

MEDIA STATEMENT

Kuala Lumpur, 2 September 2015

Fourth MAS Recovery Plan Quarterly Progress Update (1 June 2015 – 31 August 2015)

One year after the launch of the MAS Recovery Plan, Malaysia Airlines Berhad commences operations, marking the official transition from MAS to MAB

- Implementation of the 12-Point MAS Recovery Plan (“MRP”) continues and is on track and on schedule after 12 months
- Critical milestones and progress achieved in the previous quarter:
 - Malaysia Airlines Berhad (“MAB”) was issued Air Operator Certificate (“AOC”) and Air Service License (“ASL”) by the Department of Civil Aviation, and formally commenced first day of operations on 1 September 2015. This marks the official transition from Malaysian Airline System Berhad (“MAS”) to MAB
 - MAB’s senior management continues to be strengthened with further appointments for key leadership positions
 - MAS legally effects transfer of selected assets and liabilities to MAB, facilitated by the Malaysian Airline System Berhad (Administration) Act 2015
 - 98 percent of MAS staff offered employment at MAB have accepted the offer. Approximately 13,000 employees commenced work at MAB on 1 September 2015, out of which 9,000 are on permanent employment while the rest on short-term contract employment. In addition, there are in total approximately 2,000 employees of subsidiaries such as Firefly, MASkargo and MASwings
 - Approximately 75% of MAS employees who did not receive MAB employment offers have registered themselves with the Corporate Development Centre (“CDC”) for training and job placement support. CDC has conducted various career training sessions, and organised career fairs and job interviews to assist the exiting staff
 - Comprehensive efforts to reset the operating business are on-going, including more than 100 projects aimed at repairing revenue, optimising cost and putting in place enablers to facilitate the restructuring effort

Khazanah Nasional Berhad (“Khazanah”) today issued the fourth scheduled update on the ongoing restructuring of MAS for the period, 1 June 2015 to 31 August 2015. The restructuring continues to show sustained progress in all key areas under the five-year 12-point MRP announced on 29 August 2014.

The MRP Quarterly Updates are issued to provide regular updates to the public on the progress of the restructuring. The first, second and third MRP Quarterly Progress Updates were issued on 28 November 2014, 2 March 2015, and 1 June 2015 respectively.

A recap of the first nine months

Over the first nine months, strong and discernible progress was reported across the four main areas of the MRP, namely Governance and Financial Framework, Operating Business Model, Leadership and Human Capital, and Regulatory and Enabling Framework.

The major milestones achieved during the period concerned include the following:

- Approval of Khazanah’s selective capital reduction and repayment (“SCR”) proposal by MAS minority shareholders, the delisting of MAS from Bursa Malaysia, and the incorporation of the new company, Malaysia Airlines Berhad (“MAB”)
- Coming into force of the Malaysian Airline System Berhad (Administration) Act 2015 after being passed by Parliament, and the appointment of a MAS Act Administrator to facilitate the transfer of selected assets and liabilities from MAS to MAB
- Passing of the Malaysian Aviation Commission Act 2015 by Parliament
- Disbursement of conditional investment funding by Khazanah for the following purposes:
 - RM1.38 billion as payment to shareholders following the successful completion of the SCR
 - RM586 million for restructuring expenses
- Appointment of Christoph Mueller as CEO of MAB. Mueller was also made MAS CEO in May 2015, taking over from Ahmad Jauhari Yahya under an accelerated leadership transition
- New catering agreements between MAB and Brahim’s Airline Catering Sdn Bhd (“BAC”), benchmarked against international standards and based on industry best practices. A comprehensive review of MAS’ supply contracts was undertaken, during which 4,000 contracts were identified for renegotiation, termination or novation to MAB
- Workforce rightsizing exercise which saw approximately 13,000 MAS employees being offered employment at MAB, and the provision of termination and transition packages comprising payments and benefits costing up to RM1.5 billion in total
- Establishment of the Corporate Development Centre (“CDC”) to provide training and placement services for exiting MAS employees
- On-going initiatives to reset the operating business model, including putting the airline in a competitive cost position, network and fleet rationalisation, and focus on revenue management
- Formation of a Governance and Ethics Committee (“GEC”) to oversee the strengthening of assurance, integrity and safety functions
- Employee Consultative Council (“ECP”) meetings convened, involving representatives from all recognised unions and employee associations, to strengthen industrial relations and ensure internal alignment on the restructuring effort

