

Chairman's Statement



Dear Stakeholders,

Malaysia Airports experienced a challenging year in 2019, and emerged with renewed vigour. The Group made tangible progress on many fronts with a focus on the most critical material matters to create value for stakeholders.

Tan Sri Datuk Zainun Ali
Chairman

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Passenger numbers hit its highest ever, surpassing the 100 million mark for airports in Malaysia. Increased traffic, an improved passenger mix with higher proportion of international passengers, improved infrastructure, enhanced customer experience, the optimisation of existing spaces and the commercial reset of the non-aeronautical business drove revenues from airport operations.

In April 2019, we secured the Malaysian Government's approval for the renewal of the Operating Agreements between the Government and Malaysia Airports till 2069. The Operating Agreements form the basis for Malaysia Airports' licence to operate, manage and maintain 39 airports in Malaysia.

As a result, the Group's financial performance was strong with robust revenue and earnings growth.

In line with the Company's dividend policy to distribute a dividend payout of at least 50% of the consolidated annual net profit after taxation and minority interest annually, subject to availability of distributable reserves, the Board had approved the payment of a final single-tier dividend of 10.0 sen per ordinary share for FY2019 which was paid on 21 May 2020. This is in addition to the single-tier dividend of 5.0 sen per ordinary share for FY2019 paid in October 2019. As such the total dividend payout for FY2019 is RM248.8 million, equivalent to 52% of the total adjusted profit after tax, surpassing the Group's dividend policy. This underscores the unwavering commitment of Malaysia Airports to create value for its shareholders.

It is therefore befitting that we chose the theme for this year's annual report 'Gaining Momentum' to sum up our year. It is an honour and privilege for me to deliver this statement as Chairman of Malaysia Airports Holdings Berhad.

Gaining Momentum on Material Matters

Operating environment

Throughout 2019, the prevailing operating environment for Malaysia Airports was both challenging and constantly evolving. Although the Asia Pacific region continued to show strong air passenger traffic growth throughout 2019, we also encountered regional headwinds. The US-China trade dispute which escalated in the year had dampened China's economy. As China is a significant country of origin for passengers arriving at our airports in Malaysia, this gave us cause for concern until the Phase 1 trade agreement signed between the US and China in early 2020 had de-escalated tensions. The trade dispute also affected the international cargo trade, and global numbers for 2019 were flat.

Domestically, the financing model for capital expenditure at airports was due to undergo a complete change with the impending introduction of the Regulated Asset Base framework by the Malaysian Aviation Commission (MAVCOM). That had given rise to uncertainties as to the minutiae relating to the financing of capital expenditure for 2020-2022 as Malaysia Airports worked to bolt down the details.



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The continued evolution of the regulatory regime for the aviation industry in Malaysia also gave rise to fresh uncertainties. Notably, at the end of 2019, the Government announced the merger of the Civil Aviation Authority of Malaysia (CAAM) and MAVCOM, two of Malaysia Airports' main regulators.

In Turkey, the renovations which were completed in 2018 enabled Istanbul Sabiha Gökçen International Airport (IATA Code: SAW) to operate at higher capacity, and the change of business focus from domestic to international passengers for airlines operating out of SAW will benefit SAW in the future with higher revenues from international passengers.

Economic Performance

Group revenue for the financial year ended 31 December 2019 (FY2019) amounted to RM5,213.1 million, a growth of 7% year-on-year (YoY). The Group's profit before tax (PBT) grew by 33% to RM659.2 million compared to FY2018*. On an EBITDA basis, Group EBITDA increased by 9%. The Group registered profit after tax of RM537.0 million, an increase of 21% YoY.

The revenue and earnings growth were achieved on the back of 6% increase in passenger traffic. The improved profitability is attributed to a higher proportion of international passengers for both Malaysia and Overseas operations.

