

CHAIRMAN'S STATEMENT

DEAR STAKEHOLDERS

The year in review was noteworthy for the Group as we registered an 11.5% and 11.8% rise in revenue and earnings respectively on the back of a 7.9% increase in passenger traffic for the Group's network of airports. Moreover, Group net earnings grew by a remarkable 224.0%. Our good performance is indicative of the strong foundations and robust strategies we have set in motion under our five-year business plan, Runway to Success 2020 (RtS2020).

Y.A.M. TAN SRI DATO' SERI SYED ANWAR JAMALULLAIL
CHAIRMAN

Since I came on board as your new Chairman in June 2017, I have had the privilege of seeing the Malaysia Airports' team step up to deliver above and beyond what they had set out to achieve for the year, striding forward on both financial and operational fronts. I am delighted to present you the Annual Report and Audited Financial Statements of the Group for the financial year ended 31 December 2017 (FY2017).



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COMMENDABLE PERFORMANCE

FY2017 saw us making good progress in terms of our operational metrics. With the combined operating performance of Istanbul Sabiha Gokcen International Airport (ISG), the Group's network of airports handled 128.0 million passengers in FY2017, representing 7.9% growth. Passenger traffic movements for our Malaysia operations grew by 8.6% to 96.6 million passengers in FY2017, with KL International Airport (KLIA) recording an 11.2% growth to 58.6 million passengers and other airports in Malaysia recording an aggregate growth of 4.8% to 38.1 million passengers in FY2017. Meanwhile, international passenger traffic movements was more than 50% of total passenger traffic in FY2017.

On the financial front, the Group turned in a revenue of RM4,652.3 million and earnings before interest, tax, depreciation and amortisation (EBITDA) of RM1,910.9 million for FY2017, an 11.5% and 11.8% rise respectively in comparison to the preceding year's results. Revenue from both aeronautical and non-aeronautical segments grew by 9.3% and 10.4% respectively. The improvement in aeronautical revenue was mainly attributable to the 13.2% rise in overall international passenger traffic. Retail and commercial revenue too continued to register double-digit growth of 15.4% and 11.3% respectively to RM853.7 million and RM734.6 million respectively. I am also pleased to report that the Group surpassed its headline financial Key Performance Indicator for FY2017 EBITDA of RM1,796.6 million by 6.4%. The Group's profit before tax (PBT) grew by 82.4% to RM334.5 million while net earnings increased by 224.0% to RM237.1 million over the same period.

KEY CORPORATE DEVELOPMENTS

There were several significant developments in FY2017 that strengthened our positioning as a strong hub in this region. One was the launch of the Digital Free Trade Zone (DFTZ) in November 2017 by the Prime Minister of Malaysia Dato' Sri Mohd Najib Tun Abdul Razak and Alibaba Group Executive Chairman Jack Ma in KLIA Aeropolis, at the selected site for the initial phase of DFTZ. This event also marked the ground breaking of KLIA Aeropolis DFTZ Park, a B2B e-commerce ecosystem that would be the world's first electronic world trade platform (eWTP). Ultimately, this initiative



is expected to position KLIA Aeropolis as a leading e-commerce trans-shipment hub in the region.

The same month also saw Malaysia Airports entering into a strategic collaboration with Tourism Malaysia as part of a robust plan to increase tourist arrivals. We will be working together with Tourism Malaysia to promote inbound traffic globally, focusing on tourists from India, China and Europe. This initiative was aimed at deriving greater impact from tourism and was a significant milestone in the development of the country's international gateways. In 2017, we received a total of eleven new airlines including Lucky Air from Kunming and Lijiang to Kuala Lumpur, Xiamen Airlines from Fuzhou to Kota Kinabalu and China Southern Airlines from Guangzhou to Langkawi.

REVENUE
**RM4,652.3
million**

↑ 11.5%

EBITDA
**RM1,910.9
million**

↑ 11.8%

NET EARNINGS
**RM237.1
million**

↑ 224.0%

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GOOD SHAREHOLDER VALUE CREATION

As at the end of FY2017, the Group's basic earnings per share (EPS) stood at 10.82 sen in comparison to 0.94 sen as at end of FY2016. We also continue to maintain a healthy balance sheet and a comfortable level of gearing. As at the year's end, our gearing had dropped slightly to 0.63 times against 0.64 times in the previous year.

Malaysia Airports is ranked first among Khazanah Nasional investee company in total shareholder returns at 17.3% for the period from 2004 to 2017, beyond the ten-year GLC Transformation Plan (GLCTP) programme that was aimed at transforming Malaysia's government-linked companies into high-performing businesses. The fact that this performance was achieved in a highly-regulated environment underscores our commitment to maintaining a robust and sustainable performance by creating solid frameworks for procurement, leadership development and corporate responsibility.

The strong foundations we have built under RtS2020 are certainly bolstering our fundamentals. In view of our stronger performance and our confidence in the business prospects moving into 2018, your Board is recommending a final dividend of 8 sen per share for FY2017. Together with the earlier interim dividend of 5 sen per share, the total dividend for the year is 13 sen per share which is 30% above the 10 sen per share dividend paid out for FY2016. Moving forward, the Board is exploring how we can create value for shareholders on a



more regular basis with due consideration given to our cash flow and other capital considerations for growth. Approximately 40% of our shares are owned by foreign investors – a testament to its good investment value.

