Business Plan

Our Way Forward

December 2011

FOREW0RD FROM GROUP CHIEF EXECUTIVE OFFICER

5 December 2011

Malaysia Airlines is in crisis.

Our combined losses in the first three quarters of 2011 have already exceeded RM1.2 billion, and the final numbers for the year will not improve upon this. The core passenger airline business is chronically challenged.

The new Board and Management team, in place for three months, has been hard at work on a plan, referred to as the Business Plan, for Malaysia Airlines. This Business Plan outlines our near-term recovery plan to move us to profitability by 2013, as well as a set of ‘game changers’ to sustain our performance and create a platform for continued growth for Malaysia Airlines’ future.

Executing this plan is key to our recovery. It will require complete focus and commitment to make hard and difficult decisions in the next 24 months and the strongest determination to see these initiatives succeed.

To the Malaysia Airlines Team, all our stakeholders and customers, I ask for your unwavering support, patience and continued patronage in this time of challenge and opportunity.

Ahmad Jauhari Yahya
Group Chief Executive Officer

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DISCLAIMER

This Business Plan document is issued to Malaysia Airlines staff and external stakeholders with the purpose of disclosing a balanced and objective management view of the current situation, as well as the plan for recovery and our future growth. In the spirit of transparent management practice, we share some financial information as part of the discussion. For all intents and purposes, the financial information and figures pertaining to the future should not be construed as forecasts, projections or estimates of future profitability or representations of the company's future performance. These figures are merely a set of aspirational targets which are aligned to the Company's strategy as outlined in this Business Plan.

This document and its contents have been approved by Malaysia Airlines' Board of Directors, but are not to be considered as estimates, forecasts nor projections reviewed by external auditors.

▪ Executive Summary

CURRENT SITUATION

Malaysia Airlines is in crisis. We have incurred a net loss of RM1.2 billion in the first three quarters of 2011 alone. More than 40 percent of our routes are loss-making and our unit cost position is 10 – 15 percent above corresponding revenues. In fact, we are in a much more tenuous position than we were in 2006 when we were in a similar crisis. The aviation market has become even more competitive with the rapid increase of the low cost carrier (LCC) segment, continued growth of the Middle Eastern full service carriers and revival in the fortunes of Asian full service carriers such as Garuda, Japan Airlines (JAL) and Thai Airways.

Meanwhile, Malaysia Airlines has not focused adequately on the premium segment of the market, and our product quality has fallen. Our marketing efforts have been predominantly focused on tactical sales promotions rather than brand-building. With such adverse odds, our intensifying sales efforts could only generate low yields insufficient to cover an increasingly uncompetitive cost structure. Thankfully, we are still flying high in service standards, due to the valiant efforts of our superb Malaysia Airlines team.

Yet the demand outlook for Asian aviation is strong. Across Asia, there is huge growth in disposable income, ramped-up access to credit cards and the Internet, and increased cross-border trade. Southeast Asia, in particular, with its combined population of over 500 million, myriad islands and under-developed road and rail infrastructure, is well-placed for aviation growth. Indeed, we expect ASEAN passenger demand to double by 2020. This is rightfully an exciting market for all participants in the aviation industry.

This strong demand outlook is however clouded by both possible near-term shocks and certain long-term trends. Irrational exuberance in aircraft orders by Asian airlines is engendering a situation of capacity over-supply and excessive price competition. We expect the current Southeast Asian regional fleet to triple in the next decade. Increasing liberalisation also makes it easier for airlines to compete outside of their home markets. In the US and Europe, this combination of overcapacity and liberalisation has invariably yielded market consolidation, with only the strongest airlines surviving in their original form.

To make an already bad situation worse, there is the near-term possibility of a global recession emanating from Europe, and stubbornly high jet fuel prices conspiring to create the perfect storm of immediate turbulence.

Without question, our current trajectory is unsustainable and nothing short of dramatic action will reverse our fortunes. Our weekly cash losses are in the millions of Ringgit. If we maintain our current business model, we will be out of cash by the middle of the second quarter of 2012. We will be bankrupt. Beyond the loss of 20,000 jobs, this would mean an indefinite end to connectivity with the many global hubs to which we are connected today. It is unthinkable and yet it is entirely possible. With new, expensive aircraft entering our fleet next year, our financing costs will increase markedly. While these new aircraft are larger and generally enable us to fly at a lower per-passenger cost, we must fill these aircraft to realise the savings. Indeed, if we do not fundamentally reengineer our commercial function, our losses in 2012 could easily top RM2 billion. To pay for our new aircraft and to cover our certain near-term losses, we must show investors that we are serious about changing our game. We have no other alternative.

This is the greatest challenge we have ever faced as a business; a fundamental and radical overhaul is required to put us back on the path to sustained profitability. Here is our flight plan.

Our vision is to become ***the preferred premium carrier,*** well-positioned for the coming consolidation of the Asian aviation marketplace. While Malaysia may be relatively small in the Asian arena, we will harness the country's geo-economic centricity in ASEAN, emphasise our natural cost-competitiveness as a hub and utilise alliances and partnerships to significantly 'punch above our weight'. Using a combination of tie-ups, we will achieve 'virtual scale', expand our network, coordinate our commercial functions and synchronise operations with similarly-minded airline partners. We will also exploit Malaysia's competitive cost position to lower our costs. This will create the broadest array of network options for our customers and deliver an industry-leading cost position.

We will follow a two-step approach in achieving this vision. In the near term, we are relentlessly focused on five initiatives to achieve a recovery to profitability for the 2013 financial year. We will then focus on a set of 'game changers' that will help us build a robust and sustainable business for the future.

OUR RECOVERY PLAN

Enabling our ambition of becoming ***the preferred premium carrier*** must begin with a fundamental remodel of our core business. There is nothing revolutionary about this; it is the sheer simplicity of focus, and going back to basics. We will follow the playbook used by other airlines in their successful turnarounds but adapt it effectively to our unique context. The hard truth is, there will be some difficult decisions to be made to achieve a successful recovery. We will make these decisions in the best interests of our employees, shareholders, customers, business partners and Malaysians at large, and we count on the support of all stakeholders in this process.

1. **Smaller yet profitable network.** Going forward, our network shall include routes where our premium travellers will want to go, and where we can win in terms of competitive position and home advantage. We are shrinking to grow, and as we get back on firm financial footing, we shall expand our network to cover the world's major economic regions and hubs.

2. **Win back customers.** We will take delivery of 23 aircraft in 2012, each with state-of-the-art passenger amenities. As we introduce these products, we must also reinvigorate our sales and marketing functions. We must win back the hard-earned loyalty of customers, especially those in Malaysia, and convince them of the superior value of our enhanced services. We also need to optimise our revenue management to enhance yields.

3. **Relentless cost focus.** As we take on new aircraft, we must quickly realise the savings from their improved efficiency. Lower fuel bills and maintenance expense reductions must be locked in early. We must also focus on keeping overhead and discretionary expenditure to a minimum. Finally, we will achieve savings in procurement through the collaboration with AirAsia and AirAsia X, subject to full compliance with global anti-trust legislation.

4. **Keep it simple.** We have become a very complex business with a number of different operating entities – core full service airline, MASholidays, MASkargo, MAS Aerospace Engineering (engineering and maintenance), training, catering, and ground handling. We need to de-clutter to ensure proper focus on our core business: flying our customers. We also need to give the ancillary businesses sufficient freedom to achieve their full potential. We therefore intend to commence the process of spinning-off our ancillary businesses starting with ground handling, training and engineering & maintenance.

5. **Bridge the funding gap.** Given the aircraft deliveries we are receiving in 2012, we acknowledge the funding gap that must be bridged. This bridge has five pillars of support:

    a. Achieve positive quarterly operating cash flow by the end of 2012. We shall 'shrink to grow' and consequently make resultant hard decisions to materialise reductions in costs and cash outflow
    b. Capital expenditure funding for our new planes through debt financing and leasing arrangements
    c. Working capital boost via the return of pre-delivery deposit payment (PDP) upon delivery of our new aircraft
    d. Proceeds from the potential spin-offs of our ancillary businesses
    e. Unwavering support from our major shareholders, whose support keeps our balance sheet robust despite a relatively high gearing

Strong shareholder support is understandably conditional on Management undertaking all necessary measures including difficult and unpopular decisions to assure a positive operating cash flow performance. We shall indeed commit to do everything in our power to redeem the faith and support of our major shareholders.

GAME CHANGERS: SUSTAINING OUR PERFORMANCE

Beyond the recovery, we will pursue a series of 'game changers' that will fundamentally overhaul our business model and sustain our performance. These strategic initiatives are sheer necessities to maintain relevance in a dynamic and ever-changing airline landscape.

1. **Launch of a new regional premium airline.** In the first half of 2012, we will launch our new short-haul brand, flying an entirely new Boeing 737-800 fleet. Given a clean slate, a new business model can be designed from inception for sustainable commercial success without any inertial drag of legacy airline models. The relatively smaller size of the Boeing 737 means the airline can fly to more places where our customers want to travel, at times convenient to their schedules. We also intend to create a separate management structure to **focus** on the unique customer needs of regional premium travellers. This new airline shall set new standards for product and service quality, cost efficiency, and operational excellence. It will therefore set *the* template for airline success.

2. **Alliances and partnerships.** By the third quarter of 2012, we will be the newest member of the **one**world alliance. We are excited to join this extensive global network and look forward to increasing traffic via our combined networks and infrastructure. To augment our alliance membership, we intend to enter into material partnerships with major airlines to link our respective geographic strengths into a unified international presence. This will bring obvious mutual benefits to the parties involved as jointly, the whole will be in a much stronger competitive position than the sum of the parts.

3. **Collaboration with AirAsia.** On 9 August, we signed a Collaboration Agreement with AirAsia and AirAsia X. The Agreement provides all three airlines with a step-change improvement in operations through best practice sharing in select areas (such as fuel efficiency) and lower procurement costs (such as in fleet, ground handling and engineering & maintenance services). Collaboration will also allow our customers to travel between more destinations than previously with an introduction of connecting services across the respective airlines' networks. Without question, the collaboration is an essential element of Malaysia Airlines' overall recovery and will further enable our sustainability going forward.