Total Airport Experience

Most notably, we made strides in enhancing the total airport experience for our guests as our 'Happy Guests, Caring Hosts' service culture transformation programme gained momentum in 2019 with over 180 training sessions for nearly 9,000 employees and members of the airport community at KL International Airport (IATA Code: KUL). The service cultural transformation resulted in better service quality and improved customer experience. This was translated into KUL recording an improvement of its overall score to 4.76 out of 5 for the Airport Service Quality (ASQ) benchmarking programme conducted by Airports Council International (ACI). This was the best score achieved by KUL throughout its participation in the ASQ programme.

Malaysia Airports achieved good progress on several material matters of key importance to stakeholders.

**Excluding extraordinary items in FY2018.*

Integrity and Anti-Corruption

Malaysia Airports also strengthened its Integrity and Anti-Corruption measures and capabilities, with the ISO 37001:2016 certification for its Anti-Bribery Management System (ABMS) used for procurement processes. The internationally recognised ABMS is designed to help Malaysia Airports establish, implement, maintain and improve an anti-bribery compliance programme, and encourage better governance. The certification applies to the head office and our subsidiary, Malaysia Airports (Sepang) Sdn Bhd (MA Sepang), which runs KUL and will be rolled out to Malaysia Airports Sdn Bhd, which runs the other airports in Malaysia.

Airport Safety and Security, Digitalisation

Upgrading works on Runway 3 at KUL began in October in line with the KUL Runway Sustainability Master Plan. The works which started with pavement rehabilitation are expected to be completed mid-2020. The exercise will ensure continuous safety of the runway and address potential future issues such as airfield pavement roughness. Once works are completed on Runway 3, upgrading works are expected to commence for Runway 1 in 2021 and Runway 2 in 2023.

To enhance airport safety and security, Malaysia Airports leveraged the use of technology and its Airports 4.0 digitalisation initiative. 2019 saw us preparing to introduce at KUL the single token passenger journey, which is powered by facial recognition technology, big data analytics and the Internet of Things (IoT). This initiative which is currently in its pilot phase for certain flights departing from KUL enables the deployment of electronic gates with facial recognition capabilities to simplify the journey of passengers through the airport. Passengers are required to verify their travel documents only once upon check-in.

New security body scanners were installed at KUL with the capability to detect both organic and non-organic foreign objects on the body without requiring a manual pat-down. They are also more effective as they can detect all kinds of materials unlike the old walk through detectors that can only detect metal contraband. The new scanners are also faster and safer as they do not involve x-rays or radiation.

Regulatory Compliance

As the aviation industry is highly regulated, Malaysia Airports puts the highest priority in ensuring compliance with applicable laws and regulations in all aspects of our business, including those relating to environmental, social and governance (ESG) considerations. We therefore regret that in respect of the Quality of Service (QoS) framework imposed by MAVCOM, Malaysia Airports' subsidiary,



Malaysia Airports (Sepang) Sdn Bhd, was fined RM1.2 million in September 2019 and RM0.9 million in January 2020 by MAVCOM for failing to meet QoS targets at KUL. The working committees overseeing compliance with the QoS framework have since presented rectification and mitigation plans that will be implemented to address the shortcomings.

Airport Capacity

In terms of airport capacity, in 2019, Malaysia Airports embarked on and completed several optimisation projects to increase capacity by reconfiguring and repurposing available space and facilities at the airport terminals to improve passenger flow and experience. For example, the arrival areas at KUL were optimised to prepare for Visit Malaysia 2020. At klia2, the expansion and reconfiguration doubled the size of the immigration arrival area to improve the immigration process for arriving passengers. The arrival customs inspection area for both KLIA Main terminal and klia2 were converted from a single lane to six new lanes for better efficiency.

In 2019, we received the green light from the Ministry of Finance to proceed with the expansion project for Penang International Airport (IATA Code: PEN), which was operating beyond its capacity.

Gaining Momentum on Sustainability

This year, Malaysia Airports has included a more comprehensive review of non-financial performance of ESG matters in this annual report, in line with our move towards integrated reporting. It also reflects Malaysia Airports' increased emphasis on sustainability,

incorporating ESG considerations in building a sustainable business for the long term.

