

CHAIRMAN'S STATEMENT



Tan Sri Datuk Zainun Ali

Chairman

On the back of increased passenger movements and stronger contribution from both our airport and non-airport operations, Malaysia Airports has delivered another year of encouraging revenue and earnings growth.

Beyond financial results, the Group has achieved various other noteworthy accomplishments. Among others, they include the completion of Langkawi International Airport (LGK) expansion works which had resulted in a capacity increase from 1.5 million passengers per annum (mppa) to 4 mppa, as well as the completion of the new boarding hall at Istanbul Sabiha Gokcen International Airport (SAW) which resulted in the airport's capacity increasing by 8 mppa to 41 mppa. For our Malaysia operations, we welcomed eleven new airlines and three charter flight services, and saw 44 new services launched by existing local and foreign airlines. Meanwhile, we welcomed three new airlines at SAW with 13 new services launched by existing carriers. We also kicked off the implementation of the Quality of Service (QoS) framework, strengthened our corporate governance framework and practices as well as enhanced the overall operational efficiency and capabilities across all our business operations.

DEAR STAKEHOLDERS,

It is an honour and a privilege to deliver this statement in my first year as Chairman of Malaysia Airports Holdings Berhad (the Group or Malaysia Airports).

In August 2018, the Group reached an all-time high market capitalisation of RM16.3 billion with close to 43% of our equity stake being held by foreign investors including super annuity funds. This reflects the strong confidence level among investors, both retail and institutional, in the Group's business performance, its business model and prospects going forward.

The sustainability and stability of our business performance are attributed to the value creation process we have developed, not only during the year under review but also throughout the preceding years. Given all that we have experienced and shared in FY2018, it has been a journey of progress achieved through technology and innovation, customer centricity service culture, strong core values, and sound business strategies.

It is on this positive note that as your Chairman, I am pleased to share with you the Group's Annual Report and Audited Financial Statements for the Financial Year Ended 31 December 2018 (FY2018).

FINANCIAL PERFORMANCE & BUSINESS HIGHLIGHTS

As at 31 December 2018, Group revenue had risen to RM4,851.7 million (FY2017: RM4,651.3 million) while profit before tax (PBT) had also increased to RM780.6 million (FY2017: RM338.8 million). Year-on-year, revenue and PBT had grown by 4.3% and 130.4% respectively. Higher Group PBT was

due to unrealised gain on the fair value of our investment in GMR Hyderabad International Airport Limited. Profit after tax (PAT) was RM727.3 million (FY2017: RM240.4 million). Year-on-year, PAT had improved by 202.6%.

The Group continues to register revenue and earnings growth. Group assets has strengthened to RM22,273.1 million, a 0.3% increase from the previous year, while our cash position remains healthy. The Group debt to equity ratio has also improved to 0.63 times compared to 0.70 times in the previous year.

HIGHLIGHTS AMIDST A YEAR OF CHANGE AND CHALLENGE

FY2018 was a year of considerable change and challenge especially on the local economic and political landscape.

Despite the turbulence encountered in FY2018, The Group's solid fundamentals has allowed us to forge ahead, exemplifying strength and resilience. Despite registering lower than forecasted passenger movements, we succeeded in achieving our earnings targets for the Group for the year under review. The highlights such as the abovementioned completion of expansion works at Langkawi International Airport and SAW in Turkey will allow for a more comfortable and conducive passenger experience thus increasing passenger movements and retail spending.

Equally important was the upgrading works at Bario short takeoff and landing port (STOLport). Bario STOLport is one of the 18 managed by the Group. Despite being economically challenged, the value of these STOLports is buttressed by the incredible access it provides to the remote communities in the far reaches of the country where they act as an avenue to communication and transportation, education, healthcare, economic opportunities and general well-being. Concomitantly, as part of our corporate responsibility, the passenger service charges (PSC) at these STOLports are waived for close to 160,000 passengers using the STOLports yearly.

We draw a measure of pride in having the privilege to serve our fellow Malaysians while maintaining profitability and sustainability as an airport operator. Apart from waiving the PSC at these STOLports, we also work towards ensuring the sustainable livelihood of these remote communities. Since 2014, we have joined forces with Persatuan Bomba Sukarela to provide training to selected members in the local community to be our Airport Fire and Rescue Service (AFRS) personnel. This partnership has benefited more than 180 rural residents. In 2018, we took this a step further by collaborating with Jabatan Bomba dan Penyelamat Malaysia to provide these personnel with a more comprehensive airport fire rescue and services training. This collaboration was successfully inked in January 2019.