We recognise the vision and sacrifice of our principle shareholder, Khazanah, in making this collaboration possible. Importantly, the collaboration exercise is and will be done in full compliance with global antitrust and other regulatory requirements.

4. **Ancillary business spin-off.** With the successful spin-off of non-core businesses in our recovery plan, we can better focus on the core airline business and ensure a long-term competitive cost position for supporting services such as engineering & maintenance, ground handling and training. In addition, we can ensure the full development of these ancillary businesses by attracting third-party specialists as strategic partners. Malaysia's competitive cost position means we can build regionally competitive ancillary businesses with Malaysia as a hub.

FOUNDATIONS

To execute on our Recovery plan and achieve a sustainable performance, we will need to further develop three foundational elements.

1. **Branded customer experience.** Our customers are our top priority. In addition to the gradual roll-out of our new product, we will improve customer satisfaction at every touch point – pre-flight, in-flight and post-flight. Malaysia Airlines will deliver on its brand promise consistently, across all touch points, channels, national borders and at all times. In the months ahead, we will be making investments in a number of tools and processes, as well as mobilising the organisation across functions and layers to align and execute on the Malaysia Airlines brand promise.

2. **Continuous operational improvement.** In line with our vision to be ***the preferred premium carrier*** in the region, we will be making substantial changes to our operations to excel on three key dimensions: commercial effectiveness, flight operations and cost management. In terms of commercial effectiveness, we intend to seek continuous improvement in areas such as revenue management, direct sales and in the use of social networks for marketing. As we take delivery of our new fleet, we aim to set the new benchmark for excellence – for both aircraft and airport operations. Finally, while Malaysia Airlines has always had the potential to be the lowest cost player in the full service segment, we lag labour productivity benchmarks and are not best-in-class in areas such as procurement. We intend to bridge the gap with our peers in the region through continuous improvement programmes.

3. **Winning organisation.** Malaysia Airlines' loyal and dedicated staff are a huge asset. However, we have to make a fundamental shift to a more performance-based culture. We wish to work collaboratively with our union and association partners to create a pay-for-performance compensation approach and culture. We have started to simplify our organisation structure to accelerate decision-making and create more accountability. We shall assemble the right people for the senior leadership of Malaysia Airlines and we shall not shy away from taking key decisions to effect this. And given the necessity 'to shrink to grow', we will have no choice but to right-size the organisation for the greater good of Malaysia Airlines' survival. A leaner and meaner organisation will quickly become an agile, competitive and winning organisation. These actions will ultimately be the turning point on whether we can achieve and sustain acceptable financial performance.

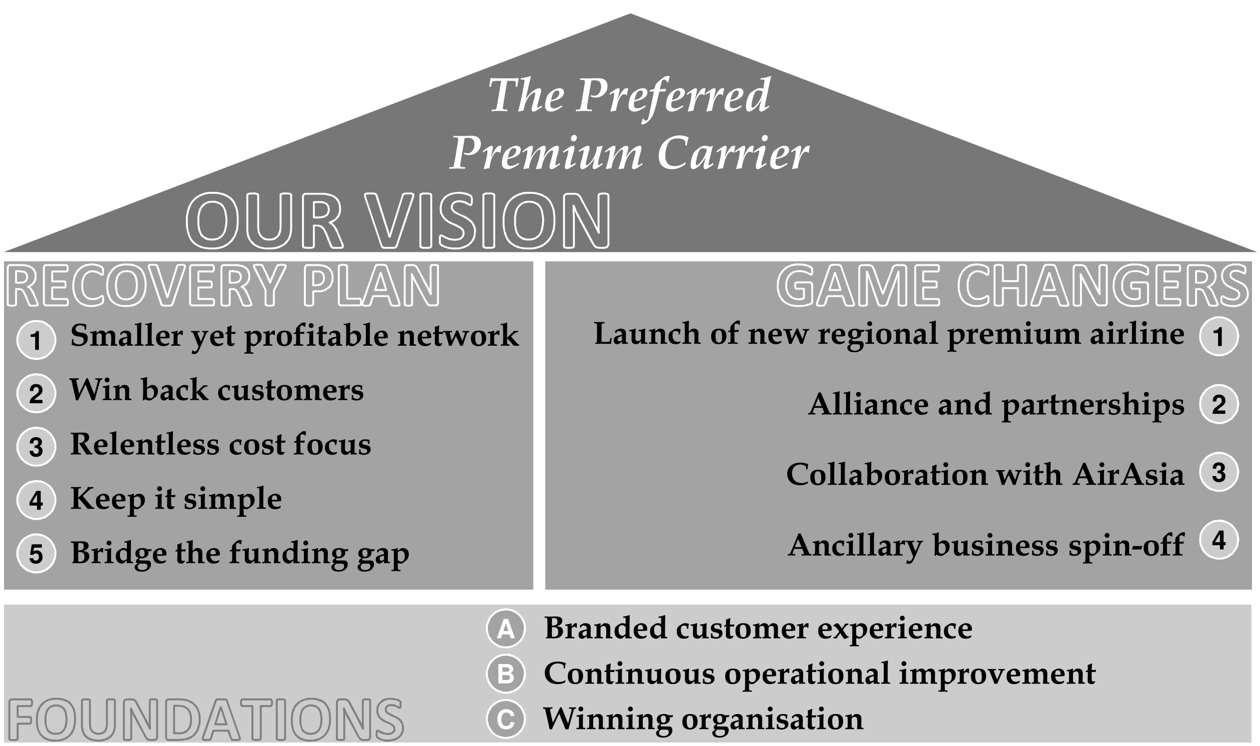
We expect to achieve a significantly reduced loss for 2012. Our 'base case' target for 2012 performance is a Group loss of approximately RM165 million. With an accelerated recovery, our 'stretch target' is for the Group to achieve a modest profit of up to RM238 million in 2012. We plan to sustain increasing levels of profitability and aspire to generate a profit after tax of over RM900 million by 2016.

OUR COMMITMENT

A commercially sustainable flag carrier airline is vital to the broader geo-political and macroeconomic national objectives of global connectivity and trade linkages for Malaysia. However, our very existence is at stake given the internal and external factors combining to create the perfect storm. We must first take hard and potentially unpopular decisions – simply to survive, in order to then have the possibility to thrive.

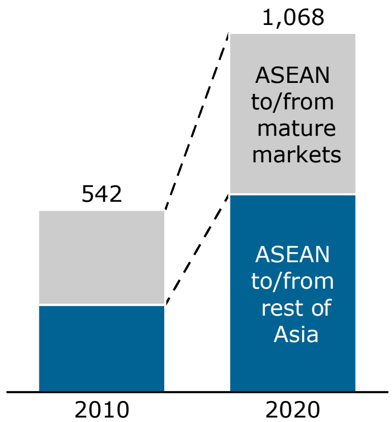
We therefore take a pledge of full commitment to undertake all necessary measures as outlined in this Business Plan to first and foremost secure our survival, and ultimately to achieve our vision of being ***the preferred premium carrier***. This radical flight plan will allow us to fly more satisfied customers to more places, build rewarding careers for our employees, and build a global brand that will make all Malaysians proud.

We ask for your unwavering support, patience and continued patronage in this time of challenge and opportunity.



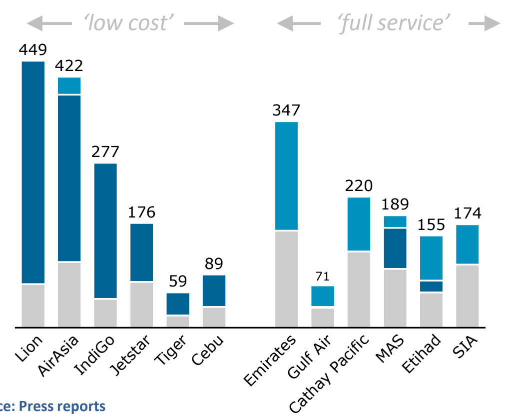
▪ Current Situation

Figure 1: Forecast demand growth
Available Seat Kilometres (ASK) billions



Source: OAG

Figure 2: Planned capacity
Aircraft



Source: Press reports

MARKET OUTLOOK

The demand outlook for the Asian aviation sector is strong, fuelled by a burgeoning middle class and increased global and intra-regional trade.

Long-term trends

Based on forecasts of GDP growth, trade flows and other factors, we anticipate a doubling of demand over the coming decade (Figure 1). This presents a sizeable opportunity to all airlines in the region, and we are not alone in making sizeable aircraft orders to fill the demand. By our count (Figure 2), 1,000 new narrow-body jet aircraft have been contracted for delivery over the next decade, an effective tripling of the commercial aviation fleet, likely outpacing the speed of demand growth.

At the same time, aviation markets in the region are being liberalised, with most ASEAN countries targeting completely 'open skies' by 2015. This will allow carriers from any country to serve passengers in more overseas markets.