In 2019, we strengthened the ESG model with the Board of Directors reviewing and approving updates to Malaysia Airports' Sustainability Policy and Framework. There is now improved alignment between the material matters of the business with ESG considerations as well as with Malaysia's commitments under the 2030 Agenda for Sustainable Development, or more commonly referred to as the UN Sustainable Development Goals (SDGs).

Malaysia Airports also took a proactive leadership role among stakeholders by launching the KUL Sustainability Charter. The Charter outlines how Malaysia Airports will work together with the KUL airport community to create a sustainable airport ecosystem. The Charter marks the first step in developing an airport-wide sustainability scheme, with detailed goals and initiatives, and where applicable, measurable performance targets.

A significant year for aviation industry

Globally, for the aviation industry, 2019 marked the 75th anniversary of the Convention on International Civil Aviation or the Chicago convention, which led to the formation of the International Civil Aviation Organisation (ICAO) under the auspices of the United Nations. ICAO has made it possible for the international aviation industry to operate across borders and continents with uniformity of standards and safety across the world.

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KL International Airport comes of age



In Malaysia, 2019 was the year KL International Airport came of age, so to speak, as we celebrated its 21st anniversary. It was made more meaningful as the celebration included the then Prime Minister of Malaysia, Tun Dr Mahathir Mohammad, whose vision and foresight led to the opening of the brand new airport in 1998. Malaysia Airports was proud to demonstrate that we had not only fulfilled his vision, but had also enabled his dream to take flight and soar.

And in Turkey, we welcomed Tun Dr Mahathir to SAW in July 2019. He was given a tour of the airport, and was given a briefing on its operations and growth potential. He also viewed the recently completed domestic boarding hall expansion at the airport.

Airports contribute to social and economic progress

The coming of age of KLIA put into sharper focus the role of airports in nation building, particularly in Malaysia. In line with that, we also recognise the wider contribution of airports towards achieving the SDGs, a universal call to action to end poverty, protect the planet and improve the lives and prospects of everyone, everywhere.

In contributing to the SDGs, one main area is the economic sphere where we generate wealth and employment through our business activities and throughout the ecosystem of value chains connected to our business activities. Malaysia Airports is also a catalyst for other industries and to grow and flourish particularly those involving high-value electrical components and perishable goods. By providing the connectivity for globalised supply chains, we have seen the continued growth of Penang's Free Trade Zone located near PEN.

KUL is also the catalyst for airport-driven development in the form of the KLIA Aeropolis. Covering a 100 sq km of land, the KLIA Aeropolis is designed as an integrated, complete and synergistic ecosystem, aligned with Malaysia's national objectives to attract foreign direct investment in three core clusters: Air Cargo & Logistics, Aerospace & Aviation, and MICE & Leisure. While still in its development stages, the KLIA Aeropolis is already preparing to house one of just six e-commerce fulfilment hubs of the global e-commerce giant, Alibaba, with the operationalisation of the KLIA DFTZ Aeropolis Park by the end of 2020.

Subang International Airport is also the *raison d'être* for the formation of an Aerospace and Aviation hub in the areas surrounding the airport. Under the Subang Airport Regeneration initiative, the city airport also supports an aerospace hub focusing on the manufacture of aircraft components as well as maintenance, repair and overhaul (MRO) together with business aviation and helicopter centres, all catering to leading international airport aviation firms.

Airports are also an enabler for Malaysia's tourism industry, welcoming foreign visitors to Malaysia, and for facilitating travel within Malaysia. In 2019, Malaysia Airports began gearing up in earnest for Visit Malaysia 2020 (VM2020) for which we are a strategic partner to Tourism Malaysia. Despite the cancellation of VM2020 due to the COVID-19 pandemic, Malaysia Airports will continue to work closely with the Government of Malaysia to boost our tourism industry.

The connectivity provided by our airport network has improved the image and desirability of cities and countries, opening up opportunities for Malaysians. For example, Malaysia ranks 11th in the most popular education destinations for international students globally in UNESCO's latest survey. In addition, the country continues to be cited as a top destination for retirement and medical tourism.

