

MEDIA STATEMENT
Kuala Lumpur, 2 June 2015

Third MAS Recovery Plan Quarterly Progress Update (1 March 2015 – 31 May 2015)

Nine months on, significant progress made as MAS restructuring enters critical phase

- Implementation of the 12-Point MAS Recovery Plan (“MRP”) continues and is on track and on schedule after nine months
- Critical milestones and progress achieved in the previous quarter:
 - Christoph Mueller became CEO of Malaysian Airline System Berhad (“MAS”) on 1 May 2015 in an accelerated leadership transition
 - Workforce right-sizing has commenced after a robust, systematic and detailed talent selection process:
 - Over 14,000 MAS employees offered employment at the new company (“NewCo”) Malaysia Airlines Berhad (“MAB”). The large majority were offered full-time employment while the rest were offered contract employment of various durations
 - Employees exiting MAS by 31 August 2015 will receive a termination package that includes payment based on a formula similar to that under existing Collective Agreements at MAS, and free training and placement services at the Corporate Development Centre (“CDC”), which has identified over 12,000 job opportunities available for exiting MAS staff
 - Payments and benefits provided to both employees joining NewCo and leaving MAS will total up to RM1.5 billion
 - Route rationalisation is underway with the suspension of selected non-profitable routes. Moving forward, the national carrier will be principally commercial while supporting national development objectives, provide broad connectivity via partnerships, and offer refreshed premium products.
 - Malaysian and international media briefed on plans for NewCo by Mr. Mueller on 1 June 2015
 - Pursuant to the Malaysian Airline System Berhad (Administration) Act 2015 (“MAS Act”), a MAS Act Administrator was appointed on 25 May 2015
 - Commitment of RM6 billion in conditional investment funding in total from Khazanah for both MAS and NewCo, continues to be in place and will be disbursed on a staggered basis and subject to strict conditions being met
 - MAB and Brahim’s Airline Catering Sdn Bhd (“BAC”) on 10 May 2015 entered into new catering agreements that are benchmarked against international standards and industry practices
 - The Malaysian Aviation Commission Bill 2015 was passed by both houses of Parliament in April 2015

Khazanah Nasional Berhad (“Khazanah”) today issued the third scheduled update on the on-going restructuring of MAS for the period 1 March 2015 to 31 May 2015, showing steady and sustained progress in all key areas under the five-year 12-point MRP announced on August 29 last year. The first and second MRP Quarterly Progress Updates were released on 28 November 2014 and 2 March 2015, respectively.

A recap of the first six months

Over the first six months, strong progress was made across the four main areas of the 12-point MRP, namely Governance and Financial Framework, Operating Business Model, Leadership and Human Capital, and Regulatory and Enabling Environment.

As highlighted in the first MRP Quarterly Progress Update, the first three months of the restructuring saw several critical milestones achieved, including the approval of Khazanah’s selective capital reduction and repayment (“SCR”) proposal by MAS minority shareholders, the incorporation of a new company (“NewCo”) Malaysia Airlines Berhad (“MAB”), and the passing of the Malaysian Airline System Berhad (Administration) Bill 2014 by the Dewan Rakyat.

In the second MRP Quarterly Progress Update, further progress was reported in the following three months, including the disbursement of RM1.38 billion in conditional investment funding as payment to shareholders following the successful completion of the SCR, the delisting of MAS, and the MAS Act coming into effect on 20 February 2015 after being passed by both houses of Parliament last year.

Another key development was the announcement of former Aer Lingus CEO Christoph Mueller as CEO-designate of NewCo on 5 December 2014. Mr Mueller was also appointed Non-Executive Director of MAS, together with Celcom Axiata Berhad CEO, Dato’ Sri Mohammed Shazalli Ramly, on 1 January 2015. Mr. Mueller was later made CEO and Managing Director of MAS on 1 May 2015, and will be the CEO of NewCo upon commencement of its operations on 1 September 2015.