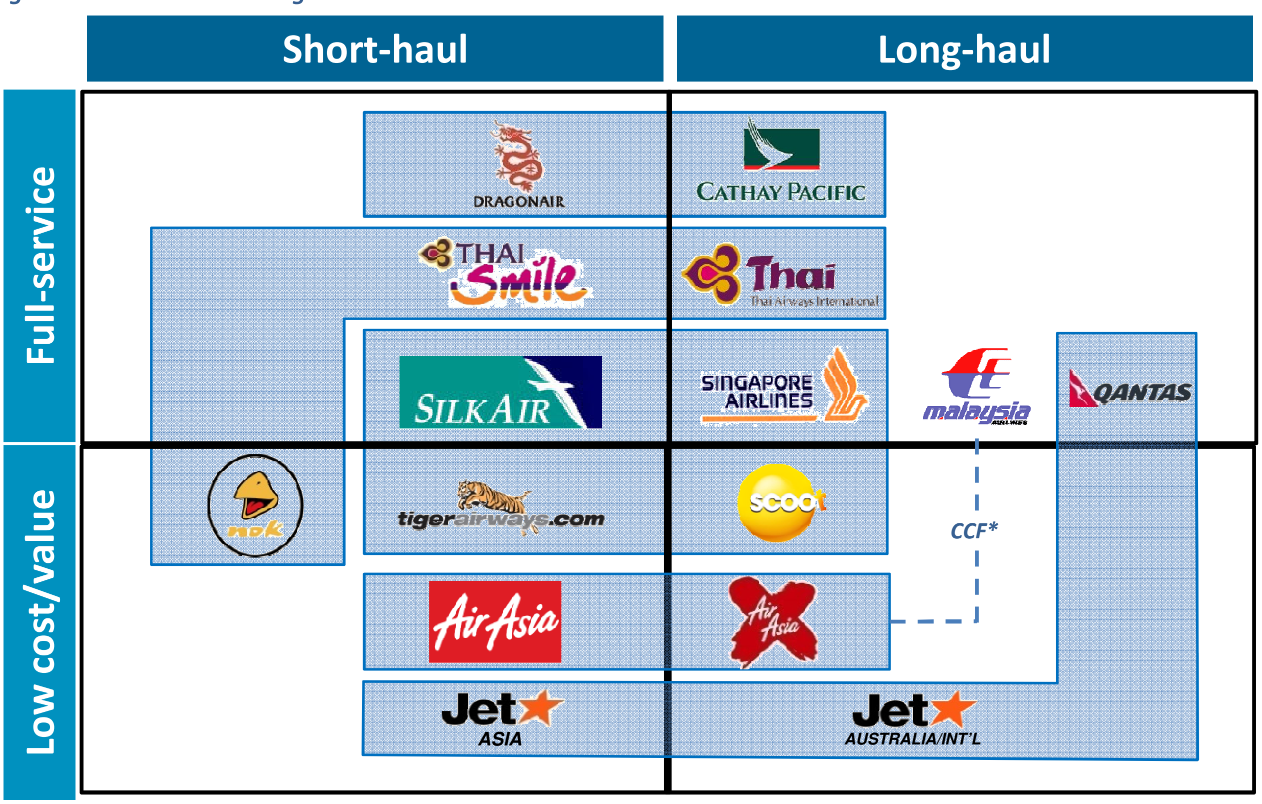
In other regions, this combination of overcapacity and deregulation has led to dramatic consolidation. In the US and Europe, the top three airlines account for 40 – 60 percent of the market. In Asia, they account for only 20 percent. Consolidation will inevitably come to Asia as well.

Success in such challenging environments depends on the creation of a differentiated approach. This can be earned through building a leading cost position or by creating a unique value proposition to customers. We will do both.

To thrive in this increasingly challenging market, we have to relentlessly pursue our vision of becoming ***the preferred premium carrier***, well-positioned for the coming consolidation of the Asian aviation marketplace. We need to fundamentally remodel our core business and to put in place 'game changers' that will keep us ahead. Success of these efforts rests on the foundation of three elements: branded customer experience, a culture of continuous operational improvement and a winning organisation. We will fail if we do not deliver on all components of our flight plan.

Perhaps more so than in other markets, we are also witnessing a rapid segmentation of the market, with carriers differentiating themselves along two dimensions: 'low cost' versus 'full service,' and 'short haul' versus 'long haul.' Increasingly, airline owners are looking to place their chips in multiple segments (Figure 3). More than clarifying product tradeoffs to customers, this segmentation drives dramatic focus and simplification in airlines. The low cost carrier model (LCC) in particular has become immensely successful for those who can secure the absolute lowest unit cost in their relevant market. For those who cannot achieve rock-bottom costs, the challenge is to compete on service levels to customers more inclined to the 'full service' experience. Demand for 'in between' service levels (competing both on price and service) is disappearing, as customers largely target one particular product type. Recognising this, Malaysia Airlines is charting our future strongly in the full service, long-haul segment, with plans for extended participation in the full service, short-haul segment as well.

Figure 3: Business model segmentation



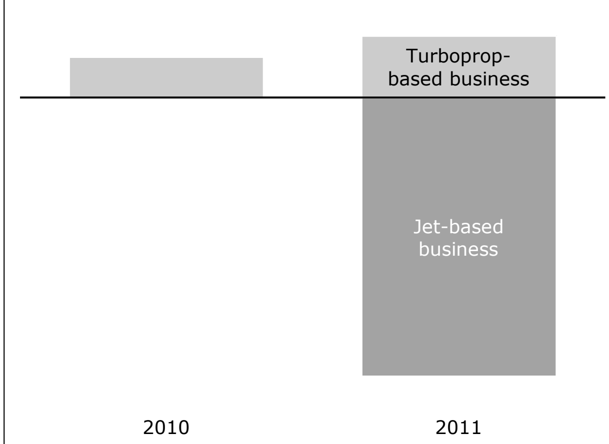
Note: *CCF: Comprehensive Collaboration Framework between Malaysia Airlines, AirAsia and AirAsia X as announced on 9 August 2011

Short-term shocks

More so than other industries, airlines are vulnerable to macroeconomic events which create 'demand shocks.' In 2011 alone, there were two such shocks with the devastating earthquake/ tsunami in Japan and the floods in Thailand. Airlines must build business models able to withstand such external shocks.

In 2012 , we must be prepared for the possibility of a global recession, brought on by Europe's sovereign debt crisis, and a continued high cost of jet fuel.

Figure 4: Profit/loss of Firefly business
RM



Source: Malaysia Airlines

Figure 5: Skytrax annual ratings

Ranking	2009	2010	2011
1	Cathay Pacific	Asiana Airlines	Qatar Airways
2	Singapore Airlines	Singapore Airlines	Singapore Airlines
3	Asiana Airlines	Qatar Airways	Asiana Airlines
4	Qatar Airways	Cathay Pacific	Cathay Pacific
5	Emirates	Air New Zealand	THAI
6	Qantas	Etihad Airways	Etihad Airways
7	Etihad Airways	Qantas	Air New Zealand
8	Air New Zealand	Emirates	Qantas
9	malaysia	THAI	Turkish Airlines
10	THAI	malaysia	Emirates

Source: Skytrax

OUR RECENT PAST

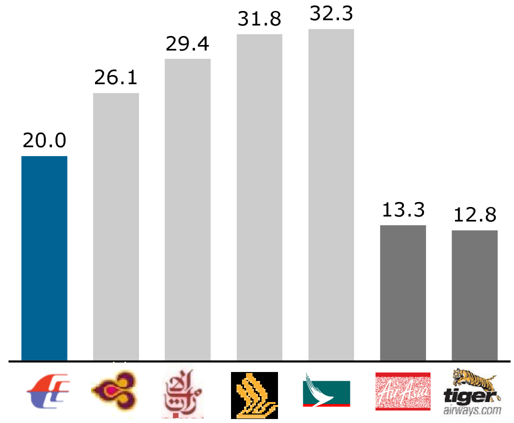
Over the past decade, Malaysia Airlines has lost its focus on the 'full service' portion of the market, which has historically been our bread-and-butter.

We launched our Firefly 'low cost' subsidiary in 2007. While the turboprop aircraft portion of the business has done well, the jet business launched last year has not yielded the returns we anticipated (Figure 4).

In an effort to fill aircraft, we priced seats well below our breakeven cost target. Though our cost situation would have improved with increased scale, it would have been insufficient for sustained profitability. We have since closed the Firefly jet business whilst focusing on growth of the profitable turboprop business for 2012 and beyond.

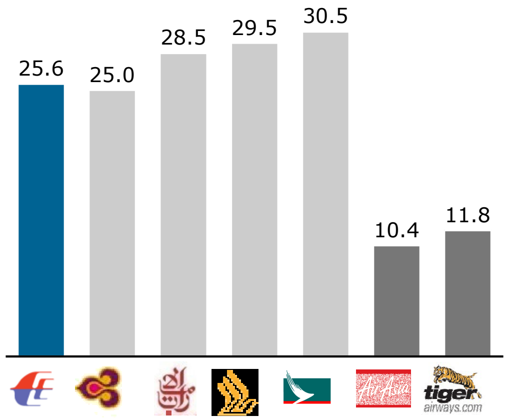
With resources diverted to the 'low cost' segment of the market, we under-invested in the customer experience that is key for success in the 'full service' business. We are left with one of the oldest fleets in the region, which contributed to our removal from the Skytrax 'top ten' list of carriers. (Figure 5)

Figure 6: Unit revenues
2011 year-to date, Sen per ASK



Source: Company reports

Figure 7: Unit costs
2011 year-to date, Sen per ASK



Source: Company reports

As product quality has fallen, we have lost the hard-earned loyalty of many Malaysia-based fliers. Last year, we lost more than 40 percent of KL-based passengers flying a 'full service' competitor airline to a city served by Malaysia Airlines.

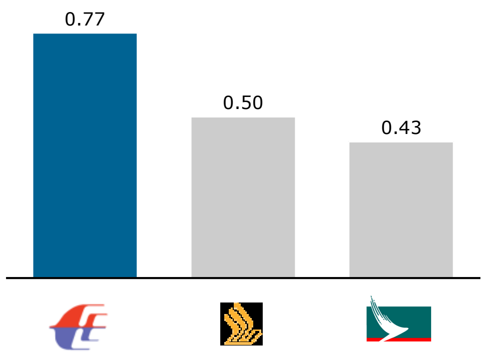
Our network, too, remains focused on the flows of a previous era, with a significant portion of our capacity concentrated on serving the highly-competed 'kangaroo route' connecting Australia to Europe.

The declines in relative product quality and customer loyalty, combined with this over-representation of capacity on highly-competed routes have weakened our yields. Our unit revenue levels are now 15 - 25 percent below regional peers (Figure 6).

Our cost position is also not sufficiently lower than our competitors (Figure 7). As a result, our unit revenues have remained stubbornly below our unit costs.

Part of our poor cost position is due to the age of our aircraft. Just as the ageing fleet has driven down our pricing power, so too has it increased our costs. For every flight flown, we pay 15 - 20 percent more for fuel than does a competitor airline flying a more modern aircraft.

Figure 8: Labour productivity
2010, No. of airline employees per aircraft seat



Source: Company reports

Unfortunately, the larger issue on the cost side is inadequate labour productivity (Figure 8). In the months ahead, there will be a need to overhaul our organisational structure.

OUR STRENGTHS

Notwithstanding our internal challenges, there remains several assets in our arsenal. This includes strong technical capabilities and our well-trained cabin crew who continue to win awards (Figure 9) and is the hallmark of our Malaysian hospitality.

