

## **MEDIA STATEMENT**

**Kuala Lumpur, 28 November 2014**

### **MAS Recovery Plan Quarterly Progress Update #1**

#### ***First three months – On Track, On Schedule***

- **Implementation of the five-year 12-point MAS Recovery Plan (“MRP”) is on track and on schedule in first three months**
- **Critical milestones achieved:**
  - **MAS minority shareholders have approved Khazanah’s selective capital reduction and repayment (“SCR”) proposal (November 6)**
  - **New company (“NewCo”) incorporated with the name Malaysia Airlines Berhad (November 7)**
  - **Malaysian Airline System Berhad (Administration) Bill 2014 passed by Dewan Rakyat (November 27)**
- **Ongoing progress in mobilisation of the MAS Restructuring Management Office, multiple engagement sessions with staff, planning for move to KLIA, renegotiation of contracts, and other work tracks**
- **Malaysia Airlines System Berhad (“MAS”) continues to face a challenging business environment, as shown by its latest financial results, post the MH370 and MH17 twin tragedies, but outlook is marginally improved with expected lower fuel prices**
- **Key upcoming milestones in the next three months, as scheduled, include the proposed delisting of MAS after the completion of the SCR (by end-December), tabling of the MAS Bill in the Dewan Negara (early December), key leadership announcement (by end-December), and the disbursement of first tranche of RM2.0 billion conditional upon successful MAS delisting**
- **No less than 28 business proposals, numerous CVs from individuals received in support of the MAS restructuring effort. This augurs well for the continued progress of the rebuilding of Malaysia’s national icon**

Khazanah Nasional Berhad (“Khazanah”) today issued an update on the on-going restructuring of Malaysian Airline System Berhad (“MAS”), showing progress on all fronts in the complete overhaul of Malaysia’s flag carrier as called for under the five-year 12-point MAS Recovery Plan (“MRP”) announced on August 29.

This is the first progress update issued by Khazanah since the launch of the MRP three months ago. Khazanah will continue providing quarterly updates to inform all stakeholders, especially the

public, on the progress of the restructuring, which is guided by the principles of transparency, fairness and compassion.

Tan Sri Dato' Azman Hj. Mokhtar, Khazanah Managing Director, said: "The restructuring of MAS is well on track, with several major milestones reached and several more expected in the next quarter, particularly by the end of the year. As the Government has emphasised, nothing short of a complete overhaul is required. Nonetheless, the restructuring effort is guided by the principles of fairness and transparency, and its success is contingent upon everyone involved playing their role and shouldering the responsibility that the nation expects of them. The progress that has been achieved has come through the hard work and collaboration between many parties – MAS employees, unions, minority shareholders and management, the Government as well as Khazanah. We are fully focused and committed to seeing through this through to its successful conclusion, *insyaAllah*."

The implementation of the MRP thus far comes against the backdrop of an operating environment that continues to be challenging for MAS, which reported its Q3 financial results today. The airline recorded a net loss of RM576.11 million on the back of revenue amounting to RM3.32 billion for the third quarter ended September 30. For the first nine months of 2014, MAS posted a net loss of RM1.32 billion. While this amount of losses is large and underscores the need for the restructuring, it is in line with the overall projections of the restructuring plan. Going forward, the outlook for MAS has improved slightly due to lower fuel prices, although intensive regional and global competition, high operational costs, and the impact of the MH370 and MH 17 tragedies continue to drive the urgency of the airline restructuring.

Overall, progress has been made across the MRP's four main areas of Governance and Financial Framework, Operating Business Model, Leadership and Human Capital, and Regulatory and Enabling Environment. The following are several highlights:

### **MAS Restructuring Management Office**

A Restructuring Management Office ("RMO") with close to 50 personnel is in full operations at MAS. It is led by Chief Restructuring Officer ("CRO") Mohd Nadziruddin Mohd Basri, who was appointed on Oct 3. Mohd Nadziruddin was the Chief Financial Officer of MAS before assuming the role. The CRO reports to the MAS Board Restructuring Committee ("BRC"), which comprises three independent and two non-independent Board members, and the MAS CEO. The BRC is chaired by Tan Sri Krishnan Tan Boon Seng and has had 22 sittings since its inception.

BRC members have also gone on-the-ground ("turun padang") to meet with MAS employees, as part of efforts to garner employee feedback and update them on the various restructuring initiatives. So far, 29 *turun padang* sessions have been held. This is complemented by a broader

outreach effort, called cascade sessions, conducted by MAS management. A total of 171 cascade sessions have been held, reaching 15,700 employees across all divisions. By the end of the year, it is targeted that all 20,000 employees will have been reached via multiple platforms.