Spurring social inclusion

While the economic benefits of airports are well documented and communicated, I would like to highlight the role of airports in promoting social inclusion across Malaysia. In particular, the states of Sabah and Sarawak are home to remotely located communities who live in relative isolation, far from the city and centres of commercial development. Some of these communities live in areas which can only be reached by an arduous and lengthy journey by river boat or four-wheel drive or even a trek by foot (and sometimes a combination of all of the above!). For these communities, the 18 short take-off and landing ports (STOLports) managed by Malaysia Airports are a lifeline.

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These STOLports provide remotely located communities with the means to access services and education, and link them to the rest of Malaysia, and the world. In cases of medical emergency, STOLports provide the crucial link to enable patients to be air-lifted to hospitals, which perhaps may be the only way to save their lives. The important role of STOLports was highly evident during the COVID-19 pandemic where they served as crucial conduits in transporting much needed supplies to the remote areas.

Malaysia Airports maintains these STOLports as part of our corporate responsibility initiatives. As users of STOLports do not pay passenger service charges for use of the facilities, the on-going maintenance of the STOLports are funded from Malaysia Airports' own revenues. In 2019, 160,000 passengers used our STOLports throughout Malaysia.

Corporate Responsibility is part of our DNA

Airports also provide us with a base for which Malaysia Airports engages with the community to further its corporate responsibility agenda. Giving back to the community is very much a part of Malaysia Airports' DNA. We support schools, community initiatives, local products and other causes which are part of the community around our airports. This is our way of giving back to the community which has supported our operations. After all, the basis of social capital employed by Malaysia Airports is premised on the belief that business can flourish only if the community also prospers.

I was touched by the response of the community towards our corporate responsibility initiatives. In October 2019, I attended an event held to officiate the launch of a revamped computer lab by Malaysia Airports at the National Skills Development Centre at Serendah, Selangor. Malaysia Airports had renovated and upgraded the computer lab and equipped the 'Digital Space' with new computers, enabling 50 students at the centre to learn and apply ICT skills. This formed part of Malaysia Airports' corporate responsibility programme, 'Beyond Borders' which aims to empower students through education initiatives.

I was struck by how enthusiastic and excited the students were to have an opportunity to improve their skills and equip themselves for today's digital world, and how appreciative they were of our efforts.

I am glad that Malaysia Airports is able to make a lasting difference in the lives of young people.

Therefore, airports are not just for the affluent or people with the means to travel, but they benefit all Malaysians in more ways than readily meet the eye. Airports are an essential tool in nation building in today's connected world. Malaysia Airports is proud of its role in this regard, and its impact in improving the lives of Malaysians.

An active year for the Board

Apart from my appointment to the Board in January 2019, there were other changes to the Board of Directors, among which were the appointments of Mr Ramanathan Sathiamutty, Ms Wong Shu Hsien and Dato' Janasanthiran Muniayan. The current composition of the Board makes for a fairly well-balanced team in terms of skills, expertise and experience. The discussions at meetings have been rigorous, robust and in-depth as the Board discharges its duties.

While we note our solid track record in value creation, we are well aware that today's business environment and rapid pace of change, and economic outlook are vastly different. In other words, what has brought growth and value before may not work for the future.

Therefore, among the major Board initiatives was a review of Malaysia Airports' strategy to determine where our limited resources would best be deployed and employed to maximise long-term sustainable impact. The review enabled the Board to drill down into the key focus areas for the Company to ensure that material matters are bedded down and a close tab kept on them. In so doing, we took into careful consideration the resources we have from among the six capitals that the Company deploys in its business as well as the need to create value for shareholders as well as for the other stakeholders of the Company. A thorough review of the risks and opportunities presented by our business as well as the trade-offs that we would have to make in preferring some options over others were also carefully considered.

The Board also welcomed the engagement with the Institutional Investors Council Malaysia (IICM). It was an opportunity to brief institutional investors of Malaysia Airport's business and financial performance and outlook, as well as to update them on our initiatives to uphold and strengthen corporate governance.