Figure 9: Skytrax cabin crew ratings

Rank	2008	2009	2010	2011
1	ASIANA AIRLINES	malaysia	SINGAPORE AIRLINES	ASIANA AIRLINES
2	malaysia	ASIANA AIRLINES	malaysia	malaysia
3	SINGAPORE AIRLINES	THAI	ASIANA AIRLINES	SINGAPORE AIRLINES

Source: Skytrax

The crew's dedication is to be credited for the strong brand equity we continue to enjoy. Both at home and overseas, the Malaysia Airlines brand remains associated with our unique heritage and high-quality service.

This positive predisposition to the Malaysia Airlines brand will receive a boost from our new fleet additions and upgrades. Twenty-three state-of-the-art aircraft will be delivered over the next 12 months, each with the latest passenger amenities. Only through the foresight of previous management would we be in so fortunate a position to replenish more than half of our fleet of aircraft in a three-year period. These improvements will help reduce our fuel and repair bills, as well as convince our once loyal customers to return to our fold.

Signed in August 2011, our Collaboration Agreement with AirAsia and AirAsia X is a critical achievement.

We are in discussions to coordinate our ground services, training and engineering & maintenance functions, as well as to launch a joint procurement venture that will allow us to realise the combined benefits of scaled purchases. We estimate the cost savings to Malaysia Airlines alone will be more than RM100 million per year.

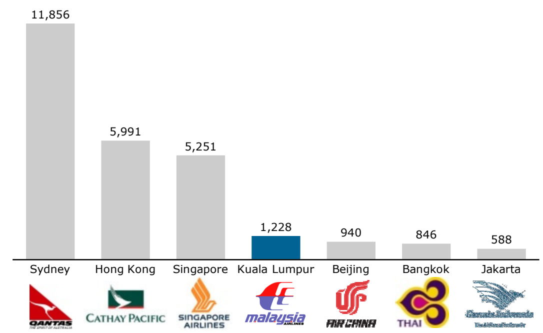
In addition, we are close to finalising a connecting service that will enable passengers on either airline to seamlessly connect between carriers on non-overlapping routes.

Of course, any discussion and implementation of initiatives will be subject to full compliance with global anti-trust and other regulatory requirements.

Our full entry into **one**world in the third quarter of 2012 will considerably enhance our network while providing baseload demand from our fellow **one**world members. In the months ahead, we will announce a series of additional partnerships that will drive increased commercial scale. These partnerships will be critical for us in the years ahead.

Finally, our home remains Malaysia and that is our most defendable asset of all. Going forward, we must continue to realise all natural cost advantages (Figure 10) available to us to ensure we can profitably offer the best value in the sky.

Figure 10: Malaysian competitive cost position
2011, Monthly wages, RM



Source: JETRO, Euromonitor

STATUS QUO IS NOT AN OPTION

A bold revision of our Group is necessary to avoid the failure of Malaysia Airlines as we know it. Weekly cash losses are in the millions of Ringgit. Without radical efforts *now*, we anticipate bankruptcy in the middle of the second quarter of 2012. Indeed, without action, our losses in 2012 could easily top RM2 billion.

Preventing such an outcome requires a variety of efforts, but at the core must be a reversal of this loss-making. Securing funding for future operations requires evidence to new investors – be they through debt or equity – that a dramatic change in fortunes is possible in the very near term.

The challenge is immense but, we believe, recovery is within our grasp. Firm and decisive actions will have to be taken now.

▪ Our Recovery Plan

In approaching our recovery, we are focusing first and foremost on our primary, core business: the passenger airline. True sustainability means our passenger aircraft will be able to fly profitably whatever the broader economic and market conditions. To be clear, there are exciting opportunities for our ancillary businesses – engineering and maintenance, cargo, and training, to name a few – but success of the core business must be the cornerstone of the Group's broader performance.

There are five steps to our recovery. The first is to aggressively reduce capacity on routes that have generated losses over many years. As Figure 11 (page 23) shows, over 40 percent of our routes today lose money. Second is the effort to fill aircraft on our remaining network with loyal, satisfied customers. Next, we must relentlessly cut costs in all areas where it does not reduce the customer experience or our commitment to safety. Simplifying the business by spinning-off ancillary units is the fourth step. Fifth is to fund this recovery. This is by no means a small feat.

1 *Smaller yet profitable network*

We will suspend services on routes where we are substantially loss making. This will account for approximately 12% of our ASKs. It is our desire to return to the markets that we are exiting in the near future after we have stabilised our business.

2012 profit impact: ~RM220 - 302 mil.

2 *Win back customers*

We will take delivery of 23 aircraft in 2012, each with state-of-the-art passenger amenities. As we introduce these products, we must also reinvigorate our sales and marketing functions. We must win back the hard-earned loyalty of customers, especially those in Malaysia. We also need to optimize yield through better revenue management and tactical sales programmes.

2012 profit impact: ~RM394 - 477 mil.

3 *Relentless cost focus*

In a brutally competitive industry, we need to maintain focus on continually managing our costs down and achieving operational excellence. As we take on new aircraft, we must quickly realise the savings from their improved efficiency. Lower fuel bills and maintenance expense reductions must be locked in.

2012 profit impact: ~RM309 - 392 mil.

4 *Keep it simple*

Our overall business structure has become too complex with a number of ancillary activities becoming very large and complex. We therefore intend to 'spin-off' some ancillary businesses to ensure greater focus on the core airline business and give these ancillary businesses more freedom to grow and achieve their full potential.

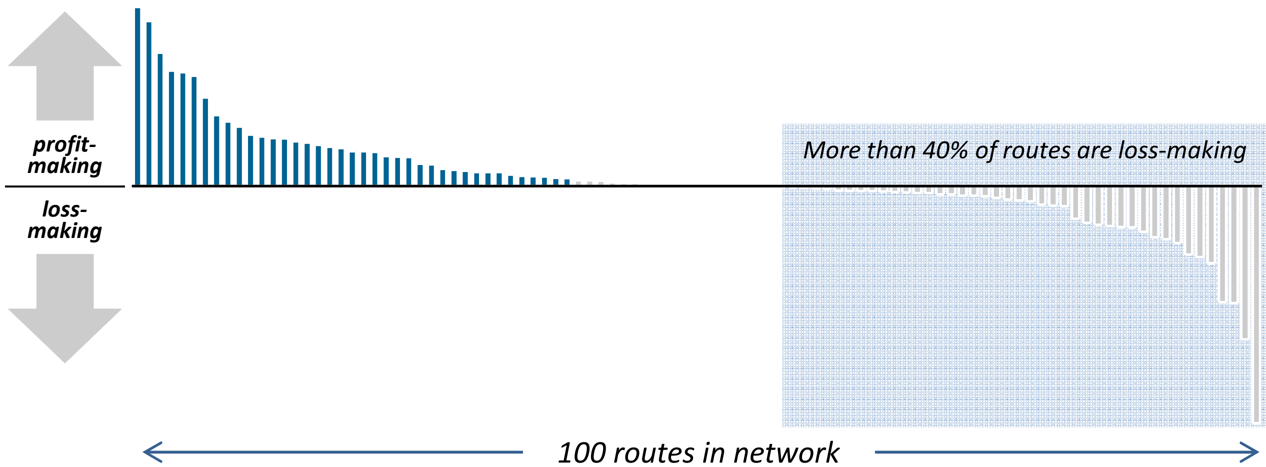
2012 profit impact: ~RM255 - 337 mil.

5 *Bridge the funding gap*

Given the aircraft deliveries of 2012, we acknowledge the funding gap that must be bridged. This bridge has five pillars of support:

1. Positive operating cash flow
2. New debt and leasing arrangements
3. Working capital boost via the return of pre-delivery payment deposits
4. Proceeds from potential spin-offs
5. Unwavering support of our shareholders

Figure 11: Profit before tax by route
2010, RM



Source: Malaysia Airlines

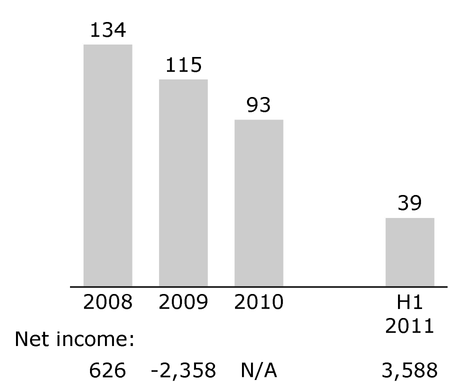
1 SMALLER YET PROFITABLE NETWORK

Our network is the heart of the Company and, while we want to serve our customers as well as we can, we recognise that we cannot generate profits on all the routes we are currently flying. Hence, we will, based on Malaysia Airlines' own independent internal profitability and yield analysis, suspend services from select loss-making routes and will further focus on the core ASEAN region where we are the strongest.

We plan to suspend Cape Town, Johannesburg, Buenos Aires, and other loss-making routes. On the other hand, we will increase our frequencies to key regional cities to benefit from the strong growth in regional demand.

Successful turnarounds from other airlines, such as JAL (Figure 12) or Garuda, have been based on aggressive network cuts. We believe that, while we are cutting Available Seat Kilometres (ASK) by close to approximately 12 percent next year, we will be able to grow again profitably in the years ahead.

Figure 12: Case example: Japan Airlines
Capacity (ASK billions) and Net Income (RM millions) pre/post turnaround



Profit impact: RM220 - 302 million

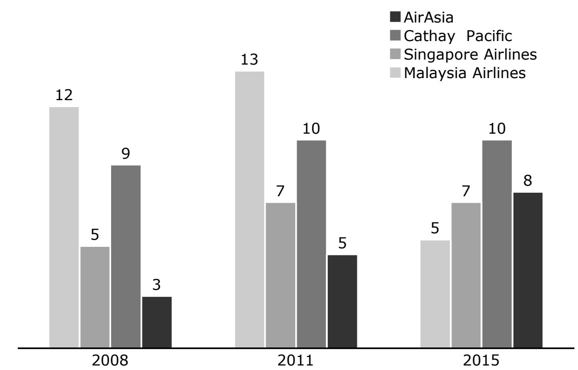
2 WIN BACK CUSTOMERS

In 2012, we will take delivery of 23 new aircraft and phase out the A330-200 and B747-400 fleets. We will continue that effort over the next few years and, by 2015, we will have the youngest fleet in the region (Figure 13). Our new aircraft will be equipped with best-in-class hardware and we will make significant investments next year to upgrade our meal services on all sectors (Figure 14).