On 27 February 2015, MAS and Brahim’s Airline Catering Sdn Bhd (“BAC”), entered into a settlement agreement for an interim period commencing 1 October 2014 to 31 March 2015. The agreement provides a 25% reduction on monthly bills to MAS as well as a settlement on disputed amounts owed to BAC. Since then, MAB and BAC have entered into new catering agreements that are based on international norms and industry best practices (*see below for more details*).

The following are details on the progress recorded during the 1 March 2015 to 31 May 2015 period:

1. Right-sizing the workforce

The 12-point MRP calls for a complete overhaul of MAS that is guided by the principles of fairness, transparency and compassion. The comprehensive restructuring effort includes the rightsizing of the MAS workforce, which has started after a robust and rigorous talent selection process that strived hard to be fair and transparent. The selection process was completed in the previous reporting quarter.

With the upcoming cessation of MAS business, all MAS employees received termination letters on 1 June 2015. On the same day, over 14,000 employees received offers for employment at NewCo. The large majority received offers for full-time employment while the rest were offered contract employment at NewCo, with various contract durations ranging from four months and upwards. The reduced workforce at NewCo is driven primarily by operational requirements of the new airline. As such, not all employees who possessed the talent and experience that matched NewCo's needs have been offered employment.

Employees exiting MAS by 31 August 2015 will receive a termination package based on a formula that is similar to those under existing Collective Agreements. The package includes medical benefits, and an additional "safety net" payment to vulnerable groups of exiting employees (physically-challenged employees, single parents, and married couples where both spouses are exiting). Employees who are offered and accept employment at NewCo will receive sign-on and retention payments. Payments and benefits provided to both employees joining NewCo and leaving MAS will total up to RM1.5 billion.

All employees have been provided with a detailed guidebook on employment transition, while those joining NewCo have been given employee handbooks which include the terms and conditions of employment at NewCo. In addition, a helpline has been set up to assist employees on any query or clarification sought.

2. Reskilling and redeployment

The Corporate Development Centre ("CDC") opened its doors on 1 June 2015. It offers free outplacement and training services for exiting MAS employees to help them make the most of their skills and talents, and plan for their future. A broad range of services are available, including talent profiling, career counseling, basic and detailed training, job-seeking skills, entrepreneurship, retirement planning and placement.

As of end May 2015, more than 12,000 job opportunities are available for exiting MAS staff, through the CDC's placement services.

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

- Penang Skills Development Centre, Penang
- Sarawak Skills Development Centre, Kuching
- Sabah Skills and Technology Centre, Kota Kinabalu
- Johor Skills Development Centre, Johor Bahru*
- Pahang Skills Centre Development Centre, Kuantan*

** To be opened on an as-needed basis*

The CDC team consists of 60 experienced professional trainers and placement counselors nationwide, with more being added. Individuals who are seeking a new job will be advised and guided by career counselors on career opportunities based on their preferences, previous job experience and skills. CDC's placement professionals will then seek prospective employers that

have job opportunities matching their talents. Areas of personal development and interests will also be taken into consideration in planning for their future career. For individuals seeking to upskill, CDC currently offers over 400 programmes, courses and classes that are relevant to the market across industries.

3. New operating business model and operational transformation

MAS has taken steps to suspend non-profitable routes, namely to Kunming, Frankfurt, Krabi and Cochin, with further route rationalisation being considered.

Moving forward, the national carrier will be principally commercial while supporting national development objectives, flying Malaysians to the world and bringing the world to Malaysia. It will remain a full-service international airline, maintaining current domestic routes and a regional “backbone” with broad connectivity globally through partnerships. NewCo’s network will serve, among others, the ASEAN, China, India and domestic markets, with service to key international destinations in Japan, South Korea Australia, New Zealand, United Kingdom and Saudi Arabia. The network will also have an expanded reach into Africa, United States and Europe via potential partnerships that are being explored.

