

CHAIRMAN'S STATEMENT

A BREAKTHROUGH YEAR



“2023 was a breakthrough year for Malaysia Airports. Making progress on all fronts, we capped the year with a profit after tax that exceeded that of 2019, and set the Group on a focused growth trajectory.

In early 2024, we inked new Operating Agreements with the Government of Malaysia which affirm Malaysia Airports’ continued role of operating, managing, maintaining and developing the 39 airports and STOLports in Malaysia for the next 45 years until 2069.

Through a capital return mechanism in the new agreements, Malaysia Airports will have the flexibility to strategically invest in airport development and modernisation, and alleviate the financial burden on the Government.”

TAN SRI DATUK ZAINUN ALI
Chairman

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Opportunity amidst challenges

In 2023, the global economic environment was challenging due to tight monetary policies to address inflation. The monetary policy measures to manage inflation include interest rate hikes which had continued to dampen growth. As a result, global economic growth had slowed to 3.1% in 2023 compared to 3.5% in 2022.

In Malaysia, the economy faced challenges, primarily weak external demand from the dampened global environment, manpower shortages which impacted commodity production and higher cost of living. Nevertheless, the Malaysian economy expanded by 3.7% in 2023 compared to 8.7% in 2022, according to Bank Negara Malaysia. The continued recovery of tourism activities continued to be one of the key drivers of economic growth in Malaysia, with 20.1 million tourist arrivals in Malaysia in 2023, which was double that of 2022, but still 22.8% lower than pre-pandemic levels in 2019. In Türkiye, despite facing severe inflation, the economy grew by 4.5% in 2023, compared to 5.5% in 2022.

In 2023, there was continued evidence of strong pent up demand globally for air travel post-pandemic, and the reopening of China’s borders for international travel in early 2023 provided an extra boost. Passenger traffic in Malaysia showed robust growth to reach 77.8% of 2019 levels in 2023 while at our airport in Türkiye, Istanbul Sabiha Gökçen International Airport (IATA Code: SAW), passenger traffic had exceeded 2019’s levels by 4.5%.

Passenger movements for operations in Malaysia reached

77.8%
of 2019 levels

Passenger movements for operations in Türkiye was

4.5%
of above 2019 levels

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An inflection point

At the beginning of 2023, despite challenging global and domestic economic conditions, the aviation sector was in the midst of a remarkable recovery. Malaysia Airports was at an inflection point – the Group was fresh from the announcement that we had returned to profitability for 2022 following the pandemic, but to build on the momentum in the evolving operating environment, we knew that it was imperative not just to maintain competitiveness but also to enhance it and to sustain and grow usage of our airports and services.

We also acknowledged that what had worked well in the past to lead us to success may not suffice to propel us forward in the dynamic landscape.

Malaysia Airports therefore faced a watershed test of our capabilities – to create and capture opportunities in an otherwise challenging economic environment globally as well as in the countries in which we operate. While the indicators pointed to robust growth in air traffic and travel, reimagining the passenger experience and ensuring competitiveness in the face of increased traffic are critical steps in maintaining and growing market share in the aviation sector. To compound the complexity of the challenges, the Group was embarking on multi-year projects to replace critical assets at our main hub, KL International Airport (IATA Code: KUL) which had reached the end of their lifespan, namely the Aerotrain and the Baggage Handling System.

It was time to tap into our resilience and adaptability – traits of our organisation which had served us well during the pandemic – and build upon our strengths.

I am proud that our people rose to the occasion and met the challenges head on. The Group embarked on a journey to reimagine the passenger experience at our airports, and optimise operational efficiency to ensure that our airports are able to accommodate growing traffic without compromising service quality. We were focused, tenacious and unrelentless in our efforts.

In a nutshell, collectively, we turned 2023 into a breakthrough year for Malaysia Airports, and moved from post-pandemic recovery to set our course firmly on a growth trajectory.

I am therefore pleased to share with stakeholders how Malaysia Airports shifted the Group's priorities and strategy towards expansion and development, leveraged on long-standing relationships with stakeholders and achieved stellar results this year.