In all of our business dealings, my fellow directors and I are always conscious of our responsibility to uphold the highest standards of corporate governance and integrity in our dealings and also to ensure that this is foremost in the corporate culture of Malaysia Airports and in the minds of our employees as they go about discharging their duties. In 2019, we made considerable progress on this front. In addition to the ABMS certification previously mentioned, the

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extensive training programme for our staff and business partners on prevention of corruption and on-going commitment to uphold our Corporate Integrity Pledge show our seriousness in addressing upholding trust in Malaysia Airports.

I am also pleased to note that women directors on the Board currently account for 45% of the Board. This together with the increasing number of women at all levels of the Company, including senior management, is a clear indication of the opportunities that Malaysia Airports is creating for women in the aviation industry, which has been viewed traditionally as a male-dominated space. I believe that having more women at Malaysia Airports can help build an organisation that seeks to build consensus and collaboration, which is particularly important for us as we deal with a wide range of stakeholders throughout our operations.

Accolades

I am pleased that our efforts have received recognition from stakeholders. Among the many awards that Malaysia Airports had received in 2019, my fellow directors and I are particularly proud of those which recognise our efforts in corporate governance and transparency. We were awarded an Industry Excellence Award in the Transportation and Logistics sector by the Malaysian Shareholders Watch Group in its MSWG – ASEAN Corporate Governance Awards.

Focus Malaysia, a business publication, ranked Malaysia Airports fourth in the 'Focus Malaysia's 10 Most Transparent Stocks'. PwC named us one of 20 finalists for The Building Trust Awards based on our maiden efforts in integrated reporting. We were also pleased when Malaysia Airports emerged third in the Transparency in

Corporate Reporting rankings by the Malaysian Institute of Corporate Governance which evaluates Malaysia's top 100 public listed companies based on their anti-corruption practices, organisational transparency, and sustainability.

The Edge Billion Ringgit Club Awards 2019 named Malaysia Airports for 'Highest Return to Shareholders Over Three Years' in the transportation and logistics sector citing our consistent and steady performance which has created value for shareholders in terms of share price appreciation and dividends.

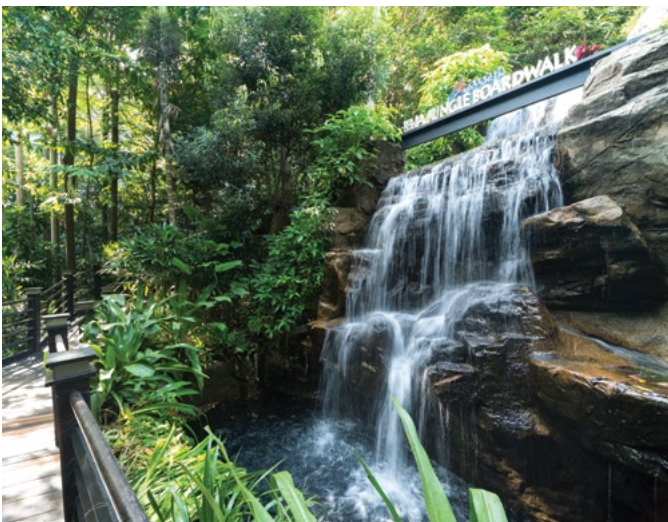
While we do not rest on our laurels, the recognition by stakeholders is an encouragement to the Board, Management and employees of Malaysia Airports to continue with our efforts.

Outlook for 2020

When 2020 began, the outlook for the year was benign with optimism that the tensions over the US-China trade war were dissipating with the signing of the Phase 1 of a trade deal. The Ministry of Finance had forecasted a GDP growth of 4.8% for Malaysia in 2020 while International Monetary Fund (IMF) was expecting the world economy to expand 3.3% this year.

However, with the emergence of the novel coronavirus initially in China, and the rapid spread of COVID-19 across Malaysia and the rest of the world, the outlook for 2020 has changed dramatically.

