fast tracks its intention to right size its workforce a year ahead of the schedule outlined in its Business Turnaround Plan. The MSS is a voluntary exercise and Malaysia Airlines expects the take-up rate from staff to be between 3,000 to 5,000. The airline targets to complete this exercise by 31 July 2006.

Cost Reduction

Operating costs in Q1 2006 increased by 9% or RM 284 million resulting in a cumulative total of RM 3.3 billion. The overall cost increase was primarily due to higher fuel expenditure which increased by RM 229 million compared to the corresponding quarter. Higher fuel prices alone represented 35% increase to fuel cost compared to the same period in 2005. The other cost increases were due to factors outside the control of Malaysia Airlines such as increase in airport, handling and landing charges (+RM 32 million), increase in interest rate which escalated aircraft and engine lease and charges (+RM 97 million), strengthening of the ringgit and provision for doubtful debts (+RM 106 million) and increases in depreciation cost (+RM 17 million) due to changes in FRS accounting rules.

On costs which Malaysia Airlines can influence, its cost reduction efforts are beginning to show encouraging results. By stopping new corporate advertising and sponsorship, the airline reduced costs by RM 74 million in Q1 2006 compared to Q1 2005. Staff cost was also reduced by RM 80 million through various measures including tighter control of overtime, reduced discretionary training, one-off provisions for bonus and unutilized leave in 2005. In flight costs, including catering, have been reduced in Q1 2006 by RM 11 million through wastage cuts and renegotiation of contracts. Maintenance costs were reduced by RM 54 million through tighter control and due to change in accounting estimates.

Month on month expenditure showed a reduction with RM1.2billion in January, RM1.1billion in February and RM1.0billion in March.

Excellent Brand, Product and Services

The national carrier continues to be recognised as an airline which stands tall amidst stiff competition. In Q1 2006, it has received 4 international awards for its excellent product and services ie Skytrax - Global winner for *Economy Class Onboard Service Excellence 2006*, Travel Weekly - *Best Airline to Asia*, Reader's Digest - *Platinum Brand Award*, Global Traveller - *Best New Business Class Seat.*

Words of Caution

Mr Idris Jala and YM Tengku Azmil both gave clear words of caution that despite the positive early signs, Malaysia Airlines still has a long way to go and the Business Turnaround Plan clearly states that it would take 2 years of real hard work to turnaround the business.

Added Mr Idris Jala: "We are definitely on track. We have excellent staff support in implementing The MAS Way. This is evident from the positive monthly trend in this first quarter. However we must be mindful of the lean demand period in the second quarter. April and May are typically the worst months during the year. As the airline business is seasonal in nature, it is not appropriate to make straight-line forecasts based on our results so far. In addition, the volatile fuel prices remain as a key challenge although we have hedged 70 per cent of our fuel in 2006.

"Going forward, we must relentlessly pursue the Business Turnaround Plan despite the challenges. This is a marathon and not a sprint. For us to win this long race, we need the support of our customers and all our stakeholders," he added.

Malaysia Airlines, the national air carrier of Malaysia, is one of Asia's largest, flying more than 40,000 passengers across 6 continents every day. Its current network links over 110 passenger and cargo destinations, served by a fleet of 113 aircraft, ranging from the largest 361-seater Boeing 747-400 to the 19-seater Twin Otter. It is the only airline in the world to offer direct air services connecting the South African cities of Johannesburg and Cape Town with Buenos Aires in Argentina.

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