In building a new national icon, the national carrier will feature a refreshed Malaysian-centric brand with a truly new start-up company outlook. It will have a young fleet and offer premium positioning that upholds the reputation for award-winning service. There will be a product refresh for all long-haul flights, including flat beds in Business Class and an improved inflight entertainment system. A new catering concept with less complexity but superior ingredients and quality will also be introduced. In addition, customers will have the flexibility to customise their flight experience to cater to their requirements.

The national carrier will aspire to be an “employer of choice” and further enhance its internal employee development and training structures to become a top talent incubator for the nation.

4. Review of supply contracts

More than 4,000 contracts have been identified under a comprehensive review of MAS’ contracts. Discussions have been initiated and continue on contracts that have been selected for renegotiation. The review and renegotiation of supply contracts are crucial towards setting the airline on a path to recovery and sustainable profitability.

On 10 May 2015, MAB and Brahim’s Airline Catering Sdn Bhd (“BAC”) entered into two new catering agreements (“NCAs”) that are benchmarked against international standards and based on industry best practices.

Overall, the NCAs provide for a strict service level agreement and key performance indicators (KPIs) to be adhered to, considerably improved pricing, non-exclusivity and a shortened tenure, compared with the previous catering agreement. Pending the operationalisation of MAB on 1 September 2015, MAB will assign the services to MAS in accordance with the agreed terms and conditions of the NCAs.

The key details of the NCAs are as follows:

- Two separate contracts covering “Wide Body Aircraft” flights and “Narrow Body Aircraft” flights, respectively, in line with international norms
- The NCAs commenced on 10 May 2015 with a Transitional Period during which the terms of the existing Catering Agreement and the Settlement Agreement which was executed on 26 February 2015 shall apply, with the full terms of the NCAs to be effective on 1 September 2015 or on such other earlier date as BAC and MAB may agree in writing.
- The initial tenure of the NCAs shall be for a period of five years, with an additional five years renewal subject to strict conditions including BAC meeting critical KPIs over the initial five years; no breach of specified Key Events which will trigger a Termination of the NCAs; and upon mutually agreed pricing for the extended term of the next five years.
- The NCAs contains a new pricing methodology, and when coupled with future new product offerings and menu structure at MAB, effectively provides for a 20-25% reduction of catering cost over the previous catering agreement.

5. Leadership

On 1 May 2015, Christoph Mueller was appointed MAS Managing Director and CEO, taking over from Ahmad Jauhari Yahya in an accelerated leadership transition. At the same time, Ahmad Jauhari was appointed Non-Executive Director on the MAS Board.

The accelerated transition enables Mr. Mueller to lead the overall MAS restructuring effort as it enters one of its most critical phases.

Mr. Mueller also takes over responsibilities as Chief Commercial Officer on 1 June 2015, following the resignation of Director of Commercial Dr. Hugh Dunleavy, effective 31 August 2015.

In addition, Tan Kok Meng was appointed Chief Information Officer (“CIO”) on 18 May 2015. Prior to his appointment, Tan was the Group CIO & Head, Regional Shared Services of Malayan Banking Berhad.

A comprehensive process has been undertaken to identify internal and external talent for key leadership and senior management positions, with the primary selection criteria being relevant industry expertise and experience. Appointments for these positions will be announced as they are made in the coming weeks and months ahead.

6. Appointment of Administrator for MAS under the MAS Act 2015

The Malaysian Airline System Berhad (Administration) Act 2015 (“MAS Act”) provides for an effective, efficient and seamless means to transition the business, property, rights, liabilities and affairs of MAS to MAB.

Pursuant to the MAS Act, Khazanah as the sole shareholder MAS, appointed Dato’ Mohammad Faiz Azmi as an Administrator for MAS (“MAS Act Administrator”) on 25 May 2015. The MAS Act Administrator will facilitate the transfer of selected assets and liabilities from MAS to NewCo, effectively by 1 September 2015.

The transition from MAS to NewCo is a key component of the MRP, which also includes conditional investment funding by Khazanah of up to RM6 billion, disbursed on a staggered basis and subject to the fulfillment of strict conditions.

