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NEWS RELEASE

**MALAYSIA AIRLINES Q2 RESULTS EXCEED BUSINESS TURNAROUND PLAN
TARGET BY RM84 MILLION**

First time in 5 years better Q2 results than Q1

Kelana Jaya, 30 Aug 2006 – Malaysia Airlines Q2 results exceeded its Business Turnaround Plan target by RM84.0 million and for the first time in 5 years the results were better than Q1.

For the quarter ending June 2006, Malaysia Airlines reported a reduced loss figure of RM177.1 million compared to RM261.0 million targeted for the same quarter in the Business Turnaround Plan.

In comparison, a loss of RM321.0 million was registered in Q1 2006 and RM278.3 million in the corresponding quarter last year.

This was made largely possible through the successful implementation of initiatives to improve passenger yields, which grew by 18% for Q2 2006, in comparison to Q2 2005. This improvement also resulted in a revenue increase of 5% for Q2 2006 compared to Q2 2005 and revenue quality also improved with Revenue/ASK increasing by 15% to 15.7sen/ASK, although seat factor reduced by 1.8% for Q2 2006.

Likewise cargo yields improved 10.5% from 85.6 sen per Load Ton Kilometer (LTKM) for Q2 2005 to 94.6 sen/LTKM for Q2 2006. Revenue also registered a positive growth of 6% from RM 575.3 million for Q2 2005 to RM609.6 million for Q2 2006. Cargo load factor also registered a positive marginal growth from 62.4% for Q2 2005 to 62.6% for Q2 2006.

Mr Idris Jala, Managing Director/Chief Executive Officer of Malaysia Airlines, said: "Despite the existing challenges in the aviation industry, we are on track towards the success of the Business Turnaround Plan (BTP) – The MAS Way. Our yield improvement measures are showing results and we still need to intensify our effort. In addition our cost control initiatives are showing positive results and we are confident that with this continued focus, we can achieve the BTP's objective to bring back the company to profitability by 2008".

Rising fuel prices continues to be the main concern of the aviation industry. Malaysia Airlines too has been impacted by this cost but with prudent hedging policies and reduction of volume consumed, the impact was well managed for Q2 2006.

A 21% fuel price increase during this quarter was mitigated by effective hedging and reduction in volume consumed, thus resulting in a 14% cost reduction from RM1113.0 million for the quarter of last year to RM1099.0 million for this quarter.

Operating expenditure of RM2551.0 million for this quarter reflected at 31% reduction from RM2581.0 million of the same quarter last year, with the main reductions experienced in aircraft maintenance & overhaul (46%) and advertising & promotions (22%).

However, total expenditure increased by RM73.0 million or 2% from the corresponding period last year. This was primarily due to higher aircraft lease and WAU charges, which rose by 16.8% to RM534.0 million, due to the increase in LIBOR rate from 3.43% to 5.27% and leasing of 2 new B747-400 freighter aircraft during this quarter.

YM Tengku Dato' Azmil Zahrudin, Executive Director and Chief Financial Officer said: "With the initial successes of the BTP initiatives, we are further consolidating our revenue enhancement measures, including tighter control of ticket inventory, excess baggage charge collection, increased fuel surcharge and collection of administration fees. Concurrently we have reduced our operating costs covering manpower, fuel, distribution, advertising & promotions and aircraft maintenance & overhaul. These had and will continue to have a significant impact on the bottom line as evidenced by the continued improvement in revenue and reduction in expenditure."

Network Restructuring

The domestic route rationalisation took effect on 1 August 2006 with Malaysia Airlines now operating 23 trunk routes within Malaysia. As Malaysia Airlines has taken over the Profit and Loss of these 23 domestic routes, it has been given by the Government the full flexibility in determining the flight frequency, capacity, type of aircraft and airfare for the domestic services.

Malaysia Airlines has also been revamping its network in phases targeted to increase yields and improve network efficiency. In shifting from a 'point-to-point' to a 'hub-and-spoke' strategy, the national carrier has withdrawn from certain unprofitable routes and reconfigured its network and retimed its schedules to increase direct connectivity between Kuala Lumpur and international destinations.

Phase 1 and Phase 2 of the international network rationalisation have been completed.

Under Phase 3, a number of routes are being reviewed. To ensure that its loyal passengers can continue to travel to destinations that have been withdrawn, Malaysia Airlines has already entered into new code share agreements with Gulf Air signed on 03 Aug 2006 to market seats under its code on Gulf Air flights between Kuala Lumpur and Middle East cities of Bahrain and Oman effective 15th Sep 2006.

On 29 Aug 2006, Malaysia Airlines signed a partnership with Virgin Blue, the FIRST partnership between a full service carrier and an LCC to connect Malaysia Airlines international flights into Sydney, Melbourne and Brisbane with Virgin Blue's flights to 22 Australian cities. This will be extended to Adelaide and Perth in the next phase.

Malaysia Airlines is also exploring similar opportunities with other airline partners.

Outlook

The first six months showed strong traffic performance and this is expected to continue for the rest of 2006. However, competition remains intense and fuel prices will continue to be a major factor influencing profitability of airlines.

In the light of a high fuel cost environment, airlines continue to impose fuel surcharges which may dampen discretionary travel demand.

In the cargo division, Malaysia Airlines has received delivery of the second of two new Boeing 747-400F freighters on 3 June 2006. These two freighters are expected to elevate cargo's business to its full potential come 2008, and provide additional capacity to key markets.

With the changes that are currently being implemented, we are cautiously optimistic that our yields and load factors will continue to improve. As at 30 June 2006, Malaysia Airlines is on track to meet its target outlined in the Business Turnaround Plan.

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