In an effort to break the transmission of COVID-19, effective 18 March 2020, the Malaysian Government imposed an unprecedented Movement Control Order, promulgated under the



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Prevention and Control of Infectious Diseases Act 1988. Under the Movement Control Order, among other measures, foreigners were not allowed to enter Malaysia, and Malaysians were not allowed to leave the country. Malaysians were also not allowed to travel interstate without prior written approval from the police.

In the circumstances, at the end of March 2020, MAVCOM had revised its forecast for passenger traffic for 2020 to contract by between 36.2% and 38.1% YoY. This forecast accounts for flight cancellations and assumes a seat reduction of 15.0% for domestic flights and a 20.0% seat reduction for international flights. These numbers are daunting; more so because the extent of the spread of COVID-19 in Malaysia as well as across the globe is still unfolding, and aviation industry forecasts remain in a state of flux.

I would like to assure all stakeholders that Malaysia Airports has taken immediate and pre-emptive measures to deal with the impact of COVID-19. Throughout the period of the Movement Control Order, our airports continue to operate to provide critical services, particularly transportation of cargo, medical supplies and humanitarian aid as well as to facilitate Malaysians returning from abroad.

Our top priority is to keep our passengers, employees and airport community safe and healthy. Our employees have collaborated closely with the authorities and the airport community. Together, we have been quick to help airport users maintain social distancing by placing markers throughout the airport facilities to facilitate queues, seating, and orderly movement through the airport. We have also undertaken stringent hygiene measures throughout our airports, with surfaces especially at critical touch-points being constantly sanitised.

On the use of financial and other capitals and resources, Malaysia Airports has taken swift action to monitor and assess our business position. While Malaysia Airports entered 2020 from a position of financial strength, we are already taking a conservative and prudent stance to optimise the use of capitals and resources. Among the on-going measures is to develop a Group-wide plan to increase operational efficiencies, reduce costs and prioritise capital expenditure, as well as to control costs aggressively. In this regard, we are also engaging with key stakeholders, in particular the Government, regulators and business partners, to coordinate our responses to the COVID-19 pandemic.

Virtual Annual General Meeting

In view of the Government's advice on social distancing and the avoidance of public gatherings in the wake of the COVID-19 pandemic, Malaysia Airports' 21st Annual General Meeting (AGM) will take the form of a virtual meeting. We will broadcast the meeting

from a venue at Sama-Sama Hotel, and shareholders will be able to follow the proceedings via live streaming as well as participate and vote online. Further details on the AGM are contained in the Notice of the 21st AGM available in this Annual Report.

Heartfelt thanks

I would like to extend a warm welcome to two of the newest Board members Dato' Zamzuri Abdul Aziz who was appointed on 10 February 2020 and his alternate Dato' Dr Amiruddin Muhamed.

The Board would like to welcome Dato' Mohd Shukrie Mohd Salleh, who joined Malaysia Airports in 2019 as Chief Operating Officer and stepped up as Acting Group Chief Executive Officer at the beginning of 2020. The Board subsequently confirmed his appointment as Group Chief Executive Officer at the end of February 2020.

The Board also thanks Raja Azmi Raja Nazuddin who left Malaysia Airports at the beginning of 2020 to pursue other opportunities. We appreciate the contributions of Raja Azmi during his tenure as Group Chief Executive Officer and Chief Financial Officer of Malaysia Airports.

In addition, the Board wishes to thank our employees for their dedication during this challenging year. We acknowledge the efforts and contributions as well as the many sacrifices they would have had to make in the course of their work and for that, we would like to express our heartfelt thanks. We also express our sincere appreciation to shareholders and all other stakeholders - the various ministries, government agencies, airline partners, retail partners, vendors and all other business partners - for their support and contribution in overcoming the challenges and hurdles of 2019, and making this a successful year for Malaysia Airports.

Given the teamwork and the close cooperation and collaboration that we have witnessed throughout 2019 with stakeholders, we have strong foundations in place to face the challenges that 2020 may bring. I ask all our employees and stakeholders to remain steadfast and resolute, and that together, we will emerge from these challenges with renewed strength and resilience.


Tan Sri Datuk Zainun Ali
Chairman