7. Government support on key initiatives

The Malaysian Aviation Commission Act 2015 (“Act”) was passed by Parliament in April 2015. The Act provides for the establishment of an aviation commission to, among other functions, regulate economic matters relating to the civil aviation industry; provide mechanisms for the protection of consumers and for dispute resolution between providers of aviation services; administer, allocate and manage air traffic rights; monitor slot allocation for airlines or other aircraft operators; and administer and manage public service obligations.

Meanwhile, engagements with key stakeholders to ensure a seamless transition to NewCo are also continuing, involving relevant Government ministries, domestic and international agencies such as the Department of Civil Aviation (“DCA”), International Air Transport Association (“IATA”), and International Civil Aviation Organization (“ICAO”).

8. Strengthening industrial relations

The third and fourth Employee Consultative Panel (“ECP”) meetings were held on 13 May 2015 and 26 May 2015, respectively. The meetings were attended by all recognised unions, employee associations and representatives from non-unionised staff.

Discussion during the third ECP meeting encompassed sharing of the overall progress of the MRP, concepts for NewCo’s business plan, separation scheme, NewCo employment terms and conditions, and salary structure. At the fourth ECP meeting, topics of discussion included the Administrator’s role and functions, and separation scheme.

On 2 June 2015, an ECP meeting was held to further discuss employee matters, including clarification on termination packages and benefits, as well as matters related to employment at NewCo. The discussions will help to further ensure a smooth and appropriate transition for employees.

The unions and employee associations that attended the ECP meetings were:

- Malaysia Airlines Pilots’ Associations (MAPA)
- Malaysian Airline System Managerial Staff Association (MASMA)
- Malaysia Airline System Executive Staff Association (MESA)

- Malaysian Airline System Employees' Union Peninsular Malaysia (MASEU)
- Sabah Executive Staff Association of Malaysian Airline System (SEAMAS)
- Sarawak Executive Staff Committee (SESC)
- Airlines Workers Union Sarawak (AWUS)
- Air Transport Workers' Union Sabah (ATWUS)

The ECP is intended to help boost alignment between employees, unions and management, and to provide a platform for a genuine exchange of views and ideas through dialogue and collaboration.

Concurrently, all MAS staff are being regularly engaged and updated on the ongoing restructuring via in-house channels such as MAS' intranet, newsletters, letters from the CEO, social media and through other direct outreach initiatives.

9. Consolidation at KLIA

MAS employees who accept the offers of employment at NewCo will move from Subang to KLIA beginning in August 2015. The renovation work at the Support Facility Building for the staff transferred to the facility has been completed.

10. Strengthening assurance, integrity and safety

The first Governance and Ethics Committee ("GEC") meeting was held on 10 March 2015. The GEC is a sub-committee of the MAS Board, with members comprising Independent Non-Executive Directors.

At the meeting, the members adopted the terms of reference of the GEC as well as a framework for integrity and compliance, which aims to instill and embed a culture of integrity, and implement a system for monitoring and reporting of incidents and actions taken.

In addition, MAS concluded the voluntary Enhanced International Air Transport Association ("IATA") Operational Safety Audit ("E-IOSA") in March 2015. This is aimed at enhancing operational safety and security practices at MAS. The airline is expected to receive the E-IOSA certificate in mid-June 2015.

11. Continuous communication and stakeholder engagement

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

On 1 June 2015, Malaysian and international media were given a comprehensive and in-depth briefing by Mr. Mueller on NewCo's plans going forward.

The MRP Quarterly Progress Updates have been issued for the past three quarters since the launch of the MRP in August 2015, and this will continue for the coming quarters.

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 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, financial institutions, healthcare, aviation, infrastructure, leisure & tourism, property, creative & media, education, and innovation & 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.