The RMO continues to build its capacity and capability, with potential additional expertise being assessed to work on the restructuring. Overall, the restructuring effort is overseen by the Khazanah-MAS Restructuring Steering Committee (“K-MARC”), which was formed in June and has since conducted 19 meetings.

### **Proposed delisting of MAS**

On November 6, MAS minority shareholders approved Khazanah’s proposal for a selective capital reduction and repayment exercise (“SCR”) at a MAS Extraordinary General Meeting, which is a key milestone for the proposed delisting of MAS. The SCR is expected to be completed by 3 December 2014, pending approval from the High Court.

The delisting is one of the conditions for the MRP’s total restructuring and investment capital funding of RM6.0 billion. With the delisting, the first tranche of Khazanah’s conditional capital injection amounting to RM2.0 billion will be disbursed for the repayment to minority shareholders, as well as for working capital and restructuring expenditure.

### **Incorporation of the new company (“NewCo”)**

The NewCo – named ‘Malaysia Airlines Berhad’ – was incorporated on November 7 to serve as the vehicle to house the new national carrier. The NewCo is targeted to be operational by 1 July 2015.

### **Malaysian Airline System Berhad (Administration) Bill 2014**

The Malaysian Airline System Berhad (Administration) Bill 2014 (“Bill”) was tabled and passed by the Dewan Rakyat on 27 November 2014. The Bill is critical to the restructuring effort and will help to ensure a smooth transition to NewCo. It provides a legal environment that specifically addresses the necessary conditions for NewCo to start on the right footing and set the airline on the path to recovery. The Bill is expected to be tabled in the Dewan Negara during its upcoming session in December 2014.

### **Leadership**

Encouraging progress has been made in the global search of leadership talent for the NewCo. Khazanah expects to make a key announcement on the leadership of the NewCo by the end of the year, as previously stated.

### **NewCo workforce**

A talent assessment process at MAS to identify the workforce required by the NewCo, estimated at 14,000 employees, is currently underway. The process is being facilitated by an external independent advisory firm specialising in human resource. The assessment of the top 500 management personnel has been completed to date. This is in line with the principle of prioritising the necessary changes to be made to the MAS leadership and top management, before the airline's other employees.

In the meantime, the framework for the proposed Corporate Reskilling Centre and Outplacement Centre, which are intended to collectively provide reskilling, job creation and redeployment opportunities for employees not migrating to the NewCo, has been developed and are targeted for launch by 1 April 2015.

### **Employee Consultative Panel**

The Terms of Reference of the Employee Consultative Panel ("ECP") have been formulated. The ECP is intended to help boost alignment between employees, unions and management, providing a platform for a genuine exchange of views and ideas through dialogue and collaboration.

The ECP will be chaired by Mohd Izani Ashari, a non-independent non-executive Director of MAS. It will comprise the CRO, secretariat, one representative from each union and association, one representative from each non-unionised employee group, and a representative from MAS Human Resources. The ECP will convene its first meeting in early December 2014.

### **Review of supply contracts**

A comprehensive review of all contracts, currently totaling approximately 5,000, is underway. Priority is being given to contracts that can potentially provide significant opportunity for cost reduction and efficiency gains. In addition, revised guidelines for entering into new contracts and contract renewals are in place, while preparation is being made to revise the limit of authorities for contract awards.

### **Governance and Ethics Committee**

The Terms of Reference of the Governance and Ethics Committee ("GEC") have been formulated. The GEC will help facilitate the strengthening of key control and operational systems related to assurance and integrity functions. It is a sub-committee of the Board of Directors, with members comprising the MAS Chairman and independent non-executive directors. The GEC is targeted to be operational upon the completion of the delisting of MAS and will have a finite life of between three and five years.

### **Consolidation at Kuala Lumpur International Airport (“KLIA”)**

A KLIA Migration Committee has been set up at MAS to oversee the overall consolidation of operations at KLIA. The movement of staff from Subang to KLIA is scheduled to begin in the second quarter of 2015. The move had initially been planned to kick-off this year but was deferred to ensure that MAS employees who will not be migrating to NewCo would not be burdened unnecessarily by having to relocate to the KLIA area.

Meanwhile, renovation work at the Support Facility Building and renovation planning of engineering hangars at KLIA have commenced, while land for the development of the NewCo’s headquarters has been identified.

### **External support and interest in the restructuring**

Khazanah has been approached by many individuals with relevant expertise and experience who voluntarily want to be part of the restructuring. Thus far, numerous CVs (curriculum vitae) have been received and the applications reviewed, with several set to join the restructuring effort. Khazanah is both encouraged and grateful for the offers of support.