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Newly expanded Langkawi International Airport

Today, beyond strengthening and increasing connectivity, airports must be able to deliver a memorable airport experience to passengers and other stakeholders. A key aspect of this notion is overall airport experience, which consists of facilities, amenities and services provided, overall terminal ambience, queue waiting times, time to exit the airport or to board and more.

Starting in 2018, Malaysia Airports started to embrace the Lean Six Sigma (Lean) methodology in our operations especially in initiatives that are expected to improve passenger flow through the airport. These have proven effective especially in optimising our operational and service

efficiency. Lean is a methodology that can be applied to various disciplines namely terminal operations, landside management, airside management, customer experience management and security screening. To date, 139 Lean initiatives have been identified of which, 90% have been implemented. These initiatives include improving wayfinding, reducing queue time, reducing congestion and providing helpful information to passengers at critical touchpoints, and improving maintenance.

We have also initiated a commercial reset strategy with its objective of raising the retail profile at our airports. The initial implementation of the commercial reset strategy can be

seen in the upgrading and expansion of Langkawi International Airport where we have introduced the 'first to airport' and 'first to Langkawi' brands such as Costa Coffee and Burger King. Being a global shopfront for international brands has positioned Langkawi airport as a destination in its own right, even for non-passengers. In addition, the commercial reset will also incorporate a unique local experience called 'Sense of Malaysia' to showcase our unique Malaysian heritage and brands to the world. This will be further augmented with the use of technology and e-commerce platforms which will optimise our retail space and generate stronger non-aeronautical revenues.

At its most basic, the heart and soul of any organisation is its people and culture. Cutting-edge technology and advanced artificial intelligence will not count for much, if the organisation is peopled with flawed personalities who are devoid of skills or lacking in high standards of accountability. It is critical that a positive corporate culture is infused in each and everyone in the organisation for it to remain buoyant, robust and effective. Given this imperative, one of the highlights for FY2018 was the service culture transformation to nurture our workforce to meet the requirements of today's dynamic, fast-evolving operating environment. In 2018, we identified change agents among our staff whom we have aptly named as 'Catalysts'. These catalysts will have access to training, coaching and continuous assessment so that they can rally the rest of their colleagues to come onboard with our growing emphasis on developing a people-first and service-oriented culture.

In December, we launched the 'Happy Guests, Caring Hosts' service culture transformation programme. This marks a further transition from the existing operational-centric culture, to a customer-centric culture. One major manifestation of this transformation was in making KL International Airport (KLIA) a 'Senior Citizen and Family-Friendly' airport. In doing this, we provided 150 free wheelchairs and 150 baby strollers at klia2 terminal to ease the walking distance and provide greater convenience to passengers. The effort has been well received with high

usage of the free wheelchairs and baby strollers from the first day of operations. We will be implementing the same at the KLIA Main Terminal in FY2019.

The full details of these and other operational highlights are given in the Management Discussion and Analysis section of this annual report.

DRIVING ORGANISATION-WIDE CORPORATE GOVERNANCE & INTEGRITY

As the top sets the tone for any organisation, it is imperative for the Board of Directors and Senior Management to unequivocally articulate and determine the direction of the company. The mantle of leadership necessarily includes stringent corporate governance. In 2018, the Board has played an active role in improving and enhancing our business practices and internal controls to be more aligned with the Malaysian Code of Corporate Governance 2017.

Improvements made include the rationalisation of Board Committees to reduce the occurrence of a single member of the Board sitting on three or more committees. The Board has also looked to ensure that as much as possible, Board Committees are chaired by an independent non-executive director (INED) and that said Committees comprise a majority of INED where possible.

Board Committees have also been restructured to ensure a better match with the respective skillsets of our Board members. The Company constitution has also been updated to be more aligned with today's dynamic business environment. To-date, Malaysia Airports' board composition comprise 55% female representation and has exceeded Malaysia's national agenda of achieving at least 30% female representation on the boards of listed companies by 2020.

I would like to welcome four of the newest Board members, Datuk Siti Zauyah binti Md Desa who was appointed on the 17 October 2018 as a Non-Independent Non-Executive Director, Mr Ramanathan Sathiamutty who was appointed on 1 January 2019 as an Independent Non-Executive Director, Miss Wong Shu Hsien who was appointed on 7 March 2019 as a Non-Independent Non-Executive Director and Dato' Dr. Amiruddin Muhamed who was appointed as Alternate Director to Datuk Siti Zauyah Md Desa on 13 March 2019.