Building on our new fleet, we are revamping our approach to branding, distribution and customer loyalty. We are overhauling our commercial approach and revenue management systems to earn our fair share of corporate travel, drive front-end cabin revenue and fully leverage our **one**world membership to generate traffic (Figure 15).

Figure 13: Aircraft age

Years



Source: Company reports

Figure 14: Incoming fleet

Figure 15: Sales & marketing key business activities planned for 2012

Regional

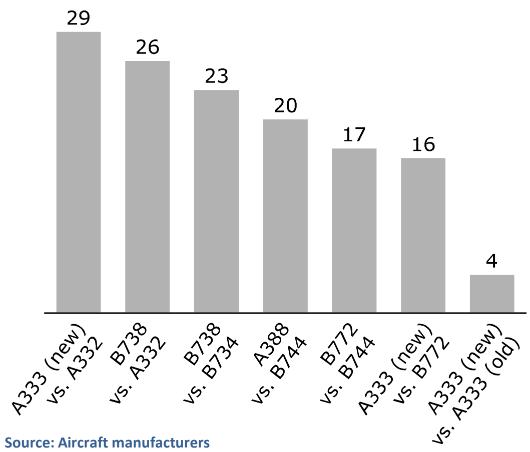
1. Malaysia Airlines Corporate Travel (MCT) Programme enhancement
2. Small & Medium Enterprise (SME) push
3. Business leisure campaign
4. **one**world alignment
5. Enhanced Advertising & Promotion deployment
6. New product roll-out
7. Increase Frequent Individual Traveller (FIT) mix
8. Connectivity improvement
9. Direct channel push
10. Seasonality management

Centralised

11. Enrich (loyalty) programme enhancement
12. Revenue management
13. Route suspension impact
14. Malaysia Airlines branding revamp

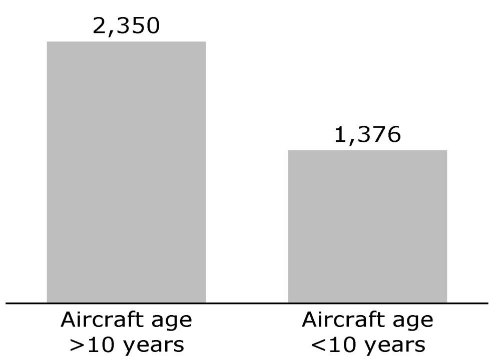
Profit impact: **RM394 - 477 million**

Figure 16: Fuel efficiency savings
Percent savings per ASK travelled



Source: Aircraft manufacturers

Figure 17: Maintenance expense savings
2010, Expense per aircraft block hour, RM (Industry benchmark)



Source: Form 41

Figure 18: Key cost initiatives planned for 2012
Target run rate savings, RM millions

1	Productivity enhancement	70 - 80
2	Strategic procurement of fuel	15 - 20
3	Fuel efficiency from CCF best-practice sharing	30 - 35
4	Additional procurement initiatives	30 - 35
5	Maintenance cost cap increase	10 - 15
6	Early return of Boeing 747	25 - 30

Source: Team analysis

3 RELENTLESS COST FOCUS

In a brutally competitive industry, we need to maintain focus on continually managing our costs down.

In the short term, we will realise significant cost savings from our updated fleet deployment, with our state-of-the-art aircraft consuming less fuel. For example, as Figure 16 shows, flying the B737-800 instead of the B737-400 will save us close to 23 percent of our fuel bill on a typical flight between Kuala Lumpur and Bangkok. In addition, our maintenance costs will decrease as we operate a newer fleet with lower maintenance requirements (Figure 17).

However, benefits from our new aircraft deployment will not be sufficient. We have undertaken a comprehensive cost review that has identified RM200 million in 2012 savings opportunities (Figure 18). Improvements will come from increased utilisation of assets, early return of aircraft and improved cost control over key functions.

We will realise further savings from the closure of stations in markets where we are suspending services.

Profit impact: **RM 309 - 392 million**

Additional infrastructure savings will be achieved once existing operation bases are consolidated to fewer locations.

We will further focus on a review of our procurement contracts to achieve critical rate decreases. Finally, we are expecting cost savings through joint procurement and sharing services such as training and ground handling with AirAsia, subject to compliance with global anti-trust legislation.

Looking forward, we will conduct a broader efficiency review that will aim at improving our organisation effectiveness and bring our productivity level closer to that of our regional peers.

4 KEEP IT SIMPLE

Our overall business structure has become too complex with a number of ancillary activities becoming very large. We need to de-clutter the business to ensure greater focus on the core airline. We therefore intend to 'spin-off' some ancillary businesses to give these units more freedom to grow and to achieve their full potential.

We intend to start with joint ventures in training and ground handling with AirAsia that will result in capex avoidance and lower costs through enhanced asset utilisation, scale and sharing of best practices. We believe these businesses have the potential to attract more third-party customers and grow into attractive stand-alone companies. The new companies may also consider tie-ups with strategic partners to enhance capabilities, expand geographic reach and access new customers. We also intend to spin-off MAS Aerospace Engineering (MAE) with an intention to create a strong standalone engineering & maintenance services provider.

We believe these spin-offs will also enhance Malaysia's competitiveness as a regional aviation hub.

Spin-offs will commence in the near-term but the completion of this process will be influenced by the availability of strategic partners and the state of the capital markets.

Profit impact: **RM 255 - 337 million**

Recovery Actions

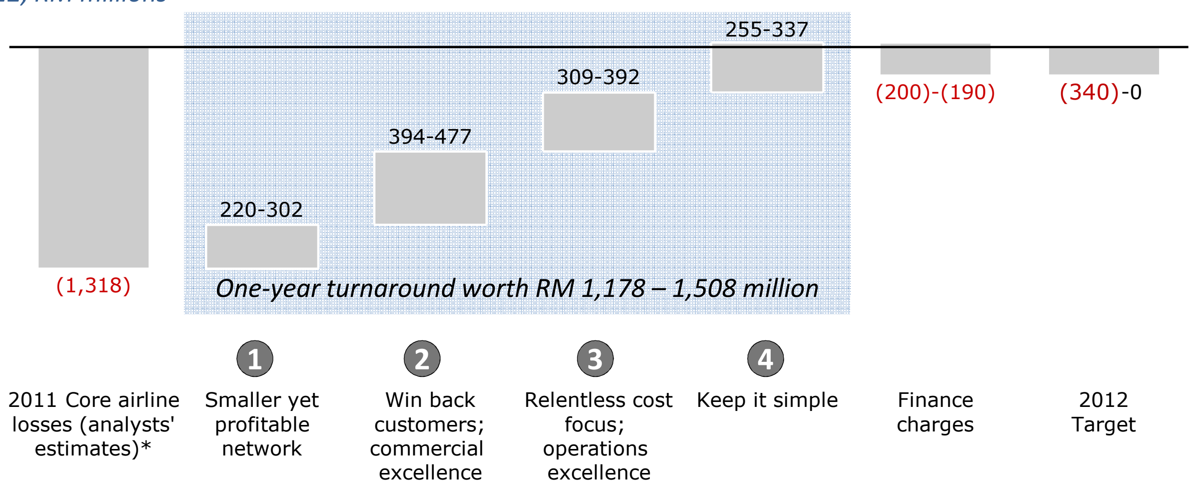
Short term: *Arrest chronic loss-making*

	Initiatives	Improvement potential (RM mil.)
Smaller yet profitable network	• Suspend loss-generating routes • Increase frequencies to key Asian cities • Identify strategic partnerships for code-sharing and JVs on strategic routes	220 - 302
Win back customers *Commercial excellence*	• Introduce more competitive products • Refresh Enrich loyalty programme • Leverage **one**world to generate traffic • Multiple sales and distribution initiatives. Examples include: - Drive front-end cabin revenues - Ramp-up corporate revenues - Implement dynamic and integrated sales & marketing programmes - Grow direct channels	394 - 477
Relentless cost focus *Operational excellence*	• Close stations according to own network rationalization • Continuous improvement, examples include: - Conduct thorough review of procurement costs - Implement productivity improvement programme - Improvements in on-time performance, aircraft turnaround times and asset utilisation	309 - 392
Keep it simple	• Reduce structural fixed costs; operations consolidation • Spin-off training , ground-handling and other ancillary businesses, some with AirAsia, to generate additional third party business • Spin off MAE	255 - 337
	Total 2012 potential profit impact	**1,178 - 1,508**

SUMMARY

Our 'base case' target is for the core business (passenger airline without cargo, catering and other ancillary businesses) to generate a significantly reduced loss of approximately RM340 million in 2012. As Figure 19 illustrates, we are targeting further improvement still with a 'stretch target' where the core business would breakeven in 2012. With estimated core airline losses of approximately RM1.32 billion in 2011, this represents a one-year recovery of between RM 1,178 – 1,508 million. This is ambitious, but we believe it is achievable.

