

MEDIA STATEMENT

Kuala Lumpur, 29 August 2014

Khazanah announces 12-point MAS Recovery Plan

Khazanah Nasional Berhad (“Khazanah”) today announced a 12-point enabling plan for returning Malaysian Airline System Berhad (“MAS”) to sustained profitability and revive Malaysia’s national flag-carrier. A summary report of the plan entitled *“Rebuilding a National Icon: The MAS Recovery Plan”* was also released in this regard.

The release of today’s documents follows a review of all relevant aspects of MAS’ operations and operating environment that commenced in February this year. This represents the second stage of the MAS Recovery Plan following from the announcement on 8 August 2014, for Khazanah to undertake a selective capital reduction and repayment exercise (“SCR”) at an offer price of RM0.27 per MAS ordinary share, representing a 29.2% premium to the 3-month volume weighted average market price at the time of announcement. At that time, Khazanah noted that it aimed to announce detailed plans by the end of August.

The plan involves a comprehensive overhaul of the airline, including a specific 12-point package of measures whose combined delivery will enable MAS to achieve sustained profitability within three years of delisting, by the end of 2017. At its core, the plan involves the creation of a new company (“NewCo”), which will house the “New MAS” and the migration of the right-sized workforce and work practices and contracts into the NewCo. It also includes details of the strict conditionality attached to restructuring into current MAS and further Khazanah investment into NewCo, amounting to up to RM6.0 billion on a staggered and conditional basis over a three-year period.

Tan Sri Azman Hj. Mokhtar, Managing Director of Khazanah, said, *“The combination of measures announced today will enable our national airline to be revived. While funds have been made available, they come with strict conditions, so as to ensure that MAS truly resets its business model and cost structures, in order to be truly sustainable. Success is by no means guaranteed – while it is imperative that MAS as a critical enabler in national development is revived, public accountability for the use of the funds mean that it cannot be renewed at any cost. The plan also calls for all parties to close ranks and work together to enable the permanent reconstruction of our national icon.”*

Crucially, the success of the restructuring plan unveiled today will require a new ‘national compact’ for Malaysia’s national carrier, with a range of groups within and beyond the airline having a *specific* and crucial part to play – including MAS’ leadership, employees, employees’ unions, partners and suppliers, Khazanah and the Government.

The 12 key elements of the MAS Recovery Plan over four categories are as follows:

A. Governance and financial framework

1. Creation of NewCo to house New MAS, delist and relist

- a. Delist MAS (“OldCo”) by end of 2014. This process has already commenced with the announcement of 8 August 2014
- b. Migrate the relevant operations, assets and liabilities of OldCo to NewCo by 1 July 2015
- c. NewCo will critically involve a significantly corrected cost and operational structure and workforce, properly benchmarked to competitive industry practices and norms
- d. NewCo is targeted to return to profitability within 3 years of delisting, and to relist within 3 to 5 years, that is between the end of 2017 and the end of 2019
- e. If such financial conditions are met, a sell-down or partial sell-down of Khazanah’s stake to appropriate strategic buyers from the private sector will be considered

2. Funding of up to RM6.0 billion on a strict conditional basis and a reduction of net gearing to approximately 120%

- a. Total restructuring and investment funding amounting to up to RM6.0 billion to be disbursed in a staggered basis subject to fulfilment of strict restructuring conditions, consisting of:
 - i. Delist MAS OldCo at a cost of RM1.4 billion
 - ii. Restructuring and retrenchment cost at MAS OldCo subject to strict conditionality, amounting to up to RM1.6 billion
 - iii. Progressively inject capital amounting up to RM3.0 billion into New MAS, subject to strict conditionality, on a staggered and milestone basis, over a three-year period from 2014 to 2016
- b. Reduce net gearing (net debt over shareholders’ funds) from 290% currently to a target range of 100% to 125% through, inter alia, debt-to-equity swaps
- c. In this regard we are pleased to announce that Kumpulan Wang Persaraan (Diperbadankan) (“KWAP”) has today agreed to swap a total of up to RM750 million of their existing Perpetual Sukuk into ordinary equity, subject to a definitive agreement between the relevant parties

B. Operating Business Model

3. Reset the operating business model through a more regionally-focused network, lower cost structure and greater emphasis on revenue yield management

- a. MAS – both OldCo and subsequently NewCo as the operating airline entity – will continue to rationalise the network to be principally regionally-focused,

with strong global connectivity through MAS' oneworld alliance and other code-share partners

- b. The migration to NewCo, with its strong funding conditionality imposed, is envisaged to result in a lower cost structure based on industry benchmarks and work practices, with savings principally coming from improved supply contracts and labour practices
- c. A renewed focus on revenue yield management