Integrity and anti-corruption are compelling issues and the importance of a holistic approach in reinforcing values of integrity and anti-corruption comes into sharp focus. It is not sufficient to pay mealy mouthed lip service to these important codes of conduct if no serious efforts are jettisoned towards fulfilling and upholding the core values of good corporate governance in every way we can.

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Our workplace must have adequate safeguards and conditions to remove any risk of corruption; any transgression must be dealt with swiftly. Our workforce from the top down must be vigilant at all times and be conscious of the corrosive influence any transgression will generate. I am glad to note that the Group already has in place its whistle-blowing policy, as well as an independent committee to pursue any possible ethical breaches. Together with the Corporate Integrity Unit (CIU), the whistleblowing policy further strengthens our corporate governance framework. We have also commenced benchmarking

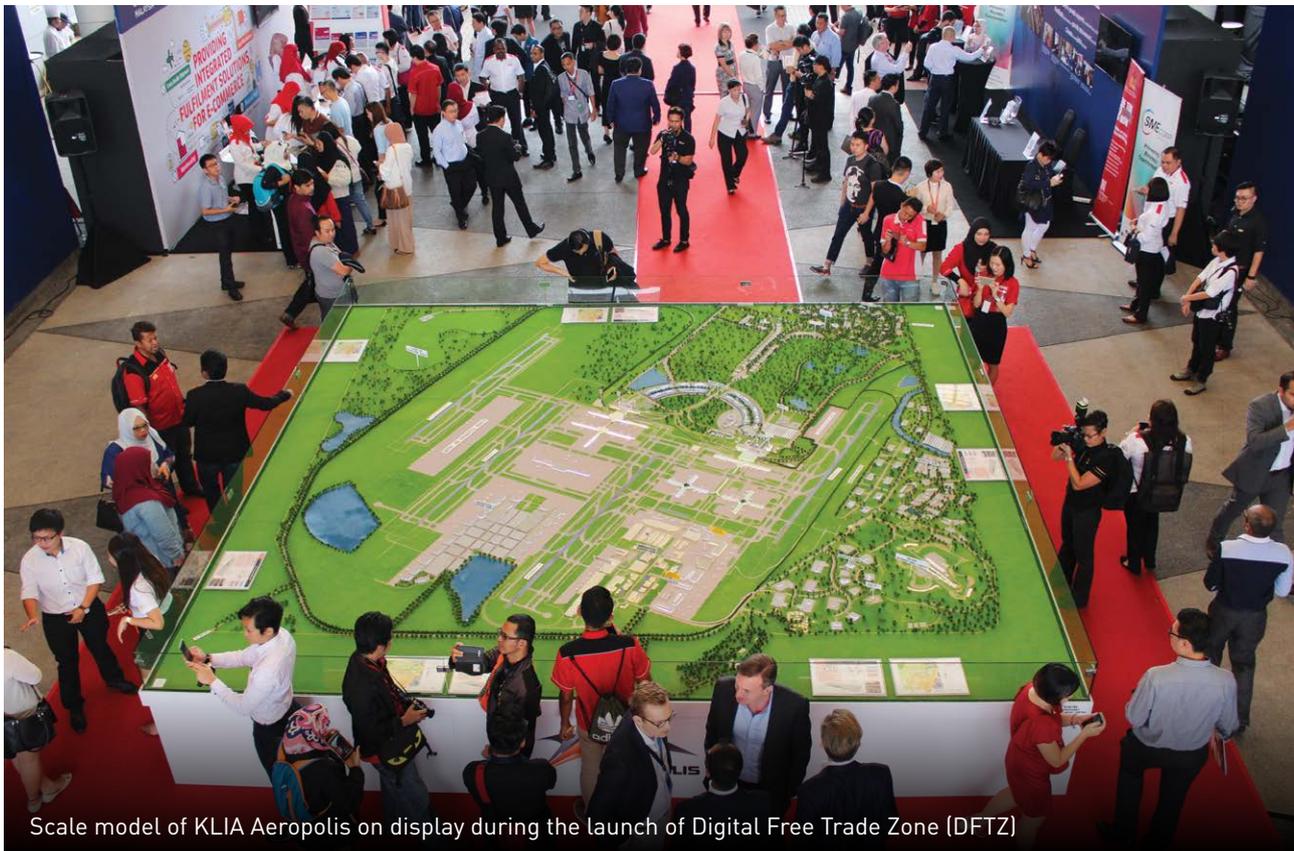
our corporate governance and related processes and practices to international standards, among which include the pursuit of ISO certification for our Anti-Bribery Management System (ABMS).