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Building a solid growth trajectory

With all indicators pointing at air traffic growth in the short to medium term, the Group recognised the need to build on our foundations for sustained expansion. At the starting point of our journey was a simple premise – prioritise passengers as they play a pivotal role in shaping our ability to deliver value for stakeholders.

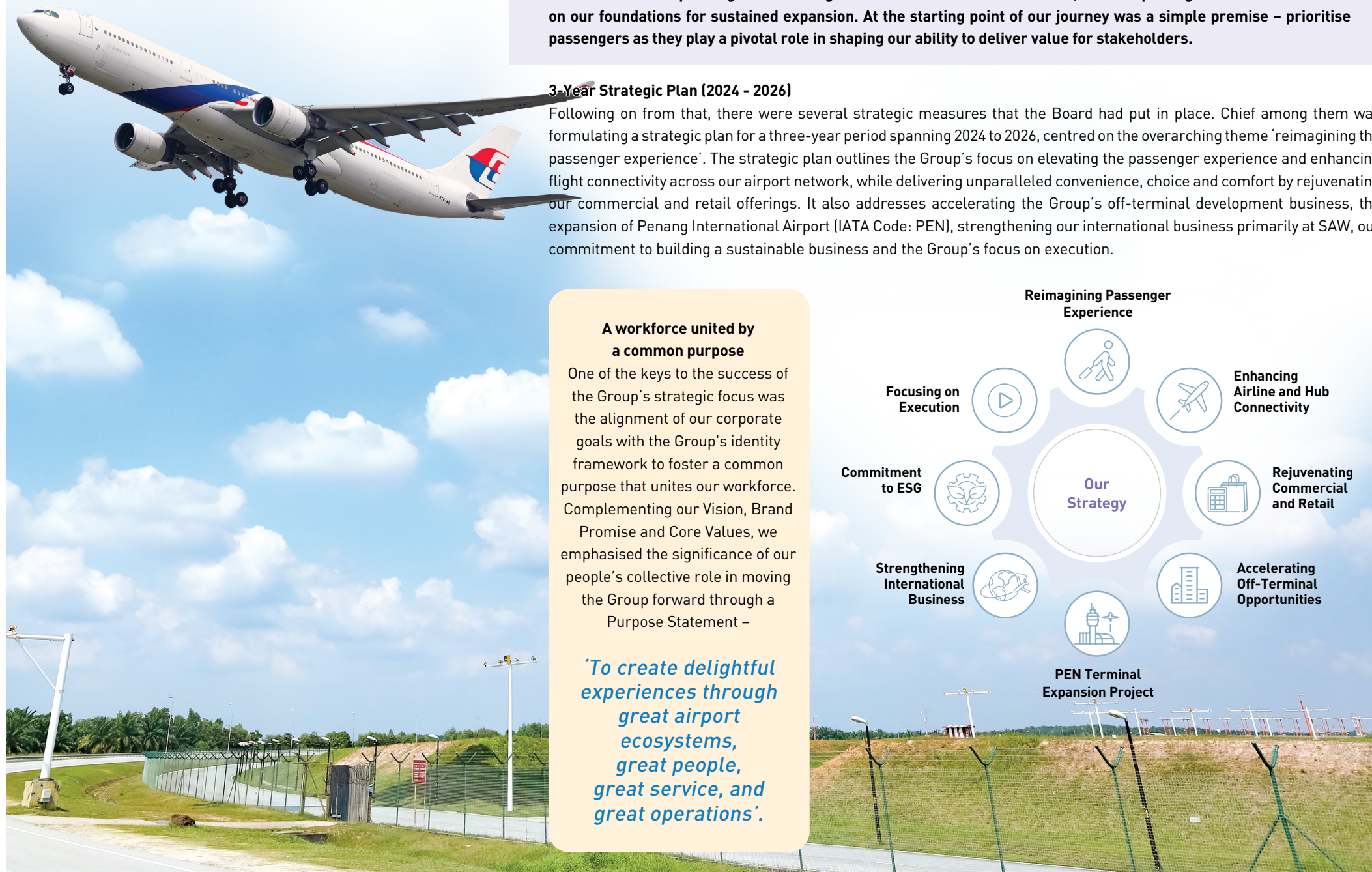
3-Year Strategic Plan (2024 - 2026)