Malaysia Airports continues to be recognised for excellence. Among awards received for the year were environmental awards such as Asia Pacific Green Airports Platinum Winner by Airports Council International (ACI) and Gold Leadership

in Energy and Environmental Design Building Certification for klia2 terminal by the US Green Building Council. We also excelled in service awards with Langkawi International Airport ranked 3rd Best Airport in the Airport Service Quality Awards also by ACI. Another major one was Best CEO for Investor Relations by Malaysian Investor Relations Association.



RESPONSIBLE CORPORATE PRACTICES

Good governance translates into good business and your Board is dedicated to maintaining robust standards of corporate governance, risk management and internal control measures. This is so that we can ensure sustainable, long-term growth of our businesses and continued shareholder value creation. We subscribe to the principles, guidelines and recommendations set out in the Corporate Governance Guide issued by Bursa Malaysia, Malaysian Code of Corporate Governance (MCCG) and the enhanced Companies Act 2016. We continue to uphold the gender diversity pledge and are actively working towards ensuring at least 30% women representation on the Board of Directors and Senior Management Team.

The regulatory environment for us has evolved significantly. We welcome the establishment of the Malaysian Aviation Commission (MAVCOM) as an independent regulator that will ensure that Malaysia has a commercially viable, consumer-oriented and resilient civil aviation industry. With an oversight for improving airport service levels and regulating airport charges, we are confident that this will serve to enhance our competitiveness within the global aviation industry. We will continue to reinforce our position as an industry service leader by continuously elevating service standards, establishing a customer-centric culture at our airports, and reimagining the airport experience.

Sustainability remains at the heart of Malaysia Airports' business strategy as it plays an important role in creating sustainable stakeholder value and ensuring our long-term success. As a conscientious corporate citizen, the Group is committed to conducting our business in a responsible manner with respect for the wider economic, social and environmental impacts of our activities. Further details of our sustainability efforts can be read in our standalone Sustainability Report 2017 issued together with this report.

GROUP
PASSENGER
TRAFFIC
MOVEMENTS
**128.0
million**
↑7.9%

MALAYSIA
PASSENGER
TRAFFIC
MOVEMENTS
**96.6
million**
↑8.6%

ISG PASSENGER
TRAFFIC
MOVEMENTS
**31.3
million**
↑5.6%

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MOVING FORWARD INTO 2018

As we move into 2018, global economic growth is expected to edge up to 3.9% as the recovery in investment, manufacturing, and trade continues. Malaysia's economy is expected to expand between 5.0% and 5.5% (2017: 5.9%), on the back of healthy consumer spending and private investments. In the aviation arena, international passenger movements for the China, India and South East Asia sectors are expected to make up 75% of international traffic in 2018. Based on prevailing economic conditions and seat capacity offered by airlines, Malaysia passenger traffic is expected to grow by 6.3% in 2018 with international and domestic passenger traffic growing at 8.3% and 4.2% respectively. Meanwhile, ISG is expected to register 34 million passenger traffic movements in 2018 in line with the stable economic growth in Turkey.

Our commitment on delivering high quality services to our stakeholders remains unchanged. We will continue to leverage on technology and a digitalisation strategy to improve airport experience. We acknowledge that there will be challenges. Among others, the 20-year old KLIA Main Terminal will need upgrading and we have already planned for its capacity expansion to handle between 15-20 million more passengers in the next five years. A number of infrastructure upgrades such as the Aerotrains and baggage handling system are also underway in preparing KLIA to meet the targets set in MAVCOM's Quality of Service framework.

As we reinvent ourselves under RtS2020, operational efficiency, cost optimisation and technological innovation will continue to play a big part in our strategy. Under RtS2020 we are targeting revenue for the Group to be at RM7.5 billion with EBITDA increasing to RM3.3 billion by 2020. The finer details of our strategies for growth are set out in the Management Discussion and Analysis section of our Annual Report.

IN APPRECIATION

Malaysia Airports turned 25 in November 2017. Throughout the last two and a half decades, we have risen up to make the most of the opportunities presented to us. This would not have been possible without the worthy support of multiple parties.





I wish to convey my sincere appreciation to the government of Malaysia for devising the framework for our future development. My heartfelt thanks to our valued passengers, and all airport stakeholders for your steadfast support.

My deepest gratitude to the management team for their vision and leadership, as well as to our dedicated employees for their commitment to excellence in delivering a remarkable year.

The Board continues to be an invaluable part of the Group's success and I thank my colleagues for their astute insights and wise counsel. In particular, I wish to acknowledge the worthy contributions of our past Chairman, Tan Sri Dato' Sri Dr Wan Abdul Aziz Wan Abdullah, who faithfully served the Board for five years. In addition, my thanks also goes to several other board members for their contributions - Tunku Dato' Mahmood Fawzy Tunku Muhiyiddin who had retired at the last Annual General Meeting of the Company held on 25 May 2017; and Datuk Ruhaizah Mohamed Rashid together with her alternate Dato' Chua Kok Ching who had resigned on 7 July 2017.

Please join me in welcoming Jamilah Dato' Hashim and Mohd Khairul Adib Abd Rahman who joined the Board as Non-Independent Non-Executive Directors on 1 June 2017 and 15 November 2017 respectively. We certainly look forward to their insights and contributions.

Last but not least, I wish to extend my deepest appreciation to our shareholders for your unwavering loyalty and steadfast faith in us. We ask that all our stakeholders lend us their unrelenting support as we pursue our agenda of sustainable, long-term growth for Malaysia Airports and our nation. Thank you.

Y.A.M. TAN SRI DATO' SERI SYED ANWAR JAMALULLAIL
Chairman