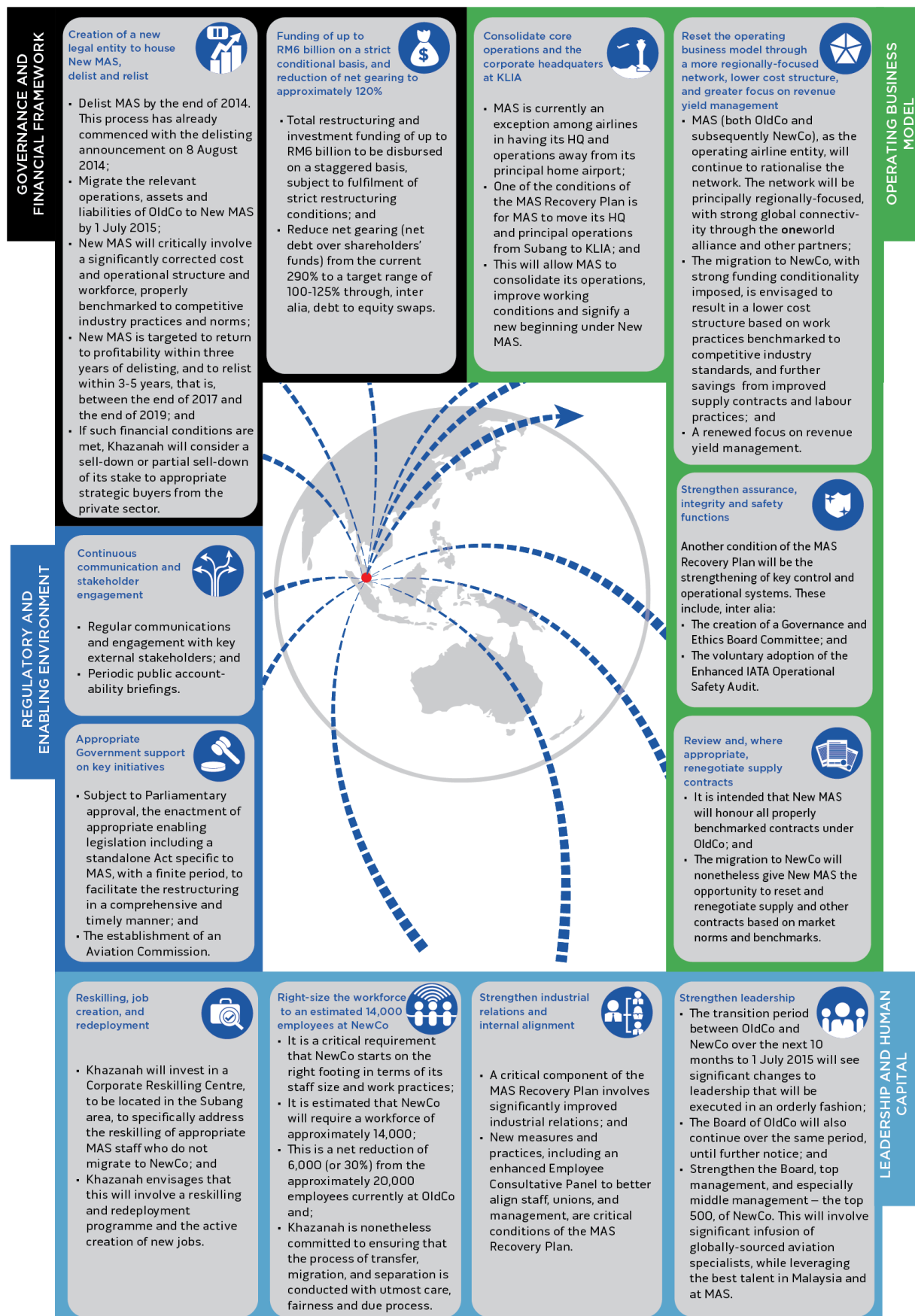
For further information, please visit www.khazanah.com.my

APPENDIX

The 12-point MAS Recovery Plan

(Source: *Rebuilding A National Icon – The MAS Recovery Plan*, pg 23; 29 August 2014)

12 key elements in four categories



Source : Khazanah