Ultimately, the measures adopted are to propel Malaysia Airports beyond frameworks, policies and processes and imbue a natural spirit of integrity and self-governance; where employees instinctively exemplify sound business ethics and value as a natural extension of their own values in their daily work.

OUTLOOK AND PROSPECTS

Though we expect continued headwinds, FY2019 looks promising for Malaysia Airports, given the strategic plans we have outlined under our Group Business Plan.

We have several priorities in FY2019, which we view as integral to our growth. They comprise five strategic pillars - becoming a best-in-class hub, delivering world-class service levels, strengthening non-aero business, unlocking potentials through Aeropolis, and expanding



Scale model of KLIA Aeropolis on display during the launch of Digital Free Trade Zone (DFTZ)

and diversifying through international business. Each pillar has its own strategies to contribute to Malaysia Airport's overall growth, progress and sustainability.

We operate in a highly regulated industry where mandatory compliance to numerous aviation regulations is required. The onus is on us to constantly seek ways to enhance our service levels and elevate customer experiences. We will continue to leverage our inherent strengths and opportunities, namely strong airline connectivity and extensive route offerings, as well as providing ample terminal and runway capacity.

We will also continue to emphasise building mutually beneficial relationships with all airport stakeholders. The airport is a multi-stakeholder environment and central to our relationships is the engendering of service excellence. We hope to be able to fortify further the valuable cooperation and goodness of spirit which we have built upon thus far with our stakeholders so that we can strengthen Malaysia's position as a great aviation hub.

We have been bold in our pursuit of excellence, especially in furthering our role as one of the country's economic catalyst. We can look forward to the continued progress of KLIA Aeropolis especially with the ongoing development of the KLIA Aeropolis DFTZ (Digital Free Trade Zone) Park under the Air Cargo & Logistics cluster, and the Subang Airport Regeneration initiative which

will unlock tremendous potential and value for the country's economy.

Beyond infrastructure and investments, we will enhance our service quality, notably with the full implementation of the QoS in KLIA, Langkawi International Airport and Kota Kinabalu International Airport in 2019.

With regards to the Regulatory Asset Base (RAB) framework, we hope to finalise the terms with all stakeholders in 2019. We draw several positives from the RAB as it will allow Malaysia Airports to earn a fair rate of return from capital invested i.e. for the development of airports under our management. With the RAB, we can expect to be more effective in enhancing airport facilities nationwide.

APPRECIATION AND ACKNOWLEDGEMENTS

On behalf of the Board, I wish to thank immediate past Chairman Tan Sri Syed Zainol Anwar Ibni Syed Putra Jamalullail for his immense contribution in bringing Malaysia Airports to our present level of success during his tenure. Tan Sri Syed Zainol's legacy of strong financial performance, excellent quality of services and operations and commitment to corporate governance and integrity will be carried on by the Board as we seek to build on the existing strong foundations and elevate Malaysia Airports further.

The Board also wishes to thank Datuk Mohd Badlisham Ghazali who had served with distinction as Managing Director during his years of service with Malaysia Airports, as well as Datuk Mohd Khairul Adib Abd Rahman and Dato' Mohd Izani Ghani who had served as Non-Independent Non-Executive Directors. We thank them for their contribution to the Group's success.

Congratulations go to Group Chief Executive Officer Raja Azmi Raja Nazuddin for stepping up to the challenge of helming Malaysia Airports and whose appointment was formalised on 4 January 2019.

Additionally, the Board wishes to recognise our staff for their professionalism and dedication during the year under review. We also express our sincere appreciation to the various ministries, government agencies, airline partners, retail partners, vendors and all other business partners, as well as our shareholders for being part of a positive FY2018 for the Group.

I look forward to journeying with you and together we will scale the heights of success in the coming year.


Tan Sri Datuk Zainun Ali
 Chairman

IATA Airport Codes:

*KUL - KL International Airport
 LGK - Langkawi International Airport
 SAW - Istanbul Sabiha Gokcen International Airport*