The following are details on the progress recorded during the 1 June 2015 to 31 August 2015 period:

1. Right-sizing the workforce

Approximately 98 percent of MAS employees who were offered employment with MAB have accepted their offers. On 1 September 2015, approximately 13,000 employees commenced work at MAB. In addition, there are approximately 2,000 employees of subsidiaries such as Firefly, MASkargo and MASwings, which were not subject to the workforce right-sizing exercise.

The 13,000 MAB employees comprise approximately 9,000 employees on permanent employment, while the rest are on short-term contracts ranging from three months to 12 months.

To recap, the complete overhaul of MAS under the MRP calls for a workforce rightsizing exercise, guided by the principles of fairness, transparency and compassion. The exercise was conducted after a robust and rigorous talent selection process. With the cessation of MAS' business, all MAS employees received termination letters beginning 1 June 2015, while over 13,000 employees were offered employment at MAB.

Employees exiting MAS were given a termination package based on a formula similar to that under their Collective Agreements. The package also includes medical benefits for 12 months post-termination, and an additional "safety net" payment to vulnerable groups – physically-challenged employees, single parents and married couples where both spouses were exiting. In addition, MAS employees who were offered and accepted employment at MAB will receive sign-on and retention payments. The respective payments will be disbursed beginning 7 September 2015.

Payments and benefits provided to employees joining MAB and those exiting MAS will cost up to RM1.5 billion in total.

2. Reskilling and redeployment

Approximately 75% of MAS employees who did not receive MAB employment offers have registered with the Corporate Development Centre ("CDC"), which began operations on 1 June 2015. CDC offers free training and outplacement services for exiting MAS employees. A wide range of services are available including talent profiling, career counseling, basic and detailed training, job-seeking skills, entrepreneurship, retirement planning and placement.

CDC has conducted career profiling, career counseling and basic training to assist registrants in the transition to a new phase of their lives. CDC has also organised career days and job interviews, with over 70 potential employers offering more than 3,000 job opportunities, including in the aviation-related sector, hospitality and business process outsourcing industries.

The CDC's main training facility is located at the MAS Academy in Kelana Jaya in Petaling Jaya. CDC's services are also available at the following partner facilities:

- Penang Skills Development Centre, Penang
- Sarawak Skills Development Centre, Kuching
- Sabah Skills Development Centre, Kota Kinabalu
- Selangor Human Resource Development Centre, Shah Alam

** Opened on an as-needed basis*

3. Conditional investment funding of up to RM6 billion and reduction of net gearing

Khazanah will soon disburse RM1.3 billion in conditional investment funding for payments related to the respective termination packages received by MAS employees under the workforce rightsizing exercise.

In total, including the RM1.3 billion mentioned, Khazanah would have disbursed a total of approximately RM3.2 billion out of the RM6 billion in conditional investment funding allocated to the restructuring effort, subject to strict conditions being met.

4. New operating business model and operational transformation

Further fine-tuning of MAB's business plan is ongoing. More than 100 projects have been identified to reset the operating business model. They involve improving revenue, optimising cost and instituting enablers to facilitate an effective restructuring of the airline. Steps have also been taken to suspend non-profitable routes in the last three months, with further route rationalisation being considered.

The airline is on track towards becoming a sustainably profitable, principally commercial national carrier that supports national development objectives, while remaining a full-service international airline that maintains its current domestic routes and a regional "backbone" with broad global connectivity through partnerships.

5. Review of supply contracts

A comprehensive review of all MAS supply contracts has been completed, during which the contracts were identified for renegotiation, termination or novation to MAB. Several large supply contracts have been successfully renegotiated, such as the new catering agreements with Brahim's Airline Catering Sdn Bhd. Selected foreign and local supply contracts have been novated to MAB, while the renegotiation of several others continues.

The review and renegotiation of supply contracts are crucial towards setting the airline on the path to recovery and sustained profitability.