Figure 19: Impact of initiatives to core airline profit
2012, RM millions

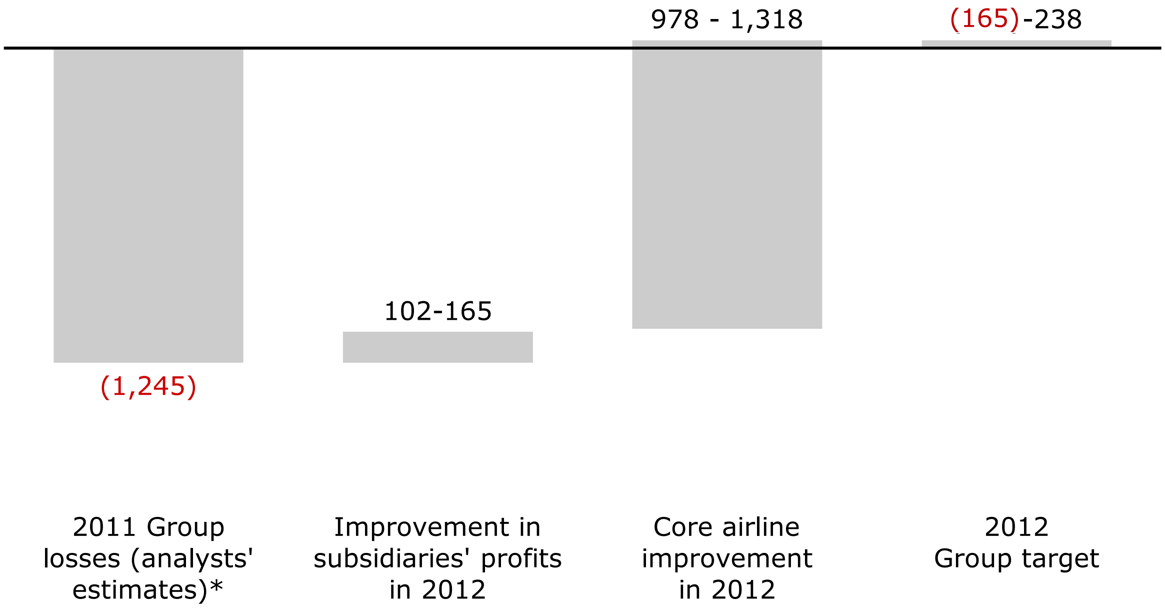


Note: All scenarios presume US$130 jet fuel and do not include any potential restructuring costs. *Interpolated to arrive at core airline losses from analysts' estimates of Group performance; figure is purely for illustrative purposes and does not represent MAS' view of FY2011 losses
Source: Team analysis, analyst reports

We will begin suspending unprofitable routes early in 2012, which will first limit our losses. Our aggressive fleet plan, with the entry in service of the A380 aircraft on our flagship London route, coupled with best-in-class product and key innovations in customer service will drive our yield and load improvements.

We also expect significant cost savings from the deployment of this new fleet, both from maintenance and fuel consumption. While those improvements have a cost, we have managed to keep constant some of our key procurement costs. We will also leverage our new fleet to improve the utilisation of our superb crew while still delivering top-notch service and safety. Finally, we will decrease our other fixed costs through a comprehensive review of both external and internal drivers.

Figure 20: Sources of Group profit
2012, RM millions



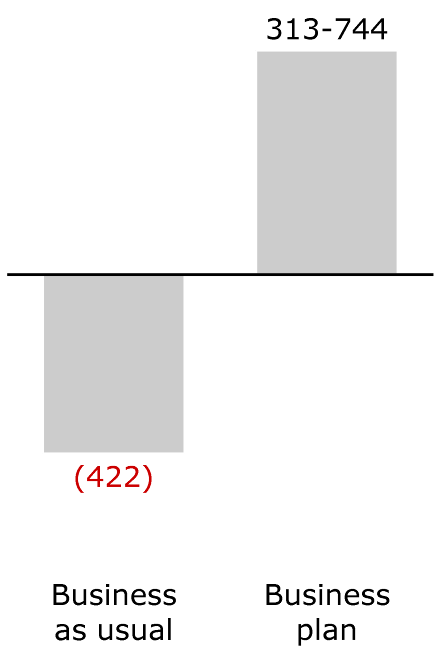
Note:
All scenarios presume US$130 jet fuel and do not include any potential restructuring costs
*Excludes gains/losses from forex exposure and hedging instruments
Source: Team analysis, analyst reports

For the Group (core airline plus all ancillary businesses), our 'base case' target for 2012 performance is a loss of approximately RM165 million. With an accelerated recovery, our 'stretch target' is for the group to achieve a modest profit of up to RM238 million. This is shown in Figure 20.

Figures 21 and 22 (page 30) depict the reversal of our targeted cash position. As the 'business as usual' scenario makes clear, our current trajectory would almost certainly leave us in bankruptcy. With the Recovery plan, however, we plan to end the year having generated RM 313 – 744 million in cash.

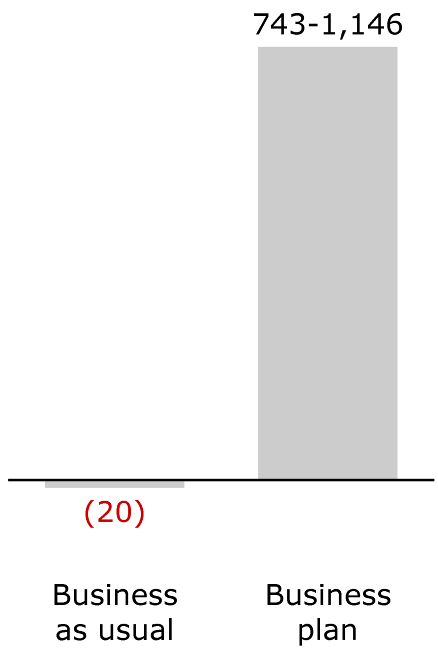
Once this recovery is accomplished, we will make aggressive decisions to change the battleground and become a major player in the upcoming consolidation as ***the preferred premium carrier***.

Figure 21: Operating cash generation
2012, RM millions



Source: Team analysis

Figure 22: Cash balance
2012, RM millions



Source: Team analysis

As noted earlier, 2012 will be a key transition year on our path to becoming ***the preferred premium carrier***. While we are beginning our turnaround process, the investments required to update our fleet and generate additional revenues will be massive. We are confident that we have secured a funding plan that will enable us to achieve this vision.

This plan rests on 5 pillars:

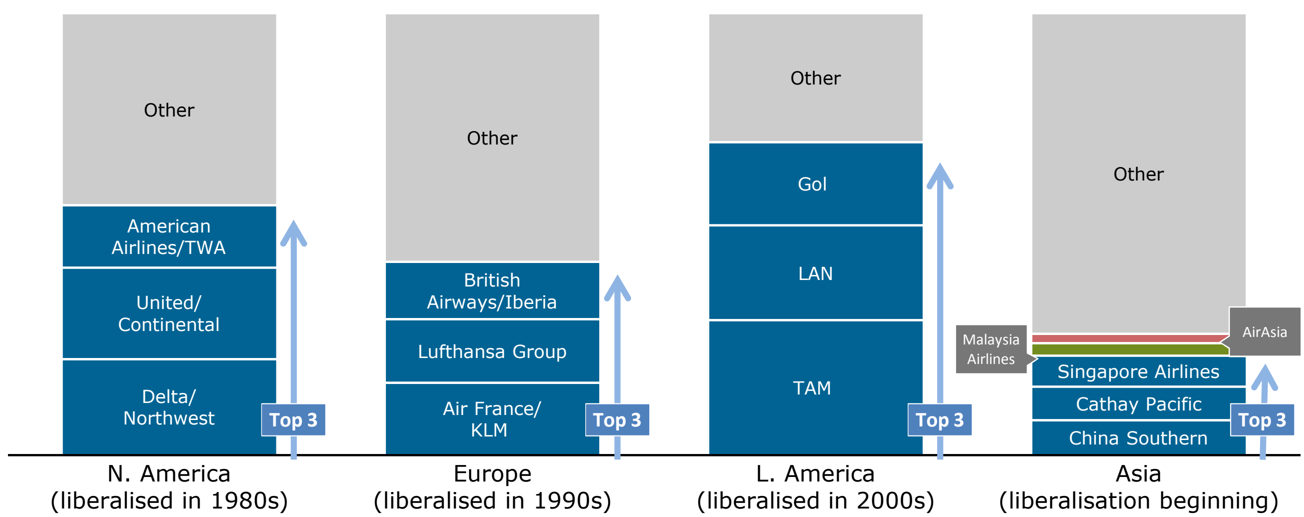
1. Achieving positive operating cash flow on a quarterly basis by the end of 2012
2. Successful debt financing and leasing arrangements for our new aircraft
3. Working capital boosts from the return of pre-delivery payment deposits upon delivery of our new aircraft
4. Proceeds from the potential spin-offs of our ancillary businesses
5. Unwavering support from our major shareholders, whose support keeps our balance sheet robust despite a relatively high gearing

▪ Game Changers: *Sustaining Our Performance*

OUR VISION

While much about the years ahead remains uncertain, the forces of overcapacity, market liberalisation and industry consolidation are certainties. In markets where the consolidation has played out, only the strongest airlines survive in their original form (Figure 23) and maintain profitability. In the US, for example, where liberation began over 20 years ago, a series of mergers has produced a market where the top three players control 60 percent of the market, and only the largest two (Delta and United) appear to have developed a sustainable business. Similar events have played out more recently in Europe and Latin America, with small airlines losing market share and generating significantly lower financial returns – if they are profitable at all. This same scenario will play out in Asia in the coming years.

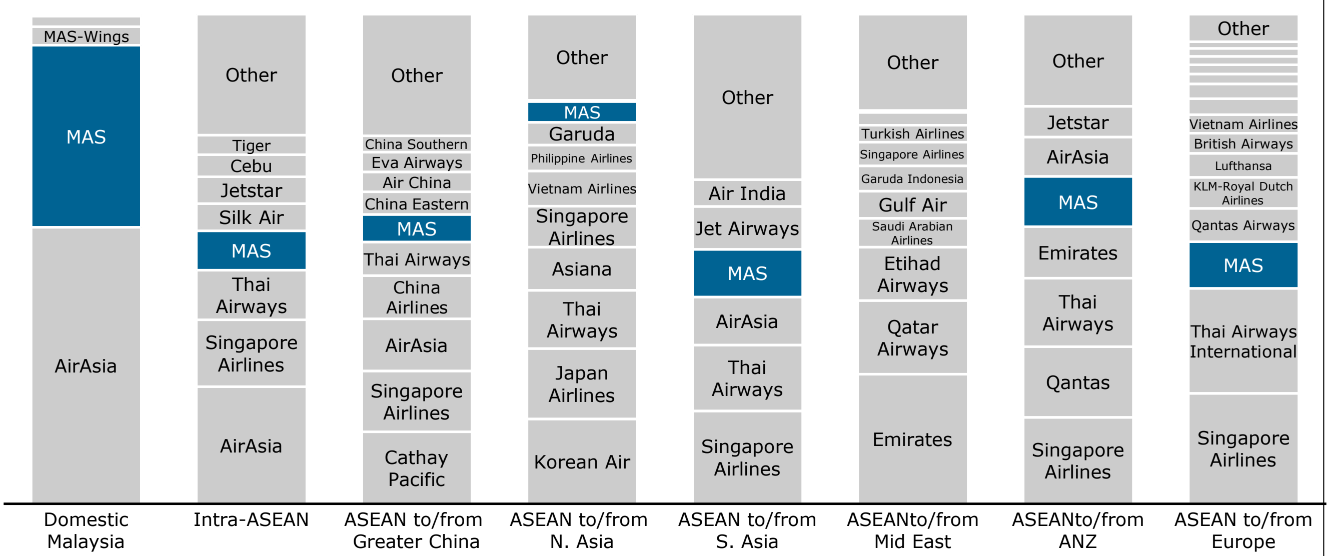
Figure 23: Capacity share of leading airlines in deregulated markets
2009, share of market based on RPKs



Source: OAG Aviation

Our vision is to shape the future of the industry and be a leader in the consolidation in Asia by becoming ***the preferred premium carrier***. We must achieve capacity leadership amongst 'full service' carriers where we can and partner elsewhere to realise the true commercial scale of our business.