Following on from that, there were several strategic measures that the Board had put in place. Chief among them was formulating a strategic plan for a three-year period spanning 2024 to 2026, centred on the overarching theme 'reimagining the passenger experience'. The strategic plan outlines the Group's focus on elevating the passenger experience and enhancing flight connectivity across our airport network, while delivering unparalleled convenience, choice and comfort by rejuvenating our commercial and retail offerings. It also addresses accelerating the Group's off-terminal development business, the expansion of Penang International Airport (IATA Code: PEN), strengthening our international business primarily at SAW, our commitment to building a sustainable business and the Group's focus on execution.

A workforce united by a common purpose

One of the keys to the success of the Group's strategic focus was the alignment of our corporate goals with the Group's identity framework to foster a common purpose that unites our workforce. Complementing our Vision, Brand Promise and Core Values, we emphasised the significance of our people's collective role in moving the Group forward through a Purpose Statement –

'To create delightful experiences through great airport ecosystems, great people, great service, and great operations'.



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Anchored by sustainability principles

Recognising that the Group's business operates within an ecosystem with interdependencies among stakeholders, Malaysia Airports has always maintained its commitment towards building a sustainable business that creates long term value for stakeholders. To amplify the Group's vision 'A Global Airport Group that Champions Connectivity and Sustainability', the Board in 2023 formed a Board Sustainability Committee to oversee the Group's commitments in Environmental, Social and Governance (ESG) matters and to provide a forum for more in-depth discussion on incorporating sustainability considerations throughout our business.

We also took a collaborative approach to work with members of the airport ecosystem to strengthen existing partnerships and open up new avenues for growth and innovation. An example of this was the Group's collaboration with Malaysia Aviation Group, which we proudly unveiled the nation's inaugural Electric Ground Support Equipment (e-GSE) infrastructure. This groundbreaking initiative marks a significant stride in our collective efforts to mitigate carbon emissions and noise pollution in the aviation industry.

Transitioning from conventional diesel-powered Ground Power Units to state-of-the-art Electric Ground Power Units yields remarkable benefits, in terms of reduced carbon emissions and lower noise levels. This pioneering initiative underscores our commitment to sustainability and our dedication to advancing eco-friendly practices by partnering with stakeholders within the aviation sector.

Making positive human impact

In the social sphere, Malaysia Airports is committed to bringing a positive human impact through our operations. In this regard, we constantly examine how our business can positively impact our employees' development, wellbeing and safety, promote diversity, champion human rights and enrich the communities in which we operate.

Despite aviation being a traditionally male-centric industry, I am proud of the diversity of the Malaysia Airports workforce. At Board-level, for our holding company in Malaysia, at the end of 2023, the Board had 40% female directors, with each bringing a wealth of experience and expertise to the table. In our operations in Türkiye, one-third of the board of İstanbul Sabiha Gökçen Uluslararası Havalimanı Yatırım Yapım ve İşletme A.Ş. comprises female directors. Across the Group, approximately one-third of our employees are female.

Environmental stewardship

Malaysia Airports also underscored its commitment towards building a sustainable business, by launching the Group's journey towards Net Zero Carbon Emissions by 2050. The commitment is supported by the Group's Environmental Masterplan 2.0 which outlines the progression of the Group over a long-term roadmap towards a net zero carbon future in line with Malaysia's long-term pledge to become a net zero greenhouse gas emissions nation at by 2050.

Our stakeholders will already see some of our work in progress in terms of environmental stewardship as Malaysia Airports increases the adoption of renewable energy, primarily solar power, by installing photovoltaic solar panels on the rooftops of airport terminals and other buildings.