6. Leadership

An exhaustive and comprehensive process is ongoing to identify internal and external talent for key leadership and senior management positions.

Leadership appointments made in the quarter under review were as follows:

- Chief Commercial Officer, Paul Simmons
- Chief Operations Officer, Peter Bellew
- CEO of MAB Ground Handling Services Sdn Bhd, Mohd Nadziruddin Mohd Basri
- Head of Corporate Communications, Faridah Hashim
- Company Secretary, Dato' Sabrina Albakri Abu Bakar
- Executive Counsel, Nik Azli Abu Zahar
- Head of Information Technology, Tan Kok Meng
- Head of Sales, Laurent Recoura
- Head of Marketing, Charles D. McKee
- Interim Chief Human Resources Officer, Claudia Maria Cadena Tarazona

7. Government support for key initiatives

MAB has received the necessary Air Operator Certificate (“AOC”) from the respective civil aviation authorities of the 25 countries that it is operating in, including Malaysia’s Department of Civil Aviation.

In addition, the Malaysian Aviation Commission Act 2015 passed by Parliament in April 2015 is expected to be gazetted before the end of the year. The Act provides for the establishment of an aviation commission whose key functions includes the regulation of economic matters relating to the civil aviation industry; provision of mechanisms for the protection of consumers and for dispute resolution between aviation services providers; and administration and management of public service obligations.

8. Strengthening industrial relations

Five Employee Consultative Panel (“ECP”) meetings have been held since December 2014. The meetings were attended by representatives of all recognised unions and employee associations, and representatives from non-unionised staff. In addition, there have been regular engagements with recognised unions and employee associations through other formal channels and platforms.

The ECP provides a platform to help boost alignment between employees, unions and management, and for a genuine exchange of views and ideas through dialogue and collaboration. Concurrently, all staff are being engaged and updated on the ongoing restructuring via in-house channels such as the corporate intranet, newsletters, letters from the CEO, social media and through other direct outreach initiatives.

9. Consolidation at KLIA

The move from Subang to MAB’s headquarters in KLIA commenced in July 2015, with the first official reporting day for staff being on 17 August 2015. The headquarters is an existing facility which was renovated to accommodate the move of operations to KLIA.

10. Strengthening assurance, integrity and safety

A Governance and Reporting Framework for MAB is being designed to allow for greater employee empowerment and reduced bureaucracy.

The framework is part of the broader efforts to strengthen key control and operational systems, as called for by the MRP. These efforts include the setting up of the Governance and Ethics Committee (“GEC”), which held its first meeting in March 2015. The GEC is a sub-committee of the Board of Directors.

In addition, MAS received the Enhanced International Air Transport Association (“IATA”) Operational Safety Audit (“E-IOSA”) recertification in July 2015. MAS had in March 2015 completed a voluntary E-IOSA audit.

11. Continuous communications and stakeholder engagement

External and internal engagements and communications continue across all stakeholder groups to help ensure the smooth implementation and further progress of the restructuring effort towards a successful outcome.

The MRP Quarterly Progress Updates have been issued for the past four quarters since the launch of the MRP in August 2014. With the operationalisation of MAB on 1 September 2015, subsequent updates will be issued by the company, in line with the commitment under the MRP to provide continuous and proactive communication to stakeholders, especially the public, on the restructuring effort.

ENDS

For further information on Khazanah, please visit www.khazanah.com.my or contact Mohd Raslan Md Sharif at +603 2034 0000, or e-mail at raslan.sharif@khazanah.com.my.

About Khazanah Nasional Berhad

Khazanah is the strategic investment fund of the Government of Malaysia entrusted to hold and manage the commercial assets of the Government and to undertake strategic investments. Khazanah is involved in various sectors such as power, telecommunications, banking, healthcare, airport management, infrastructure, leisure & tourism, property development, broadcasting, investment holding, and technology. Some of the key listed companies in Khazanah’s investment portfolio include Telekom Malaysia Bhd., Tenaga Nasional Bhd., CIMB Group, Axiata Group Bhd., IHH Healthcare Bhd., Malaysia Airports Holdings Bhd., and UEM Sunrise Bhd.

For further information, please visit www.khazanah.com.my