Figure 24: Capacity share of ASEAN-connected markets
2010, Capacity share based on ASKs



Source: OAG Aviation

Going forward, we will prioritise our growth in regions where we can offer truly leading connectivity and defendable leadership positions. As Figure 24 highlights, the markets in which Malaysia Airlines competes today are highly fragmented: many airlines operate similarly-sized businesses. Beyond domestic Malaysia, Malaysia Airlines does not have a top two position in any market. The result is a relatively small and fragmented network compared to our competitors, and insufficient frequencies to meet the demands of our sought-after customers. This must change.

Leveraging on our *game changers*, we will use strategic partnerships and alliances to extend connectivity especially to regions where there is a smaller commercial opportunity for operating our own aircraft. This will ensure superior connectivity for our customers while managing financial risks for our shareholders. By ourselves where we can, and with our partners where we must, we will build an increasing number of leadership positions. Our customers and our shareholders alike will benefit.

1 LAUNCH OF NEW REGIONAL PREMIUM AIRLINE

The separation of businesses by aircraft type and distance travelled is increasingly common globally. Airlines including United, Qantas, Lufthansa and Singapore Airlines segment their businesses by aircraft type to some degree. The segmentation allows the airline with the smaller aircraft to focus on commuting and 'feed' services to the parent, while the airline with the larger aircraft can focus exclusively on serving long-haul passengers.

Starting in the first half of 2012, we will launch our new regional premium airline, a short-haul airline connecting Malaysia to the rest of ASEAN and key cities in South Asia and Greater China. The new carrier will exclusively fly our incoming fleet of Boeing 737-800 aircraft with the latest in passenger amenities. While the early focus will be on key business routes less than four hours from Kuala Lumpur, the airline will eventually fly all domestic and regional routes flown by Malaysia Airlines today (Figure 25).

Figure 25: Improved connectivity through regional premium airline

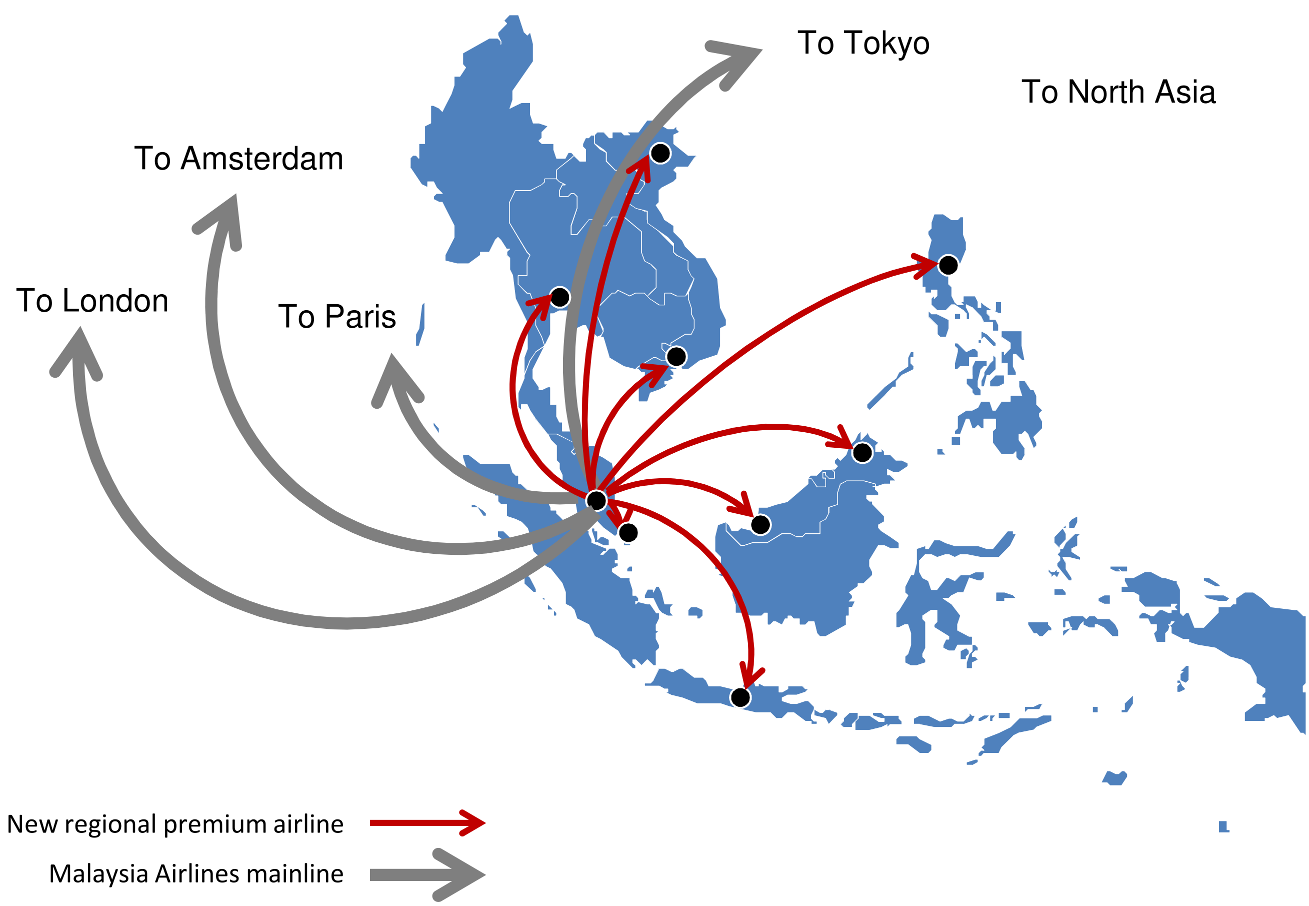


Figure 26: oneworld benefits

REVENUE

- Enhance load factors through additional partner traffic and improved brand awareness
- Drive hub connectivity to facilitate international expansion and further destinations

COST

- Leverage relationships to pursue joint purchasing
- Share equipment and resources for maintenance to reduce variable costs

oneworld

EXPERTISE

- Leverage industry experience, management skills and expertise
- In the long run, potential advisors may come to Malaysia Airlines to share their international experience

CAPITAL

- Alliance will offer us potential additional sources for capital
  - Strengthens capital structure
  - Supports / stabilises client's valuation
  - Long-term interest / investment in client

Partner airlines (full members)

American Airlines, British Airways, Cathay Pacific, Finnair, Iberia, Japan Airlines, LAN, Malev, Qantas, Royal Jordanian, S7 Airlines

2 ALLIANCES & PARTNERSHIPS

In the second half of 2012, Malaysia Airlines will become a full member of **one**world. The move toward an alliance will provide a broader network of international destinations, plus provide a basis for customers to increase their loyalty to our services (Figure 26).

Beyond alliance membership, we are exploring the possibility of JVs with select partners in order to serve multiple markets together, while reducing the financial risks of participating individually. We look forward to sharing details of these initiatives in the months ahead.

3 COLLABORATION WITH AIRASIA

The signing of the Collaboration Agreement with AirAsia and AirAsia X in August 2011 was a turning point for aviation in Malaysia. Working together will benefit all of our customers, improve our individual cost structures and grow Malaysia as a hub for tourism and aviation.

For customers, collaboration offers opportunities to connect to more destinations seamlessly. In the coming months, the airlines will introduce a connecting service, allowing passengers on one airline to connect on select, non-overlapping routes served by the other carrier. At the same time, this move provides Malaysia Airlines with far broader reach, as passengers in more than two dozen cities around the region can be connected to Kuala Lumpur for their onward long-haul travel.

Over the past few months, the three airlines have begun discussions about where joint procurement and consolidation of key activities could lead to greater efficiencies. Importantly, this is not about imposing one business model on the other. Rather, it is about looking for prudent opportunities where consolidated operations will deliver better service at lower costs for all. Fuel purchasing is one such area, where the combined scale of our global requirements can be used to negotiate better terms. For engineering , training and ground services, we can save capital costs by sharing common equipment and increasingly selling reserve capacity to other airlines. Already we have identified approximately RM100 million in annual savings for Malaysia Airlines alone.