Currently we are proud that the Group's solar power capacity is approximately 22.5 MWp from solar projects across six airports, including KUL, which reduces Scope 2 carbon emissions by 15%.

Under the Environmental Masterplan 2.0, the Group will rapidly increase its use of renewable energy including converting available land within the vicinity of KUL to house a solar farm.



Employee learning and development stands as a cornerstone of our social objectives, aligning closely with the Group's commitment to fostering an inspiring workplace environment and nurturing the holistic growth of our employees, both professionally and personally.

In 2023, our focus on learning and development took centre stage, particularly within our operations in Malaysia. We witnessed a significant uptick in the average training hours per employee, soaring by 45.7% YoY to clock 51 hours per employee, compared to 35 hours per employee in 2022. Empowering our employees with the tools, resources, and opportunities needed to thrive in an ever-evolving landscape is a catalyst for the Group's sustainable success and reinforcing our position as an employer of choice.

In 2023, Malaysia Airports' community enrichment initiatives as part of the #MYAirportCARES programme, benefitted 3,343 individuals across Malaysia. These initiatives encompassed a variety of impact-driven programmes that brought together our employees and other members of the airport community to make a positive impact on the communities we serve.

One such initiative, the MYAirportCARES School Airport Tour, aimed to inspire young aviation enthusiasts through immersive airport tours. Throughout the year, the Group facilitated visits for over 1,800 students from 40 primary and secondary schools, offering them a behind-the-scenes look at airport operations and to learn first hand from our employees and members of the airport community across 21 airports in Malaysia.

We also support the educational journey of B40 students residing near our airports. Through our efforts, we provided school uniforms and essential back-to-school supplies to 300 students, ensuring they could begin the new academic year with confidence and enthusiasm. In collaboration with the MyKasih Foundation, we extended assistance to an additional 300 needy students by funding their necessities through MyKasih student smartcards that enable students to purchase essential items such as food, beverages, books, and stationery from school canteens and bookstores.

Lending a helping hand

To alleviate the suffering of communities devastated by humanitarian crises, Malaysia Airports stepped up to contribute towards the humanitarian relief efforts. Following the devastating earthquake in southeast Türkiye in February 2023, SAW was used as a rescue and logistics hub for rescue

personnel and relief efforts, as well as a crisis management centre. Our colleagues at the airport stepped up to provide all necessary support and assistance including food and drink for the relief workers.

The Group, together with SAW and our employees, donated approximately EUR5.0 million for humanitarian relief to the Disaster and Emergency Management Authority of Türkiye (AFAD) and Turk Kızılay (Turkish Red Crescent).

Upholding governance and integrity

Malaysia Airports remains steadfast in its commitment to fostering robust corporate governance practices, underpinned by a culture of integrity and transparency across the Group. We recognise that good corporate governance serves as the cornerstone guiding our strategic direction, decision-making processes, and accountability. Ultimately, a culture of governance and integrity enables the Group to continue to deliver sustainable long-term value to our stakeholders.

This Annual Report encapsulates our dedication to upholding exemplary corporate governance standards. It includes a comprehensive Corporate Governance Overview Statement pages 208 to 250 and a detailed Statement on Risk Management and Internal Control pages 255 to 261. Furthermore, within the Material Matters section of this report, stakeholders will find highlights on the Group's progress in 'Integrity and Anti-Corruption' and 'Regulatory Compliance' pages 73 and 71. These sections provide insight into our ongoing efforts to uphold the highest standards of governance and ethical conduct throughout our operations.

The Group's Board of Directors and Management have also reiterated their unwavering commitment to upholding a corruption-free workplace, in the presence of senior members of the Malaysian Anti-Corruption Commission. As part of this commitment, the Corruption-Free pledge is also delivered online to all employees within the Group, which they digitally sign to affirm their accountability and dedication to maintaining a corruption-free environment.

In addition to the digital pledge, the Group conducts both online and in-person briefings on anti-bribery and corruption matters. In 2023, 99.65% of employees completed these briefings, underscoring the widespread understanding and commitment to combating corruption within the organisation.