In addition, Khazanah has also received no less than 28 business proposals expressing interest in participating in or complementing the MRP. In this regard, we wish to state that as required by Khazanah’s operating processes and procedures, only credible proposals are evaluated and assessed, in a process that, if they qualify, will be ultimately tabled to the Board of Directors of Khazanah, or if appropriate, channeled to the management and Board of Directors of the operating company (in this case, MAS).

Overall, the progress shown is in line with the specific timeline for the return of MAS to sustained profitability under the MRP, which is as follows:

- By the end of 2014: Complete the delisting of MAS and announce the leadership of the NewCo
- By 1 July 2015: The formal transition to the NewCo
- By the end of 2017: Three years from the delisting, for the NewCo to achieve profitability
- Between 2018 and 2020: Between 3 to 5 years from delisting for the NewCo to be relisted.

The following is a table detailing progress under each of the MRP's 12 points

A. Governance and Financial Framework	
<p><b>1. Creation of a new company (“NewCo”) to house the new MAS, delist and relist</b></p>	<ul style="list-style-type: none"> <li>• MAS held an Extraordinary General Meeting (“EGM”) on 6 November 2014 on Khazanah’s proposed selective capital reduction and repayment exercise (“SCR”)</li> <li>• The proposed SCR was approved with 70.6% of minority shareholders present at the EGM, representing 93.3% in value of shares held by those present at the EGM, voting in favour of the resolution</li> <li>• The majority of creditors and lenders have consented to the proposed SCR</li> <li>• A High Court hearing to sanction the SCR is scheduled for 3 December 2014, whereby the SCR will become unconditional upon court approval</li> <li>• The NewCo, named ‘Malaysia Airlines Berhad’, was incorporated on 7 November 2014 as the vehicle for the migration of relevant operations, assets and liabilities</li> </ul>
<p><b>2. Conditional funding of up to RM6.0 billion and reduction of net gearing</b></p>	<ul style="list-style-type: none"> <li>• The first phase of disbursement amounting to RM2.0 billion is targeted for end December 2014</li> <li>• This first tranche is for the repayment to MAS minority shareholders under the proposed SCR, as well as working capital and restructuring expenditure</li> <li>• Discussions are ongoing with several parties on measures to improve the net gearing of MAS</li> </ul>
B. Operating Business Model	
<p><b>3. Reset operating business model</b></p>	<ul style="list-style-type: none"> <li>• The development of a business model is on track, and will reflect the following:               <ol style="list-style-type: none"> <li>i. Network that is principally regionally-focused</li> <li>ii. Focus on routes where MAS can win by rebuilding its KUL hub</li> <li>iii. Reviewed incremental and replacement fleet requirements for 2017 and beyond</li> <li>iv. Products and services offering befitting targeted customer segments</li> <li>v. Structural cost reduction based on industry benchmarked work practices and standards</li> <li>vi. Significant transformation initiatives to strengthen ancillary revenue for NewCo</li> <li>vii. Commercial levers to allow MAS to rebuild a competitive advantage at top line performance</li> </ol> </li> </ul>
<p><b>4. Consolidate headquarters and operations from</b></p>	<ul style="list-style-type: none"> <li>• A KLIA Migration Committee has been set up at MAS to oversee the overall consolidation of operations at KLIA</li> <li>• Suitable plots of land at KLIA have been identified to develop</li> </ul>