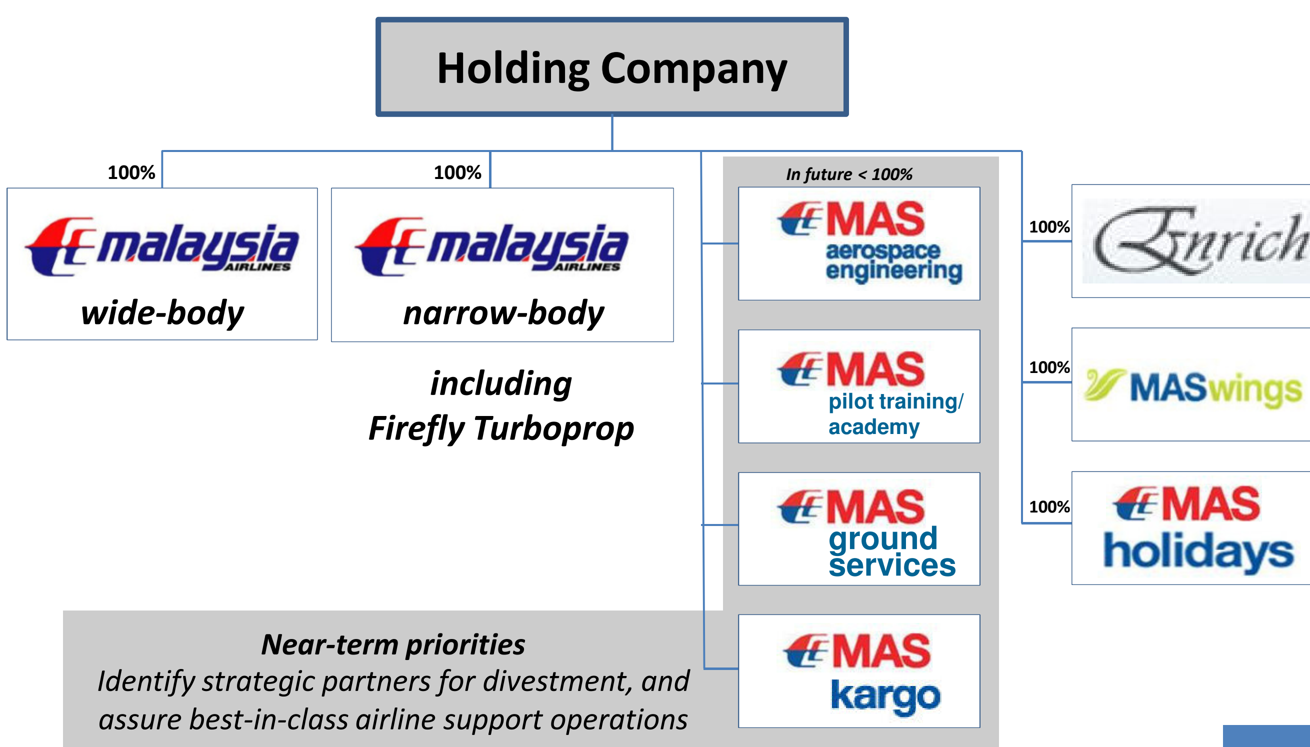
Ultimately, the collaboration must be about promoting the centrality of Malaysia as a hub for tourism and aviation in the region. With major hubs in Bangkok, Singapore and Hong Kong, we all have a role in ensuring the attractiveness of Malaysia to other airlines and potential travellers. Through collaboration, we have the opportunity to bring more scaled support services to Kuala Lumpur, and work with all government parties to create an environment hospitable to the growth of aviation. All collaboration negotiations and activities will, however, be carried out in full compliance with any regulatory or anti-trust requirement.

4 ANCILLARY BUSINESS SPIN-OFF

As documented earlier, we have significant opportunities to improve our productivity and simplify our core business. One element of addressing this will be to empower some of our scale support operations to spin-off and become separate companies in their own right. These new companies will be able to offer services to other airlines transiting in Malaysian cities. Their heightened scale will also benefit Malaysia Airlines, as cost efficiencies are passed back to the core airline. At the same time, separating management will drive more focused attention and will bring all businesses to globally best-in-class operational and profitability levels. Notably, this model has been used successfully by Lufthansa, Singapore Airlines and Cathay Pacific.

Consistent with this plan, we will move to a new structure, where a holding company will become our primary listed vehicle. The core airline business and the scaled ancillary businesses will be held under this holding company structure. This will drive improved focus for each of the separate businesses and deliver truly leading cost positions to the airlines, as the spin-offs compete increasingly with their competitors for third party business. Proceeds from bringing on board strategic partners can be used to fund our recovery and broader strategic objectives.

Figure 27: Corporate structure



▪ Foundations

A BRANDED CUSTOMER EXPERIENCE

The Malaysia Airlines of the future will strive to deliver superior customer experience at every touch point: when customers book flights, before, during or after the flights. In the months ahead, we will be making significant investments in tools and processes, from call centres and our website through to the layout of our aircraft to ensure that we are paying attention to all details that matter (Figure 28).

Figure 28: Components of Branded Customer Experience

B CONTINUOUS OPERATIONAL IMPROVEMENT

After reaching breakeven in 2012, we will further increase our profitability by making bold moves to align operational efficiency with the highest standards in the world (Figure 29). Our goal is to achieve the highest customer satisfaction while improving our revenues and operating as efficiently as possible.

This improvement will come in several steps and will be anchored around three pillars: commercial excellence, best-in-class flight operations and cost optimisation. We know it will take time but we have the core assets to build on. On the people side, our employees have a proven track record of providing industry leading service. On the 'hardware' side, we are getting brand new aircraft and ground equipment that will provide us a strong base for improved flight operations.

Figure 29: Continuous operational improvement

Commercial excellence

Our revenues per ASK have been lagging those of our competitors. While a major effort will be done in 2012, we need to keep improving our capabilities. We will first revamp our sales and marketing strategies and combine them with best-in-class revenue management systems. We will also target more direct sales through our website. Lastly, we aim at building strong social media capabilities to improve marketing effectiveness.

Best-in-class flight operations

Our customers want to get to their destination safely and on time. As we take delivery of our new fleet, we will target an increase in utilisation for all aircraft types. We will also reduce turnaround times and have more efficient engineering services from our MRO JV. We will conduct a thorough review of our fuel cost and investigate innovative ways to improve fuel efficiency.

Cost optimisation

We will be acting on two key levers to reduce costs. First, we will re-negotiate our procurement costs in catering, ground handling and maintenance. Our second lever is labour productivity. We will undertake a systematic comparison of productivity levels by function and department versus our competitors and strive to close the productivity gap. Where necessary, we will 'right size' the organisation to achieve costs in line with our peers.

C WINNING ORGANISATION

A critical requirement to the recovery of Malaysia Airlines and achievement of sustained and consistent performance is to transform ourselves into a high performance organisation.

There are a number of areas we need to address to achieve this important goal. Our labour productivity is well below our relevant competitors and our compensation philosophy is not sufficiently performance-based. In addition, our decision-making approach is cumbersome with a lack of clear accountability on key decisions. Because of the reduction in the network, there is a need to review the manpower level. We would like our organisation to be leaner, more nimble, customer-oriented and meritocratic with a compensation approach that 'pays for performance.' As part of this, we will realistically need to make targeted resource reductions.

We recognise that this organisational transformation will be quite profound. We therefore commit to undertake this exercise by responsibly engaging with our employees and the Government so as to minimise the adverse impact of these necessary changes.

We believe that these changes will make Malaysia Airlines a better place to work thereby enabling us to attract the best talent and provide greater career advancement opportunities for our employees.

▪ Our Commitment

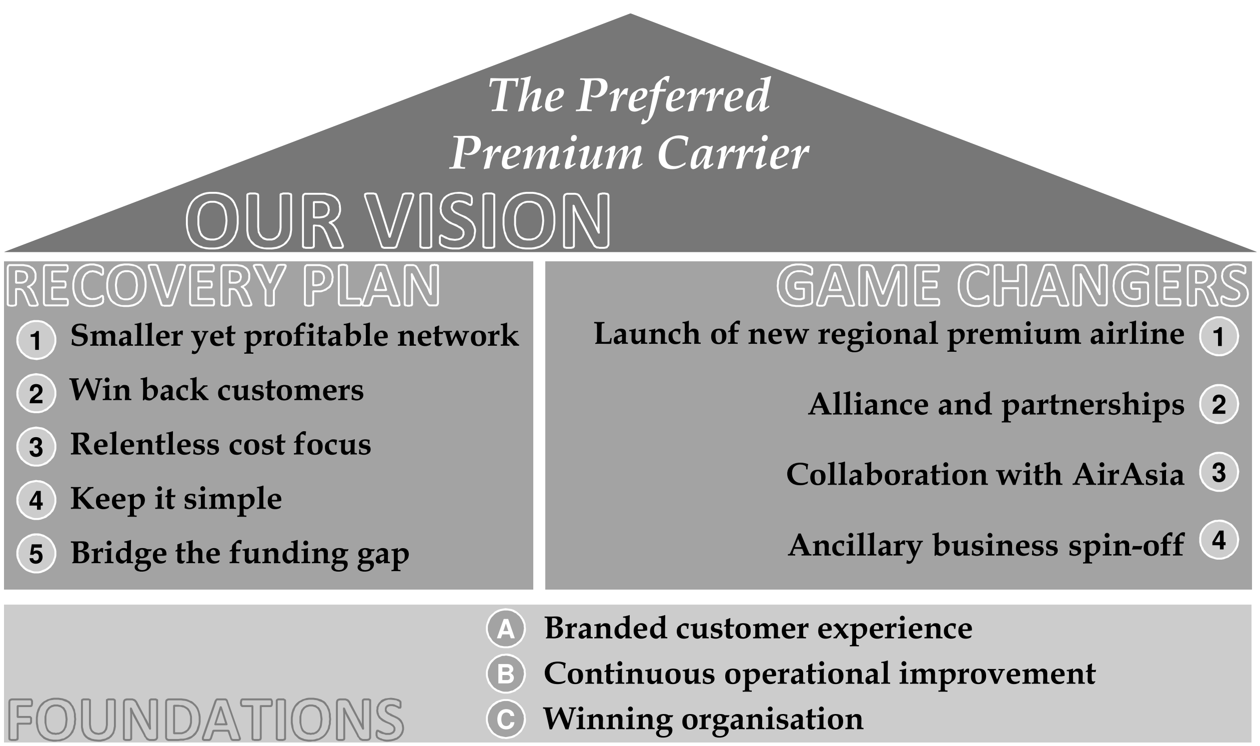
OUR COMMITMENT

Malaysia Airlines' well-being and strength is a major component to the country's economy. We carry the aspirations and pride of the Nation. Both at home and abroad, the Malaysia Airlines brand remains associated with our unique heritage of giving customers that personal touch.

The airline also carries the expectations of all our employees, without whom the airline would not still be flying today, given all the challenges the Company has faced over the years.

We are in a crisis and the current situation of the Company is a serious concern for our people, stakeholders, customers and business partners. We recognize that hard and unpopular decisions will need to be made along the way for MAS' survival and future success. We will treat these decisions with the gravity that they merit, and forge solutions in the best interest of our employees, shareholders, customers and strategic partners.

As this journey of recovery has begun, we ask for your support, patience and understanding as we rebuild Malaysia Airlines as ***the preferred premium carrier***.



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