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Results

I am pleased to share with stakeholders that in this breakthrough year, Malaysia Airports produced stellar results in its key focus areas. Across all airports in our network the Group recorded a total of 119.5 million passenger movements or approximately 84.6% of 2019's record high. This was also the first time we passed the 100 million threshold since the pandemic. For our operations in Türkiye, passenger movements for SAW exceeded 2019 levels by 4.5% to register 37.6 million passenger movements, a new record for the airport.

For the financial year ended 31 December 2023 (FY2023), Malaysia Airports recorded **revenue of RM4,914.2 million, 57.2% higher** year-on-year (YoY).

Revenue from airport operations which combines both aeronautical and non-aeronautical **revenue increased significantly by 60.6% YoY to RM4,598.9 million**, due to higher passenger movements, in particular international passengers.

Malaysia operations recorded a Profit Before Tax and Zakat (PBT) of RM384.6 million, a significant turnaround compared to the Loss Before Tax of RM263.2 million in FY2022. Our operations in Türkiye recorded its second year of profits with PBT of RM113.1 million, with four profitable quarters throughout FY2023.

To cap our stellar performance in FY2023, in terms of net profit, although overall passenger movements fell short of pre-pandemic levels, Malaysia Airports' net profit of RM543.2 million for FY2023 exceeded our 2019's numbers by 1.15%.

In February 2024, the Board approved a single-tier final dividend of 10.80 sen per ordinary share for FY2023. As such the total dividend payout for FY2023 is RM180.2 million based on the number of ordinary shares issued at the end of FY2023. This is in line with the Group'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.



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Recognition from stakeholders

We are pleased that our efforts received encouragement, support and recognition from our stakeholders. In particular, we are proud of the recognition from the Government of Malaysia and its trust in Malaysia Airports as demonstrated by the signing of the Operating Agreements in March 2024 under which the Group will continue to operate, manage, maintain and develop the network of 39 airports and STOLports for the next 45 years until February 2069. In addition, the Operating Agreements provide for favourable commercial terms and a transparent investment return mechanism which give Malaysia Airports the flexibility to pursue strategic investments which are essential to enhance airport capacity, facilities and infrastructure to elevate overall service standards.

The support and approvals from the Government at Federal, State and local levels with regards to our development plans, particularly for the expansion of Penang International Airport, the KLIA Aeropolis and the Subang Airport Regeneration Plan, is also recognition of the role of Malaysia Airports in generating long-term value for stakeholders through our initiatives. In addition, the support of the Government of Türkiye and government agencies has been evident in their support for the expansion of SAW in the completion of the airport's second runway in 2023 as well as agreeing to invoke the force majeure provisions which reduced the Group's financial burden from the pandemic.

We are also greatly encouraged by the support from shareholders. When the Group declared its dividends for FY2022, we offered shareholders a dividend reinvestment plan that enables them to receive dividends in the form of the Group's shares in lieu of cash. This offer was taken up by the vast majority of shareholders resulting in an 87.5% subscription rate for shares under the dividend reinvestment plan. Over the course of the year, the Group's foreign shareholding has increased by over six percentage points. This increased support is an indication of the higher optimism on the Group's recovery and growth prospects.

We are also proud to be recognised by human capital specialists as an employer of choice. In particular, we were singled out by GRADUAN, HRD Corporation and Talentbank in their rankings and awards for human capital practices. This is a recognition of our efforts in nurturing talent and developing our people as well as our ability to provide an exciting and fulfilling career path for our people.

In addition, our efforts to provide a high quality of service to passengers continue to be recognised. In Airports Council International's annual Airport Service Quality survey for 2023, KUL was ranked 9th and Langkawi International Airport (IATA Code: LGK) clinched the top spot in their respective categories. This is the third consecutive year that KUL has been placed in the top 10, and that LGK has topped its category.



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Outlook

In terms of economic outlook, the International Monetary Fund (IMF) forecasts the global GDP is projected to grow at 3.1% in 2024 from 3.0% in 2023, on the account of greater-than-expected resilience in the United States and several large emerging market and developing economies, as well as fiscal support in China.