<p><b>Subang to KLIA</b></p>	<p>the NewCo's HQ</p> <ul style="list-style-type: none"> <li>• Renovation at the Support Facility Building has started</li> <li>• Planning for renovation of engineering hangars at KLIA has commenced</li> <li>• Migration of staff from Subang to Support Facility Building at KLIA is on track to begin in Q2 2015</li> </ul>
<p><b>5. Strengthening of the assurance, integrity and safety functions</b></p>	<ul style="list-style-type: none"> <li>• The Terms of Reference of the Governance and Ethics Committee (“GEC”) have been formulated</li> <li>• The GEC is intended to facilitate the strengthening of key control and operational systems.</li> <li>• GEC members are envisaged to comprise the MAS Chairman and independent non-executive directors. The GEC is a sub-committee of the Board of Directors and will have a finite life of between 3 – 5 years</li> <li>• The GEC is targeted to be operational upon the completion of the delisting of MAS</li> <li>• MAS is currently compliant with IATA Operational Safety Audit (“IOSA”) standards. Adoption of Enhanced-IOSA standards is in progress</li> </ul>
<p><b>6. Review and, where appropriate, renegotiate supply contracts</b></p>	<ul style="list-style-type: none"> <li>• A comprehensive review of all contracts is underway</li> <li>• Contracts are being categorized for novation, renegotiation or termination</li> <li>• The priority is to review contracts that provide significant opportunity for cost reduction and efficiency gains</li> <li>• Preparation is underway to revise the limit of authorities for contract awards</li> <li>• Revised guidelines for entering into new contracts and contract renewals are in place</li> </ul>
<p><b>C. Leadership and Human Capital</b></p>	
<p><b>7. Strengthen Leadership</b></p>	<ul style="list-style-type: none"> <li>• The global search for leadership talent for NewCo has shown encouraging progress</li> <li>• Leadership announcements are expected by the end of the year</li> <li>• The search encompasses strengthening leadership across the organization’s governance structure, including the Board of Directors, CEO, senior management, and other key positions</li> <li>• Within MAS, talent assessment is currently ongoing and facilitated by an independent advisor.</li> <li>• Assessment of the top 500 management personnel have been completed to date</li> </ul>
<p><b>8. Right-size the workforce to an estimated 14,000 employees at</b></p>	<ul style="list-style-type: none"> <li>• Assessment of the remaining staff besides the top 100, inclusive of those in overseas locations, has commenced, and is expected to be completed by end-February 2015</li> <li>• Final composition of NewCo employees will be dependent on</li> </ul>

<p><b>NewCo</b></p>	<p>NewCo business model requirements, redesigned work practices for operational transformation and renewed labour agreements</p> <ul style="list-style-type: none"> <li>• Sourcing for new talent to address competency gaps in NewCo has been initiated</li> <li>• Rules of migration for employees have been formulated.</li> </ul>
<p><b>9. Strengthen industrial relations and internal alignment</b></p>	<ul style="list-style-type: none"> <li>• 29 on-the-ground (“turun padang”) sessions with employees have been held by the Board Restructuring Committee members, in stages, for all functions within the organisation</li> <li>• 171 cascade sessions by MAS management, reaching 15,700 staff across all divisions</li> <li>• Governance structure and mechanisms have been set up to synchronise efforts between the Restructuring Management Office and “business-as-usual” operations</li> <li>• Engagement sessions will be continuously held with all levels of staff. This is in addition to weekly information updates via the various communication channels.</li> <li>• The Terms of Reference of the Employee Consultative Panel (“ECP”), which is intended to help boost alignment between employees, unions and management, have been formulated and approved</li> <li>• The ECP is chaired by a non-independent non-executive Director of MAS, Mohd Izani Ashari and comprises the CRO, secretariat, one representative from each union and association, one representatives from each non-unionised employee group (security &amp; secretarial), and a representative from MAS Human Resources</li> <li>• The ECP will convene its first meeting in early December 2014</li> </ul>
<p><b>10. Reskilling, job creation and redeployment</b></p>	<ul style="list-style-type: none"> <li>• The overall framework of the Corporate Reskilling Centre (“CRC”) and Outplacement Centre (“OPC”) has been developed with a targeted launch date on 1 Apr 2015</li> <li>• Besides the service providers announced on August 29, others have also come forward to offer services in the areas of reskilling outplacement and redeployment, including job opportunities currently available</li> <li>• The process to set up a CRC Special Purpose Vehicle (“SPV”) has commenced</li> </ul>
<p><b>D. Regulatory and Enabling Environment</b></p>	
<p><b>11. Appropriate Government support on key initiatives</b></p>	<ul style="list-style-type: none"> <li>• Engagements with various ministries and agencies to facilitate the restructuring have been conducted., and will continue</li> <li>• The Malaysian Airline System Berhad (Administration) Bill 2014 was passed by the Dewan Rakyat on 27 November 2014</li> </ul>
<p><b>12. Continuous communications and stakeholder</b></p>	<ul style="list-style-type: none"> <li>• Engagements at various intensity and depth are ongoing with external and internal stakeholder groups</li> </ul>

<p><b>engagement</b></p>	<ul style="list-style-type: none"> <li>• A commissioned public sentiment survey has been completed to gauge the Rakyat's views and opinions of MAS and the restructuring</li> <li>• The survey found broad support for MAS as the national flag carrier among Malaysians, who acknowledged the airline as a key contributor to national development. Overall, the public wants the issues at MAS to be resolved and to see the airline become profitable once more.</li> <li>• This progress update is part of the regular communications to inform the public on the overall restructuring effort</li> </ul>
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**ENDS**

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**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](http://www.khazanah.com.my)