4. Consolidate headquarters and operations from Subang to KLIA

- a. MAS is currently an exception among airlines in having its HQ and operations away from its principal home airport
- b. One of the conditions of the MAS Recovery Plan is for MAS to move its HQ and principal operations from Subang to KLIA
- c. This will allow MAS to consolidate its operations, improve working conditions and signify a new beginning under New MAS

5. Strengthening of the assurance, integrity and safety functions

- a. Another condition of the MAS Recovery Plan will be the strengthening of key control and operational systems
- b. These include, inter alia, the creation of a Governance & Ethics Board Committee and a voluntary Enhanced IATA Operational Safety Audit

6. Review and, where appropriate, renegotiate supply contracts

- a. It is intended that New MAS will honour all properly benchmarked contracts under OldCo
- b. The migration to NewCo will nonetheless provide an opportunity for New MAS to reset and renegotiate supply and other contracts, based on market norms and benchmarks

C. Leadership and Human Capital

7. Leadership

- a. The transition period between OldCo and NewCo over the next 10 months to 1 July 2015 will see significant changes to leadership, which will be executed in an orderly fashion
- b. Ahmad Jauhari Yahya will continue to lead OldCo as the Group CEO during this period until 1 July 2015, when NewCo is envisaged to come into force.
- c. The Board of OldCo will also continue during the same period, until further notice
- d. Khazanah has commenced the search process for the CEO of NewCo and we envisage that the conclusion of this search will be announced in due course, expected to be before the end of 2014
- e. The search process involves reviewing both local Malaysian leadership talent, as well as global aviation industry executives. The final decision on the CEO of the NewCo will be made in consultation with the Special Shareholder, Minister of Finance, Incorporated.

- 8. Right-sizing the workforce to an estimated 14,000 employees at NewCo**
- a. It is a critical requirement that NewCo starts on a right footing in terms of its staff size and work practices
 - b. It is estimated that NewCo will require a workforce of approximately 14,000
 - c. This is a net reduction of 6,000 or 30% from the approximately 20,000 current staff in OldCo
 - d. Khazanah is nonetheless committed to ensuring that the process of transfer, migration and separation is conducted with the utmost care, fairness and due process
- 9. Strengthen industrial relations and internal alignment**
- a. A critical component of the MAS Recovery Plan involves significantly improved industrial relations
 - b. New measures and practices, including introducing an Employee Consultative Panel to better align staff, employees' unions and management, would be a critical condition of the MAS Recovery Plan
- 10. Reskilling, job creation and redeployment**
- a. Khazanah will invest in a Corporate Reskilling Centre, to be located in the Subang area, specifically to address the reskilling of the appropriate MAS staff who do not migrate to NewCo
 - b. We envisage that this will involve a reskilling and redeployment program and the active creation of new jobs
 - c. MAS and Khazanah are committed to helping each exiting employee – minimising the negative impact to their livelihoods and quality of life. In addition to appropriate financial compensation, MOUs have been signed with:
 - i. Scicom (MSC) Berhad (“Scicom”), a Malaysian listed company to provide a structured pathway to employment for up to 2,000 transitioning MAS employees. This will be done by providing a customised and certified reskilling training programme, coupled with job placement in Scicom, Malaysian companies and multinationals
 - ii. Sutherland Global Services, a global business process and technology management services company with operations in Malaysia, to train and employ up to 1,500 exiting MAS employees in operations processing.

D. Regulatory and enabling environment

11. Appropriate Government support on key initiatives including:

- a. Subject to Parliamentary and other approvals (as may be applicable), the enactment of appropriate enabling legislation, including a standalone Act specific to MAS, with a finite period, to facilitate the restructuring in a comprehensive and timely manner
- b. The establishment of an Aviation Commission

12. Continuous communications and stakeholder engagement

- a. Regular communications and engagement with key external stakeholders
- b. Periodic public accountability briefings

Taken together, these steps will support a specific timeline for the return of MAS to sustained profitability, as envisaged in this recovery plan as follows:

- a. **By the end of 2014:** to complete the delisting of MAS and to announce the leadership of NewCo
- b. **By 1 July 2015:** The formal transition to NewCo
- c. **By the end of 2017:** 3 years from the delisting, for NewCo to achieve profitability
- d. **Between 2018 and 2020:** between 3 to 5 years from delisting for NewCo to be relisted.

ENDS

A full copy of "Rebuilding a National Icon: The MAS Recovery Plan" can be downloaded at www.khazanah.com.my

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