Meanwhile, Bank Negara Malaysia expects Malaysia's GDP to grow between 4% - 5% in 2024, driven by resilient domestic demand and expenditure and the expected recovery in exports from improved external demand. Tourism is a key economic sector that is expected to improve further while the progress of multi-year infrastructure projects and the implementation of catalytic initiatives will also drive domestic growth.

The IMF also expects Türkiye's GDP growth to moderate from 4.0% in 2023 to 3.1% in 2024, supported by expansionary fiscal policies, increase in net minimum wage as well as the reconstruction efforts in earthquake zones with large multiplier effects.

In terms of industry outlook, IATA estimates the global passenger traffic to recover to 99% of 2019 levels in 2024 driven by the accelerated recovery following the reopening of Chinese market in January, increase in domestic air travel from strong pent-up demand as well as the effects of early opening and robust domestic demand in North America. Over a longer horizon (2019 - 2040), global passenger traffic is expected to grow with an annual increase of 3.4%.

Traffic in Asia Pacific is expected to recover to 94% of 2019 levels in 2023 and exceed pre-pandemic levels in 2024 (110%), as the gradual ramp-up of airline operations and return of tourism are poised to drive further growth. Despite being the only region to reach its pre-pandemic passenger levels in 2024, Asia Pacific is likely to see the most rapid growth in passenger traffic with an annual increase of 4.5% in the number of passengers between 2019 and 2040, at which point the region is expected to make up more than half of global passenger demand.

Meanwhile, traffic in Europe is expected to remain resilient and continue its strong momentum to reach 2019 levels and 110% in 2024, and continue to steadily grow with an annual increase of 2.2% between 2019 and 2040.

Additionally, the Malaysian Aviation Commission (MAVCOM) anticipates passenger traffic for Malaysia to reach between 93.9 million and 107.1 million passengers in 2024, reflecting a growth of 10.0% to 25.0% over 2023. This forecast signifies a recovery of up to 98% of 2019 levels due to domestic and international travel to China and the ASEAN region.

This optimism in passenger recovery and growth trajectory is essential for Malaysia Airports to catalyse financial stability, foster further innovation, enhance competitiveness and further fuel performance and sustainable growth.



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Thank you

I would like to extend a warm welcome back to Dato' Zamzuri Abdul Aziz and his alternative, Encik Mohd Nizam Mohd Khir, who rejoined the Board on 5 June 2023, as well as Datuk Amran Hafiz Affifudin, Dato' Seri Ir. Koe Peng Kang and Mr Chris Chia Woon Liat who joined the Board on 1 September 2023, 12 December 2023 and 11 March 2024 respectively.

The Board would also like to thank our former members, Tan Sri Mohamad Salim Fateh Din, Datuk Azailiza Mohd Ahad, Datuk Johan Mahmood Merican and Ms Wong Shu Hsien who resigned in 2023, as well as our former Managing Director, Dato' Sri Iskandar Mizal Mahmood. On behalf of the Board, I would like to record our appreciation for their service and contribution towards the Group.

Furthermore, the Board extends its heartfelt gratitude to our dedicated employees who have tirelessly served the Group with unwavering commitment throughout the year. We recognise and appreciate the numerous sacrifices they have made in fulfilling their responsibilities, and we are immensely grateful for their steadfast support.

We also extend our sincere appreciation to our shareholders and all other stakeholders, including various ministries, government agencies, airline partners, retail partners, vendors and other business partners, for their invaluable support and contributions in navigating the challenges and seizing the opportunities of 2023.

As we embark on the journey into 2024, we do so with renewed confidence in our capabilities to generate value for our stakeholders. We are poised to embrace new opportunities for growth and development while ensuring the sustainability of our hard-earned achievements in transforming the Group. As custodians of the nation's gateways, we remain committed to creating long-term value for our stakeholders as we continue to build and nurture a sustainable business for the future.

TAN SRI DATUK ZAINUN ALI
 Chairman